

BUST 221

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

EMBU CAMPUS

SECOND YEAR EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR
EDUCATION (ARTS)

BUST 221: MANAGERIAL ECONOMICS

STREAMS: BUST Y2S1 P/T

TIME: 2 HOURS

DAY/DATE: THURSDAY 8/08/2019

11.30 A.M - 1.30 P.M.

INSTRUCTIONS:

- Answer question **ONE (COMPULSORY) AND any other TWO Questions.**
- Do not write anything on this question paper

QUESTION ONE

- (a) Distinguish between microeconomics, macroeconomics and managerial economics. [3 Marks]
- (b) Discuss the managerial uses of production function and explain the law of variable proportions. [5 Marks]
- (c) Consider the following bivariate cost functions $C = 2Q_1^2 - 4Q_1Q_2 + 3Q_2^2 + 17$
- Find**
- | | |
|--|----------|
| The fixed cost | [1 Mark] |
| The average variable costs with respect to Q_1 | [1 Mark] |
| The average total costs with respect to Q_2 | [1 Mark] |
| The average fixed costs with respect to Q_1 | [1 Mark] |
- (d) Show graphically how an individual firm attains equilibrium under perfect competition in the short run. [5 Marks]
- (e) The demand for a commodity is 5 units when the price is Kshs.1,000 per unit. When the price per unit falls to Kshs.600 the demand rises to 6 units. Compute the point and arc elasticity of demand. [6 Marks]

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- (f) Outline and explain the factors that determine the supply of a commodity in the market. [3 Marks]
- (g) Highlight four main environments within which decisions are made by managers. [4 Marks]

QUESTION TWO

- (a) Discuss the characteristics of long-term investments in capital budgeting. [5 Marks]
- (b) Compute the equilibrium price and quantity of the following demand and supply functions. [3 Marks]
- $$Q_d = 100 - 2p \quad Q_s = 40 + 4p$$
- (i) Determine the equilibrium price and quantity [3 Marks]
- (ii) Graph and comment on your results [2 Marks]
- (c) Explain at least three profitability ratios used in the financial decision making process. [6 Marks]
- (d) Give reasons as to why the demand curve of an oligopoly is kinked. [4 Marks]

QUESTION THREE

- (a) Differentiate between a monopoly and monopolistic competition market structure. [3 Marks]
- (b) Discuss the meaning of mobility of factors of production. To what extent are these factors mobile and to what is the significance of mobility of production. [10 Marks]
- (c) The demand function for a commodity is given by the following; $P = 50 - 0.5Q$. The cost of producing the commodity is made up of fixed cost of 200 shillings and variable cost of 0.2 shillings per unit.
- (i) Find the profit function for the commodity. [2 Marks]
- (ii) Determine the output level at which maximizes the profit [3 Marks]
- (d) Identify the factors influencing the demand of a product in a market. [2 Marks]

QUESTION FOUR

(a) Consider the following two projects X and Y with initial investments of Kshs.240M and Kshs.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 12%

Required:

- (i) Explain the term Net Present Value (NPV) as a method of capital budgeting. [2 Marks]
 - (ii) Calculate the NPV of both projects [6 Marks]
 - (iii) Advise on the most preferred project to the management [1 Mark]
- (b) Explain four types of economic costs incurred by a firm in its production activities. [4 Marks]
- (c) Discuss clearly the necessary and sufficient conditions for profit maximization by a firm. Support your answer with appropriate illustrations. [7 Marks]

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