

CHUKA



UNIVERSITY

## UNIVERSITY EXAMINATIONS

### EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF

**BUST 221: MANAGERIAL ECONOMICS**

**STREAMS:BED BUST**

**TIME: 2 HOURS**

**DAY/DATE: WEDNESDAY 11/12/2019**

**2.30 P.M – 4.30 P.M**

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#### INSTRUCTIONS

**Answer question one and any other three questions  
Write legibly and be precise in your answers**

#### QUESTION ONE

- (a) Explain the meaning and characteristics of managerial economics. [3 marks]
- (b) Explain the various determinants of demand. [4 marks]
- (c) Explain the characteristics of oligopoly. [3 marks]
- (d) Differentiate between perfect competition and monopoly? [4 marks]
- (e) Explain the advantages of price discrimination. [3 marks]
- (f) A profit maximizing firm faces the following constrained maximization problem:

Maximize

Subject to:

Determine profit maximizing output levels of commodities x and y subject to the condition that total output equals 12 units using the lagrangian method.

#### QUESTION TWO

- (a) What is elasticity of demand ? Explain price, cross and income elasticity of demand used in managerial decision making process. [6 marks]
- (b) What is empirical production function? Explain the optimum combination of two inputs with help of diagrams. [4 marks]

- (c) Market mechanism is not always effective in allocation of market goods and services. Explain five government interventions that can be used in regulation of demand and supply. [5 marks]

**QUESTION THREE**

- (i) Explain the equilibrium of a firm under perfect competition. [3 marks]  
(ii) Explain the significance of capital budgeting in managerial decisions. [4 marks]  
(iii) A firm estimated the following productions function for its XYZ.

Where Q represents unit of output, K units of capital, and L units of labour.

- (a) Does this production function exhibit increasing =, decreasing or constant returns to scale? [3 marks]  
(b) Suppose that the firm cost outlay way ksh 20000, and the prices of capital and labour were ksh 150 and ksh 200 respectively. What is the optimal levels of labour , capital and output for the firm? [5 marks]

**QUESTION FOUR**

- (i) A perfect competitive firm will continue to operate in the short run as long as total revenues cover all the firm's total variable costs and some the firm's total fixed costs. Explain. [5 marks]  
(ii) A monopoly faces the following demand and total cost equations for its product.  
(a) What are the firm's short run profit maximizing price and output level? [7 marks]  
(b) What is the firm's economic profit? [3 marks]

**QUESTION FIVE**

- (i) Write short notes on the following:  
(a) Market failure [3 marks]  
(b) Public goods [4 marks]  
(c) Fiscal policies [3 marks]  
(ii) What are the exceptions to the law of demand ? [5 marks]
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