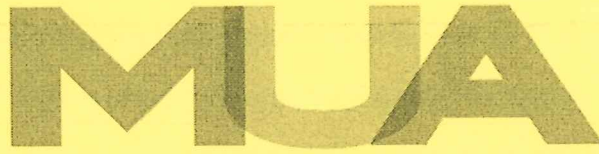


The
Management
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UNDERGRADUATE UNIVERSITY EXAMINATIONS
SCHOOL OF MANAGEMENT AND LEADERSHIP
DEGREE OF BACHELOR OF ARTS IN MANAGEMENT AND
LEADERSHIP

BMT 202/BMT 300 : MANAGERIAL ECONOMICS

DATE: 28TH NOVEMBER 2023

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. **Write all your answers in the Examination answer booklet provided.**

QUESTION ONE

- a) Xlibris is considering investing in a project requiring an initial cash outlay of sh.10,000. The company's required rate of return is 10%.The company's expected cashflows for the next five years are as follows;

YEAR	1	2	3	4	5
PROJECT A	6000	3000	2000	5000	5000

Required: Calculate for the Project;

- i. The payback period (5 marks).
 - ii. The net present value (NPV) and determine whether the project should be undertaken or not (5marks).
 - iii. Assess five advantages of Net Present Value as an investment appraisal technique (5 Marks)
- b) Suppose you are a manager of a firm earning Ksh.250,000 per month and you decide to open your business. Your revenue during the first year of operations is ksh.120,000 and expenses are as follows:

salaries	45000
supplies	15000
rent	10000
Utilities	1000
Interest on loan	10000

Required: Calculate

- i. Explicit and implicit costs (5 Marks)
- ii. Differentiate between business profit and economic profit (5 Marks)

QUESTION TWO

- a) Evaluate the importance of managerial economics to finance manager in running a business (5 Marks)

- b) Assuming the unit price of a commodity is defined by: $P=90-2Q$ and the cost function is given as $C=10+0.5Q^2$

Required:

- i. Determine the profit maximizing level of output and the unit price (5 Marks)
- ii. Determine the cost minimizing level of output (5 Marks)

QUESTION THREE

A managerial economist of XYZ company is concerned about the apparent fluctuation of inefficiency and wants to determine how production costs(ksh) relates to labor hours employed. The following data represents results of 6 most recent months.

MONTH	LABOUR HOURS EMPLOYED(X)	PRODUCTION COST(Y)
January	35	340
February	45	345
March	25	280
April	35	260
May	30	220
June	50	420

Required:

- i. Estimate the production cost function using simple linear regression analysis and determine the labour hours that if employed would result into a production cost of Ksh.450. (7 Marks)
- ii. Assess five remedies to violation of the classical linear regression model (8 Marks)

QUESTION FOUR

- a) Formulate five practical applications of game theory in business (10 Marks)
- b) Examine five disadvantages of game theory (5 Marks)

QUESTION FIVE

- a) A monopolistic firm has the following demand and cost functions:

Demand function: $P=100-2Q$

Cost function: $C=50+40Q$

Required: Compute the profit of the firm and prove that it is maximum (8 marks)

- b) Evaluate seven sources of economies of scale for a firm maximum (7 marks)

QUESTION SIX

- a) Profit maximization is not the only objective of a firm. Propose other five objectives of a firm (5 Marks).
- b) Assess five methods used by the government to regulate firms (5 Marks).
- c) Illustrate factors influencing the elasticity of demand (5 Marks).