CHUKA UNIVERSITY COLLEGE

UNIVERSITY EXAMINATIONS

FOURTH YEAR EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF AGRIBUSINESS MANAGEMENT & BACHELOR OF SCIENCE (ANIMAL SCIENCE)

AGEC 422: AGRICULTURAL PROJECT ANALYSIS/MANAGEMENT

STREAMS: B.AGBM & B.Sc.(ANSC) Y4S1 **TIME: 2 HOURS**

DAY/DATE: WEDNESDAY 1/8/2012 **8.30 A.M. -10.30 A.M.**

INSTRUCTIONS:

Answer All Questions
Start each question on a new page.
Do not write on the question paper.

Question 1

The financial prices are the starting point for the economic analysis; they are adjusted as needed to reflect the value to the society as a whole of both the inputs and outputs of the project.

(i) Discuss the three adjustments that are made. [10 marks]

(ii) Why does the need to determine the foreign exchange premium arise when it can simply be asked from the central planning agency? [5 marks]

(iii) Discuss the difference between farm income analysis, funds flow analysis and farm investment analysis. [10 marks]

Question 2

Project analysis tries to identify and value the costs and benefits that will arise with the proposed project and to compare them with the situation as it would be without the project. However, the "with" and "without" comparison is not the same as comparing the situation "before" and "after" the project. Critically discuss this statement giving your own applicable independent examples. [20 marks]

Question 3

Given information on a possible project that will generate the following cash flows over an 8 year period;

	Amount in Kenya Shillings (KES)	
Year	Value of Incremental cost	Value of Incremental benefits
1	5250	0
2	8250	750
3	9000	2250
4	6750	3750
5	3750	7500
6	2625	12375
7	1500	18000
8	1950	22950

While giving a definition of the methods below, use the information above to compute:

(a) Net present value at 18% discount rate [4 marks]
(b) Benefit-cost ratio at 18% discount rate [4 marks]
(c) Internal rate of return [4 marks]
(d) What are the limitations of payback period method of investment analysis? [3 marks]

Question 4

Consider the following information of maize imported from USA to Kenya.

1.	Landing and port charges	KES 2851
2.	Freight to point of import	$ 16
3.	Local transport and marketing costs to relevant markets	KES 2332
4.	Insurance	$ 10
5.	Official exchange rate	1$ = KES 80
6.	There were no tariffs and no subsidies	
7.	Price at point of export	$ 116
8.	Transport to farm-gate	KES 2332
9.	Primary marketing including assembly, cost of bags, and intermediary margins	KES 1814
10.	Unloading at point of import	$ 5
11.	Storage loss	KES 1166

Required: [10 marks]

(i) Compute the price at the point of import
(ii) Compute the price at the local market
(iii) Compute the financial import parity price at the farm gate

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