MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF AGRICULTURAL SCIENCES

DEPARTMENT OF AGRIBUSINESS MANAGEMENT AND TRADE

FIRST YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF SCIENCE IN AGRICULTURAL EDUCATION AND EXTENSION

BACHELOR OF SCIENCE AGRIBUSINESS MANAGEMENT AND TRADE

AGB 103: PRINCIPLES OF AGRICULTURAL MICROECONOMICS

DATE: 25/9/2019 **TIME: 2.00-4.00 PM**

INSTRUCTIONS;

Answer question ONE and any other TWO questions

QUESTION ONE

a) Define the following economics terms

i. Elasticity of supply (1 mark)

ii. Marginal revenue (1 mark)

iii. Opportunity cost (1 mark)

iv. Marginal utility (1 mark)

v. Scarcity (1 mark)

vi. Marginal rate of substitution (1 mark)

b) Differentiate between the following terms as used in economics

i. Price ceiling and price floor (2 marks)

ii. Overt collusion and tacit collusion (2 marks)

iii. Normal good and inferior good (2 marks)

iv. Change in quantity supplied and change in supply (2 marks)

v. Economies of scale and returns to scale (2 marks)

vi. Monopoly and monopolistic competition (2 marks)

vii. Positive externality and negative externality (2 marks)

viii. Indifference curve and isoquant (2 marks)

c) Describe four axioms of rational choice (4 marks)

d) Explain four determinants of demand elasticity for agricultural commodities (4 marks)

QUESTION TWO

a) Suppose just two weeks before the rainy season, the government of Kenya announces that it has signed a memorandum of understanding with government of India for purchase of green grams from Kenyan farmers. Explain, using a diagram, what may happen to equilibrium price and quantity of certified seeds of green grams (10 marks)

b) Supply of beef in Kenya is likely to remain constant over the next twenty years. Discuss the validity of this viewpoint (10 marks)

QUESTION THREE

a) The figures in the table below were taken from demand schedules of two goods.

   i. Calculate the price elasticity of demand for each good (6 marks)

   ii. Explain the meaning of elasticity values obtained for each good (4 marks)

   iii. State what would happen to the total revenue from each good if the prices of both goods were increased (2 marks)

	Quantity1	**Price1**	**Quantity2**	**Price2**
Good 1	100	4	70	5
Good 2	25	6	15	5

b) Explain four factors that favor the existence of a monopoly (8 marks)

QUESTION FOUR

a) You have two inputs – labor and capital, and a fixed production budget. Explain how you would choose the optimal combination of these inputs to maximize output assuming competitive markets (12 marks)

b) With relevant examples, describe four types of demand for agricultural products (8 marks)

QUESTION FIVE

a) Using an appropriate diagram, explain how a monopolist maximizes profit (10 marks)

b) With the aid of a diagram, explain how changes in consumer income influence consumption of agricultural commodities under constant product prices (10 marks)