PAN AFRICA CHRISTIAN UNIVERSITY

MASTERS OF BUSINESS ADMINISTRATION

END OF TERM EXAMINATION

DEPARTMENT: BUSINESS

COURSE CODE: MBA 501

COURSE TITLE: MANAGERIAL ECONOMICS

EXAM DATE:

TIME:

INSTRUCTIONS

- Read all questions carefully before attempting.
- Answer **QUESTION ONE AND ANY OTHER THREE**
- Write your **student number** on the answer booklet provided.

QUESTION ONE [COMPULSORY] – 10 marks

Provide the most accurate choice to each of the following questions

a) Which of the following is not a determinant of a consumer's demand for a commodity?

A. Income

B. Population

C. Prices of related goods

D. Tastes

b) If consumer income declines, then the demand for

A. normal goods will increase.

B. inferior goods will increase.

C. substitute goods will increase.

D. complementary goods will increase.

c) Demand curves have a negative slope because

A. firms tend to produce less of a good that is costlier to produce.

B. the substitution effect always leads consumers to substitute higher quality goods for lower quality goods.

C. the substitution effect always causes consumers try to substitute away from the consumption of a commodity when the commodity's price rises.

D. an increase in price reduces real income and the income effect always causes consumers to reduce consumption of a commodity when income falls.

d) If a firm raises its price by 10% and total revenue remains constant, then

A. the price elasticity of demand for its output is unitary.

B. marginal revenue is equal to zero.

C. quantity demanded has decreased by 10%.

D. all of the above are correct.

e) If two goods are complements, then

A. the cross-price elasticity of demand will be negative.

B. the cross-price elasticity of demand will be zero.

C. the cross-price elasticity of demand will be positive.

D. an increase in the price of one good will increase demand for the other.

f) The type of industry organization that is characterized by recognized interdependence and non-price competition among firms is called

   A. monopoly.
   B. perfect competition.
   C. oligopoly.
   D. monopolistic competition.

g) Goods produced on small scale have

   A. Relatively inelastic supply
   B. Highly elastic supply
   C. Perfectly elastic supply
   D. None of the above

h) In a perfect competition, maximum profit occurs where marginal revenue equals

   A. price
   B. cost
   C. marginal cost
   D. marginal profit

i) The law that defines the demand curve to slopes downward is known as

   A. Diminishing marginal utility
   B. Utility maximization
   C. Utility minimization
   D. Consumer equilibrium

j) A consumer's spending is restricted because of

   A. Utility maximization
   B. Budget constraint
   C. Demand curve
   D. Marginal utility

QUESTION 2

Use the Table below to answer the following questions:

Price($)	Consumer 1 demand	Consumer 2 demand	Consumer 3 demand	Firm 1 supply	Firm 2 supply
1	20	10	30	0	10
2	15	8	25	5	20
3	10	5	20	10	25
4	5	2	10	20	35
5	0	0	5	30	50

a) Determine the equilibrium price in this market and explain your answer **[2 marks]**

b) Explain what would happen in this market if a minimum price was set at $4 **[3 marks]**

c) Explain what would happen in this market if a price ceiling was set at $2 **[3 marks]**

d) Explain what would happen in this market if the 2 firms can only achieve a combined supply of 25 units **[2 marks]**

QUESTION 3

a) State any two features of indifference curves **[4 marks]**
b) Explain any three assumptions of Consumer behavior **[6 mark]**

QUESTION 4

a) Define the term cross elasticity of demand **[2 marks]**
b) Briefly explain four factors that influence price elasticity of demand **[8 marks]**

QUESTION 5

a) Describe what is meant by elasticity of supply **[2 marks]**
b) Explain four factors that determine the elasticity of supply of a good in the market **[8 marks]**

QUESTION 6

Write brief notes about the following terms as used in Managerial Economics **[10 marks]**

a) Engels Curve

b) Product differentiation
c) Monopolistic competition
d) Giffen goods
e) Composite demand