Government Intervention in Agriculture – Nov 19th

- Reasons for Govt Intervention in Ag Markets
- Exam III Review

AEC 305, Food and Agricultural Marketing Principles

Market Structure, Conduct, and Performance

- Government Oversight/Regulation
- Market Structure
  - # of Buyers and Sellers
  - Product Similarity
  - Ease of Entry/Exit
  - Info Available
- Market Conduct
  - Price Decisions
  - Quantity Decisions
  - Non Price Decisions (product development, advertising/promotion, services)
- Market Performance
  - Pricing Efficiency
  - Operational Efficiency
  - Profits/Distribution
  - Consumer Preferences
  - Information

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Why Do We Have (Need) Government Intervention?

- Market Failure to Efficiently Allocate Resources Provides “Opportunities” for the Government to Intervene an Ideally Offer a Solution which Improves Social Welfare (Economic Well-Being)
- Controversial in Nature - Winners and Losers

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What Gives Rise to Government Intervention in Agriculture?

- Volatile and Low Prices/Income in Agriculture
  - Nature of Supply and Demand
  - Market Concentration/Abuse of Market Power
  - Weather Events

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Criticisms of Farm Policy

- Current programs distort world production and trade
  - The levels of subsidies are high and are capitalized into land prices and rents that increases cost of production and makes U.S. commodities less competitive in world markets
  - Benefits are concentrated among a few commodities and among a relatively small number of large farms

Source: Previewing the 2007 Farm Bill, CRS Report, Jasper Womach

Supporters of Farm Policy Argue:

- U.S. farm programs are necessary to counteract programs by competitors
  - Land values and tax bases would decline if programs were eliminated
  - Programs allow larger farms to become more efficient, with benefits to consumers
  - Shifting program benefits to smaller/inefficient farms would encourage additional production by higher cost of production producers

Source: Previewing the 2007 Farm Bill, CRS Report, Jasper Womach
Other Factors That Promotes Government Intervention in Agriculture

- Protect Natural Resources
- Expand Exports/ Limit Imports
- Political Power of Ag Interests
- We all eat
  - Adequate, Safe and Nutritious Food Supply

In Addition to Farmers, Farm Policy Affects:

- Commodity Groups/Organizations
- Agribusiness Input Suppliers
- Ag Financial Institutions
- Commodity Handlers
- Food and Fiber Processors/Wholesalers/Retailers
- Ag Exporters
- Rural Communities
- Environmentalists
- Land-Grant Universities
- U.S. Consumers
- Foreign Markets (Competitors, Companies and Consumers)

Exam III Review - Market Structure

- Characteristic of Various Market Structure Models
  - Number of buyers/sellers, degree of product differentiation, ease of entry/exit, market information, price taker/maker
- Perfect Competition
  - Max Efficiency - Yardstick
  - P=MC=MR, no economic profits in long run
  - No Market Power ... perfectly elastic demand curve, price taker
- Imperfect Competition Models
  - Various models depicting firms with market power who, (unless monopoly) will generally react to actions of competitors
  - P>MR, Output not at Min LRAC
  - Price Makers ... more market power leads to steeper demand curve

Exam III Review - Structure, Conduct, Performance (S-C-P) Model

- What variables do economist evaluate under the S-C-P model?
  - Market Structure
  - Number of Buyers/Sellers including concentration ratios
  - Barrier to Entry/Exit Market Information/Product Differentiation
  - Market Conduct
  - Price and Quantity Determination
  - Non Price Competition (Advertising, Promotion, Services)
  - Generic vs Brand Advertising, Shift Demand and Make it Less Elastic
  - Market Efficiency
  - Pricing
  - Operatioanal Distribution of Profits

Recall that increased concentration is causing ag markets to act more like imperfectly competitive markets ... which has both good and bad impacts for producers and consumers. Inefficiencies lead to government intervention

Exam III Review - Price Discovery

- Price Discovery vs Price Determination
- Describe various price discovery systems in agriculture (cash (spot) markets, auctions, negotiations, formula pricing, contracts, etc)
- Adoption depends on costs (both physical as well as transaction costs) vs benefits (transparent price signals, quality products, equitable returns to producers, trust)
- Contracting increasing in ag markets
  - Benefits to Producers/ Buyers/ Consumers
    - Market access/guaranteed buyer, access to more information/technology
    - Lower marketing costs
    - Improved supply security, quality control
  - Producer Concerns:
    - Single buyer who may make unreasonable demands
    - Loss of managerial independence
  - Understand differences in production vs marketing contracts