DSVOL

Moderated
22/11/2020

KENYATTA UNIVERSITY

SCHOOL OF ECONOMICS

DEPARTMENT OF APPLIED ECONOMICS

EAE 303: MANAGERIAL ECONOMICS-DSVOL SEM II 2019/2020

DATE: **TIME: 2** Hours

Externally moderated
03/02/2020

INSTRUCTIONS

1) **Answer question one and any other two questions**
2) **Question one is compulsory and carries 30 marks**
3) **All other questions carry 20 marks each**

Question One (30 marks)

a) Your friend, Tadeja, started planting avocados for export purposed on a 0.25 acres of land (fairly small scale). After a few years she leased more land and is now growing the avocados on 5 acres of land hence large scale. Her total costs of production have increased hence ~~you~~ you may imagine that she could be making a loss. Tadeja, however, tells you that since she increased her scale of plant, she has been making higher profits due to economies of scale. Discuss Giving examples, four such economies of scale that Tadeja could be experiencing. ~~For each economy of scale discussed~~ identified, ~~give possible examples that relate to her production for clarity~~. (8 marks)

b) Using the law of diminishing returns, describe the three stages of production of a firm and explain how the firm chooses the most optimal stage ~~to operate~~ of operation. (12 marks)

c) ~~Clearly~~ Outline five factors you would consider when choosing a suitable location for your business. (5 marks)

d) Local rice farmers have impressed on the government to increase the cost of imported rice by increasing excise duty on the imported rice in order to encourage the consumption of local rice. Using the concept of elasticity of demand, explain why this move by the government may not yield the expected results. (5 marks)

Question Two (20 marks)

a) Give three examples of oligopolistic industries ~~in Kenya or other parts of the world~~ and clearly explain why prices in an oligopoly market tend to remain sticky. (10 marks) OK

b) ~~Clearly~~ Outline four conditions that enable a firm to discriminate prices. (6 marks)

c) Distinguish between technical efficiency and allocative efficiency. (4 marks)

Question Three (20 marks)

a) Briefly explain four factors to be considered while making capital budgeting decisions. (8 marks)

b) Discuss the dimensions of conduct of an industry and how it influences the market structure and managers' strategies in improving the profitability of a firm. (12 marks)

Question Four (20 marks)

a) Distinguish between consumer clinics and market experiments methods of estimating demand in the market. Out of the two methods, justify the best method for forecasting demand for a new type of cooking oil in the market. (10 marks)

b) Managerial economics is micro in nature. However, macroeconomics is significant in informing managerial decisions. Provide the rationale for integrating macroeconomics concepts in managerial economics. (10 marks)

Question Five (20 marks)

a) Briefly discuss four factors that limit the ability of firms to collude with an aim of increasing their monopoly power in the market. (8 marks)

b) As a student who has recently graduated, you decide to start a small enterprise in the agribusiness sector. Explain the probable risks that the business could be exposed to. (6 marks)

c) Discuss four determinants of price elasticity of supply. (6 marks)