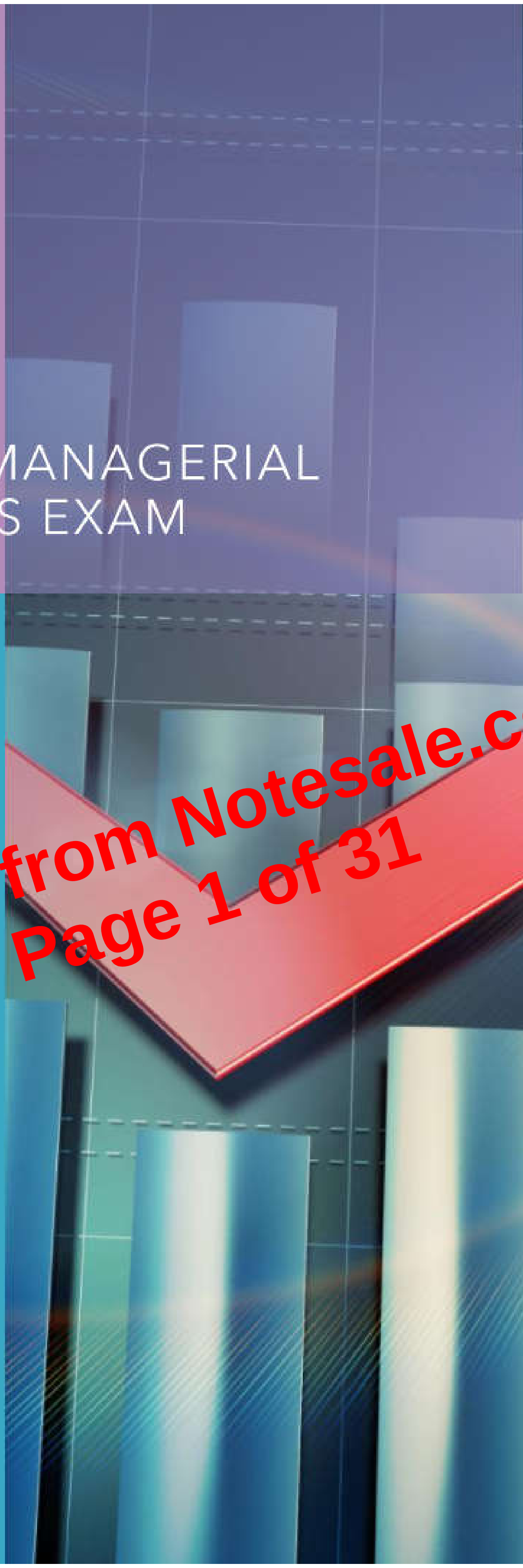
ACE YOUR MANAGERIAL ECONOMICS EXAM



WITH ANSWERS FOR BBA STUDENTS

3. Explain the different types of market structures and discuss their impact on pricing decisions.
4. What is cost-benefit analysis? Discuss its steps and justification for its use.
5. Write a short note on the following: (a) Break-even analysis (b) Capital budgeting techniques (c) Risk management

Answers

Section A:

1. (c)
2. (b)
3. (d)
4. (c)
5. (d)

Section B:

1. Managerial economics is the application of economic theory to business decision-making. It is concerned with the analysis of business problems and the formulation of solutions using economic concepts and tools. The scope of managerial economics is wide and covers a variety of topics, including demand analysis, cost analysis, production theory, pricing theory, market structure, and investment analysis.
2. The different types of costs that a business firm incurs are:
    - Explicit costs: These are costs that involve a direct cash outlay, such as wages, rent, and raw materials.
    - Implicit costs: These are costs that do not involve a direct cash outlay, such as the opportunity cost of the owner's time and the depreciation of machinery.
    - Fixed costs: These are costs that do not change with the level of output, such as rent and insurance.
    - Variable costs: These are costs that change with the level of output, such as raw materials and wages.

relevant costs and benefits, and then comparing them to make a decision about whether or not

PAPER # 3

Section A: Multiple-Choice Questions (MCQs)

1. Which of the following is NOT a fundamental concept in managerial economics?
   a) Scarcity
   b) Opportunity cost
   c) Marginal analysis
   d) Sunk cost
   Answer: d) Sunk cost

2. In the context of demand elasticity, if the price elasticity of demand is greater than 1, it means that the good is:
   a) Inelastic
   b) Elastic
   c) Unitary elastic
   d) Perfectly elastic
   Answer: b) Elastic

3. When a firm maximizes its profits, it produces at the point where:
   a) Marginal cost equals average cost
   b) Marginal cost equals marginal revenue
   c) Average revenue equals average cost

- High barriers to entry: Barriers such as patents, economies of scale, and government regulations prevent new firms from entering the market.
- Price maker: The monopoly firm has the power to set prices because it faces no competition.

Example: A real-world example of a monopoly is the De Beers Group in the diamond industry. De Beers controlled the majority of the world's diamond supply for many years, effectively acting as a monopoly by limiting the supply and setting prices in the diamond market.

10. Explain the concept of economies of scale and provide two examples of how firms can achieve economies of scale. (10 marks)

Answer:

Economies of scale refer to the cost advantages that a firm can achieve as it increases its level of production or scale of operation. As a firm grows larger, it can produce goods or services at a lower average cost per unit. Two examples of how firms can achieve economies of scale are:

a) **Technical economies:** These result from using specialized and more efficient production techniques as the scale of production increases. For example, a car manufacturer can achieve economies of scale by investing in automated assembly lines, which reduce labor costs and increase production efficiency.

b) **Managerial economies:** As a firm grows, it can hire specialized managers and experts who can optimize production processes and improve resource allocation. This can lead to cost

Answer:

A production function in managerial economics describes the relationship between inputs (typically labor and capital) and the maximum amount of output a firm can produce, given the existing technology. It shows how various combinations of inputs lead to different levels of output. The general form of a production function is:

$$Q = f(L, K)$$

Where:

- Q is the quantity of output
- L is the quantity of labor input
- K is the quantity of capital input
- f() represents the production function.

For example, in a bakery, the production function might be expressed as follows:

Q (Quantity of Bread) = f(Labor, Ovens, Ingredients)

This function would show how variations in the number of bakers (labor), the number of ovens (capital), and the amount of ingredients impact the bakery's daily bread production.

9. What is the role of a profit-maximizing monopolist in determining the price and quantity of a product? Explain using the marginal cost and marginal revenue approach.