



# MURANG'A UNIVERSITY OF TECHNOLOGY

## SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF COMMERCE

UNIVERSITY ORDINARY EXAMS

2021/2022 ACADEMIC YEAR

**SECOND YEAR FIRST SEMESTER EXAMINATION FOR MASTER OF  
BUSINESS ADMINISTRATION**

**BCE 613: MANAGERIAL ECONOMICS**

**DURATION: 2 HOURS**

**Instructions to candidates:**

1. Answer Any **FOUR** questions
2. Mobile phones are not allowed in the examination room.
3. You are not allowed to write on this examination question paper.

**Answer Any Four questions.**

**QUESTION ONE (25 MARKS)**

- a. Assume that you are a manager and have limited resources to develop a nature park your business. Describe four decision making steps that you will use when allocating resources. (8 Marks)
- b. Describe in details the main assumptions of the neo classical model of a firm. (9 Marks)
- c. Compare and contrast the critics leveled against profit maximization models by the management and behavioral schools of thoughts. (8 Marks)

**QUESTION TWO (25 MARKS)**

- a. Consider the following shorts of production function (where L= variable input, Q is the output?)
  - i. Determine the marginal product (  $MP_L$ ) (4 Marks)
  - ii. Determine the average product (  $AP_L$ ) (4 Marks)
  - iii. Find the value of L that maximize Q (4 Marks)
  - iv. Find the value of L at which the marginal product function takes on its maximum value. (4 Marks)
  - v. Find the value of L at when the average product takes its maximum value. (4Marks)
- b. Explain how Herfindahl Hirschman Index (HHI) index is used to determine the performance of a firm in a market (5 Marks)

**QUESTION THREE (25 MARKS)**

- a) Describe five key assumptions that Managers make when analyzing consumer behaviour. (10 Marks)
- b) Explain how a consumer will maximize the consumption of food and nonfood in a given market assuming that they are priced at Ksh 4 and KSh 5 respectively. Further assume the consumer's income is KSh 400. (15 Marks)

**QUESTION FOUR (25 MARKS)**

- a) Explain the meaning of the following terms using appropriate examples.
  - i. Price discrimination (3 marks)
  - ii. Monopoly power (3 marks)
  - iii. Market concentration (3 marks)
  - iv. Contestable markets (3 marks)
- b) There are two competing firms in a market. Firm A uses strategy X and firm B uses strategy Y

	Firm Y			
Firm X		Y1	Y2	Y3
	X1	0, 1	9,0	4,3
	X2	5,9	7,3	1,7
	X3	7,5	6,9	3,5

- i. Identify pure Nash equilibrium (5 Marks)
- ii. Determine the solution or value of this game. (4 Marks)

#### QUESTION FOUR (25 MARKS)

- a) Discuss the contribution of the following areas of business management to managerial economics
  - i. Management decision problem (4 Marks)
  - ii. Decision Science. (4 Marks)
  - iii. Economic concepts (4 Marks)
- b) What do you understand by the term a run? Using a suitable illustration, show how a long run average costs can be derived from short run average cost curves? (3 Marks)
- c) KCC limited sells milk at 250/= per litre, the variable cost per unit is 150. It has a fixed cost of 1 million shillings. Determine the breakeven point of KCC Ltd. (5Marks)
- d) Describe Five steps involved in managerial decision making (5 Marks)