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(University of Choice)

MASINDE MULIRO UNIVERSITY OF SCIENCE AND TECHNOLOGY (MMUST)

MAIN

UNIVERSITY EXAMINATIONS
2021/2022 ACADEMIC YEAR

THIRD YEAR SECOND SEMESTER EXAMINATIONS

BSC ECONOMICS

COURSE CODE: ECO 314

COURSE TITLE: MANAGERIAL ECONOMICS

DATE: Thursday, 21-04-2022   **TIME:** 12:00 -14:00

INSTRUCTIONS TO CANDIDATES

ATTEMPT QUESTION **ONE** AND ANY OTHER **TWO**

TIME: 2 Hours

MMUST observes ZERO tolerance to examination cheating

This Paper Consists of 2 Printed Pages. Please Turn Over

QUESTION ONE (40 MARKS)

a). How does managerial economics relate with other disciplines of economics? [10 marks]

b). What is break-even point? Explain the important managerial uses of break-even analysis. [10 marks]

c). Distinguish between economies of scale and diseconomies of scale.

Explain the factors that cause economies of scale

[10 marks]

d). P=20-4Q, TC =5Q where P is the demand function, TC is the total

cost and Q is the quantity produced and sold. Calculate;

   (i)   Total revenue function   [2 marks]

   (ii)   The output maximizing the revenue   [4 marks]

   (iii)   The output maximizing the profit and hence the maximum profit.[4 marks]

QUESTION TWO (20 MARKS)

(a) Explain six (5) determinants of price elasticity of demand.   [10 marks]
(b) Differentiate the following concepts as used in managerial economics:
 i. Consumer-producer rivalry and Consumer-consumer rivalry   (2marks)
 ii. Price ceiling and price floor   (4marks)
 iii. Producer surplus and consumer surplus   (4marks)

QUESTION THREE (20 MARKS)

(a) With the help of Q diagram distinguish the 3 stages of production.[10 marks]
(b) Given the following information on sales for a given firm.

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Sales	22734	24731	31489	44685	55319	91021	146234	107883	127483	97275

Estimate the sales for 2012,2015 and fit a linear regression equation.   [10 marks]

QUESTION FOUR (20 MARKS)

a).Explain seven (7) main factors that influence investment.   [7 marks]

b). A company is considering two mutually exclusive projects requiring an initial cash outlay of ksh 10,000 each and with a useful life of 5 years. The company required rate of return is 10% and the appropriate corporate tax rate is 50%. The projects will be depreciated on a straight-line basis. The before depreciation and taxes cash flows expected to be generated by the projects are as follows.

Year	1	2	3	4	5
Project A	Ksh 4,000	Ksh 4,000	Ksh 4,000	Ksh 4,000	Ksh 4,000
Project B	Ksh 6,000	Ksh 3,000	Ksh 2,000	Ksh 5,000	Ksh 5,000

Required : calculate for each project

    (i)   The payback period   [8 marks]

    (ii)   The net present value   [5 marks]

    Which project should be accepted under each method? Why?

QUESTION FIVE

Strategic and Risk Managers in firms operating under different market structures are faced with responsibilities of managing and ameliorating risk associated with various projects under their control; and determining a pricing scheme that the firms should adopt.

a) State and explain five long-run determinants of market structures   (5 Marks)

b) State and explain five strategies that a Strategic and Risk Manager in a firm under telecommunications industry can use to prevent entry and reduce the risk associated with entry of other firms in that industry   (5 Marks)

c) Briefly discuss four main pricing decisions that a Strategic Manager of a firm can use in order maximize the profits of the firm and the increase the value of a firm   (5 Marks)

d) From the four pricing decisions discussed under (d), what pricing scheme will you recommend for a firm in an oligopolistic telecommunications industry in Kenya to use when pricing its products or services? Explain and give reasons   (5 Marks)