

# AG ECONOMICS 614

## Fall 2004

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**Course objective:** To train future leaders to think through and evaluate the effects of policy changes.

The emphasis of this course is on describing alternative policy tools and their effects. Policy tools are described and evaluated in a graphical and mathematical framework. The effect of policy changes on output, input markets, agribusinesses, income, consumers, and the agricultural supply chain are evaluated.

Policy is a dynamic and evolving arena. The 2002 Farm Bill may be the most complex farm bill yet passed. It followed the 1996 Farm Bill that many thought would be the end of farm policy. This course is current events focused. Homework and exams will reflect current policy questions and issues.

As a minimum, the student should have successfully completed the material in a microeconomics course. The student also should be familiar with the material covered in an undergraduate agricultural policy class, such as AGECE 429.

### **Textbook**

No textbook is required, as numerous readings will be assigned throughout the semester. Textbooks that will be referred to frequently but which are *not* required are:

1. Tweeten, L. *Farm Policy Analysis*. Boulder: Westview Press, 1989.
2. Tweeten, L. *Agricultural Trade Principles and Policies*. Boulder: Westview Press, 1992.
3. Knutson, R., J. B. Penn, and B. L. Flinchbaugh. *Agricultural and Food Policy*, Fourth Edition, Prentice-Hall, Inc., 1998 and Fifth Edition, 2003.
4. Knutson, Richardson, Klinefelter, Rosson, and Smith. *Policy Tools for U.S. Agriculture*, TAES B-1548, January 1993.
5. Gardner, B. *The Economics of Agricultural Policies*. McGraw Hill, 1990.

## Grades

There will be five or more homework assignments. These assignments will consist of problem sets that give you additional experience analyzing policy problems. *No term paper* is required. There will be one exam and a *comprehensive* final exam. Your final grade will be determined as follows:

Exam I	45%
Final Exam	45%
Homework	10%

## Organization of Material

Lecture topics for each week of the semester are indicated below. As graduate students, you are responsible for reading any background material necessary to understand the material covered in class. Numerous handouts and reading assignments will be provided throughout the semester. You are responsible on exams for information in these handouts and outside reading materials, although they may not be covered in class.

Each lecture topic will involve practical, current applications of the tools introduced.

## Subjects Covered

- I. Introduction
  - A Brief History of U. S. Agriculture and Agricultural Policy
  - The 2002 Farm Bill: Back to the future
  - Economics Review
  
- II. Domestic Policy Tools Effects on Output, Input Demand, Price, and Income: A Graphical Presentation
  - Free Market with Decoupled Payments
  - Price Supports
    - ⇒ Loan rates
    - ⇒ Farmer owned reserve
    - ⇒ Marketing loan

- Income Supports
  - ⇒ Target prices, pre-1996 and post-2002
  - ⇒ Direct payments
- Supply Controls
  - ⇒ Set aside and diversion
  - ⇒ Input restrictions other than land
  - ⇒ Conservation reserve program
- Combination of Policy Tools in a Domestic Setting
  - ⇒ Supply controls combined with price and income supports

### III. Quantitative Analyses of Policy

- Use of elasticities to evaluate policy changes

### IV. International Trade Policy on Output, Input Demand, Price, and Income

- Domestic farm policies in the international market
- Exchange rates and trade
  - ⇒ U.S. meat and livestock trade.

### V. Risk Management

- Did the 1996 Farm Bill result in more volatile prices? What about the 2002 Farm Bill?
- Sources of Risk and Risk Mitigation Policies

### VI. Impacts of Policy on Land Prices

- Reading: Agricultural Land Values, Government Payments, and Production AJAE, Vol. 85, No. 3, August 2003, pages 744-773.

### VII. Cross Commodity Impacts of Policy

- Crop programs and the cattle industry

- “Buyout” programs

## VIII. Policy Impacts on the Supply Chain

- Food safety regulations
- Effects on the value added chain
  - ⇒ Farm to retail price spreads: do they matter? Or, hogs are down to 7 cents, how come the pork isn't?
- Impact of Agricultural Commodity Price Changes on Food Prices
  - ⇒ Reading: Paul, C.J.M. and J. M. McDonald. “Tracing the Effects of Agricultural Commodity Prices and Food Costs.” Amer. J. Agr. Econ. 85(3) (August 2003): 633-646.

## IX. Environmental Policy

- Confined Animal Feeding Operations
- Quantifying Impacts of Regulations

## X. Food Security

- Policy Goal?
- Food Safety and Food Security

## XI. Macroeconomics and Agriculture

## XII. Getting from Mexico City to Ottawa: Can You Get There From Here?

- Transportation policy

## XIII. The Sound Science Standard

- Defining Trading Rules

- Public Policy vs. Private Policy

#### XIV. Grades and Standards

- Is government involvement still relevant?
  - ⇒ Readings: Product Differentiation and Asymmetric Information in Agricultural and Food Product Markets: Defining the Role for Government AJAE (85)3 (August 2003): 720-743.

#### XV. Dairy Policy

- It's current state
- Designing a new dairy policy

#### XVI. Payment Limits

- Are farmers getting rich?

## AG ECON 614 Readings

### Introduction

- Gardner (1996), *Review of Agricultural Economics*, Vol. 18, pages 155-165
- Knutson, Penn and Flinchbaugh
- Tweeten (1989) - Chapters 4, 5, and pages 357-365

### Domestic Policy Tools

- Price Supports
  - ⇒ Knutson et al. *Policy Tools* - pages 12-14
  - ⇒ Tweeten (1989) - Chapter 12
  - ⇒ Knutson, Penn and Flinchbaugh
  - ⇒ Gardner - pages 11-15
- Income Supports
  - ⇒ Knutson et al. *Policy Tools* - pages 3-11
  - ⇒ Gardner - pages 22-25
- Supply and Marketing Controls
  - ⇒ Gardner - pages 20-22
  - ⇒ Knutson et al. *Policy Tools* - pages 15-16
  - ⇒ Knutson, Penn and Flinchbaugh

### International Trade Policy

- Knutson et al. *Policy Tools* - pages 41-49
- Tweeten (1992) - pages 49-64, 69-71, Chapter 4, Chapter 5

### Quantitative Analysis of Policy

- Gardner - pages 54-81

## ADA Statement

The American with Disabilities Act (ADA) is a federal anti-discrimination statute that provides comprehensive civil rights protection for persons with disabilities. Among other things, this legislation requires that all students with disabilities be guaranteed a learning environment that provides for reasonable accommodation of their disabilities. If you believe you have a disability requiring an accommodation, please contact the Department of Student Life, Services for Students with Disabilities in room 126 of the Koldus Building so your professor can best accommodate your needs. The phone number is 845-1637.

## Scholastic Honesty and Classroom “Rules.”

A note on cheating. It is not tolerated! If you are caught in the act, you will automatically receive a zero on the work in question. Your instructor will then proceed in completing the Honor Code Violation Report form and report you, through the Department of Agricultural Economics Undergraduate Office, to the Honor Council.

For many years Aggies have followed a Code of Honor, which is stated in this very simple statement:

*An Aggie does not lie, cheat or steal  
or tolerate those who do.*

The Aggie Code of Honor is an effort to unify the aims of all Texas A&M men and women toward a high code of ethics and personal dignity. For most, living under this code will be no problem, as it asks nothing of a person that is beyond reason. It only calls for honesty and integrity, characteristics that Aggies have always exemplified. The Aggie Code of Honor functions as a symbol to all Aggies, promoting understanding and loyalty to truth and confidence in each other.

Upon accepting admission to Texas A&M University, a student immediately assumes a commitment to uphold the Honor Code, to accept responsibility for learning and to follow the philosophy and rules of the Honor System. Students will be required to state their commitment on examinations, research papers, and other academic work. Ignorance of the rules does not exclude any member of the Texas A&M University community from the requirements or the processes of the Honor System. For additional information, please visit: [www.tamu.edu/aggiehonor](http://www.tamu.edu/aggiehonor).