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(Knowledge for Development)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS 2019/2020 ACADEMIC YEAR

THIRD YEAR 2ND SEMESTER SPECIAL/SUPPLEMENTARY EXAMINATION

FOR THE DEGREE OF BACHELOR OF SCIENCE AGRICULTURE
ECONOMICS AND RESOURCE MANAGEMENT

COURSE CODE: IAE 382

COURSE TITLE: AGRICULTURAL MARKETS AND PRICE
ANALYSIS

DATE: 05/02/2021.

TIME: 8-10 AM.

INSTRUCTIONS TO CANDIDATES

Answer Question ONE and any other TWO Questions.

TIME: 2 Hours

This paper consists of 3 printed pages. Please Turn Over



KIBU observes ZERO tolerance to examination cheating

SECTION A (30 MARKS)

Answer ALL the questions from this section

1. (a) What is a right price? (2 marks)
- (b) Using suitable diagrams, briefly explain the differences between consumer surplus and producer surplus. (4 marks)
- (c) How is the price and quantity equilibrium determined in a competitive market structure? (4 marks)
2. (a) Explain the major weaknesses of partial equilibrium analysis (PEA) as a tool in price policy analysis? (8 marks)
- (b) Explain causes of market failure in sub-saharan Africa. (8 marks)
- (c) Differentiate between shadow exchange rate and official exchange rate? (4 marks)

SECTION B (40 MARKS)

Answer ANY TWO questions from this section.

3. With the aid of a well labelled graph, clearly illustrate and explain the welfare effects of a producer subsidy in an open economy. (20 marks)
4. In a move to halt runaway prices of basic commodities and also curb double digit inflation in Ethiopia, the horn of Africa country's government moved to set a price floor for 18 types of basic commodities in the first week of January 2011. The ministry of trade and industrialization (MOTI) has categorized 20 domestic items that will be covered in the controlling mechanism. From these are edible oil, pasta and Macaroni, meat, sugar, tealeaves, bananas, oranges and wheat flour are some of the main processed and unprocessed agricultural commodities. From imported items; edible oil, pasta and Macaroni, powder milk, rice and sugar will be controlled. MOTI also said the price of items described above cannot be adjusted without prior knowledge of the Trade bureau of the region and ministry of trade. Any business person shall display the price of the goods and services by posting such alist in a conspicuous place in his business premises or affecting place tags on the goods in a manner that includes custom duties, taxes and other lawful fees.

(Source: <http://www.capitalethiopia.com>)

Required:

- (a) What would be its effect on producers and consumers (6 marks)
 - (b) With the aid of a well labelled diagram, what would be its overall implication in distorting or improving the market? (10 marks)
 - (c) Explain the alternative solutions to achieve the same objective. (4 marks)
5. Kenya is contemplating to impose an import tariff on fertilizer.
- (a) With the aid of a graph, show the tax implications of such a policy on domestic producers and consumers. (3marks)
 - (b) Discuss the effects of such a policy. (6 marks)
 - (c) Using hypothetical figures, analyze the welfare effect with and without the import tariff imposition. (8 marks)
 - (d) Will the economy be better off or worse off? Explain (3 marks)