University of Kabianga
School of Business and Economics
Dept: Finance and Accounting   1st Semester - 2016/2017
ECO 416: Agricultural Economics 1 (Main Exams)
Time: 3 hrs
Main Campus

INSTRUCTIONS: Answer Question One AND Any Other Three

Question One

a) Give your understanding of the following
   - i.   Principal agent problem   (1 mark)
   - ii.   Marketing chain   (1 mark)
   - iii.   Value of marginal product (VMP)   (1 mark)
   - iv.   Production economics   (1 mark)
   - v.   Farm management   (1 mark)
   - vi.   Marketed surplus   (1 mark)

b) i) Explain the reasons of market failure.   (5 marks)

c) Mr. Adulahi has ksh.50,000. He has two(2) investment opportunities A and B which wants to invest in. the possible earning from each investment expected probability is as given below;

Investment	State of economy	Probability of occurrence	Possible earning or outcome of investment
A	Boom	0.25	12,000
	Normal	0.50	10,000
	Recession	0.25	8,000
B	Boom	0.25	16,000
	Normal	0.50	10,000
	Recession	0.25	4,000

Required

- i.   Compute the expected earning of each investment,   (4 marks)
- ii.   Compute the standard deviation of each investment,   (7 marks)
- iii.   Indicate the investment the investor should select to avoid risk. Given reasons for the choice.   (3 marks)

Question Two

a) Explain factors influencing marketing efficiency.   (9 marks)

b) Supposing your agriculturalist and is involved in a factor – factor decisions. Discuss how you can choose the optimal combination of inputs.   (6 marks)

Question Three

a) Give an analysis on the high marketing costs of agricultural commodities in Kenya.(9marks)

b) Discuss the forms of horizontal integration.   (6 marks)

Question Four

a) Use an hypothetical example to explain the steps followed in developing a linear. **(6 marks)** programming problem.

b) Describe the types production responses that occur in an input-output relationship. **(9 marks)**

Question Five

a) Distinguish between institutional and functional approaches of agricultural marketing system.

(7 marks)

b) With the help of production possibility frontier model, explain:
   i) The marginal rate of transformation, and   **(4 marks)**
   ii) Marginal rate of product substitution.   **(4 marks)**