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**UNIVERSITY OF SWAZILAND**

**FINAL EXAMINATION PAPER**

**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. Assume two separate areas within Swaziland, an urban area (Manzini) and a rural area (Hathikulu), both of which produce and consume maize - a staple food crop. 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 area 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.

- i. What initial conditions must be fulfilled before the two separate markets can be regarded as one large market? **(5 Marks)**
- ii. Graphically, describe how the equilibrium prices in the two areas would move together so that a new single equilibrium price could emerge. **(10 Marks)**
- iii. Comment and give reasons whether or not the prices in the two areas would fully converge to one single price.

**(5 Marks)**

b. Assume Mr Simelane is the only dairy farmer in your village and that no other person is permitted to sell any dairy products to the people in your village besides him. Mr Simelane being the only producer can administratively set his price. His price can range between two limits, one being very high and the other being on the low side. The question is what will guide the choice of Mr Simelane if he wants to maximize profit? Also, describe what could prompt Mr Simelane to set his price far lower than the profit-maximizing price level you have just indicated. In your answers, use well-labelled graphs indicating the market demand, marginal revenue, and marginal and average costs curves faced by Mr Simelane to describe the situation.

**(15 Marks)**

c. The profit-maximizing equilibrium price for Mr Simelane's product in question 1b leaves marginal cost below price. Explain why this is inefficient from societal perspective.

**(5 Marks)**

**QUESTION TWO**

The following is an excerpt of a speech delivered by the Minister of Agriculture and Cooperatives, Mr Mtiti Fakudze that appeared in the Times of Swaziland – Tuesday, January 3, 2006.

‘The time has come for government to let market forces regulate the local maize prices as is the case in neighbouring South Africa and in other African countries. It is pointless to continue with regulating the price because it should be market forces that do so and this would allow the National Maize Corporation (NMC) to purchase maize from local farmers at a more competitive price’.

Elaborate in detail the significance of this major change in the marketing-policy of the ministry to the overall efficiency of maize marketing in the country.

**(30 Marks)**

**QUESTION THREE**

The following article with the caption ‘**Price of milk too low –Dairy Farmers**’ is taken from the Times of Swaziland, Thursday, May 26, 2005 issue.

**Mbabane** – Dairy farmers are complaining about the low price of milk in the country. According to Loduma Dlamini from Lubombo Agricultural Dairy Farmers Association, they have not been selling their milk to Parmalat Swaziland because they receive more money selling the milk in their communities and surrounding areas. Dlamini disclosed that they sell their milk at E4.50 to E5.00 per litre. Investigations conducted by the Business Desk revealed that at moment, for those without contracts, Parmalat Swaziland (PTY) Ltd purchases milk from local dairy farmers at E2.22 per litre.

‘Demand for our milk in our area is very high, such that it would prove costly for us to sell our milk to Parmalat because its price is too low. This company buys milk at an amount that is even less than half of what we charge. We have not spoken to the company’s management because the problem is not only with us locals but even in South Africa, it is the same issue’

What do you think, if at all there are any concerns of the farmers and why so?

**(30 Marks)**