

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

**BMT 202/BMT 300:           MANAGERIAL ECONOMICS**

**DATE:                           15<sup>TH</sup> APRIL 2026**

**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

**Read the Case Study below carefully and answer the questions that follow:**

### **THE IMPACT OF DEBT MANAGEMENT ON KENYA'S ECONOMIC DEVELOPMENT**

Effective public debt management plays a critical role in shaping Kenya's economic development by influencing fiscal space, macroeconomic stability, and investor confidence. In September 2025, the National Treasury and the Central Bank of Kenya jointly conducted a Debt Sustainability Analysis, which concluded that Kenya's public debt remains sustainable but is subject to a high risk of debt distress. The External Debt Sustainability Analysis indicates that the present value of external debt-to-GDP remains below the 40 percent threshold throughout the projection period. Similarly, the PV of public and publicly guaranteed external debt relative to exports is projected to remain below the 180 percent benchmark through 2030. These indicators suggest that, from a stock perspective, Kenya's external debt remains within internationally accepted sustainability limits. However, despite these favorable stock indicators, liquidity pressures remain elevated, as reflected in debt service ratios. To safeguard debt sustainability and reduce the elevated risk of debt distress, targeted policy interventions are essential.

A key recommendation is to broaden and diversify Kenya's export base to enhance foreign exchange earnings. Increased export revenues would directly improve the debt service-to-exports ratio, easing pressure on external debt sustainability thresholds. In addition, building and maintaining adequate gross international reserves is critical for strengthening resilience against external shocks, including exchange rate volatility and global financial tightening. Strong reserve buffers improve market confidence and provide the government with greater flexibility in meeting external debt obligations without destabilizing the domestic economy.

Over the medium term, maintaining a credible fiscal consolidation path is essential to improving debt sustainability. Fiscal consolidation creates fiscal space, reduces borrowing needs, and lowers vulnerabilities associated with rising public debt.

Furthermore, the government is encouraged to maximize the use of concessional external financing, which carries lower interest rates and longer maturities, thereby reducing borrowing costs. Strategically extending the maturity profile of public debt

through the issuance of medium- to long-term bonds can also help smooth repayment obligations and ease near-term debt service pressures.

Over the medium term, Kenya's economic growth is projected to average 5.3 percent, driven by enhanced agricultural productivity, a resilient services sector, and continued implementation of priorities under the Bottom-Up Economic Transformation Agenda. Complementing fiscal and debt management efforts, monetary policy easing by the Central Bank of Kenya has reduced domestic interest rates, lowering the cost of domestic debt servicing. The Central Bank Rate declined from 13.0 percent in August 2024 to 9.25 percent in October 2025, supporting private sector credit and economic activity.

Overall, prudent debt management has a significant impact on Kenya's economic development. While current debt indicators suggest sustainability, high debt service obligations and external vulnerabilities pose risks to fiscal flexibility and long-term growth. Strengthening export performance, maintaining fiscal discipline, optimizing the debt portfolio, and aligning monetary policy with development objectives are critical to ensuring that public debt remains a catalyst, rather than a constraint to Kenya's economic transformation. (Extract of *Medium-Term Debt Management Strategy-The National Treasury Report-2025*)

**Required:**

- a) As an economist, how would you advise the government to quantitatively assess the risk of debt distress under different economic shock scenarios. **(10 Marks)**
- b) Propose three practical measures for business leaders to hedge against risks associated with public debt vulnerabilities and macroeconomic uncertainties highlighted in the 2025 report. **(9 Marks)**
- c) Evaluate how prudent public debt management acts as a catalyst rather than a constraint to economic transformation. Provide specific examples relevant to both government policy and private sector decision-making. **(6 Marks)**

## QUESTION TWO

- a) As a project manager, critically evaluate the key steps typically followed in the implementation of a capital investment project. **(6 Marks)**
- b) Alpha Manufacturing Ltd and Beta Manufacturing Ltd produce similar cement products and operate in the same regional market.
  - i. Explain how price competition between Alpha and Beta can be analyzed using game theory. **(3 Marks)**
  - ii. Identify the players, strategies, and possible payoffs in this game. **(3 Marks)**
  - iii. As a managerial economics student evaluate why game theory is more suitable than traditional demand analysis in this situation. **(3 Marks)**

## QUESTION THREE

The government introduces safety and environmental regulations for manufacturing firms.

- a) Explain the role of government regulation in manufacturing. **(5 Marks)**
- b) Discuss three benefits and three costs of regulation to firms. **(6 Marks)**
- c) As a manufacturing manager, how would you adapt your firm to increased regulatory requirements? **(4 Marks)**

## QUESTION FOUR

KaziTech Ltd, a Kenyan construction firm specializing in infrastructure projects, evaluated Project Alpha in 2024, at KSh 50 million road rehabilitation contract. Initial outlay: KSh 50,000,000 (Year 0).

Expected net cash inflows:

Year 1: KSh 20,000,000

Year 2: KSh 22,000,000

Year 3: KSh 22,000,000

Year 4: KSh 18,000,000

Company's cost of capital: 12%

**Required:**

- a) Calculate the Net Present Value (NPV) of Project Alpha. Advise if it should be accepted. **(6 Marks)**
- b) Estimate the Internal Rate of Return (IRR) using trial-and-error or interpolation (test 12% and 15%; interpolate if needed). Compare to cost of capital. **(5 Marks)**
- c) Discuss strengths and weaknesses of NPV vs. IRR for capital budgeting decisions in Kenyan firms facing volatile forex and tariffs. **(4 Marks)**

**QUESTION FIVE**

- a) A textile firm in Athi River Export Processing Zone substitutes machinery for labor to reduce production costs.
  - i. Explain the concept of an isoquant. **(3 Marks)**
  - ii. Analyze how isoquant analysis helps Kenyan firms choose optimal input combinations. **(6 Marks)**
- b) Demand for maize flour increases due to a rise in household income; distinguish between a movement along the demand curve and a shift in the demand curve. **(6 Marks)**

**QUESTION SIX**

Samuna Ltd produces and sells gadgets. The following table shows its output (Q), total revenue (TR), and total cost (TC):

Q (Units)	TR (KSh)	TC (KSh)
1	100	60
2	200	110

Q (Units)	TR (KSh)	TC (KSh)
3	300	165
4	400	230
5	500	310
6	600	405
7	700	520

**Required:**

- a) Calculate the Marginal Revenue (MR) and Marginal Cost (MC) for each level of output. **(6 Marks)**
- b) Identify the profit-maximizing output for Samuna Ltd. using the  $MR = MC$  rule **(4 Marks)**
- c) Draw a graph showing MR and MC curves and indicate the profit-maximizing output. **(5 Marks)**