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**NATIONAL OPEN UNIVERSITY OF NIGERIA**

**91, CADASTRAL ZONE, NNAMDI AZIKIWE EXPRESS WAY,JABI- ABUJA**

**FACULTY OF MANAGEMENT SCIENCES**

**OCTOBER/NOVEMBER EXAMINATION 2016**

**COURSE CODE:** MBA 824:

COURSE TITLE: Managerial Economics

CREDIT UNITS: 3

**TIME ALLOWED: 2:30 HOURS**

***Instructions:***

(i) Fill in the necessary information in front of your answer scrip

(ii) Answer Questions ***one*** and three others

(iii) Start each question answer on a fresh page ***please***

**QUESTIONS**

***Question One***

(a) Enumerate and discuss in detail three major contributions of economic theory to business economics.

**(5 Marks)**

(b) List and discuss briefly those areas of business issues to which economic theories can be directly applied.

**(5 Marks)**

(c) A business person is trying to decide whether to take one of two contracts or neither one. He/she has simplified the situation and feels it is sufficient to imagine that the contracts provide the alternatives shown in the following table:

|  |  |
| --- | --- |
| Contract A: | Contract B: |
| Profit Probability  N100,000 0.20  50,000 0.40  0 0.30  -30,000 0.10 | Profit Probability  N40,000 0.30  10,000 0.40  -10,000 0.30 |

(i) Which contract should the business person select if he/she wishes to maximize his/her expected profit?

**(10 Marks)**

(ii) What is the expected profit associated with the optimal decision?

**(5 Marks)**

***Question Two***

(a) State and explain the first-and second-order conditions for profit maximization

**(5 Marks)**

(b) Suppose the unit price of a commodity is defined by: P = 100 – 2Q,

and the total cost of producing the commodity defined by: C = 100 + 0.5Q2.

Using the first-order condition for optimal profit, determine the profit-maximising level of output, Q.

**(10 Marks)**

***Question Three***

(a) Apart from the profit maximisation objective, enumerate and explain the other business objectives.

**(8 Marks)**

(b) Explain the basic techniques for:

(i) Revenue maximisation

(ii) Output maximization

**(7 Marks)**

***Question Four***

Explain with practical examples the following demand concepts:

1. Autonomous demand

2. Industry demand

3. Demonstration or Band-Wagon effect on demand

**(15 Marks)**

***Question Five***

Explain each of the following theories of profit and identify those theories you think could be applicable to the practice of business in Nigeria and why?

(i) Walker’s Theory

(ii) Clark’s Dynamic theory

(iii) Schumpeter’s innovation theory

**(15 Marks)**

***Question Six***

Given the cost function: C = 1000 + 10Q1/2 + Q + 2Q2:

(a) Derive the average and marginal cost functions.

**(10 Marks)**

(b) At 5 units of output, what are the average and marginal costs.

**(5 Marks**