

CHUKA



UNIVERSITY

**UNIVERSITY SUPPLEMENTARY/SPECIAL EXAMINATIONS.**

**FOURTH YEAR EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF  
SCIENCE IN AGRICULTURAL ECONOMICS**

**AGEC 333: AGRICULTURE PRICE ANALYSIS**

**STREAMS: AGECE Y3S1**

**TIME: 2 HOURS**

**DAY/DATE: TUESDAY 24/07/2018**

**2.30 P.M - 4.30 P.M**

**INSTRUCTIONS:**

- Answer ALL Questions in Section A and any THREE in Section B
- Do not write anything on the Question paper.

**SECTION A**

**QUESTION ONE**

- (a) In the late 1970s, world gasoline prices were rising rapidly and there was considerable public support for proposals to set a price ceiling and issue ration coupons. Supporters of rationing wanted the ration gasoline on the basis of “need,” but were not in agreement on how need could be measured for the actual distribution of coupons. Some bases for distribution include the number of cars a household has, the number of licensed drivers a household has, equally to all households or persons, and the number of miles each household must drive to work. Explain why some people would consider each of these bases unfair. Can you think of a method that you believe is clearly superior to any of the above methods? [10 Marks]
- (b) Describe how you can use Border Price as a benchmark in setting and evaluation domestic price. [7 Marks]
- (c) Identify the problems that might arise in using Border Prices as a benchmark in setting and evaluating domestic price. [8 Marks]

**SECTION B**

**QUESTION TWO**

- (a) Economists have argued that prices are the primary factors responsible for rationing of commodities while at the same time play a crucial allocative role. Succinctly discuss the rationing and the allocative role of prices as put forward by the different economists. [10 Marks]

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- (b) Discuss the advantages and disadvantages of price ceilings and price floors in an economy. [5 Marks]

**QUESTION THREE**

- (a) In reality even in those industrialized and “market-based economies”, there exist various forms of market failures that limit the price mechanism to be at play. Discuss the factors that inhibit the price mechanism in the economy. [10 Marks]
- (b) Transaction costs directly contribute towards the price chargeable to the consumer. Explain the factors that determine the transaction costs that are likely to be incurred in a market exchange. [5 Marks]

**QUESTION FOUR**

- (a) While giving the relevant examples, discuss what the role of farmers bargaining associations on the prices of agricultural produce. [5 Marks]
- (b) Tariffs are among the instruments of policy intervention by the government. Diagrammatically discuss welfare effects of a tariff. [10 Marks]

**QUESTION FIVE**

- (a) Discuss the effect of product transformation over space, time and form on the price of agricultural commodities. [8 Marks]
  - (b) Describe the circumstances under which the right price form. [7 Marks]
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