INTERNATIONAL UNIVERSITY OF EAST AFRICA
'Learning to Succeed'

FACULTY OF BUSINESS MANAGEMENT

END OF SEMESTER EXAMINATIONS - APRIL 2025

PROGRAMME: MBA
YEAR/SEM: YEAR 1/SEMESTER 2
COURSE CODE: MBA 722
NAME: MANAGERIAL ECONOMICS AND STRATEGIC PLANNING

DATE:
TIME:

INSTRUCTIONS TO CANDIDATES:

SECTION A

Answer one question from Section A

Question 1:

Case Study: Market Structure and Pricing Strategies in the Airline Industry

The airline industry is characterized by intense competition, yet a few dominant players in certain routes often lead to oligopolistic behaviour. Consider the case of an airline company, SkyWings Airlines, which operates on major domestic routes and has recently faced increasing competition from low-cost carriers, such as QuickJet. SkyWings Airlines has a dominant position in the business class segment but faces pressure in the economy class due to the rise of budget airlines.

a) Discuss the market structure of the airline industry and the implications for SkyWings Airlines' pricing strategies.

b) How can SkyWings Airlines use price discrimination to enhance its profitability across different customer segments?

c) Evaluate the potential risks and benefits of SkyWings Airlines adopting a predatory pricing strategy to counter the low-cost carriers.

Question 2:

Case Study :Demand and Supply Equilibrium & Government Intervention in the Market

In Djibouti , the government has recently observed a rise in the prices of basic food items such as rice and wheat, which has been putting pressure on the lower-income population. The government has initiated discussions about intervening in the market to control prices and ensure that essential goods remain affordable for the population. However, the market for these goods is determined by supply and demand forces.

Currently, the equilibrium price for rice is $5 per kg, with an equilibrium quantity of 100,000 kg per month. However, as the

demand for rice increases due to population growth, prices have risen to $7 per kg, while the quantity demanded has decreased to 80,000 kg per month due to the higher prices.

The government is considering imposing a price ceiling on rice at $5 per kg, which would prevent the price from rising above this level. However, there are concerns that such an intervention could create unintended consequences such as shortages in supply or black markets.

a) Using the concept of demand and supply equilibrium, explain the current market situation for rice in Djibouti, considering the shift in demand and the change in price.

b) Illustrate the potential effects of a price ceiling of $5 per kg on the market for rice. How might this affect the equilibrium quantity and the overall market efficiency?

c) Discuss the potential unintended consequences of the government's price ceiling. What are the possible drawbacks of such government intervention in this market? Could there be any alternative measures to address the issue without creating market distortions?

SECTION B

Answer ANY three questions, each carrying 25 marks

Question 1:

a) What is the difference between short-run and long-run as used in production? Give examples of each. (5 Marks)

b) Using relevant diagrams, explain the relationship between short run fixed cost, short run variable costs and the short-run marginal cost curves (10 Marks)

c) A company is considering increasing its production capacity. It anticipates the following costs: fixed costs of $100,000, and variable costs of $50 per unit. If the company expects to sell 2,000 units, calculate the total cost, average total cost, and marginal cost for producing the 2,000 units. (10 marks)

Question 2:

a) Suppose that geopolitical tensions lead to fears of oil supply disruptions. As a result, consumers expect future oil prices to rise and increase their current demand. Explain how this expectation shifts the demand curve for oil. Show graphically the impact on the equilibrium price and quantity in the short run. (12 Marks)

b) If, at the same time, new technology reduces the cost of oil extraction, leading to an increase in oil supply, explain how this affects the supply curve. Calculate the new equilibrium price and quantity after both changes. (13 Marks)

Question 3:

a) Discuss the concept of economies of scale and how they affect a monopoly firm’s cost structure. (5 marks)

b) What are the different sources of economies of scale and how do they contribute to monopoly tendencies in markets. (10 Marks)

c) A large automobile manufacturer experiences a reduction in the average cost of production as it increases output. Explain

how economies of scale contribute to the company's competitive advantage and lower costs. (10 Marks)

Question 4:

a) In an oligopolistic market, firms are interdependent and often engage in strategic behaviour. Discuss the concepts of price leadership, collusion, and price wars as strategies that firms in an oligopoly might use, (15 Marks)

b) What are the economic implications of these strategies (price leadership, collusion, and price wars) for the market participants. (10 Marks)

Question 5:

a) Explain the concept of a monopolistic competition market structure and the characteristics of firms in such a market structure. (10 Marks)

b) A fast-food chain operates in a monopolistic competition market. It differentiates itself by offering healthier menu options. Analyse the firm's pricing, quantity, and profitability in the short-run and long-run. (15 marks)

Question 6:

a) What is the law of diminishing marginal returns, and how does it impact the production decision of firms? (10 marks)

b) A bakery employs labour to increase its production of bread. After hiring more workers, it observes that the additional bread produced by each new worker declines with every new hire. Explain the law of diminishing marginal returns in this context and how it affects the bakery's decision to hire more workers. (15 marks)

Question 7:

a) Discuss the role of government regulations in influencing market outcomes. Provide examples of how government intervention can correct market failures. (10 Marks)

b) A country implements a carbon tax on businesses that emit

greenhouse gases. How would this policy affect the market equilibrium in industries such as energy, transportation, and manufacturing? Analyse both the short-term and long-term effects of this intervention. (15 marks)

Question 8:

a) Discuss the primary reasons why governments intervene in markets. How do such interventions aim to correct market failures? (5 Marks)

b) The government has introduced a price floor on the price of agricultural products like wheat to support farmers' income. As a result, the price of wheat is set above the equilibrium price in the market. How would this price floor affect the quantity of wheat demanded and supplied? What are the potential economic consequences for farmers surplus and consumers surplus (15 marks)

c) what are the possible drawbacks of such intervention in the markets? (5 Marks)

Question 9:

Assuming that for a firm, $Q = f(K,L)$ where Q is Output, K is Capital and L is Labour. This firm's expenditure is only on payment for labour (wages) and payments for capital (interest).

a. Any quantity of output can be produced by using many different combinations of labour and capital. Assuming a firm may decide to maximise its output subject to a cost constraint. Using an illustration, explain the equilibrium of this firm. (5 marks).

b. Using an illustration, explain what is meant by an expansion path and how it may be useful to you as a manager? (8 marks)

c. Assuming a firm is planning on increasing its scale of operations by doubling its inputs (capital and labour), as a manager, explain the board of directors the three possible scenarios that can happen when the scale of operations in increased by double. (Illustrations must be used). (12 Marks)

Question 10:

a. The structure of a market refers to the assessment, differentiation and categorisation of companies based on what they sell, how they operate and how they react to a competitive industry environment. It is useful for understanding diverse markets and how they influence the economy. By knowing more about the structures of markets, you can make better business decisions, implement fair prices for the products or services you offer and stay competitive in the industry. It is known that the structure of the market is based upon the degree of competition in an industry. Using examples, explain the four determinants of competitiveness in any industry and how we can be used to classify the market structures (5 marks)

b. Based on the answers in (a), use illustrations to show how price setting differs between perfect competition and monopoly. (10 marks)

c. Using illustrations, explain how the short-run equilibrium of a firm under monopoly will differ to that under monopolistic competition. (10 marks)

d. For firms to make profit, they should always ensure that they maintain a position where price is greater than average cost ($P>AC$). Using the above condition, discuss the short-run and long-run price-output and equilibrium determination of a firm under monopolistic competition (Illustrations must be used). (5 marks)

Question 11:

As a student of managerial economics, use an illustration to explain the following scenarios

a. The normal airline ticket for Uganda Airlines flights between Entebbe International Airport in Kampala and JK international Airport in Nairobi is US$ 150. Using the demand and supply

theories, Illustrate, the effect on the demand for flights between Entebbe International Airport in Kampala and JK international Airport in Nairobi as a result of construction of a high-speed railway line from Kampala to Nairobi whose tickets cost US$50. (5 marks)

b. Due to the ongoing global events, the government forecasts high volatility in the prices of petroleum products. Hence, the government imposes a minimum price. Using an illustration, explain what will happen to demand and supply. Based on your Illustration, who benefits from the government intervention in this case. (10 marks)

c. Assuming staff at IUEA spend their income on transport and food. After a consultative meeting between the staff and the university management, IUEA has agreed to increase staff salaries by 50% (which means that the income of the staff has increased). Assuming that the prices for food and transport remain constant, using the income consumption curve, show how an increase in staff salaries will lead to a shift in demand. (10 Marks)

Question 12:

The output of sportsmen and women is usually highlighted by their performance in competitions. For marathoners, it's the time they clock in at the 42 kms finish line. For footballers is how they contribute to a football teams' success by playing their roles to perfection. Professional athletes improve their performance through hours and hours of training. A cross-sectional analysis of the performance of professional athletes irrespective of their ranking would reveal training improves the performance of players.

a. As a sports manager, explain the relationship training and performance of athletes using the theory of diminishing marginal returns. (**Illustrations are required**). (5 marks)

b. In regards to the performance of athletes, use **an illustration** to explain how marginal product, average product may be relevant in explaining the total product curves. (explain their relationship). (10 marks)

c. The law of diminishing marginal returns can be useful in explaining the shape of the total product curve. How may the law also be useful in explaining the three different stages of production? (**Illustrations are required**). (4 Marks)

d. You have been appointed as a consultant with Century Bottling Co. Limited to help them expand their production and sales of the Minute Maid brand. Besides, the company has decided to increase funding for Minute Maid production so that it can increase the scale of operations. Assuming Century Bottling Co. is willing to double their inputs for producing minute maid, as a consultant, use illustrations to explain to the board of directors the three possible scenarios that can happen when the scale of operations in increased by double. (**Illustrations MUST be used**) (6 Marks)