MASENO UNIVERSITY

UNIVERSITY EXAMINATIONS 2016/2017

FIRST YEAR FIRST SEMESTER EXAMINATION FOR DEGREE OF BACHELOR OF SCIENCE IN AGRICULTURAL ECONOMICS/AGRIBUSINESS MANAGEMENT WITH INFORMATION TECHNOLOGY

MAIN CAMPUS

AEG 101: INTRODUCTION TO AGRICULTURAL ECONOMICS

Date: 2nd December, 2016 Time: 12.00 - 3.00pm

INSTRUCTIONS:

- Answer ALL Questions in Section A and any other TWO in Section B.
- Carefully read and follow the instructions contained in the answer booklets provided.
- Marks for each question are indicated in brackets against each question.

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AEG 101: INTRODUCTION TO AGRICULTURAL ECONOMICS

INSTRUCTIONS TO CANDIDATES

1. Carefully **READ AND FOLLOW THE INSTRUCTIONS** contained in the answer booklet(s) you have been provided with.
2. Answer **ALL** the Questions in Section A and Any Two Questions in Section B.
3. Marks for each question are indicated in brackets against each Question

SECTION A (Compulsory)

1. a. Using indifference curves derive the demand curve for a normal good. (5 mks)

   b. Write brief notes on the following:

   i. Scarcity and choice (2.5 mks)

   ii. Price elasticity of demand (2.5 mks)

   c. With the help of a diagram distinguish between the income effect and substitution effect of change in the price of a normal good (8 mks)

2. The demand and supply schedule for carrots in Kibuye market are given below. Use the information to answer the questions below:

Price Kshs "000" Per ton	Quantity demanded per (thousands of tons)	Quantity demanded per (thousands of tons)
2	110.0	5.0
4	90.0	46.0
8	67.5	100.0
10	62.5	115.0
12	60.0	122.5

(i) Use the graphical method to determine the equilibrium price. (5 mk)

(ii) Explain what would happen if the prices were set at Ksh 4,000 and Ksh 10,000 respectively. (3 mks)

(iii) What is the price elasticity of demand when prices change from Ksh. 4,000 to Ksh. 10,000 (2 mks)

(iv) Interpret the coefficient calculated and explain whether the demand at this point is considered to be elastic or inelastic. (1 mks)

(v) State FOUR factors that would affect the supply of beans in Kibuye Market. (2 mks)

SECTION B – ANSWER ANY TWO QUESTIONS

3. The following table shows a production relationship between input (X) and output (Y).Use the information to answer the questions that follow.

X	Y
0	0
1	16
2	26
3	31
4	35
5	38
6	40
7	42
8	43
9	43
10	42

(i) Calculate MPP & APP at each level of output. (5 mks)

(ii) Plot the TPP, MPP and APP curves. Show the 3 production regions. (10 mks)

(iii) Briefly discuss each region in (ii) above and explain what a rational producer should do in each region. (5 mks)

4. A firm is faced with the following schedule of output and associated cost of production

OUTPUT	TOTAL COST
0	1000
1	1500
2	3500
3	4500
4	6500
5	8500
6	12000

Use the above information to answer the questions below:-

(i) Compute the Total Fixed Cost and Total Variable Cost at each level of output (6 mks)

(ii) Compute the AFC, AVC and MC at each level of output. (8 mks)

(iii) What levels of output would maximize profit at prices of 1000 and 3500 respectively. State the principles used to determine these output levels. (3 mks)

(iv) Compute the profit generated at the levels of output in (iii) above. (3 mks)

5. a) What is oligopoly? (4 mks)

b) Using a well-labeled diagram, show that a monopolist can make losses in the short-run even when MC= MR (8 mks)

c) Using a well-labeled diagram, explain why prices are „sticky" downward under oligopolistic market (8 mks)