(*Knowledge for Development*)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS
2015/2016 ACADEMIC YEAR

SECOND YEAR 2ND SEMESTER
MAIN EXAMINATION

FOR THE DEGREE OF BACHELOR OF SCIENCE INAGRICULTURAL ECONOMICS & RESOURCE MANAGEMENT

COURSE CODE: IAE 288
COURSE TITLE: AGRICULTURAL FINANCE & ECONOMETRICS

DATE: 6TH MAY 2016 **TIME:** 9AM – 11AM

INSTRUCTIONS TO CANDIDATES

Answer all Questions in section A and any other two (2) Questions in section B.

TIME: 2 Hours

This paper consists of 2 printed pages. Please Turn Over

KIBU observes ZERO tolerance to examination cheating

SECTION A = 30 MARKS

Q1.

a) Explain any three economic principles of financial resource management in the farm. **(6 marks)**

b) Discuss the roles of a financial manager. **(10 marks)**

c) Discuss the significance of the stochastic disturbance (error term) in econometric analysis. **(10 marks)**

d) Differentiate between regression and correlation. **(4 Marks)**

SECTION B = 40 MARKS

Q2. a) Explain how farmers can overcome or prevent the risks and uncertainties that confront them. **(10 marks)**

b) Given that Unga Feeds is willing to issue dairy feeds on credit worth Ksh. 40,000, and give a credit condition of 2/10, n-30 days. How much will the manager pay in case he makes payment;-

i) Within 10 days? **(4 Marks)**

ii) After three months ? **(6 marks)**

Q3.

A manager of Molo farm expressed the following scenario for his investment in two hectare farm.

His forecast	Maize enterprise		Wheat enterprise	
Economic conditions	Profit level	probability	Profit level	probability
Best(optimistic)	15,000	30%	20,000	10%
Most likely(average condition)	12,000	40%	15,000	60%
Worst(pessimistic)	9,000	30%	10,000	30%

Additional information

The three forecasts (best, most likely and worst) relate to weather and national economic conditions. Under good conditions the manager is optimistic. Under normal conditions, most likely results, and in worst or poor conditions the manager is pessimistic.

Required

- **a)** Use coefficient of variation to advise the manager on the level of risk involved in each enterprise. **(10 marks)**
- **b)** Do the value of coefficient of variation and the choice of a given enterprise reflect the manager's levels of risk aversion? Discuss. **(10 marks)**

Q4.

Discuss the methodology of econometric research and desirable properties of an econometric model. **(20 marks)**