**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: 2025-04-16**

**TIME: 2:00-5:00PM**

**INSTRUCTIONS TO CANDIDATES:**

1. Read the instructions very carefully

2. The time allowed for this examination is STRICTLY three hours

3. Read each question carefully before you attempt and allocate your time equally between all the Sections

4. Write clearly and legibly. Illegible handwriting cannot be marked

5. Number the questions you have attempted

6. Use of appropriate workplace examples to illustrate your answers will earn you bonus marks

7. Any examination malpractice detected will lead to automatic disqualification.

**DO NOT WRITE ANYTHING ON THE QUESTION PAPER**

# 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 Airlinesâ?? 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.

# Section B Answer ANY three questions, each carrying 25 marks

**Question 1:**

Assuming that for a firm, $Q = f(K,L)$ where Q is Output, K is Capital and L is Labour. This firmâ??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 2:**

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 firmâ??s pricing, quantity, and profitability in the short-run and long-run. (15 marks)

**Question 3:**

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 4:**

  **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 5:**

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 6:**

The output of sportsmen and women is usually highlighted by their performance in competitions. For marathoners, itâ??s the time they clock in at the 42 kms finish line. For footballers is how they contribute to a football teamsâ?? 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)