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MAIN EXAMINATION

SEPTEMBER – DECEMBER 2020 TRIMESTER

FACULTY OF ARTS AND SOCIAL SCIENCES

ECONOMICS DEPARTMENT

REGULAR PROGRAMME

CODE: ECN 420
TITLE: MANAGERIAL ECONOMICS

Date: DECEMBER 2020	**Duration: 2 Hours**
INSTRUCTIONS: Answer Question ONE and any other TWO Questions	

Q1.

a. Using suitable illustrations as applicable, distinguish clearly the following:-
   i. Engle curve for normal goods and Engle curve for inferior goods **(3 marks)**.
   ii. Negative externalities and positive externalities **(5 marks).**
   iii. Profit contribution and break-even quantity **(3 marks).**
   iv. Public good and private good **(3 marks).**
   v. Level of risk and attitude toward risk **(4 marks).**
b. Using suitable illustrations as applicable, explain briefly the following:-
   i. Three applications of the elasticity concept **(3 marks).**
   ii. The features of time series data **(4 marks).**
   iii. Importance of the cost-volume-profit analysis **(2 marks).**
   iv. Two practical applications that justify the need for business managers to study consumer behaviour **(3 marks).**

Q2

a. Explain briefly the qualitative approach to forecasting **(3 marks).**
b. Explain briefly the basic assumptions governing the theory of consumer behaviour **(3 marks).**
c. Manuu 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 **(4 marks).**

ii. Draw the budget constraint showing the two market baskets **(4 marks).**

d. Using suitable illustration as applicable, explain briefly the degrees (types) of elasticity **(6 marks).**

Q3

a. Explain briefly the following:-

i. Risk categories **(4 marks).**

ii. Free rider problem **(2 marks).**

b. 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 explain:-

i. The dominant strategy for both firms **(2 marks).**

ii. The secure strategy for each firm **(2 marks).**

c. Mr. Thade 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).**

d. Explain briefly the reason why profits vary among firms **(5 marks).**

Q4

a. Using suitable illustrations, distinguish clearly between 'perfectly elastic demand 'and 'perfectly inelastic demand' **(6 marks).**

b. 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. $\varepsilon_x = 5$ **(2 marks).**
   ii. $\varepsilon_x > 5$ **(2 marks).**
   iii. $\varepsilon_x < 5$ **(2 marks).**

c. Distinguish clearly between the 'Certainty Equivalent Method 'and 'Risk-adjusted Discount Rate Approach' of dealing with the effects of uncertainty in managerial decision**making (8 marks).**

Q5

a. Distinguishing between the Short Run primary goal of the firm and Long Run primary goal **(3 marks).**

b. Explain briefly the importance of the value maximization model of the firm in relation to the various functional departments of the firm **(4 marks).**

c. Using suitable illustration, explain briefly the term 'basic cost-volume- profit chart' **(3 marks).**

d. The following data show the production status of Kiugo 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 **(1 mark).**
v. Compute the degree of operating leverage **(2 marks).**

END