

LECTURE NOTES

Course Code: AEE 211

Course Title: Principles of Agricultural Economics

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Course Outline

1. Economics – Meaning, Definitions, Subject matter of Economics – Traditional approach – consumption, production, exchange and distribution
2. Modern Approach – Microeconomics and macroeconomics - Methods of economic investigation – Deduction & Induction
3. Agricultural Economics – Definitions, Meaning, Importance of Agricultural Economics – Branches of agricultural economics
4. Agricultural production economics- Meaning- Definitions- Subject matter – Objectives - Farm Management – Meaning – scope – Definitions- Objectives
Agricultural production economics
5. Agricultural finance – Meaning – Definitions – micro vs macro finance –need for agricultural finance-Agricultural marketing – meaning, definition , importance of agricultural marketing
6. Basic terms and concepts in economics – Goods & Services – free and economic goods, Utility – Cardinal and Ordinal approaches. Characteristics of utility – Forms of utility.
7. Value – Definition – Characteristics; Price – Meaning, Wealth – Meaning Attributes of wealth, Types of wealth, Distinction between wealth and welfare.
8. Law of Diminishing Marginal Utility – statement, assumptions of law, explanation, limitations of the law, Importance.

9. Law of Equi-marginal Utility – Meaning, Assumptions, Explanation of the Law, Practical Importance, Limitations.
10. Consumer's Surplus – Meaning, Assumptions, Explanation, Difficulties in measuring Consumer's Surplus, Importance.

Lecture no.1

Economics – Meaning, Definitions, Subject matter of Economics – Traditional approach – consumption, production, exchange and distribution

ECONOMICS

Economics is popularly known as the “Queen of Social Sciences”. It studies economic activities of a man living in a society. Economic activities are those activities, which are concerned with the efficient use of scarce means that can satisfy the wants of man. After the basic needs viz., food, shelter and clothing have been satisfied, the priorities shift towards other wants. Human wants are unlimited, in the sense, that as soon as one want is satisfied another crops up. Most of the means of satisfying these wants are limited, because their supply is less than demand. These means have alternative uses; there emerge a problem of choice. Resources being scarce in nature ought to be utilized productively within the available means to derive maximum satisfaction. The knowledge of economics guides us in making effective decisions. The subject matter of economics is concerned with wants, efforts and satisfaction. In other words, it deals with decisions regarding the commodities and services to be produced in the economy, how to produce them most economically and how to provide for the growth of the economy.

Subject matter of economics

Economics has subject matter of its own. Economics tells how a man utilizes his limited resources for the satisfaction of unlimited wants. Man has limited amount of time and money. He should spend time and money in such a way that he derives maximum satisfaction. A man wants food, clothing and shelter. To get these things he must have money. For getting money he must make an effort. Effort leads to satisfaction. Thus, wants- efforts- satisfaction sums up the subject matter of economics initially in a primitive society where the connection between wants efforts and satisfaction is direct .

Divisions of Economics

The subject matter of economics can be explained under two approaches viz., Traditional approach and Modern approach.

Traditional Approach

It considered economics as a science of wealth and divided it into four divisions viz., consumption, production, exchange and distribution.

1. Consumption: It means the use of wealth to satisfy human wants. It also means the destruction of utility or use of commodities and services to satisfy human wants.

2. Production: It is defined as the creation of utility. It involves the processes and methods employed in transformation of tangible inputs (raw materials, semi-finished goods, or subassemblies) and intangible inputs (ideas, information, know-how) into goods or services.

3. Exchange: It implies the transfer of goods from one person to the other. It may occur among individuals or countries. The exchange of goods leads to an increase in the welfare of the individuals through creation of higher utilities for goods and services.

4. Distribution: Distribution refers to sharing of wealth that is produced among the different factors of production. It refers to personal distribution and functional distribution of income. Personal distribution relates to the forces governing the distribution of income and wealth among the various individuals of a country. Functional distribution or factor share distribution explains the share of total income received by each factor of production viz., land, labour, capital and organisation.

Lecture No.2

Modern Approach – Microeconomics and macroeconomics - Methods of economic investigation – Deduction & Induction

Modern Approach :

This approach divides subject matter of economics into two divisions i.e., micro economics and macro economics. The terms „micro-„ and „macro-„ economics were first coined and used by Ragnar Frisch in 1933.

1. Micro-Economics or Price Theory:

The term „micro-economics“ is derived from the Greek word “micro”, which means small or a millionth part. It is also known as “price theory”. It is an analysis of the behaviour of small decision-making unit, such as a firm, or an industry, or a consumer, etc. It studies only the employment in a firm or in an industry. It also studies the flow of economic resources or factors of production from the resource owners to business firms and the flow of goods and services from the business firms to households. It studies the composition of such flows and how the prices of goods and services in the flow are determined. A noteworthy feature of micro-approach is that, while conducting economic analysis on a micro basis, generally an assumption of “full employment” in the economy as a whole is made. On that assumption, the economic problem is mainly that of resource allocation or of theory of price.

Importance of Micro-Economics: Micro-economics occupies a very important place in the study of economic theory.

□□ **Functioning of free enterprise economy:** It explains the functioning of a free enterprise economy. It tells us how millions of consumers and producers in an economy take decisions about the allocation of productive resources among millions of goods and services.

□□ **Distribution of goods and services:** It also explains how through market mechanism goods and services produced in the economy are distributed.

□□ **Determination of prices:** It also explains the determination of the relative prices of various products and productive services.

□□ **Efficiency in consumption and production:** It explains the conditions of efficiency both in consumption and production.

Formulation of economic policies: It helps in the formulation of economic policies calculated to promote efficiency in production and the welfare of the masses.

Limitations of Micro-Economics: Micro-economic analysis suffers from certain limitations:

□□ It does not give an idea of the functioning of the economy as a whole. It fails to analyse the aggregate employment level of the economy, aggregate demand, inflation, gross domestic product, etc.

□□ It assumes the existence of „full employment“ in the whole economy, which is practically impossible.

2. Macro-Economics or Theory of Income and Employment:

The term „macro-economics“ is derived from the Greek word „macro“, which means “large”. Macro-economics is an analysis of aggregates and averages pertaining to the entire economy, such as national income, gross domestic product, total employment, total output, total

consumption, aggregate demand, aggregate supply, etc. Macro-economics looks to the nation's total economic activity to determine economic policy and promote economic progress.

Importance of Macro-Economics:

□□ It is helpful in understanding the functioning of a complicated economic system. It also studies the functioning of global economy. With growth of globalisation and WTO regime, the study of macro-economics has become more important.

□□ It is very important in the formulation of useful economic policies for the nation to remove the problems of unemployment, inflation, rising prices and poverty.

□□ Through macro-economics, the national income can be estimated and regulated. The per capita income and the people's living standard are also estimated through macroeconomic study.

Limitations of Macro-Economics:

□□ Individual is ignored altogether. For example, in macro-economics national saving is increased through increasing tax on consumption, which directly affects the consumer welfare.

□□ The macro-economic analysis overlooks individual differences. For instance, the general price level may be stable, but the prices of food grains may have gone up which ruin the poor. A steep rise in manufactured articles may conceal a calamitous fall in agricultural prices, while the average prices were steady. The agriculturists may be ruined.

DEFINITIONS OF ECONOMICS

The word economics has been derived from the Greek Word "OIKONOMICAS" with "OIKOS" meaning a **household** and "NOMOS" meaning **management**.

WEALTH DEFINITION OF ECONOMICS : Adam Smith defined Economics as "An enquiry into the nature and causes of wealth of nations" in his book, entitled „ Wealth of Nations“. He is regarded as the "Father of Economics".

Criticisms of Adam Smith definition:

WELFARE DEFINITION OF ECONOMICS: Alfred Marshall in his book "Principles of Economics" defined "Political Economy or Economics as a study of mankind in the ordinary business of life, it examines that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of well- being . Thus it is on the one side a study of wealth, and on the other, and more important side, a part of the study of man.

Criticisms of Alfred Marshall definition:

SCARCITY DEFINITION OF ECONOMICS: In his publication "Nature and Significance of Economic Science" Lionel Robbins formulated his conception of Economics based on the scarcity concept. "Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses.

GROWTH DEFINITION OF ECONOMICS: John Maynard Keynes is known as the Father of Modern Economics. He defined economics as "the study of the administration of scarce resources and of the determinants of employment and income". In the words of Nobel prize winner Prof. Samuelson, "Economics is the study of how people and society end up choosing with or without the use of money, to employ scarce productive resources that could have alternative uses, it produces various commodities over time and distributes them for consumption, now or in the future, among various persons and groups in society. It analyses costs and benefits of improving patterns of resources allocation."

Importance

Economics analyses the economic problems of the society. It plays a major role in the economic development of the country by proposing the optimum allocation of resources. Knowledge of economics is useful in understanding various national and international events and trends.

Methods of Economics Investigation:

There are two methods of economic investigation that are used in economic theory i.e., (1) Deductive method and (2) Inductive Method

1. Deductive Method: This method involves reasoning or inference from the general to the particular or from the universal to the individuals. It is also known as the abstract, analytical, hypothetical or a priori method. Deduction involves four steps:

(1) Selecting the problems

(2) Formulating the assumptions

(3) Formulating the hypothesis through the process of logical reasoning whereby inferences are drawn and

(4) Verifying the hypothesis.

2. Inductive Method: This method is also known as Concrete method, historical method or realistic method. It involves reasoning from particulars to the general or from the individual to the universal. This method derives economic generalisations on the basis of experiments and observations. In this method detailed data are collected on certain economic phenomenon and effort is then made to arrive at certain generalizations which follow from the observations collected.

Is Economics a Science or an Art?

Science is a systematized body of knowledge in which the facts are so arranged that they speak for themselves. Judged by this standard, economics is certainly a science. Economics is also an art because it lays down precepts or formulas to guide people to reach their goals.

Economics therefore is a science as well as an art.

Economics – A Social Science

Economics deal with the activities of people living in an organized community or society, in such activities which relate to the earning and use of wealth or with the problems of scarcity, choice and exchange. Hence it called a social science.

Positive Economics and Normative Economics:

1. Positive economics is concerned with “what is” whereas Normative economics is concerned with “what ought to be”.

2. Positive economics describe economic behaviours without any value judgment while normative economics evaluate them with moral judgment.

3. Positive economics is objective while normative economics is subjective.

4. The statement, “Price rise as demand increase” is related to positive economics, whereas the statement, “Rising prices is a social evil” is related to normative economics.

Lecture No.3

Agricultural Economics – Definitions, Meaning, Importance of Agricultural Economics – Branches of agricultural economics

AGRICULTURAL ECONOMICS

Introduction

A study of economic principles, with emphasis on their application to the solution of farm, agribusiness, and agricultural industry problems in relationship to other sectors is known as Agricultural Economics. In other words, it applies principles of economics to issues of agricultural production, natural resources, and rural development. It mainly focuses on principles of microeconomics.

Agricultural economics began in the 19th century as a way to apply economic principles and research methods to crop production and livestock management. The roots of the discipline, however, can be found in the writings of the classical economists like Adam Smith.

The word, agriculture comes from the Latin word *ager*, referring to the soil and *cultura*, to its cultivation. Agriculture, in its widest sense can be defined as the cultivation and /or production of crop plants or livestock products. It is synonymous with farming: the field or field-dependent production of food, fodder and industrial organic materials. Having known the meaning of

agriculture, let us know what economics is. Economics is the science that studies as to how people choose to use scarce productive resources to produce various goods and to distribute these goods to various members of society for their consumption. Now having defined agriculture and economics, we look into the field of agricultural economics.

Definition

Agricultural economics is an applied field of economics in which the principles of choice are applied in the use of scarce resources such as land, labour, capital and management in farming and allied activities. It deals with the principles that help the farmer in the efficient use of land, labour and capital. Its role is evident in offering practicable solutions in using scarce resources of the farmers for maximization of income.

Prof. Gray has defined agricultural economics as “The science in which the principles and methods of economics are applied to the special conditions of agricultural industry” According to **Prof. Hibbard**, “Agricultural economics is the study of relationships arising from the wealth-getting and wealth-using activity of man in agriculture”

Snodgras and Wallace defined agricultural economics as “an applied phase of social science of economics in which attention is given to all aspects of problems related to agriculture.”

Importance of agricultural economics

Akin to economics, the field of agricultural economics finds to seek relevance between cause and effect using the most advanced methods viz, production functions and programming models. It uses theoretical concepts of economics to provide answers to the problems of agriculture and agribusiness. Initially earnest efforts were made by the economists to use the economic theory to agricultural problems. Now the subject matters of agricultural economics is enriched in many directions and fields taking the relevant tools of sciences particularly mathematics and statistics. Agricultural depression which occurred in last quarter of 19th century and middle of 20th century brought about increased attention and concern to find out plausible cause and solutions for world agricultural depression. Here in this context the contribution made by agronomists, economists, horticulturists, etc., is noteworthy. Agriculture is the integral part of the world food system, having the foundation links between crops and animal production system. Agricultural economists here have to play a major role in understanding the intricacies involved in the foundation systems. Knowledge regarding problems in production, finance, marketing and government policies and their impact on production and distribution is very essential to find out suitable solutions for the farm problems.

Students of agricultural economics are taught the subject disciplines viz., microeconomics, macroeconomics, agricultural production economics, farm management, agricultural marketing etc., to fulfill the requirements.