



MACHAKOS UNIVERSITY COLLEGE

(A Constituent College of Kenyatta University)

University Examinations 2015/2016

SCHOOL OF AGRICULTURE AND NATURAL RESOURCES MANAGEMENT

DEPARTMENT OF AGRIBUSINESS MANAGEMENT

FIRST SEMESTER EXAMINATION FOR DEGREE IN BACHELOR OF SCIENCE IN
AGRIBUSINESS MANAGEMENT

KBT 209: PRINCIPLES OF AGRICULTURAL MICROECONOMICS

Date:

Time:

INSTRUCTIONS:

Answer ALL Questions in Section A and ANY TWO Questions In Section B

SECTION A: (COMPULSORY) 30 MARKS

QUESTION ONE

- a) Differentiate the following terms used in economics
- i) Elasticity of demand and elasticity of supply. (2 marks)
 - ii) Variable inputs and fixed inputs. (2 marks)
 - iii) Microeconomics and Macroeconomics. (2 marks)
 - iv) Pareto optimality and Pareto superiority. (2 marks)
 - v) Marginal cost and marginal revenue. (2 marks)
 - vi) Normal good and inferior good. (2 marks)
 - vii) Monopoly and monopolistic competition. (2 marks)
 - viii) Overt collusion and tacit collusion. (2 marks)
- b) State the law of diminishing marginal utility. (2 marks)
- c) Illustrate the relationship between average product, marginal physical product, average costs and marginal costs. (4 marks)
- d) In Meru, the market clearing price for milk is Ksh 40 per litre, at which 500 litres of milk are demanded per day. With appropriate illustration, explain what might happen to the equilibrium price and quantity if a severe drought suddenly hit the area. (8 marks)

SECTION B: 40 MARKS

QUESTION TWO

- a) Describe the two approaches to measuring utility. (4 marks)
- b) Discuss four axioms of rational choice. (8 marks)
- c) Describe four factors that favor the existence of a monopoly. (8 marks)

QUESTION THREE

- a) Explain the effects of changes in income on consumption. (8 marks)
- b) Suppose an investor constructs a large-scale meat processing plant in a small market centre near Thika town. Discuss three positive and two negative externalities that may be experienced by the community living near the plant (5 marks)
- c) Explain how a producer maximizes profit in a competitive market. (7 marks)

QUESTION FOUR

- a) Explain the *Laissez Faire* concept. (2 marks)
- b) Describe four conditions that must exist for pure competition market structure. (8 marks)
- c) 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. (10 marks)

QUESTION FIVE

- a) Differentiate between returns to scale and economies of scale. (4 marks)
- b) Explain two ways by which firms achieve economies of scale. (4 marks)
- c) 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 calculated 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	200	8	140	10
Good 2	50	12	45	15