

AGEC 321: Economics of Agricultural Marketing

Course Information

Instructor: Dr. Anton Bekkerman **Class days:** Tue, Thur
Office: 205 Linfield Hall **Class times:** 11:00 a.m. – 12:15 p.m.
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Office hours: Tue, Thur: 8 a.m. to 10:30 a.m. and by appointment

Course website: <http://www.montana.edu/bekkerman/classes/agec321f11.html>

Required readings: *Assigned in class*

Optional readings: *Agricultural Marketing and Price Analysis*
F.B. Norwood and J.L. Lusk
(Prentice Hall, 2008; ISBN: 9780132211215)

Prerequisites: ECNS 204 (ECON 201) or ECNS 251

Course Description

This course is intended to introduce important concepts in agricultural marketing. We will examine links between producers and consumers and factors that may cause changes in those links. Because agricultural markets are often fluid and changes can occur rapidly, we will seek to study current events and examine their effects on agricultural markets. Additionally, this course will emphasize the effects of local, national, and international events on agricultural markets in Montana. Students who complete this course should be comfortable with using a theoretical economic framework to assess and interpret the functions of agricultural markets.

During this course, we will develop theoretical frameworks to examine and evaluate questions that relate to agricultural markets. Examples include:

- How does food become available to consumers?
- How are agricultural commodity prices unique?
- Commodity markets are risky. How can producers and consumers hedge risk?
- How can futures markets be used to predict local prices?

- What effects do transporting and storing a commodity have on the commodity's price?
- Why do changes in the exchange rate between the dollar and the peso help Montana ranchers?

Is this class the same as a marketing class in the business school?

The business school at Montana State University describes its marketing management as “decision-making in the product, price, promotion, and distribution areas. Behavioral, legal, ethical, competitive, technological, and economic environments [and their effects on] decisions in the domestic and international organizations [are examined].”

In this course, the definition of marketing is *different*. You will not be learning techniques to better advertise hamburgers to 12–18 year olds. Nor will you perform market tests or surveys to determine how milk fat content affects the purchasing decisions of married couples with children. Rather, we will seek to understand *how and why agricultural producers, consumers, and firms make buying and selling decisions*. To do so, we will examine local, regional, national, and international agricultural markets. We will explore ways to analyze economic conditions and their effects on markets, understand and manage risks that exist when selling and acquiring commodities, and investigate how market shocks can change agricultural supply and demand.

Economic and Math Prerequisites

ECNS 204 (Microeconomics) or ECON 201 (Principles of Microeconomics) is a prerequisite for this course. It is a prerequisite for a reason. This course is taught with the assumption that you have the appropriate foundation of economic education to comfortably apply theoretical concepts to real-world analyses of agricultural markets. If I go over material typically taught in ECNS 204, it will be an overview that will help you review important concepts, *not* learn them. Thus, taking ECNS 204 in the same semester as AGE 321 may only help you minimally. Remember: ECNS 204 is a prerequisite, not a corequisite. *Not having the necessary prerequisites will significantly limit your success in this course*. If you do not have the necessary prerequisites, you need to talk to me as soon as possible.

In addition, you are expected to have a basic algebra skill set. Applied economics requires that you know how to add, subtract, multiply, divide, and solve for unknown variables.

Class Expectations: how to get an A in this class

From the first day of class to the final exam, every topic that we explore has three characteristics:

1. *Challenging material* – you will be presented with a lot of information. Some will be new and some should be familiar to you. In both cases, the material will challenge you and will take effort to grasp.
2. *Intuitive thinking* – much of economics is intuition. Having a calculator and memorizing a formula will get you almost nowhere if you don't know when and how to use them. A large component of this class is developing skills that will allow you to *apply* your knowledge and tools to new situations and develop your intuition.
3. *Applied analysis* – we will use graphical and mathematical tools for understanding the economics of agricultural markets. I will provide you with many opportunities to practice your applied analytical skills, but it is your responsibility to supplement my examples as much as is necessary for you to become proficient.

Reward (why should you care): economics is convoluted, confusing, and absolutely fascinating! Learning how to ask important questions and appropriately analyze real-world situations are skills that will earn you a high grade in this class, help you be successful in other classes, have an upper hand when applying for jobs, learn how to fly, and make you famous (ok, maybe just the first three). But perhaps the most important long-run benefit is earning the big bucks.

My commitment as a professor is to present relevant information, help you with challenging topics, and do as much as I can for you to be successful in this class. I have office hours – this is time that is devoted to my students. Please use them. There are numerous ways that you can schedule a meeting with me: (1) email or call me; (2) talk to me after class; (3) use the Google Calendar on the class website to view available times and schedule appointments (if you have a Google account).

Your commitment as a student is to put in the effort to understand the presented information, be inquisitive, and provide feedback. Feedback is extremely important because it makes class more interactive, helps me understand whether you are understanding the material, and allows me to improve lectures and class materials. There are several ways that you can provide feedback:

1. Ask and answer questions in class. All of you have life experiences that relate to the topics we learn in this class. It will be beneficial to everyone if you share some of them.
2. Email me with questions and/or suggestions – some of the most interesting questions I've received from students were by email.

3. Leave anonymous comments – a link is provided on the class website. This is where you can tell me that I'm the greatest thing since Nutella or if today's class seemed like I brought lecture notes from another course and presented them in Russian. If I don't know that something is wrong, I can't change it.

Class Attendance

A large portion of the material is discussed during the designated class periods. Although it is your decision whether to attend class, it is highly recommended that if you miss a lecture you attain a copy of the class notes and announcements from a classmate.

Please make every effort to come to class and arrive to lectures promptly. To be fully prepared, you should have read the assigned material and complete all assignments prior to each class.

Behavior

It is my strong belief that if you attend a lecture, then your intent is to concentrate on the presented material. Engaging in activities such as reading newspapers/magazines, using your cell phone or laptop to surf the Internet or send messages/emails, sleeping, etc., is inappropriate and distract your classmates. Please refrain from such activities. Thanks!

Academic Integrity

It is my expectation and that of the university that students follow guidelines described in the Montana State University Conduct Code.

Academic Misconduct

Includes cheating, plagiarism, forgery, falsification, facilitation or aiding academic dishonesty; multiple submissions; theft of instructional materials or tests; unauthorized access to, manipulation of, or tampering with laboratory equipment, experiments, computer programs, or animals without proper authorization; alteration of grades or files; misuse of research data in reporting results; use of personal relationships to gain grades or favors; or otherwise attempting to obtain grades or credit through fraudulent means.

Disabled Student Services

If you have a documented disability for which you are or may be requesting an accommodation(s), you are encouraged to contact me and Disabled Student Services as soon as possible.

<http://www.montana.edu/wwwres/disability/index.shtml>

Graded Opportunities

You will be provided numerous opportunities to demonstrate your comprehension of the material. It is in your best interest to take advantage of all graded opportunities.

Homeworks provide you with an opportunity to practice concepts that we go over during lectures. Quizzes will give *you* an opportunity to evaluate how well you can apply your understanding of learned material to new situations. Exams will give *me* an opportunity to evaluate how well you can apply your understanding of learned material to new situations.

Homework assignments include readings from the textbook as well as articles describing current events that relate to agricultural and commodity markets. These are required because we will discuss them in class. In addition, readings from your textbooks should complement lecture notes, not substitute for them. Quiz and exam questions may come from either, and your success will be substantially limited if you treat lecture notes and readings as substitutes.

There will be two midterm exams and a final exam. Each exam will be cumulative because all new material uses past information as building blocks.

Policy for turning in homeworks

Homeworks are due one week from the day they are assigned, and must be turned in by 5 p.m. on the day they are due. If you wish, you can turn them in during class; otherwise there are several methods by which you can provide a copy of your work:

1. Drop it off at my office or in my mailbox.
2. Email a typed copy.
3. Scan and email a written copy.

On days when homeworks are due, I will be in my office until at least 5 p.m. If I don't get your copy by the due date and time, it will not be accepted – *no exceptions*. At the end of the semester, your lowest homework grade will be dropped.

Class Syllabus

Graded Opportunity	Weight
Homeworks	10%
Quizzes	15%
Exam 1	20%
Exam 2	20%
Final	35%

Earned Percentage	Associated Letter Grade
93% - 100%	A
90% - 93%	A-
86% - 89%	B+
82% - 85%	B
78% - 81%	B-
75% - 77%	C+
70% - 74%	C
65% - 69%	D+
58% - 64%	D
≤ 57%	F

Incomplete Grades

Assigning of an *Incomplete* grade is in accordance with the guidelines of Montana State University, as outlined in the Course Catalog. This is as follows:

“The University takes the position that when students register, they commit themselves to completing their academic obligations as their primary responsibility. Therefore, the instructor may assign an *I* grade only in cases when students have suffered extreme personal hardship or in unusual academic situations.”

Class Schedule

The outline of topics, associated chapters, and exam dates is provided below. The exam dates will not change – *it is your responsibility to avert scheduling conflicts that may prevent you from taking an exam.* Quizzes will be announced at least

three lectures (week and a half) prior to the quiz. If you know that you have an academically relevant scheduling conflict (e.g., job interview), you must let me know *at least* one week in advance. If you fail to notify me, you will be required to provide an appropriate excuse *and* provide a written letter signed by your major adviser, describing the reason you were unable to take a quiz. I reserve the right to contact your major adviser and ultimately determine the validity of your absence.

Course Outline

Topic	Readings and Assignments
Class overview	Read syllabus; sign last sheet and return to class.
Begin supply and demand Supply curve Demand curve Surplus and costs	Read chapter 1
S & D topics in agriculture Shifters of S & D curves Math of S & D	Homework 1
More on S & D in agriculture Math and graphical examples	Read chapter 2
Introduction to elasticities Graphical representation Deriving elasticities Elasticities in agriculture	Homework 2
Continue with elasticities Graphical and math examples	
Quiz 1	
Introduction to EDM Graphical representation EDM math	Homework 3, re-read EDM in chapter 2
Continue with EDM EDM in agriculture Examples	
Commodity price analysis Determinants of ag. prices Prices and S & D	Read chapter 3

Course Outline – Continued

Topic	Readings and Assignments
Cobweb model	
Continue price analysis	
Law of one price	
Price transmission	

Exam 1 – September 29, 2010

Food marketing channel	Read chapter 4
Vertical price transmission	
Derived demand	
Graphical representation	
Derived demand	
Scenario analyses	
Solving derived demand	
Derived demand: graphs and math	Homework 4
Putting everything together	
Examples	
Inter-regional trade models	Reading: Schrimper, chapter 9
Moving commodities	
2D and 3D trade models	
Who trades with whom?	
International trade	Read chapter 5
Trade makes magic	
Trade in U.S.	
Three-panel trade model	

Quiz 2

Modeling trade	Homework 5
Scenario analyses	
Trade policy and its effects	
Introducing exchange rates	
How to find and interpret?	
Illustrating exchange rate effects	
Calculating exchange rate effects	
Exchange rates	
Graphical and math examples	

Course Outline – Continued

Topic	Readings and Assignments
Exam 2 – November 3, 2010	
Futures markets	Read chapter 6
Introduction and history	
How to read contracts?	
Finding prices	
Basics of using futures markets	
Operating in futures markets	Read Schrimper, chapters 14, 15
Your first trade	
Speculating in futures	
Marking-to-market	
Hedging risk	Homework 6
Why does hedging work?	
Scenario analyses	
More hedging	
More examples	
Hedge ratio	
Why is hedging not easy?	
Quiz 3	
Basis	Homework 7
What is basis?	
Basis risk	
Examples and scenarios	
Using basis	
More in basis risk	
What can basis tell us?	
More examples	
Advanced futures markets	Readings TBA
Cross-hedging	
Basis volatility	
Current research	

Final exam* – December 15, 2010 (12:00 p.m. - 2:00 p.m.)

* The final exam will be held in the same room as our regular class, Roberts Hall 321.