

University of Melbourne - Dookie Campus

Advanced Diploma of Agriculture

207172 – Rural Economics

Assessment No. 2
Thursday, November 6th.

Sem 2 2003
3 hours

Total Marks 100

Examination No. _____

Unit Convenor: R. Gall
Panel Members: J. Heaps, J. Wellman

Examination Instructions: Read carefully

You are to answer all questions on the answer sheet provided.

You should circle the most correct answer for each question.

The answer sheet should be completed showing:

- . Student number
- . The date

This question paper is to be handed in.

PART B - SHORT ANSWER QUESTIONS – Answer 8 of the Following Questions
8 QUESTIONS X 5 MARKS = TOTAL 40 MARKS

1. Define cross elasticity of demand. When is it likely to be negative and when is it likely to be positive?
2. What is meant by income elasticity of demand? Differentiate between a normal and inferior good
3. Comment on the circumstances when a country would be said to have an
 - (a) absolute advantage
 - (b) comparative advantage
4. Why is an individual producer in pure competition a price taker?
5. Explain how each of these contributes to the farm problem
 - (a) inelasticity of the demand for farm products
 - (b) rapid technological progress in farming
6. How does the production possibility frontier illustrate the concept of opportunity cost? Demonstrate the change in opportunity cost on a diagram.
7. Explain the law of demand in terms of diminishing marginal utility, discussing a price increase as part of your explanation.
8. What are economies and diseconomies of scale? Use the concepts of economies and diseconomies of scale to explain the shape of the firm's long-run Average Total Cost curve.
9. Explain why products with elastic supply will have more stable prices than those with inelastic supply.
10. Briefly discuss the impact of the recent increases in the exchange rate on Australia's agricultural exports.

PART C – Choose 5 of the Following Questions

Each Question is worth 9 marks = 5 QUESTIONS X 9 MARKS = 45 MARKS

1. The preferences of an individual who consumes only two goods (Beer and Pizza Slices) over a week have been analysed and are presented below:

Indifference 1		Indifference 2		Indifference 3	
Beer	Pizza Slices	Beer	Pizza Slices	Beer	Pizza Slices
1	50	5	60	10	60
5	30	10	40	15	45
10	20	15	30	20	36
15	15	20	24	25	30
20	12	25	20	45	18
25	10	35	15	55	15
55	5	55	10	70	12
70	4	75	8		

- a) Please draw the schedules. (2 Marks)
- b) Calculate the marginal rate of substitution on:
I₁ between Beer = 5 and Beer = 10 (1 mark)
I₂ between Beer = 15 and Beer = 20 (1 mark)
I₃ between Beer = 20 and Beer = 25 (1 mark)
- c) Draw the budget constraint for:
Income = \$60, when Beer = \$2 and Pizza Slices = \$2 (1 mark)
Income = \$110, when Beer = \$2 and Pizza Slices = \$3 (1 mark)
In each case, at what level of consumption of beer and pizza is the consumer maximising satisfaction? (3 marks)

OR

2. Explain the concept of international trade. How does a tariff on a particular imported good affect the domestic price of the good, the export price, the quantity imported, and the quantity of the good produced domestically? Explain your answer with the aid of a diagram. You should also comment on the arguments for and against protection.

OR

3. Over the years there have been many schemes introduced as part of Australian agricultural policy to stabilise or support agricultural producers' incomes. Most of these schemes have involved some manipulation of prices. On the other hand economists argue that prices should not be tampered with.

Discuss why these policies have been introduced and comment on whether you agree or disagree with traditional economists views. You should use examples in your answer.

OR

4. Explain the following price stabilisation schemes in detail:
- (a) buffer stock scheme
(b) buffer fund scheme

OR

5. Discuss the Farm Problem commenting on the factors which affect the supply of and demand for Australian farm products and explain how they may contribute to the instability of farm prices. You should comment on the significance of price and income elasticity of demand and price elasticity of supply in your answer.

OR

6. Discuss whether or not you believe that traditionally farmers have been good marketers of their products. You should comment on how you believe marketing can assist farmers ensure their long-term viability.

OR

7. What are some of the major factors that agricultural producers need to take into account when considering the distribution of their products? In your answer you should comment on some of the major differences between marketing and distributing agricultural products and other products.

OR

8. Many Australian products are heavily reliant on sales on the export market. What problems does this create in marketing Australian rural products and why?