

AEC 2101: FARM MANAGEMENT ECONOMICS

Time allowed: 03 hours

Answer all the Questions (Six)

1. a. What do you understand by the term "Investment analysis". (5 Marks)

b. Briefly discuss the methods used to analyse and compare investments. (5 Marks)

c. Project A requires a Rs. 10, 000.00 capital outlay and generates an income stream of Rs. 2500.00 for six years whereas project B requires the same capital outlay but generates Rs. 4000.00 of annual income for only 3 years.

Find out the most profitable investment using

- i. Pay back period method
- ii. Simple Rate of Return method

Item	Investment Alternatives	
	Project A (Rs)	Project B (Rs)
Capital Out lay	10, 000	10, 000
Average after- tax earnings		
Year 1	2, 500	4, 000
Year 2	2, 500	4, 000
Year 3	2, 500	4, 000
Year 4	2, 500	----
Year 5	2, 500	----
Year 6	2, 500	----

(10 Marks)

2. a. Briefly discuss the assumptions of Linear Programming. (8 Marks)

b. A farmer involved in 2 Enterprises Maize and Paddy with 3 limited resources.

The following information is available from experimental farms with regard to the resource requirements per unit of crop land and net income per acre.

Calculate the maximum net profit from these two crops.

Resource	Requirement per acre	
	Maize (X ₁)	Paddy (X ₂)
Land (12 acres)	1 acre	1 acre
Family labour (195 Days)	15 Days	21 Days
Working capital (Rs. 5910)	Rs. 370	Rs.698
Net return per acre	Rs. 590	Rs. 1102

(12 Marks)

3. a. Compare and contrast Agricultural economy with Industrial economy.

(08 Marks)

b. Briefly discuss the different types of physical records

(07 marks)

4. a. Briefly explain the steps in the process of Decision making (5 Marks)

b. Give a brief description of production and technical risks and explain the strategies used to reduce the production risk.

(10 marks)

5. a. Briefly discuss the steps involved in farm planning. (5 Marks)

b. Profitability of purchasing a combine harvester to replace the current practice of labour harvesting to harvest 1000 acres of wheat has to be analysed using partial budget. Prepare a partial budget using the following information and calculate the net change in profit.

Initial cost of Combine harvester	\$ 120,000
Salvage value	\$ 40,000
Useful life	8 Years
Interest	\$ 8000
Taxes	\$ 100
Insurance	\$ 300
Repairs	\$ 2500
Fuel and oil	\$ 1300
Labor charge for operating Combine Harvester	\$ 550

Labour harvesting charges
1000 acres @ \$ 20 per acre

(10 marks)

6. Write short on the following.

- a. Enterprise relationships
- b. Valuation methods
- c. Production Possibility Frontiers

(15 Marks)

****GOOD LUCK****