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MAIN EXAMINATION

MAY – AUGUST 2019 TRIMESTER

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

SPECIAL/SUPPLEMENTARY PROGRAMME

CEC 520: MANAGERIAL ECONOMICS

Date: JULY 2019	**Duration: 3 Hours**
INSTRUCTIONS: Answer ALL Questions	

Q1. a) Explain, distinguishing clearly between the following terms.
   i.   Historical costs and current costs   **(2 marks).**
   ii. Returns to scale of a production system and returns to a factor of production   **(2 marks).**
   iii. Economies of scale and minimum efficient scale   **(2 marks).**
   b) Using suitable illustrations, explain briefly the effects of transportation costs on the minimum efficient scale   **(3 marks).**
   c) Explain briefly the following:
   i.   The 'entry and exit conditions' as a factor shaping competitive environment   **(3 marks).**
   ii. The two methods of dealing with effects of uncertainty in the basic valuation model of the firm   **(3 marks).**

Q2. a) Using appropriate illustrations as necessary, explain distinguishing between the following terms and statements:
   i.   Utility maximization model and profit maximization model
          (2 marks).
   ii. Supply curve and supply function. Illustrate your answer
          (2 marks).
   iii. Substitution effect and income effect of a price change. Illustrate your answer   **(2 marks).**
   iv. Price consumption curve and income consumption curve. Illustrate your answer   **(2 marks).**

b) Explain briefly three (3) applications of the concept of elasticity of demand **(3 marks)**.

c) Consider the following information for Nguvu Company Ltd, a competitive profit-maximizing firm employing a single factor input, labour.

1.

Labour (L)	TP_L	MP_L	MRP_L
1	5		
2	9		
3	12		
4	14		
5	15		

Where
TP_L = total product of labour
MP_L = marginal product of labour
MRP_L = marginal revenue product of labour.

2. Price of output Kshs250
3. Price of labour Kshs600

Required to:
i. Complete the table **(1 mark)**.
ii. Determine the number of workers to be hired **(2 marks)**.
iii. Calculate the total profit **(1 mark)**.

Q3. a) Discuss briefly three (3) 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) Discuss briefly three (3) factors for shaping the competitive environment **(6 marks)**
d) Explain briefly the term 'marginal revenue product' **(1 ½ marks)**

Q4. a) Explain briefly the following terms and statements.
i. Optimal decision **(2 marks)**.
ii. The expected value maximization model is important in determing the optimal course of action **(4 marks)**.
b) Consider the following revenue and cost equations for Safari Shoe Company
$$TR = Kshs\ 2400Q - Kshs\ 150Q^2$$
$$TC = Kshs\ 800 + Kshs\ 400Q + Kshs\ 50Q^2$$
Required to:
i. Find revenue-maximizing output level **(2 marks)**.
ii. Find the revenue maximized **(2 marks)**.

     iii.   Calculate the profit-maximizing output level   **(3 marks).**
     iv.   Find the maximized profit   **(2 marks).**

Q5. **a)**   Using suitable illustrations, explain briefly the terms
     1.   A change in quantity supplied   **(2 marks)**
     2.   A change in supply   **(2 marks)**
  b)   Consider the supply function for automobile industry in a hypothetical economy given as follows:

$$Q = 1{,}000P - 250P_X - 50{,}000W - 7{,}500S - 62{,}000E - 500{,}000i$$

Where
    Q = number of new domestic automobiles (in millions), supplied during a given period
    P = average price ($) of new domestic automobiles
    P_X = average price ($) of new imported automobiles
    W = average hourly price of labour ($) per hour
    S = average cost of steel per ton ($)
    E = average price of energy ($)
    i = average interest rate, cost of capital (in %)

The estimated values for the independent variables during the coming year are as follows:
    P = $15,000
    P_X = $21,000
    W = $50
    S = $400
    E = $3
    i = 4%

Required to
    1. Estimate the industry supply for new automobiles in the coming year
                    (2 marks)
    2. Derive the supply curve for automobile industry when
      i. Q is expressed as a function of P **(1 mark)**
      ii. P is expressed as a function of Q **(1 mark)**
    3. Present (2) above graphically   **(1 mark)**

  c)   Using suitable illustration, explain briefly the term 'market equilibrium'
                    (3 marks)

  d)   State the basic assumptions of consumer behaviour theory.   **(3 marks)**

END