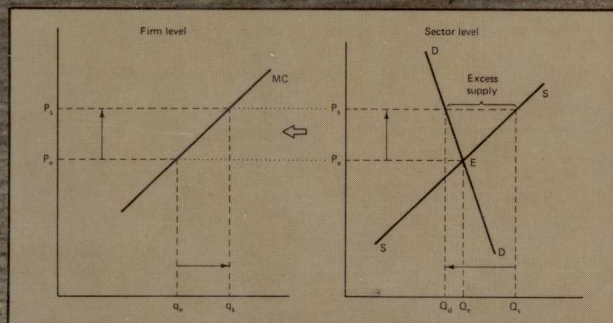




INTRODUCTION TO AGRICULTURAL ECONOMICS



JOHN PENSON • RULON POPE • MICHAEL COOK

Introduction to

AGRICULTURAL ECONOMICS

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PREFACE

The purpose of this book is to provide beginning students in agriculture with a systematic introduction to the basic concepts and issues in economics as they relate to agriculture at the firm, national, and international levels. The book is oriented primarily toward commercial agriculture and the economic environment in which it operates.

We begin the book by answering the question raised by the title of Chapter 1; namely, "What is agricultural economics?" We do this by first defining the field of economics and then developing a definition of agricultural economics based on the role that agricultural economists play at both the micro and macro levels. A discussion of the changing structure of agriculture during the post-World War II period and the structure of those sectors in the economy that supply farm inputs and process farm output is presented in Chapter 2.

Part II focuses on gaining an understanding of the economic decisions made by consumers and producers. The topics covered here include consumer behavior (Chapter 3), the technology of production (Chapter 4), production decisions for a competitive firm (Chapter 5), farm marketing options (Chapter 6), growth of the competitive firm (Chapter 7), and decision making in an uncertain world (Chapter 8). Heavy emphasis is placed on those chapters traditionally found in "introductory" textbooks (Chapters 3, 4, and 5). Empirical examples are presented where possible to illustrate the magnitude and applicability of the relationships involved. The scope of these chapters has also been expanded beyond the coverage normally found to include several important topics of which students should be aware. For example, an entire chapter in Part II is devoted to a discussion of the marketing options available to farmers, including the advantages and disadvantages associated with the use of futures contracts. In addition, recognition of the existence of uncertainty in agriculture and how it can affect the farmer's

production, marketing, and investment decisions is normally relegated to more advanced textbooks. The experience of the seventies and early eighties, however, suggests that beginning students should at least (1) be aware that uncertainty exists in agriculture, and (2) understand some of the ways in which farmers can respond to this uncertainty.

Part III introduces the concepts of market equilibrium and general equilibrium. Chapter 9 presents a discussion of the determination of the equilibrium price and quantity in the market for raw agricultural products and the market intermediaries involved as the product leaves the farm gate and moves through the marketing channel to the retail level. The relationship between this market equilibrium and farm policy is explored in Chapter 10, where the objectives of government supply constraint and demand expansion programs are made clear. This part of the book concludes with Chapter 11, where multimarket relationships and the concept of general equilibrium are introduced. A description of the interrelationships between agriculture and the rest of the U.S. economy is presented. This chapter also highlights the relationship between sector output and the nation's total output or gross national product, making the point that the nation's output is *not* found by simply adding up the output of all the sectors in the economy.

Part IV focuses on U.S. macroeconomic policy and how agriculture is affected by policy responses to business fluctuations. Chapter 12 begins Part IV by discussing measures of macroeconomic performance at the economy-wide and sector level. It also discusses the nature of business fluctuations in the economy and their major consequences: unemployment and inflation. Chapters 13 and 14 stress the effects that national economic policies (both fiscal and monetary) have on aggregate demand in the economy and the attainment of the economy's current potential output. Chapter 15 then focuses on how these policies are applied to eliminate inflation or unemployment and how these actions are transmitted to agriculture. The chapter concludes with a discussion of the problems that variable macroeconomic policies can cause for agriculture. *Importantly, the discussion in Chapter 15 is presented in such a way that Chapters 11 through 14 can be skipped if desired without jeopardizing the reader's understanding of the relationships between agriculture and the general economy.* Chapter 16 inventories the scarce resources used by farmers to produce raw agricultural products and discusses such issues as the conservation of natural resources and environmental regulations. The last chapter in Part IV presents a discussion of the lenders that supply loan funds to agriculture, a major link between this sector and the rest of the economy.

Part V contains three chapters, the first two of which focus on the major concepts and issues in international agricultural trade. This discussion focuses on the factors affecting the export supply and import demand for farm products as well as the welfare implications of tariff and nontariff

policies. The final chapter focuses on the future climate for international agricultural trade.

Each chapter concludes with a restatement of the purpose of the chapter and a point-by-point listing of the major concepts and issues covered. In addition, there is a section containing definitions of the key terms used in the chapter. There is also a list of references and further readings on the subject covered in the chapter and a set of questions for further study. Most chapters also contain a discussion of one or more advanced topics that extend the coverage presented in the chapter.

There are numerous ways in which this book can be used in the classroom. We would like to take this opportunity to outline three potential approaches to using this book in a one-semester introductory course: (1) a *micro* approach, (2) a *macro* approach, and (3) a blend of *micro* and *macro* approaches. One potential combination of chapter assignments for each of these three approaches is as follows:

✕	Micro	Macro	Both
1		1	1
2		2	2
3		9	3
4		10	4
5		11	5
6		12	6
7		13	7
8		14	9
9		15	10
10		16	11
11		17	12
12		18	15
13		19	18
14		20	

Introductory courses are traditionally highly micro in scope. Little is normally said about multimarket relationships, national economic policies, and how these policies affect, both directly and indirectly, the performance and structure of agriculture. The micro approach suggested above reflects this orientation. There has been an increasing interest in introductory courses in the *macroeconomics of agriculture*. The macro approach suggested above begins with the concepts of market and general equilibrium and agriculture's contribution to the nation's total output before discussing aggregate demand and supply and the effects of alternative macroeconomic policies. Some instructors may desire a *mixture* of micro and macro concepts in a one-semester course. The approach suggested above omits specific topics

included in the first two approaches (Chapters 8, 13, and 14), which some instructors may wish to retain if time permits. Finally, there is sufficient coverage of micro and macro concepts in this book to justify its use in a two-semester sequence emphasizing the micro- and macroeconomics of agriculture.

John B. Penson, Jr.
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INTRODUCTION

