

**CHUKA**



**UNIVERSITY**

**UNIVERSITY EXAMINATIONS**

**EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF EDUCATION  
ARTS**

**BUST 221: MANAGERIAL ECONOMICS**

**STREAMS: BED ARTS**

**TIME: 2 HOURS**

**DAY/DATE: MONDAY 12/07/2021**

**2.30 P.M. – 4.30 P.M.**

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**INSTRUCTIONS:**

- Answer question ONE and any other TWO questions.

**QUESTION ONE**

(a) Using knowledge from managerial economics, differentiate between the following terms.

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|--|-----------|
| (i) Demand and want                          | (2 marks) |
| (ii) Substitute and complimentary good       | (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

$$C = 30Q^3 + 5Q + 25$$

Find

- |                                       |           |
|---------------------------------------|-----------|
| (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 periods. (10 marks)

**QUESTION TWO**

(a) Explain six (6) factors that determine the elasticity of demand. (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 functions could represent a demand curve? A supply curve? Why? (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**

(a) Explain how the concepts of income and cross price elasticity is useful in managerial decision making. (4 marks)

(b) Highlight any six (6) external factors that influence the economies of sales of an organization. (6 marks)

(c) Discuss the managerial uses of break-even analysis. (5 marks)

(d) Assume a short-run linear cost function of the firm  $TC = 140 + 8Q$ . Where Q is quantity. Assume also that this firm has a perfectly elastic demand function given as  $P = 15$ . Compute the break-even point for this firm. (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 project 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

**Required:**

Using a minimum management rate of return of 10%

- (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)
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