



**EMBU UNIVERSITY COLLEGE**  
**(A CONSTITUENT COLLEGE OF THE UNIVERSITY OF NAIROBI)**

**TRIMESTER EXAMINATIONS 2013/2014**

**FIRST YEAR EXAMINATION FOR THE DEGREE OF MASTER OF BUSINESS**  
**ADMINISTRATION**

**DIB 501: MANAGERIAL ECONOMICS**

**DATE: AUGUST 14, 2014**

**TIME: 5.00 – 8.00PM**

---

---

**INSTRUCTIONS:**

**Answer ANY four Questions**

---

---

**QUESTION ONE**

- a) Briefly explain the three fundamental economic questions arising out of scarcity of resources. (20 marks)
- b) Differentiate between macroeconomics and microeconomics. (5 marks)

**QUESTION TWO**

- a) What is Managerial Economics? (5 marks)
- b) Explain how managerial economics is similar to and different from microeconomics. (10 marks)
- c) Briefly discuss the role of profit in efficient resource allocation in a purely capitalist system. (10 marks)

### QUESTION THREE

- a) The following production function has been estimated for a particular wheat farm in Kenya:

$$Q = KA^{0.1}L^{0.1}E^{0.1}S^{0.1}R^{0.1}$$

Where Q is output per period, A is the amount of land used, L is the amount of labor used, E is the amount of equipment used, S is the amount of fertilizer and chemicals used, R is the amount of other resources used, and K is a constant.

- i.) If the amount of every input is doubled, the production function states that the output will be equal to  $Q_1$ . Showing your workings express the new output  $Q_1$  in terms of Q. (10 marks)
- ii.) Find the percent increase in wheat output as a result of a 100 percent increase in all inputs. (5 marks)
- b) State the law of diminishing marginal returns and give an example in agricultural production. (10 marks)

### QUESTION FOUR

- a) Briefly explain the broad categories of scarce productive resources. (10 marks)
- b) Write short notes on the following:
- i.) Economic good (3 marks)
- ii.) Laissez-faire (3 marks)
- iii.) Pareto efficiency (3 marks)
- iv.) Production efficiency (3 marks)
- v.) Consumption efficiency (3 marks)

### QUESTION FIVE

- a) With the use of relevant examples explain the economic concept of externalities. (10 marks)
- b) Briefly explain the five essential elements of pure capitalism. (15 marks)

---END---