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**GARISSA UNIVERSITY**

**UNIVERSITY EXAMINATION 2020/2021 ACADEMIC YEAR ONE**

**FIRST SEMESTER EXAMINATION**

**SCHOOL OF BUSINESS AND ECONOMICS**

**FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION**

**COURSE CODE: MBA 813**

**COURSE TITLE: MANAGERIAL ECONOMICS**

**EXAMINATION DURATION: 2 HOURS**

**DATE: 07/04/2021 TIME: 3.00-5.00 PM**

**INSTRUCTION TO CANDIDATES**

* **The examination has FIVE (5) questions**
* **Question ONE (1) is COMPULSORY**
* **Choose any other TWO (2) questions from the remaining FOUR (4) questions**
* **Use sketch diagrams to illustrate your answer whenever necessary**
* **Do not carry mobile phones or any other written materials in examination room**
* **Do not write on this paper**

**This paper consists of THREE (3) printed pages *please turn over***

**QUESTION ONE (COMPULSORY)**

1. Up to January 2021, the Chief Executive of Amazon had made a fortune of up to 191billion USD. In your own view, explain some factors that may have contributed to such a scenario. (10 marks)
2. For the last five years of being at the top of a shoe-making factory as a manager, you have modernized production processes through the introduction of quality machines. This has led to the increase in output of shoes from your factory. Draw a hypothetical supply curve (illustrating the position of your factory in terms of supply) and explain it. (10 marks)
3. Assuming you are a manager of a meat factory in Garissa county explain ways of forecasting demand for such a factory? (10marks)
4. For a manager, economics forms the life-line of his management skills. Explain. (10marks)

**QUESTION TWO**

1. Explain the properties of indifference curves. (4marks)
2. The principle of diminishing marginal rate of substitution demonstrates that as a consumer loses a given amount of good Y while gaining good X, the marginal rate of substitution goes on diminishing. As a demonstration of this very principle, draw a clearly labeled hypothetical indifference curve and show that the slope of the tangent GH=OG/OH, the slope of the tangent KL=OK/OL and finally the slope of the tangent MN=OM/ON. If point P is at the top most of the indifference curve, while point R is at the middle of the indifference curve and S at the lowest part of the curve, what are the marginal rates of substitution of these points? What can you say about the relative sizes and magnitudes of KL, GH and MN? What does this tell us about the principle of diminishing marginal rate of substitution on an indifference curve? Explain concisely. (16marks)

**QUESTION THREE**

1. Explain some reasons for an abnormal demand curve. (8marks)
2. When Mohamed’s income increases from Ksh 1000 to Ksh 1500 his demand for rice rises from 5Kg to 7Kg. Calculate income elasticity of demand. (12 marks)

**QUESTION FOUR**

The manager of Kawality ice cream is to decide between two investment projects. Project A is the investment in the introduction of bottles of cold milk while project B will deal with the manufacture of ice cubes. The two investment projects yield the following net cash flows and the initial expenditure.

 Net cash flows

|  |
| --- |
| Investment projects Year1 Year2 Year3 initial investment |
| A 50000 70000 40000 120000  |
| B 40000 80000 50000 110000  |

1. Calculate the net present value (NPV) of each project with risk free discount rate of 8 percent. (6marks)
2. Which of the investment projects the manager should choose if the risk premium is 4 percent on project A and 9 percent on project B? (14marks)

**QUESTION FIVE**

1. By the use of a curve, show how a firm in a perfectly competitive market incurs losses. (7marks)
2. For a perfectly competitive firm, the following short run function is given;

TC=2+4Q+Q2  . if the price of the product prevailing in the market is Ksh 8, at what level of output the firm will maximize profits? (13marks)