CHAPTER 20

OBJECTIVES

At the end of this chapter, students should be able to:

â—† state the meaning of demand.
â—† state the law of demand.
â—† list the factors that affect the demand for agricultural goods and services.
â—† differentiate between the factors that shift the demand curve and movements along the demand curve.
â—† state the meaning of supply.
â—† state the law of supply.
â—† list the factors that affect supply.
â—† discuss movements along the supply curve and shifter variables.
â—† discuss the relationship between demand and supply.
â—† enumerate the implications of demand and supply for agricultural production.
â—† discuss the meaning of price support.
â—† explain the meaning of price stabilisation and control.
â—† indicate what a subsidy programme all about.

20.1 Introduction

Needs are desires that must be satisfied at the expense of competing wants and they set the stage for demand. Demand is different from wants which refers to mere desire for a commodity. Demand is indeed a function of the behavioural response of people to acquiring a commodity. It is shown in the readiness of many people to pay a higher price for a particular commodity. Market effects and the law of demand must be understood in relation to agricultural production.

20.2 Meaning of Demand

Demand can be defined as the quantity of a commodity that an individual is willing and able to buy at a specified price within a given period of time.

Demand is more than the desire to have something; it must be backed with the ability to pay the price. When the demand is high for a commodity, the farmer earns more money. When the demand for a commodity is low the price of that commodity falls and the farmer is at a loss. Several factors may cause a change in demand, and these include the following:

â Changes in tastes and preferences of consumers
â Consumerâ€™s income
â Prices of other commodities

â Population
â Consumer expectations of future change in price
â Advertisement
â Technological innovations

20.3 Law of Demand

The law of demand states that the lower the price of a commodity, the greater the quantity demanded (bought) other things being equal.
Therefore, the higher the price, the lower the quantity demanded. `For example, more of a commodity q_2 is demanded at a lower price (P_2) than commodity demanded q_1 at a higher price (P_1) (Figure 20.1).

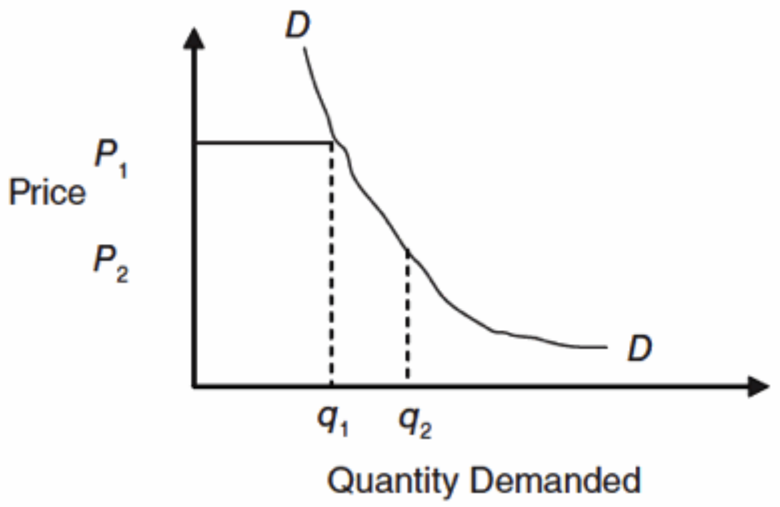

FIGURE 20.1 The demand curve

20.3.1 Demand schedules

Law of demand can be explained by the use of a demand schedule which shows the relationship between the price and quantity of the commodity demanded. The amount of a commodity that a person would buy at various prices in a given period is shown in a demand schedule. If individual demand schedules are totalled, we get the market demand schedule.

20.3.2 Demand curve

This is the representation of a demand schedule in a graphical form.

Table 20.1 Hypothetical demand schedule for beans

Price (₦)	Quantity Demanded (kg)
100	120
80	140
60	160
40	180
20	200

It is an illustration of the relationship between the price of a commodity and the quantity bought at each price.

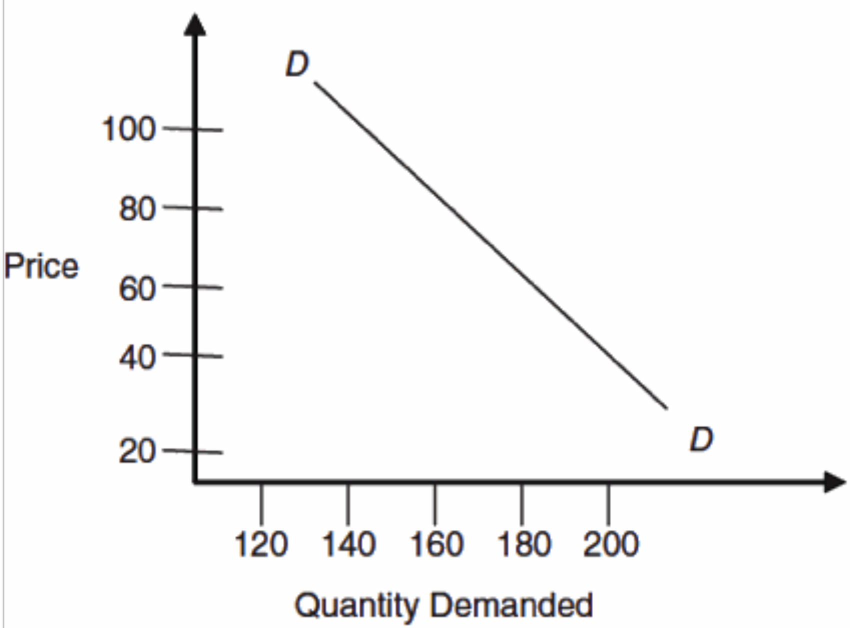

Figure 20.2 Demand curve for beans

20.4 Factors Affecting the Demand for Agricultural Produce

The demand for agricultural produce is affected by the following factors.

1. Price of the Commodity Changes in the price of a commodity result in changes in the quantity of the commodity demanded, often time when the price of a commodity becomes higher the quantity demanded becomes lower. Similarly the lower the price of a commodity the higher the quantity demands.

2. Tastes and Preferences Consumers change their preferences for fashionable commodities and for basic foodstuffs. For example, the taste and preference for rice in Nigeria has increased considerably, this means that more rice will be demanded even if the price of rise remains constant.

3. Consumerâ€™s Income An increase in the consumerâ€™s income can increase purchasing power and this leads to an increase in the rate of purchase. Similarly, a decrease in income will reduce demand and shift the curve to the left. A decrease in income may result from inflation and/or non-payment of workersâ€™ salary which reduces the purchasing power.

4. Prices of Related Goods The availability of a substitute may lead to less demand of a particular

agricultural produce. Change in price of one can make the consumers to shift to the other in which the price has not changed. A good example is Bournvita and Ovaltine.
5. Population Changes in the size and composition of the population are likely to lead to an increase in demand for most commodities, especially food. An increase in the birth of children in a population is likely to increase the demand for toys and childrenâ€™s wear. In both cases, the demand curve shifts to the right and more of the commodities are bought although there is no fall in their prices.
6. Weather Changes in weather or seasons can lead to changes in demand for some products For example, the rate of hot tea consumption is usually high during wet season than in dry season.
7. Future Expectation Consumerâ€™s expectations may influence the demand for a commodity. A consumer is likely to buy more of a commodity today if the price of the commodity is about to rise or the commodity is about to be scarce. For example, a producer will buy more raw materials if a greater demand for the product is foreseen. Also a farmer is likely to buy and store fertilizers if he finds out that a ban on importation of the needed commodity will take effect soonest.
8. Advertising Consumer may buy more of the commodity if they are educated or influenced by effective advertising. This may affect the consumerâ€™s ability to purchase rationally and shift the demand curve to the right.
9. Technical Innovation The attempt by consumers to keep up with innovations has shifted the demand curve for many goods completely out of the market. Farmers who can afford the latest equipment will buy it and the earlier models are gradually forced out of the market.
10. Government Taxation Policy An increase in commodity tax will increase the price of a commodity thereby causing the demand for it to fall.
11. Social Events and Festivities Festivals such as Christmas, Easter and Ramadan affect demand for commodities such as ram, goat, poultry, rice and clothing. There is a higher demand for them during these occasions.

20.5 A Change in the Quantity Demanded versus a Change (Shift) in Demand Curve

A change in the quantity of a commodity demanded refers to an increase/decrease in the quantity of a commodity bought as a result of a fall or rise in the price of the commodity. It occurs as a result of change in the price of the commodity itself, all other factors remaining constant. This represents a movement along the same demand curve.

20.6 Changes in the Quantity Demanded

A decrease in price from OP_0 to OP_1 will bring about an increase in the quantity demanded from OQ_0 to OQ_1.
â A change in demand occurs if there is an increase or decrease in the quantity of a commodity bought without any rise or fall in the price of the commodity.
â A change in demand is caused by any change in the factors affecting the demand other than changes in the price of the commodity; for example, a change in consumerâ€™s income. In this case, there is a shift in the demand curve either to the right or to the left as explained in Figure 20.4
â A shift to right which indicates an increase in demand or a shift to the left indicating a decrease in demand.

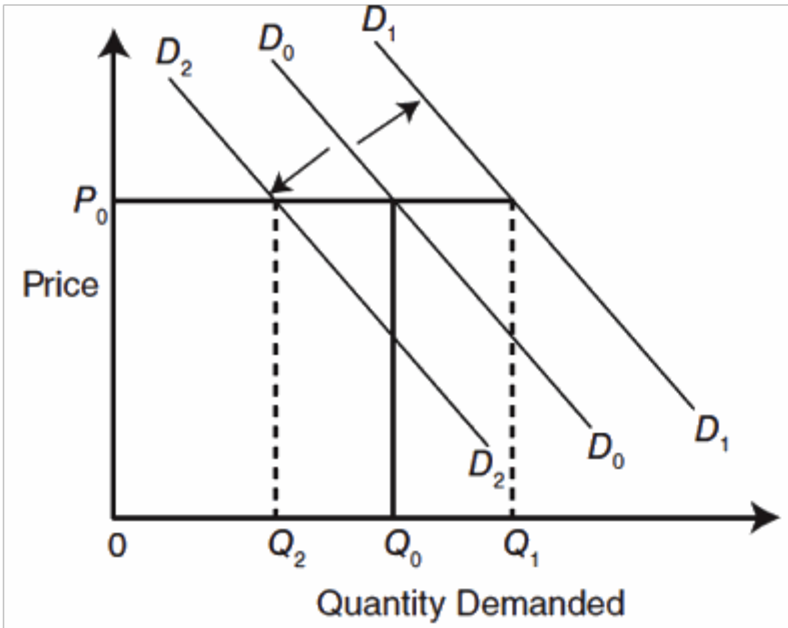

Figure 20.4 Changes (shifts) in demand curve

In the diagram, a shift in the demand curve to the right from D_0D_0 to D_1 D_1 (i.e., an increase in demand) led to an increase in quantity bought from OQ_0 to OQ_2.

Demand curve can shift through the following:

1. Increase or decrease in consumer income

2. Shift in consumer tastes and preferences

3. Prices of other related products

20.7 Elasticity of Demand

This can be defined as the degree of responsiveness of demand to a small change in price of a commodity.

$$\text{Elasticity} = \frac{\text{Percentage change in demand}}{\text{Percentage change in price}}$$

Elasticity of demand may be any of the following types:

i. Unitary elasticity – This is a change in price which causes an equal change in demand (elasticity is equal to one or E = 1).

ii. Inelastic demand – A change in the price of a commodity which leads to little or no change in demand (elasticity is less than one or E < 1)

iii. Elastic demand – A change in price brings about a considerable or an appreciable change in the quantity of commodity demanded (elasticity is greater than one or E > 1).

iv. Zero elasticity – A change in price does not have any effect on quantity demanded. It is referred to as perfectly inelastic or complete inelastic (E = 0).

v. Perfect elasticity or infinite elasticity – Here consumers react sharply to changes in price which could be for an increase or decrease in price.

20.8 Meaning of Supply

Supply is defined as the quantity of a commodity that producers are willing to sell at a specified price in a given market at a given time. Supply does not mean the total production but the actual amount the producer is willing and able to offer for sale of a particular price and time. For example, if a farmer produces ten bags of maize and offers six bags at the rate of N100 per bag, the

producerâ€™s effective supply is the six bags offered for sale.
â The quantity of produce offered for sale is a function of weather, level of technology, production capability and price.
â The price at which the farmer is willing to sell is determined by the cost of production which involves land, labour, capital and machinery.
â There is a positive correlation between the price and quantity of commodity supplied.

Therefore, producers react to price changes naturally in two directions:
1. When the price commodity increases, the producer will supply more.
2. When the price falls the producer will supply less of the commodity.

Factors affecting the supply of agricultural produce include
â Price of the commodity
â Cost of production
â State of technology
â Weather
â Substitutes
â Government policies (subsidies)
â Future expectation

20.9 Factors Affecting Supply

A number of factors affect the supply of agricultural produce. Some of the factors are
1. Price of the Commodity: If the price of a produce increases, more of it would be supplied, other things remaining equal; less would be supplied if its price falls.
2. Cost of Production: If the cost of factors of production increases, less of the commodity will be demanded by the producer, hence both the output and supply would fall. Lower cost of production would increase supply.
3. Level of Technology: The use of modern technology and improved production techniques would reduce the cost of production, thereby leading to an increase in both the output and supply.
4. Weather: An unfavourable weather condition such as drought leads to poor growth of crops thereby reducing supply.
5. Substitutes: If the resources of production have alternative use and are shifted to those uses other than agricultural, there will be increase in its price which also leads to an increase in the supply of others.
6. Government Policy: An increase in tax would increase the cost of production thereby leading to a lower supply. On the other hand, increased government subsidies would reduce the cost of production and encourage the producer to supply more.
7. Number of Producers: The greater the number of producers the larger the market supply is likely to be, other things remaining equal.
8. Future Expectations: If a producer fears that the demand for a product, for example cocoa, is declining and will continue to decline in future, production factors may be switched to some other commodities, like yams or rice. In this case the supply for cocoa will fall while that of rice or yams increases.
9. Prices of Other Goods: The supply of one commodity will fall if entrepreneurs are tempted to produce another commodity with higher price.

20.10 Law of Supply

The law of supply states that the higher the price of a commodity the greater the quantity supplied, while less quantity would be supplied at a lower price. It is believed that sellers or producers will want to put more of a commodity in the market at a higher price than at a lower price. The reasons for this are:

i. If the price of one cash crop goes up a farmer will switch to growing that crop and away from growing other crops.

ii. If a higher price can be obtained, a farmer might give up some of his leisure time so as to grow more.

iii. The farmer keeps less of a commodity for his own consumption if the price goes up.

iv. At higher prices, an entrepreneur can produce extra units which would not have been profitable at the previous prices.

v. Increase in price of commodity will tempt new entrepreneurs to invest in agriculture because of the high profits.

20.10.1 Supply schedules

This shows how much of a commodity an individual seller would be prepared to offer for sale in the market over a range of prices. If all the individual schedules are added together the market supply schedule is obtained.

TABLE 20.2 Supply schedule for beans

Price of Beans (₦)	Quantity of Beans Supplied (kg)
10	100
8	80
6	60
4	40
2	20

20.10.2 Supply curve

This shows the relationship between the quantity of commodity supplied and prices of the commodity. It is drawn from supply schedule, discussed earlier.

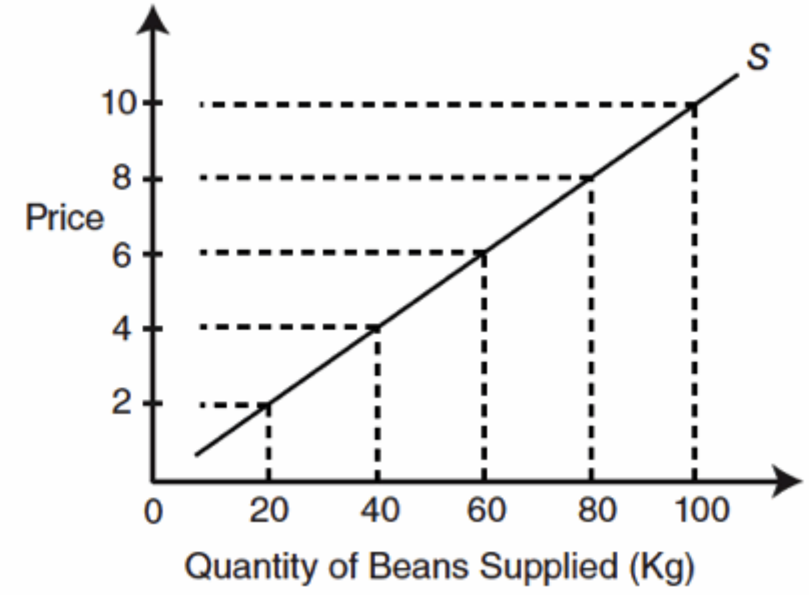

FIGURE 20.5 Supply curve

The supply curve (SS) slopes upwards from left to right in accordance with the law of supply. It shows:

i. how much would be supplied at each price.

ii. what price would have to be fixed to induce sellers to put a particular quantity in the market.

iii. the effect of a price change on the quantity supplied.

20.11 Movement Along the Supply Curve and Shifter Variables

20.11.1 Change in the quantity supplied versus change (shift) in supply curve

â A change in the quantity supplied refers to an increase/decrease in the quantity supplied, brought about by an increase/ decrease in price.

â It is caused by a change in the price of the commodity, while other factors remain constant.

â It involves a movement along a particular supply. An increase in price OP_0 to OP_1 led to an increase in quantity supplied from OQ_0 to OQ_1, while a decrease in price from OP_0 to OP_2 caused the quantity supplied to decrease from OQ_0 to OQ_2.

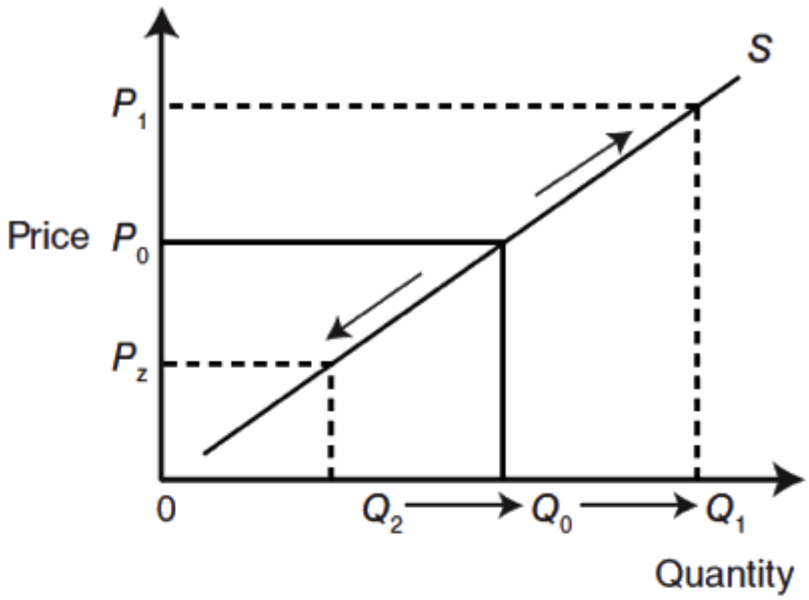

FIGURE 20. 6 Changes in the quantity supplied

â A change in supply occurs if there is an increase/decrease in the quantity of a commodity offered

for sale without any rate fall in the price of the commodity.
â It is caused by any of the factors affecting supply other than the price of the commodity such as an improvement in technology. Examples include changes in taxation and subsidy. In this case, the supply curve shift to an entirely new position (either to the right or to the left).

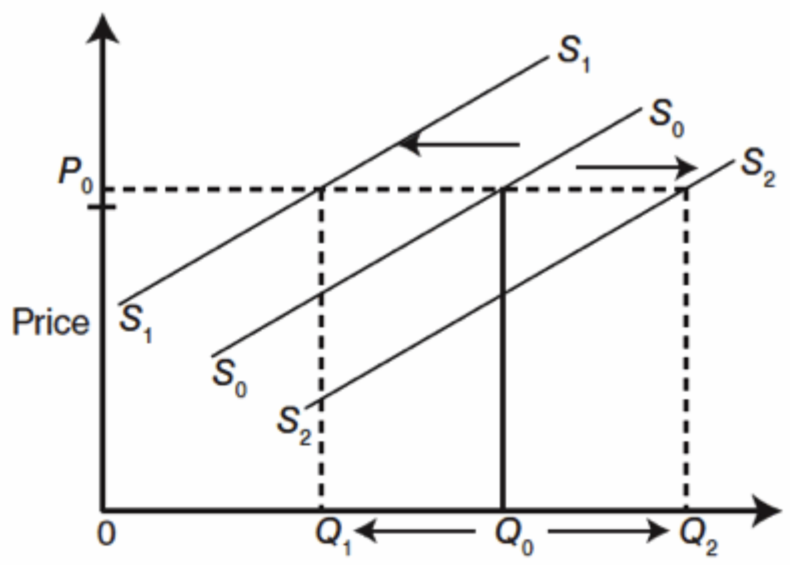

Figure 20. 7 Changes (shifts) in supply

â A shift in the supply curve to the left (decrease in supply) from S_0S_0 to S_1S_1 caused quantity supplied to decrease from OQ_0 to OQ_1 at the price OP_0.
â A shift in the supply curve to the right (increase in supply) caused quantity supplied to increase from OQ_0 to OQ_2 at the old price.

20.11.2 Elasticity of supply

This is the ratio of the degree of responsiveness of quantity of a commodity supplied to changes in the price of the commodity or to changes in the cost of production.
Elasticity (E) = Change in supply (%)
Change in price (%)
Supply could be elastic, inelastic or unitary, depending on the degree of responsiveness of supply to either the price change or to the production cost.

20.11.2.1 Types of degrees of elasticity of supply

1. Elastic supply: Elasticity of supply which is greater than 1 (E = 0). This means that supply responds more than proportionately to price changes.
2. Infinite elastic supply: Elasticity of supply is equal to infinity (E = âˆž). This implies that a change in price would lead to an infinity change in quantity supplied.
3. Zero elastic supply: Elasticity of supply is equal to 0 (E = 0). This means that the quantity supplied remains constant irrespective of price changes.
4. Inelastic supply: Elasticity of supply is less than 1 (E < 1). The quantity supplied responds less than proportionately to price changes.
5. Unitary elastic: Elasticity of supply is equal to 1 (E = 1). A change in price brings about a proportionate change in quantity supplied.

20.12 Relationship Between Demand and Supply

The influences or forces of demand and supply dictate the price in a free market situation.
When the amount supplied equals the amount required by the consumers, the price tag is referred

to as equilibrium price or market equilibrium price.

Equilibrium price is the price at which the quantity of a commodity demanded and supplied are equal – the price at which there is neither a surplus nor a shortage of the commodity in the market.

Example of equilibrium for yam is as follows:

â A shift in the supply curve to the left (decrease in supply) from S_0S_0 to S_1S_1 caused quantity supplied to decrease from OQ_0 to OQ_1 at the price OP_0.

â A shift in the supply curve to the right (increase in supply) caused quantity supplied to increase from OQ_0 to OQ_2 at the old price.

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5. Unitary elastic: Elasticity of supply is equal to 1 (E = 1). A change in price brings about a proportionate change in quantity supplied.

Table 20.3 Price variation between quantity demands and quantity supplied

Price (₦)	Quantity Demanded	Quantity Supplied
100	10	50
80	20	40
60	30	30
40	40	20
20	50	10

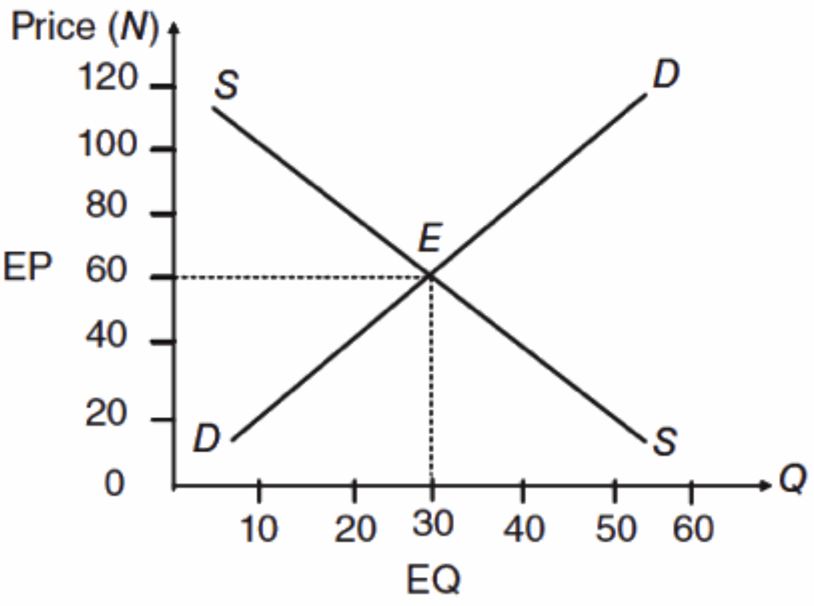


FIGURE 20.8 Relationship between equilibrium quantity and equilibrium price of hypothetical yam tubers

E = equilibrium point

EP = equilibrium price = N60

EQ = equilibrium quantity = 30 tubers

The equilibrium price is relatively stable because both the suppliers and the buyers are satisfied with it and therefore, there will be no force to push it up or bring it down. The equilibrium price will remain for sometime until new conditions affecting demand and supply bring about changes which will eventually result in a new level of the equilibrium price. Such changes occur as a result of change in either demand or supply.

To protect farmers from fluctuations that can lower their income below production costs, the governments establish various types of agricultural support programmes such as commodity boards where prices are fixed (price control).

20.13 Implications of Demand and Supply for Agricultural Production

1. When the demand for a farm produce exceeds supply, price tends to rise and the farmers would be encouraged to produce more of such produce.

2. When the demand for a farm produce is lower than the supply, the price will fall and the farmers would be discouraged from further production of such produce.

3. Increase in the income of the consumers will make them demand for more farm produce and decrease in income will cause demand to fall.

4. Increase in the price of produce may lead to low demand for it and shift to the close substitute that has a lower price.

5. High cost of production may lead to low output, low supply and high prices of produce and vice versa.

6. Supply of farm produce will be low when environmental factors for production are unfavourable and vice versa.

7. Lack or high cost of farm inputs may lead to low supply and high cost of farm produce and vice versa.

8. If the taste of consumers is in favour of a produce, the demand for such produce will increase and price also will increase and vice versa.

9. Increase in the number of producers (farmers) will lead to increase in supply and reduction in price and vice versa.

20.14 Price Support and the Effects on Agricultural Production

Price support is the government-imposed price floors on selected farm produce.
â It is also known as â€˜minimum prices established by government above equilibrium price as support for farm produceâ€™.
â The price support farm programme of government includes:
1. support for farm prices, income and output.
2. support for soil and water conservation.
3. support for agricultural research.
4. support in the form of farm credit.
5. support in the form of insurance (crop and animal).
6. subsidised sale of farm produce.

20.14.1 Effects of price-support

Price-support programmes tend to have the following effects:
â They cause surplus production or output which the government must buy and store.
â They increase farmerâ€™s income or gross farm revenue.
â They increase food prices to consumers.
â They cause an over allocation of resources to agriculture.
â The society pays higher taxes to finance the purchase and storage of surplus output.
â The pollution increases because of the greater use of agrochemicals and vulnerable land.
â The other nations will bear the costs associated with import barriers and depressed agricultural prices.

20.14.2 Price control and the effects on agricultural production

Price control is the fixing of prices above (minimum price) or below (maximum price) the equilibrium price. It is also called minimum and maximum price legislation.

20.14.2.1 Maximum price control (price ceilings)

â This is the maximum legal price a seller may charge for a produce. It is fixed below the market equilibrium price.
â It enables the consumers to obtain more of the produce they could not afford at the equilibrium price.
â Government also uses it to control inflation.

Effects of maximum price control

1. There will be excess demand over supply (market disequilibrium) and result in shortage of such commodities in the market.
2. Rationing problem will occur.
3. A black market will exist where produce are bought and sold at prices above the legal limit.
4. Producers may hoard part of the produce to create artificial scarcity.
5. Producers whose prices are controlled will have a fall in income.
6. Low income received by producers may result in changing to production of other commodity causing a fall in output.

20.14.2.2 Minimum price control (price floors)

This is the minimum legal price fixed by the government to protect the producers (farmers) from low and fluctuating income.

â It is also used to regulate wages.

â A seller can sell at or above the price.

â Price below minimum legal price is illegal.

Marketing boards and commodity boards played this role in Nigeria before each crop season.

Effects of minimum price control

1. There will be excess supply over demand which results in persistent produce surplus.

2. There will be a rise in prices of commodities. Those who cannot afford the commodities will suffer.

3. Wastage will result from low demand and excess supply (spoilage of the surplus).

4. Increase in demand for alternatives as they may be cheaper

20.15 Subsidy and the Effects on Agricultural Production

Subsidy is an incentive in cash or kind aimed at encouraging producers to produce more goods by reducing their cost of production such as giving farm inputs to farmers such as fertilizers, improved seeds at prices lower than the normal market prices.

20.15.1 Reasons for farm subsidies

1. Farmers are poor and therefore should receive higher prices and incomes through public help.

2. Farming and particularly the family farm is fundamental and should be nurtured as away of life.

3. Farmers are subject to extraordinary hazards such as flood, droughts, pests and diseases which other industries do not face.

4. Farmers cannot fully insure themselves against hazards or natural disasters.

5. Farmers have no control over prices like industries producing inputs. They are at the mercy of the market in selling their output.

6. Subsidies in agriculture serve as an aid to offset the disadvantageous terms of trade.

20.15.2 Effects of subsidies

1. It encourages farmer to produce and supply large quantities of farm produce. It reduces the cost of production.

3. It increases the profit or income of the farmer.

4. It increases the supply of produce.

5. It reduces the market price of food.

Activities

1. Draw demand curve and describe the eff ect of change in consumerâ€™s taste on the demand curve.

2. Pick a particular food item and compare the market prices and demand from five supermarkets. Identify the factors that may be responsible for variations in the prices and people patronising each store to purchase the commodity.

3. Visit a nearby food market, identify all the farm produce sold in the market and their prices. Note the quantity of each item supplied at a particular price. Ask the sellers what happen to the

produce when
i. there is an increase in market price.
ii. there is a decrease in the price.
4. Organise a seminar and invite to your school a resource person from the Ministry of Agriculture close to you to talk on the effects of subsidy withdrawals by government.
Raise questions on the effect of subsidy withdrawals on agricultural production.
â—† Demand is defined as the quantity of a commodity that buyers are prepared to pay for at each specified price in a given market at a given time.
â—† Demand is more than the desire to have something. It must be backed with the ability to pay the price.
â—† The law of demand states that other things being equal, more of a commodity is demanded at lower price than is demanded at a higher price.
â—† We would expect move of a commodity to be bought at a lower price than at a higher price.
â—† There are many factors influencing demand. These include:
âœ§ Changes in taste and preferences, price of the commodity itself, consumer income, prices of other commodities, population, expectations of the consumers, advertisement and the level of technology.
â—† Elasticity of demand is defined as the degree of responsiveness of demand to a small change in price of a commodity.
â—† Supply is defined as the quantity of a commodity producers (sellers) are willing and able to offer for sale at a given price and within a particular period of time.
â—† The law of supply states that more of a commodity will be supplied at a high price and less at a lower price.
â—† Supply schedule shows the quantity of a commodity that producers are willing and are able to offer for sale at a given price and within a period of time.
â—† Supply curve is a graph showing the relationship between the quantity of commodity supplied and price.
â—† The factors which cause changes in supply are price of the commodity, cost of production, level of technology, weather.
â—† The forces of demand and supply tend to push the prices of agricultural produce up or down. Any change in price may reduce the effectiveness of the farmer.
â—† Sometimes, this upward or downward movement of prices may be either high to the buyers or low to the sellers.
â—† Government intervention is the fixing of legal price (price control).
â—† Price control is the fixing of price above or below the equilibrium price to satisfy both the consumers and the sellers.
â—† Price support is the government-imposed price floors on selected farm produce to increase production and encourage farmers to continue.
â—† Subsidy is an incentive aimed at encouraging producers to produce more goods by reducing their cost of production.

Revision Questions

Essay

1. Define â€˜demandâ€™. Why do we have more of a commodity bought at a lower price than at a higher price?
2. (a) Define: (i) Demand (ii) Elasticity of demand

(b) Explain why the demand curve slopes downwards (WASSCE 2008).

3. State the law of demand and six basic assumptions related to agricultural products.
Illustrate your answer with the aid of a demand schedule and a demand curve. (WASSCE 1991)

4. (a) State five factors that affect demand.

(b) Differentiate between shift in demand curve and movement along the dem and curve.

5. List four factors that cause a change in supply of agricultural produce (WASSCE 2008)

6. Discuss how each of the following factors affect the supply of agricultural produce.

(a) Price

(b) Technology

(c) Weather

(d) Subsidy

(e) Government policy

(WASSCE 2007)

7. (a) i. State the law of supply in relation to agricultural production:

ii. Give an example of a supply schedule and draw the supply curve for a named agricultural produce.

(b) State five causes of change in supply of an agricultural produce

(WASSCE 1996)

8. Explain with the aid of a diagram what is meant by changes in supply.

9. (a) Define the term â€˜supplyâ€™.

(b) Enumerate five reasons why sellers will put more produce in the market at a higher price than a lower price.

10. Explain the implications of demand and supply on agricultural production (WASSCE 1994)

11. Explain what is meant by

(i) Price support

(ii) Price control

(iii) Subsidy

12. â€˜Price tends towards the level which equates demand with supply.â€™ Explain this statement.

13. State five effects of each of the following:

(a) Price-support

(b) Maximum price control

(c) Subsidy

14. Discuss any five reasons for farm subsidies.

Objective Questions

1. Demand is said to be elastic when a percentage change in price

(a) results in an infinite change in demand.

(b) results in an increase in quantity demanded.

(c) results in an exact change in demand.

(d) is less than one (WASSCE 2009)

2. The demand for agricultural produce is generally

(a) elastic.

(b) inelastic.

(c) unitary.

(d) static. (WASSCE 2007)

3. A movement along the demand curve for some goods may be caused by a change in
(a) consumer income.
(b) the price of the goods.
(c) the price of other goods.
(d) population.
4. The most important economic factor which determines the quantity of cassava a consumer will demand is the
(a) availability of yam.
(b) price of cassava.
(c) supply of cassava.
(d) source of cassava.
5. The quantity of a commodity that consumers are willing and able to buy at a given price and within a particular period of time is called
(a) supply.
(b) price.
(c) elasticity of demand.
(d) demand.
6. At higher price
(a) the quantity of commodity demanded is low.
(b) the quantity of commodity demanded is high.
(c) the quantity of commodity demanded is equal to the price of commodity.
(d) consumer demand is undetermined.
7. The supply of farm produce to markets in West Africa is mostly dictated by
(a) governments.
(b) commodity boards.
(c) climatic conditions.
(d) the consumers.
8. In the event of increased government subsidies, the farmerâ€™s production cost
(a) falls, hence supply increases.
(b) falls, hence supply decreases.
(c) rises, hence supply increases.
(d) rises, hence supply decreases.
9. Given a normal situation, what effect will an increase in the supply of cowpea have on its market price? The price
(a) increases.
(b) decreases.
(c) is unaffected.
(d) is unpredictable.
10. An increase in supply of agricultural produce can be caused by the following factors except
(a) reduced cost of production.
(b) favourable taxation.
(c) reduced taxation.
(d) consumers buying less products.
11. The quantity of commodity that a producer is willing and able to offer for sale at a particular price and time is referred to as
(a) demand.

(b) total production.

(c) supply.

(d) elasticity.

12. Elasticity of supply is equal to 1 when

(a) E > 1

(b) E < 1

(c) E = 0

(d) E = 1

13. When a change in price brings about a proportionate change in quantity supplied, it is called

(a) Unitary elastic supply

(b) Inelastic supply

(c) Zero elastic supply

(d) Elastic supply

15. The equilibrium price of rice is the price at which

(a) its demand exceeds supply.

(b) its supply exceeds demand.

(c) its supply equals demand.

(d) consumers cannot buy the quantity they want.

16. Given a normal situation, what effect will an increase in the supply of cowpea have on its market price?

(a) The price increases.

(b) The price decreases.

(c) The price is unaffected.

(d) The price is unpredictable.

17. Which of the following is an effect of stability of market price in agricultural production?

(a) Profit of the producer will be constant with constant input cost.

(b) Wholesalers earn more from sales.

(c) Profit of the retailer will be decreased.

(d) Consumers will look for cheaper alternatives.

18. Which of the following constitutes subsidy in agricultural enterprise?

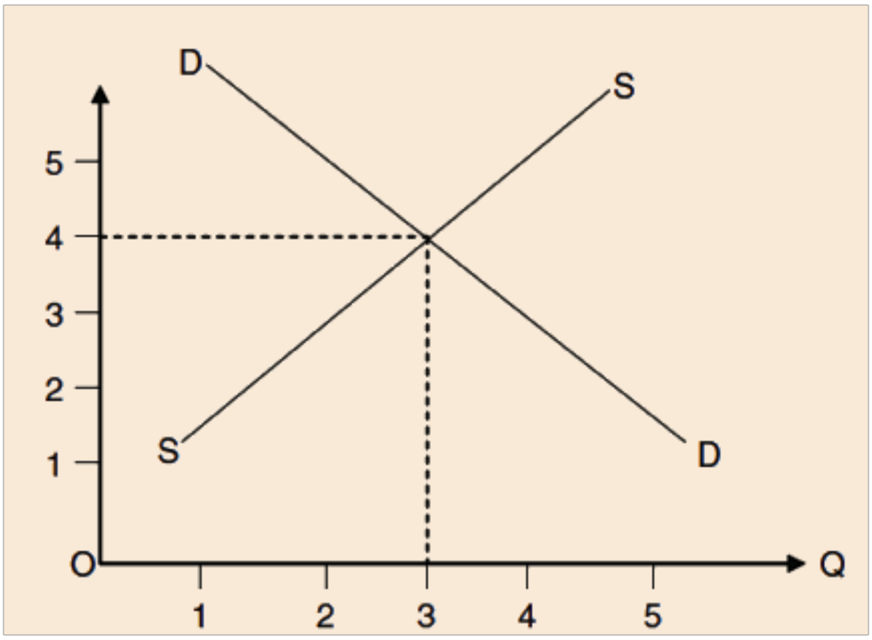
(a) Supply of fertilizer to farmers at reduced price

(b) Borrowing of money from a thrift society

(c) Provision of money to farmers through commercial banks.

(d) Provision of services through cooperative societies

Use the diagram to answer questions 19 and 20



19. From the diagram, the equilibrium price is

(a) 2.

(b) 3.

(c) 4.

(d) 5.

20. The equilibrium quantity is

(a) 1.

(b) 2.

(c) 3.

(d) 4.

Answers to Objective Questions

1. b 2. a 3. d 4. b 5. d 6. a 7. b 8. a 9. b 10. d 11. c 12. d 13. a 14. a 15. c 16. b 17. c 18. a 19. c 20. c