MANAGERIAL ECONOMICS TEST 1

DATE: 27 MARCH 2014
TIME: 1 HOUR
LECTURER: MS. K. KAVEZERI
TOTAL: 40 MARKS

INSTRUCTIONS TO CANDIDATES
• Answer all questions

QUESTION 1
1. What is meant by “satisficing”? [2]
2. Differentiate between Managerial economics and Microeconomics. [2]
4. Define the concept of marginal analysis and state how it is useful in managerial decision making. [4]

QUESTION 2
1. A firm faces the demand curve, $P = 40 - 1.5Q$, and has the cost equation $C = 100 + 10Q$.
   a) Derive the equation for the firm’s marginal revenue curve. [3]
   b) Find the optimal quantity and price for the firm to maximize profits. [6]
   c) Determine the firm’s profits if the optimal quantity is produced and sold. [3]
   d) To maximize total revenue, how many units should this firm produce and sell? [2]

2. Explain and graphically illustrate the relationship between price elasticity, marginal revenue and total revenue. [9]

QUESTION 3
1. Consider the following short-run production function (where $L =$ labour, $Q =$ output).
   $Q = 10L - 0.5L^2$,

   Suppose that output sells for N$10 per unit and the cost of labour is N$20 per unit.

   a) Determine the optimal value of labour, if the objective is to maximize profits. [4]
   b) How much output should this firm produce? [2]

2. In which instance will a Cobb-Douglas production function exhibit constant returns to scale? [1]

   The End