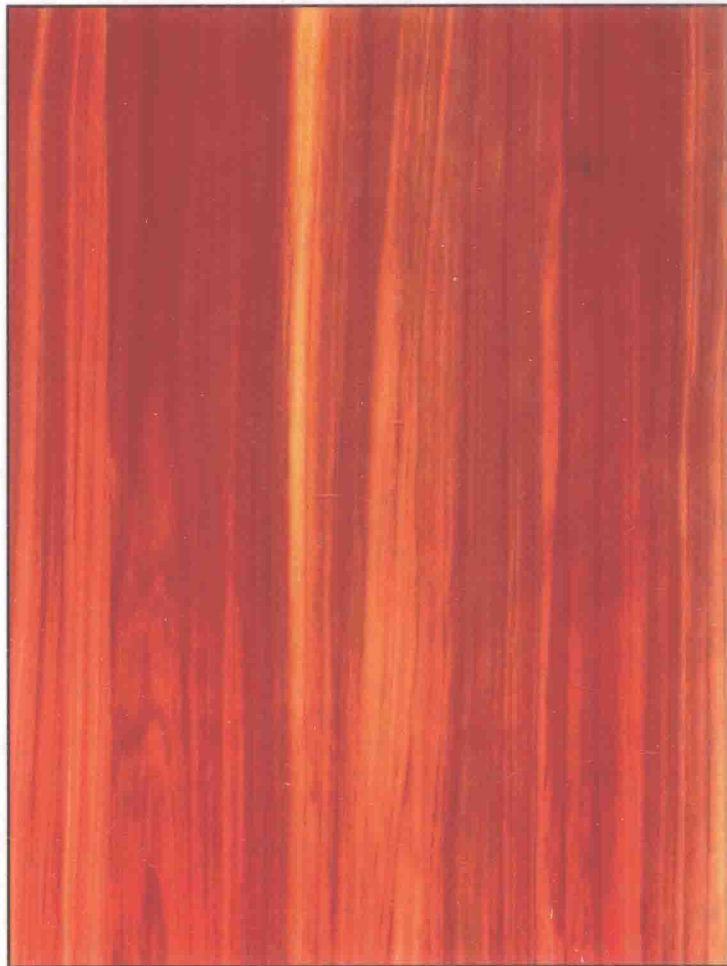


INTRODUCTION TO
**AGRICULTURAL
ECONOMICS**



JOHN B. PENSON, JR.

ORAL CAPPS, JR.

C. PARR ROSSON III

Introduction to Agricultural Economics

John B. Penson, Jr.
Texas A&M University

Oral Capps, Jr.
Texas A&M University

C. Parr Rosson III
Texas A&M University



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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 a major segment of the U.S. economy—namely, the food and fiber industry. This requires that the student understands the microeconomic and macroeconomic forces influencing the decisions of producers and consumers of food and fiber products, which are (1) farmers and ranchers, (2) the agribusinesses that supply them with production inputs, (3) the agribusinesses that process food products and manufacture fiber products, and (4) the agribusinesses that provide marketing services at the wholesale and retail levels to both domestic consumers and overseas markets.

We begin the book by answering the question raised by the title of Chapter 1, “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. Chapter 2 discusses the changing structure of agriculture during the post–World War II period and the structure of those sectors in the economy that supply farmers and ranchers with inputs and process their output.

Part II focuses on gaining an understanding of the economic decisions made by consumers of foods and fiber products. The topics covered here include the forces influencing consumer behavior (Chapter 3) and the concept market demand for a particular product (Chapter 4). Part II concludes with the elasticity of demand. The specification of various elasticity measures is supplemented by empirical examples and their relevance to decision making in the food and fiber industry, including the potential magnitude of consumer response and the implication for producer revenue.

Part III turns to the supply side of the market. Chapter 6 describes some basic fundamentals of assessing current business performance. Issues related to resource use and production response by businesses in the short run in Chapter 7 are followed by the economic forces underlying the firm’s demand for inputs and its choice of commodities to produce (Chapters 8 and 9). Chapter 10 introduces the market supply curve, followed by the determination of market clearing prices and quantities under perfect and imperfect competition in Chapter 11. Empirical examples illustrate the magnitude and applicability of the relationships involved.

Part IV addresses the role of government in the food and fiber industry. Chapter 12 outlines the general nature of government involvement in farm economic issues, consumer issues, resource issues, and international issues. Chapter 13 explores the relationship between market equilibrium and farm program policy, making the objectives of government supply constraint and demand expansion programs clear.

Part V focuses on the macroeconomics of agriculture. Chapter 14 outlines the general linkage between product markets and national output, Chapter 15 illustrates the consequences of business fluctuations in the economy, Chapter 16 documents the importance of monetary policy to the economic performance of the economy, and Chapter 17 does the same for fiscal policy. Part V establishes the relationship between events in the general economy and their impacts on agriculture and other sectors in the United States' food and fiber industry. Chapter 18 concludes this part with a brief walk through the last several decades, illustrating graphically how changes in the macroeconomy affected the economic performance of agriculture.

Part VI focuses on international agricultural trade issues. Chapter 19 examines the growth and instability of agricultural trade, including the relative dependence on exports and imports. Chapter 20 focuses on the foreign exchange market, the international monetary system, and the effects of foreign exchange rates on U.S. agricultural trade. Chapter 21 explores the rationale for why nations trade and who gains from trade. Chapter 22 addresses agricultural trade policy, the rationale for restricting free trade, and the trade policy decision-making mechanisms and institutions. Finally, Chapter 23 examines the formation of preferential trading arrangements and their potential impact.

Each chapter concludes with a summary of the chapter's purpose and the major points covered. In addition, the key terms used in the chapters are defined. There is also a list of references and further readings on the subject covered in the chapter.

This textbook differs substantially from the traditional introductory agricultural economics textbook in several ways. First, the book explicitly goes beyond the farm gate to address the entirety of the food and fiber industry, which accounts for about 17% of the United States' output. Second, the book places an unusually strong emphasis on the macroeconomics of agriculture (five chapters) and international trade (five chapters). The experience of the 1980s and 1990s certainly has shown that farmers and ranchers, agribusinesses, financial institutions, and consumers of food and fiber products are significantly affected by macroeconomic policies and trade agreements.

Supplementary materials that complement this textbook—an instructor's manual containing chapter outlines, an extensive test bank of questions and problems (with solutions) that has been classroom tested over an extended time period, and transparency masters that help present key concepts from the text—are available. A study guide, which summarizes key concepts in each chapter and provides questions and problems for review purposes, is also available to students.

We wish to acknowledge the earlier contributions made by Rulon Pope of Brigham Young University and Michael Cook of the University of Missouri. We also wish to thank the many students who have given us comments and suggestions during the developmental phase of this book.

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