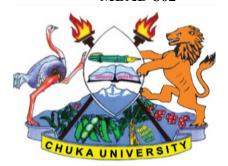**CHUKA**   **UNIVERSITY**

UNIVERSITY EXAMINATIONS

**EXAMINATION FOR THE AWARD OF MASTER
OF BUSINESS ADMINISTRATION**

MBAD 802: MANAGERIAL ECONOMICS

STREAMS: MBAD (ODEL)   **TIME: 3 HOURS**

DAY/DATE: TUESDAY 06/04/2021   **2.30 P.M. – 5.30 P.M.**

INSTRUCTIONS: Answer question ONE and any other THREE questions

QUESTION ONE (COMPULSORY)

(a)   How does managerial economics relate with other disciplines of economics? [10 marks]
(b)   What is Break-even point? Explain the important managerial uses of break-even   analysis
                                                                    [10 marks]
(c)   Distinguish between economies of scale and diseconomies of scale. Explain the factors   that cause economies of scale.   [10 marks]
 (d)   P = 20 – 4Q, TC = 5Q where P is the demand function, TC is the total cost and Q is the quantity produced and sold. Derive;
        (i)   Total revenue function   [2 marks]
        (ii)   The output maximizing the revenue   [4 marks]
        (iii)   The output maximizing the profit and hence the maximum profit   [4 marks]

QUESTION TWO

(a)   Explain six (6) determinants of price elasticity of demand   [6 marks]
(b)   Explain the main sources of monopoly   [5 marks]
(c)   Suppose that a coffee producing firm estimated the following regression of the demand   for its brand of coffee:

$Q_c = 1.5 - 3.0 P_c + 0.8 y + 2.0 P_b - 0.6 P_s + 1.2 A$

Where QC = sales of coffee brand C, in dollars per pound
Pc = Price of coffee brand C, in dollars per pound
Y = personal disposable income, in millions of dollars per year
Pb = price of the competitive brand of coffee, in dollars pound
Ps = price of sugar, in dollars per pound
A = advertising expenditures for coffee brand C, in hundreds of thousands of dollars per   year.

Suppose also that this year, Pc = $2, Y = $2.5, Pb = $1.80, Ps = $1 and A = $1.

(i) Interpret the results of the estimated demand [3 marks]

(ii) Compute price elasticity of demand for the firm's brand of coffee with respect to its price. [3 marks]

(iii) Computer the cross price elasticity of demand for coffee with respect to the price of competitive coffee brand b. [3 marks]

QUESTION THREE

(a) With the help of diagram distinguish the three stages of production [10 marks]

(b) Given the following information on sales for a given firm

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Sales	22734	24731	31489	44685	55319	91021	146234	107887	127483	97275

Estimate the sales for 2012, 2015 and fit a linear regression equation [10 marks]

QUESTION FOUR

(a) Explain seven (7) main factor that influence investment [7 marks]

(b) A company is considering two mutually exclusive projects requiring an initial cash outlay of sh 10,000 each and with a useful life of 5 years. The company required rate of return is 10% and the appropriate corporate tax rate is 50%. The projects will be depreciated on a straight line basis. The before depreciation and taxes Cashflows expected to be generated by the projects are as follows:

Year	1	2	3	4	5
Project A	Ksh.4,000	Ksh.4,000	Kshs.4,000	Ksh.4,000	Ksh.4,000
Project B	Ksh.6,000	Kshs.3,000	Ksh.2,000	Ksh.5,000	Ksh.5,000

Required: calculate for each project

(i) The payback period [8 marks]

(ii) The net present value [5 marks]

Which project should be accepted under each method? Why?

QUESTION FIVE

(a) A given firm has the demand function as Q = 100 – 4 P and total cost function as TC = 3Q^2+10Q. Suppose this firm operate under perfect competition, calculate the equilibrium quantity and price of this firm. [10 marks]

(b) Discuss the role of fiscal policy in the context of developing countries [10 marks]