

Welfare Economic Analysis of Agricultural Policy: Theory and Applications

Instructor

Prof. Dr. Klaus Salhofer, Technische Universität München, Environmental Economics and Agricultural Policy Group

Course Description

Agriculture is one of the most regulated and subsidized economic sectors. Welfare (Normative) economics aims to assess, compare and rank agricultural policies. Starting with Griliches (1958), Nerlove (1958), and Wallace (1962) agricultural economists have been using welfare economics to judge agricultural policy. Since then, a huge body of literature has evolved.

The way welfare economics has been utilized in agricultural policy analysis is to some degree different from other economic branches. First, agricultural economic research is relatively applied. Hence, an assessment of an agricultural program is typically based on measurement of consumer and producer surplus behind Marshallian demand and supply curves, rather than on a marginal analysis in a general equilibrium context as common in other fields like public economics. Second, welfare analysis of agricultural policy often goes beyond estimating Harberger triangles of deadweight losses, taking explicitly into account policy objectives.

The aims of this course are as follows: 1.) To provide the theoretic foundations of normative economics and welfare measurement. 2.) Help students to better understand welfare economic agricultural policy analysis by providing a general framework. Looking at policy analysis through this frame reveals helpful general insights. 3.) Learning the most important ideas and theorems from 50 year of (agricultural) policy analysis. 4.) Guiding students through the huge body of literature on agricultural policy analysis and providing starting points (important references) for their own work 5.) Introduce them to applied agricultural policy analysis by jointly reading and discussing key papers of the literature and by hands-on-exercises.

Course Outline

- I. Introduction: Motivation and Objectives
- II. Foundations of Welfare Economics
 1. What is Economics?
 2. What is Welfare (Normative) Economics?
 3. Measuring Welfare?
- III. Welfare Economics of Agricultural Policy
 1. General Framework
 2. Empirical Applications
 3. Sensitivity Analysis
- IV. Summary and Outlook

Teaching methods

Lectures (60%), presentations (20%), hands-on-exercises (20%)

Grading

Presentation (33%), assignments (33 %), participation (33 %)

Credit points

3

Requirements

microeconomics (master level), agricultural policy (master level)

Some Major References

- Alston, J.M., Norton, G.W. and Pardey, P.G. (1995). *Science Under Scarcity: Principles and Practice for Agricultural Research Evaluation and Priority Setting*. Ithaca: Cornell University Press, Chapter 4.
- Alston, J.M., and James J.S. (2002). "The Incidence of Agricultural Policy." In: Gardner, B.L. and Rausser, G.C. (eds). *The Handbook on Agricultural Economics*, Volume II(a), Amsterdam: Elsevier, chapter 33, pp. 1869-1929.
- Boadway, R.W. and Bruce, N. (1984). *Welfare Economics*. Oxford, Blackwell, Chapter 7. Salhofer, K. (1997). Efficiency of Income Redistribution through Agricultural Policy. Frankfurt am Main, Lang, Chapter 2.
- Bullock, D.S. and Salhofer, K., (1998). A note on the efficiency of income redistribution with simple and combined policies. *Agricultural Resource Economics Review* 27, 266-269.
- Bullock, D.S. and Salhofer, K. (2003). Judging agricultural policies: a survey. *Agricultural Economics* 28, 225-243.
- Bullock, D.S., Salhofer, K. and Kola, J. (1999). The normative analysis of agricultural policy: a general framework and a review. *Journal Agricultural Economics* 50, 512-535.
- Friedman, L.S. (2002). *The Microeconomics of Public Policy Analysis*. Princeton, Princeton University Press, Chapter 3, Chapter 6, Chapter 12.
- Gardner, B. L. (1983). Efficient Redistribution Through Commodity Markets. *American Journal of Agricultural Economics* 65, 225-234.
- Just, R.E., Hueth, D.L. and Schmitz, A. (2004). *The Welfare Economics of Public Policy*. Cheltenham, Edward Elgar, Chapter 1 - 5.
- Salhofer, K. (1996). Efficient Income Redistribution for a Small Country Using Optimal Combined Instruments. *Agricultural Economics* 13, 191 - 199.
- Salhofer, K. and Schmid, E. (2004). Distributive Leakages of Agricultural Support: Some Empirical Evidence. *Agricultural Economics* 30, 51-62.
- Salhofer, K. Schmid, E. and Streicher, G. (2006). Testing for the efficiency of a policy intended to meet objectives: general model and application. *Journal of Agricultural and Resource Economics* 31, 151-172.
- Salhofer K. and Sinabell F. (1999). Utilising Equilibrium-Displacement Models to Evaluate the Market Effects of Countryside Stewardship Policies: Method and Application. *Die Bodenkultur (Austrian Journal of Agricultural Research)* 50, 143 - 153.
- Zhao, X., Griffiths, W. E., Griffith, G. R. and Mullen, J. D. (2000). Probability Distributions for Economic Surplus Changes: The Case of Technical Change in the Australian Wool Industry. *Australian Journal of Agricultural and Resource Economics* 44(2000):83-106.

Software

EXCEL, GAMS, Econometric Software Package

Language

English

Organization and time

The course takes one week. It is held at Technische Universität München in Freising. For further information contact Klaus Salhofer (klaus.salhofer@tum.de).