MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

THIRD YEAR SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF SCIENCE IN AGRI-BUSINESS MANAGEMENT AND TRADE

AGB 313: MANAGERIAL ECONOMICS

DATE: **TIME:**

INSTRUCTIONS

i) **Answer question ONE and any other TWO questions. Question one carries 30 marks and the other questions carry 20 marks each.**

ii) **Do not write on the question paper**

1. a) Discuss the concept of managerial economics. (6 marks)

   b) Suppose that you have the following demand and supply curve for cakes:

   $$Q_d = 14 - 2P$$
   $$Q_s = 2 + 4P$$

   i) Solve for the equilibrium price and quantity; (4 marks)

   ii) Calculate consumer expenditures on cakes; (2 marks)

   iii) Draw a graph to indicating equilibrium quantity and price you have calculated; (2 marks)

   iv) Calculate the elasticity of demand at the equilibrium found in (i); (3 marks)

   v) Would a 5% increase in price cause consumer expenditures to rise or fall? Explain. (3 marks)

   c) Given two business opportunities, X and Y, explain how you will arrive a decision on the choice of one business opportunity while highly factors under consideration. (10 marks)

2. A company is considering two mutually exclusive projects requiring an initial cash outlay of Sh 10,000 each and with a useful life of 5 years. The company required rate of return is 10%. Cashflows expected to be generated by the projects are as follows:

YEAR 1	**1**	**2**	**3**	**4**	**5**
Project A	Shs 4,000	4,000	4,000	4,000	4,000
Project B	Shs 6,000	3,000	2,000	5,000	5,000

Required:

a) Calculate the rate of return for each project (15 marks)

b) Which project should be accepted? Why? (5 marks)

3. a) Contrast Oligopolist and perfectly competitive market structures (8 marks)

b) Write short-notes on the following methods of evaluating business investments

i) Rate of return (4 marks)

ii) Net Present Value (NPV) (4 marks)

iii) Cost benefit analysis (4 marks)

4. a) Discuss the importance of budgeting in firms? (10 marks)

b) Discuss any **Fiv***e* (5) factors affecting demand for goods and services. (10 marks)

5. a) Critically examine Porter's Five forces of competitive advantage (10 marks)

b) Given the following equation for total revenue: $TR = P.Q$, derive the relationship between the price elasticity of demand and the firm's total revenue and marginal revenue. (10 marks)