JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCHOOL OF AGRICULTURAL AND FOOD SCIENCES

THIRD YEAR SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF SCIENCE IN AGRIBUSINESS MANAGEMENT 2016/2017ACADEMIC YEAR

REGULAR

COURSE CODE: AAE 3324

COURSE TITLE: AGRICULTURAL PRICE ANALYSIS

EXAM VENUE: LAB 5 **STREAM: BSC. AGRINUSINESS MANAGEMENT**

DATE: 28TH APRIL, 2017 **EXAM SESSION: 9.00 – 11.00 AM**

TIME: 2 HOURS

Instructions:

1. **Answer ALL questions in section A and ANY other 2 Questions in section B**
2. **Candidates are advised not to write on question paper.**
3. **Candidates must hand in their answer booklets to the invigilator while in the examination room.**
4. **Candidates are advised to carry a scientific calculator.**

SECTION A **[30 MARKS]**

Answer ALL questions in this section

1. Briefly explain the terms Parity pricing and Predatory pricing **(3marks)**

2. Explain the meaning of commodity **(2marks)**

3. Differentiate between commodity exchange and futures contract **(3marks)**

4. Using relevant examples, explain briefly the concept of marketing channels **(3marks)**

5. Citing examples, differentiate between soft commodities and hard commodities **(3marks)**

6. Explain the meanings of Loss leaders and Competitive pricing **(3marks)**

7. Differentiate between Marginal costs and Total costs **(3marks)**

8. Identify the trends that shaped agricultural pricing in the near recent past **(4marks)**

9. The concept of Hedging is an important concept in pricing. Explain **(4marks)**

10. Identify the factors for premium pricing of agricultural products **(2marks)**

SECTION B **[40MARKS]**

Answer ANY TWO questions from this section

1. (a**)** Let's say corn is trading at $5.00 per bushel. Joe produces 5,000 bushels of corn but is worried about the price falling before he can sell it. He wants to create a "price floor" so if prices do fall, he will be able to sell his corn at a minimum price. His per bushel cost of production this year is $3.00 so he would like to "lock in" a worst case scenario for this year's crop at $4.70 per bushel. Since he is worried about falling prices, he wants to purchase one put option (each option controls 5,000 bushels). He calls his broker to purchase one corn put option that expires six months in the future and costs him 30 cents or $1,500 before commission and fees (5,000

bushels/contract x $0.30 = $1,500).Required; calculate the maximum risk and maximum reward **(10marks)**

(b) Discuss the determinants of the quantity of marketable surplus **(10marks)**

2. Kenya has in the recent past experienced conditions of glut in agricultural production. Lately in the past couple of months drought was declared a national disaster. Suppose you have recently graduated and has been posted to Busia County as the County director in charge of agribusiness. Using graphical illustration, advice the governor on how well the TWO extreme conditions can be addressed **(10 marks)**

(b) List and clearly explain the factors that affect the choice of distribution channels in agricultural pricing decisions **(10 marks)**

3. (a) Discuss the role of cooperative societies as marketing tool for agricultural commodities **(10marks)**

(b) The Law of demand is fundamental in explaining the behavior of commodity markets. Explain **(10marks)**