

THE OPEN UNIVERSITY OF TANZANIA
FACULTY OF BUSINESS MANAGEMENT
OBS 602: MANAGERIAL ECONOMICS
ASSIGNMENT TWO:

INSTRUCTIONS:

1. **This paper contains THREE questions**
 2. **Answer all questions**
 3. **Work independently and show all your workings.**
 4. **All questions carry equal marks.**
 5. **To be submitted before 25th May, 2008**
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QUESTION ONE:

- (i) What is price discrimination? Explain types of price discrimination
- (ii) Distinguish between incremental and cost plus pricing
- (iii) What is excess capacity theorem as applied in monopolistic competition
- (iv) Why is monopoly considered inefficient
- (v) Explain three methods used in evaluating investment decisions

QUESTION TWO:

- (a) In contrast to monopoly, perfect competition leads to maximum social welfare. Elaborate on this statement.
- (b) Define cost plus pricing. Comment on the statement that this method of pricing is only cost based.
- (c) A monopolist sells in two market segments and has constant marginal costs of production equal to shs 20 per unit. The demand functions in the two markets are:
Market A : $P_A = 140 - 2 Q_A$
Market B : $P_B = 100 - Q_B$
Find the price charged in each market. What are the conditions for the existence of these two market segments.

QUESTION THREE:

(a) Explain why the oligopoly market structure can not be easily dismissed as inefficient?

(b) What is break even analysis? Describe the managerial usefulness of break even analysis.

(c) In an attempt to increase sales and profits, a firm is considering 5 percent increase in price and 15 percent increase in advertising expenditure. If the price elasticity of demand is -1.5 and advertising elasticity of demand is +0.6, would there be an increase or decrease in total revenue? Explain

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