2ND SEM. 2004/2005   PAGE 1 OF 3

124

UNIVERSITY OF SWAZILAND

FINAL EXAMINATION PAPER

PROGRAMME: BACHELOR OF SCIENCE IN AGRICULTURE
YEAR IV

AGRICULTURAL ECONOMICS AND
MANAGEMENT OPTION YEAR IV

COURSE CODE: AEM 409

TITLE OF PAPER: INTRODUCTION TO AGRIBUSINESS
MANAGEMENT

TIME ALLOWED: TWO AND A HALF (2½) HOURS

INSTRUCTION: 1. ANSWER ALL FOUR (4) QUESTIONS

2. ALL QUESTIONS CARRY EQUAL MARKS

**DO NOT OPEN THIS PAPER UNTIL PERMISSION HAS BEEN
GRANTED BY THE CHIEF INVIGILATOR**

QUESTION ONE
(a) With reference to an agribusiness of your choice:
(i) Outline its business plan. (3 marks)
(ii) Discuss the management factors that have contributed to the success or failure of this business. (10 marks)
(b) Explain the importance that feedback controls and financial statements have in the management of an agribusiness. (10 marks)
c) The major reason for failure in small businesses is poor management rather than the inability to undertake their prime function. Comment on the statement. (2 marks)

QUESTION TWO
Assume you are the Human Resources Manager of a large agribusiness company. Feedback suggests that many of the workers are unhappy and are looking for new jobs. Recent figures show productivity has fallen. You know that the Managing Director has said there will be no wage increases this year. What improvements could you suggest at the next management meeting, which would improve motivation and productivity? (25 marks)

QUESTION THREE
a) What is agribusiness? Discuss the different organizational forms that may be found in agribusinesses and their legal implications (10 Marks)

b) You are employed as the manager of a newly established Agribusiness and you are supposed to introduce new projects to facilitate the growth of the business. One of the projects is a dairy project. The decision you are faced with is " should you start with a small herd of cattle or you should start with big herd. The problem you are faced with is that you are uncertain with the market for milk.

Given the following information:

Alternative # 1. Starting with a big herd:
        The probability of a favourable market is 0.65 and the payoff is E20, 000
The probability of an unfavourable market is 0.35 and the payoff is
-E18, 000.
Alternative # 2. Starting with a small herd:
        The probability of a favourable market is 0.65 and the payoff is E15, 000
The probability of an unfavourable market is 0.35 and the payoff is
-E5, 000.

Alternative # 3. Not introducing the dairy project at all
        The payoff will be zero

i) Construct a decision tree and calculate the Expected Monetary Value (EMV) for the alternative actions (10 Marks)

ii) What decision would you take and why? (5Marks)

QUESTION FOUR

A survey of farmers on the access of farmers to credit was conducted and some of the findings indicated that farmers argue that banks are in some way reluctant to lend to the agricultural sector, although they are not prejudiced against any particular segment of population. Some advanced that it is well known that agricultural production is a biological process. Output doesn't flow regularly but comes in a series of bursts at specified periods in time. The study concluded that one has to consider that recurrent bad experiences in lending to agriculture to justify the sector being considered to be very risky. Besides there is need to take into account the fact that agricultural lending is affected by economic reasons which make it difficult for financial market to operate efficiently. Therefore, this is a case of market failure, as there are willing buyers and willing sellers, but they have to meet in a market where signals are imperfect and may be transmitted at cost. This market failure is a result of high transaction costs, adverse selection and moral hazard. Discuss these causes of market failure in the context of lending institutions and the agribusiness sector. (25 marks)