

CHUKA



UNIVERSITY

**UNIVERSITY EXAMINATIONS  
RESIT/SPECIAL EXAMINATIONS**

**EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF  
BUST 221: MANAGERIAL ECONOMICS**

**STREAMS:****TIME: 2 HOURS****DAY/DATE: TUESDAY 02/02/2021****11.30 A.M – 1.30 P.M****INSTRUCTIONS:****Answer Question One and any other Two Questions****Question One**

- a) Distinguish between microeconomics and macroeconomics (4 marks)  
 b) With the aid of a diagram, explain the law of variable proportions (7 marks)  
 c) Consider the following bivariate cost function

$$C = 3Q_1^2 - 2Q_1Q_2 + 4Q_2^2 + 20$$

Find

- (i) The fixed cost (1 mark)  
 (ii) The average variable costs with respect to  $Q_1$  (1 mark)  
 (iii) The average total costs with respect to  $Q_2$  (1 mark)  
 (iv) The average fixed costs with respect to  $Q_1$  (1 mark)  
 d) Show graphically how an individual firm attains equilibrium under monopoly in the short run (5 marks)  
 e) XYZ milk processing firm recently reduced the price of its strawberry yogurt from sh. 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)  
 f) Discuss at least two capital budgeting techniques (4 marks)

**Question Two**

- a). Explain the factors that determine the demand of a commodity in the market (4 marks)  
 b). The following economic functions have been derived by the finance manager of ABC.

$$Q_d = 3P^2 - 4P$$

$$Q_b = 24 - P^2$$

Where P represents price and Q is the quantity

- (i) Which of the two functions could represent a demand curve? A supply curve? Why (3marks)
- (ii). At what values of price and quantity is the market in equilibrium (3 marks)
- c). Explain at least two liquidity ratios used in the financial decision making process (4 marks)
- d). Highlight the main features of perfect competition (6 marks)

**Question Three**

- a) Differentiate between oligopoly and monopolistic competition market structures (4 marks)
- b) Clearly discuss the main environment within which decisions are made by managers (8 marks)
- c) Identify the importance of elasticity to the government (4 marks)
- d) Explain the necessary condition for profit maximization (4 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. 240M and Ksh. 360M 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 most preferred project to the management (2 marks)
- c) State and explain the sources of monopoly power (6 marks)