Uva Wellassa University

Faculty of Animal Science & Export Agriculture
Uva Wellassa University

Year II Semester I
End Semester Examination - January 2008

Principles of Agricultural Economics (EAG 212-3)

Instructions

Answer **five** (5) questions selecting **three** (3) **questions from part one** (I) **and two** (2) **questions from part two** (II)

No. of questions : Seven (07)
No. of pages : Three (03)
Time : Three hours (3 hours)
Total marks allocated : 100%

Part One (I)

1.

a. Show that $MU_x = P_x$ where MU_x is the marginal utility of good x and P_x is the price of good x.

b. Derive constant expenditure demand curve and constant utility demand curve for normal goods from indifference curves.

c. Show why, if the consumer is to be in equilibrium, the marginal rate of substitution good X for good Y must equal the ratios of the price of good X to the price of good Y.

d. A consumer's utility function is

$$U = 20xy$$

Where U is the consumer's utility (in utils) x is the amount of good x consumed per month, and y is the amount of good y consumed per month.

If the consumer is consuming 5 units of good y per month, what is the marginal utility of good x ?

(05 marks for each section)

2.

a. What are the differences between explicit and implicit costs? Why do economists bother with implicit cost?
b. What are the differences between private and social costs? Illustrate your answer with cases of environmental pollution.
c. What is meant by pure economic profit and how is it graphically shown?
d. The total cost function of tomato production has been found as

$$C = 16.68 + 0.125Q + 0.00439Q^2$$

Where C (cost) is in rupees (Rs) and Q (output) is in kilograms (Kg). The market price of the product is 15 Rs per Kg (15Rs/Kg).

Find

i. Cost minimizing output level
ii. Profit maximizing output level

(05 marks for each section)

3.

a. What are the properties of an isoquant?
b. Explain the law of diminishing marginal returns.
c. Show that a firm will maximize output – for a given outlay – by distributing its expenditures among various inputs in such a way that the marginal product of a Rupee's worth of any input is equal to the marginal product of a Rupee's worth of any other input that is used.
d. Discuss the meaning of the production function. What is the short-run and what is the long-run. How does the production function in the short-run differ from that in the long-run?

(05 marks for each section)

4. Briefly explain
   a. Property rights in economics
   b. Stages of the production
   c. Break – even point
   d. The expansion path
   e. Budget constraint

(04 marks for each section)

Part Two (II)

5.
   a. Explain two risk return evaluation statistics.
   b. Find which investment is the best investment and explain why it is so.

State of Nature	Probability (P)	Outcome (X)
	Investment No 01	
No inflation	0.2	1000
Moderate inflation	0.5	2000
Rapid inflation	0.3	4000
	Investment No 02	
No inflation	0.2	1500
Moderate inflation	0.5	2000
Rapid inflation	0.3	2500

   c. Discuss three risk management strategies.
   d. How will you explain the market for insurance?

(05 marks for each section)

6.
   a. Explain the Aggregate Supply under Classical and Keynesian assumptions.
   b. "Increasing Aggregate Demand will not be effective under Classical Aggregate supply assumptions", explain.
   c. What are the supply side economic policies?
   d. Explain that the supply side economic policies are better with any assumption on the Aggregate Supply curve.
   e. Cutting taxes will have dual impact on economy. Do you agree with the above statement? If yes/no, give reasons.

(04 marks for each section)

7. Write short notes on any **five (5)** of the following
   a. Unemployment
   b. Inflation
   c. Philips Relationship
   d. Business Cycles
   e. Monetary Policies
   f. Fiscal Policies
   g. Prisoners' Dilemma
   h. Cooperative Games

(04 marks for each section)