KISII UNIVERSITY
UNIVERSITY EXAMINATIONS

FIRST YEAR EXAMINATION FOR THE AWARD OF THE DEGREE OF MASTER OF PHILOSOPHY IN BUSINESS ADMINISTRATION
SECOND SEMESTER, 2021/2022
(JUNE-SEPTEMBER, 2022)

MBAD 702: MANAGERIAL ECONOMICS

STREAM: Y1 S2 **TIME: 3 HOURS**

DAY: THURSDAY, 9:00-12:00 PM **DATE: 13/10/2022**

INSTRUCTIONS

1. ***Do not write anything on this question paper.***
2. ***Answer Question ONE and any other THREE Questions.***

QUESTION ONE

(a) Elucidate the basic functions of a manager and the importance of managerial economics to the business managers. (8marks)

(b)

(c) How demand forecasting important to firm managers? (7marks)

(d) Explain the purpose of demand analysis from stand point of Management. (5marks)

(e) Explain the concepts of price and income elasticity of demand and their usefulness to managers and government in decision making? (4marks)

QUESTION TWO

(a) Use diagram(s) to explain the stages of production of a firm and advise on the best stage for a firm to operate. (6marks)

(b) Explain cost-plus pricing strategy as used by firms and its limitations. (12marks)

QUESTION THREE

(a) Suppose you are a manager of a firm earning Ksh. 250, 000 per month and you decide to open your business. Your revenue during the first year of operations is 120,000 and expenses are as follows:

Salaries	45,000
Supplies	15,000
Rent	10,000
Utilities	1000
Interest on loan	10,000

Calculate:

(i) Explicit and implicit costs (4marks)

(ii) Business and Economic profit (4marks)

(iii) Would you advice the manager to run his business or employ someone to help him? (2marks)

(b) Explain the determinants of a firm's costs of production (2marks)

QUESTION FOUR

(a) Explain the conditions of monopoly discrimination. What are the causes of monopoly in an economy? (6marks)

(b) A monopolistic firm has the following demand and cost functions

Demand function: P=100-2Q

Cost function: C=50+40Q

(i) Calculate the price and quantities that would maximize the profits of the firm (3marks)

(ii) Calculate the profit of the firm and prove that it is a maximum (3marks)

QUESTION FIVE

(a) Explain the circumstances under which a business decision may be profitable. (4marks)

(b) Discuss the determinants of demand for a good. (4marks)

(c) Explain the law of variable proportions and its usefulness to managers. (4marks)

QUESTION SIX

The LATEX Furniture Company manufactures tables and chairs as part of its line of furniture production. The table below show the data obtained from the Redwood Furniture problem.

Resources	Unit Requirement		Amount
	Table	Chair	
Wood (board sheet)	30	20	300
Labour	5	10	110

The owner wishes to determine the number of tables and chairs to be made to maximize the total profits.

Required:

Given the objective function of the firm to be $6X_T+8X_C$, where X_T=number of tables and X_C = number of chairs. Use linear programming technique to determine the optimal number of tables and chairs that will maximize the firm's profit and sketch a graphical solution for your answer.

(12marks)