

**W1-2-60-1-6**

**JOMO KENYATTA UNIVERSITY**

**OF**

**AGRICULTURE AND TECHNOLOGY**

**UNIVERSITY EXAMINATIONS 2014/2015**

**YEAR 4 SEMESTER I EXAMINATION FOR THE DEGREE OF BACHELOR OF SCIENCE AGRICULTURAL ECONOMICS AND RURAL DEVELOPMENT**

**AER 2402: AGRICULTURAL PRICE ANALYSIS**

**DATE: April 2015 TIME: 2 HOURS**

**INSTRUCTIONS: Answer All Questions in Section A and Any Two In Section B**

**SECTION A: ANSWER ALL QUESTIONS**

1. Discuss the empirical observation that the long run aggregate supply response with respect to price is lower in developing countries than in developed countries. (10marks)
2. Explain the meaning of the following terms:
3. Market power
4. The law of one price
5. Agricultural terms of trade
6. Price discovery
7. Import parity price (10marks)
8. a. Using appropriate illustrations, explain situations where you would expect the agricultural supply response to be more elastic for a price rice than for a price fall. (8marks)

b. Using examples, explain the reasons why the study of agricultural prices is necessary. (7marks)

1. a. For each of the following pair of agricultural products, identify the one you would expect to have a higher price elasticity of supply. In each case explain your choice.

Pair Choice

i. Maize and Rice

ii. Eggs and milk

ii. Pork and beef

(6marks)

b. Would you expect the demand elasticity of demand for rice and wheat to be higher in developing countries than in developed countries? Explain your answer. (3marks)

c. Given the following demand function for a monopolist Q=50-0.25P.

1. Calculate the price the monopolist will charge in order to maximize profits if its cost function is given by C=50-40Q (3marks)
2. Show how the results in (ii) above would change if the firm were operating in a perfectly competitive market. (3marks)

**5.** Using an appropriate graphical model, discuss the pricing mechanism of a monopoly firm. (10marks)

**SECTION B: ANSWER ANY TWO QUESTIONS**

**6.** a. A common feature of agricultural markets is that the prices of many products are notoriously unstable. With examples explain the key policy interventions that can be used to stabilize agricultural prices. (10marks)

b. Discuss the cobweb model as a tool for price analysis. (10marks)

7. a. Explain and mathematically show that the supply curve of perfectly competitive firm is the marginal cost curve (MC) above the average cost curve (AVC) (10marks)

b. Discuss the key implication of the empirical observation that most agricultural products are characterized by high fixed costs relative to variable costs. (6marks)

c. Explain briefly the difference between a converging and a diverging cobweb model. (4marks)

**8.** a. Explain the key factors that may explain the rising terms of trade for agriculture (10marks)

b. Explain and mathematically show that the degree to which a monopoly will exercise market power (hold price above the MC) depends on the price elasticity of demand. (10marks)

END