THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

A. M. E. C. E. A

MAIN EXAMINATION

JANUARY – APRIL 2022

P.O. Box 62157

00200 Nairobi - KENYA

Telephone: 891601-6

Ext 1022/23/25

FACULTY OF ARTS AND SOCIAL SCIENCES

DEPARTMENT OF ECONOMICS

REGULAR PROGRAMME

ECN 420: MANAGERIAL ECONOMICS

Date: APRIL 2022	Duration: 2 Hours
INSTRUCTIONS: Answer Question ONE and any TWO Questions	

Q1.
  a. Discuss the concept of common sense in business **(3 marks).**
  b. Distinguish between the following concepts.
    i.   'Accounting profit' and 'economic profit' **(2 marks).**
    ii.   'Short run primary goal of the firm' and 'long run primary goal of the firm' **(3 marks).**
    iii. 'Level of risk' and 'attitude toward risk' **(2 marks).**
    iv.   'Break-even analysis' and 'profit contribution' (**3 marks).**
    v.   'Public good' and 'private good' **(3 marks).**
  c. Using suitable illustration, distinguish between the following concepts:-
  i.   'Income effect of a price change' and 'substitution effect of a price change' **(3 marks).**
  ii.   'Engle curve for normal goods' and 'Engle curve for inferior goods' **(3 marks)**.
  iii. 'Negative externalities' and 'positive externalities' **(3 marks).**
  d. Discuss the following:-
    i.   Three applications of the elasticity concept **(1 ½ marks).**
    ii.   The features of time series data. Illustrate **(3 ½ marks).**
Q2

  a. Discuss reasons why profits vary among firms **(5 marks).**

ISO 9001:2015 Certified by the Kenya Bureau of Standards

b. Explain briefly the role of profits in a market economy **(3 marks).**
c. Outline the importance of the expected value maximization model of the firm
(4 marks).
d. Explain the basic assumptions governing the theory of consumer behaviour
(3 marks).
e. Musa is a consumer faced with budget (B) and prices (p_R , p_U) in the consumption of Rice (R) and Unga (U) such that:-
    - B = \$1,000; p_R = \$100; p_U = \$250
    - Plot R on the horizontal axis.

    Required to:-
    i.   Compute the two intercepts **(2 marks).**
    ii.   Draw the budget constraint showing the two market baskets **(3 marks).**

Q3

a. Discuss the qualitative approach to forecasting **(3 marks).**
b. Explain the following terms.
    i.   Marginal concept **(2 marks).**
    ii. Incremental concept **(3 marks).**
    iii. Value of the firm **(2 marks).**
c. Tumaini Watch Manfacturers Limited have the following revenue and price relations for their products.

Quantity sold ('000s) per month	Price (Kshs)	Total revenue (Kshs)
0	2040.00	0.00
1	1912.00	1912.50
2	1785.00	3570.00
3	1657.50	4972.50
4	1530.00	6120.00
5	1402.00	7012.50
6	1275.00	7650.00
7	1147.50	8032.50
8	1020.00	8160.00
9	892.50	8032.50
10	765.00	7650.00

The linear demand curve for firm's products is given as:
$$P = A + BQ,$$
Where P and Q are price and quantity, respectively, and A and B are constants.

Required to

ISO 9001:2015 Certified by the Kenya Bureau of Standards

i. Estimate the linear demand curve for the firm's products **(3 marks).**
ii. Present graphically the relations among price, total revenue, marginal revenue, and output **(3 marks).**
iii. Calculate the revenue-maximizing output level for the firm **(2 marks).**
iv. Calculate the maximized revenue **(2 marks).**

Q4

a. Using suitable illustration, explain the concept of the movement of price elasticity along a linear demand curve **(5 marks).**
b. Explain three trend analysis model types **(3 marks).**
c. Discuss game theory types **(3 marks).**
d. The competitors, Coco-Cola and Pepsi, are faced with the following payoff matrix.

		Pepsi (P)	
	Pricing strategy	Discount price	Regular price
Coco-Cola (CC)	Discount price	CC earns $4billion P earns $2billion	CC earns $8billion P earns $1billion
	Regular price	CC earns $2billion P earns $5billion	CC earns $6billion P earns $4billion

Required to find/explain:-
i. The dominant strategy for both firms **(2 marks).**
ii. The secure strategy for each firm **(2 marks).**

e. John faces two investment choices involving a portfolio of $8 million as follows:-
1. To invest Kshs8 million such that the returns from the project are:-
   • Kshs80 million if project is successful. The probability of success is 50 percent.
   • Nothing if project fails
2. Not to invest, so keep the Kshs8 million.

Required to:-
i. Find the certainty equivalent sum **(1 mark).**
ii. Calculate the expected risky sum **(1 ½ marks).**
iii. Calculate the certainty equivalent adjustment factor, α **(1 ½ marks).**
iv. Interpret the results in (iii) appropriately **(1 mark).**

Q5

a. In a given market, the quantity demanded of the product, Y, depends on the independent variable, X.
   Required to provide simple interpretations of the following point elasticities:

i. $\varepsilon_x = 5$ **(1 mark).**
ii. $\varepsilon_x > 5$ **(1 mark).**
iii. $\varepsilon_x < 5$ **(1 mark).**

b. Distinguish clearly between the 'Certainty Equivalent Method 'and 'Risk-adjusted Discount Rate Approach' of dealing with the effects of uncertainty in managerial decision making **(6 marks).**

c. The following data show the production status of Jambo Shoe Enterprises:-
   - Price per pair of shoes sold = Kshs240
   - Average cost for labour and material = Kshs144
   - Break-even quantity level = 50,000 pairs of shoes.

Pairs of shoes ('000s)	Sales Kshs ('000s)	Costs Kshs ('000s)	Profit Kshs ('000s)
20			
40			
60			
80			
100			
120			

Required to:-
i. Compute profit contribution **(2 marks).**
ii. Calculate total fixed cost **(2 marks).**
iii. Complete the Table above **(3 marks).**
iv. Draw the cost-volume-profit chart **(2 marks).**
v. Compute the degree of operating leverage **(2 marks).**

END

ISO 9001:2015 Certified by the Kenya Bureau of Standards