



PAN AFRICA CHRISTIAN UNIVERSITY
END OF SEMESTER EXAMINATION
MAY-AGUST SEMESTER 2024
MBA501: MANAGERIAL ECONOMICS (ONLINE)

SECTION A (COMPULSORY)

QUESTION ONE (10MKS)

- (a) Differentiate between accounting profit and economic profit [2mks]
- (b) Explain two determinants of price elasticity of demand [2mks]
- (c) The price function for the microchip producer is given as
 $P = 90 - 2Q$ and the cost function as: $C = 10 + 0.5Q^2$. Find:
 - (i) Profit maximizing output [3mks]
 - (ii) Price [1mk]
- (d) Explain two external causes of business cycles in the economy [2mks]

SECTION B: ANSWER ANY FOUR [4] QUESTIONS

QUESTION TWO [10MKS]

- (a) Explain the law of returns to scale as used in production [4mks]
- (b) You have recently been hired as a Chief Manager of a five-year-old pharmaceutical company that faces a major research and development decision. The company has already spent a year of preliminary research toward producing a protein that dissolves blood clots but realized that it made a mistake while making this decision. Explain briefly six steps the company should follow in the process of decision making [6mks].

QUESTION THREE [10MKS]

- (a) Explain five features of a perfect competition [5mks]
- (b) Suppose that the demand function facing a perfect competitive firm is given as:

$P = 30 - 6X$ and the total cost function is given as: $TC = 6X - 3X^2$.
Determine the output that maximize profit [5mks]

QUESTION FOUR [10MKS]

The Sugar Board wants to forecast the demand for sugar in Kenya. Before doing so, it has decided to use data collected from 2018 to 2024 to guide it in setting prices and forecasting future demand. You have been hired by the Sugar Board to estimate the regression equation of the form;

$$Y = a + bX$$

where, Y represents the quantity of sugar to be demanded; and, X represents the single variable, population, a and b are constants. The past data on demand for sugar for years 2018 to 2024 is given as follows:

Year	Population (Millions)	Quantity of sugar demanded (000's)
2018	10	40
2019	12	50
2020	15	60
2021	20	70
2022	25	80
2023	30	90
2024	40	100

- (a) Estimate the regression equation $Y = a + bX$ [6mks]
- (b) Suppose the population for the year 2025 is projected to be 100 million. Determine the estimate demand for sugar [4mks]

QUESTION FIVE [10MKS]

- (a) Distinguish between economies of scale and diseconomies of scale [5mks]
- (b) Discuss two types of economies and diseconomies of scale [5mks]

QUESTION SIX [10MKS]

Using a well labelled diagram distinguish between:

- (a) Demand pull inflation [5mks]
- (b) Cost push inflation [5mks]