UNIVERSITY OF EMBU

INSTRUCTIONS:

Answer ANY Four Questions

QUESTION ONE (25 MARKS)

a) Discuss the behavioral systems approach as applied in the study of agricultural markets.

(10 marks)

b) Discuss the main problems involved in pricing of agricultural products in Kenya? (15 marks)

QUESTION TWO (25 MARKS)

Using relevant examples discuss the main determinants and related consequences of transactional costs in agricultural markets.   (25 marks)

QUESTION THREE (25 MARKS)

a) Explain the importance of spatial market integration analysis.   (10 marks)

b) An industry consists of two firms, each of which have variable costs of KES 10 per unit but no fixed costs. The industry inverse demand curve is $P = 70 - Q$.

i) Solve for the Cournot equilibrium. In doing so, derive the reaction function of each firm (Let Q_1 and Q_2 be the output of each firm). Solve for each firm's output, the market price, and each firm's profits. (4 marks)

ii) Plot the graph the reaction functions of each firm. (3 marks)

iii) Now suppose that firm 1 is a Stackelberg leader while firm 2 is a follower. Assume, as usual, that the follower behaves like a Cournot duopolist (that is, assumes that the leader's output is fixed). How will each firm behave (in terms of reaction functions)? What will each firm produce, what will the price be, and what profits will each firm earn? (5 marks)

iv) What will happen if this market is "contestable"? What conditions are necessary for contestability to be a real possibility? (3 marks)

QUESTION FOUR (25 MARKS)

Discuss the policies that that may be sanctioned by the state so as to address the variation in market bargaining power and impacts upon the competitiveness of agricultural markets due to horizontal and vertical integration. (25 marks)

QUESTION FIVE (25 MARKS)

a) Explain the benefits of horizontal and vertical integration in Sub-Sahara Africa Agricultural markets. (10 marks)

b) Discuss the role of public policies that are pro-establishment of farmer cooperatives and show if that has been successful in the economic, social & political platforms of developing countries. (15 marks)

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