



(University of Choice)

**MASINDE MULIRO UNIVERSITY OF
SCIENCE AND TECHNOLOGY
(Kisumu Campus)
UNIVERSITY EXAMINATIONS
2015/2016 ACADEMIC YEAR
FIRST YEAR FIRST SEMESTER EXAMINATIONS
FOR THE DEGREE
OF
DOCTOR OF PHILOSOPHY IN BUSINESS ADMINISTRATION**

COURSE CODE: PBA 900

COURSE TITLE: ADVANCED MANAGERIAL ECONOMICS

DATE: JUNE 2016

TIME: 3 HOURS

INSTRUCTIONS TO CANDIDATES

Answer FOUR questions



QUESTION ONE

Masinde Muliro University of Science & Technology business incubation department plans to acquire an asset worth Ksh 90million, with a warranty usage of five years out of the ten year lifetime, during which the first maintenance and spot-check shall be done in the sixth year at a cost of 0.8% of the cost, the discounting rate of the asset is 0.5%, the machine's utility cash-inflow is projected as below;

Year 1	Ksh 10,495,000
Year 2	Ksh 10,560,000
Year 3	Ksh 10,655,000
Year 4	Ksh 10,749,000
Year 5	Ksh 10,135,000
Year 6	Ksh 20,125,000
Year 7	Ksh 20,115,000
Year 8	Ksh 10,105,000
Year 9	Ksh 10,185,000
Year 10	Ksh 10,165,000

Xerox Company ltd, the only dealers for the above asset expects to generate a net profit margin of 1,000,000/= per year for 2 years if they sell a package of sparesof the above machine at 8,000,000/= in the second year to MMUST. Suppose, they sell the package of spares to a different customer at a cost of 8,247,107.40/=. The management of Xerox Company ltd believes that the appropriate discount rate for the spare package is 10 percent per year.

Required;

- Compute the Net Present Valuation of the asset and advice the management of MMUST accordingly.

15mks

- ii. What is the value of the trade based on the assumptions that Xerox Company ltd management has set? 10mks
- iii. List and describe basic economic tools for decision marking in economic theories. 5mks

QUESTION TWO

- i. Within the scope of managerial economics, the analysis of scarcity of resources and choice making poses three basic questions to be answered in the value chain of any economic venture. Explain. 9mks
- ii. Define Managerial Economics 5mks
- iii. Shortly highlight the relationship between managerial economics to;
 - a) Management Decision Problems 2mks
 - b) Economic Concepts 2mks
 - c) Quantitative Methods 2mks

QUESTION THREE

- i. Under short run Cost functions, production quantity has a marginal increase of 1 interval on a steady increase between 0 -to- 10, Variable Cost has a marginal increase of 2 intervals on a steady increase, while Fixed Cost is 12 constant. Required; tabulate linear relationship between Cost and Output functions. 5mks
- ii. By use of a chart draw and elaborate the seven steps in the decision making process in Managerial Economics 5mks
- iii. Briefly describe various reasons leading to economies of scale 10mks

QUESTION FIVE

- i. The costs for a typical full-time student attending MMUST University for their first year of study in 2006/2007 academic year is 4,372/= for tuition fees its 1,184/= for compulsory and student fees is 8,500/= for a residence room and a meal plan and textbooks is 650/=. As an alternative to attending University that same student could have earned 28,000/= by getting a job in the labour market. In addition, they could have earned 4.5% interest by investing the money not spent on attending MMUST University.

Required; calculatethe following costs.

- a) Explicit costs 2mks
- b) Implicit costs 2mks
- c) Total economic cost that the student faces for that one year? 2mks
- ii. List and describe factors determining the elasticity of demand 5mks
- iii. Differentiate between external and internal forecast 2mks
- iv. At different managerial stratus forecasting may be classified into various levels; describe 7mks

QUESTION SIX

- i. List and describe basic economic tools in managerial economics for decision making 10mks
- ii. In their book, *The Strategy and Tactics of Pricing*, Thomas Nagle and Reed Holden outlined nine factors that influence how a consumer perceives a given price and how price-sensitive s/he is likely to be with respect to different purchase decisions: Explain 5mks
- iii. County Government of Kisumu is considering building either a one-storey (Project A) or five-storey (Project B) block of offices on a prime site, both projects are of one-year duration, where $k = 10\%$. The following information is available:

	Initial Investment Outlay	Net Inflow at the Year End
Project A	-9,500	11,500
Project B	-15,000	18,000

Required;Showing by a chart, which project should the County Government of Kisumuundertake?

5mks