Introduction to Agricultural Economics 7th edition Penson Solutions Manual

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Chapter 2: The U.S. Food and Fiber Industry

CHAPTER OVERVIEW

The purpose of this chapter was to acquaint the student with the structure and performance of the farm sector during the post-World War II period and its role in the nation's food and fiber industry. The major points made in this chapter may be summarized as follows:

1. The U.S. food and fiber industry consists of different groups of business entities called sectors, which are in one way or another associated with the supply of food and fiber products to consumers. In addition to the farm sector, this industry consists of firms that supply manufactured inputs to farms and ranches, firms that process raw food and fiber products, and firms that distribute food and fiber products to consumers.

2. Among the physical structural changes taking place in the farm sector during the post-World War II period is the trend toward fewer but larger farms. We have also seen a tremendous expansion in the use of manufactured inputs, such as machinery and chemicals, and a decline in labor use. Rising capital requirements in general during the period have increasingly represented a potential barrier to entry for would-be farmers.

3. Although the total quantity of inputs used in producing raw agricultural products has remained relatively stable during the post-World War II period, the total quantity of output has increased substantially. These results, taken together, imply an increase in productivity, or the ratio of output to inputs.

4. Gross farm income has increased, albeit somewhat erratically, during the post-World War II period, while production expenses have behaved in similar fashion. The result is a highly variable level of profits, or profitability, from one year to the next.

5. The financial structure of the farm sector during the post-World War II period shows that financial assets represent a considerably smaller portion of total farm assets. Real estate assets are the major component of farm asset..

6. The U.S. food marketing sector is the network of processors, wholesalers, retailers, and restaurateurs that market food from farmers to consumers. Approximately 83% of the personal consumption expenditures on food went to pay for activities taking place beyond the farm gate.

7. Along the flow of products from farmers to processors and eventually on to consumers, middlemen play a vital role. Classifications of middlemen firms include merchant middlemen firms, agent middlemen firms, speculative middlemen firms, processing and manufacturing firms, and facilitative organizations.

8. In recent times, the number of mergers and acquisitions in food industries has increased sharply relative to historical levels. Consequently, food industries have become more

concentrated. Concentration is particularly high in industries marketing products such as breakfast cereals, beer, candy, and soft drinks.

9. The food processing industry and the wholesale and retail trade industries are characterized by a relatively small number of firms that account for a substantial portion of total industry sales. Although aggregate concentration has increased, the number of food marketing companies has remained relatively constant.

10. Farmers and ranchers get approximately 17% of the dollar spent on food. This share varies considerably by commodity. The remaining portion goes to food processors, wholesalers, and retailers. The major categories of expenditures include labor, packaging, transportation, and advertising.

11. The transportation of food and fiber products along the marketing chain is an extremely important component. The storing and exporting of nonperishable commodities is also an important dimension of the marketing of agricultural commodities.

CHAPTER OBJECTIVES

- Visualize the scope of the U.S. food and fiber industry.
- Understand the changing structure of farming.
- Define productivity and understand post-WW II trends.
- Discuss trends in real net farm income and equity of farmers.
- Understand the role played by other firms in the food and fiber system.
- Understand the notion of how economists report measures of economic activity.
- Understand how to calculate and interpret output and price indices
- Understand the difference between real and nominal measures of economic activity.

LECTURE OUTLINE

- Measuring and Interpreting Indices
- What is the Food and Fiber Industry
- Changing Complexion of Farming
    - Physical Structure
    - Specialization, Diversification, Organization and Contracting
    - Productivity
    - Profitability
    - Financial Structure
- Other Sectors in the Food and Fiber Industry
    - Farm Input Suppliers
    - Food Processors, Wholesalers, and Retailers
    - Value-Added Process
    - Fiber Manufacturers
    - Shippers and Handlers
    - Importance of Export Markets

- Summary

The coverage of the Chapter 2 power point slide show follows this lecture outline. While no major changes were made from the 6^{th} edition, selected charts and figures have been updated where appropriate with information available at the time of publication. Minor changes were made to the questions at the end of the chapter.

ANSWERS TO TESTING YOUR ECONOMIC QUOTIENT EXERCISES
Exercises appearing on page38-40:

1. c, between 10 and 15.
2. $14 million, net worth=assets-liabilities
3. marketing bill
4. b
5. d
6. (a) farm input suppliers; (b) farmers; (c) food processors and manufacturers; (d) food wholesalers, retailers, and food service purveyors; (e) consumers
7. Labor
8. 20
9. $30,000
10. 0.9; 1.25; 1
11. a, b, c
12. 2
13. (a) $350,000; (b) $8 million
14. (a) 0.9333; (b) 0.9655; (c) 2010
15. $60,000
16. see Table 2-1
17. see Table 2-2
18. inflation
19. a
20. d
21. c