NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY
FACULTY OF COMMERCE
GRADUATE SCHOOL OF BUSINESS
POSTGRADUATE DIPLOMA IN MANAGEMENT

MANAGERIAL ECONOMICS (GBA 4181)
SUPPLEMENTARY EXAMINATION

DATE: 9 FEBRUARY 2009
TIME: 3 HOURS (9.00-12.00)

Instructions to Candidates

1. Answer any FOUR questions.
2. All questions carry equal (25) marks.
3. Questions may be answered in any order.
4. As much as possible, use relevant examples.

Question One

a) Why do you think it is important for managers to understand the mechanics of supply and demand, both in the short run and long run? Discuss, using examples of Zimbabwean companies whose business was either hurt or helped by changes in supply or demand in the markets in which they were operating. [10 marks]

b) Why does the demand curve slope downwards? What are the exceptions to this? [8 marks]

c) What are the properties of indifference curves and what role do they play in consumer analysis? [7 marks]

Question Two

a) Assume that firms in the short run are earning abnormal profits. Explain, with the aid of diagrams, what will happen to these profits in the long-run for the following markets:

(i) Pure monopoly [5 marks]
(ii) Oligopoly [5 marks]
(iii) Monopolistic competition [5 marks]
(iv) Perfect competition [5 marks]

(b) In theory, we talk about "barriers to entry", in practice (in Zimbabwe) we have "barriers to exit", our sick units are not allowed to die a natural death. Comment. [5 marks]

Question Three

Briefly explain the following economics concepts, giving examples, where possible:

a) X-inefficiency 5 marks]
b) Marginal rate of substitution (MRS) [5 marks]
c) Marginal rate of technical substitution (MRTS) [5 marks]
d) Economies of scale in marketing [5 marks]
e) Pecuniary economies of scale [5 marks]

Question Four

Gwanda Pet Foods Ltd is investigating three alternative investment projects, each involving an initial cost of $10 million at a discount rate of 10% per annum. The pattern of net returns on the investments is shown in the table below:

Project	**A**	**B**	**C**
Year 1	4	0	8
Year 2	4	1	6
Year 3	8	8	4
Year 4	8	20	4
Year 5	8	20	4
Residual value after 5 years	2	3	0.5

(All figures in $millions)

The Managing Director insists on a three-year payback rule as an initial screening device. Thereafter, the Net Present Value (NPV) is used in project appraisal.

a) Which project should Gwanda Pet Foods Ltd choose? [15 marks]
b) (i) Assuming that the payback rule had not been used, which project would you choose based on the NPV method only? [2 marks]
(ii) What is the internal rate of return (IRR) of the project chosen, based on the NPV in (b) (i) above? [3 marks]
b) What are the major disadvantages of the payback rule in project appraisal? [5 marks]

Question Five

a) What is the importance of demand forecasting to both new firms and those planning to expand the scale of their production? [10 marks]

b) Discuss any three methods of forecasting demand, highlighting the weaknesses and strengths of each approach. [15 marks]

Question Six

How does the understanding of risk and uncertainty help the manager make optimal management decisions? (You should demonstrate a clear understanding of various techniques to decision-making under insufficient information.) [25 marks]