

# **Worlds of Agricultural Economics**

**EE390 Part I**

**Nondh Nuchmorn**

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## **Economics of agricultural marketing**

- Seasonal and geographical dispersion create the need for a marketing system
- From ‘farm’ to ‘table’

# **Agricultural Marketing**

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- Why Market?
  - Make or Buy decision..
  - Make or Sell decision..
  - Specialization & Comparative advantage

# **Agricultural Marketing**

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## **Market vs. Subsistence Orientation of Farming**

- Subsistence Farming
  - Farming crops that are intended to be consumed by the producers
  - Produce only to bear necessity to continue to exist (minimal levels of food and other essentials)
  - But still need to purchase additional food
  - In reality, based on different sources of income, where the smallholding provides the basis for food supplies and generate some cashes from occasional sales

# **Agricultural Marketing**

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## Market vs. Subsistence Orientation of Farming

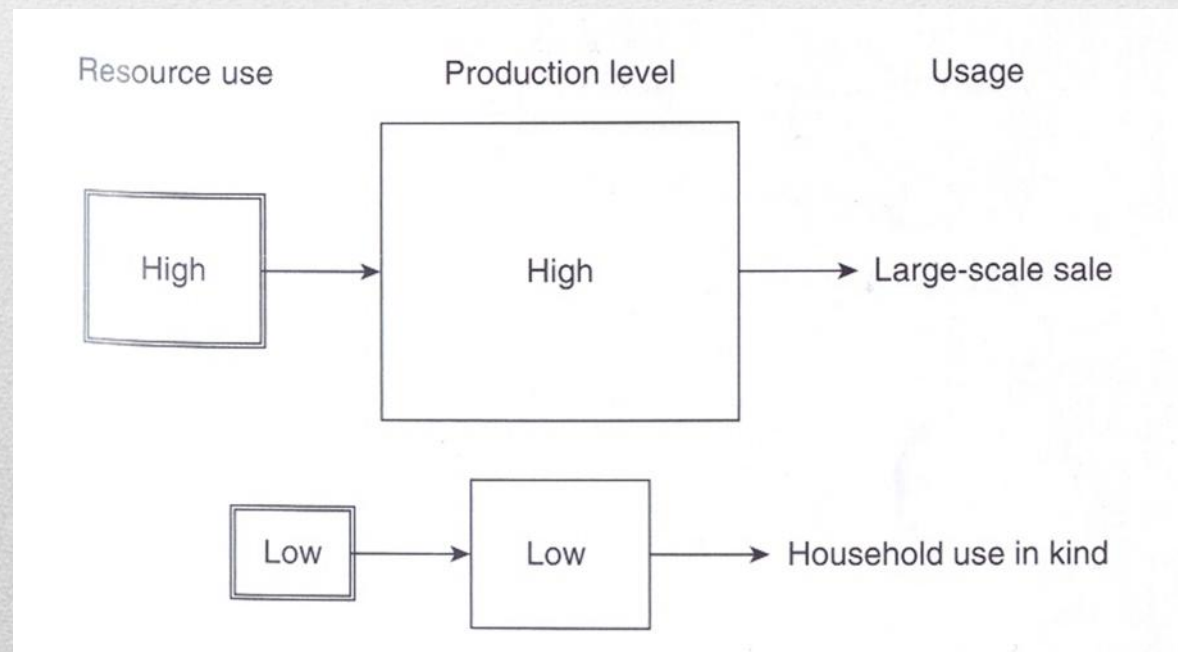
- Market-oriented Farming
  - → Production for sale against payment in cash
  - → More revenues → Ability in farm development (to continue/ increase farm production/ make investment)
  - → increased farmer's "freedom of action" (wider range of choices and decisions)

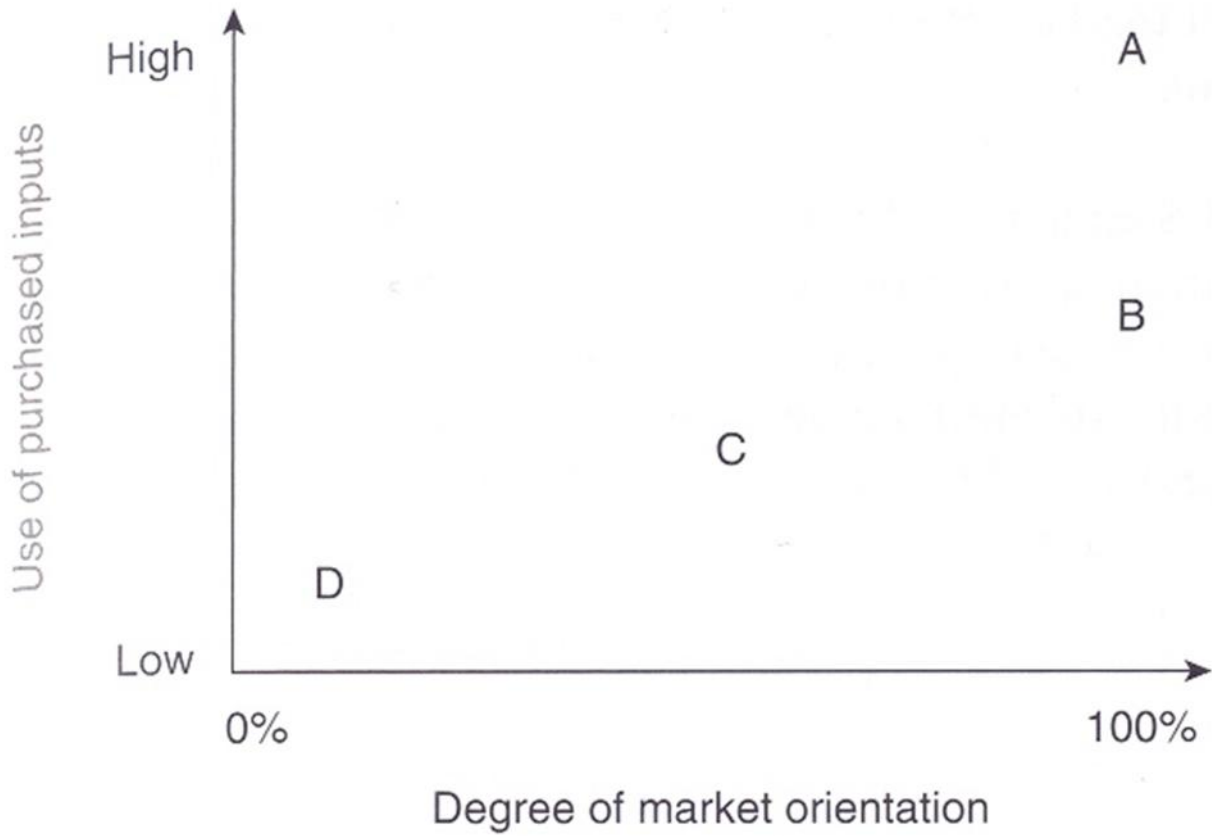
# Agricultural Marketing

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## Degree of Market Orientation

- Related to the use of resources, types of farm production, methods of production, yield levels,...
- Subsistence farm would be more 'input-driven'

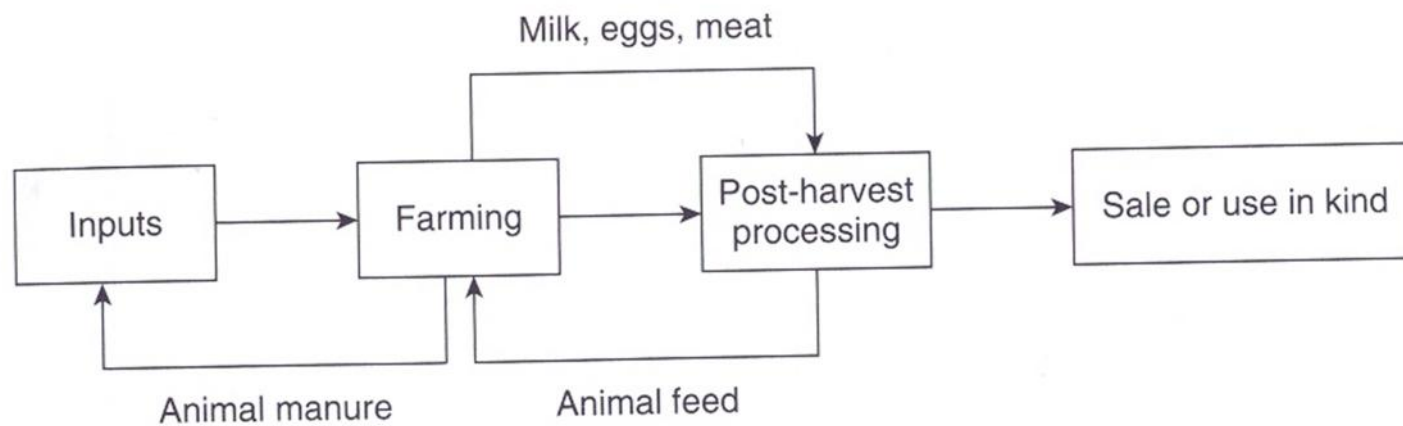






## **Degree of Market Orientation**

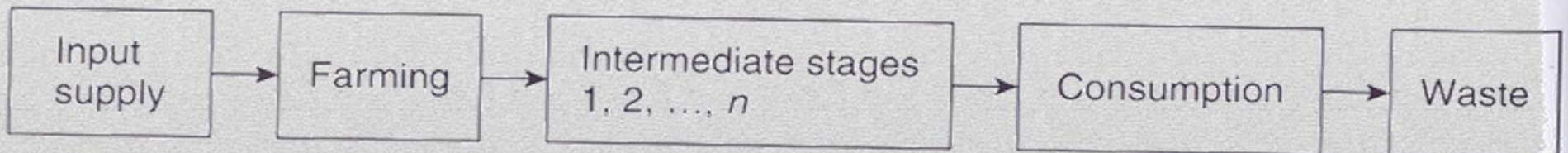
- A: 100% market-oriented farming and high use of purchased inputs
  - B: 100% market-oriented farming but low level of purchased inputs
  - C: Both market and subsistence orientation with relatively low use of purchased inputs
  - D: Subsistence orientation and low use of purchased inputs
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*Figure 4.4* Parts of the food chain that take place at the farm. While cash crops may be sold or consumed after harvest, feed crops are recirculated through the animals before the products, animal products, are sold or used in kind.

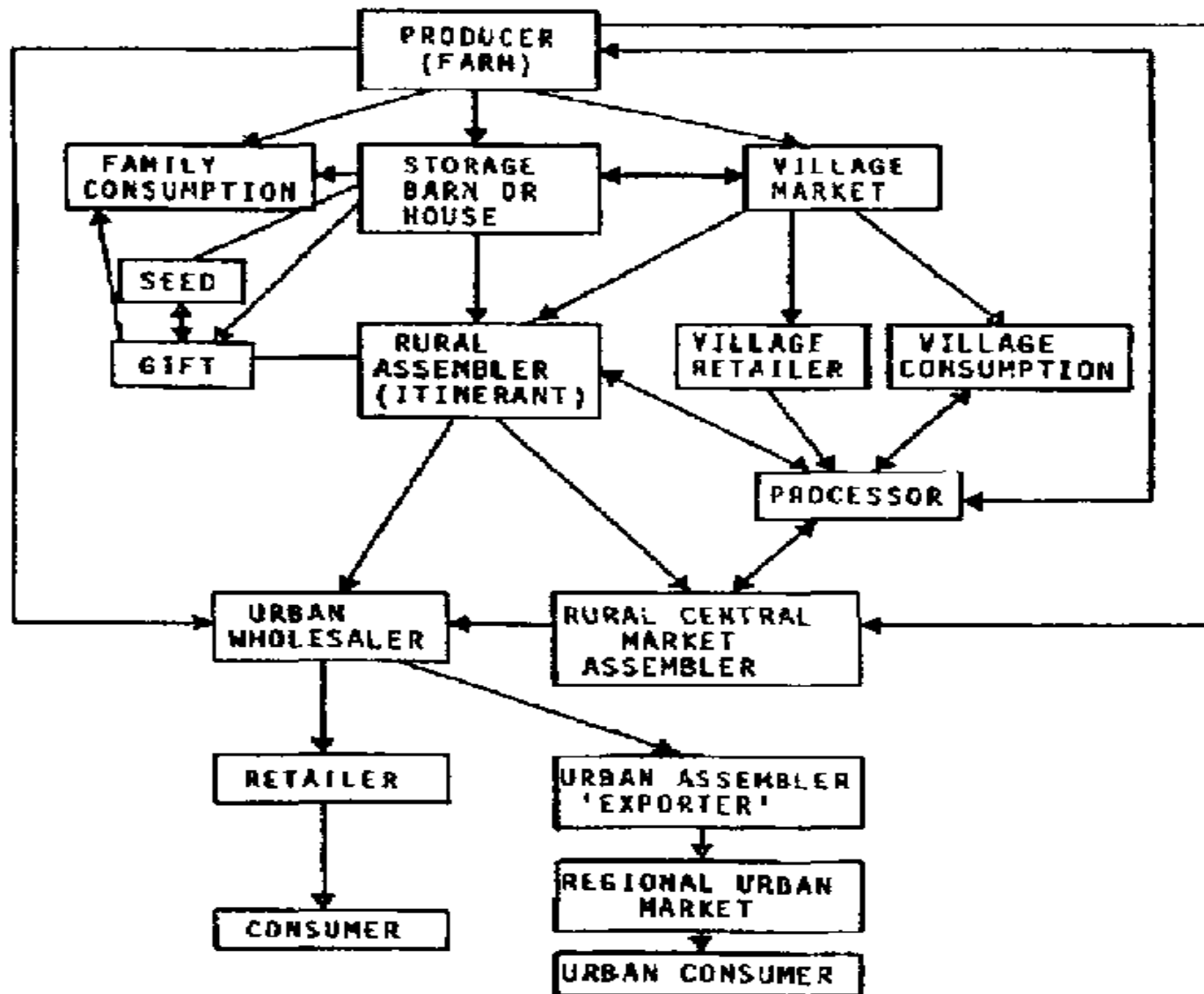
## Food Supply Chain

- ‘From farm to fork’ approach
- Market-oriented supply chains are often long and complex
- “Intermediates” between farmers and consumers
  - Post-harvest process, storage, transport, distribution, wholesale, processing, packaging, retailing

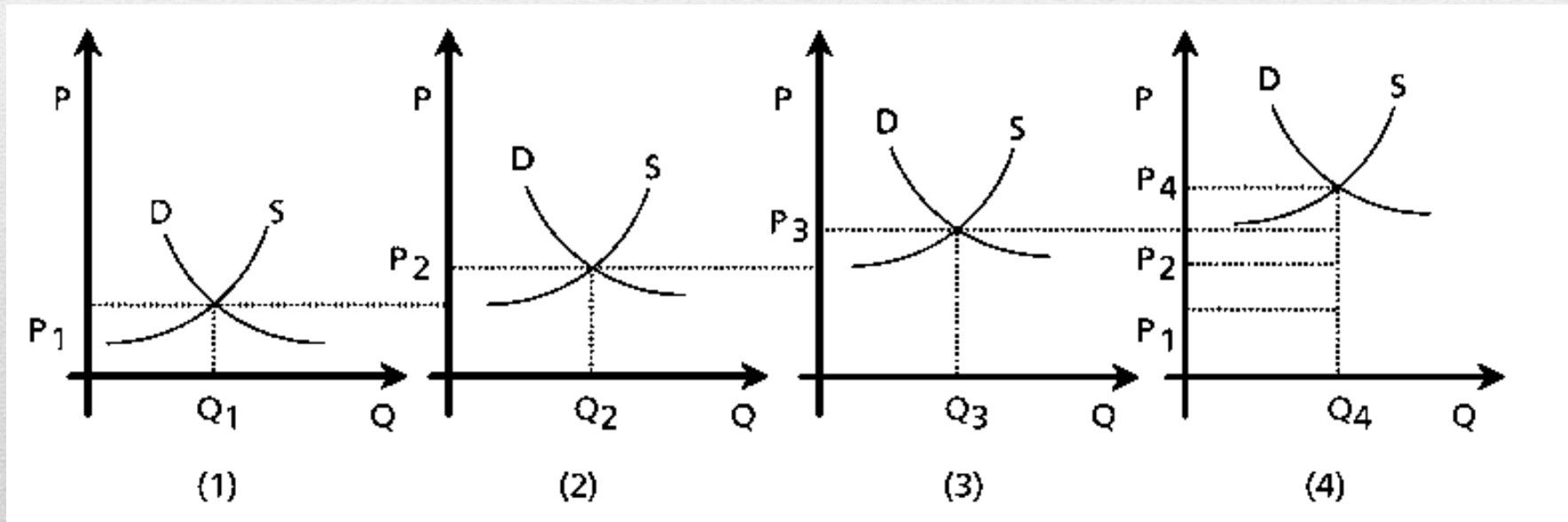


## Marketing functions

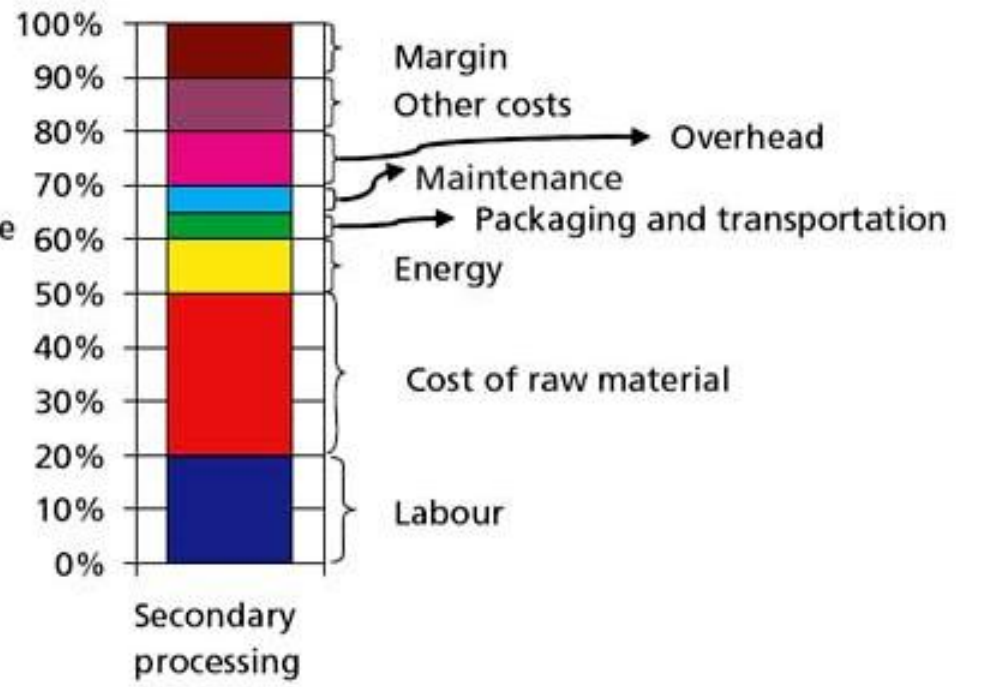
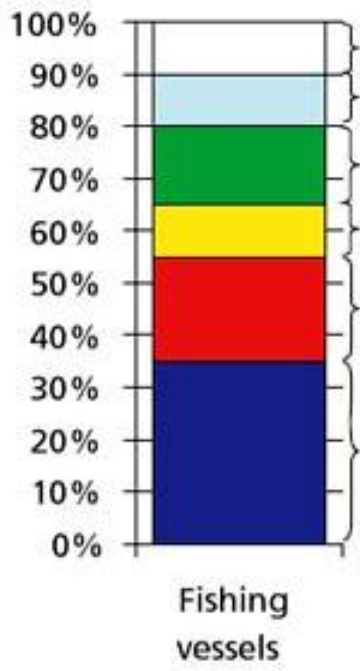
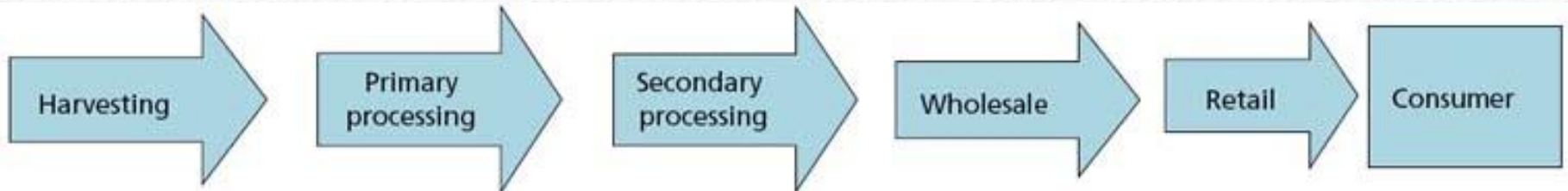
- **Exchange functions**
  - **Physical functions:** Increasing the value-added
    - **Place utility**
      - Transportation (domestic shipping, international imports/exports)
    - **Time utility**
      - Holding products from harvest or production and distributing it over time as it needed
    - **Form utility**
      - Processing, especially in the manufacturing activities
  - **Facilitating functions**
    - Grading and standardization, insurance, market information
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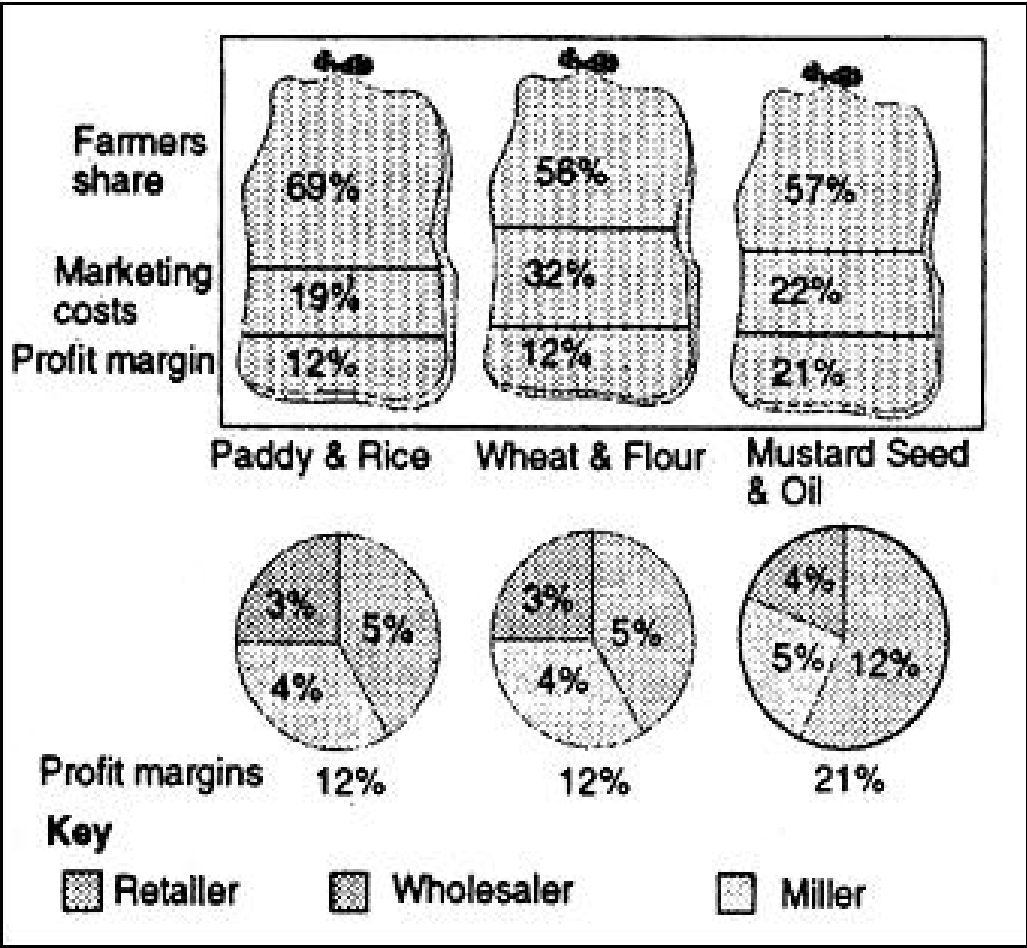
## Price transfer in supply chain



# Price transfer in supply chain

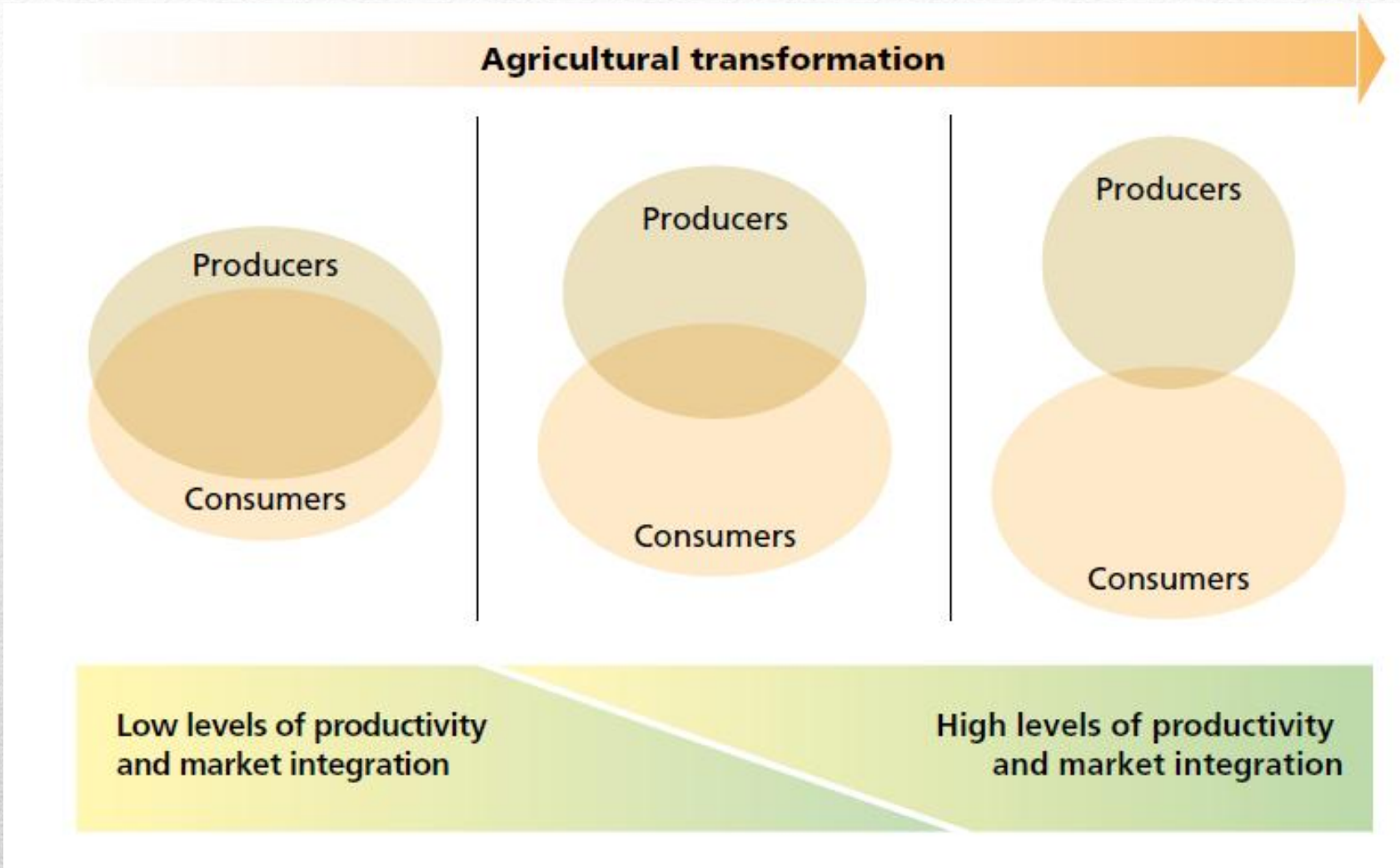


# Price transfer in supply chain



## Price transfer in supply chain

	Fresh Tomatoes	Canning Tomatoes
Retail price (50 kgs) <sup>a</sup>	\$20.00	\$40.00
Marketing margin	\$12.00	\$32.00
Farmer's return	\$8.00	\$8.00
Farmer's %	40%	20%

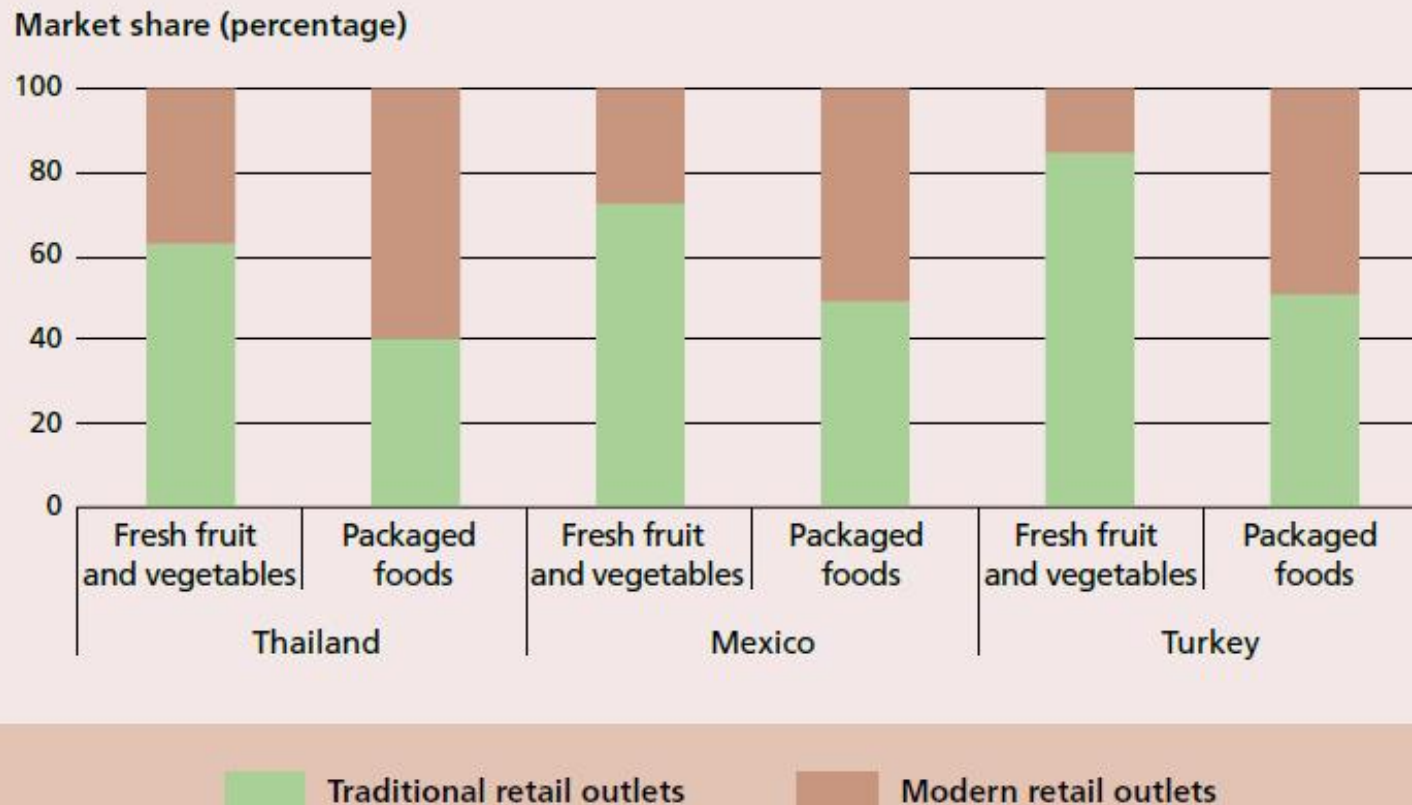




- **Characteristics of food supply chains**

- Relatively few suppliers of commercial inputs, such as inorganic fertilizers and agrochemicals
  - Many farmers, in comparison with food suppliers and intermediate actors
  - Many intermediate stages
  - Many many consumers (both domestic and international)
  - New trends of “vertical integration”
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## Modern and traditional retail outlet shares of fresh fruit and vegetable market and packaged food market in selected countries




*Note:* Packaged foods include breakfast foods as well as preserved, canned, frozen and other ready-to-consume items. Countries are presented in ascending order of GDP per capita according to World Bank (2008) figures.  
*Sources:* Euromonitor, 2012 and 2011b; and Gorton, Sauer and Supatpongkul, 2011.

## • **Determination of Exchange**

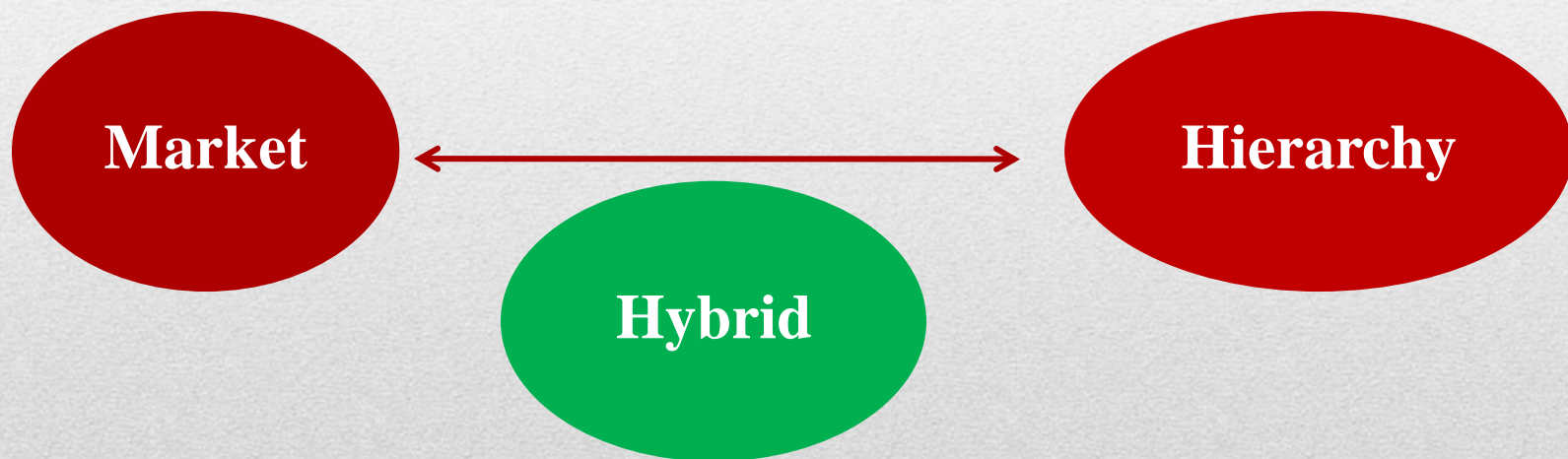
### • Specialization

- Difference in ‘cost’ of production
  - “Absolute advantage”
- Difference in ‘opportunity cost’ of production
  - “Comparative advantages”

	<b>Minutes Needed to Make 1 Ounce of:</b>		<b>Amount of Meat or Potatoes Produced in 8 Hours</b>	
	<b>Meat</b>	<b>Potatoes</b>	<b>Meat</b>	<b>Potatoes</b>
<b>Farmer</b>	60 min/oz	15 min/oz	8 oz	32 oz
<b>Rancher</b>	20 min/oz	10 min/oz	24 oz	48 oz

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- “Transaction Cost Economics” (TCEs)
    - Broad definition:
      - Transaction cost: “costs of running the economic system”
    - Institutional Economics: two focuses
      1. Institutional rules of the game: customs, laws, politics
      2. Modes of Governance: microanalytic structure of transaction: (Williamson, 1991)
        - Market/ Hierarchy/ Hybrids
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- Two polar forms





## Hierarchy

- Many economic activities take place within firms
  - “economies of scales”/ “comparative advantage”: ‘to make’ instead of ‘to buy’
  - Employers & Employees contract
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## Hybrid

- *Pooling Resources*
  - *Reciprocal Returns*
  - *Contracting* (to regulate the relationship among partners)
  - Cooperatives/ Franchising/ Sub-contracting/ Contract farming/ Sharecropping
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## Distinguishing Attributes of Market, Hybrid, and Hierarchy Governance Structures\*

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Attributes	Governance structure		
	Market	Hybrid	Hierarchy
Instruments			
Incentive intensity	++	+	0
Administrative controls	0	+	++

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\* ++ = strong; + = semi-strong; 0 = weak.

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**Asset  
Specificity**

**Uncertainty**

**Frequency of  
Transactions**

**Transaction  
Costs**

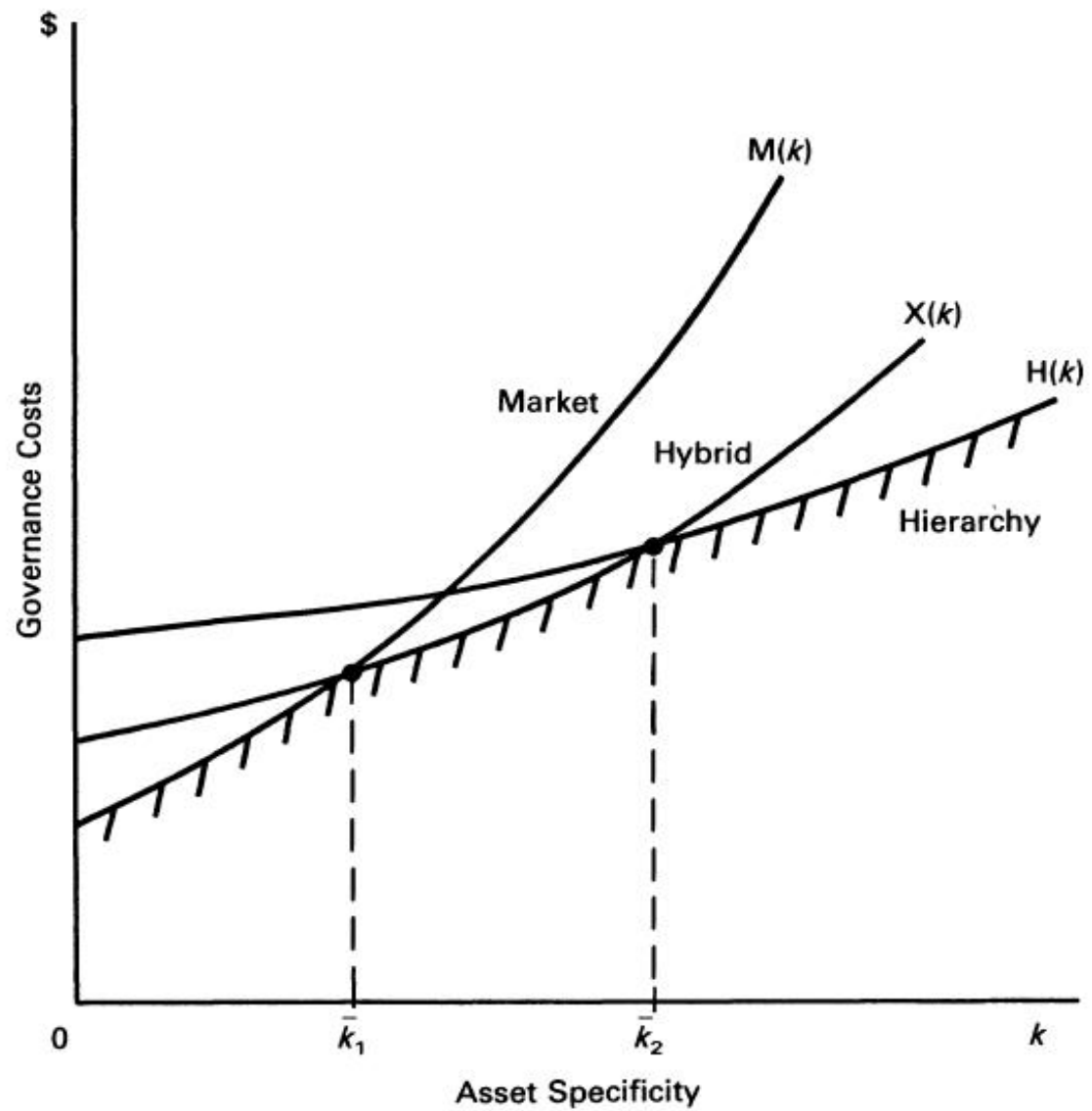


**Governance  
Choice**



## **Asset-specificity**

- Site specificity
  - Physical asset specificity
  - Human-asset specificity that arises in learning by doing
  - Brand name capital;
  - Temporal specificity, which is akin to technological
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- Ex. HVFs, Products requiring post-harvest technology, Specificity in farm capitals, Standardization/labelling (HACCP, GAP, IFOAM, etc.)
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Uncertainty: → Choice of 'governance structure'

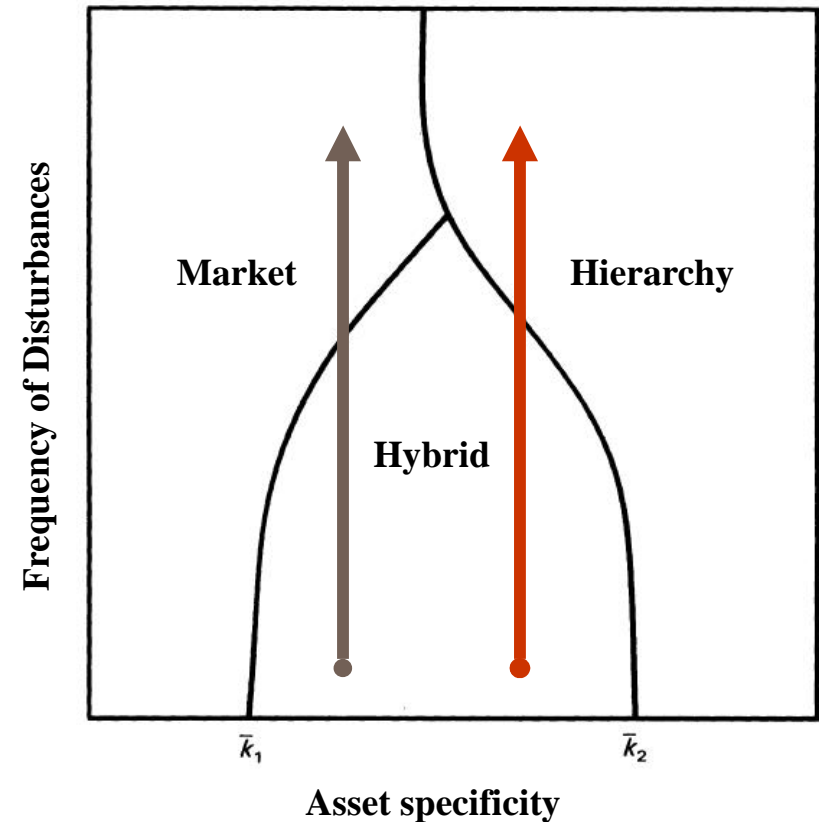
Higher uncertainty  
*costs for carrying out*  
and secure transactions go up (for  
overcoming information deficiency,  
safeguarding against risk).

for low asset specificity:

hybrid → market

for high asset specificity:

hybrid → hierarchy



Mode of governance	Asset Specificity		Uncertainty		Frequency		Examples
	Low	High	Low	High	Low	High	
Market	✓		✓		✓	✓	Meat cows, fishery products, Fruits and vegetables, Rubber, Rice
Contract		✓	✓	✓	✓		Chicken, Pig, Potato, Sugarcane, Cage fish, Fruits and vegetables for export
	✓			✓		✓	
Plantation/ Factory Farm		✓	✓	✓		✓	Chicken, Shrimp, Wine grapes