MASENO UNIVERSITY

UNIVERSITY EXAMINATIONS 2015/2016

SECOND YEAR FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF SCIENCE IN AGRICULTURAL ECONOMICS WITH INFORMATION TECHNOLOGY

MAIN CAMPUS

AEC 204: AGRICULTURAL ECONOMICS

Date: 8ᵗʰ January, 2016

Time: 2.30 - 4.30pm

INSTRUCTIONS:

- Carefully read and follow the instructions contained in the answer booklet(s) you have been provided with.
- This paper consists of TWO sections. Answer ALL the questions in Section A and any FOUR in Section B.
- Marks for each question are indicated in brackets against each question.

(i)   Use the graphical method to determine the equilibrium price.   (8 marks)

(ii)   Explain what would happen if the prices were set at Ksh 300 and Ksh 420 respectively.

                                                                              (3 marks)

(iii) What is the price elasticity of demand when prices change from Ksh. 300 to Ksh. 420.

                                                                              (2 marks)

(iv)   Interpret the coefficient calculated and explain whether the demand at this point is
       considered to be elastic or inelastic.   (2 marks)

SECTION B – ANSWER ANY TWO QUESTIONS

Q4. The following table shows a production relationship between input (X) and output (Y).Use
the information to answer the questions that follow.

X	Y
0	0
1	16
2	26
3	31
4	35
5	38
6	40
7	42
8	43
9	43
10	42

(i) Calculate MPP & APP at each level of output.   (5 marks)

(ii) Plot the TPP, MPP and APP curves. Show the 3 production regions.   (10 marks)

(iii) Briefly discuss each region in (ii) above and explain what a rational producer should do in
each region.   (5 marks)

Q5. A firm is faced with the following schedule of output and associated cost of production

OUTPUT	TOTAL COST
0	1000
1	1500
2	3500
3	4500
4	6500
5	8500
6	12000

Use the above information to answer the questions below:-

(i)   Compute the Total Fixed Cost and Total Variable Cost at each level of output (6 marks

(ii)   Compute the AFC, AVC and MC at each level of output.   (8 marks)

(iii) What levels of output would maximize profit at prices of 1000 and 3500 respectively.
       State the principles used to determine these output levels.   (3 marks)

(iv)   Compute the profit generated at the levels of output in (iii) above.   (3 marks)

                                                                              (4 marks)

Q6.a) What is oligopoly?

b) Using a well-illustrated diagram, show that a monopolist can make losses in the short-run
even when MC= MR.   (8 marks)

c) Using a well-illustrated diagram, explain why prices are "sticky" downward under
oligopolistic market   (8 marks)