THE CATHOLIC UNIVERSITY OF EASTERN AFRICA
A. M. E. C. E. A

GABA CAMPUS - ELDORET

MAIN EXAMINATION

SEPTEMBER – DECEMBER 2021 TRIMESTER

SCHOOL OF BUSINESS

ORDINARY DIPLOMA IN BUSINESS MANAGEMENT

DEPARTMENT OF ACCOUNTING AND FINANCE

CED 091: MANAGERIAL ECONOMICS

Date: December 2021	**Duration:** 2 Hours
Instructions: Answer Question **ONE** and any other **TWO** questions	

QUESTION ONE

a) Define the following terms
- i)   Decrease in Quantity demanded.   **(3 marks)**
- ii)   Short Term period   **(2 marks)**
- iii)   Increasing returns to scale.   **(3 marks)**

b) The regression equation for the demand for Omena in kilo grams in the hotel industry is obtained as follows.

$Y = 300 – 0.660\, x_1 + 0.1440\, x_2 – 0.085 x_3$

Where:

Y = Quantity of Omena in kilo grams demanded

X_1= Average price of Omena in kilo grams demanded

X_2 = Campaigns by Ministry of health

X_3 = Location of the firm whether urban or rural

Required;

Interpret the magnitudes of the estimated regression coefficients X_1, X_2 and X_3.
                                                                   (6 marks)
c) Highlight two qualitative approaches to demand estimation.   **(6 marks)**

d) Highlight how any four departments of a firm in the used car industry can make good use of Demand forecasts.   **(8 marks)**

QUESTION TWO

a) A firm has found its total revenue (TR) and total costs (TC) as follows:

AR = 600 – 3Q

AC = 100 + 2Q

Where Q is output

ii) Determine the levels of output that will maximize TR, TC and profits

(6 marks)

iii) What is the firm's level of profit. **(2 marks)**

b) The following table of shows the respective demand for Ford cars during the months of 2020 and prices in millions.

Month	price (million)	Demand (numbers)
Jan	10	44
Feb	9	40
March	11	42
April	12	46
May	11	48
June	12	52
July	13	54
August	13	58
September	14	56
October	15	60

Required;

i)   Estimation functions of demand for Ford cars.   **(8 marks)**

ii)   Predict the what the price should be in order to sale   **(4 marks)**

QUESTION THREE

a) Consider the following supply and demand curves for a certain product.

Qs = 40,000p

Qd = 80,000 – 15,000p

Required;

i) Plot the demand and supply curves.   **(6 marks)**

ii) What are the equilibrium price and quantity for the industry algebraically and graphically?   **(6 marks)**

b) Using a firm of your choice illustrate the value added process.   **(8 marks)**

QUESTION FOUR

a) Western Limited Company has hired a consultant to advice on pricing strategy of the companies Laptops. The historical data suggests the following:-

      Own-price elasticity = -0.05

      Refreshment elasticity = -0.12

      Population elasticity = +0.65

      Advertising elasticity = +0.70

      Required;

i) The managing director is considering an increase in price of Laptops in order to increase revenue. Explain whether this a good idea. **(3 marks)**

ii) The managing director is also contemplating a moderate increase in the advertising budget in order to increase revenue. Explain whether it is a good idea **(3 marks)**

b). A project in a company costs 250,000/= now and shall yield year-end cash flows as 9,000/=, 8,000/=, 7,000/=, 6,000/= and 5,000/= per annum respectively with nil salvage value. The discount rate is 10%.

    i) Determine Net Present Value (NPV) **(6 marks)**

    ii). Comment on the viability of the project on basis of NPV. **(3 marks)**

    iii).Determine the pay-back period **(5 marks)**

END