

LAIKIPIA



UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR MASTER OF BUSINESS ADMINISTRATION

MBAD 602: MANAGERIAL ECONOMICS

STREAM:

TIME: 3 HRS

DAY: WEDNESDAY [12.30-15.30]

DATE: 16/04/2025

THIS QUESTION PAPER CONSISTS OF THREE (3) PAGES

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QUESTION ONE (COMPULSARY)

- (a) Explain the key factors that determine the classification of different market structures. **(8 Marks)**
- (b) Explain how the kinked demand curve model in oligopoly leads to price rigidity. Use diagrams to support your explanation. **(8 marks)**
- (c) Suppose the income elasticity of demand for a luxury car is 2.5. If consumer income increases by 10%, by what percentage will the quantity demanded change? **(6 marks)**
- (d) Explain the significance of capital budgeting in financial decision-making. **(8 marks)**

QUESTION TWO

Consider a perfectly competitive market where the demand function is given by: $P = 20 - 0.05Q$ and the market supply function is given by: $Q = 0.04P + 44$

- (i) Determine the equilibrium price and quantity in the short run. **(7 marks)**
- (ii) If each firm in the market has a total cost function given by: $TC = 0.08 + 0.44q + 2q^2$. Derive the long-run equilibrium price and quantity. **(8 marks)**

QUESTION THREE

Consider a market with two consumers whose demand functions are given by: $Q_1 = 30 - P$; $Q_2 = 22 - 0.5P$;

- (i) Derive the market demand function. **(5 marks)**
- (ii) Determine the market quantity demanded when the price is 10. **(5 marks)**
- (iii) Calculate the price elasticity of market demand when price is 10. **(5marks)**

QUESTION FOUR

A company is considering two mutually exclusive projects, Project A and Project B. The cash flows for both projects are as follows:

Year	Project A Cash Flow (Kshs.)	Project B Cash Flow (Kshs.)
0	-300,000	-300,000
1	100,000	150,000
2	120,000	100,000
3	140,000	90,000
4	80,000	70,000



- i) Calculate the Net Present Value (NPV) for each project assuming a discount rate of 10%. **(7 marks)**
- ii) Which project should the company undertake based on NPV? Justify your answer. **(8marks)**

QUESTION FIVE

- (a) Discuss how PEAK-LOAD pricing helps firms to manage demand fluctuations. **(6 marks)**
- (b) Using a relevant industry example, explain how firms implement peak-load pricing and the factors influencing their pricing decisions. **(9 marks)**

