



MACHAKOS UNIVERSITY

University Examinations for 2019/2020 Academic Year

SCHOOL OF AGRICULTURAL SCIENCES

DEPARTMENT OF AGRIBUSINESS MANAGEMENT AND TRADE

FIRST YEAR SECOND SEMESTER SUPPLEMENTARY/SPECIAL EXAMINATION

FOR

BACHELOR OF SCIENCE AGRIBUSINESS MANAGEMENT AND TRADE

BACHELOR OF SCIENCE AGRICULTURAL EDUCATION AND EXTENSION

AGB 103/KBT 209 PRINCIPLES OF AGRICULTURAL MICROECONOMICS

Date: xxx

Time: 2hrs

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

QUESTION 1 (30 MARKS)

- a) Differentiate between the following terms as used in economics
- Price ceiling and price floor (2 marks).
 - Pareto optimality and Pareto superiority (2 marks).
 - Normal good and inferior good (2 marks).
 - Ordinal utility and cardinal utility (2 marks).
 - Positive externality and negative externality (2 marks).
- b) With examples or illustrations, expound on the following economics terms
- A classical production function (3 marks).
 - Marginal rate of technical substitution (3 marks).
 - Consumer surplus (3 marks).
 - The law of diminishing marginal utility (3 marks).
- c) Explain two types of collusion in an oligopolistic market (4 marks)
- d) Describe four properties of indifference curves (4 marks).

QUESTION 2 (20 MARKS)

- a) Expound on four reasons why perfect competition in some agricultural markets rarely exists in practice (8 marks).
- b) The figures in the table below were taken from demand schedules of two goods.

	Quantity1	Price1	Quantity2	Price2
Good 1	50	4	35	5
Good 3	7	5	7	6
Good 4	45	24	30	36

- i. Calculate the price elasticity of demand for each good (6 marks).
- ii. Explain the meaning of elasticity values obtained for each good (3 marks).
- iii. For each of the goods, explain what would happen to the total revenue earned from the good if the price of the good was increased (3 marks).

QUESTION 3 (20 MARKS)

- a) Explain the role played by agriculture in economic development in Kenya (8 marks).
- b) The Government of Kenya plans to set a maximum price of commercial fertilizers. Using a diagram, explain whether or not this policy change will be beneficial (12 marks).

QUESTION 4 (20 MARKS)

- a) Describe three types of returns to scale (6 marks).
- b) Explain two sources of economies of scale (4 marks).
- c) Using an appropriate graph, explain how a purely competitive firm maximizes profit (10 marks).

QUESTION 5 (20 MARKS)

- a) Demand for soda in Kenya will remain unchanged in the next thirty years. Discuss. (10 marks).
- b) Suppose there was a sudden severe drought in key dairy production zones of Kenya. Explain, using a diagram, the likely changes in equilibrium price and quantity of milk in the short run (10 marks).