CHUKA   **UNIVERSITY**

UNIVERSITY EXAMINATIONS

**THIRD YEAR EXAMINATION FOR THE AWARD OF DEGREE
OF BACHELOR OF SCIENCE IN AGRICULTURAL ECONOMICS AND
AGRIBUSINESS MANAGEMENT**

AGBM 341:   MANAGERIAL ECONOMICS

STREAMS: AGBM Y3S2   **TIME: 2 HOURS**

DAY/DATE: MONDAY 9/04/2018   **11.30 A.M - 1.30 P.M.**

INSTRUCTIONS:
- **Answer ALL Questions in Section A and any THREE in Section B**
- **Answer each question on a separate page**
- **Do not write anything on this question paper.**

QUESTION ONE
(a) Define the following terms;
  (i) Managerial economics   [2 Marks]
  (ii) Equi-marginalism   [2 Marks]
  (iii)Incremental concept   [2 Marks]

(b) Ceteris paribus is an assumption made to simplify the complexity of managerial phenomenon under study in a dynamic business environment. Explain other features of managerial economics.   [6 Marks]

(c) Many new subjects have evolved in recent years due to interactions with other disciplines. Discuss the managerial relationships with other disciplines.   [7 Marks]

(d) Discuss any three practical applications of the concept of elasticity of demand in management and economic policy decision making in a business firm.   [6 Marks]

QUESTION TWO
(a) Using relevant examples, discuss the types of demand under different categories.   [7 Marks]

(b) Determine profit maximizing output from the following total profit function clearly showing necessary and sufficient condition $\Pi = -3Q^2 + 33Q - 72$ [4 Marks]

(c) Explain the scope of managerial economics and cover the two areas of decision making and thereby explain briefly the internal issues. [4 Marks]

QUESTION THREE
(a) State the Law of Diminishing Returns and with the aid of a graph, discuss fully the three stages associated with the law and suggest with reason which stage is economical to produce and not to produce at. [9 Marks]

(b) In the worlds of Marshall "the amount of demand increases with a fall in prices and diminishes with a rise in prices". Explain why demand curve slopes from left to right.
[6 Marks]

QUESTION FOUR
(a) Define each of the following investments rules. In your definition, state the criterion for accepting or rejecting independent projects under each rule.
    (i) Payback period. [2 Marks]
    (ii) Internal rate of return [2 Marks]
    (iii)Net present value. [2 Marks]

(b) Jeremy Limited wishes to expand its output by purchasing a new machine worth Kshs.170,000 and installation costs are estimated at Kshs.40,000. In the 4th year, this machine will call for an overhaul to cost Kshs.80,000. Its expected inflows are:

Years	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Inflow is Kshs.	60,000	72,650	35,720	48,510	91,630	83,715

This company can raise finance to purchase machine at 12% interest rate. Compute net present value (NPV) and advise management accordingly. [9 Marks]

QUESTION FIVE
With the help of a diagram, explain economies of scale. [5 Marks]

Given the following information:

Input (X)	0	10	15	20	25	30
Output (Y)	0	12	27	53	98	124

Additional information:
(i) The price of output per unit is Kshs.33.5
(ii) The price of input per unit is Kshs.14
(iii)The level of fixed cost is Kshs.245

Required:
Using a table,
    (i) Determine the level of Total Variable Costs.   [2 Marks]
    (ii) Determine the level of Total Average Costs.   [2 Marks]
    (iii)Determine the level of Marginal Costs.   [2 Marks]
    (iv)Determine the Total Revenue   [2 Marks]
    (v) Determine the Marginal Revenue   [2 Marks]

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