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UNIVERSITY OF SWAZILAND

FINAL EXAMINATION PAPER

PROGRAMME: DEGREE IN AGRICULTURE (AEM OPTION) V

COURSE CODE: AEM 509

TITLE OF PAPER: AGRICULTURAL FINANCE

TIME ALLOWED: TWO (2) HOURS

INSTRUCTION: ANSWER ALL THREE (3) QUESTIONS

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QUESTION ONE

a.   During the restructuring of the courses offered by the Department of Agricultural Economics and Management, there was a heated debate about the need to maintain agricultural finance as one of the courses in the new four year degree programme. Colleagues who were in favour of its removal were of the opinion that such a course is irrelevant to the needs of the country since the country's agriculture is dominated by smallholder farmers who make very minimal use of cash in their farming systems. Would you personally argue for its removal or not? Give reasons to support your choice of answer.

(20 Marks)

b.   In finance management, it is recommended that managers in specifying their primary business goal which is assumed to be profit maximization should pay particular attention to risks involved in doing business. Explain how this can be accommodated by the managers.

(10 Marks)

c.   Discuss reasons for the increased importance of accurate capital investment analysis in agriculture and also describe the four steps in capital investment analysis.

(10 Marks)

QUESTION TWO

a.   Differentiate between amortized, partially amortized, and non-amortized loans, and describe the circumstances under which partially amortized or non-amortized loans would be more appropriate for the borrower's need.

(10 Marks)

b.   The cash flows in emalangeni (E) of three machines A, B, C, over a five year period are presented in the Table 1.

      i.   Calculate the NPV's of the respective machines using a discount rate of 10%.

      ii.   Estimate the internal rate of return for each of the machines.

      iii.   Which of the machines would you select using the NPV and IRR criteria, respectively?

(20 Marks)

Table1. Cash Flows of three Machines

Year	Machine A	Machine B	Machine C
0	- 10,000	- 10,000	- 10,000
1	2500	3000	7000
2	2500	2500	1000
3	2500	2500	1000
4	2500	2000	1000
5	2500 (SV=2000)	2500 (SV=3000)	2500 (SV= 2000)

QUESTION THREE

a. What are the 'three Rs of credit,' and how are they used to document the credit capacity of a farm business?

(15 Marks)

b. Risk-bearing ability and the capability to manage risks are necessary because of different kinds of change or uncertainty faced by farmers. Describe four major types of risk and uncertainty in agriculture and give an example of each in this country.

(15 Marks)