KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2010/2011

SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR SCIENCE (AGRIBUSINESS MANAGEMENT AND TRADE)

KBT 207: AGRIBUSINESS PRICE ANALYSIS AND FORECASTING

DATE: FRIDAY, 1ST APRIL 2011 **TIME: 8.00 A.M. - 10.00 A.M.**

INSTRUCTIONS: Answer Question ONE and any other TWO questions.

1. a) What are the uses of consumer price index? (4 marks)

b) What is the purpose of forecasting agricultural prices? (4 marks)

b) Briefly explain the likely impact of an increase in technology of prices of commodities. (5 marks)

c) Differentiate between

(i) Point and arc elasticity

(ii) Price determination and price discovery

(iii) Cyclical and seasonal price movements (6 marks)

c) Why would a firm in pure competition never want to spend any money in advertising its products? (3 marks

d) Suppose the market for milk is purely competitive with an industry demand given by the following expression, $Q = 500 – 3p$. The short run supply schedule of the industry is summarized as follows: $Q= -3 + 8p$. What are the equilibrium price and quantity in this market? (5 marks)

e) Explain how Government forecast of a low price for eggs could be acted on by farmers in such a way as to cause higher egg prices. How does your answer modify the assumption of the cobweb theory? (6 marks)

f) What are the likely end results of the polyopolist market structure? (8 marks)

2. Discuss the economic functions of price. (15 marks)

3. From the data below and using 2008 as the base:

Item	2008		2009		2010	
	Price	Quantity	Price	Quantity	Price	Quantity
Maize	200	25	300	30	500	28
Rice	300	15	400	20	200	25
Cooking oil	1500	4	2000	3	300	4

a) Calculate

(i) Lasperyre's price index

(ii) Paasche's price index

(iii) Fisher's index number (9 marks)

b) What are the limitations of using a base year in calculating price index numbers? (6 marks)

4. Below are figures of prices (in Kshs/tone) of sugar.

Year	2003	2004	2005	2006	2007	2008	2009
Price	80	90	92	83	94	99	92

a) Using the data

(i) Compute the regression line defining the trend in rural prices of sugar. (7 marks)

(ii) Estimate the likely price for sugar in the years 2010 and 2010. (4 marks)

(iii) Comment on your results. (2 marks)

b) What is the advantage of using regression method to fit a price trend? (2 marks)