MAASAI MARA UNIVERSITY

REGULAR UNIVERSITY EXAMINATIONS
2023/2024 ACADEMIC YEAR
FOURTH YEAR FIRST SEMESTER

SCHOOL OF BUSINESS AND ECONOMICS
BACHELOR OF SCIENCE IN ECONOMICS/FINANCIAL ECONOMICS/ECONOMICS AND STAISTICS

COURSE CODE: ECO 4104-1

COURSE TITLE: MANAGERIAL ECONOMICS

DATE: 14/12/2023   TIME: 0830-1030 HRS

INSTRUCTIONS TO CANDIDATES

Answer Question **ONE** and any other **THREE** questions

*This paper consists of **THREE** printed pages. Please turn over.*

Question One

a) "The big gap between the problems of logic that intrigue economic theorists and the problems of policy that plague practical management needs to be bridged to give executives access to the practical contribution that economic thinking can make to top management policies." Discuss this statement, in relation to the relevance of managerial economics in business management **(7marks)**

b) The cash inflow of a particular project is given below:

Year	Cash outflow in KSh	Cash inflow in KSh
0	200,000	-
1		20,000
2		70,000
3	60,000	50,000
4		100,000
5		60,000

The salvage value at the end of the 5th year is KSh. 20,000. The cost of capital is discounted at 12%. Calculate the net present value of the project **(7 marks)**

c) While deciding about the capital structure of the company, the management should bear in mind some factors. Discuss these factors

(6marks)

Question Two

a) In line with trend projection, why is it unreliable to depend on time series data? **(8marks)**

b) Discuss Professor Joel Dean's guidelines for forecasting of demand for new products **(7marks)**

Question Three

a) The production function for a garage which services cars and trucks is given as:

$$Q = 15L^{2/3}K^{1/3}$$

If each unit of labour used costs $5 while each unit of capital cost $3, find the units of labour and capital to be used so as to maximize the production given that the garage has only $450 dollars at its disposal.

(9marks)

b) Advertising is an important managerial decision to firms in monopolistically competitive and oligopolistic markets. Discuss

(6marks)

Question Four

a) As a manager, what value would be price to you? **(8marks)**
b) Narok manufacturing company has 2 alternative projects under consideration. The opinions of various executives in marketing development and engineering have been assessed and the following is the resultant data.

	Project A		Project B	
Life of project	4 years		4 years	
Cost of project	19000		18000	
Possible average annual cash flow	probability	Cash flow	probability	Cash flow
	0.05	13000	0.10	13000
	0.10	14000	0.80	14500
	0.80	15000	0.10	15000
	0.05	16000	-	-
	1.0		1.0	

Assume a discount rate of 7%, using probability distribution, which project will you recommend? **(8marks)**

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