



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

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MAIN EXAMINATION

JANUARY – APRIL 2019 TRIMESTER

FACULTY OF COMMERCE

MBA REGULAR / EVENING / ODEL PROGRAMME

CEC 520: MANAGERIAL ECONOMICS

Date: APRIL 2019

Duration: 3 Hours

INSTRUCTIONS: Answer ALL Questions

Q1. a) Explain briefly the following:

- i) The component analysis in the expected value maximization model **(3 marks)**
- ii) The reason why profits vary among firms **(2 ½ marks)**
- iii) The role of profits in the economy **(1 ½ marks)**
- iv) The primary goal of the firm **(1 ½ marks)**

b) Consider the following fixed costs (FC) and variable costs (VC) equations for Karon Enterprises that specializes in producing bicycles.

$$FC = \$8$$

$$VC = \$4Q + \$0.5Q^2$$

Required to:

- i) Find the cost-minimizing output level **(2 marks)**
 - ii) The minimized cost **(1 ½ marks)**
- c) Using suitable illustration, distinguish clearly between perfect substitutes and perfect complements **(3 marks)**

Q2. a) Using suitable illustration, distinguish clearly between the following:

- i) Demand curve and demand function **(2 marks)**
- ii) Market equilibrium and market disequilibrium **(2 marks)**
- iii) Income effect and substitution effect of a price change **(2 marks)**

- b) Jambo Enterprises provides express services in cargo transport. The following is the demand function for the monthly transport tickets.

$$Q = 7000 - 5000P + 6000P_c + 150I + 1000A$$

Where

Q = Quantity of transport tickets

P = ticket price (\$)

P_c = competing price (\$)

I = Disposable income (\$)

A = advertising expenditure (\$)

Given

$$P_c = \$4; I = \$60,000; A = \$20,000; p_1 = \$8; p_2 = \$10$$

Required to:

- i) Derive the demand curve for the tickets **(1 ½ marks)**
- ii) Point price elasticities at p_1 and p_2 **(2 marks)**
- iii) Analyze the demand sensitivity for the tickets over the two prices **(2 ½ marks)**
- c) Explain briefly the following concepts.
- i) Countercyclical goods **(1 mark)**
- ii) Noncyclical normal goods **(1 mark)**
- iii) Cyclical normal goods **(1 mark)**
- Q3. a) Explain briefly three key models in trend analysis **(4 ½ marks)**
- b) Distinguish clearly between 'returns to scale of a production system' and 'returns to a factor of production' **(3 marks)**
- c) Explain briefly three factors for shaping the competitive environment **(6 marks)**
- d) Explain briefly the term 'marginal revenue product' **(1 ½ marks)**
- Q4. a) Using suitable illustration, explain briefly the term 'minimum efficient scale' **(2 marks)**
- b) The business status for Kiko Enterprises that specializes in the producing shoes is as follows.
- Weekly sales have risen by 2 percent following a 1 percent discount.
 - The marginal cost is \$25

- The firm contemplates reflecting the effects of uncertainty in its effects in the basic valuation model.

Required to:

- Compute the optimal price **(2 marks)**
- Explain briefly two basic methods for reflecting the effects of uncertainty in the model **(4 marks)**

c) The following Table presents a two-input (labour, L ; capital, K) and one-output Y (TV sets) production system for Beta Electronics Limited

Units of Y Employed	Output Quantity									
	1	2	3	4	5	6	7	8	9	10
10	52	71	87	101	113	122	127	129	130	131
9	56	74	89	102	111	120	125	127	128	129
8	59	75	91	99	108	117	122	124	125	126
7	61	77	87	96	104	112	117	120	121	122
6	62	72	82	91	99	107	111	114	116	117
5	55	66	75	84	92	99	104	107	109	110
4	47	58	68	77	85	91	97	100	102	103
3	35	49	59	68	76	83	89	91	90	89
2	15	31	48	59	68	72	73	72	70	67
1	5	12	35	48	56	55	53	50	46	40
Units of X	1	2	3	4	5	6	7	8	9	10

Required to

- List the capital-labour combinations for the isoquants 91 and 89 **(2 marks)**
- Present graphically the isoquants in (1) above **(2 mark)**
- Given the short-run capital level employed by the firm as 4 units, generate a table showing
 - Total product of labour **(1 mark)**
 - Marginal product of labour **(1 mark)**
 - Average product of labour **(1 mark)**

END