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SUPPLEMENTARY 2005/2006 EXAMINATION

UNIVERSITY OF SWAZILAND

PROGRAMME: DEGREE IN AGRICULTURE (AEM OPTION) IV
DEGREE IN AGRICULTURAL EDUCATION IV

COURSE CODE: AEM 408

TITLE OF PAPER: AGRICULTURAL MARKETING

TIME ALLOWED: TWO (2) HOURS

INSTRUCTION: ANSWER ALL THREE (3) QUESTIONS

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QUESTION ONE

a. The market for mealie meal in this country behaves as follows: Government has set the price at E3.00/kg and the quantity demanded is 1000000 (one million kg) per year. There are five companies in the market, each selling exactly 20% of the total quantity. The five companies' products are identical and cost each company E2.00 each to produce. Early this year, one of the companies (call it company A) differentiated its product by adding a secret ingredient to it which costs E0.30 per kg. As a result of the differentiation, the total share of this particular company's sales increased to 40%, at the expense of the four other companies whose respective market shares dropped from 20 to 15% each.

With the industry in uproar over the shift away from equal shares of the market, company A's CEO offered to tell what the secrete ingredient was if each company would pay him E35000 (thirty-five thousand emalangeni), reasoning that each other company could double its sales, just as his company (A) had, and would therefore be more willing to pay the E35000. Discuss the fallacy here and offer advice whether the other four companies should accept A's offer.

(20 Marks)

b. In his study of vegetable market in the country, Mr. Twala solicited information on prices and quantities of cauliflower from 80 randomly selected vegetable sellers in Mahlanya. His analysis revealed that above the price of E4.00 per unit of cauliflower, demand is slightly inelastic, while below the price of E4.00 demand is slightly elastic.

(i) Graphically illustrate what might the demand for the cauliflower look like.

(10 Marks)

(ii) If Mr. Shongwe, one of the sampled farmers approaches Mr. Twala for an advice with regards to how he can maximize his total revenue by either raising or lowering the price, what should Mr. Twala tell him? Use the graph you have just produced to illustrate your points.

(10 Marks)

QUESTION TWO

a. Assume two separate areas within Swaziland, an urban area (Manzini) and a rural area (Hathikulu) both of which produce and consume a staple food crop such as maize. The areas are subject to different demand and supply forces in their maize markets. The Manzini area is densely populated with a high level of maize demand and a relatively low level of production. By contrast, the Hathikulu is less densely populated and has favourable production conditions such that at any given price demand for maize is relatively low and supply is relatively high compared to that in Manzini area. Using two separate graphs and related description, illustrate how the free –market price differentials between the surplus and deficit areas could be eliminated.

(20 Marks)

b. A common form of government intervention such as maize pricing policy adopted by National Agricultural Marketing Board of Swaziland could lead to efficiency loss of pan-territorial pricing you have just described above. Why?

(10 Marks)

QUESTION THREE

a. Assume Swaziland which imports maize from south Africa decides to impose a quota on maize imports from South Africa. With the aid of graphs, describe the effects of the quota on producers and consumers in Swaziland.

(20 Marks)

b. Suppose that relatively capital is abundant in South Africa while land is abundant in Swaziland. If these two countries trade, each specialising in the good it has a comparative advantage in, what will happen to the prices of the resources (capital and land) in the two countries?

(10 Marks)