What is Agricultural Economics?

Chapter 1
Discussion Topics

- Scope of economics
- Definition of economics
- Definition of agricultural economics
- What do agricultural economists do?
Is the sky falling? What factors influence demand and supply along the food and fiber supply chain? How do actions by the Federal Reserve affect agriculture? And how important is international agricultural trade? **Chicken Little is addressing the first question.** We will tackle the others and more as we move through a wide variety of topics this semester.
Scarce Resources

✓ Natural and biological resources
  • 3.5 million square miles of land surface
  • 954 million acres of land in farms

✓ Human resources
  • 141.1 million people in U.S. civilian labor force

✓ Manufactured resources
  • 3.9 million miles of highways
  • 121.4 million tons of steel making capacity
Making Choices

✓ **Resource scarcity** forces consumers and producers to make choices

✓ **Opportunity cost** – an implicit cost associated with economic decisions

✓ **Specialization** – comparative advantage and the basis for trade

✓ **Individual decisions** – maximization of consumer utility and producer profits

✓ **Societal decisions** – production possibilities given existing resources (guns versus butter)
An Example of Specialization
Relative strengths of Kansas

KANSAS
Surplus of wheat
Shortage of oranges
Shortage of potatoes
Relative strengths of Idaho

IDaho

Surplus of potatoes
Shortage of wheat
Shortage of oranges
Relative strengths of Florida

- Surplus of oranges
- Shortage of wheat
- Shortage of potatoes
Each state specializes in what it does best and trades with other states…
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Scope of Economics

✓ Microeconomics *versus* macroeconomics
  - Micro - individuals or groups of individuals
  - Macro - broad aggregates at economy level

✓ Positive *versus* normative economics
  - Positive - “what is”, or “what would happen if”
  - Normative - “what should be”

✓ Alternative economic systems
  - Capitalism and socialism
  - U.S. has mixed economic system
Definition of Economics

“…a social science that deals with how consumers, producers and societies choose among the alternative uses of scarce resources in the process of producing, exchanging, and consuming goods and services”.
What is Agricultural Economics?

“...an applied social science that deals with how producers, consumers and societies use scarce resources in the production, processing, marketing and consumption of food and fiber products”.
In Summary

- Resource scarcity - natural, human and manufactured – forces individuals and societies to make choices
- Comparative advantage leads to trade
- Micro vs. macroeconomics
- Definition of agricultural economics
Chapter 2 presents an overview of the U.S. food and fiber industry...