

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

FOURTH YEAR EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF SCIENCE IN AGRICULTURAL ECONOMICS AND BACHELOR OF AGRIBUSINESS MANAGEMENT

AGEC 455: NEW INSTITUTIONAL ECONOMICS

STREAMS:AGEC,AGBM Y4S2

TIME: 2 HOURS

DAY/DATE: TUESDAY 10/04/2018

2.30 P.M – 4.30 P.M

INSTRUCTION:

- **Answer ALL questions in section A and any three questions in section B**
- **Answer each question on separate pages**

SECTION A (25 marks) Answer all questions

1. (a) Define the following terms as used in the new institutional economics discipline
 - (i) Path dependence [2marks]
 - (ii) Action domain [2marks]
 - (iii) Moral hazard behavior [2marks]
 - (iv) Rent seeking [2marks]
 - (v) Adverse selection [2marks]
- (b) Discuss why market exchange in Africa are much costly, cumbersome, time consuming, and unpredictable than elsewhere in the world. [5marks]
- (c) The key point that emerges from an examination of institutional and economic development is that low income economies are characterized by situations with high transaction costs and risks, weak information flows and a weak institutional environment. Actors, particularly those with little financial and social resources or political leverage, then face high (all too often prohibitive) costs in accessing information

and the enforcing property rights. These costs inhibit both market development and access to existing markets. Discuss the most probable situation that may arise from these conditions. [5marks]

- (d) Differentiate between state led development and market-led development policies. Which of the two strategies would you recommend as agricultural policy maker? Give reasons. [5marks]

SECTION B: ANSWER ANY THREE QUESTION (45 MARKS)

2. (a) Property rights usually also refer to a bundle of rights. List three bundles of rights. [3marks]

(b) Explain the important determinants of success in collective action group from the context of agricultural institutions.

(c) Discuss the conceptual framework for institutional analysis. Indicate how the framework can be used to address the current situation in the milk industry in Tharaka Nithi county. [9marks]

3. (a) Institutions perform fundamental (and related) functions in social and economic interactions between actors. Discuss these major functions. [4marks]

(b) For economic development to be realized, institutions must change for the better. Succinctly explain the essential characteristics of institutional change that an organization must consider restructuring its operations.

(c) Describe the role of the following factors in lowering transaction costs.

(i) Contractual arrangements [2marks]

(ii) Regulation [2marks]

(iii) Social capital [2marks]

4. (a) Societal values can play a crucial role even in the absence of laws and regulation governing transactions. Describe the role of morality in market exchange. [5marks]

(b) Describe the evident NIE principles and concepts behind the formation of agricultural cooperative societies. [5marks]

(c) Describe the ways in which trust can be built in an exchange relationship. [5marks]

5. (a) Because of the opportunistic nature of human beings, any form of contract is only as good as the belief that it can be enforced.

- (i) Discuss the problem of contracting in African agricultural trade. [7marks]
- (ii) Explain the following as used in exchange of goods and services;
- (a) The concept of incentive –compatibility for self enforcement. [4marks]
 - (b) The personal trust [4marks]
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