



**KISII UNIVERSITY**  
**UNIVERSITY EXAMINATIONS**

**THIRD YEAR EXAMINATION FOR THE AWARD OF THE DEGREE OF**  
**BACHELOR OF SCIENCE IN AGRICULTURAL EDUCATION AND EXTENSION**  
**SECOND SEMESTER, 2023/2024**  
**(JANUARY-APRIL, 2024)**

**AGBM 342: MANAGERIAL ECONOMICS**

**STREAM: Y3 S2**

**TIME: 2 HOURS**

**DAY: THURSDAY, 12:00 – 2:00 P.M.**

**DATE: 11/04/2024**

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**INSTRUCTIONS**

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

**QUESTION ONE (25mks)**

- a) Highlights the concepts of managerial economics. (2marks)
- b) Discuss the significance of managerial economics
- c) A rational consumer has two goods X and Y with the following prices  $P_x =$  Kshs. 100,  $P_y =$  Kshs. 200. If the consumer has a fixed amount of income of Kshs. 1000, required
- i) Construct the consumer budget constraints. (2marks)
- ii) Determine the Opportunity Cost of commodity X in terms of Y. (2marks)
- iii) Using an illustration, explain what would happen to the shape of consumers' budget line if the price of commodity Y is doubled while market factors are held constant. (2marks)

d) A hotel is going to set a cream tea stall at a local gala. On the morning of the gala she visits the wholesale market and has to decide to buy large, medium, or small quantities of strawberries, scones, cream and other materials. Her matrix gain in (\$ 1000) for different weather conditions is given below:

Alternative to buy	Event Weather is		
	Good	Average	Poor
Large Quantity	10	4	-2
Medium Quantity	7	6	2
Small Quantity	4	1	4

What quantity of material should she buy? Explain (4marks)

e) Chemutai, a student of Economics at Kisii University, collected extensive data on incme and quantity demanded for tomatoes in Kisii Township for a period of 10 years. The Table below shows the data collected. The figures are in thousands Kenya shillings.

Year	Income (Y)	Quantity Demanded (X)
2001	284.8	191.0
2002	328.4	206.3
2003	345.5	216.7
2004	364.4	230.0
2005	368.8	236.5
2006	390.0	254.4
2007	419.2	266.7
2008	441.1	281.4
2009	447.3	290.1
2010	483.7	311.2

- i) Using the data above derive a demand model under which the assumption that there are exist a linear relationship between demand and income. (8marks)
- ii) Compute and interpret the correlation coefficient and coefficient of determination from the given data. (4marks)
- iii) Compute the income elasticity of demand for tomatoes. (2marks)
- iv) Highlight the significance of the income elasticity to the planning development. (2marks)

## QUESTION TWO (15MKS)

a) With the aid of a well labeled diagram, explain the stages of classical production function. (7marks)

b) Assuming that the demand function of a monopolistic is given by

$$Q = 800 - 8P$$

Cost function to the monopolistic

$$C = 200 + 10Q + 2Q^2$$

Required

i) Find the monopolistic optimal quantity. (4marks)

ii) The optimal price (2marks)

iii) The maximum profit for the monopolistic. (2marks)

## QUESTION THREE (15mks)

Pricing decisions occupy a very important place in decision of a business and industrial enterprise. Exhaustively discuss the objectives of pricing decisions. (15marks)

## QUESTION FOUR (15MKS)

a) Highlight conditions that characterized a profit oriented firm operating under perfectly competitive market which is at the same time experiencing the state of short run equilibrium. (10marks)

b) HJ Sigmoids logistics provides a third transport and storage services. It usually signs long term contracts to develop close working relationship with customers. Recently it bid for a contract to move newspapers and magazines from point of printing works to wholesalers. This distribution market is dominated by two major companies and it might be useful area for expansion. The whole decision was complicated. The probabilities of the newspaper sales and profit (\$ 1000) are summarized below.

Alternative	Newspaper Sales		
	Decrease	Stay the same	Increase
	P= 0.4	P= 0.3	P=0.3
Low tender	10	15	15
Medium tender	5	20	10
High tender	18	10	-5

**Required:**

Which is the best alternative among the tenders. Discuss. (5marks)

**QUESTION FIVE (15mks)**

Discuss the sources of monopoly.

**QUESTION THREE (15mks)**

- i) Discuss the types of value addition in commodities. (7marks)
- ii) Briefly discuss the requirements for successful value chain management. (8marks)

**QUESTION FOUR: (15mks)**

- i). Briefly discuss the vertical integration and strategic alliances. (7marks)
- ii). Briefly explain the important benefits of value added supply chain. (8marks)

**QUESTION FIVE (15mks)**

Highlight on some challenges facing supply value chain management.