



(University of Choice)

**MASINDE MULIRO UNIVERSITY OF
SCIENCE AND TECHNOLOGY
(MMUST)**

MAIN EXAMINATION

**UNIVERSITY EXAMINATIONS
2022/2023 ACADEMIC YEAR**

FIRST YEAR FIRST SEMESTER EXAMINATIONS

**FOR THE DEGREE
OF
BACHELOR OF HOSPITALITY AND HOTEL MANAGEMENT**

COURSE CODE: BHM 102

COURSE TITLE: HOTEL ECONOMICS

DATE: WEDNESDAY 14/12/2022 TIME: 3:00 -5:00

INSTRUCTIONS TO CANDIDATES

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

TIME: 2 Hours

MMUST observes ZERO tolerance to examination cheating

This Paper Consists of 3 Printed Pages. Please Turn Over.

QUESTION ONE [30 MARKS]

a) Explain two economic models for effective pricing strategies of hotel rates
[10marks]

b) The table below shows the output variation with increasing amounts of labour and fixed amount of other factors in a certain hospitality industry in Kenya

No of Workers	TPP	APP	MPP
1	1		
2	3		
3	8		
4	20		
5	30		
6	36		
7	40		

i) Complete the table above [2 Marks]

ii) Identify the point at which Diminishing APP and MPP are expected [3 Marks]

iii) Graph the TPP, APP and MPP above clearly showing the three stages of production [4 Marks]

iv) State and explain any two production periods [3 Marks]

c) Explain while giving illustrations economic factors that influence the growth of hotel industry in Kenya [8 Marks]

QUESTION TWO [20 MARKS]

a) What are the operational issues in Hotel Management? How will microeconomics help in decision making in operational issues? [10 Marks]

b) Explain economic factors that influence the growth of hotel industry in Kenya [10 Marks]

QUESTION THREE [20 MARKS]

a) Boma Inn Hotel, operates in a monopolistically competition market, with revenues and costs as shown in the table below,

Profit-Maximization Table for Boma Inn Hotel					
Prices(\$per shirt)	Quantity(customers per month)	Total Revenue (\$)	Total cost (\$)	Marginal Revenue(\$per shirt)	Marginal cost (\$per shirt)
5	0		3000		
4.5	1000		5000		
4	2000		6250		
3.5	3000		8000		
3	4000		10300		
2.5	5000		15000		

a. Fill in the table

[3 Marks]

b. What is Boma Inn's profit-maximizing or loss-minimizing quantity of output rounded to the nearest 1000 shirts, and what price does it charge?

[3 Marks]

c. What is Boma Inn 's short-run profit or loss?

[3 Marks]

d. What will happen to Boma Inn 's profit or loss in the long run?[3 Marks]

c) Government role in any economy is vital. Discuss the role of the government in hospitality industry in Kenya

[8 Marks]

QUESTION FOUR [20 MARKS]

a) Market demand has been estimated as: $Q_d = 600 - 10P$

The firm has a total cost function given as: $C = 20Q$.

i). Determine the profit maximizing level of output (QM) for the firm [3 marks]

ii). What price (PM) will the firm charge for this level of output? [2 marks]

iii). Determine the firm's profit. [3 marks]

Now assume the industry is perfectly competitive.

iv). How much output (QPC) will the competitive industry produce?[3 marks]

v). What price (PPC) will the competitive industry charge? [2 marks]

vi). Determine the industry's profit. [3 marks]

b) Explain situations where the law of demand is violated [4 Marks]

QUESTION FIVE [20 MARKS]

- a) Define the term “inferior goods” [3 marks]
- b) Explain the law of demand [3 marks]
- c) Explain a situation where the law of supply is violated [4 marks]
- d) Deliberate the role of the government in hospitality industry in Kenya [4 marks]
- e) Briefly explain the usefulness of the concept of elasticity of demand in decision making process [2 marks]
- f) “An increase in price reduces the quantity demanded while a fall in demand reduces the price”. A non - economist might find this statement contradictory. As an economist student, explain the apparent contradiction with the aid of a graph? [4marks]