MACHAKOS UNIVERSITY

University Examinations for 2019/2020 Academic Year

SCHOOL OF AGRICULTURAL SCIENCES

DEPARTMENT OF AGRIBUSINESS MANAGEMENT AND TRADE

FOURTH YEAR SPECIAL/ SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF SCIENCE IN AGRICULTURAL EDUCATION AND EXTENSION

BACHELOR OF SCIENCE IN AGRIBUSINESS MANAGEMENT

AGB 308: AGRICULTURAL PRICE ANALYSIS

DATE: 18/01/2021 **TIME: 2.00-4.00 PM**

INSTRUCTIONS;
Answer question one and any other two questions

QUESTION ONE (30 MARKS)

a) Define the following pricing terms;

i. Penetration pricing (1 mark)

ii. Psychological pricing (1 mark)

iii. Deceptive pricing (1 mark)

iv. Horizontal price fixing (1 mark)

b) Explain three limitations of price in an economy (6 marks)

c) Differentiate between a change and shift in demand (2 marks)

d) Outline four elements of the marketing mix (4 marks)

e) Suppose a market is faced by the following supply and demand functions; $Q_s = -5+3P$; & $Q_d = 10-2P$;

Determine the market clearing price & quantity (4 marks)

f) Explain five impacts of price volatility in an economy (10 marks)

QUESTION TWO (20 MARKS)

a) Describe five roles of prices in an economy (10 marks)

b) Explain four supply shifters (4 marks)

c) Outline three conditions necessary for effective price discrimination (6 marks)

QUESTION THREE (20 MARKS)

a) Explain five weaknesses of the market system (10 marks)

b) Highlight five assumptions underlying a perfectly competitive market (10 marks)

QUESTION FOUR (20 MARKS)

The dominant firm leader model is also called "the partial monopoly" model because the large firm behaves like a monopolist while the small firms are price-takers and therefore behave like the firms in pure competition. The dominant firm leader model is therefore a combination of the theory of pure competition and the theory of monopoly because (a) the small firms are assumed to accept the prevailing price and adjust their output levels to maximize profit like a perfectly competitive firm, and (b) the dominant firm knows the marginal cost (MC) curves of the small firms.

Assuming the supply curve of the small firms as a function of price (P) is $S=0.2P$, the cost function of the dominant firm leader is $C=2X$ and the market demand function is $D=50-0.3P$. Calculate;

a) The quantity the leader will produce to maximize its profits (5 marks)

b) The market price (5 marks)

c) The total quantity demanded (5 marks)

d) The quantity produced by the small firms (5 marks)

QUESTION FIVE (20 MARKS)

a) Sometimes, governments intervene in pricing activities in the economy. With the aid of a diagram, explain the concept of minimum price setting (10 marks)

b) Discuss five disadvantages of setting a minimum price in an economy (10 marks)