



Kasarani Campus
Off Thika Road
Tel. 2042692 / 3
P. O. Box 49274, 00100
NAIROBI
Westlands Campus
Pamstech House
Woodvale Grove
Tel. 4442212
Fax: 4444175

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

Date: 16th August, 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)

‘THE TEXAS STATE BIRD’

Consider a case of ‘*The Texas state bird*’ where Southwest Airlines is a major carrier based in Texas, and has made a strategy of cutting fares drastically on certain routes with large effects on air traffic in those markets. On the Burbank–Oakland route the entry of Southwest into the market caused average fares to fall by 48 per cent and increased the number of travellers from 21,327,000 to 47,064,000 annually. On the Kansas City–St Louis route, Southwest Airlines adopted an even more aggressive fare reduction strategy which resulted to the average fare cut in the market of 70 per cent but the number of travellers fell from an annual 66,201,500 to 33,101,500. The results of this two approaches were expected to bring substantial effects on air traffic, market demand, profitability as well as market revenue.

Required;

- Calculate the Price Elasticities of Demand for the Burbank–Oakland and Kansas City–St Louis routes. (6 Marks)
- Explain two reasons why the above elasticities might not apply especially to Southwest. (4 Marks)
- If Southwest does experience a highly elastic demand on the Burbank–Oakland route, what is the profit implication of this? (2 Marks)
- Explain why the fare reduction on the Kansas City–St Louis route may still be a profitable strategy for Southwest. (6 Marks)
- Describe THREE determinants of Price Elasticity of Demand. (6 Marks)
- Aside from ‘Price Elasticity of Demand’ applied in the case above, explain any other THREE concepts of demand elasticities used in business decisions. (6 Marks)

QUESTION TWO (20 MARKS)

- a) Describe four aspects that generally fall under the scope business economics. (8 Marks)
- b) The law of Equi-marginal utility describes consumer behavior in achieving equilibrium.
- i) State the 'Law of Equi-marginal utility' (2 Marks)
- ii) Highlight four key assumptions of this law (4 Marks)
- iii) Explain the significance of this law towards Consumption, Production and Exchanges (6 Marks)

QUESTION THREE (20 MARKS)

- a) Provided is a table showing different combinations of Apples and Oranges that provide same utility to a consumer.

Combination	Apples (X)	Oranges (Y)
A	1	10
B	2	7
C	3	5
D	4	4

- i) Explain the meaning of 'Marginal Rate of Substitution' of Apples for Oranges (2 Marks)
- ii) Calculate the Marginal Rate of Substitution for each combination. (3 Marks)
- iii) Use data from the table to illustrate graphically and explain the concept of diminishing Marginal Rate of Substitution (7 Marks)
- b) Market experiment methods have certain serious limitations which reduce their reliability considerably. Explain any four limitations of this method if used in demand forecasting. (8 Marks)

QUESTION FOUR (20 MARKS)

- a) Business economics involves decision-making where one out of two or more alternative courses of action are selected. What is the significance of Business Economics knowledge in business enterprises? (8 Marks)
- b) State four assumptions of the 'law of variable proportions' that makes it significant in explaining the stages of production. (4 Marks)
- c) Business Economics deals with both explicit costs (recorded) and implicit costs (unrecorded). Explain four classes of Implicit costs which should be included in the total cost, but go unrecorded in the account of the firm. (8 Marks)

QUESTION FIVE (20 MARKS)

- a) Shifts of the demand curve may take place owing to the change in one or more determinants of the demand for a commodity. Explain four causes of the shift. (8 Marks)
- b) Explain the various real economies of scale that can be practiced in a firm. (8 Marks)
- c) Break-Even Analysis (BEA) can be a very useful aid to managerial decision-making. However it has some important limitations. Explain two limitation of BEA in decision making. (4 Marks)