



1ST SEM. 2004/2005

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UNIVERSITY OF SWAZILAND

FINAL EXAMINATION PAPER

PROGRAMME: BACHELOR OF SCIENCE IN AGRICULTURE
YEAR V

AGRICULTURAL ECONOMICS AND
MANAGEMENT OPTION YEAR V

COURSE CODE: AEM 503

TITLE OF PAPER: AGRIBUSINESS MANAGEMENT

TIME ALLOWED: TWO AND A HALF (2½) HOURS

INSTRUCTION:

1. ANSWER ALL FOUR (4) QUESTIONS
2. ALL QUESTIONS CARRY EQUAL MARKS

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QUESTION ONE

- i) In conducting market transactions (i.e. spot market exchange), define three types of transaction costs associated with this form of market exchange (3 marks)
- ii) Define the concepts of bounded rationality and opportunism (6marks)
- iii) When conducting market exchanges, explain how each of these concepts (bounded rationality and opportunism) can lead to increased transaction costs (4marks).
- iv) Using both the human factors (bounded rationality and opportunism) and dimensions of a transaction (asset specificity, uncertainty and large (small) numbers situations), describe three predictions made by TCE with respect to Hierarchy and Markets choice (9)?
- v) Identify three potential limitations with the Transaction cost economic approach (3 marks).

QUESTION TWO

- a) Write short notes on the following:
- i) Pay back period (5 marks)
 - ii) Net present value (5 marks)
- b) One of the members of your community plans to engage in an agribusiness venture and has to choose between two investment opportunities. The initial investment and annual cash flows for each are listed in the table below:

| | Project A | Project B |
|--------------------|-----------|-----------|
| Initial Investment | -E10,000 | -E10,000 |
| Cash Flow 1 | E4,000 | -E2,000 |
| Cash Flow 2 | E6,000 | E10,000 |
| Cash Flow 3 | E8,000 | -E4,000 |
| Cash Flow 4 | E6,000 | E6,000 |

- i) Rank the two projects using the Modified Internal Rate of Return criterion if the cost of capital is 12%. (5 marks)
- ii) What is the payback period of each project? (5 marks)
- iii) Based on your answers, which project would you recommend and why? (5 marks)

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QUESTION TWO

A farmer is considering the purchase of a grain storage facility to store his grain crops. The cost is E1.50/tonne for an 18,000 tonnes storage facility, including the tank, loading pit and elevator, and unloading augur. He expects to fully utilize the facility and be able to market 18,000 tonnes annually for an additional E0.28/tonne. He estimates his after tax cash flows to increase by E4, 800 annually. Consider the terminal value of the investment to be 35% of initial cost received in the last year of the time horizon.

Evaluate this investment using the:

- (i) Net Present Value (using an 10 % cost of capital) over a 7 year time horizon (10 marks)
- (ii) Internal Rate of Return (10 marks)
- (iii) What would be your advice to the farmer? (5 marks)

QUESTION THREE

Contract farming is regarded as a means of improving smallholder farmers' by linking them with large producers and processing firms under some form of contractual arrangements. Discuss the different types of contracts and their implications to the smallholder farmers. (25 marks)

QUESTION FOUR

Small businesses do not have to compete on price alone. Explain how all the components of the marketing mix have their role to play in the owner-managed business (25 marks).

QUESTION FIVE

- a) What do you understand by the term *supply chain management*, and what principles underlie its rapid recent adoption? (10 marks)
- b) Discuss the major decision areas in supply chain management that are of concern to agribusiness managers. (15 marks)