



**The Co-operative University of Kenya**

**END OF SEMESTER EXAMINATION NOVEMBER-2020**

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

**UNIT CODE: MBC 3108**

**UNIT TITLE: MANAGERIAL ECONOMICS**

**DATE: NOVEMBER, 2020**

**TIME:**

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**INSTRUCTIONS:**

- Answer question **ONE (compulsory)** and any other **THREE** questions

**QUESTION ONE**

“The responsibility of achieving the objective of the firm is the responsibility of people in each department in the firm.”

- (a) Derive the objective function of the firm and explain clearly the role each department in the firm plays in achieving it. (10 Marks)
- (b) What constraints does a firm face in its operations? (5 Marks)
- (c) State the law of diminishing returns and explain two conditions which must be fulfilled for it to hold. What is the usefulness of this law to managers? (9 marks)
- (d) Explain the distinction between the short-run and the long-run period as used in economics (6 Marks)

**QUESTION TWO**

- (a) Differentiate between consumer clinics or controlled experiments and market experiments in demand estimation (4 Marks)
- (b) Clearly explain the steps you would take if you are to estimate demand using the regression analysis method. (6 Marks)

**QUESTION THREE**

- (a) Differentiate between price elasticity of demand and cross elasticity of demand (6 Marks)
- (b) What managerial decision would you make if income elasticity of demand is more than 1? (4 Marks)

**QUESTION FOUR**

Explain the various methods that firms use in pricing their products in practice. (10 Marks)

**QUESTION FIVE**

Discuss the view that an oligopolistic market structure provides a higher incentive to innovate than other market structures (10 Marks)