



## **Decision Making in a Market Economy**

Arlin Brannstrom & Faculty  
Members from Agricultural and  
Applied Economics (AAE)  
UW Center for Dairy Profitability  
285 Animal Science  
265-3030  
ajbranns@wisc.edu

---

---

---

---

---

---

---

---

### **What's the course about?**

- Introduce you to economics
- Build tools for economic/business decision-making:
  - Individual level
  - Farm level
  - Family level
  - Broader social level
- Help you get to know what questions to ask and who can help you in your future decisions

---

---

---

---

---

---

---

---

### **Individual Discussion Example**

- How to get started in farming?
  - Farm with a family member
  - Farm on your own
  - Work for another farmer
  - Work in agriculture-related business
  - Work in best-paying job you can to save \$\$
- Benefits, costs, and risks of each option?

---

---

---

---

---

---

---

---

# Decision Making in a Market Economy

## Concept of Opportunity Cost

- What is an opportunity cost?
  - Activity or earning foregone when you make a decision to do something.
    - Example – If I go out and party tonight after classes, what are my opportunity costs?
- Why do opportunity costs matter?
  - Help in making comparisons across options.
    - Example – What might be the opportunity cost of farming on my own or with my family compared to the other options?

---

---

---

---

---

---

---

---

## Step Back - Introductions

- How many of you felt hesitant to contribute to the discussion of our first example?
- Time to hear your voice
  - Form groups of 4 and introduce yourself
  - Where you are from – family farm?
  - Career/work options you are considering
- Random Introductions

---

---

---

---

---

---

---

---

## Who Am I and Who is AAE?

- Brad Barham:
  - Chair of the Dept of Agricultural and Applied Economics
    - [www.aae.wisc.edu](http://www.aae.wisc.edu)
  - Co-Director, Program on Agricultural Technology Studies
    - [www.pats.wisc.edu](http://www.pats.wisc.edu)
  - Research on technology adoption, global poverty, and policy
    - Rural areas of Central America, South America, and Wisconsin
  - Here to welcome you to UW-Madison and introduce you to AAE
- AAE:
  - 20 faculty who work on agricultural, natural resource, and international issues.
  - Great resource for farmers and ag professionals on issues that range from farm – international levels.

---

---

---

---

---

---

---

---

# Decision Making in a Market Economy

## Farm Discussion Example

- Starting a dairy or livestock farm:
- What investments should you make first?
  - Land?
  - Livestock?
  - Equipment?
- Benefits, costs, and risks of each choice?
- Opportunity costs of buying land or equipment?



---

---

---

---

---

---

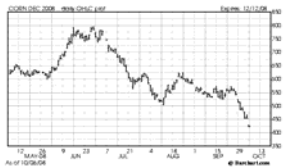
---

---

## Good economic decisions require?

- Knowledge of:
  - Prices
  - Costs
  - Risks
- What can I expect to earn (profits or wages)?
- What are the risks? Can they be managed or reduced?
  - Example: Corn market hedging in 2008

2008 high price  
Late June, \$7.50  
per bushel for  
delivery of corn  
in December



2008 low price  
October \$4.00  
per bushel for  
delivery of corn  
in December

Which price would  
you want?

---

---

---

---

---

---

---

---

## Good economic decisions require? - 2

- How best to allocate "factors of production?"
  - Labor
  - Equipment
  - Management skills
  - Livestock
  - Land
  - Buildings
  - Potential for learning
- How best to do those things when \$\$ is tight?
- How to think about several factors in a systematic fashion to compare tradeoffs?
  - Example – expected return and risk from an additional investment dollar in land vs livestock.

---

---

---

---

---

---

---

---

# Decision Making in a Market Economy

## “Economics” Can Help

- The word *economy* comes from a Greek word for “one who manages a household.” Especially relevant to family farms!
- Economics – Studies how economic agents (individuals, families, firms, organizations) and society can best manage scarce resources (time, money, labor, oil, etc.).
- Uses concepts like opportunity costs, tradeoffs, benefits (profits, value/utility), costs, and risks.
- Involves use of math, graphs, and other “tools” to model decisions or estimate “economic” measures.

---

---

---

---

---

---

---

---

## Take Home Questions

- Choose your favorite career option and ask yourself the following questions:
  - What kind of investments do I expect to make in terms of learning, money, and effort?
  - What kinds of returns do I expect to make in terms of income, satisfaction, and flexibility?
  - What are the opportunity costs of that option?
  - Or, what else might I do that would be “competitive” in terms of returns?

---

---

---

---

---

---

---

---

## Economic Principles and Concepts

- Tradeoffs
- Measures of returns
- Measures of costs
- Measures of risks
- Marginal analysis
- Supply
- Demand
- Market Equilibrium and Cycles

---

---

---

---

---

---

---

---