(*University of Choice*)

MASINDE MULIRO UNIVERSITY OF SCIENCE AND TECHNOLOGY

(MMUST)

MAIN CAMPUS

UNIVERSITY EXAMINATIONS

2023/2024 ACADEMIC YEAR

SCHOOL OF BUSINESS AND ECONOMICS

SECOND SEMESTER EXAMINATIONS

MBA

MAIN EXAM

COURSE CODE: MBA 810

COURSE TITLE: MANAGERIAL ECONOMICS

DATE: FRIDAY 19th April 2024 **TIME: 2:00 -5:00**

INSTRUCTIONS TO CANDIDATES

Attempt Question One and any other Three Questions

TIME ALLOWED: 3 Hours

MMUST observes ZERO tolerance to examination cheating

QUESTION ONE [COMPULSORY]- 40 MARKS

QUESTION ONE

a) Examine the law of diminishing returns in business decision making and state clearly its underlying assumptions. **(5MKS)**

b) Consider a project with an initial investment of $50,000. The project is expected to generate cash flows of $20,000, $25,000, and $30,000 at the end of the first, second, and third years, respectively. If the discount rate is 10%, calculate the NPV of the project. **(4MKS)**

c) Discuss how can managers influence the levels of profits in their firms? **(4MKS)**

d) Suppose the fixed costs for an imaginary firm is $ 10,000, price for its products is $ 20 and the average variables costs are $ 15 and that it has set a profit target of $ 20,000.

i. Calculate for this firm how much it needs to produce in-order to generate the anticipated profits. **(5MKS)**

ii. Using the above information what is the breakeven rate of output. **(5MKS)**

e) Examine critically the uses of the break-even techniques in decision-making management. **(7mks)**

f) Discuss how to solve an optimization process of minimizing by Lagrangian multiplier method by first and second order condition **(10MKS)**

QUESTION TWO

a) Critically evaluate the penetration pricing strategy and explain the factors required for the success of this strategy. **(10MKS)**

b) Explain the causes of monopoly market structures? **(5MKS)**

c) Justify price discrimination under monopolism **(5MKS)**

QUESTION THREE

A. Examine the critical importance of demand forecasting from the management point of view. **(10MKS)**

B. Kyoto Publishers love Magazine. The corporation hires your services to determine the demand forecasting from the management point of view. Suppose the market demand for love Magazines is

$$Qx=12,000-5000pX+5L+500PC$$

Px= price charged for the Love Magazine

L= price of Magazines from competing firms

Pc= price of Magazines from competing firms.

Using the following information.

i. Determine what effect a price increase would have on total revenues. **(5MKS)**

ii. Evaluate how sales of Love Magazines could change during a period of raising incomes **(5MKS)**

QUESTION FOUR

a). The following data was obtained from the books of Mayo and Matto on 30 August 2001; Sales $ 50,000, Variables cost per item $60, Yearly fixed costs; Rent$15,200, Salaries $10,000, and Insurance $800, Units produced and sold 100.

Required:

Calculate the profit at the end of the year. **(7MKS)**

b). Given that Variable Cost Ksh50,000, fixed Cost Ksh 20,00 and sales Ksh 80,00

Required:

Calculate:

i) The Contribution margin **(5MKS)**

ii) The Profit **(3MKS)**

iii) Explain price skimming and its advantages **(5MKS)**

QUESTION FIVE

a) What is the need of demand forecasting? Describe the complex statistical techniques of demand forecasting. **(6MKS)**

b) W Company sells only one product with a selling price of $200 and a variable cost of $80 per unit. The company's monthly fixed expense is $60,000. Required:

i) Determine the breakeven point in units sold and sales dollars. **(6MKS)**

ii) Determine the breakeven point in units sold and sales dollars if the company wants a net income of $30,000. **(5MKS)**

iii) Determine margin of safety if current sales are $175,000. **(3MKS)**

QUESTION SIX

(a) Explain six (5) determinants of price elasticity of demand. **(10 MKS)**

(b) Differentiate the following concepts as used in managerial economics:

i. Consumer-producer rivalry and Consumer-consumer rivalry **(2MKS)**

ii. Price ceiling and price floor **(4MKS)**

iii. Producer surplus and consumer surplus **(4MKS)**