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**UNIVERSITY OF SWAZILAND  
FINAL EXAMINATION PAPER**

**PROGRAMME: DEGREE IN AGRICULTURE (AEM OPTION) V**

**COURSE CODE: AEM 501**

**TITLE OF PAPER: AGRICULTURAL POLICY**

**TIME ALLOWED: TWO (2) HOURS**

**INSTRUCTION: ANSWER ALL THREE (3) QUESTIONS**

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GRANTED BY THE CHIEF INVIGILATOR**

**PAGE 2 OF 3****QUESTION ONE**

- a. Any country's policy towards the agricultural sector as a whole or towards one particular interest group such as food consumers, grain producers or fertilizer manufacturers can be characterized as consisting of three sets of elements, (1) objectives, (2) instruments of policy, and (3) rules for operating instruments of policy. Using an example of your own policy statement, elaborate the relationship between these three variables.

**(15 Marks)**

- b. With the aid of graphs, describe thoroughly the welfare cost and benefits of an agricultural input-subsidy policy instrument which is commonly used by developing countries. In your answer, explain what is meant by the terms, producer surplus, resource cost and welfare or deadweight economic loss. Bearing in mind that the policy instrument permits savings of foreign exchange, provide an alternative route for estimating the deadweight loss from the subsidy policy.

**(15 Marks)**

- c. Explain why the efficiency criterion is not good enough on its own during decision making by policy makers.

**(10 Marks)**

**QUESTION TWO**

- a. Despite differences in policy choice and priorities, African countries have stressed the great importance of agriculture both in their official pronouncements and in their development plans. These plans, in almost identical terms, acknowledge the overriding need to increase and diversify agricultural output, to achieve self-sufficiency in food supply, to ensure food security at both national and household levels, and to raise rural income and living standards. Although these stated policies for increasing food production reflect a growing commitment to the agricultural sector, it has been observed over the years that the implementation of these policies is often thwarted. Discuss the main reasons for this.

**(10 Marks)**

- b. Historically, nations throughout the world have argued for a special policy towards farmers. Elaborate and explain the reasons for this.

**(10 Marks)**

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- c. Suppose there are two groups of smallholder farmers, respectively, growing bananas and rice in a contiguous sloppy piece of land in Hlathikulu. The rice is grown on the plain while the bananas are grown on the slope above the plain. Both groups of farmers face a competitive market conditions. However, in producing the bananas, the market fails to take into account an external cost of E75.00 per ton caused to the rice farmers. This cost arises from loss of top soils, washing away of fertilizer and damage of young rice plants which in turn results from the activities of the banana farmers such as clearing the hills of the forest in the raining season leading to rapid runoff of rain. Is government intervention needed in this case, and if so, using a graph to illustrate your answer what policy instrument should the government use?

**(10 Marks)**

**QUESTION THREE**

- a. Assume you participated in the recent national agricultural policy formulation process held in 2004. During the deliberations, the lead person kept on reminding all the participants to be aware of the economic concept of the 'fallacy of composition'. Describe this concept of fallacy of composition and give an example of a misconception in a proposition made by some group of the participants which could have been bedeviled by this fallacy had the lead person not promptly intervened.

**(15 Marks)**

- b. During a recent visit of your minister of agriculture and cooperative to United States, he had various discussions with agricultural policy makers in that country regarding different agricultural programs. The crop-limitation programs of USA government such as acreage allotments or crop quotas to each farm seemed to have fascinated him most. Now that he is back in the country, he is canvassing seriously among his cabinet colleagues for the implementation of such programs among smallholder maize farmers in this country. As an agricultural policy student, give reasons as to why you would oppose to the minister's idea. In your discussion, also, use a well labeled graph to demonstrate the likely impact of any of such programs on the smallholders' income.

**(15 Marks)**