STANDARDHIGHSCHOOL-ZZANA

ADVANCEDAGRICULTURE

PRINICIPLESOFAGRICULTUREECONOMICSANDFARMMANAGEMEN

Economicsishowscarceresourcesareallocatedtosatisfyunlimitedhuman needs/wants

ThereforeagricultureEconomicsisthestudyofhowmanusesthescarceresources e.g.land,capital,managementetctoproducemaximumoutputfromcropsand animalsatminimumcosts.

# IMPORTANCEOFAGRICULTURALECONOMICS

Itassiststhefarmertomaximizeprofit

Itenablesfarmerstomakeproperchoiceonresourcessincetheyarescarce

Itenablesfarmerstominimizecostsofproduction

Ithelpsfarmerstoproducehighyields/output

Ithelpsfarmerstoallocateresourceseffectivelytoavoidlossesonafarm

PRINCIPLESOFECONOMICS

1.Scarcity

Thisisastateofgoodsandservicesbeinginshortsupplyinrelationtotheirdemand. Itexistswhenhumanwantsandneedsexceedwhattheyhave.

CAUSESOFSCARCITYINAGRICULTUREALPRODUCTION:

Naturalfactorslikeflood,droughtwhichmaycausescarcityofwater,foodand pasturefoodlivestock

Highcostsofproductionwhichlimitsprofits

Poormethodsofproductionwhichslowdownsupplyofgoodse.g.useof inferiorlikehandhoes

Inadequatestocksoffactorsofproductione.g.land,labour,managementetc

Longgestationperiodsespeciallyforperennialcropswhichtakelongtomature tomeetmarketdemandduringcertainperiods.Thiscausesshortagesinsupply ofgoods

Poortransportandcommunicationsysteme.g.useofpoorroadswhichbrings delaysindistributionofgoodsandservicestomarketcenters

Poorpricethatdiscourageproductionofcertaincommodities

Poorplanningbyfarmersduringproductionprocess

Poorgovernmentpolicieslikehightaxes.Thisdiscouragefarmersfrom producing

causingscarcity

Poorstoragefacilitiestostoregoodsinbumperperiodi.e.periodwhenharvests ishighmakingfarmerstosellallproducehenceshortagesinfuture

2.Choice

Thisistheactofdecidingwhichresourcesshouldbeallocatedtomeetproduction needsaswellassatisfyingconsumersneeds.It’swhenafarmermakeschoiceoutof themanyalternatives

3.OpportunityCost

Thisreferstothevalueofthenextbestalternativeforegonewhenachoiceismade. Whenanentrepreneurismakingchoiceinproduction,heanswersquestionon;

Whattoproducebasingondemand,climaticconditions,andecologicalcondition(soil factors)

Howtoproducebasingontheskills/methodofproductionandresourcesavailable Howmuchtoproducebasingonlevelsoflabours,demand,andmechanization

Whentoproducebasingonperiodwhendemandwouldbehigh,climate,pricesetc

Forwhomtoproducebasingonthetargetedmarketi.e.LocalorInternationalmarket Wheretoproducebasingonfarmlocation,marketlocation,resourcesavailableand sourcesofrawmaterials

PRODUCTION

Thisisthetransformationofinputse.g.seeds,fertilizeretcintooutputs/harvests.In otherwordproductionisthecreationofutility.

Utilityisabilityofgoodsandservicestosatisfyhumanwant

FACTORSOFPRODUCTION

Thesearetheresourcesinthetransformationofgoodsandservicestosatisfyhuman. Theyincludethefollowing;

Land:Thisisthemostimportantfactorofproduction.Economicsrequireslandinform ofsoil,water,air,mineralresourcesetc CharacteristicsofLandasafactorofproduction

Landisgeographicallyimmobile

Itssupplyisfixedandstatici.e.can’tbemovedfromoneplacetoanother

Landdegradesinqualityifpoorlymanaged

Landhasmanyuseslikeagriculture,recreation,roadconstructionetc

Thequalityoflandcanbemaintainedbyavoidingdeforestation,overgrazing andovercultivation

Thepaymentforlandisrent

Labour:Thisreferstohumaneffortsextendedintheproductionofgoodsandservices.

Itcanbeinformofforce,knowledge(plan)

Characteristicsoflaborasafactorofproduction

Itismobilei.e.cangofromoneplacetoanother

Itcanbeinheritedsinceinvolvesskillsofperson

Itsinformofhumanbeing

Thequalityoflabourcanbeimproved Labourisusuallypaidonmonthlyordailybasis

EfficiencyofLabour

Thisistheabilityofthelabourtoperformmoretasksatagounderminimum supervision

FactorsthatdetermineLabourEfficiency

Climaticcondition,peoplecanworkformorehoursoncoolweatherthanwhen theweatherishot.

Lengthofworkinghours.Longworkinghoursdiscourageswork.Workinghours shouldberegularisedforworkerstodotheirbest.

Training,welltrainedpersonperformsbetterworkthanuntrainedperson

Supervisionofthework,ifworkersaresupervised,itmakesthemtoworkharder

Provisionofleavedays,incaseprovidedforworkerstheyperformmoreand betterworktoproducegoodresultswhentheyreturn

Jobsecurity,incaseworkersfeelsecuredinajobitmotivatesthemtoperform betterwork

Institutingasenseofownershipoftheorganization/farmtotheworkers encouragesthemtoworkhardersincetheyfeelsathome

SpecializationofLabour,incaseemployeeisspecialized,he/sheislikelyto finishtheworkintimeandperformmore

Fairandearlypaymentincreaseefficiencyoflabours

Healthoftheworker,thehealthierthelabouforce,themoreworkhecanperform thanwhenhe/sheissick

Organizationofthefarm,wellorganizedfarmgivesgroundforbetter performance

WaysofincreasingLabourEfficiency

Provisionoftransport

Provisionofhousing

Provisionofmealatwork

Specialization

Provisionofentertainment

Provisionofmachinestoincreasespeedatwork

Properhandlingofemployeesi.e.avoidshoutingatworkers

LabourAvailability/Supply

FactorsdeterminingLaboursupplyforwork

Immigration,thisincreaseslaboursupplysincepeoplecomefromother countries

Emigrationdecreaseslaboursupplysincepeoplemovesouttootherplaces

Highwagerateattractsbigpopulationofworkers

Totalpopulation,highpopulationencouragesbigsupplyoflaboursunlikelow populationwhichlimitslaboursupply

RuralUrbanMigration.Thisleadstomoresupplyoflabourfromruralareasto urbanareashencereducingagriculturallabourinruralareas

Trainingperiod,longtrainingperiodforworkerslowerslaboursupply

PoliticalClimateoftheworkplace,incaseagivenareaofacountryispolitically stable,morepeoplewouldprefertoworkinsuchplaceshenceattractingbigger supplyoflabourinthatarea

Thenatureofthejob,Riskyandunpleasantjobslimit5smorepeoplefrom workshenceloweringlaboursupply

Levelsofskills/knowledgerequired

Availabilityofessentialfacilitieslikeaccommodation,thishelpstobringabout morepeopleforwork

Labourmobilityincreaseslaboursupply LabourMobilityreferstotheeasewithwhichlabourcanmovefromoneplaceto another(geographicalmobility)orfromonejobtoanother(occupationalmobility)

FactorsAffectingLabourMobility

Limitationinskillsi.e.itshardforcompoundcleanertooperateatractorduring ploughing

Timerequiredfortraining,longtimetrainingperiodsreducestherateatwhich suchpeoplewouldjointheoccupation

Racialdifferenceswheresomejobsarereservedforaparticularraces

Transport,poortransportresistpeoplefrommovingoneplacetoanother

LabourisrewardedSalaryduringproduction

Note:Usingasuitablegraph,accountforregressivesupplyoflabourduringproduction

Capital:Thisisamanmadewealthneededtogenerateanotherwealthegtractor Characteristicsofcapital

ItsItismanmadee.g.tractor

Itdepreciatese.g.farmtoolsandmachines

mobileandcanmovefromoneplacetoanother

Itincreasesproductivityofotherfactorsofproduction

Itvariesinsizei.e.canbelargeorsmall

Capitalisrewardedinterest/profit

TypesofCapital

Real/Fixedcapital,circulatingcapital,semifixedcapitaletc

AnEntrepreneur:Thisisapersonwhoassumestheresponsibilityoforganization, bearingrisksandmanagementduringproductionprocess

RolesofaFarmManager

HireandPayforotherfactorsofproductione.g.landandlabour Purchasingfarminputs

Mobilizingresourcesforthefarm

CombiningFactorsofproductiontoearnprofits

Bearingrisksanduncertaintyofthefarm

Supervisingproductionprocess

Makesdecisioninproduction

Findsmarketforfarmproduceandsalethem

Keepsuptodatefarmrecordsforfuturereference

Motivateslaboursatthefarmforbetterperformance Tocoordinateandplanfarmactivitiesasrequired.

PRODUCTIONFUNCTION

Thisisthephysicalrelationshipbetweeninputsandoutputs.Itshowshowthe quantityofparticularproductsvarieswiththelevelsofinputsusedinaspecificperiod oftime

Mathematicallyproductionfunctionisrepresentedas

Y=f(L1,L2,L3………………….Ln)

Where;

YisoutputandL2,L2,L3andLnarethevariousinputsusedinproductiontoproduce

Y

TYPESOFPRODUCTIONFUNCTIONINFARMINGBUSINESS

1.IncreasingReturn:Thisistheproductionfunctioninwhicheachadditionalunitof variableinputresultsinlargerincreaseinoutputthantheprecedingunitofinput.

Itisdescribedasirrationalbecauseresourcesareunderutilized

Output

2.ConstantReturn:Thisistheproductionfunctioninwhichtheamountofoutput increasesatsamerate(amount)foreachadditionalunitofvariableinputusedi.e.the returnareconstanttothevariableinputused.

Itisdescribedasirrationalbecausereturntothevariableinputfactorscannotincrease athigherlevelsofproduction.Thefarmercannotmaximizeprofitatthislevel.

output

3

.DecreasingReturn

:

Thisistheproductionfunctioninwhicheachadditionalunitof

inputusedresultsintodecreaseinoutputthantheprecedingone.

Output

Y

Itisdescribedasrationalbecauseresourcesareputtooptimumuseandhighestprofit canbeobtained.I.e.whereMC=MR

Termsusedinproductionfunction

Fixedinputs:Theseareinputswhichcannotbevariedeasilywithintheproduction cyclee.g.Land

Variableinputs:Theseareinputswhosequantitiescanbechangedeasilywithinthe productioncyclee.g.Labours,Seeds,andFertilizersetc

Totalphysicalproduct(TPP):Thisistheamountofproductsgotfromusingcertain amountofinputsinproductionprocesse.g.20menproduces222kg0fmaize

AverageProducts(AP):Thisisthetotalphysicalproductsdividedbytheunitsof inputsusedinproductionprocessi.e.AP=TP(X)/inputused.

MarginalProducts(MP):Thisistheextraproductsobtainedfromanextraunitof inputsused.

I.e.MP=Changeintotalproducts(TP)/changeininput Examples:

20laboursproduce2000kgofmaize,onaddingonemantheyproduces2150kgof maize.Calculatemarginalproductscontributedbyaddinganextraunitofonelabour MP=ChangeinTP/changeininput 2150–2000/21-20=150kg

Example:

Thetablebelowshowstotaloutputofmaizefromtheuseofvariablefactoroffertilizer onaonehectareofLand

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Fixed factor(land) | Qntyof  fertilizer  used | Totalmaize output(TPP) | Marginal  products(M  P) | Average  products(AP  ) |
| 1  1  1  1  1 | 1  2  3  4  5 | 8  18  30  38  44 | 8  10  12  8  6 | 8  9  10  9.5  8.8 |
| 1  1  1  1 | 6  7  8  9 | 48  48  46  42 | 4  0  -2  -4 | 8  6.9  5.7  5.5 |

Questions

1(a)Plottheinformationfromtheabovetableonthesameaxisshowingthe relationshipbetweenTPP,MPandAP.

(b).Indicateallthethreestagesofproductionfunctionandexplaintheeventtaking placein eachstage

(c).Indicatethepointofdeflectionfromthegraphwhereprofitscanbemaximized

ThegraphshowingtherelationshipbetweenTotalProduct(TP),MarginalProduct(MP) andAverageProducts(AP)usingavariableunitoffertilizeronafixedfactorofLand

Tpcurve

Output

Region1

Region2

Region3

APCurve

Variableinput(y)

Stage1/Irrationalzone

MPCurve

ThisiscalledzoneofincreasingReturns/Irrationalzone Underthiszoneeachadditionalunitofinputresultsintolargerincreaseinoutputthan theprecedinginput

TPincreaseatanincreasingrate

APalsoincreasesbutislessthanMP

Thisisanirrationalzonebecausethefarmerunderutilizesresources(input)in production

Exampleofagriculturalsituationatthiszoneisunderutilizationoffertilizer,small plantpopulation,understockinginlivestock,underutilizationoflabour

Feedinglivestockonproteinfood

Stage2(Rationalzone)

Thisiscalledzoneofdiminishingreturnorrationalzone

ItbeginswhenMPandAPareequal

TPincreasesatadecreasingrateuntilitreachesthemaximum(maximum output).ThispointiscalledTechnicaloptimumpoint

TheregionendswhenTPismaximumandMPiszero

InthisregionbothAPandMParedecreasing

Resourcesarebeingusedeffectivelyinthiszone

Stage3(Irrationalzone)

Thisisalsocalledzoneofnegativereturn.

ThezonebeginswhenTPismaximum,MPiszero,APisdecreasingbutgreaterMP.

TPisdecreasing;APisalsodecreasingwhileMPisdecreasingandnegativealready

It’sthemostunproductivezoneinagricultureproductionasitresultsintoreducedTP, APandMP.MPisnegativewhichreflectlosses.Inthiszonethefixedfactorisover utilized

Examplesofagricultureproductionsituationinzonethreeincludesthefollowing

Keepingtoomanyanimalsonasmallpieceofland(overstocking)leadingto competitionforthefeeds

Excessiveapplicationoffertilizerleadingtosoiltoxicity

Overuseofherbicideincropproduction

Excessivesupplementaryfeedingratefortheanimals

Toomanylaboursonthesamefarmwhichreducesthetotaloutputdueto congestion

Thereforethemostprofitablezonethefarmerisadvisedtooperateinisregiontwo becauseinregiontwoTPisincreasingthoughatadecreasingrate,APispositiveand MPisstillpositivethoughbecomezeroattheveryendoftheregion

Thepointofprofitmaximization(EconomicOptimum[Point)islocatedinregiontwo ontheTPcurvejustbeforeMaximumTPisreached.Profitismaximisedatthepoint whenMarginalCost(MC)isequaltoMarginalRevenue(MR)whichonlyoccursin region2ofproductionfunction.

LawsofDiminishingReturn

Itstatethatifasuccessiveunitofavariablefactorisaddedtoafixedfactorwhile holdingotherfactorsconstant,totalproductionincreasesbutbeyondcertainpoint,the resultingincreasewillbecomesmallerandsmaller

COSTSOFPRODUCTION

Thesearetheexpensesincurredduringproductionprocess.Examplesofproduction costsare,

1.Fixedcost/overheadcosts/unavoidablecosts

Thesearecoststhatdonotvarywiththelevelsofproductioni.e.afarmerhastomeet themwhetherinproductionornot.eginterestonloan,Rent,Depreciation,Salariesfor permanentworkers

2.Variablecosts

Thesearecoststhatvarieswiththelevelsofproduction/output.egcostsofseeds, fertilizer,pesticide,power,fueletc

3.Totalcosts.

Thisisthesumoffixedcostsandvariablecosts

4.ImplicitCosts.

Theseareexpensesthatarenoteasilyrecognizedinproductionprocessorindirect expense/noncash.eguseofownlabour,familylabour.Thiscostisnotalwaysvalued inthecalculationofprofitsonafarm

5.ExplicitCosts.

Thesearedirectexpensesincurredbythefarmerafterbuyingresources.Theyare easytoberecognizedonthefarm.egTransportCosts,salaryforworkers,depreciation ofmachinery,costsofseeds,fertilizer,pesticideetc

6.Marginalcosts.

Thisisthecostofproducingeachadditionalunitofoutputorthecostofproducing marginalproductsonafarm

7.Realcosts.

Thesearenonmonetarycostsofproductioni.e.therealpainorsacrificegivenby laboursduringproductionprocess.

8.ReducedCosts.

Thisreferstothemoneysavedwhencarryingoutfarmactivities.egTransportationof milkandeggstothemarketonthesametrucksavestransportcostofoneproduct

9.TotalVariableCosts(TVC).

Thisisthetotalcostsofallvariableresourceusedinproductiononafarm

10.TotalFixedCosts(TFC).

Thisisthetotalofallthecostsoffixedresourcesusedinproduction

11.AverageFixedCost(AFC).

Thisisthecostoffixedresourcesperunitofoutput

AFC=TFC/Output(Y)

12.AverageVariableCosts(AVC) Thisisthecostofvariableresourcesperunitofoutput

AVC=AFC/output(Y)

13.AverageTotalCosts(ATC).

Thisisthetotalcostsofallresourcesperunitofoutput

AFC+AVC/output(Y)

QUESTION

1(a)Describetheproblemofagriculturalproductioninaneconomy(10marks)

(b)AssessthemeasuresthegovernmentofUgandahastakentodevelopthe agriculturalsector(10marks)

Solutions

Qn1(a)

Lackoforganizedmarketforsomeagriculturalproduce

Conservativenessofsomefarmerstoacceptmodernmethodoffarmingwhich limitexpansionofagriculturalsector

Lackofproperstoragefacilitiesespeciallyforgrainsproducts

Ruralinaccessibilityduetopoorroad

Highcostoffarminputsespeciallyforimprovedseedswhichmakesfarmersto producepoorqualitiesproducts

Inadequatecapitalforinvestmentandtopurchaseimprovedseedsaswellas mechanization

Highincidenceofpestanddiseaseonafarmleadingtopooryield

Aridityinsomepartofthecountrycoupledwithpoorsoilleadingtolowcrop yield

Limitedextensionservicestoassistingivingadvicetofarmers Priceinstabilitywhichaffectsfarmersearning

Unsupportivegovernmentpolicyoflevyinghightaxesonagriculturalproducts

Qn1(b)

EstablishmentofNAADSProgrammestotrainfarmersonmodernfarming methods

ProvisionofloantofarmersthroughlocalbasedSACCOs

Liberalisationofmarketsothatfarmersproductscanbeboughtfreely

Provisionofhighqualityinputslikeimprovedseedveritiesbreedofcattle, fertilizerandpesticidetoboostproduction

Improvementininfrastructuresespeciallyforroadstostimulatedistributionof agriculturalproducefromthefarmtopotentialmarkets

Encouragingdiversificationinfarmingbusiness

Encouragingindustrializationtoprocessfarmersproduceandincreasetheir keepingquality

PromotingadoptionofmodernagriculturaltechnologythroughuseofMedias likeRadios,TVs,Newspapersetc

Improvementofhealthsectorstoensureshealthofthefamers

Encouragingfarmerstoformgroupsinordertofacilitatelargescaleproduction andrealisehighincome

Introductionofbufferstockandpricestabilizationfundtoovercomethe problemsofpricefluctuation

CONCEPTSOFDEMANDANDSUPPLY

1.DEMAND:Thisreferstothequantityofacommoditythatanindividualiswillingand abletobuyatagivenpriceandtime

Demandissaidtoeffectivewhenthebuyeriswillingandabletobuythecommodityat variouspricesandtimebutit’ssaidtobeLatentwhenthedesiretobuyaparticular commodityisnotbackedbytheabilitytopurchaseitatvariouspricesandtime

DemandSchedule:Thisisatableexpressingthequantityofgoodsbuyersarewilling tobuyatvariouspricesatparticularperiod

TheDemandscheduleformaizeinNakaseroMarketbetweenJan-March2016

|  |  |
| --- | --- |
| Price(shs) | Qntydemanded(kg) |
| 1000 | 20 |
| 900 | 40 |
| 800 | 60 |
| 700 | 80 |
| 600 | 100 |
| 500 | 140 |

DemandCurve:Thisisagraphshowingthequantityofacommoditythatconsumers buysatdifferentpricesatparticularperiodoftime.

Price

Qntydemanded

Changeindemandandchangeinquantitydemanded

Changeindemand:Thisisashiftintheentiredemandcurveeithertotheleftorright duechangeinthedeterminantsofdemandotherthanchangesinthepricesof commodity

Po

Price

Quantitydemanded

Ashiftfromdotod2isanincreaseindemand Ashiftfromdod1isadecreaseindemand.

Changeinquantitydemanded:Thisisthemovementalongthedemandcurvedueto changeinpriceofthecommodity

Price

B

Quantitydemanded

A

-

Decreaseinquantitydemanded

B-Increaseinquantitydemanded ThelawofDemand:

Itstatethatthehigherthepricethelowerthequantitydemandedandthelowerthe pricethehigherthequantitydemanded FactorsAffectingDemandofacommodity Price:Consumersalwaysbuysmorewhenthepriceofthecommodityisfalliemore consumersjointhemarkettobuycheapcommoditiesbutwhenthepricerises,the demandofthecommodityinquestionwillfalldown

Priceofothercommoditiese.g.substituteandcompliments.

Substitutearetwocommoditiesthatcanbeusedtosatisfythesamedemande.g. beansandPease–increaseinpriceforbeanswilldefinitelyleadstodecreaseinits demandsincepeoplewilloptforPeasewhichischeapprovidedtheirpriceisconstant

Complimentarygoods:Thesearejointlydemandedcommoditye.g.petrolandcar, shoepolishandshoesetc.Increaseindemandforcarswillincreasedemandforpetrol andviceversa

Incomeoftheconsumers:Consumerswithhigherincomebuysmorethanconsumers withlittlemoneyhencecommandahighdemand.

Populationsize:Increaseinpopulationincreasedemandforacommoditymore especiallynecessitygoodswhiledeclineinpopulationleadstodeceaseindemand.

Populationstructureintermsofagesex:Apopulationfullofagedpeopleisless productivehencehasalowpurchasingpoweranddemand.

TasteandPreference:Peoplealwaystendtodiffersintasteandpreference.Therefore ifpeoplelosetasteforonecommodityinpreferenceforanotherthedemandforsuch commoditieswilldecreaseandwhenpeoplegaintasteagainthedemandwillincrease andviceversa

FuturepriceExpectation:Whenthepriceareexpectedtoriseinfuturedueto anticipatedshortage,consumerswillbuysmoreandstockincreaseddemandatthat timebutwhenpriceareexpectedtofallinfuturedemandwillbelow

Levelsofadvertisement:Increaseinadvertisementwillincreasetheawarenessof suchcommodityandpeoplewillbuymoreofithenceincreaseindemand.

Increasedtaxes:Increasedtaxesongoodsincreasespricesofthecommodityhence decreaseindemand.

CultureandReligion:Somecommunitiesandreligionforbidconsumptionofcertain itemse.g.PorkbyMoslemsandSeventhDayAdventists.Thislowersdemandforsuch iteminthecommunity.

ElasticityofDemand(ED):

Thisisthedegreeofresponsivenessofchangeinquantitydemandedtochangein factorwhichinfluencedemandlikeprice

PriceElasticityofDemand:Thisisthemeasureoftheresponsivenessofchangein quantitydemandedtochangeinthepriceofthecommodity

ED=PercentagechangeinQuantitydemanded/Percentagechangeinprice

Examples:

1.Whenthepriceofmaizewasshs100/kg.Quantitydemandedwas1000kgand whenthepricewasincreasedto200shs/kgquantitydemandedwas400kg.Calculate Elasticityofdemand.

ED=percentagechangeinquantitydemanded/percentagechangeinprice

Percentagechangeindemand=1000-400/1000\*100

=60%

Percentagechangeinprice=200-100/100\*100

=100%

ThereforeED=60/100

# =0.6

Typesofelasticityofdemand

1.Completelyinelasticorperfectlyinelastic:Thisisthetypeofelasticityofdemand whereachangeinpricedoesnotcausechangeinquantitydemanded.PriceEDiszero

Price

2.Inelasticdemand:Thisisthetypeofelasticityofdemandwherealarge proportionatechangeinpriceleadstoasmallproportionatechangeinquantity demanded.EDisgreaterzerobutlessthanone.

Price

Quantitydemanded

3.Elasticdemand:Thisisthetypeofelasticityofdemandwhereaslightchangein priceleadstoalargeproportionatechangeinquantitydemanded.EDisgreaterthan

butlessthaninfinity.

Price

4.Unitelasticityofdemand:Thisiswhenpercentagechangeinpriceisequalto percentagechangeinquantityemandded.PED=1i.e.quantitydemandedchanges exactlyaspricechange.

Price

Factorsthataffectelasticityofdemand.

Availabilityofsubstitutes:Commoditywithmanysubstitutegoodshaselastic demandsinceconsumersshiftfromitwhenthepriceincreases Degreeofnecessity:Priceelasticityofdemandfornecessitiestendstobeinelastic sinetheyareindi8spensblee.g.whenthepriceofsaltincreasethequantitydemanded isthesame.

Consumers’income:Whenconsumersareoflowincomeelasticityofdemandtendto beelasticaspriceincreasebecauseitreducestheirdemandaspriceincrease.

Numberofusesservedbyacommodity:Ifacommodityhasmanyuses,areduction inpricemayleadtoaveryhighraiseindemande.g.clothes,leatherandmilk

Strengthofconsumerhabits:Ifthehabitoftheconsumerwithregardtoaparticular commodityisverystrong,EDwillbeveryinelastice.g.cigarettesmokerandcigarette

Durabilityofthecommodity:Durablecommoditieslikeradios,carshavelowprice elasticityofdemand.Evenwhenpriceisloweredonecannotoneifhe/shehasone

Priceexpectation:Whenthepriceisexpectedtoincreaseinfuture,demandwouldbe inelasticaspeoplewillbuyandstockandviceversa.

Timeoftheyear.Towardandduringpublicholidays,demandtendtobeinelasticsince evenwhenthepriceisincreasedpeoplestillbuysmoree.g.atChristmas

Consumer’signorance:Consumerswillbuymorecommoditiesathighpricewhen theydon’tknowwheresuchcommoditiesortheirsubstitutesaresold.

Levelsofpricechangerelativetoincome:e.g.ifthepricechangerelativetoincomeis small,elasticityislow

SupplyTheory:Thisisthequantityofcommoditythatproducersofferforsaleat variouspricesandperiodoftime.

Quantitysupplied:Thisreferstotheamountofcommoditythatproducersarewilling tobringtothemarketatvariouspricespertimeperiod.

Supplyscheduleforbeans(kg)atMpigiMarketJune2016.

|  |  |
| --- | --- |
| Price(shs) | Quantitysupplied(kg) |
| 200 | 50 |
| 300 | 100 |
| 400 | 150 |
| 500 | 200 |
| 600 | 250 |
| 800 | 350 |

SupplyCurve

Price

QuantitySupplied

Lawofsupply:Itstatesthat,thehighertheprice,thehigherquantitysuppliedandthe lowerthepricethelowerthequantitysuppliedotherfactorsaffectingsupplyremaining constant.

Factorsaffectingsupplyofagriculturalcommodities.

Marketprice:Whenthepriceishigh,thesupplyisincreasedbecausethecommodity ismoreprofitableandwhenthepriceislow,supplyreducessinceproducerfears makingloss

Costofproduction:Changesincostofproductionwillincreaseorreducesfarmers’’ outputcapacity.Thisleadstouncontrolledsupply(excessivesupplyinsomeseason whencostsofproductionarelowandlowsupply(scarcity)insomeseasonwhen costsofproductionincreasessignificantly.

Futurepriceexpectation:Whensellersanticipateanincreaseinpriceofthe commodityIthenearfuture,theywithholdthecommodityandreleasethemwhenthe priceincreasehenceloweringsupply.

Demand:Highdemandforanycommoditycallsforincreasedproductionandsupply aswellandlowdemandcallsforlowsupply

Politicalstability:Individualandfirmcanengageinmeaningfulproductionwhenthey aresureifpoliticalatmosphere(security)oftheareas.Insecurityleadstolowsupply duetofarmdevastationbylootingandembezzlementoffundsforproduction.

Gestationperiod:Thelengthoftimetakentoproduceacommodityalsoinfluences supply.Shortgestationperiodenablethesupplyofthatcommoditytobeincreased thanwhenthegestationperiodislonge.g.beansandcoffeerespectively.

Managerialabilityandefficiency:Goodfarmmanagementincreasesfarmoutput hencethesupplyofthecommoditytothemarket.

ImportandExport:Anincreasedintheimportofcommodityincreasesitssupplyon thedomesticmarket;incontrastwhenacommodityisexporteditssupplyisreduced inthelocalmarket.

Seasonoftheyear:Agriculturalproductionishighlyseasonalandhenceproductsare moreavailedonthemarketincertainseasonthanothers.

Technologyofproduction:Farmersusingtractorandothermachinesproducesmore thanthoseusingtraditionaltoolslikehandhoe,pangahencehighersupply.

Numbersofsellers:Ifmanysellersbringmoregoodstothemarket,supplywill increase

Transport:Improvedandefficienttransportfacilitatedeliveryoffarmproducetothe marketincreasingsupply

Priceofotherproduct(substitute):Increasedinthepriceofonewillincreasedemand fortheotherwhosepricehasnotbeenincreasedhenceloweringthesupplyofthe productinquestion.

Governmentpolicy:Governmentinfluencesupplybylevyinghightaxonaparticular goodmoreespeciallyagriculturalinputs,thisleadstoincreaseinpriceofsuchgood henceloweringdemandwhichaffectsupplynegatively.

Weathercondition:Goodweatherwithadequaterainfallwelldistributedandsunny harvestingperiodisnecessaryforhighyieldshencehighsupply.

Question:

1(a)Defineelasticityofdemandanddescribethetypeofdemandelasticity(10marks)

(b)Describethefactorsthataffectelasticityofdemand(10marks)

2(a)Usingsuitableexamplesdescribehowsupplyofagriculturalproductsof subsistencefarmersvarieswithmarketprice(6marks)

(b)Explainthefactorsthataffectsupplyofagriculturalcommodities(14marks)

3(a)Explainhowagricultureproductioncontributestoeconomicdevelopment(6 marks)

(b)DescribethecharacteristicsofagricultureproductioninUganda(8marks)

(c)Describethewaysofincreasingsupplyoffarmers’produce(6marks)

TheconceptofEquilibriumandtherelationshipbetweendemand,supplyandprice.

Theamountpaidforagivencommoditydependsonmostlydemandandprice

Theeconomicprinciplesgoverningthepriceoffarmproductsinafreemarketare illustratedbytheinformationinthetable.

Supplyanddemandscheduleformilk

|  |  |  |  |
| --- | --- | --- | --- |
| Price(shs) | Amount  supplied(litres) | Amount  demanded(litres) | Excess demand(litres) |
| 100  80  60  40  20 | 250  220  185  120  85 | 95  140  185  200  240 | +155  +80  0  -80  -155 |
| 10 | 20 | 255 | -235 |

Supplyanddemandcurveshowingequilibriumpriceandquantities dd Downwardpressureonprice

Eqprice

Equilibriumpoint

Price

upwardpressureonpricedd

(

shs)ss

Litresofmilkdemandedandsupplied

1.Downwradpressureonprice:Suppliesofmilkareplentifull.250litrebutatahigh priceof100shsperlitre,theconsumersonlybuys95litres.Supplyexceeddemandby 255litres.Thefarmeristhereforeforcedtoreducepricesoastoavoidwastage.

2.Demanddeficit:Atthepriceof10shsperlitre,farmerisdiscouragedfrom supplyingmilkyetthedemandforcustomersisveryhigh,255litres.

Atthispricethere’sisshortageofmilkinthemarket.Thissituationforcestheprice upward

3.Equilibriumquantities:Whenthepriceofmilkis60shsperlitter,theconsumersare willingtobuyjusttheamountofmilksuppliedbytheproducers.Thereisnoexcessof milkordemanddeficit.Thispriceisknownasequilibriumprice

ThereforeEquilibriumquantityisthequantityatwhichdemandequalssupply

4.Equilibriumprice:Thisisthepriceatwhichquantitysuppliedequalsquantity supplied

5.Equilibriumpoint:Thisisthepointatwhichquantitydemandedisequaltoquantity supplied.

CHARACTERITICSOFAGRICULTUREPRODUCTS

Theyareperishable

Theyarebulky

Theyareseasonalinproduction Theyareofmixedquality

Theyhavelonggestationperiod

Theyhaveinelasticdemand

Theyhavesyntheticsubstitutes

Theyhavedivergentproduction

PRODUCTCOMBINATION

1.Competitveproducts:Theseareproductswhichcompeteforthesameresources duringproductionegkeepinganimalandgrowingcroponthesamepieceof land.Increaseinoneproductreducestheproductionoftheotherinquestion.

2.Jointproducts:Theseareproductswhichsreproducedalongthesamelineof productionprocessegmeatandhide

3.Complementaryproducts:Theseareproductswhichsupporteachotherduring productioneggrowingpasturelegumesinamixturewithgrass,mixedfarmingsystem inwhichlivestockandcropsarefullyintegratedandcomplementingeachothereg manurefromanimalenrichesplantswithnutrientsandplantresiduesfedtolivestock.

4.Supplementaryproducts:Theseareproductswhichhavenoeffectsontheoutputof theotherduringproductionegkeepingpigandpoultryinthesamefarm.

FarmEfficiency:

Farmefficiencyisproductionofmaximumoutput(qualityandquantityoutput)ona farmfromaminimumoflowcostsinputs.

# FactorsaffectingproductionEfficiency/Factorsaffectingefficiencystandardsin farming

Climate:Welldistributedandreliablerainfallonafarmleadstohighoutputshence highefficiency.

Priceofoutput:Thehighertheprice,thehighertheprofits.

Mechanisationlevelandleveloffarmingintensification:Machinesincreaseslabour efficiencyandproducequalityandquantity

Pestsanddiseaseslowersefficiencyoffarmingsincetheyreducesthequalityand quantityoffarmproduce.

Incidenceofpestsanddiseasesonafarme.g.insectpests,rodents,diseasesetc lowersqualityandquantityoutputproduced

Naturalhazardslikefloodsandearthquakesresultsintodestructionofcropswhich lowersoutput

Ecologicalfactorslikefertility,aeration,moisturecontent,structureofthesoilgreatly affectsyield.Favourablesoilconditionsleadstohigherreturnhencehighefficiency.

Governmentpolicye.g.provisionofloan,inputsubsidies,reductionoftaxesimproves farmefficiency

Security:Thisisaprerequisiteinagricultureproductionsincegoodpolitical atmosphereoftheareaencouragesframerstoworkhardandmore

Intensificationonresearchdevelopmentinordertoestablishimprovedcropverities thatproducehighyields.

Useofimprovedfarmingmethodsincreasesfarmefficiency.

Availabilityofinfrastructuresuchasprocessingplant,storagefacility,electricityetc

Availabilityandadequacyofcapital.Adequatecapitalenableshighproductivityofall theotherfactorsofproduction,hencehighefficiency.

Recordkeeping:Thishelpsthefarmertotaketherightdecisioninproductionsoasto becomeefficientSizeofthefarm:Incasefarmingisonlargescale,thefarmerisable toenjoyeconomicofscaleandproductionintegrationhencebecomeefficient.

Waysofassessingefficiencyoffarm/Typesoffarmefficiency

1.Technicalefficiency:Thisisthemeasureofphysicaloutputperunitofinput.One farmerproduces2500kgofmaizeandanotherfarmerproduces3500kgofmaizefrom onehectareoflandwhichissubjectedtothesametypeofsoilandgrowingcondition, sameamountofseeds,fertilizers,andlabours.

2.Economicefficiency:Thisisthetypeofefficiencywherethecostsofproductionare weighedagainstthereturnobtained.Profitabilityisthereforeusedascomparisone.g. twofarmersselling1.5litersofmilkperdayfromtheirgoatsatthesamepricebutwith varyingproductioncost,profitdifferencebetweenthetwofarmerswillbethemeasure oftheireconomicefficiency.

3.EfficiencyStandard:Thisisaphysicaldataobtainedthroughresearchfindingabout theproductivitypotentialoffactorsofproduction.Theyactasperformance standard/yardstickforafarm.Thereistwotypesofefficiencystandard

(a)Partialefficiencystandard:Thisisthemeasureoftheperformanceofsmall fraction(part)oftheproductionunit/farm.egMaizeyieldfromoneacreonfarmA comparedtofarmBismeasuredbyusingthemethodbelow

Yieldindex=Actualyield(output)/Expectedyield(output)\*100%

Systemicindex=OutputfromanenterpriseonfarmA/Outputfromanenterpriseon farmB\*100%

(b)Overallefficiencystandard:Thisistheassessmentoftheperformanceofthe entirefarmasasingleunit.Theprofitfromallenterpriseonthefarmissummedup andtheaverageprofitperacreobtained.

OverallEfficiency=Averageprofit/Totalcapitalemployed\*100%.

AgriculturalMarketingandPricing

AMarketisanestablishedarrangementbywhichbuyersandsellerscometogetherto exchangegoodsorservices

Marketingreferstoallprocessesinvolved/associatedwiththeflowofgoodsand servicesfromproductiontoconsumption

MarketingFunctionreferstoallactivitiescarriedouttofacilitatemarketingof agriculturalproducts.

Marketingfunctionsincludesthefollowing;

1.Buyingandassemblingofproducts:Thisinvolvebuyingproductsinsmallfraction fromfarmersorproducersandgatheringitatcollectingcenters.It’sdoneby cooperative,marketingboardetc

2.Selling:Thisinvolvespresentationofproductsinanattractivewayforconsumersto buy.Itinvolvesbargainingandadvertising.

3.Transportation:Herecommoditiesarephysicallymovedfromonelocationto anotherorfromproductioncenterstoultimateconsumptionpoint.

4.Processing:Thisinvolvechangingtheformoftheproducefromitsrawformto betteraformwhichismoreacceptableandconsumablebythebuyer.Itinvolvesvalue additiontomeetconsumersneed,andmayincreaseworthofacommodity.

# Advantagesofprocessing

Itaddsvaluetotheproductsbyimprovingqualityinformofcolour,tasteand flavor.

Tomakeitmoreattractivetobuyersandthereforeincreasedemand

Ithelpstodestroytoxinsintheproductse.g.heatingofsoyabeansdestroys trypsininhibitor.

Reduceswastageoftheproductsduetospoilage.

Iteasesutilizationoffinalproductse.g.inmaize

Iteasestransportationofproductssinceitislessbulky.

Itextendthelifespanoftheproductsmakingitavailableinthemarketforlong

5.Grading:Thisinvolvesorting/categorizationofproductsintouniformlotsof differentquality.Gradingcanbedoneaccordingtosize,colour,shape,degreeof ripenessetc AdvantageofGrading

Itincreasesfarmers’profitsinceitencouragesproductionandmarketingof qualityproducts.

Makesiteasyforthefarmertofixpriceformthecommodities.

Itensuresconsumerssatisfactionsinceconsumersgetexactlywhathe/she wantinthemarket

Itfacilitatesmarketingbynotnecessitatingpersonalinspectionofthe commodities.

Itminimizesspoilageofthecommoditysinceproductsofdifferentqualitiesare separatedfromoneanother.

Itmakesdistributionofproductseasiersincebecausecustomersindifferent localityaregiventhegradetheywant.

6.Standardization:Thisismakingqualityspecificationusedingradinguniform amongbuyersfromplacetoplaceandfromtimetotime.Standardizationensuresthat similarcommoditiescarriessamepricesindifferentlocationandprovidesthebasis forqualityandquantitystandardcontrol.

7.Packaging:Thisinvolvesplacementofagriculturalproductsinconvenient packages/containerstofacilitatehandling,transportationandselling.

Advantagesofpackaging.

Iteasestransportationandhandlingoftheproducts.

Itreducesbulkinessofproducts.

Itfacilitatestransportationofproducts.

Itcontrolsleakagesandspoilageoftheproducts.

Iteasesadvertisementoftheproducts.

Itencourageseasyidentificationofqualityandquantityofproducts.

Itprotectscommoditiesfrombadweather.

Itfacilitateslabelingandputtinginstructionsonhowtousethecommoditiesby theconsumers.

Itpreventssubstitutionandadulteration.

Itreducesshrinkageandspoilageoftheproductsduetoenvironment.

Itincreasesshelflife. Itreducesothermarketingcostsbyfacilitatingselfserviceretailing.

8.Storage:Thisisthetemporaryhoardingoftheproductssothattheyareavailedto consumerswhentheyneedthemandwhenpricesaresatisfactory.Storageimproves qualityofsomeproduce,protectsproducefrombadweatherandpestattacksandit helpsinpreventingeffectsofpricefluctuation.

9.Riskbearing:ManyRisksanduncertaintymaybeexperiencebetweenthetimeof settinguptheenterpriseandactualmarketinge.g.fireoutbreak,thefts,changein demandetc.Thefarmermayneedtoinsuretoavoidtherisks.

10.Financing:Ittakesbothtimeandresourcestoprocurerawproductsfromthe supplier/producersandtransformingitintoacommodityreadyforconsumption. Capitalisthereforenecessarytofundalltheactivitiesinvolved,whichmaybeacquired fromdifferentsources.

11.Collectionandanalysisofmarketinformation:Efficientmarketingrequires adequateinformationtoallpartiesinvolvedintheprocesse.g.knowledgeofsupply anddemandhelpsconsumersandproducerstodeterminepriceofthecommodity.

12.Research:Thishelpstocomeupwiththeproductsondemand,bestmethodof production,aswellastheproblemsinvolvedinperformingmarketingdutiesandhow theycanbesold.

Problems/challengesofmarketingagriculturalproduce.

Agriculturalproductsarebulkyasaresult;transportationofsuchproductsis difficultandexpensive.

Productionoccursinruralareaswheretransportationtothemarketmaybe difficultduebadroads.

Productssuchasmilk,meat,vegetablesareperishableandthereforemarketing hastobedonequickly

Agriculturalproductsareseasonal;priceswillthereforefluctuatewithseasonof plentyandscarcity.

Demandforagriculturalproductsisinelasticsuchthatevenwithfallinprice.

Consumptionmaynotincrease.

Poorstoragelowersqualityofproducehencelowerprice.

Therearemanysmallscaleproducerswhoindividuallymaynotbeableto influencepriceandcreatecompetitionforsmallmarket.

Uncertaintyishighasproductstendtohavelongproductioncycleforexample perennialcrops.

Agriculturalproductiontendstobeaffectedbyexternalfactorslikebadweather, pestanddiseasesallofwhichlowerscropyieldsmakingfarmersfailtomeet marketdemand.

Lackofmarketinformationmakesfarmerstobeexploitedbymiddlemen.

Lackofefficientadvertisingservice.

Politicalinstabilitymakessomepartofthecountryinaccessible,thereforecuts thepotentialmarketintheseareas.

Lowincomeelasticityofdemand,asone’sincomeincreasesbeyondcertain point,theproportionofthatincomespentonagricultural[productsdecreases.

Possiblesolutionstoproblemsofmarketingagricultureproduce.

Diversificationsoastospreadrisksinagriculturalenterprises.

Encouragingindustrializationtoaddvaluestoproductsthroughprocessing.

Encouragingmarketingboardtoorganizemarketingofagriculturalproductsso astostabiliseprices.

Formationofcorporativetoincreaseproductionandimprovebargainingpower ofthefarm.

Improvementofmarketinformationservicetohelpfarmerstoplanfortheir marketingprogramme.

Improvingontransportservicetofacilitatebetterdeliveryofagricultural productstothemarket.

Internationalcommodityagreementtoreducetheproblemofpricefluctuation inlocalmarkets.

Introductionofbufferstocktosavefarmersfrompricefluctuation.

Introductionofstabilizationfundstocontrolproblemsofpricefluctuation.

Irrigation,sprayinganduseoffertilizertoimprovequalityofagricultural products.

Timelyprovisionofcreditstofarmerstoenablethemaccessfarminputsintime andperformfarmingoperationattherighttimepossible.Useofquotasystem sinceitrestrictionofproductionorsalessoastostabilizeprice.

Properextensionservicetofarmers

Constructionofpropermarketingfacilities

Institutingmarketresearchandpropermarketinformation

TheMarketingconditionsthatexistinthemarket

1.PerfectCompetitiveMarkets:Thisisamarketwherepricesaredeterminedbyforce ofdemandandsupply.Perfectcompetitionexistwhennosinglebuyerorselleris capableofchangingthemarketpriceItexistsinafreemarketeconomy.

Characteristicsofperfectcompetitivemarket.

Manysellersofthesamesize

Freeentryandexitbyfirmsinthemarket.

Perfectknowledgebybothbuyersandsellers,buyershasfullknowledgeofthe prevailingmarketpriceswhichtheyadhereto.

BuyerspurchasethegoodstomaximisesatisfactionandsellersImtheir productswithasoleaimofmaximisingprofit.

Nogovernmentregulationandinterventioninformofpricefixing,subsidies, rationingetc

Note:Excesscapacityreferstoasituationwherefirmsproducelessoutputthantheir installedcapacity.

ReasonsforExcesscapacity.

Inadequatecapitaltoworktofullcapacity.

Inadequaterawmaterialstouseinthefactory.

Smallmarketwhichisnotenoughtojustifyproductionatfullcapacity.

Highproductioncostsduetohightaxes,inflationandhighcostofrent.

Poortechnologyofproductionthatcannotenhancethefirmtoproduceatfull capacity.

Desirebythefirmtodiversifytheirenterpriseinordertowidenincomebase.

2.Imperfectmarket:Thisisamarketwherebypricesareinfluencedbyotherfactors otherthandemandandsupply.Imperfectcompetitionexistwhenonesellerorgroup ofsellerscontrolthesupplyofcommodities,whichdifferfromoneanotherinthe samemarket.Theyincludethefollowing

Monopoly

Oligopoly

(a)Monopoly:Thisisamarketsituationwherethereisonesellerofa product,whichhasnoclosesubstitute,hecanraisethepriceuptoacertain levelasmuchastheconsumerscanstillbuy.Entrytotheindustryis restrictedandthereisnopersuasiveadvertisement.E.g.Lugazisugar industry.

(b).Oligopoly:Thisisastateoflimitedcompetitioninwhichamarketissharedby numberofsmallproducersdealingwithaparticularproductswhichmaybesimilarto oneanother.Eachsellerisfreetofixthepriceofhisproductalthoughhehasto considerthepriceschargedbyothercompetors.

Marketingagencies/institution.

Itineranttraderswhomovesfromplacetolacebuyingagriculturalproducefrom farmers

Processorsareorganization/companieswhichprocessagricultureproductsintoa usableformtosatisfyhumanneeds Wholesalersbuysproduceinbulkfromthemanufactureandselltoretailers.

Retailersbuyfromthewholesalersandsellsinsmallquantitiesdirecttoconsumers.

Brokerswhobridgethegapbetweenthesellerandthebuyerwithoutthebroker handlingtheactualgood.Theylocatemarketsandorganizeproducerstosupplyso thattheygetcommission.

Commissionagentswhoalwaysreceivegoodsandsellthemonbehalfoftheir principleforacommission.

Corporative,farmerswhoalwaysorganizethemselvesin-groupsregisteredtomarket theirproduce.

MarketingboardwhichisapublicbodysetupbythegovernmenttoassistfarmersI theproduction,processingandmarketingofagricultureproducts.

Pricinginagriculturalproduction:Priceistheamountofmoneypaidinexchangeof goodsandservices.

Determinationofpricesofagriculturalcommoditiesinthemarket.

Haggling:Referstoabargainingprocesstakingplacebetweenonebuyerandone seller.Theprocessofbargainingcontinuesuntilthebuyerandselleragreeonthe samepoint.

Fixingbytreaties:Herebuyersandsellerscometogethertofixthepriceofa commodity.Thepricecanberevisedbyamendingthetreaties.

SalesAuction:Thistakesplacebetweenonesellerandmanybuyerswherethebuyer competesforacommoditybyfixinghighprices.Thecommodityistakenbyonewho paysthehighestprice.

Forceofdemandandsupply:Thesetwoacttoformanequilibriumormarketprice.

Retailpricemaintenance:Herethemanufactureprovidesretailrecommendedprice inscribedonthecommoditiese.g.airtimevoucher

Fixingpricebythegovernment.Heremaximumpriceissetbythegovernmentto avoidexploitationofbuyersandsellers.

Contractagreement:Herethesupplieragreeswiththebuyeronthepricebefore commencementofthebusiness.

Cartel:Producersagreeonthepriceoftheirproducts.

Internationalcommodityagreement:Herepricesaresetbyinternationalproduces.

Throughpriceleadership:Thisiswhereabigplayerinthemarketdecidestoraiseor lowersthepriceofcommodityinthemarkethenceforcingotherplayerstofollow Throughusingmarketingcostanddesiredprofitmargin.

Throughusingproductioncostsanddesiredprofitmargin.

Throughcontractpricing

ImportanceofpriceinAgriculture

Itenablessmoothresourceexchangeinproduction

Itcontrolsconsumptionlevelsoffarmproductsthroughforceofdemandand supply.

Itstimulatesproductionbecausefarmersalwaysaimatmaximizingprofits.

Itrewardsandpromotesefficiencyofworkersthroughcorrectallocationof duties

Theyindicatetothefarmerwhattoproduce.

Itdeterminesthelevelsofoutputs.

Theyenhancebetterandefficientmethodofproductionmoreespeciallywhen priceofcertaincommodityincrease.

Factorswhichinfluencepriceofacommodity

Forcesofdemandandsupply:Highdemandsleadstohighprices,highsupply reducespricesandviceversa

Costofproduction:Ahighcostofproductionimplieshighpriceandalowcostsof productionimpliesalowprice.

Transportcost:Hightransportcostincreasesprice,lowtransportcostreducesprice.

Storagecost Governmentpolicyregardingsubsidiesandtaxation:Hightaxesincreasescostof productionhencehighpricesandviceversa.

Qualityofproducts.Highqualityproductshavehigherpricesthanthatoflowquality.

PriceMechanismandallocationofresources.

Pricemechanismisasysteminafreemarketeconomywherepricesinthemarketare determinedbytheforcesofdemandandsupply.

Note:Describehowthepricesofagriculturalcommoditiesaredeterminedinafree marketeconomy

Howthegovernmentcaninterferewithpricemechanism

1.PriceLegislation:Thisistheinterferenceinthepricemechanismbythegovernment inordertoavoidexploitationofconsumersandproducers.Thegovernmentinterferes withthepricemechanisminthefollowingways.

a)Maximumpricelegislation(priceceiling):Thisisthepricesetbelowtheequilibrium abovewhichitbecomesillegaltobuyorsellgoodsandservices.It’ssetinthe

consumers

’

interest.

d

s

Price

Pe

EP

Pmax

maximumprice

Qe

Quantity

b)Minimumprice(priceflooring):Thisthepricesetabovetheequilibriumbelow whichitisillegaltosellandbuygoodsandservices.Itissetintheinterestofthe

producers.

Pmin

Minimumprice

Pricepe EP

d

S

2.Bufferstock:Bufferstocksareproductskeptinstoreandareonlyreleasedwhen thereisanacuteshortageinthemarketlikelytocauseabigincreaseinprice.Inthis waythepricesarebroughtdowntonormalandsimilarly,duringbumperyeas(years whenthereisplentyofharvestlikelytocausedecreaseinprices),theproductsis withdrawnfromthemarketandstored.

3.Pricestabilizationfund:Thisisamoneysetasidesothatifthereisoverproduction ofacertaincommoditye.g.cotton,thegovernmentcanstillbuyfarmers’cottonata fairpriceinsteadofallowingthepricetobesetbyforcesofdemandandsupply.

Problemsfacedbythegovernmentintryingtoestablish/implementstabilization fundandbufferstockpolicies.

Competitionfromsyntheticproductsleadstoshiftofdemandwhenagriculture producepricesarehigh.

Conflictinggovernmentpoliciesoftradeliberalizationwhichdiscourageprice control.

Highrateofilliteracyamongfarmersthatobjectmostdevelopmentadvances becauseofunfoundedsuspicionanduncooperativeness.

Inadequatefundingofagriculturesectorbythegovernmentperpetuated subsistencefarminganddiscouragesproductionthatmakescollective marketingdifficult.

Lackofadequateagricultureproducesmechanismcontrol.

Poorcommunicationnetworkmainlyinareasofproductionparticularlyroads limitsmovementofcommodities.

Productionofmixedqualityproductsbyfarmers.

Unsustainablesupplyofagriculturerawmaterialstoagrobasedindustriesto encouragevalueadditionandhencepricestabilisation.Weakfarmers’ organizationthatwouldassistintheorganizationofmarketing.

4.Internationalcommodityagreementwherethepricesaresetbyinternational producersdirectly.

5.Subsidisationparticularlyonagricultureinputslikeseeds,agrochemicals,fertilizer etctoreducecostsofproductionthatmayresultsintoincreasedinprices.

Pricefluctuationinagriculture:

Pricefluctuationorpriceinstabilityreferstosuddenchangesthatoccurintheprices ofagricultureproducts.Pricesofagricultureproductsoftenfallandriseerratically. Thisinstabilitycanbeexplainedbythefollowingfacts:

Seasonalnatureofproductionofagricultureproducts:Thisresultsintosurplusat harvestwhichleadstoadropinpriceandscarcitynearharvest,whichleadtoprice rise.

Mostagriculturecommoditiesarehighlyperishableandsomustbesoldimmediately regardlessofpriceprevailing{inelasticsupplye.g.tomatoes).

Mostagricultureproductshavelongproductioncyclesandthereiosnoguaranteeof thepriceonewillreceive.

Mostagricultureproductshaveaninelasticdemandandwhenthisiscombinedwith seasonalsupply,itmeansthatmarketpricesvaryconsiderably.iethedemandforfood cropsdoesnotresponsequicklytopricechanges.

Agricultureproductionislargelyaffectedbynaturalfactorse.g.badweather,pests anddiseasesetc.ifunfavorableproductionwillbelowandpricesgoesupwhileif favorableproductionwillbehighandpricesfall.

Farmerslackproper/reasonablestoragefacilitiesandsotheyareforcedtosellthe harvestatanypricetoavoidfurtherpostharvestloss.

Therearemanysmallsaleproducersparticularlyinthevillagesthatindividually cannotinfluencemarketprices,sincetheyhavenobargainingpower.Stiffcompletion fromsyntheticlikepolythene,plastics,petroleumproductsforrubberandsisal.

Agriculturalproductsformsmallpartofmanufacturedproductshencetheexcess supplycannotbeabsorbedinthemanufacturingindustry.

Lowlevelsofindustralisationparticularlyinmostdevelopingcountries.Thislimits processingofagriculturalproductwhichwouldhaveotherwiseaddedvaluetothe [productstoattracthighprices.

Changingtechnologywhichunderminesagricultureproductse.g.clothesmadeof polyesterandlesscotton.Thisreducesdemandforcottonhencepricefall.

Climaticfactorslikerainfallandtemperaturegreatlyaffectsagricultureproduction.

Risksanduncertaintywhichacttogetheraffectingthequalityandquantityproduction.

Bulkinessofagriculturalcommoditieswhichmaketransportationdifficultfromplace ofplentytoplaceofscarcity.

Farmproductsareoftenofmixedqualityduetobadweather,pestanddiseaseandat timespoorhandlingofcommodity,andthereforefetchveryvariableprices.

Onceagivencrophasbeenplantedit’sdifficulttoincreaseordecreasetheresulting output,soreadjustmentislow.

Remedies/Waysofreducingpricefluctuationonafarm.

Diversificationofagriculturalsectortosafeguardagainsttotallossonthefarm.

Improvingstoragefacilitiesmoreespeciallyforperishableproductssothat supplycanberegulatedtomeetdemand

Increasedresearchsothatqualitycropsthatareresistanttodrought,pestand diseasewithshortgestationperiodaregrowntoreducerisks.

Fixingpricesbythegovernmenti.e.minimumandmaximumpricestoavoid exploitationofboththeconsumersandproducers.

Processingofagriculturalproductslikecottonandcoffeebeforebeingsoldto increasetheirshelflifeandvalueforhigherprices.

Improvingtechnologyinagricultureproductionthroughtheuseofirrigation, fertilizerapplicationetcthisincreaseproductionandreducescarcity.

Internationalcommodityagreement.Thesefixquotasandpricesforboth buyersandsellersofcommoditytoreduceexploitation. Improvingtransportsothatproductscanbetransportedtoplaceswherethere isshortagetocontrolpricefluctuation.

Pricesupportwherethefarmersselltheirproductsatmarketpriceandpresent theirreceiptstothegovernmentforatopuptorealisticprice.

IntroductionofBufferstockandstabilisatioinfundbythegovernmenttoavoid pricefluctuation.

Improvementincommunication.Thisenablethefarmerstoreachtofaroff market

Provisionofextensionservicetoeducatefarmersonbestproductionmethods andmarketing.

Formationofmarketingorganisationlikecooperativetoimprovethefarmers’ bargainingpowerandthereforeenablethemtomarkettheirproduceatafair price.

Improvementofmarketinformationtoenablefarmerstofairlypredictfuture marketconditionfortheirproducts.

Introductionofagro-basedindustrytoenableprocessingoftherawproducts makingthemstorableandofhighervalue.

Effectsofpricefluctuationinagriculture.

Leadstofluctuationoffarmers’incomeandhencelowstandardofliving.It leadstoreductionofrevenueforthegovernmentwhenpricesarelowaffecting country’sdevelopment.

Employmentinagriculturefluctuatewithfluctuationinprice

Foreignexchangeearningswillfluctuatewithfluctuationinpricesaffecting Balanceofpayment.

Makesplanningbythegovernmentdifficultbecauseofuncertainfutureincome.

Agriculturemechanizationbecomesaproblemwhenthereislowincome.

Itmakesfarmbudgetingandplanningdifficultbecauseoflowincome.

Politicalinstabilitysincepeopleblamesitallongovernment.

RisksandUncertaintyinagriculture:

Risks:Thesearehazardsinfarmingbusinesswhoseprobabilityofoccurrencecanbe predictedbasedonpastexperience.Andcanbeinsuredagains

ExamplesofRisksare

Changesofweatherwhichcausedestructiontofarmbuildingsandproperties.

Pestanddiseasewhichcancauselossesinbothcropsandanimal.

Fireoutbreakwhichcandestroyfarmpropertiesandlife.

Theftoffarmproduceandproperties

Variationinyieldfromseasontoseasonsinceproductioniscontrolbynatural factorslikerainfall,temperature

Damagesofagriculturalpropertiesintransitetc

Uncertainties.Theseareanunforeseeableandunavoidablecircumstancethataffects theoutcomeofagriculture

Oruncertaintiesarehazardswhoseoccurrencecannotbepredictedbyprobability estimatesandthereforedifficulttoinsureagainst.Herethefarmerlacksperfect knowledgeofthesituationandthefutureoutcomescannotbecompletelypredictedby probabilityestimates.

ExamplesofuncertaintiesinAgriculture:

Yielduncertainty:Thefarmercannottellaccuratelytheyieldhewillobtainsincehe doesnotknowtowhatextendthecropsoranimalwillbeaffectedbypests,weather changesetc.

PriceUncertainty:Pricesofagriculturecommoditieskeepschangingovertimeandit’s verydifficultforafarmertoknowwhenthepricewillfluctuateandatwhatpricehewill sellhisproductsatthetimewhenheisplanting.Thereforefarmprofitcanonlybe predictedwithuncertainty.

Governmentpolicies:Governmentpoliciescanaffectagriculturedirectlyorindirectly andsuchabruptchangesarenotknowninadvance.Examplesofsuchpoliciescanbe madeon;

Taxassessment,subsidiesonfarminputs,prices,whatcropstogrowetc.

Changeintechnology:Becauseofrapidchangeinfarmingtechnologywhichalways comesasaresultsofnewcropsveritiesbeingintroducedtofarmers,farmerstendto facechallengesespeciallywhentheyaremoreconfidentinusingtheoldmethodsof productione.g.useofamaizeplanterforplantingmaizewhenfarmersaremore experiencedinusinghandtoolsonafarm.

Changeindemand:Demandforagriculturalproductskeepschangingyetthelosses asresultofthisisdifficulttomeasure.Farmerswillneverbecertainofthedemandof theirproducts.

Unreliabilityoftransportandcommunicationintimesofhighneed,thiscausedelays intransportationandattimesspoilageofproductscausingbiglosses.

Managementuncertainty:Thepoliciesanddecisionforpeopleresponsibleforfarm productionvariesfromeachindividual,thereforechangeinfarmmanagementmay causebiglosesonafarmifnotproperlymeasured.

WaysofguardingagainstRiskandUnce6tainty:

Diversificationoffarming.Thisistheproductionofdifferentcommoditieson thesamefarmatthesametime.Itsafeguardagainsttotallosssincelossin oneenterpriseduetoriskswillbeoffsetbygainintheotherenterprise.

Insurance.Thisiswherefarmerspaysrelativelysmallamountofmoney (premium)totheinsurancecompanyagainstriskssothatitistransferredtothe insurancecompanyincaseithappened.Insurancecompanywillcompensate foranydestructionmadeonthefarmonceinsuredagainstmakingfarmerssafe.

Flexibilitysothatproductioncanbechangedfromoneproductstoanotheri.e. fromriskyenterprisetolessriskyenterprisee.g.constructionoffarmbuilding inawaytheftcanallowchangeformpoultry,pig,weaners’calvesetc.

Adoptingmodernmethodofproductione.g.useofirrigation,chemicalspray againstpestsanddiseasesincropproduction.

Contractproductionwhereagreementismadeforafarmtoproducespecified amountofproducetobeboughtbyanotherfarmataguaranteedprice.

Thereforetheuncertaintyofpricereductionisremovedfromthefarmerand transferredtothebuyerbutthefarmerlossesthechancetogainfromhigher prices.

Properstoragefacilitytomaintainproducequalityandexploitmarketprices whentheyshootup.

Properrationingofinputsinproductionandmarketing.Thisiswhereafarmer usesfewerinputsthantherecommendedquantitytobeuseinordertoreserves someinthenextplantingseasonincasetheotheronesfail.

Intensivetrainingofextensionstaffsothatfarmersarenotleftbehindwith technologychanges.

Liquidity:Liquidityistheeasewithwhichfarmassetscanbeconvertedinto cash.Thishelpsinfightingagainstriskanduncertaintysincetheasstscan easilybeconvertedintocashifcircumstancesdictate.,hencethefarmercan selloffallthestocksofhislayinghensofthepriceofeggsfall.

Choosingthemostcertain/profitableenterprise(choosingwhattoproduce withcare)tocomeupwithmoresecuredenterprise.

Throughbuildingadequateowner’sequityi.e.,thefarmermakesadequate personalsavingsothatthehecanestablishotherenterprisesincaseoffailure insomeeofhisenterpriseonafarm.

Employingexperiencedpersonneltoavoid/reducefaultymanagerialdecision.

Encouragingcooperativeinordertopullresourcestogethertohelpthefarmers.

Governmentsupportthroughpricing,subsidiesoninputsandissuingcreditsto farmerstoencouragefarmersmakesreasonableinvestment.

Ensuringemploymentofpeoplebythegovernmenttoensurecontinuous effectivedemandofagriculturalcommoditiessincetherewouldbehighmoney incirculationamongpeople.

SpecializationandDiversificationinAgriculture:

Specialisation:Thisiswhereafarmerdecidestoengagehimselfinone activity/enterprise.

Advantagesofspecialization.

Itenablesthefarmertomasterhisproductionmethods.

Maximumreturnsareobtainedduetobetteruseofresources.

Itsavestimethatwouldbeusedinmovingfromoneenterprisetoanother.

Itimprovesonthelabourskillsinaparticularfieldi.e.laboursbecome specialisedandmorecompetent.

Itpromotestheuseofmachineinindustries.

Itpromoteshigherproductioncapacitysincespecializedproductionisalways onlargescale.

Itimprovesthequalityofproduce.

Easymarketingofoneproduct.

Disadvantagesofspecialisation.

Greaterlosesarealwaysexperiencedfromnaturalcalamitiesandprice fluctuation

Itdoesnotallowthefarmertogetconstantincomethroughouttheyear.

Monotonyofworkcreatesboredomtothefarmers.

Ifoneworkerisabsent,thentheproductionprocessmaycometoastandstill.

Thereisgreaterriskofunemploymentifthebusinessclosesdown

Diversification:Thisisasituationwhenthefarmerdecidestoengageinmorethan oneactivity/enterpriseatthesametimeespeciallyonalargefarm.

Advantagesofdiversification:

Thereisinsuranceagainstlossfromnaturaldisastere.g.whencattleisinfected withcontagiousandinfectiousdiseasethefarmercansellhiscropsandisnot likelytoincurgreaterlosses.

Thefarmergetsconstantincomethroughouttheyearfromdifferententerprise. Itenablesefficientutilizationoffarmresourcesespeciallylabour,machinery andfarmequipments.

Itenablesthefarmer6obeselfsustainedthanthecasewithspecialisation.

Itoffsetthechallengesofpricefluctuationsincethefarmercanaffordtostore producewhosepriceshavegonedownandsellthosewhosesatisfiedmarket price.Thereisintegrationoffarmbiproductsandindirectlyreducesoncostof productione.g.cropr4esiduescanbeusedaslivestockfeedswhilepoultry liters,cowdungandurinemaybeusedinsoilfertilityimprovementasmanure.

Itcheckstheproblemofseasonalunemploymentsinceproductionactivitiesare spreadthroughouttheyear.

Itwidenstheexportbaseofacountrywhichisaprerequisiteforeconomic growth.

Disadvantagesofdiversification.

Itisdifficulttomanagethansingleenterprise.

Itrequiresmanyskillsforworkerstoacquire.

Itisdifficulttoorganizeformarketingofmany/severalproductsthanmarketing asingleproduct.

Thereisdifficultyinselection,combinationandmanagementofcropsand livestock.

Pestanddiseasecaneasilyspreadfromoneenterprisetoanotheronthefarm.

Itrequireslargeacreageoflandtooperatemanyenterprises.

Hugecapitaloutlayisneededtofinanceseveralenterprisesatthesametime.

Thereisalsoriskofanimaldestroyingcropsincaseofmixedfarming.

Diversificationmayleadtolandfragmentationwithitseffectsonafarm.

Agriculturecredits:

Thisrefertofinancialassistancegiventofarmersinformofloanstofinancetheirfarm productionandrepayswithinterests.Itisaborrowedcapitaleitherincashorki9nd usedbyfarmerstofinancetheiractivities.

ImportanceofAgriculturecredits.

It’susedtopurchaselongtermassetssuchaslandandmachines.

It’susedtoprovideworkingcapitaltobuyfarminputs

ItisusedtoovercomeRisksandUncertaintiese.g.totalcropfailurebygiving thefarmercapitaltocontinuewithproduction.

Itprovidescapitalforconstructionoffarmstructures.

Itisusedtoincreasethelevelofproductionandforconstructionofstores.

Itencouragesbetterfarmingtechniquesinagriculturethroughtheuseof improvedbreedsandverities.

Itcanleadstoimprovementinfarmers’standardofliving.

Italsoencouragesfarmerstodevelopsenseofsaving.

SourcesofAgriculturalcredits.

Commercialbanklikesatanic,DFCU

Co-operativeorganization

Farmers’organizatione.g.UgandaNationalFarmers’Federation.(UNAFF) Insurancecompany.

Marketingboarde.g.UgandaTeaBoard.

GovernmentschemesuchasEntandikwa.

InternationalbodieslikeInternationalFundsforAgricultureDevelopment,Food andAgricultureOrganisation.

IndividualmoneyLenderslikeinformal;creditsborrowedfromfriends.

MicrofinanceinstitutionsuchasPridewomen’sFinanceTrust.

TypesofAgriculturalcredits:

Shorttermcredit:Thisisacreditrepayablewithinoneyearanditisusedtopurchase inputssuchasseedsandfertilizer.

Mediumtermcredit:Thisisthetypeofcreditrepayablewithin2-5yearsanditisuse tofinanceprojectsorminormaintenanceoflandsuchasminorfencingofland.

Longtermcredit:Thistypeofcreditisrepayablewithinmanyyearssay15yearsandit isusuallygivenforpurchaseoflongtermassetslikeland,puttingupbuildingsand soilconservationstructures.

Note:Ahardloanisthemoneyborrowedaftergivingasubstantialsecurityandthe interestrateishighwhilesoftloanisthemoneyborrowedwithoutasubstantial securityandtheinterestrateislow.

Problemsofcreditadministration.

Shortageoftrainedstaffforcreditadministration Highrateofpoorrepaymentofloan.

Poormanagementskillsbythefarmers.

Manyofthefarmersarestillnotyetawareofthecredit.

Limitedfacilitiesforlanddevelopment.

Rigidityinrepaymentschedule.

Shortageofcapital.

Highinterestrate.

Measuresthatcanensureseffectivenessofagriculturecredit.

Co-ordinationofcreditsupervisione.g.makinguseofnormalextensionstaff andintensificationofpersonaltraining.

Improvementofloansupervisiontoensurespromptpayment. Improvingloanrecoveryprogrambyencouragingpartrepaymentoveraperiod oftime.

Provisionofextensionservicetofarmersonhowtousecredit.

Sensitizingthefarmerstodevelopacommercialattitudenotjustproducefor thesake.

Thelendersshouldlookforappropriatecollateralsecurityorgivingsoftloan wherepossible.

Thelendingagentsshoulddemandforfeasibilitystudiesbeforeissuingouta loantothefarmer.

Repaymentscheduleshouldbeflexibletofitwithmaturityoftheenterprise..

Increasefarmer’sknowledgeoncreditavailabilitythroughfrequentvisittothe media.

Coordinationofallcreditinstructionstoavoiddoublelending.

Theloanshouldbegiventothefarmersintimewithlesstimespentonpaper work.

Thereshouldberoutinefollowupandmonitoringoffarmers’activitiesbythe lendingagencie4s.

Thereshouldbereasonablegraceperiodgiventothefarmersandan appropriateloanrepaymentscheduleshouldbegiventothefarmers.

Providefarmerswithinputsatfairpricessothattheycanearnprofitforeasy repaymentofcredit.

Provisionofmostcreditsinkindlikegivingimprovedseeds,fertilizers ,agrochemicalsetc.andlessIncashtoavoidmisuse.

Organisemarketingoffarmersproduceatfairpricestosothatfarmerscanget profitearlytopaybackcredit.

Helpfarmerstoidentifyviableprojectswithfewerriskstoavoidloss.

Creditsshouldbetakentothefarmersratherthanfarmerslookingforit.

Reasonswhymostfamersfailtopaycredit.

Highinterestratechargedbythelendingagencies.Thismakesthefarmersfail torepaycreditwithintherepaymentschedule.

Failureoftheenterpriseduetonaturalfactorsandpoormanagement.

Illhealthofthefarmersleadingtopoorsupervisionofhisenterprise.

Deathofthefarmerleavingnobodytopaybacktheloan.

Marketingproblemslikepricefluctuationwhichmaymakesfarmersfailtoearn therequiredprofittopaybackcredit.

Unrealisticnatureofsomefarmersassomecanborrowmorethanwhatthey canaffordtopaybackwithinthespecifiedperiod.

Inflationwhichcanerodethemoneyvaluei.e.canincreasecostofproduction makingitdifficulttofullycovertheintendedtask.

Politicalinstabilitiesthatmayleadstodestructionoffarmer’sassets.

Lowlevelofeducationmakingfarmersfailstoanalysefinancialprogressof theirfarmingenterprise.

Lackofextensionservicetoadequatelyadvicefarmerresultingintopoor decisionmakingasregardtoenterpriseselection,productiontechniqueand marketing.

Poorloanrepaymentcultureordishonestyofmostfarmers.

Inadequatecredittoeffectivelycovertheentireproductionandmarketing process.

Lategivingofloantothefarmersbythefinancialinstitutionleadingtountimely farmactivities,poorplanninghencepoorloanperformanceaswell.

Shortrepaymentperiodgiventothefarmersbythefinancialinstitutionwhich doesnotmakesfarmerstorealisethevalueofthemoneyborrowed.

Risksanduncertaintiesinfarmingmayaffecttotalproductionnegatively.

Poorloansupervisionamongtheloanproviderswhodonotmonitorand evaluatetheprojectstowhichtheloanswereintendedfor.

Misuseofloanbymostfarmerswhodiverttheloanforfarmingfortheir personalconsumption.It’sverycommonforthoseloansofferedincash.

FactorsthatlimitsavailabilityofcreditstotheagriculturalsectorsinUganda.

Mostfarmerslackcollateralsecurity.

Mostfarmerslackadequateknowledgeabouttheavailabilityofcredits.

Mostcreditinstitutionsarelocatedinurbanareas,farawayforeasyaccessby thepotentialborrowers.

Longtermloanrequiressupervisionanditwouldinconveniencewhoeveris chargedwithsupervisionbecausefarmersarescatteredandroadsIruralareas arepoor.

Somecreditsareinadequatetoenablefarmersstartaseriousbusiness.

Repaymentperiodofmostcreditisshortandwithhighinterestrate.

Agricultureisfacedwithmanyrisksanduncertaintiesthereforemoneylenders donotliketolendagricultureprojects.

Corruptionandembezzlementoffundsincreditadministration.

Interestrateishighanddoesnotattractthefarmerstoacquireloan.

Existenceofinflationreducestherealvaluesofcreditthereforeinstitutionmay lose.

Interest:Thisisthepercentagechargedfortheloanorthepercentagechargedforuse ofloan.Theamountofinterestpaidtolendingagenciesbytheborrowerisdetermined alwaysby;

Thedemandforthecredit,supplyoftheloanablemoney,sizeofthecredit,typeof credit,andcollateralsecurityoftheborrower.

Note:Loancanbepaidbackeitherthroughdirectcashpaymentorthrough cooperatives.

Considerationtobemadebymoneylendersbeforegivingaloantotheborrower. Amountofmoneytobeborrowedinrelationtothepurposeoftheloan.

Typeofcrediti.e.shortterm,mediumtermorlongtermcredit.

Interestratetobecharged.

Availabilityofcollateralsecurity.

Typeofprojecttoinvestin.

Financialpositionofthefarm(project)basingonthefarmrecords.

Experienceoftheborrowerintheproposedprojects Previousloanhistory.

Theintendedcontributionoftheborrowertotheproject.

Whendoesagriculturalcreditsaidtobeeffective.

Whenitpromoteagriculturedevelopmentbyincreasingtheamountofcapital available.

Whenithaseffectiveutilisationofagriculturalresources.

Whenitencouragesbetterfarmingtechnologies.

Whenitprovidethefarmerwithanattitudetocompletelyadoptacommercial attitudetowardsfarming.

Whenitleavethefarmerbetteroffthanbefore.

FarmingOrganisations

Cooperatives:Thisisaregisteredorganizationofpeople(farmers)whodecidestowork togetherformutualbenefits.

Typesofco-operative.

Transportco-operatives:Thisdealswithtransportationofproduceeitherfortthe membersorforprofitfromotherorganizatione.g.Ugandacooperativetransportunion.

Creditsavingco-operatives:Thisdealswithsavingofmember’smoneyandprovision ofsmallloanse.g.UgandawomencreditandTrustfund.

Consumerco-operative:Thisstocksandsellscommoditytomembersatsubsidized pricesandcanalsogivefinancialassistancetomembers.

Producerco-operatives:Theseareconcernwithmarketingofmembers/farmers producee.g.Masakacooperativeunion.

Tradeandcraftco-operatives:Theseareconcernwithbuildingandconstructionwork e.g.constructionofwarehousingforstorageoffarmers’produce.

Principlesofco-operatives:

Thesearethebasicguidelineonwhichtheformationanddaytodayrunningofcooperativesisbasedon. Openandvoluntarymembership:

Allpeoplearefreetojoinorleavethegroupwithoutanyrestrictionofanykind Democracy:

Co-operativesarerunondemocraticprincipleevenwhenelectionfortheleadersis held.I.e.onemanonevote.

Interestandprofit:

Thepercentageofreturnonborrowedmoneyshouldbelowsincetheorganisationisa profitmakingone.

Co-operation:

Co-operativesmustworktogetherwithotherco-operativeorganizationinordertolearn fromeachother.

Neutrality:Co-operativesmustbeneutralinpolitics,religionoranyotherbiasthatcan affecttheiroperation..

Promotionofmembers:Allpromotiontoplacesofhighresponsibilitiesmustbebased onmerits.

Education:Co-operativesmustpromoteeducationfortheirmembersinorderto reducetherateofilliteracyandalsoincreasetheskillsneededinrunningofcooperatives.

Continuousexpansion:co-operativesmusthavecontinuousexpansionintermsof membersandphysicalfacilities.e.g.buildings,machineriesetc.

Shareofdividends:Thereisshareofdividendsaftercalculatinghowmuchmembers havecontributedtotheco-operatives.

Importanceofco-operatives.

Itprovidesloantomembersfordevelopment

Itbringstogethermanysmallscalefarmerstoachievelargescalefarming.

Itpromoteseducationandtrainingformemberstoachievehighlevelof management.

Itprovidesmarketforfarmersproducebybuyingcommoditiesfromfarmers.

Storesfarmersproducebeforesellingreducingriskstofarmers.

Canprovideemploymenttomembersasaccountantandmanagement.

Canprovidestransportforproducefromfarmstomarketplace.

Someco-operativescanprocessproducebeforesellingtoaddvalues.

Canprovideinputstofarmersatsubsidizedpricestoincreaseprofits.

Co-operativescanmobilizepricesforagricultureproductsbybuyingproduce duringperiodofplentyandsellingitatthetimeofscarcity.

Theyeliminatewastefulcompetitionandexploitationoffarmersbymiddlemen henceincreasingthefarmer’sprofitmargins.

Theyincreasethebargainingpowerofmembersinthemarketingandprotect weakones.

Problemshinderingprogressoffarmingorganization.

Inadequateskillsofmanagementamongfarmerswhichmakesthem incompetentinexecutionofthedaytodayactivitiesoftheorganization.

Inadequatefundstofinancetheactivitiesforco-operativeswhichlimit investmentsandexpansionsofco-operatives.Thisismainlyduetofailureof memberstopaysubscriptionfeeregularlyandfailuretokeeptheirmoneywith theco-operatives.

EmbezzlementandcorruptionbymanagershasreducedthegrowthofmostcooperativesinUganda.

Inadequatetransport:someco-operativesdohavetrucktotransportproduce fromproductioncenterstomarketplaces.

Shortageofstoragefacilities.Mostco-operativesIruralareasdonothave enoughstoreswithfacilitieslikefreezersthathelpinstoringofproducts.

Unstablepriceofagricultureproductsbothatlocalandinternationalmarkethas limitco-operativesfromexpandingfinancially.

Highrisksanduncertaintyinagriculture:Thisreducestheprofitmarginforcooperativewhichgreatlydiscouragefarmers.

Politicalinstabilities:Inplaceswherethereisinsurgencyit’sbeenverydifficult forco-operativetooperate.

Dishonestyofthememberswhorefusetopaybacktheloanborrowed.

Ahighcompletionfromprivatesectorswhichhasaffectedtheamountof profitsthatcanbeearned.

Lackofgovernmentsupport:isasresultsofintroductionofliberalizationpolicy wherethegovernmentstoppedsupportingfarmer’sco-operatives.

Tribalismandnepotismwhichendangertheunityofco-operatives.

Widespreadilliteracyespeciallyoftheruralpopulationabouttheaffairsofthe co-operative.Theyarenotawareofthebenefitsofjoiningsuchorganization.

Solutionstoproblemsfacingco-operatives.

Morecentersfortrainingmanagersshouldbesetuptoequipmanagerswith skills.

Co-operativeshouldaccessloanfromBanksandotherlendinginstitutionsin caseoffinancialconstraints. Constantauditingshouldbedonesothatthemangersaremadetobemore accountabletothelossesmadehencereducingembezzlement.

Governmentshouldsupportco-operativethroughstabilizationfundincaseof lowprice.

Membersborrowingmoneyfromtheorganizationshouldpresentsecurityto preventdefaulting.

MarketingBoard:

Thesearepublicbodiessetupbythegovernmenttoassistfarmersintheproduction, processingandmarketingofagricultureproducts.

Theaimsofthemarketingboards.

Toprovideessentialstoragefacilitiesforstoringagriculturalproducefrom farmers.

Toensuresteadysupplyofagriculturalproducetothefinalconsumes.

Tosetandguaranteedpricesforthegoodsproducebythefarmers.

Tohelpfarmersinordertoproducehighqualityagricultureproducts.

Topromoteexpansionofcashcropse.g.cotton,coffeesoastoreduce economy’sdependenceononecrop.

Toincreasestateparticipationineconomicaffairsandpublicinvestmentbythe government.

ExamplesofmarketingboardsinUganda.

Coffeemarketingboards.

Lintmarketingboards.

UgandaTeaAuthority.

ProduceMarketingboards.

FunctionofMarketingBoards.

Theycollectproducefromgrowingareastoacentralstorewheretheycanbe exportedtoexternalmarket.

Theyprovideplantingmaterialse.g.LintmarketingBoardsprovidecottonseeds.

Theybuyproducefromfarmersatfairpriceandresellitabroad.

Theyoffertechnicalservicewhichanindividualfamercannotaffordtopayfor.

Marketingboardseliminateexploitationoffarmersbyprivatetraderswhotend topaylesstothefarmers.

Theyadvicegovernmentwhenfixingpriceforagricultureproducts.

Theycollectagricultureproducefromfarmersandtransportittothemarket,i.e. theyoffertransportservicetofarmers.

Theyensurethatproducefromframersareofhighqualitysoastomeetmarket standard.

Marketingboardscanstoreproduceonbehalfofthefarmersespeciallyduring periodofsurpluswhenthepricesarelow.

Theyoffercreditstofarmersinformofloanandinputs.

Marketingboardscanfinanceresearchinthedevelopmentofbettermethodof farmingandbestqualityagricultureproducts.

Theycanalsodisseminateresearchinformationtofarmersinthevillages.

Theyofferexportlicenseandthereforefightmalpracticeslikesmuggling.

Theyencouragetheproductionofcropsthatwerepreviouslyimportedby guaranteeingpricetofarmers.

Problemsofmarketingboards.

Smugglingwhichintroducescheapproductsinthemarkethencereducing profitsofmarketingboards.

Inadequatestoragefacilitiesforproducts. Excessiveproductionhencelowpriceformarketingboardintheinternational market.

Delayedpaymentoffarmerswhichdiscouragesfarmersfromsellingtheir producetothemarketingboards.

Poorroadnetworksinruralareasmakestransportationofproducebought difficultandmoreexpensiveforthemarketingboards.

Loandefaultingwheresomefarmersfailtopaybacktheloangiventothemby themarketingboards,thisaffectstheirperformance.

Marketingboardtendtofixpricesofcertaincommoditybeforeharvestingand asaresults,surplusproductionmaycomewithproblemsofpurchasedueto financialproblem.

Farmmanagement

FarmRecords:Thesearewrittenaccountsofalltheinformationkeptonthefarmfor futurereference.

Characteristicsofagoodrecord

Theyshouldbesimpletomake.

Theyshouldbeconcise.

Theyshouldbeaccurate.

Theyshouldbecomplete.

ImportanceofagoodfarmRecord.

Theyenablesafarmertoknowwhetherthefarmismakingprofitornotandthe unproductiveenterprisesaredroppedandtheprofitableonesareconcentrated on.

Theyassistfarmersinplanningandbudgetingforthefarm.

Theenableafarmertomakeasounddecision.

Theyhelpfarmerstoshareprofitandlossesattheendofafinancialseason,in caseofaco-operative. Theyhelpthefarmertoobtainloanfromthemoneylendersbecausegood recordsrevealsthefinancialstandofthebusiness.

Theyareusetoassessthefarmer’sincometaxbecauseandthissavesthe farmerfrombeingovertaxed.

Theyhelpsthefarmertolaunchtheclaimtotheinsurancecompanyincaseof lose.

Theyhelpthefarmertocarrymanagementactivitiesonthefarme.g.pedigree selectionusedinbreedingandculling.

Theyareusefulincomparingefficiencyofthefarmwithothersimilarfarmsin thesameareaorelsewhere.

Theyprovidelabourinformationwhichcanbeusedtocalculateterminal benefitsofthefarm.

Italsohelpsindeterminingwagerateforlaboursonthefarm.

Recordsareveryimportanceinsolvingdisputesamongfamilymembersmore especiallywhentheownerofthefarmdied.

Theyactasanincentivetothefarmerbyrevealingthoseareaswhichneeds improvement.

Theyhelptodeterminethevalueofthefarmincaseofsale.

Healthrecordhelpsineffectivepestanddiseasecontrol.

Ithelpstoshowthehistoryofthefarmanditsdevelopment.

Typesofrecordskeptbyafarmer.Theyareoftwocategories (a)Productionrecords.

Breedingrecordsindicatesthedatetheanimalisonheat,dateofservice,datesof calving,sexofthecalf,expecteddateofdryingoffandsteamingup.

Feedingrecordsshowstheamountoffeedsgiventotheanimaldailyandthetypesof feedgiven.

Healthrecordsshowstheidentityofanimal,nameofdiseasediagnosed,dateof treatment,kidoftreatmentgiven,anyexaminationmade.

Labourrecordsshowsthenumberofworkersonafarm,levelsofqualification,typeof workdonebyeachworker,dailyattendanceofeachworker,andamountofwork supposedtobedonebyeachworker.

Croprecordsshowsthetypesofcropsgrown,yieldsandagronomicprinciples employedinproducingthecrops.

Inventoriesrecordsshowsallthetotalphysicalpropertiesofthefarm,i.e.numberof tools,machineries,,buildingsetc.

Financialrecordsshowprofitandlossesofthefarm,dailyincomeandtotalsales.

Recordsonfarmhistoryi.e.datesofsettingupthefarmandownershipofthefarm.

(b)Farmaccount:Theseincludefinancialdocuments,financialbooksandfinancial statement.

Financialdocuments:Theseareinvoices,receipts,deliverynote,purchase orderandfinancialstatement.

Invoiceisadocumentissuedtothefarmerwhenheordersforthefarminputsandit showsthequantity,price,andcostofdeliveredgoods.

Receiptisfinancialdocumentissuedbythesellertothebuyerasaproofforpayment fortheitemsbought.

Deliverynoteisafinancialdocumentpreparedbythesellertothebuyershowingthe itemsincludedintheorderandsuppliedtothebuyer.

Purchaseorderisadocumentpreparedbythebuyertotheselleronthegoodshe wantstoobtain.

Statementisabillshowingdetailsofvariousordersoveraperiodoftimeafter receivingseveralsupplies.

Financialbooks:Theseareinventoriesandcashbooks.

Inventoriesiswherethefarmerrecordseverythingheownsonthefarmwhilecash bookshowsthereceiptsandexpensesonthefarmoveraspecifiedtimeperiod. Financialstatement:Thesearetherecordswhichshowthefinancialstatusof thefarm/enterprise.Theyincludethefollowing;

Budget

Tradingaccount/Profitandlossacount

Balancesheet

Budget:Thisisafinancialstatementoutliningtheanticipatedfarmrevenueand expenditureforanenterpriseorapartofthewholefarmfortheforthcomingfinancial period.

Importanceoffarmbudgeting.

Itenablesthefarmertoachievethesetfarmobjectives.

Itmotivatesthefarmertoworkhardtoachievethesetgoalsforthebudget.

Ithelpsthefarmerinforecastingprofitsandlossesestimatingprofitabilityof thefarm.

Itcanbeusedduringallocationoffundstovariousareasofproduction.

Usedindecisionmakingwhencomparingenterprise.

Ithelpsthefarmerinmakingeffectivechangeintheorganisation.

Ithelpsthefarmertoestimatetherequiredresourcesinproductioninternsof labour,capitaletc.

Itguidesthefarmerwhenborrowingloanfromthelendingagencies.

 Itcanbeusedasreferenceduringfutureplanning.

Typeofbudget

Partialbudget:Thisisafinancialstatementoutliningtheanticipatedrevenueand expenditureforapartofthewholeenterpriseintheforthcomingfinancialperiod.

Completebudget:Thisisfinancialstatementoutliningtheanticipatedrevenueand expenditureforanenterprise/wholefarmintheforthcomingfinancialperiod.

Proceduresofmakingacompletebudgetonafarm.

Statetheobjectivesoffarmingbusinesssothatthebudgetcananswersuch objectives.

Listalltheenterprisefoundonafarm.

Listalltheavailableresourceswhichcanbeusedinproduction.

Estimatesthenumberofunitsofproductionforthegivenresourcese.g. numberofplants,numberofacres,numberofanimalsetc.

Estimatethephysicalinputsandtheircosts.

Estimatethephysicaloutputandtheexpectedreturn.

Calculatethefixedcostsinthenexttradingyearorperiod.

Workouttheestimatedprofitsforthedifferententerprises.

Workoutthecoststhatwouldoccurintheyear’sbusinessdirectlyasaresultof change.

Calculatetheopportunitycostofanyinputsoastomaketherightdecision.

Considerthedifferentbetweentotalcreditsandtotaldebtsasthechangeinthe netincome.

Adduptheestimateforalltheenterpriseonthefarm.

Pointstoconsiderinbudgeting.

Leastcombinationoffactorsofproductionusedonthefarm.

Farmer’sexpectationthroughtime.

Opportunitycostsforfactorsofproduction.

Constraintsinbudgeting

Failuretoseeoridentifycomplementaryandsupplementaryenterprises.

Inadequateknowledgeaboutbudgeting. Inadequatetechnicalinformationaboutbudgeting.

Biasinchoosingenterpriseinsteadofaimingatmaximsingprofit.

Inadequatemarketinformationonpricesofinputsandoutputs.

Pricefluctuationinagriculturethatmakesanticipationtobeunachievable. Importanceinformationinbudgeting.

Resultsfromresearchstation-thiscanshowtheexpectedproductionofan enterprise.

Dataoninput-outputrelationshipi.e.productionfunction.

Costsofinputandoutputinformationsoastoforecastlossesandprofit.

Farmrecordonoperationofthefarm.

ProfitandLossAccount.

Aprofitandlossaccountcanbedefinedindifferentways;

Itisaprojectionofsalesandreceiptsagainstpurchasesandexpensestodetermine theprofitorlossofthebusiness.

Orisafinancialstatementwhichshowsallthetransactioncarriedduringthetrading periodusuallyayearanditrevealswhetherthebusinesshadmadeprofitorloss.

Features/componentsofprofitandlossaccount.

Title/Heading.Thishasthenameofthestatement,thedurationinwhichthebusiness iscarriedoutandaprefixfortheyearendingfollowedbyfinancialyear. Example,AprofitandlossaccountforMr.Gonzagafarmfortheyearending 9th/Dec/2012.

Ithastwosidesi.e.purchaseandexpensewhichcompriseoflistofcommoditiesand servicesspentonanditusuallyappearsonthelefthandside,thensalesandreceipts sidewhichcompriseoflistofcommoditiesofferedforsalesbythefarmthatgenerate earning.Itappearsusuallyontherighthandside.

Ithasanopeningvaluationputonpurchaseandexpenseside.Openingvaluationis thevalueofalltheassetafarmhasatthebeginningofafinancialyear.Itisputonthe purchasesidebecauseitisassumedthatifthefarmerwastobuythatfarmthatisthe moneyhewouldspend.

Ithasaclosingvaluationputonsalesandreceiptside.Closingvaluationisthemoney andassetsthatthefarmhasattheendofafinancialyear.egfedinstore.

Ithaseithernetprofitornetlossandthenetprofitisputonthepurchasesidewhere asnetlossisputonthesalesandreceiptside.

Note:Anetprofitornetlossisthedifferencebetweensalesandreceipt,andpurchase andexpenditure.

Thedifferentbetweengrossprofitandnetprofitisthat,grossprofitisthetotal revenuelessthevariablecostsandnetprofitcanalsowhilenetprofitisthetotal revenuelesstotalcosts(variablecostandfixedcostsummedup).

Examples:GiventheinformationprepareprofitandlossaccountforMr. Ssenyonga’sfarmfortheyearending31stJuly2012.

Drugpurchase 45000

Heifersales 1,500000

Milksales 7500000

Depreciationofmower 270000

|  |  |
| --- | --- |
| Closingvaluation | 1800000 |
| Interestonloan | 200000 |
| Cropsales | 350000 |
| Seedpurchase | 190000 |
| Feedpurchase | 253000 |
| Fertilizerpurchase | 290000 |

Paymentfromrentedtractor700000

Openingvaluation 1050000

Eggsales 350000 Labour 250000

APROFITANDLOSSACCOUNTFORMRSSENYONA’SFARMFORTHEYEAR ENDING31stJuly2012

|  |  |  |  |
| --- | --- | --- | --- |
| Purchasesand expenses | Ugx | Salesandreceipt | Ugx |
| Openingvaluation  Interestonloan  Labour  Drugpurchase  Seedpurchase  Feedspurchase  Fertilizerpurchase  Subtotal  Profit | 1050000  200000  250000  45000  190000  235000  290000  2530000  2920000 | Closingvaluation  Heifersales  Milksales  Cropsales  Tractorpayment  Eggsales | 1800000  1500000  750000  350000  700000  350000  5450000 |
| Total | 5450000 |  | 5450000 |

Example2

AprofitandlossAccountforMrs.Clara’sfarmasat31stDecember2012

|  |  |  |  |
| --- | --- | --- | --- |
| Purchaseandexpenses | shs | Salesandreceipt | shs |
| Openingvaluation 2300000  Veterinarycosts  160000  Depreciationofmachine  150000  Pesticide  80000  Fertilizer  260000  Interestpayable  100000  Wages  2500000 |  | Closingvaluation  4400000  Vegetablesales 1000000  Rentreceivable  IncreaseImachinevalue  205000  Milksales  850000  Cropproducesales  1800000 | 595000 |
| Subtotal 4550000 |  | 8850000 |  |
| Netprofit 4300450 |  |  |  |
| Total 8850450 |  | 8850450 |  |

(a)Usingtheinformationonthetableabove,determinetheprofitorloss ANetprofit=Totalsalesandreceipt–Totalpurchaseandexpenditure

885045-4550000=4300450

(b) Withreason,suggestweatherMrs.Claraislikelytogetabankloan.

Mrs.Claramadeaprofitof4300450andthereitisconvincingthathecaneven usetheloantheygivehimprofitably.

Exercise.

UsetheinformationprovidedbelowforMr.EladufarmasatDecember2010

Casuallabour 150000

Transportcharge 100000

Purchaseofanimalfeeds 103000

Salesofmilk 160000

Fertilizerpurchase 120000

Purchaseofvegetableseeds20000

Salesofmaize 100000

Eggsales 350000

Otherreceipts 18000

Fixedcosts 253000

Salesofonebullock100000 Trainingworkers 200000

Vegetablesales 20000

(a)DrawupaprofitandlossaccountforMr.Eladu’sfarmfortheyearending31st December2012 (b)Calculategrossprofitandnetprofitshowingyourworkclearly.

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BalanceSheet

Thisisafinancialstatementdrawntoshowthefinancialpositionofthebusiness ofabusinessasataparticulartime.

Itisafinancialstatementshowingassetandliabilityataparticulartime.Afarmer drawsupaliabilityinordertofindouttheNetcapital/Worthornetcapitaldeficit.

Liabilities:Thisreferstothevaluesofalltheclaimsthatthefarmhastopay outsidetootherpeople.Liabilitiesinclude;

Loan,moneythatthefarmhatopayoutbuthehasnotyetdone(debtspayable), overdraftatthebank.

Typesofliabilities:

1.CurrentLiabilities;Theseareclaimsthatmustbepaidinashorttimenot exceedingyeare.g.rent,wages,bankoverdraft,creditorsetc.

2.Longtermliabilities;theseareclaimsthatmustbepaidwithinalongperiodof timeexceedingayeare.g.capitalshares,developmentloan,Treasurybilletc

Assets:Thisreferstothevaluesofalltheitemspossessedbythefarm.Assets includethefollowing;

Thevalueoflivestock,equipmenthouse,crops,machineryetc

Moneythatthefarmhopetoreceivefromasalesofgoodsbutnotyetpaidfor (deptreceivable)

Cashthatthefarmerhaseitherinthehouseorinthebank.

Typesofasset

Therearebasicallytwotypeofasseti.e.fixedassetandcurrentassets

Fixedassetshavemorethanoneyearofusefulnesse.g.Machinery,building, breedinganimals,perennialcrops,land,fittingsetc

Currentassetshaveoneorlessthanoneyearofusefulnesssuchascashathand, cashinbank,annualcrops,debtreceivable,pre-paidexpenses,promissorynotes, etc.orassetsthatcanbeeasilyconvertedintocashe.g.Meat,milk,cropproduce etc

Note:Ifthevalueofassetsexceedsthatofliability,thebusinessissaidtobe solventi.e.thebusinesscanmeetallitsliabilityandhavesomebalanceleft(net capital/worth).Ifthevalueofliabilitiesexceedsthatofassets,thebusinessissaid tobeinsolventi.e.cannotmeetallitsliabilitiesandabalanceiscallednetcapital deficit.

Workingcapitalisthedifferencebetweencurrentassetsandcurrentliabilities.

Insolvencyisastateofbankruptcyofthefarmwhenliabilitiesaregreaterthanthe assetsandthefarmcannotrunitself.

Networthorequityisthefigureusedtobalancethebalancesheetstatement.

Currentliabilitiesareobligationordebtspayablewithinayeare.g.shorttermloan.

Longtermliabilitiesaredebtspayableoverseveralyearse.g.longtermloan.

Bankoverdraftreferstoborrowingmoneyfromthebankwheretheborrower overdrawshisaccountuptoanagreedamount.

Mortgageisatransferofrightoverpropertyusuallyassecurityforaloan.

Depreciationreferstodecreaseinvalueofthefixedcosts.

YouareprovidedworthabalancesheetofMr.Kajura’sfarmasat31stDecember 2012.Detwerminethenetworthvalueandstateitsimportance.

|  |  |  |  |
| --- | --- | --- | --- |
| Liabilities shs | Assets | shs | |
| Longtermliabilities  Capitalinvestment  1000000  Mortgageoffarmwithbank 1200000  Loanfromhisbrother 100000  Subtotal 2300000  Currentliabilities  Bankoverdraft 200000  Hirepurchasedebtforvan 250000  Agrimarketingboard 360000  Subtotal 810000 | FixedAssets  Land  Building  Lessdepreciation  Fence  300000  Subtotal 5600000  CurrentAssets  Stock  Growingcrops | 3000000 1200000  1100000  150000  190000 | |
|  | Debtors | 77000 | |
| Totalliabilities 3110000 | Cashathand  Subtotal  Totalassets | | 270000 687500  6287500 |
| Networth 3177500 |  | |  |
| Balance 6287500 |  | | 6287500 |

Networthvalue=Totalassets–Totalliabilities

=6287500–311000 =3177500.

Thenetworthstatementprovidesinformationonthesolvencyofthebusiness.It showstheabilitytomeetshortrunfinancialdemand.

Exercise.

UsethefollowinginformationtoconstructabalancesheetforMr.Apollo’sfarmgreen valleyzoneLacekocot.

Bankoverdraft 1500000

Buildings 20000000

Cashinbank 90000000

Coffee 15000000

Dairycattle 10000000

Debtpayable 800000

Debtreceivable 5000000

Longtermloan 5000000

Machineryandequipment60000000

Valueofland 40000000

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Exercise2.

TheinformationbelowshowstheassetsandliabilitiesofAbacusmixedfarmasat 31st.12.2014

|  |  |  |
| --- | --- | --- |
| Debtsreceivable | | 860000/= |
| Promissorynotes | | 105000/= |
| Deptpayable | | 600000/= |
| Cashatbank | | 72000/= |
| Prepaidexpenses | | 890000/= |
| Bankoverdraft | | 966000/= |
| Unpaidinsurance | | 28000/= |
| Valueofsheep | 365000/= | | |
| Valueofmaize | 512000/= | | |
| Building | 20000000/= | | |
| Depreciation | 694000/= | | |
| Longtermloan | 8,500000/= | | |
| Interestonloan | 947000/= | | |

(a)Fromtheinformationgivenabove,drawabalancesheetforAbacusmixedfarm’s business.

(b)Withreason,commentonthefinancialpositionofAbacusmixedfarm.

©HowcansuchfinancialrecordbenefitAbacusmixedfarm.

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Advantagesofpreparingabalancesheet.

Helpinplanninganddecisionmaking

Helpduringtaxassessmentonthefarm Helpthefarmertoacquireloanfromthebankincasehehasanetworth.

Helpthefarmertoassessthevaluesofhisfarmincasehewantstosellit.

Itremindsthefarmerofhisdebtsinordertopayitintime.

Itshowsthefarmer’spossessionandassets.

Grossmargin.Thisisthedifferentbetweenthevalueoftotalproductionorrevenue andvariablecostsonafarm.

Grossmargin=Totalrevenue-totalvariablecost.

Importanceofgrossmargin

Useinmeasuringprofitabilityofeachenterpriseonthefarm

Tofindoutenterprisethatisnotearningprofittothefarm

Tofindouthowthecostofproductionsarebeingusedoneachenterpriseon thefarm.

Tocompareprofitabilityofenterprisesofonefarmwithanotheroneinthesame area.

Usefulinmakingbestchoice/opportunitycost.

Example.

Afarmerplanted5haofmaizeandobtained10000kgmaize.Hesoldthemaizeeat

300/=perkilogram.Hisproductioncostswereasfollows;

Boughtseedat5000/=

Boughtfertilizerat10000/=

Paidforcasuallabour200000/=

Salaryfor2permanentworkers480000/=

Otherfixedcosts650000/=

Calculatethegrossmarginperhectare.

Grossmargin=Totalrevenue–Variablecosts

Totalrevenue=10000\*300

=3000000/=

Variablecostinclude

Costofseed 50000/=

Costsoffertilizer100000/=

Casuallabour 200000/=

Total 350000/=

Grossmargin=3000000–350000/=

=2650000/=

Grossmargin/ha=2650000/5

=530000/=

(b)WhatistheNetprofitofthefarm?

Netprofit=Grossmargin–Fixedcosts

GM=2650000/=

Fixedcostsaresalaryof2permanentworkers=480000

Otherfixedcost =650000

Total =1130000/=

Netprofit=2650000–1130000

=1520000/= Exercise.

Afarmerhas200broilersand200localbirds.Hewouldincurthefollowingcostsin theproductionoflocalbirds;Housing20000shs,chicks400000shs,feeding200 000shs,labour100000shs.Inraisingbroilersheincurredthefollowingcostshousing 20000shs,chicks450000shs,feeding150000shs,labour100000shs.Thepriceper broileronsellingis20000shsand15000shsforlocalbirds.

Calculatethegrossmarginforeachenterprise.Withreasonstatethetypeofbirdthe farmershouldprofitablykeep.

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Note:Researchonfarmplanningandmanagement Questions.

1(a)Explainhowfarmrecordscanbeusedtoimprovefarmefficiency.

(b)Statehowfarmefficiencycanbeachieved

2(a)whatismeantbydiversificationinfarming?

(b)Describefourfarmingpracticesthatclearlyshowdiversificationinfarming.

(c)Explainthemeritsofdiversificationsinfarming.

3(a)Explainthecontributionoffarmingorganiasationtothedevelopmentoffarmers (b)Statetheproblemshinderingtheprogressoffarmingorganisation.

4(Describethefactorsthatinfluencethechoiceofanenterprise

(a)Explainthestepstakeninmakingafarmplan 5(a)describesthefunctionsofmarketingboard

(b)HowcanNationalAgriculturedevelopmentareachieved

6(a)whatarethecommonmeasuresoffightingrisksanduncertaintiesinfarming business.

(b)Whatarethecausesoflowsupplyofagriculturalproducts?

7Explainwhythepricesofagriculturalproductsareunstableandsuggestwaysof overcomingtheproblems

8Describetheprosandconsofspecialisationanddiversification.

9(a)Explainwhyafarmermakesbudgetbeforestartinganenterprise.

(b)Whatlimitationsdofarmersfacewhenmakingfarmbudget

10(a)Defineelasticityofdemandanddescribesthetypeofelasticityofdemand (b)Describethefactorsthataffectelasticityofdemand.

11(a)usingsuitableillustration,describehoesupplyofagriculturalproductsfor subsistencefarmersvarieswithmarketprice.

(b)Explainthefactorsthataffectsupplyofagriculturalcommodities.

12(a)usingsuitableillustration,explainhowmarketpriceisdeterminedinafree marketeconomy/competitivemarket.

(b)Outlinethevariouswaysofdeterminingpriceofagriculturalcommoditiesinthe market.

©Examinethefactorsresponsibleforregressive/backwardsloppingofsupplycurve oflabourinagriculturalproduction.

13(a)Howdoeslandcontributetoagriculturalandnationaldevelopment.

(b)Whatrolesdoesentrepreneurshipplayinagriculturalproduction?

END