MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF AGRICULTURAL SCIENCES

DEPARTMENT OF AGRICULTURAL EDUCATION AND EXTENSION

FIRST/SECOND YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF SCIENCE IN AGRICULTURAL EDUCATION AND EXTENSION

AGB 103/KBT209: PRINCIPLES OF AGRICULTURAL MICROECONOMICS

DATE: 24/7/2019 **TIME: 2.00-4.00 PM**

INSTRUCTIONS;

Answer **Question1** and **ANY TWO** other questions.

a) Define the following economics terms

i. Scarcity (1 mark)

ii. Marginal utility (1 mark)

iii. Opportunity cost (1 mark)

iv. Marginal rate of substitution (1 mark)

v. Elasticity of supply (1 mark)

vi. Marginal revenue (1 mark)

b) Differentiate between the following terms as used in economics

i. Normal good and inferior good (2 marks)

ii. Price ceiling and price floor (2 marks)

iii. Overt collusion and tacit collusion (2 marks)

iv. Change in quantity supplied and change in supply (2 marks)

v. Monopoly and monopolistic competition (2 marks)

vi. Positive externality and negative externality (2 marks)

vii. Indifference curve and isoquant (2 marks)

viii. Economies of scale and returns to scale (2 marks)

c) Explain four determinants of demand elasticity for agricultural commodities (4 marks)

d) Describe four axioms of rational choice (4 marks)

QUESTION TWO

a) The figures in the table below were taken from demand schedules of two goods.

i. Calculate the price elasticity of demand for each good (6 marks)

ii. Explain the meaning of elasticity values obtained for each good (4 marks)

iii. State what would happen to the total revenue from each good if the prices of both goods were increased (2 marks).

	Quantity1	Price1	Quantity2	Price2
Good 1	100	4	70	5
Good 2	25	6	15	5

b) Explain four factors that favor the existence of a monopoly (8 marks).

QUESTION THREE

a) Suppose just two weeks before the rainy season, the government of Kenya announces that it has signed a memorandum of understanding with government of India for purchase of green grams from Kenyan farmers. Explain, using a diagram, what may happen to equilibrium price and quantity of certified seeds of green grams (10 marks)

b) Supply of beef in Kenya is likely to remain constant over the next twenty years. Discuss the validity of this viewpoint (10 marks)

QUESTION FOUR

a) Using an appropriate diagram, explain how a monopolist maximizes profit (10 marks)

b) With the aid of a diagram, explain how changes in consumer income influence consumption of agricultural commodities under constant product prices (10 marks)

QUESTION FIVE

a) You have two inputs – labor and capital, and a fixed production budget. Explain how you would choose the optimal combination of these inputs to maximize output assuming competitive markets (12 marks)

b) With relevant examples, describe four types of demand for agricultural products(8 marks)