

CHUKA



UNIVERSITY

**UNIVERSITY EXAMINATIONS**

**RESIT/SPECIAL EXAMINATION**

**SECOND YEAR EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF EDUCATION**

**BUST 221: MANAGERIAL ECONOMICS**

**STREAMS: BUST**

**TIME: 2 HOURS**

**DAY/DATE: THURSDAY 26/07/2018**

**2.30 P.M. – 4.30 P.M.**

**INSTRUCTIONS:**

- Answer question ONE and any other TWO

**QUESTION ONE (COMPULSORY)**

(a) Distinguish between the following terms as used in managerial economics:

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|---|-----------|
| (i) Scarcity and Opportunity Cost           | (2 marks) |
| (ii) Giffen goods and Veblen goods          | (2 marks) |
| (iii) Income effect and Substitution effect | (2 marks) |
| (iv) Money cost and real cost               | (2 marks) |
| (v) Long run period and short run period    | (2 marks) |

(b) Given the following information of profit maximization under monopoly market structure  
 $P = 435 - 1.3Q$

Total variable cost  $= \frac{1}{10}Q^3 - 0.55Q^2 + 15Q$

Total fixed cost  $= 500$

You are required to:

- |   |           |
|---|-----------|
| (i) Find the total cost, total revenue and profit function. | (3 marks) |
| (ii) Find the output level at which profits is maximized.   | (5 marks) |
| (iii) Establish the profit maximizing level of output.      | (2 marks) |

- (c) Discuss the factors that govern the prices and pricing decisions. (10 marks)

**QUESTION TWO**

- (a) Trinity investment is a business firm dealing with construction goods. In the recent past, the performance of this firm in terms of sales started declining. However, the manager of this firm when trying to look for possible causes of this failure was advised to seek the help from a managerial economist but this Manager did not understand how this expert will be helpful in solving the problem at hand. As a specialist in this field, inform Trinity manager the specific functions of the managerial economists so that he can make a decision of whether to hire one or not. (12 marks)
- (b) Describe cases that can result to a market having an abnormal demand curve. (8 marks)

**QUESTION THREE**

- (a) Explain factors determining the elasticity of a commodity in a market. (10 marks)
- (b) With the help of well labelled diagram(s), distinguish the short run and long run equilibrium under perfect competitive market structure. (10 marks)

**QUESTION FOUR**

- (a) The sales manager of some ABC firm wishes to study the behaviour of the revenue earnings at his firm. He notices from his study that when price is set at Shs 3, the level of output sold is 10 units. However, when price goes up to Shs 5, output falls to 2 units. Assuming a linear relationship between these data, determine the following;
- (i) The demand function (3 marks)
  - (ii) Total Revenue function (3 marks)
  - (iii) Average revenue function (3 marks)
  - (iv) Marginal revenue function (2 marks)
- (b) Discuss the major objectives of the pricing policies in the market. (9 marks)
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