



## GARISSA UNIVERSITY

UNIVERSITY EXAMINATION **2017/2018** ACADEMIC YEAR **ONE**  
**SECOND** SEMESTER EXAMINATION

SCHOOL OF BUSINESS & ECONOMICS

FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION

COURSE CODE: MBA 813

COURSE TITLE: MANAGERIAL ECONOMICS

EXAMINATION DURATION: 3 HOURS

**DATE: 19/04/18**

**TIME: 09.00-12.00 PM**

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### INSTRUCTION TO CANDIDATES

- The examination has FIVE (5) questions
- Question ONE (1) is COMPULSORY
- Choose any other THREE (3) questions from the remaining FOUR (4) questions
- Use sketch diagrams to illustrate your answer whenever necessary
- Do not carry mobile phones or any other written materials in examination room
- Do not write on this paper

This paper consists of THREE (3) printed pages

*please turn over*



**QUESTION ONE (COMPULSORY)**

- (a) You have been appointed a manager of Maforoni group of industries. Your position as a manager calls for critical decisions in order to propel the industry to higher levels of growth. Explain the various decisions which you will make. **[5 marks]**
- (b) Explain why in perfect competition the price of the good, output and profit of each firm change s in the short-run **[5 marks]**
- (c) Define risk and briefly describe the various types of risks **[5 marks]**

**QUESTION TWO**

- (a) Explain the properties of indifference curves. **[4 marks]**
- (b) The principle of diminishing marginal rate of substitution holds that as the consumer loses a given amount of Y while gaining a given amount of X, the marginal rate of substitution goes on diminishing. This very principle can be demonstrated by the use of an indifference curve in which the marginal rate of substitution will be seen to be diminishing as the indifference curve slopes down wards from left to the right. In the light of this statement, clearly explain the working of this principle with the use of an indifference curve. **[11 marks]**

**QUESTION THREE**

Assuming you are a manager of RIVATEX factory and you are to decide between two investment projects. Investment A has to do with the manufacture of high quality cotton shirts and investment B is about the introduction of high quality blankets. The two investment projects yield the following cash flows and the initial expenditure;

**Net cash flows**

Investment projects	Year1	Year2	Year3	initial investment
A (Ksh in Millions)	1	2	1.5	6
B (Ksh in Millions)	1.5	3	2	7

- (a) Calculate the net present value (NPV) of each project with risk free discount rate of 8 percent. **[7.5 marks]**
- (b) Which of the investment projects the manager should choose if the risk premium is 7 percent on project A and 9 percent on project B? **[7.5 marks]**



#### QUESTION FOUR

- (a) When the price of rice increases from Ksh 200 to Ksh 300, its demand decreases from 15kg to 12kg. Calculate price elasticity of demand **[7.5 marks]**
- (b) Is there a decrease or increase in revenue? If not how will the total revenue of the price selling shop be increased **[7.5 marks]**

#### QUESTION FIVE

- (a) Assuming you are a manager of Hino car maker firm and you have been requested by the head office to conduct a workshop with the theme, “factors determining the demand for Hino cars” in Order to make innovative ways of boosting demand. Explain the main points of your workshop **[8 marks]**
- (b) In makutano region, the price elasticity of demand for Hino vehicles is more than one (1) while in Rombo region it is less than one (1). Which of the two outlets will you advocate for closure and why? **[7 marks]**

