JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY SCHOOL OF AGRICULTURAL AND FOOD SCIENCES

UNIVERSITY EXAMINATION FOR DEGREE OF BACHELOR OF SCIENCE IN AGRIBUSINESS MANAGEMENT

SECOND YEAR SECOND SEMESTER 2013/2014 ACADEMIC YEAR

REGULAR

COURSE CODE: AAE 3221

COURSE TITLE: Agribusiness Industrial Organization

EXAM VENUE:LR 2   **STREAM: BSc (Agribusiness Management)**

DATE:10/12/14   **EXAM SESSION: 9.00 – 11.00 AM**

TIME: 2.00 HOURS

Instructions:

1. **Answer ALL question in Section A (compulsory) and ANY TWO questions in Section B.**
2. **Candidates are advised not to write on the question paper.**
3. **Candidates must hand in their answer booklets to the invigilator while in the examination room.**

SECTION A   [30 MARKS]

1. Agri-business is the sum total of all operations involved in the manufacture and distribution of farm supplies, production activities on the farm, storage, processing and distribution of farm commodities and items made from them.

    (a) Explain the importance of agri-business to the Kenyan economy.   [6 marks]
    (b) Briefly explain the dimensions of agribusiness.   [4 marks]

2. Monopolistic competition refers to a market situation in which a relatively large number of sellers offer similar but not identical products.

    (a) How does monopolistic competition differ from monopoly?   [4 marks]
    (b) Explain how the entry of firms into this industry affects the demand curve facing a monopolistic competitor and how that, in turn, affects its economic profit.   [4marks]
    (c) A monopolistically competitive producer may be able to postpone the long-run outcome of just normal profits through product development andimprovement and advertising. Explain the advantages of this to the consumers.   [2 marks]

3. Price discrimination is the act of charging different prices for the same product.
    (a) Explain the necessary conditions for price discrimination to thrive?   [4marks]
    (b) A monopolist is faced with the following demand and cost functions:
        $C = 50 + 20Q$
        $P = 100 - 2Q$

Find the equilibrium price and quantity and the maximum profit attainable.   [6marks]

SECTION B   [40 MARKS]

4. A prisoner's dilemma is a non-cooperative game in which the strategy of one player is dependent on the expected strategy of the other player(s).

    (a) Construct and explain a game theory matrix involving two firms and their decisions on high advertising budgets even though both would be more profitable with low advertising budgets.   [8 marks]
    (b) Explain how advertising helps consumers and promotes firm efficiency.   [5 marks]
    (c) Outline the areas of applications of game theory in the agri-business world. [4 marks]
    (d) Illustrate three different variables that an organization has to consider in identifying current and potential competitors.   [3 marks]

5. Palmers LTD is a firm specializing in sale of eggs. Recently, it started rearing its own layers chicken as well as branding and packaging eggs into different packets with different shapes and making delivery to consumers unlike before.
    The firm is contemplating merging with a rival firm to start producing chicken feeds especially the layers mash.
    (a) Outline the strategy(s) the firm is pursuing.   [3 marks]
    (b) For each strategy identified, explain the factors that facilitates its implementation.   [10 marks]
    (c) What are the demerits of adopting the strategy(s)?   [7 marks]

6.   Collusion is the co-ordination of prices and quantities by firms in the market.

(a) Assess the economic desirability of collusive pricing from both the society's
   and firm's point of view. [4 marks]
(b) Analyze some of the obstacles to collusion. [5 marks]
(c) Using a diagram, show a monopolist breaking even. [6 marks]
(d) Organizations pursuing cost leadership must ensure that its cumulative
   costs across its overall value chain must be lower than competitor's
   cumulative costs. Analyze some of the associated cost drivers that need to be
   managed as part of a cost leadership strategy. [5 marks]