PAN AFRICA CHRISTIAN UNIVERSITY

Where Leaders are Made

UNIVERSITY EXAMINATIONS: 2025/2026

EXAMINATION FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION

MBA501

MANAGERIAL ECONOMICS

END TERM EXAMINATION

DATE: APRIL, 2026 **TIME: 3 HOURS**

INSTRUCTIONS: Question One is Compulsory, Choose Three Other Questions

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SECTION A (COMPULSORY)

QUESTION 1 – Compulsory (20 Marks)

Case Study: Strategic Expansion Decision at Horizon Dairies Ltd

The East African dairy processing sector has recently faced a highly dynamic operating environment. Entrenched market leaders, including Brookside Dairy and New KCC, along with mid-tier processors, continue to navigate shifting market conditions driven by macroeconomic inflation, evolving consumer preferences, and intensifying regional competition.

Horizon Dairies Ltd, a medium-sized dairy processing enterprise operating in Kenya, is currently evaluating a major strategic expansion. The company plans to scale its operations and launch its premium yogurt production line into new regional markets across East Africa. To guide this investment decision, the firm's corporate management team collected and compiled the following market and financial data:

a) Current Market Price per Unit: KSh 150
b) Current Quantity Demanded: 12,000 units per month
c) Proposed Promotional Price Post-Expansion: KSh 130

d) Expected Quantity Demanded at Proposed Price: 15,000 units per month
e) Total Monthly Operating Fixed Costs: KSh 500,000
f) Variable Cost per Unit: KSh 70

Required:

(a) Examine the scope of managerial economics. and discuss two distinct ways in which its principles directly enhance strategic managerial decision-making. (4 marks)

(b) Using the midpoint method, determine the precise coefficient of price elasticity of demand for Horizon Dairies Ltd's yogurt product and critically interpret the strategic implications this holds for the company's regional pricing and revenue optimization strategies. (6 marks)

(c) Analyze two critical non-price determinants of demand that are highly likely to influence the long-term market performance and consumer adoption of the expanded yogurt product line. (4 marks)

(d) Cultivating microeconomic cost structures is critical during corporate expansion. Critically evaluate three potential operational benefits and three strategic challenges arising from economies and diseconomies of scale. (6 marks)

SECTION B: ANSWER ANY THREE QUESTIONS

QUESTION TWO (10 MARKS)

(a) Business managers rely heavily on predictive insights to minimize market uncertainty. Discuss **three (3)** qualitative demand forecasting techniques commonly utilized by executives, highlighting **one** distinct advantage and **one** core limitation of each method. (6 marks)

(b) An agribusiness firm operating in an urban market has mathematically modeled its weekly demand function as:

Qd = 800 - 4P.

Calculate the exact quantity demanded when price is KSh 90 and explain the managerial significance of this function. (4 marks)

QUESTION THREE (10 MARKS)

(a) Formulate a comparative structural analysis matrix to compare and contrast different market structures across key operational dimensions in business. (6 marks)

(b) Assess **four** ways firms in oligopolistic markets apply Game Theory to optimize pricing and capacity decisions using clear examples from East Africa. (4 marks)

QUESTION FOUR (10 MARKS)

(a) Examine the economic significance of Isoquants, Isocosts, and the Learning Curve in long-run cost minimization analysis. (6 marks)

(b) A firm increases inputs by 15%, resulting in a 25% increase in output. Deduce the type of returns to scale and evaluate the managerial implications of this outcome. (4 marks)

QUESTION FIVE (10 MARKS)

(a) Analyze the direct operational and commercial implications of Inflation, Unemployment rates, and GDP growth trajectories on corporate performance. (6 marks)

(b) Evaluate four ways in which contractions or expansions in fiscal and monetary policy directly alter private sector capital investment decisions in Kenya. (4 marks)