KAIMOSI FRIENDS UNIVERSITY

FIRST YEAR SECOND SEMESTER UNIVERSITY EXAMINATIONS

2025/2026 ACADEMIC YEAR

SPECIAL EXAMINATION

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE TITLE: ADVANCED MANAGERIAL ECONOMICS

COURSE CODE: PBA 900

DAY/DATE: 19/06/26 **TIME: 2-5 P.M.**

INSTRUCTIONS TO STUDENTS

1. Answer **QUESTION ONE** and **ANY OTHER THREE** from the choices given.
2. Phones, smart watches, ear phones or any other unauthorized digital and AI gadgets and applications are **NOT ALLOWED IN** the examination room.
3. Answer all questions in the exam answer booklet provided.
4. Do not write on this question paper.
5. All KAFU examination rules and regulations apply.
6. DURATION OF EXAMINATION: **THREE (3) HOURS**

KAFU observes ZERO tolerance to examination cheating.

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

QUESTION ONE (40 Marks)

a) Based on the definitions, outline the main characteristics of Managerial Economics. (6 Marks)

b) Distinguish between the following cost concepts:

i) Private costs and Social costs (2 Marks)

ii) Fixed costs and Variable costs (2 Marks)

iii) Average cost curve and Marginal cost curve (2 Marks)

c) Suppose demand and Total Cost functions of a firm are given as follows:

Demand function: $P = 500 - 5Q$

Cost function: $TC = 50 + 20Q + Q^2$

Find the profit maximizing quantity and price for the firm. (5 Marks)

d) Outline the important features of isoquants. (5 Marks)

e) Discuss four benefits that accrue to a firm when it resorts to large scale production? (8 Marks)

f) Discuss any five tools for demand forecasting. (10 Marks)

QUESTION TWO (20 Marks)

a) Explain the various features of a monopoly firm. (10 Marks)

b) If economic welfare is to grow, scarce economic resources must be utilized efficiently by avoiding wastage. Highlight three types of wastage of economic resources. (3 Marks)

c) State and explain the law of variable proportions (7 Marks)

QUESTION THREE (20 Marks)

a) Economic theory aims at the construction of models which describe the economic behavior of individual decision making units (i.e consumers, firms, government policies). State two purposes for which a model is built. (2 Marks)

b) A rational producer will never produce in stage 1 and 3 because they are stages of economic absurdity. With the help of a well labeled diagram, discuss. (10 Marks)

c) Explain the major arguments that have been advanced is support of the business social responsibility is the Corporate Social Responsibility (CSR) debate. (8 Marks)

QUESTION FOUR (20 Marks)

a) Clearly state and explain the determinants of price elasticity of demand. (10 Marks)

b) The demand function faced by HCL for its personal computers is given by:

$P = 50{,}000 - 4Q$

i) Find the Marginal Revenue (MR) function (2 Marks)

ii) At what price and quantity will Marginal Revenue be zero? (4 Marks)

iii) At what price and quantity will Total Revenue be maximized? (4 Marks)

QUESTION FIVE (20 Marks)

a) Using a diagram, explain the following laws:

i) The Law of Increasing Returns (4 Marks)

ii) The Law of Decreasing Returns (4 Marks)

b) The production function shows how a producer can allocate technically efficient factors of production. With the help of a clear diagram, using the concept of the Isoquant curve and Isocost line, describe the expansion path of a firm (12 Marks)

QUESTION SIX (20 Marks)

a) Discuss the importance of demand forecasting to a business firm. (5 Marks)

b) For a price discriminating monopolist, the demand and revenue functions are:

$P_1 = 80 - 5Q_1$

$P_2 = 180 - 20Q_2$

$MR_1 = 80 - 10Q_1$

$MR_2 = 180 - 40Q_2$

Where;

P1 = Price in submarket 1.

P2 = Price in submarket 2.

MR1 = Marginal Revenue in submarket 1.

MR2 = Marginal Revenue in submarket 2.

Q1 = Quantity demanded in submarket 1.

Q2 = Quantity demanded in submarket 2.

Calculate the profit maximizing output in each of the submarkets and the corresponding prices when the industry's marginal cost equals 20 units. (15 Marks)