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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2023/2024 ACADEMIC YEAR
THIRD YEAR, FIRST SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 13th December, 2023
Time: 8.30am –10.30am

KBA 2305 – BUSINESS ECONOMICS

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) Use the extract given below to answer the questions that follows
“Hop Haven Brewery was founded as a small, family-owned craft brewery in a suburban area. The brewery quickly gained popularity for its unique and high-quality craft beers, attracting a dedicated local following. Over the years, Hop Haven Brewery expanded its production capacity and distribution to serve a wider market.
As the company expands its production volume, it enjoys certain advantages such as ability to negotiate bulk purchasing agreement with suppliers. This resulted in lower costs for key ingredients such as hops, malt and yeast. The cost per unit of these inputs decreased leading to cost savings and improved profitability. This in turn enabled the company to invest in specialized brewing equipment and automation improving on its distribution works
With rapid expansion, the company faced difficulties in maintaining the equipment as in its earlier years posing a challenge to its production. This prompted the company to hire qualified administrative and management staffs to handle growing complexities of the business resulting to the discomfort of existing employees affecting productivity of the company”
- i) Discuss economies of scale the company enjoys in its production activities during the period **(3 marks)**
- ii) Discuss diseconomies of scale to the company during the period **(3 marks)**
- iii) Elaborate on costs incurred by the company as it expands **(2 marks)**
- b) The management of the company is faced decision making challenges on quantity to produce and prices to charge. Given demand equation assist the management make a decision:
 $Q_h = 1600 - 5P_h + 10P_m - 8P_y + 0.01M$, where P_h =Kshs 200 is the price of hops, P_m = Kshs.180 the price of Malt, P_y =Kshs.80 and M = Kshs. 1000 is the income level of the company.
- i) Forecast for the management the quantity of hips to produce **(2 marks)**
- ii) Price elasticity of demand for hips and interpret the value **(3 marks)**
- iii) Cross price elasticity with respect to malt hence relationship between the two goods **(3 marks)**
- iv) Income elasticity, determine whether it is elastic or inelastic **(2 marks)**

- c) A firm engages in production of a substitute good to a rival firm and the commodity demand function given as $P = 200 - 5Q$ and a cost equation: $C = 150 + 5Q^2 + 60Q$. Advise the management on quantity to produce and price to charge in order to break-even
(6 marks)
- d) Businesses are confronted with decision making that require knowledge of business economics. Discuss the usefulness of Business economics knowledge to business management.
(6 marks)

QUESTION TWO (20 MARKS)

- a) Discuss operational problems managers usually faces while discharging their duties while at the same time considering the interest of the company
(10 marks)
- b) A consumer has a utility function given as: $U(X, Y) = 2XY$ and a budget constraint as $P_X X + P_Y Y = M$, demonstrate that at utility maximization by the consumer, the ratio of marginal utilities of the two goods equals to ratio of the prices
(10 marks)

QUESTION THREE (20 MARKS)

- a) Economic activities have improved in the country resulting to increase in demand for goods and services. Illustrate and discuss factors that have resulting to this surge in demand
(10 marks)
- b) Discuss various types of costs a manager faces in the management of business.
(10 marks)

QUESTION FOUR (20 MARKS)

- a) Government plays key roles in a market economy, discuss how can it regulate businesses to ensure fair competition and consumer protection in the economy
(10 marks)
- b) Discuss factors management should consider before undertaking any investment decision in a company
(10 marks)

QUESTION FIVE (20 MARKS)

- a) There are situations in which demand curve disobeys the law of demand. Discuss these situations
(6 marks)
- b) A firm has a production function of the form of $Y = 2(L^{0.5}K^{0.5})$ and a cost constraint $4L + 5K = 400$. As an intern in the firm, the manager has approached to determine the optimal inputs that will ensure maximum output for the firm
(8 marks)
- c) Discuss internal economies of scale that a business entity enjoys.
(6 marks)