

**W1-2-60-1-6**

**JOMO KENYATTA UNIVERSITY**

**OF**

**AGRICULTURE AND TECHNOLOGY**

**UNIVERSITY EXAMINATIONS 2014/2015**

**YEAR 2 SEMESTER II EXAMINATION FOR THE DEGREE OF BACHELOR OF SCIENCE IN AMED**

**AFI 2305: MANAGERIAL ECONOMICS**

**DATE: APRIL 2015 TIME: 2 HOURS**

**SECTION A (60 MARKS): ANSWER ALL QUESTIONS**

1. Differentiate the following concepts as used in managerial economics:
2. Consumer-producer rivalry and Consumer-consumer rivalry (2marks)
3. Price ceiling and price floor (4marks)
4. Producer surplus and consumer surplus (4marks)
5. The estimated general supply function facing a firm is

 $Q\_{s}=β\_{0}+β\_{1}P+β\_{2}P\_{1}+β\_{3}T+β\_{4}P\_{e}+β\_{5}P\_{R}$; Where P is the price of the commodity, $P\_{1}$ is the input prices, T is technology, $P\_{e}$ is the producer’s expectations and $P\_{R}$ is the price of a related good. Giving reasons, state the expected signs of the coefficients. (10marks)

1. Explain any five common barriers to entry into the market. (10marks)
2. Given $Q=AK^{α}L^{β}$;
3. Calculate the marginal product for labour, average product for capital and Marginal rate of technical substitution (7marks)
4. If α=β=0.5, explain the type of returns to scale represented by the production function. (3marks)
5. a. The firm’s current profits are $100 million. Suppose the firm profits are expected to grow at a rate of 5 percent for the foreseeable future and the market interest rate is 10 percent. Calculate the value of the firm. (4marks)

b. Explain any three properties of consumer preferences. (6marks)

1. Describe five functions performed by a managerial economist in a firm. (10marks)

**SECTION B: ANSWER ANY TWO QUESTIONS (40 MARKS)**

1. Managerial economics involves directing scarce resources in the way that most efficiently achieves the managerial goal. In line with this statement, discuss five basic principles that a manager should uphold for effective management (20marks)
2. a. Using a well labeled diagram explain the short run profit maximizing level of input and output combination for a firm (8marks)

b. A perfectly competitive firm face the following demand function Q=50-0.5P. The cost facing the firm is given by C=50+40Q. Required:

1. Calculate equilibrium Price and equilibrium quantity that will maximize the profits. (9marks)
2. Calculate the maximum profits/loss attainable (3marks)
3. a. Explain the principle agent problem and suggest three measures that the firm owner can employ to mitigate the problem in the management of the firm. (8marks)

b. Suppose the inverse demand for a multi-plant monopolist is given by P=70-0.5Q. The marginal cost of producing in plant 1 is $MC\_{1}=3Q\_{1}$ and the marginal cost of producing in plant 2 is $MC\_{2}=Q\_{2}$. Required;

1. Calculate the profit maximizing level of output produced in each plant (6marks)
2. The profit maximizing price (3marks)
3. Maximum profit/loss for the monopolist if the total cost facing the monopolist is 750 (3marks)