(Knowledge for Development)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2017/2018 ACADEMIC YEAR

SECOND AND FIRST YEAR FIRST SEMESTER
MAIN EXAMINATION
FOR THE DEGREES OF

BACHELOR OF SCIENCE IN AGRICULTURAL ECONOMICS
AND
BACHELOR OF SCIENCE IN AGRICULTURE AND BIOTECHNOLOGY

COURSE CODE: IAE 180 / SAB 280

COURSE TITLE: INTRODUCTION TO AGRICULTURAL ECONOMICS

DATE: 18TH JANUARY 2018   **TIME:** 2 – 4 PM

INSTRUCTIONS TO CANDIDATES
Answer BOTH questions in section A and any ONE each in sections B and C.

TIME: 2 Hours

This paper consists of 3 printed pages. Please turn over. ▶

SECTION A (30 MARKS)

Answer **BOTH** questions from this section.

1.   (a) Explain three resource allocation decisions that are made in any economy at any given period.   (6 marks)

       (b) Describe the characteristics of a free market system.   (4 marks)

       (c) Briefly explain the advantages of a planned economic system to a country.

       (5 marks)

       (d) Describe the relationship between "Opportunity Cost" and "Scarcity". (4 marks)

       (e) Explain the meaning of the terminology "**Production Possibility Frontier**".

       (1 mark)

2.   (a) Briefly explain the meaning of the concept "**Net Domestic Product**".   (2 marks)

       (b) Explain why a households' purchase of new housing units included in the investment components of GDP rather than the consumption component.   (2 marks)

       (c) Give **TWO** reasons why real GDP per capita is not a good measure of the standard of living for a nation.   (2 marks)

       (d) Distinguish between "**MONOPOLY**" and "**OLIGOPOLY**".   (4 marks)

SECTION B (20 MARKS)

Answer **ANY ONE** question from this section

3. (a) Suppose in a two-commodity market model the supply and demand functions are given as below:

$$Q_{s1} = -3 + 4P_1$$
$$Q_{s2} = -18 + 4P_2$$
$$Q_{d1} = 4 - P_1 + \frac{1}{2}P_2$$
$$Q_{d2} = 10 + P_1 - P_2$$

     (i) Giving valid economic reasons, Explain the relationship between the two commodities.   (4 marks)

     (ii) Using the functions provided, calculate the equilibrium values of prices and quantities.   (8 marks)

     (b) With the help of well-labelled diagrams, distinguish between price floors and price ceilings. What are the major consequences of each of these price control measures?   (8 marks)

4. (a) Define the law of demand and state the exceptions to this law.   (5 marks)

(b) Explain the factors that may shift the supply for maize in Kenya. (15 marks)

SECTION C (20 MARKS)

Answer **ANY ONE** question from this section

5. (a) Discuss the different approaches used in the measurement of the national income of a country. (8 marks)

   (a) The Economic Advisory Department of Ubantu has estimated that its country's marginal propensity to consume equals 0.6, investment in millions of shillings equals 2,000, government-spending equals 8,000, autonomous consumption equals 10,000 and net exports equals 1,000.

   (i) From the above data calculate the level of equilibrium of National income for Ubantu's economy. (4 marks)

   (ii) Explain, what would likely happen to the National income of Ubantu if its currency of depreciated. (4 marks)

   (iii) Explain the main problems associated with National income accounting in developing countries. (4 marks)

6. (a) Discuss briefly the theoretical relationship between money supply and inflation. (4 marks)

   (b) Discuss the main limitations of applying credit control instruments in a developing country. (8 marks)

   (c) Explain the role non-bank financial institutions play in economic growth and development of a country. (8 marks)