

UNIVERSITY OF KABIANGA  
UNIVERSITY EXAMINATIONS  
2017/2018 ACADEMIC YEAR  
THIRD YEAR FIRST SEMESTER EXAMINATIONS  
FOR THE DEGREE OF BACHELOR OF SCIENCE  
IN  
AGRICULTURAL ECONOMICS AND RESOURCE MANAGEMENT  
AND  
BACHELOR OF SCIENCE IN HORTICULTURE

ARE 351: FARM BUSINESS MANAGEMENT I (PRINCIPLES)      TIME: 3 HOURS  
INSTRUCTIONS TO CANDIDATES: ANSWER ALL QUESTIONS IN SECTION A  
AND ANY THREE QUESTIONS IN SECTION B.

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**SECTION A (40 MARKS)**

**Q1.**

- (a) Define the following terminologies
- i) Farm (2 Marks)
  - ii) Farm Business plan. (2 Marks)
  - iii) Linear programming. (2 Marks)
  - iv) Management (2 Marks)
  - v) Enterprise Budgeting (2 Marks)
- (b) Distinguish between the following terms as used in farm business management.
- i) Farm plan and farm planning. (4 Marks)
  - ii) Present value of future sum and future value of a present sum. (4 Marks)
  - iii) Comparative advantage and opportunity cost. (4 Marks)
  - iv) Risks and uncertainties in agribusiness. (4 Marks)
- (c) State the principle of product substitution. (2 Marks)
- (d) List the four basic methods of planning/types of enterprise budget reports. (4 Marks)
- (e) Highlight the elements in a decision making process in farm management. (8 Marks)
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**SECTION B (60 MARKS)**

**Q2.**

- (a) Explain some of the major functions of farm management. (2 marks) ✓
- (b) Distinguish between a partial budget and a cash-flow budget. (3 Marks)
- (c) Outline the purpose of enterprise budgeting. (9 Marks) ✓
- (d) Farm business management activities currently have become complex due to changes in the environment. Discuss. (6 Marks) ✓

**Q3.**

- (a) Discuss the advantages of farm plans. (4 marks) ✓
- (b) Describe future value of money and state its assumption. (4 Marks)
- (c) The law of diminishing returns is a basic natural law affecting many phases of management of a farm business. Consequently, determination of optimum input to use and the amount of product that should be produced (optimum output) is directly related to the operation of law of diminishing returns.
- (i) State the law of diminishing returns. (4 Marks) ✓
- (ii) What decision rules should a farm manager make that will enable him to determine the optimum input to use and optimum output to produce? (8 Marks)

**Q4 ✓**

- (a) With recent technological developments in agriculture, farming has become more complex business and requires careful planning for successful organization. Discuss the various types of farm plans. (2 Marks) ✓
- (b) Distinguish economically and mathematically between the following farm business management concepts.
- i) Marginal Value Product and Marginal Factor Cost. (4 Marks)
- ii) Marginal Revenue (MR) and Marginal Cost (MC). (4 Marks)
- (c) Outline the steps taken while preparing a farm planning checklist. (10 Marks) ✓

Q5.

- (a) What types of strategies can farmer/managers in price-taking firms use to get a profit advantage if certain resources are fixed or other constraints are present? (6 Marks)
- (b) State the assumptions of Linear Programming. (6 Marks)
- (c) Farm business success depends on the ability of smallholder farmer households to manage four main core areas. State and briefly discuss the four areas. (8 Marks)
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