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UNIVERSITY EXAMINATIONS 2024/2025

FIRST YEAR, SECOND SEMESTER EXAMINATION FOR MASTER OF BUSINESS
ADMINISTRATION

BFA 5108: MANAGERIAL ECONOMICS

DATE: JANUARY 2025

TIME: 3 HOURS

INSTRUCTIONS: *Answer Question ONE and any other THREE Questions.*

QUESTION ONE – (24 MARKS)

Case Study

Alfa Communications Strategic Decision-Making

Alfa Communications is the leading telecommunications company in Kenya, with a market share of over 60%. It offers a variety of services, including voice, data, and its revolutionary mobile money platform, which has transformed Kenya's financial landscape. Alfa Communications has been a dominant player in the industry for many years, largely due to its strong infrastructure, innovative services, and vast customer base.

However, with increasing competition from firms like Beta and Cypto, Alfa faces several strategic decisions that require careful economic analysis. Beta has been particularly aggressive, offering lower prices for data bundles and voice services, trying to lure away Alfa communications customers. The Government has also been considering stronger regulations to promote competition in the telecommunications sector, which could affect Alfa communications market dominance.

Alfa Communications management is focusing on several key areas:

1. Pricing strategy for data services in light of Beta's lower-cost offerings.
2. Expansion into new services, such as health tech and e-commerce.
3. Adapting to regulatory changes and potential government intervention in the telecommunications market.
4. Operational efficiency to maintain high margins in a competitive environment.
5. Consumer demand for mobile data services, especially as more citizens shift to smartphones.

Key Data:

1. Current Pricing: Alfa communications charges Ksh 1.1 per MB of data, while Beta charges Ksh 0.6 per MB.
2. Market Share: Alfa communication holds 64%, Airte holds 24%, and Cypto holds 12% of the market.
3. Price Elasticity of Demand: The price elasticity of demand for Alfa communication data services is estimated to be -2.
4. Fixed and Variable Costs: Alfa Communication fixed costs for maintaining its infrastructure are Ksh 5 billion per year, while its variable cost per unit of data provided is Ksh 0.4 per MB.
5. Regulatory Environment: The Communications Authority is considering new regulations to cap Alfa Communication pricing and mandate sharing of its infrastructure with smaller competitors.
6. New Service Opportunities: Mobile money transfer success has led to discussions about diversifying into health insurance and digital commerce platforms, especially targeting rural and under-served areas.

From the case study, you are required to answer the following question (note: all the underlying justification must be drawn from the case study)

- a) Should ALfa Communication lower its data prices to compete more effectively with Beta? (5 Marks)
- b) Should the company diversify into health tech and e-commerce, leveraging the Mobile Money Transfer Platform? (6 Marks)
- c) How should Alfa Communication respond to potential regulatory changes in the telecommunications industry? (5 Marks)
- d) What cost-saving measures can Alfa Communication implement to improve operational efficiency and maintain profitability? (8 Marks)

QUESTION TWO – (12 MARKS)

- a) Discuss the importance of managerial economics in business decision. (6 Marks)
- b) decision making is one of the most important functions of management of a business. A managerial economist can play a key role in decision making by assisting management in using specialized and complicated techniques that are required to make the process of decision making and planning easy" In the light of the above, discuss the functions and responsibilities of the managerial economist.

(6 Marks)

QUESTION THREE – (12 MARKS)

The objectives of demand forecasting can be divided into short-term objectives and long-term objectives. Briefly explain any four short-term objectives and any four long term objectives of demand forecasting.

(12 Marks)

QUESTION FOUR – (12 MARKS)

Consider the following short run algebraic production function for Eclipse Company:

$$Q = 6X^2 - 0.2X^3$$

Where: Q is the total product and X is the input.

Required:

- a) Determine the company's marginal product (2 Marks)
- b) Determine the company's average product. (2 Marks)
- c) Determine the levels of output that describe the second stage of production for the company. Why is the second stage of production considered to be the economic stage of operation? (8 Marks)

QUESTION FIVE – (12 MARKS)

"Safaricom operates in Kenya's telecommunications industry, which is characterized by a few dominant players like Safaricom, Airtel, and Telkom Kenya. Analyze the market structure in which Safaricom operates, and explain how this market structure affects its pricing. Would you classify this market as a perfect competition, monopolistic competition, oligopoly, or monopoly?

Justify your answer by identifying key features of the market structure. " (12 Marks)