



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

DEPARTMENT OF BUSINESS ADMINISTRATION AND MANAGEMENT

EXAMINATION PAPER

COURSE CODE : CEC 404  
COURSE TITLE : MANAGERIAL ECONOMICS  
DURATION : 3 HOURS  
LEVEL : 4.1  
DATE :

11 6 FEB 2022

**INSTRUCTIONS TO CANDIDATES:**

1. There are five (5) questions in this paper.
2. Each question carries twenty-five marks (25).
3. Answer question one (1) and any other three (3) questions.
4. Electronic calculators are allowed
5. No cell phones are allowed in the examination venue.
6. Show all your workings in order to gain full marks.
7. Begin each answer on a new page.
8. **DO NOT OPEN THIS PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.**

### Question 1

- a. Why may corporate managers not specifically aim at profit (or wealth) maximization for their companies? [6]
- b. Determine the priori expectation of cross-price elasticity between the following pairs of products to be positive, negative, or zero? Justify your answer
- Television sets and Satellite dishes
  - White bread and whole wheat bread
  - Construction of residential housing and furniture. [9]
- c. Baker's Inn has the following demand equation for a certain product:
- $$Q = 30 - 2P$$
- What is the meaning of 30 in the demand equation given? [3]
  - What is the quantity demand at the price of 7? [3]
  - At a price of \$7, what is the point elasticity? [4]

### Question 2

- a. Distinguish between time series data and cross-sectional data. Provide examples of each type of data. [6]
- b. Determine the variables which can be included in the estimation for the demand for consumer durable goods (e.g., automobiles, appliances, furniture). Include reasons for your choice. [12]
- c. The compound growth rate is frequently used to forecast various quantities (sales, profits, and so on). Do you believe this is a good method? Should any cautions be exercised in making such projections? [7]

### Question 3

- a. What is the difference between the law of diminishing marginal returns and diminishing returns to scale? [4]
- b. Based on your knowledge of the definition of the various measures of short-run cost, complete this table. [21]

Q	TC	TFC	TVC	AC	AFC	AVC	MC
0	120			X	X	X	X
1				265			
2			264				
3				161			
4							85
5			525				
6				120			
7						97	
8			768				
9						97	

#### Question 4

1. Use the following equations to demonstrate why a firm producing at the output level where  $MR = MC$  will also be able to maximize its total profit (i.e., be at the point where marginal profit is equal to zero). [25]

$$P = 170 - 5Q$$

$$TC = 40 + 50Q + 5Q^2$$

#### Question 5

- a. What is the main problem that can suffice in cartel businesses who may be trapped in prisoner's dilemma? How can it be solved? [5]
- b. Airline ticket prices may differ with respect to when the ticket is bought, how long a passenger remains on the trip (e.g., over a weekend) and other variables. Assess if these differences are cases of price discrimination. [10]
- c. How can education act as a separating device in game theory? [10]

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