



UNIVERSITY OF SWAZILAND

FINAL EXAMINATION PAPER

1st SEMESTER 2008/2009

- PROGRAMME:** BSc. AGRICULTURAL ECONOMICS & AGRIBUSINESS MANAGEMENT
- COURSE CODE:** AEM 403
- TITLE OF PAPER:** AGRICULTURAL MARKETING
- TIME ALLOWED:** TWO (2) HOURS
- INSTRUCTIONS:** Candidates are required to answer QUESTION 1 and any other TWO of the **THREE** remaining questions.

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QUESTION 1

- a) Suppose in June 2008, Company X could purchase maize in the cash market for E2400/ton while the relevant futures contract is trading for E2550/ton. Knowing that the company will need maize at a later date and wants to protect against a price increase, Company X decides to hedge using the futures market. In December 2008, Company X decides to purchase maize for producing animal feed from the cash market for E2650/ton and sell back its futures for E2700/ton.

As an Economist, would you advise other companies to emulate the move made by Company X, if the commission for a broker is charged at E10? Show all your evidence. **[15 marks]**

- b) Mr Lubhedze intends to go into commercial baby vegetable production and has approached your consultancy firm for expert advice. His visit comes after learning from one of the local radio programmes that contract farming is one method of reducing risks normally faced by commercial producers. The reason Mr Lubhedze has approached your firm is that he is not quite sure of the difference between a marketing contract and a production contract. Discuss how you would explain the difference between the two to your client? **[15 marks]**
- c) Efficiency in the food industry is the most frequently used measure of market performance. Identify and discuss two measures of market efficiency used to analyse agricultural markets. **[10 marks]**

QUESTION 2

- a) With the aid of a diagram describe what effect an increase in the price of mealie meal would have on the price movement of rice over a period of years, assuming the market demand for rice is more elastic than market supply. **[15 marks]**
- b) Discuss the major factors that would normally cause a shift in the boundary line between two adjacent market centres. **[10 marks]**
- c) Mordecai Ezekiel discovered the cobweb theorem, which he later advanced based on several assumptions. State the essential assumptions of the cobweb model. **[5 marks]**

QUESTION 3

- a) Using illustrations, describe how the producer price and quantity produced of any commodity is determined in a monopolistic market. **[20 marks]**

- b) Differentiate between price discovery and price determination. **[5 marks]**

- c) The storage decision rule is sometimes summarized as follows:
 $P_2 - P_1 > SC_{12}$. Discuss the full meaning of this expression, highlighting the type of agricultural commodities to which the decision rule applies. **[5 marks]**

QUESTION 4

- a) What is the rationale for having commodity support programmes in the agricultural sector? **[5 marks]**

- b) Why would any country decide to effect agricultural price controls? Discuss what effects such a programme would have on the country's economy. **[20 marks]**

- c) Discuss the concept of price discrimination. **[5 marks]**