UNIVERSITY OF ESWATINI

INSTITUTE OF POST-GRADUATE STUDIES

DEPARTMENT OF BUSINESS ADMINISTRATION

MAIN EXAMINATION 2018/2019

TITLE OF PAPER　　:　　MANAGERIAL ECONOMICS

COURSE CODE　　:　　ACF 607

TIME ALLOWED　　:　　THREE (3) HOURS

INSTRUCTIONS　　:

1. QUESTION ONE (1) IN SECTION A IS COMPULSORY AND IT CARRIES 40 MARKS
2. ANSWER ANY OTHER TWO (2) QUESTIONS IN SECTION B. ALL QUESTIONS IN SECTION B CARRY 30 MARKS EACH.
3. ONLY SCIENTIFIC NON-PROGRAMMABLE CALCULATORS ARE ALLOWED.
4. ROUND UP YOUR FINAL ANSWERS TO TWO (2) DECIMAL PLACES.

THIS PAPER IS NOT TO BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATOR

SECTION A

QUESTION 1 (COMPULSORY)   [40 Marks]

a) Differentiate between the **hidden** and **sunk** costs fallacies. (Give an example for each, but not those in slides please)   [5 Marks]

b) In a market economy, wealth is created when assets are moved from a lower value to higher value use. In less than a paragraph, state how the organisation you work for achieves the transference of lower value assets to higher value assets.   [5 Marks]

c) Suppose that the government of Eswatini imposes a minimum wage policy on the market for domestic worker. Using Supply and Demand analysis, how might such a policy affect the unemployment rate?   [8 Marks]

d) Differentiate between economic profits and accounting profits.   [4 Marks]

e) Graphically illustrate and explain the principle of returns to scale.   [8 Marks]

f) Given a production function of the following form $Q = 4K^{0.5}L^{0.5}$

    i.   Find the marginal product of Capital and marginal product of labour. [5 Marks]

    ii.   What kind of returns to scale does the production function exhibit?   [5 Marks]

SECTION B

Answer any Two (2) Questions from this Section

QUESTION 2   [30 Marks]

a) "All firms in a competitive market structure will make zero economic profits." Graphically illustrate and explain that this statement is true.   [10 Marks]

b) Suppose that a representative competitive firm has the following cost structure:

$C(q) = 100 + q^2 + 2q$, where q is the quantity of output produced by the firm. If you further know that the market demand for the product is $P = 1000 - 2Q$, and the supply is $P = 100 + Q$, where Q is the total market output.

    i)   Find the equilibrium market price and quantity.   [3 Marks]

ii) What is the firm's profit maximising level of output, total revenue, total cost, and profit in the short run? [7 Marks]

iii) Based on your result in (b (ii)) above, what do you anticipate will happen in this industry in the long-run? [4 Marks]

iv) What is the long-run equilibrium price, and what is the long-run equilibrium quantity of a representative firm? [6 Marks]

QUESTION 3 [30 Marks]

a) Briefly articulate some benefits of a monopoly industry. [6 Marks]

b) "A monopolistic firm can continue to make positive economics profits even in the long run". Graphically show and explain this statement. [10 Marks]

c) Graphically illustrate and explain the welfare effects of a monopoly firm that is taken over by a competitive firm. [14 Marks]

QUESTION 4 [30 Marks]

a) Graphically illustrate and explain the social cost of monopoly in terms of output restriction to the market. [6 Marks]

b) What are the conditions that should exist for a monopoly firm to practice price discrimination? [6 Marks]

c) If a discriminating monopoly firm has the following Total Cost function for a certain product $(TC = 10 + 4Q)$, and the respective demand functions for its two markets are :
$q_1 = 9 - 0.25P_1$, and $q_2 = 7 - 0.25P_2$, where $Q = q_1 + q_2$
Is it profitable for the monopoly firm to price discriminate or to combine the market and charge a single price? [18 Marks]