

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

SECOND YEAR EXAMINATION FOR THE AWARD OF DEGREE  
OF BACHELOR OF

**BUST 221: MANAGERIAL ECONOMICS**

**STREAMS:**

**TIME: 2 HOURS**

**DAY/DATE: FRIDAY 26/03/2021**

**2.30 P.M. – 4.30 P.M.**

**INSTRUCTIONS: Answer question ONE and any other TWO questions**

**QUESTION ONE**

- (a) Using knowledge from managerial economics, differentiate between
- (i) Engel's law and law of diminishing returns [2 marks]
  - (ii) Effective demand, derived demand [2 marks]
  - (iii) Income elasticity and cross elasticity [2 marks]
  - (iv) Isoquant and isocost curve [2 marks]
  - (v) Giffen goods and Veblen goods [2 marks]
- (b) Consider the following bivariate cost function
- $$C = 30Q^3 + 5Q + 25$$
- (i) The Fixed Cost (FC) [2 marks]
  - (ii) The Average Variable Costs (AVC) [2 marks]
  - (iii) The Marginal Cost (MC) [2 marks]
  - (iv) The Average Total Cost (ATC) [2 marks]
  - (v) The Average Fixed Cost (AFC) [2 marks]
- (c) Show graphically how an individual firm attains equilibrium under monopoly in the short run and long run [10 marks]

**QUESTION TWO**

- (a) XYZ milk processing firm recently reduced the price of its strawberry yogurt from 25 to sh. 20 per packet. Consequently, the firm's daily sales of strawberry yogurt has increased from 1500 to 1600 packets. Compute the price elasticity of demand using point and arc methods and comment on your results [6 marks]
- (b) Discuss at least two capital budgeting techniques [4 marks]
- (c) Explain the main importance of elasticity of demand [10 marks]

**QUESTION TWO**

- (a) Explain six (6) factors that determine the demand of a commodity in the market [6 marks]
- (b) The following economic functions have been derived by the finance manager of ABC  
 $Q_a = 3P^2 - 4P$   
 $Q_b = 24 - P^2$   
Where P represents price and Q is the quantity
- (i) Which of the two functions could represent a demand curve? [4 marks]
- (ii) At what values of price and quantity is the market in equilibrium [4 marks]
- (c) Highlight the main features of perfect competition [6 marks]

**QUESTION THREE**

Explain the following in an industrial or business setting

- (a) Distinguish between economies of scale and diseconomies of scale with a graph [5 marks]
- (b) The relationship between Marginal Cost and Average Cost curve [5 marks]
- (c) Managerial uses of break-even analysis [5 marks]
- (d) How are decisions made under uncertainty. Explain any four ways to manage the risk and uncertainty. [5 marks]

**QUESTION FOUR**

- (a) Differentiate between shifts in the demand curve and movement along the demand curve [4 marks]
- (b) Consider the following two projects X and Y with initial investments of Ksh. 240 M and ksh. 360 M respectively

Project Cash flows in Million		
Year	X	Y
1	30	70
2	50	90
3	100	110
4	70	80
5	60	60
6	40	50

Using a minimum management rate of return of 10%

**Required:**

- (i) Calculate the NPV of both projects [8 marks]
  - (ii) Advise on the preferred project to the management [2 marks]
  - (c) State and explain the resources of monopoly power [6 marks]
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