

Applied Welfare Economics and Agricultural Policy

MSc Course, Humboldt-Universität zu Berlin

by

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in cooperation with

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supported by

Nana Künkel

Applied Welfare Economics and Agricultural Policy

Introduction

- 1 Principles of applied welfare economics**
- 2 Price policy I
- 3 Price policy II
- 4 EU agricultural policy and international framework

Applied Welfare Economics and Agricultural Policy

- 5 Agricultural policy in transition countries (Wilkin)
- 6 EU enlargement and accession (Wilkin)
- 7 Rural finance in development (Heidhues)
- 8 Structural adjustment policies (Heidhues)

- 9 Structural policy
- 10 Multiobjective policy analysis

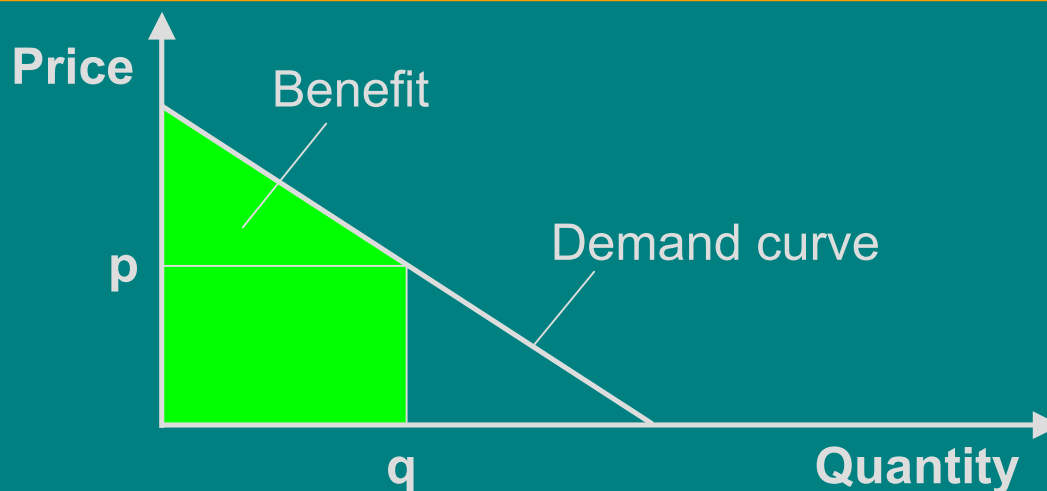
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Chapter 1

Principles of Applied Welfare Economics

What is Benefit in Applied Welfare Economics?



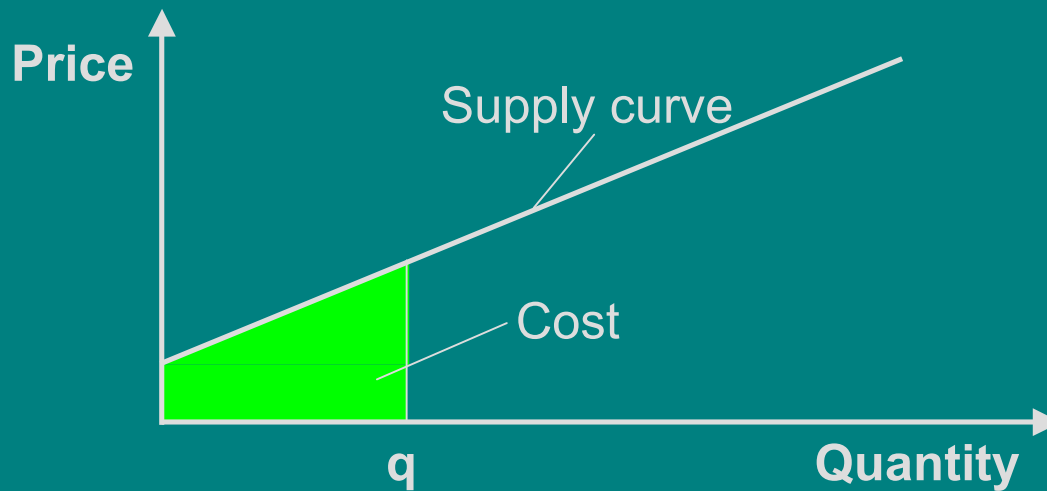
Benefit:

The benefit from consumption of a good is equal to the willingness to pay for this good.

Assumptions:

people count, consumer sovereignty, irrelevance of distribution

What is Welfare Cost?

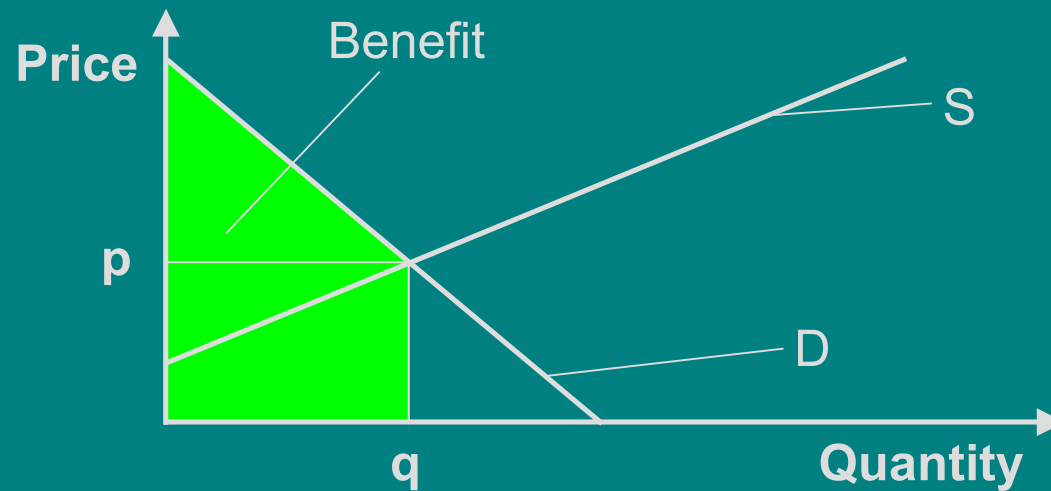


Cost:

The cost to produce a certain amount of a good is equal to the foregone consumption of other goods measured as foregone willingness to pay.

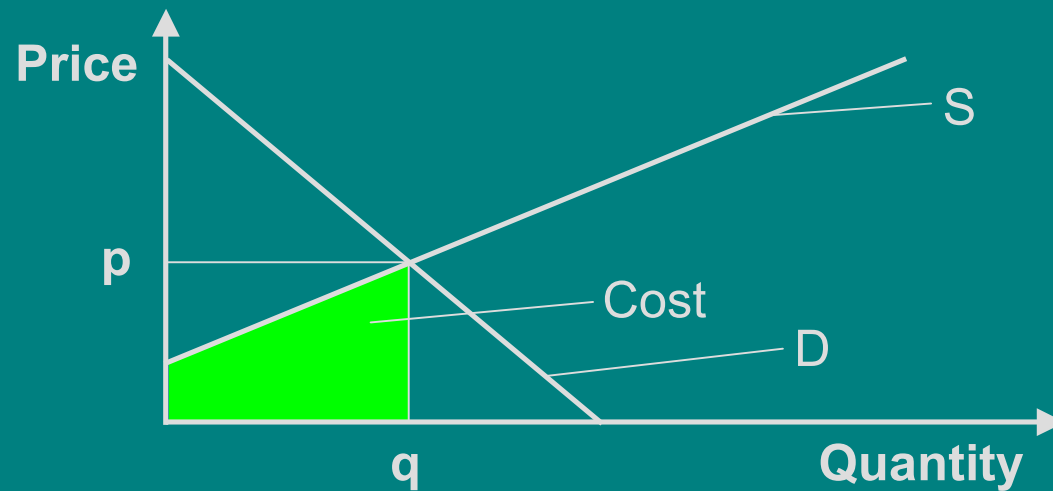
Welfare Measurement under Autarky:

1. Approach: economic activities



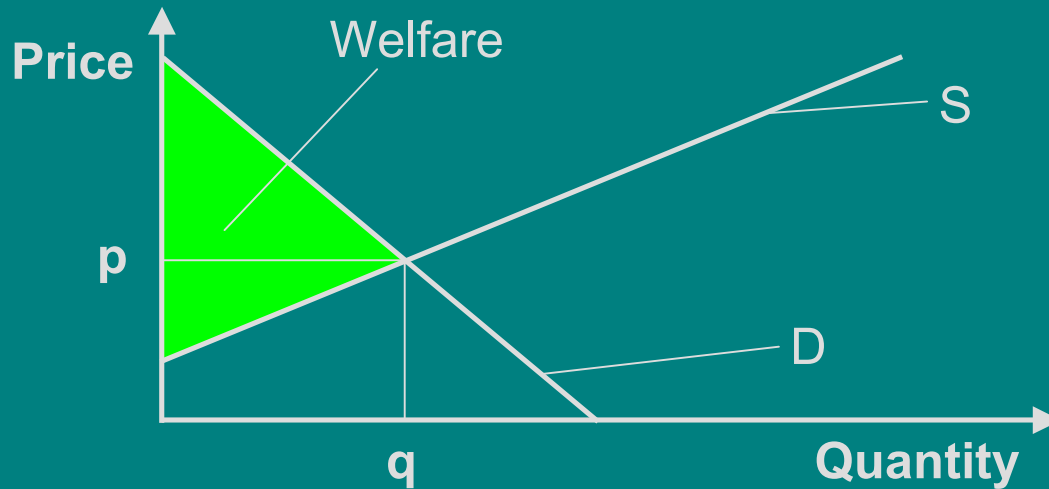
Welfare Measurement under Autarky:

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Welfare Measurement under Autarky:

1. Approach: economic activities



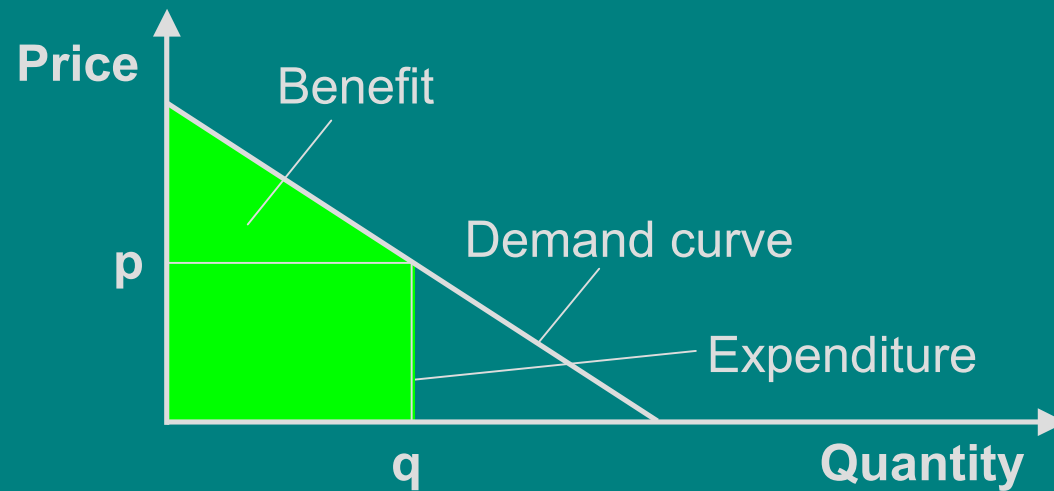
Welfare:

Welfare describes the level of satisfaction that people obtain from the consumption of a good.

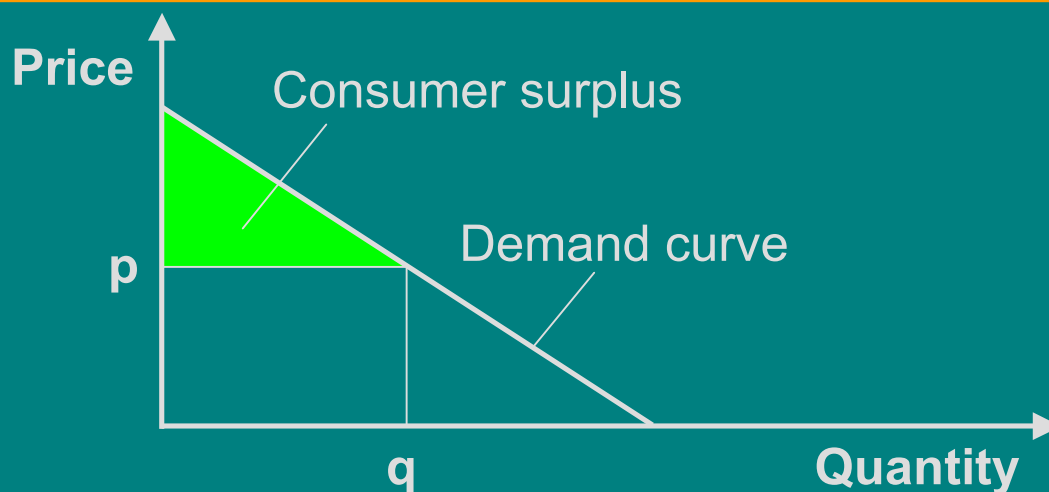
Note:

$$\text{Welfare (W)} = \text{Benefit (B)} - \text{Cost (C)}$$

What is Consumer Surplus?



What is Consumer Surplus?

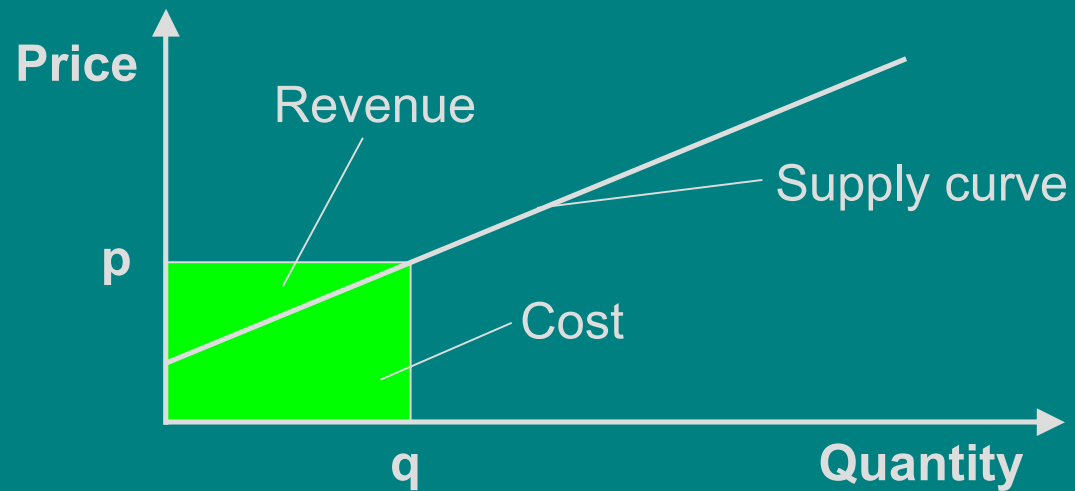


Consumer surplus:

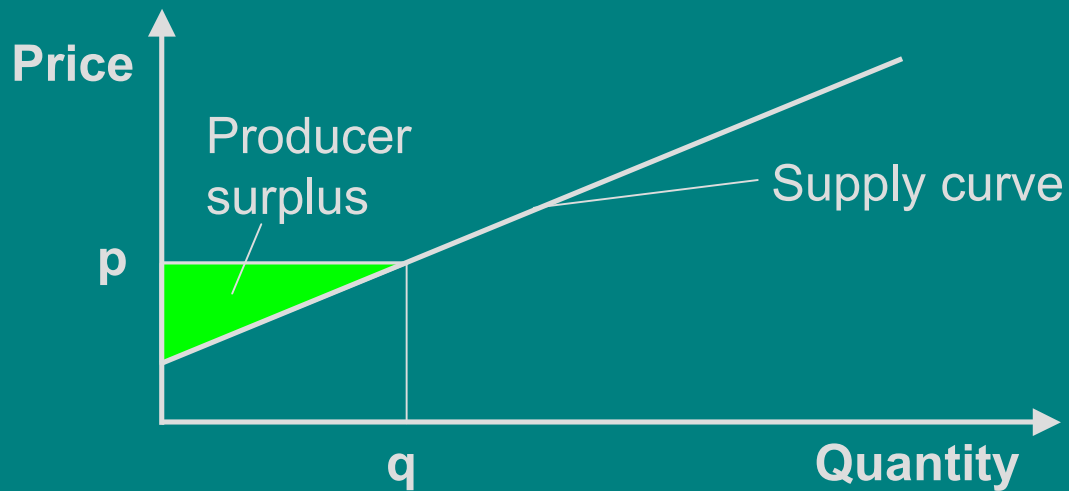
The consumer surplus describes the satisfaction for a group of consumers to consume a certain amount of a good. It is equal to the willingness to pay for this amount of the good (benefit), minus foregone willingness to pay on other markets.

Note: Consumer surplus = Benefit - Expenditure

What is Producer Surplus?



What is Producer Surplus?



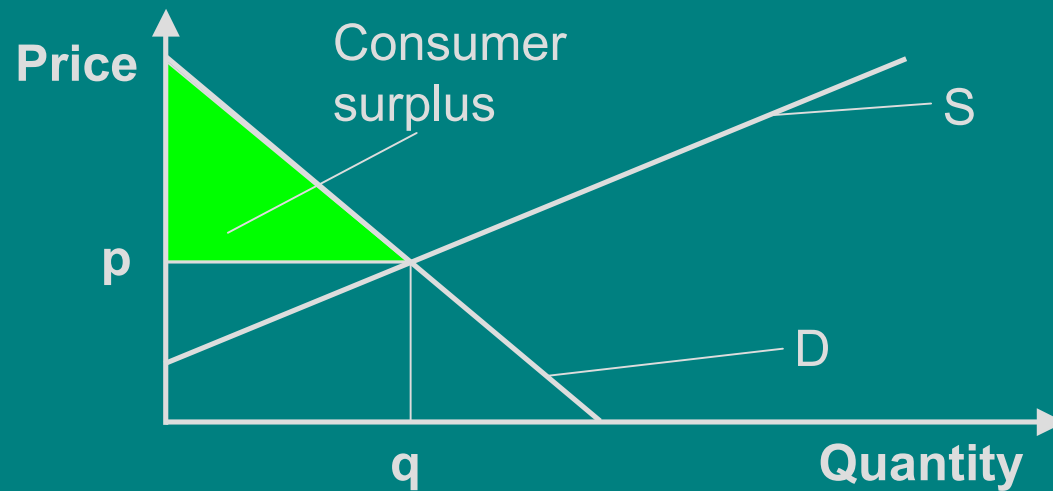
Producer surplus:

The producer surplus describes the satisfaction for a group of producers to produce a certain amount of a good. It is equal to the potential willingness to pay for the production of a certain amount of this good (revenue), minus foregone willingness to pay (cost). The producer surplus has the gross margin as its equivalent on firm level.

Note: $\text{Producer surplus} = \text{Revenue} - \text{Cost}$

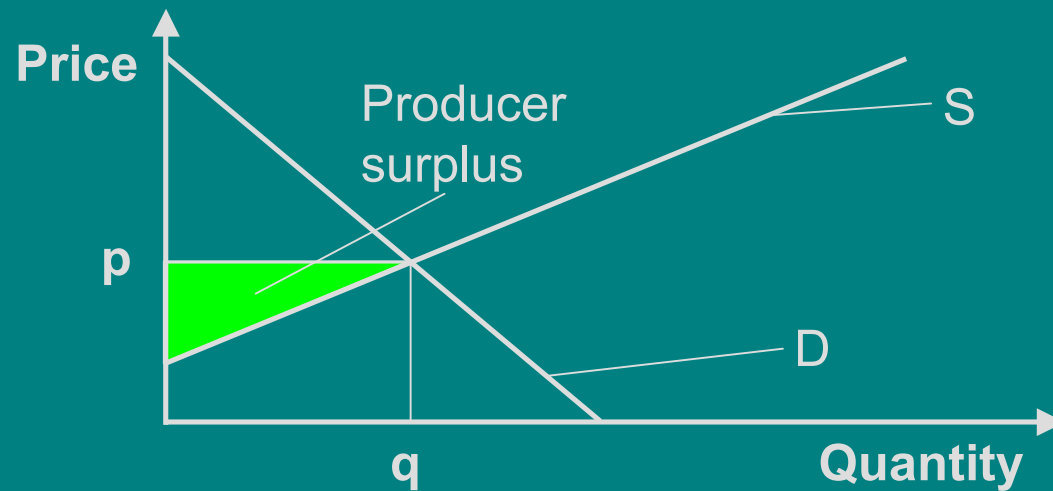
Welfare Measurement under Autarky:

2. Approach: economic groups



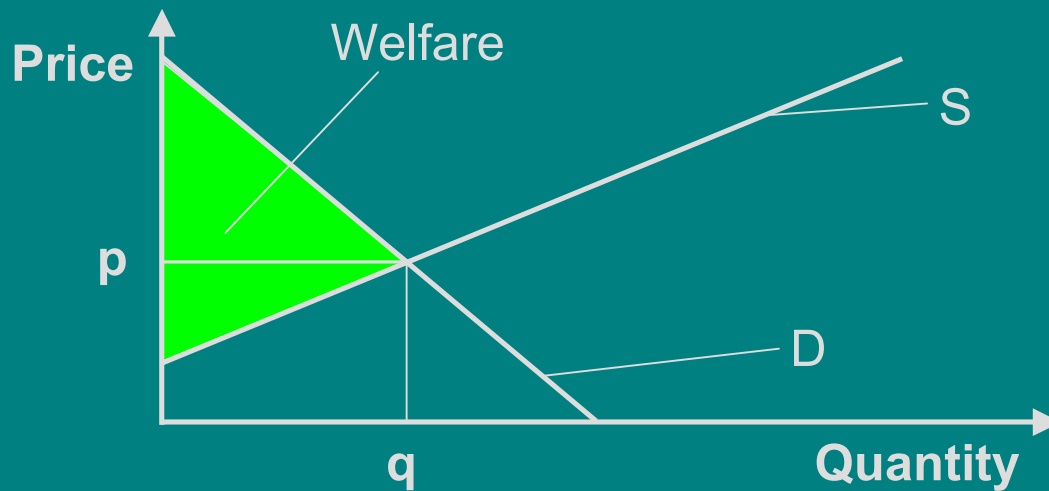
Welfare Measurement under Autarky:

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Welfare Measurement under Autarky:

2. Approach: economic groups



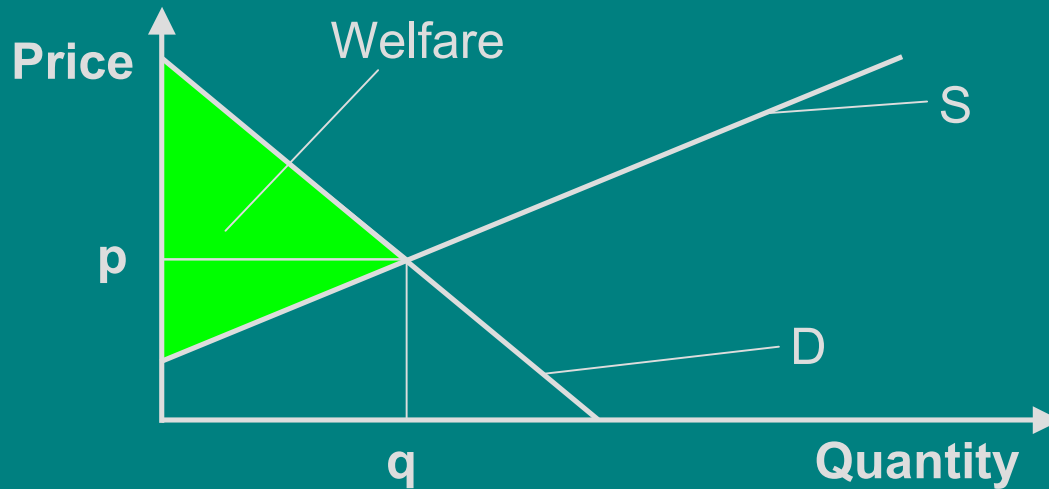
Welfare:

Welfare describes the level of satisfaction that people obtain from the consumption of a good.

Note:

Welfare (W) = Consumer surplus (CS) + Producer surplus (PS)

Welfare Measurement under Autarky: Summary



Note:

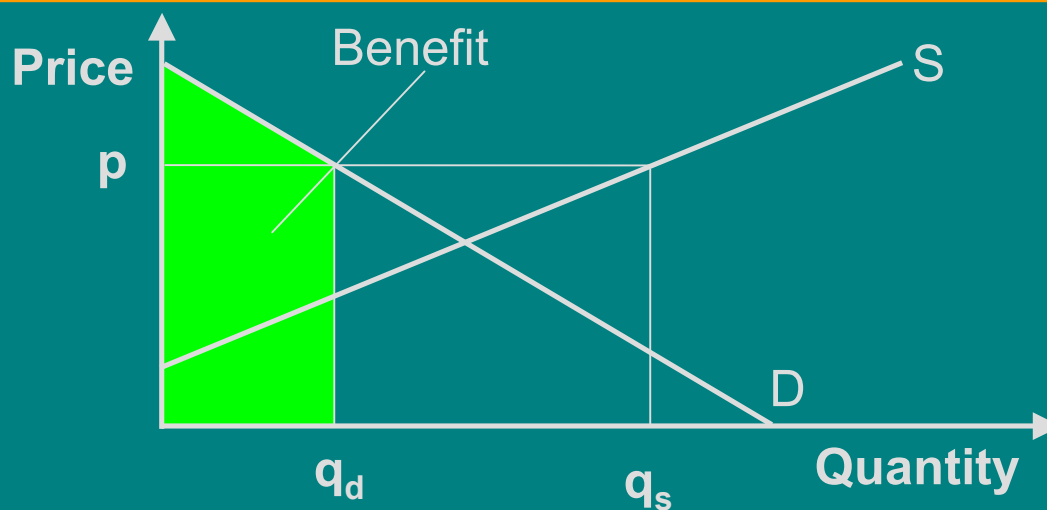
1. Approach: economic activities

$$\text{Welfare (W)} = \text{Benefit (B)} - \text{Cost (C)}$$

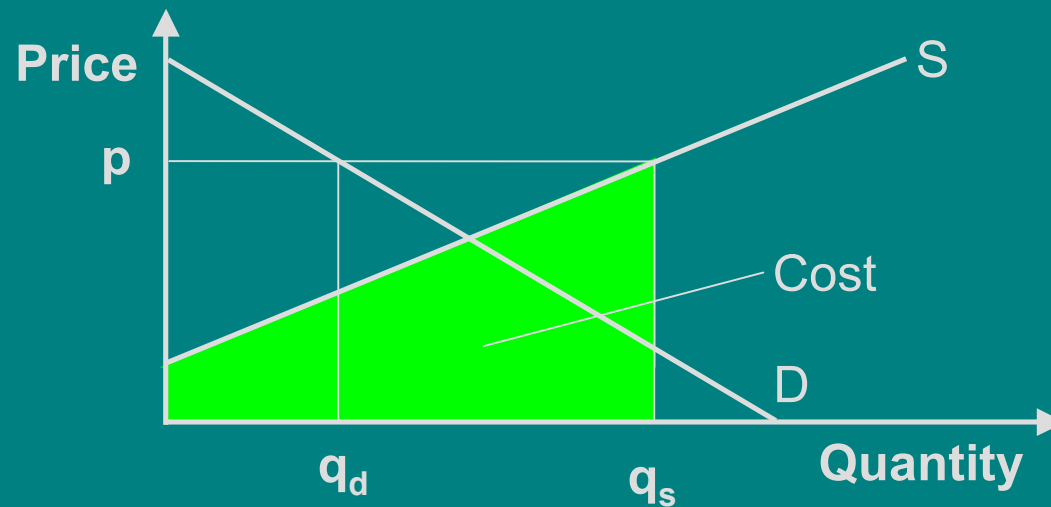
2. Approach: economic groups

$$\text{Welfare (W)} = \text{Consumer surplus (CS)} + \text{Producer surplus (PS)}$$

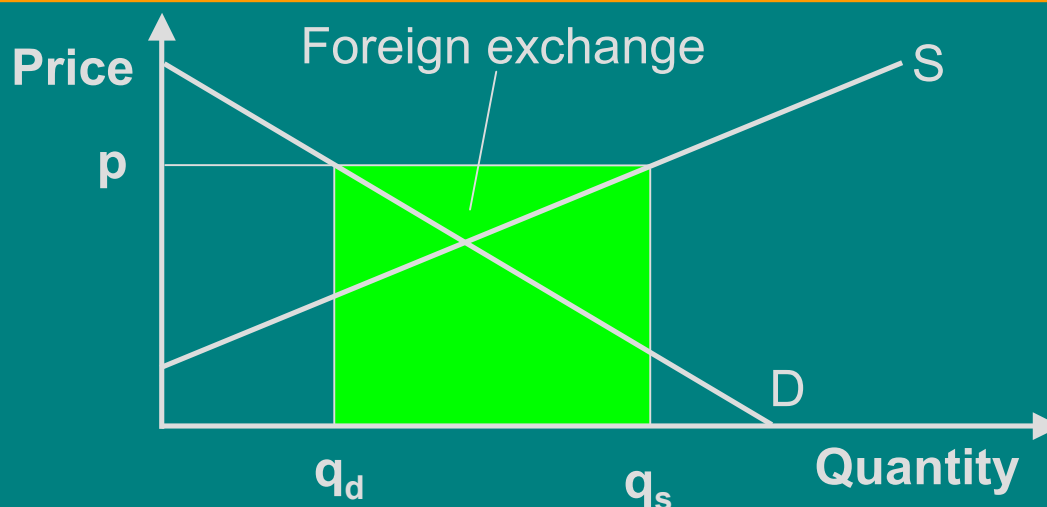
Welfare Measurement with Trade



Welfare Measurement with Trade



Welfare Measurement with Trade



Foreign exchange:

Foreign exchange describes the potential satisfaction that an economy can achieve from the consumption of goods produced in other countries. Foreign exchange results from the potential willingness to pay from export goods (foreign exchange earning), minus foregone willingness to pay for import goods.

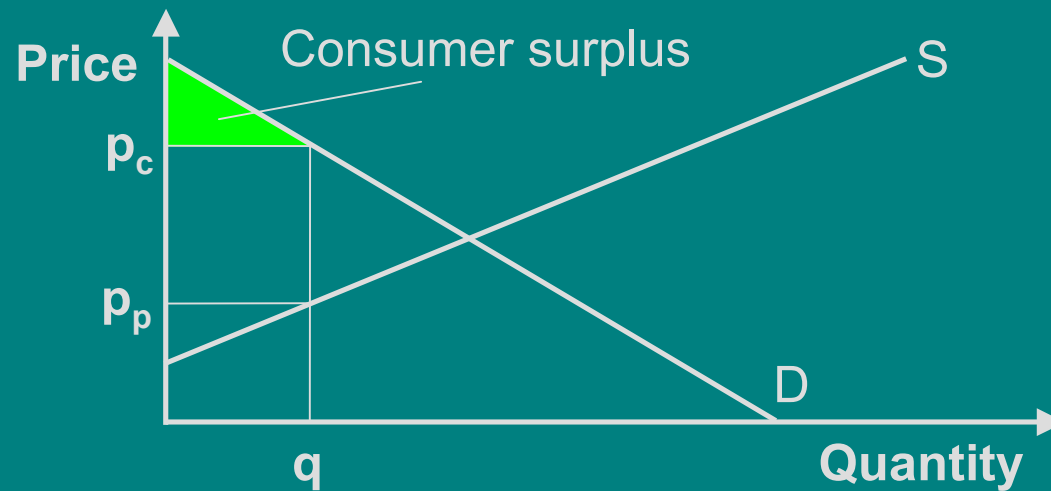
Welfare Measurement with Trade



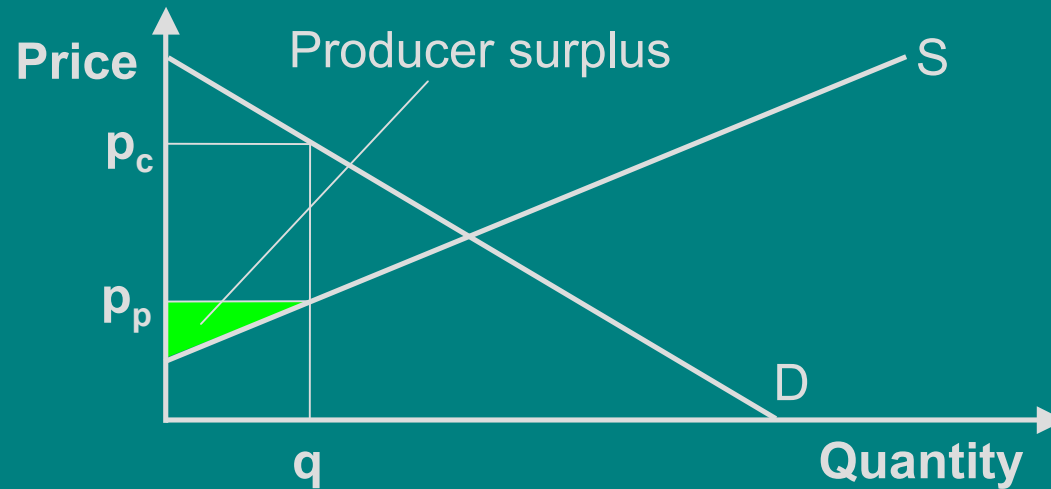
Note:

Welfare (W) = Benefit (B) - Cost (C) + Foreign exchange (FE)

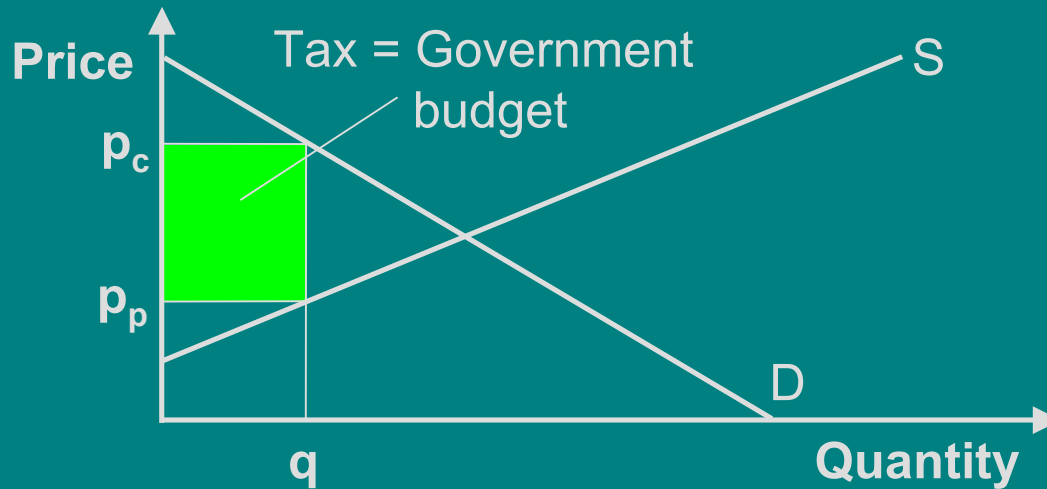
Welfare Measurement with Government Intervention



Welfare Measurement with Government Intervention



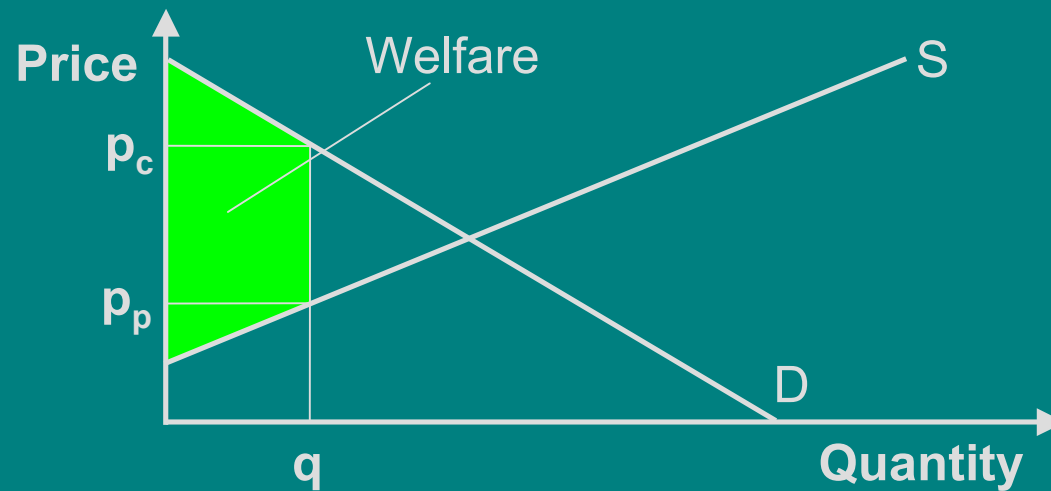
Welfare Measurement with Government Intervention



Government budget:

Government budget describes the potential satisfaction that an economy can achieve from this source. It is equal to the potential willingness to pay (government revenue), minus the foregone willingness to pay (government expense).

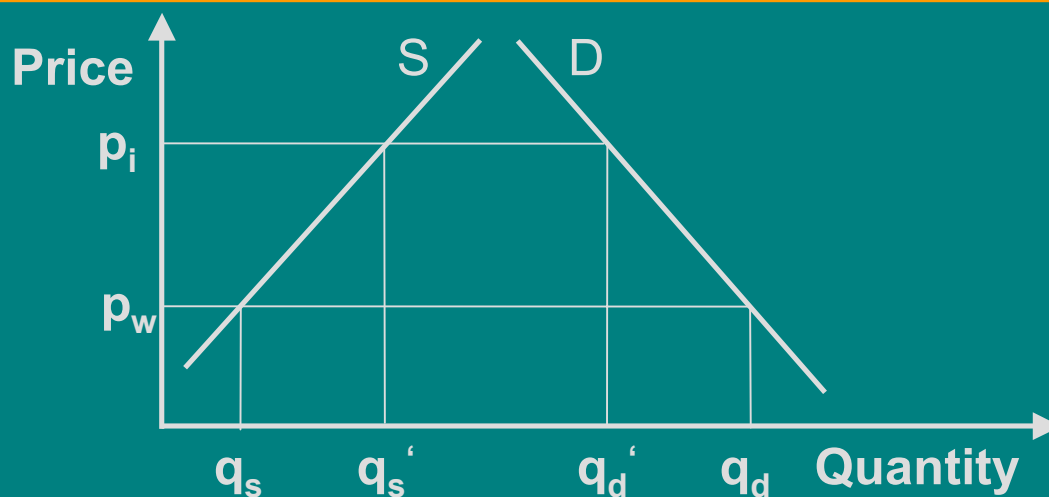
Welfare Measurement with Government Intervention



Note:

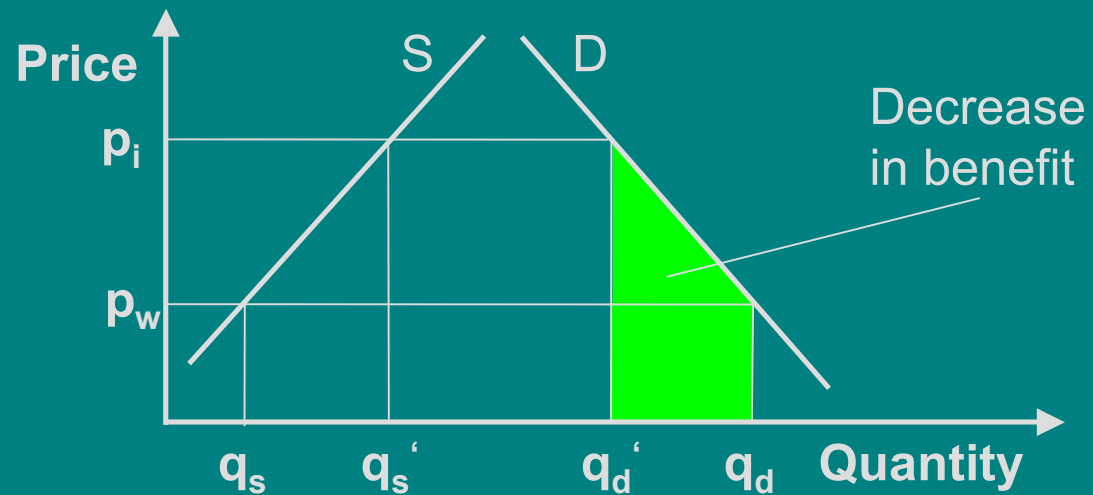
Welfare (W) = Consumer surplus (CS) + Producer surplus (PS) + Government budget (B)

Welfare Effects of Import Substitution

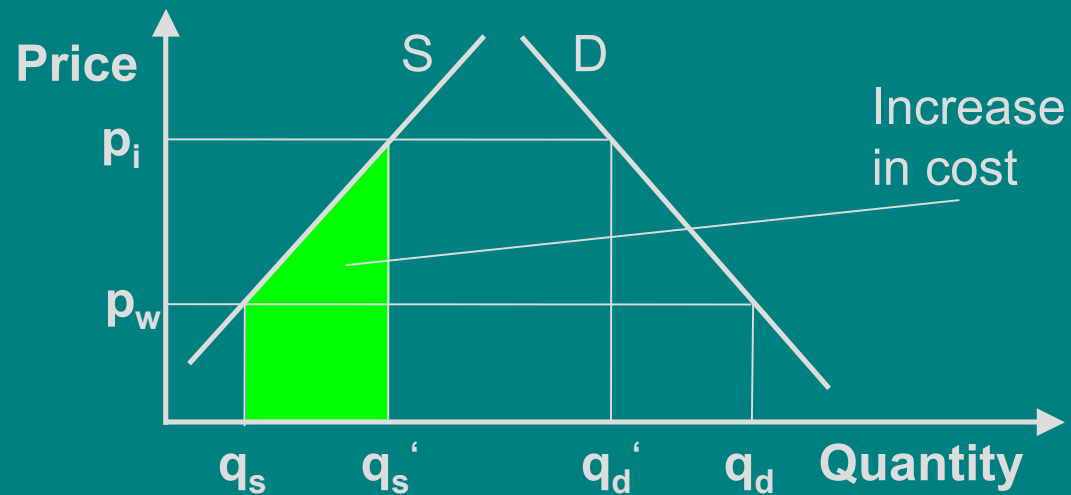


- i denotes a situation under current price policy to increase foreign exchange earning
- w denotes a free trade situation

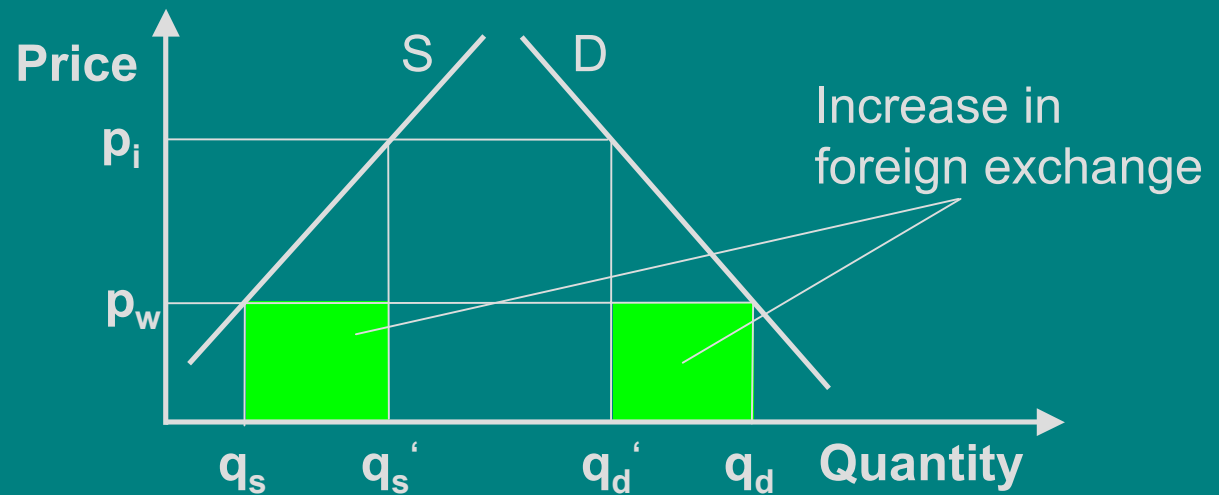
Welfare Effects of Import Substitution



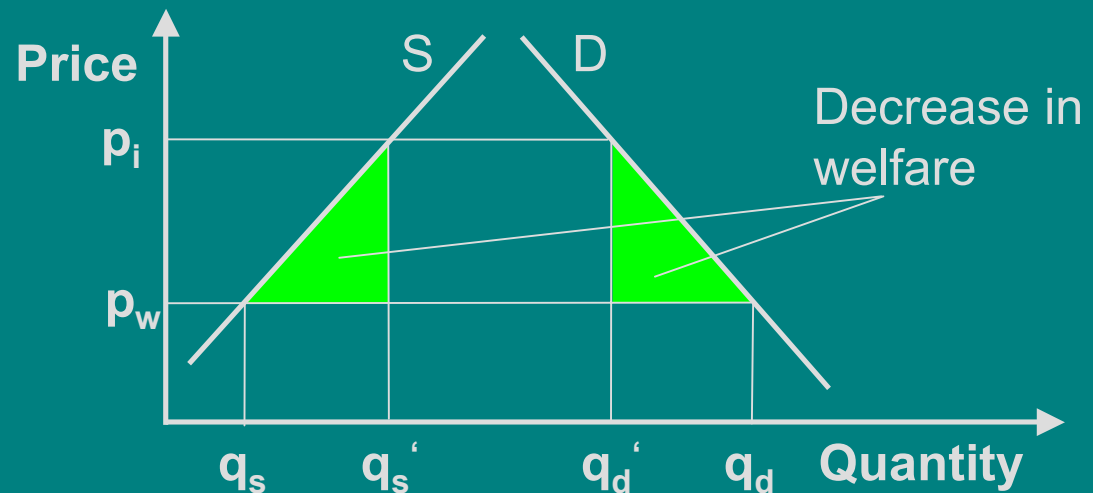
Welfare Effects of Import Substitution



Welfare Effects of Import Substitution

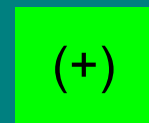
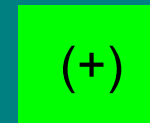
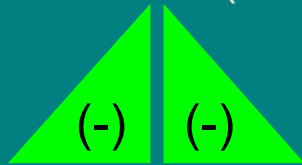


Welfare Effects of Import Substitution



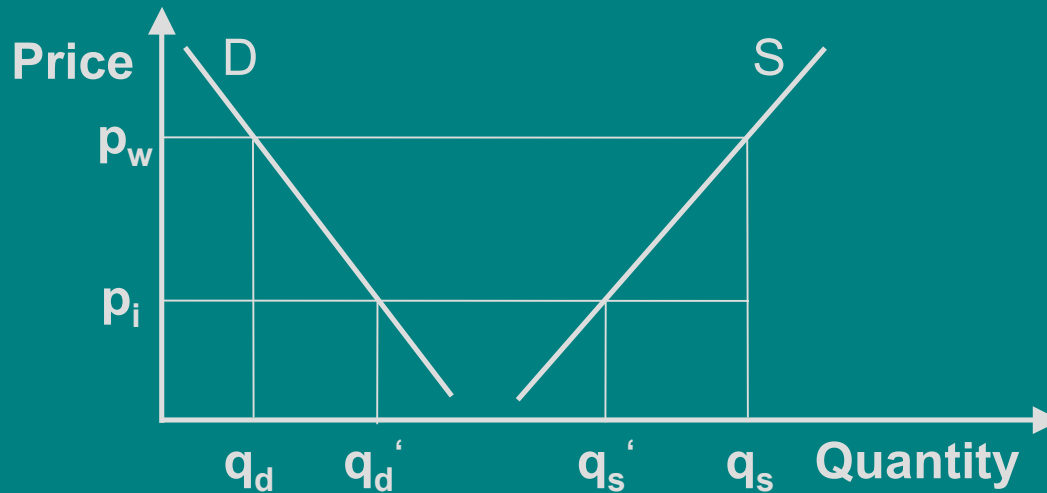
Note:

$$d\text{Welfare } (dW) = d\text{Benefit } (dB) - d\text{Cost } (dC) + d\text{Foreign exchange } (dFE)$$



Does Government Revenue Increase Welfare?

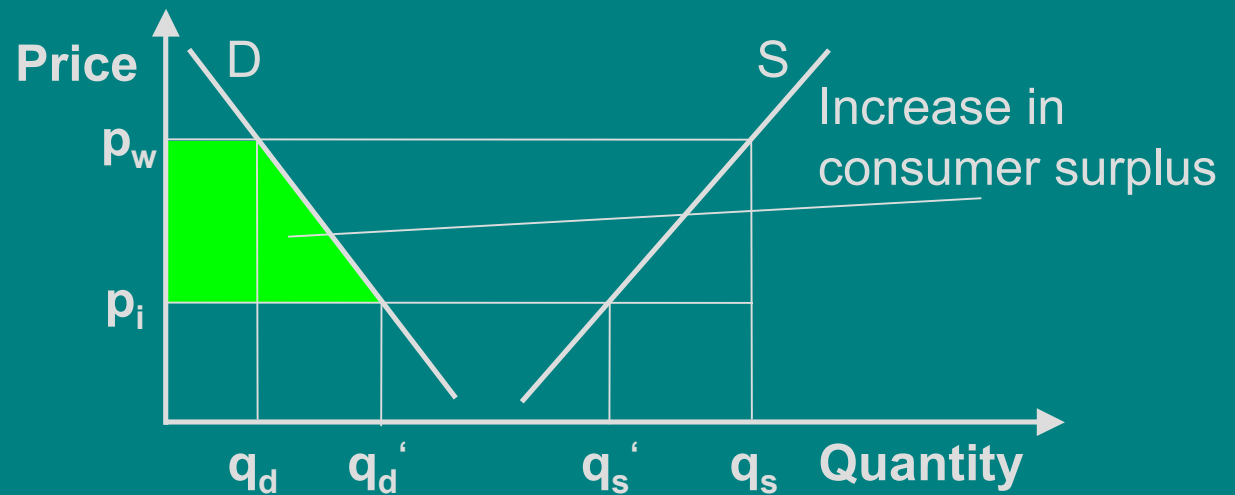
Export country



i denotes a situation under current price policy to increase government revenue
 w denotes a free trade situation

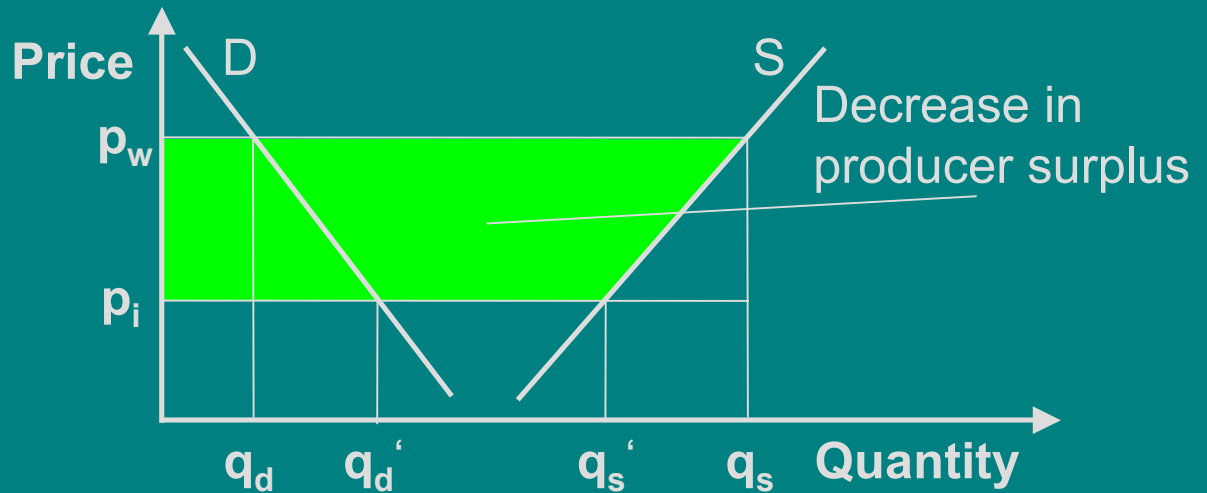
Does Government Revenue Increase Welfare?

Export country



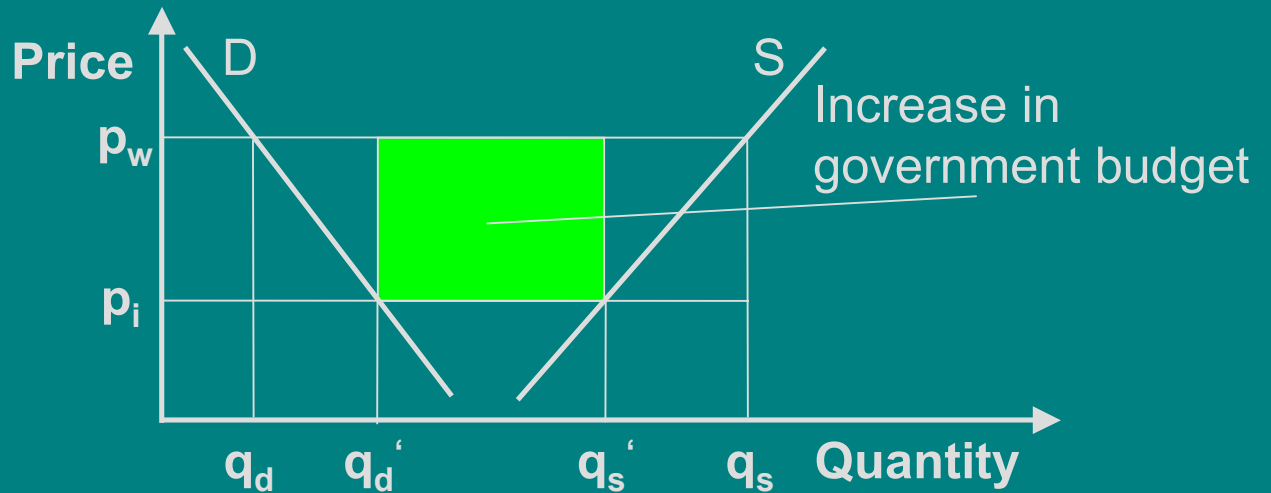
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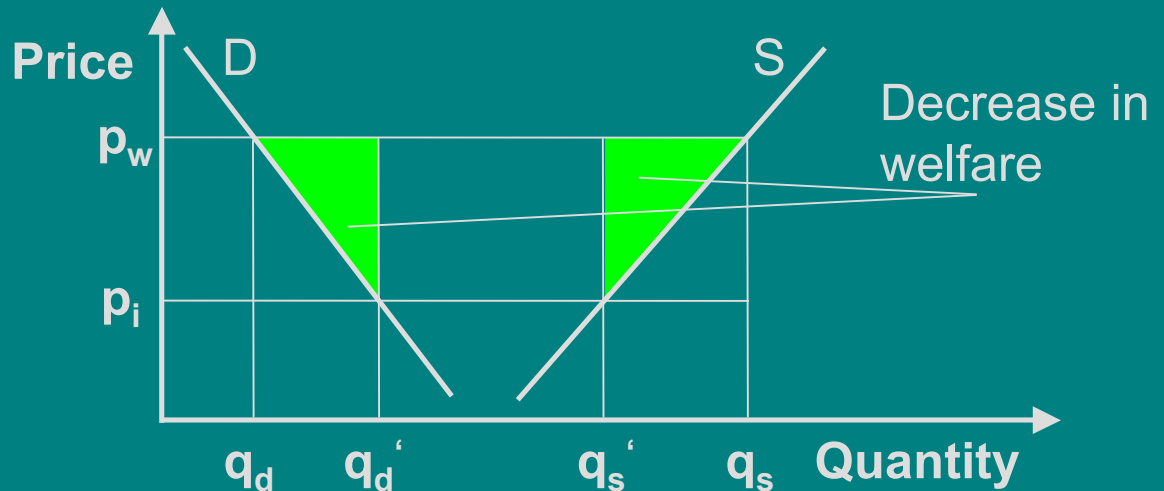
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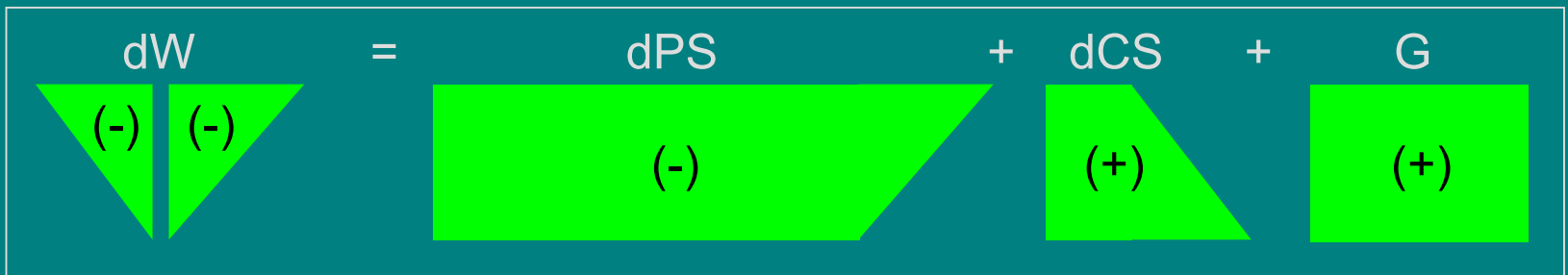


Does Government Revenue Increase Welfare?

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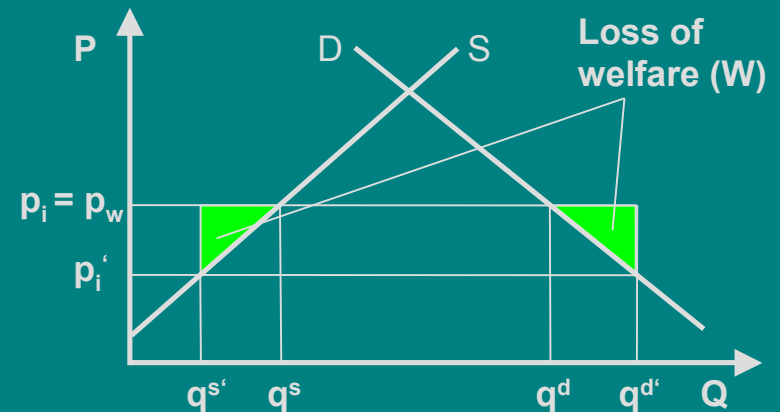
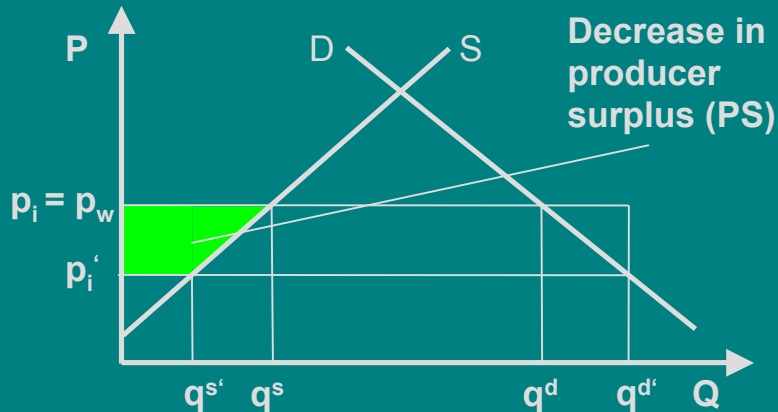
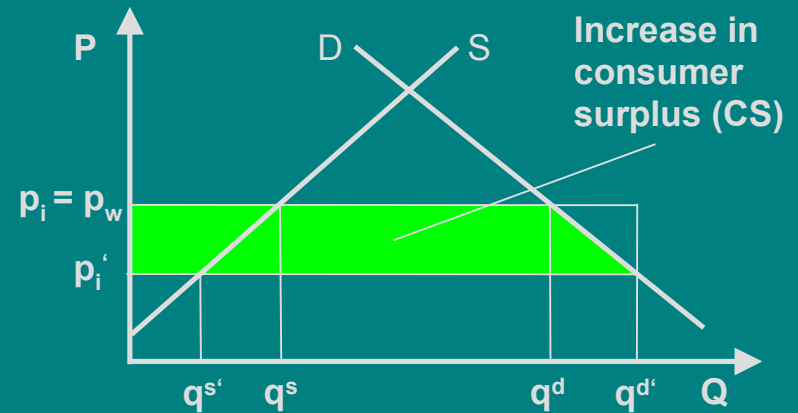
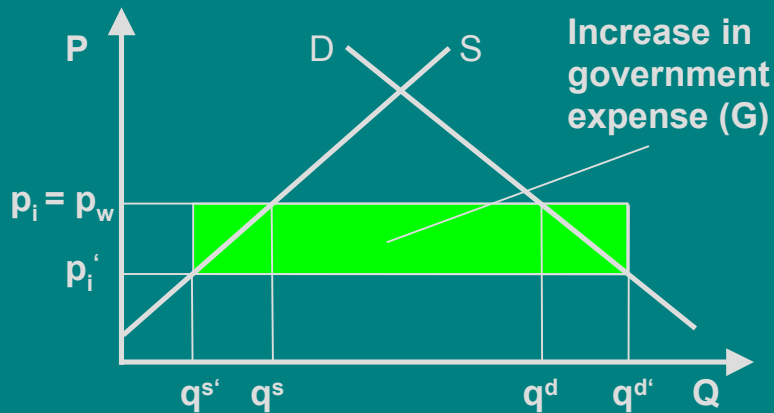


Note:



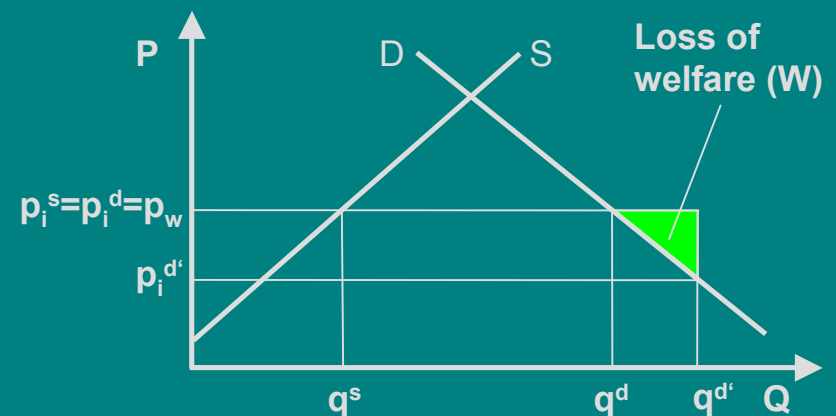
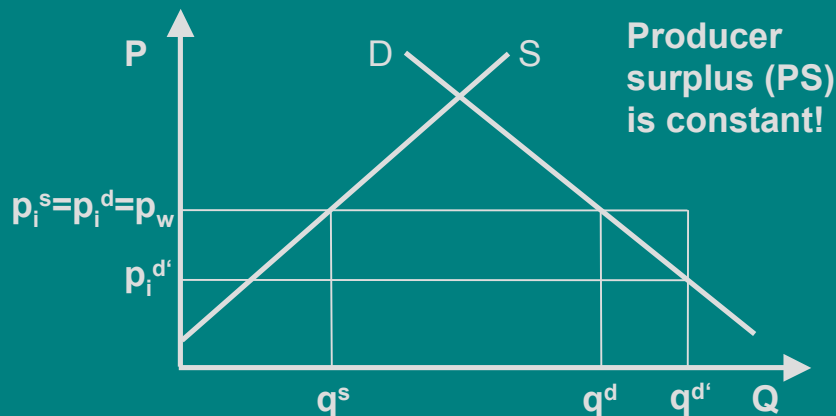
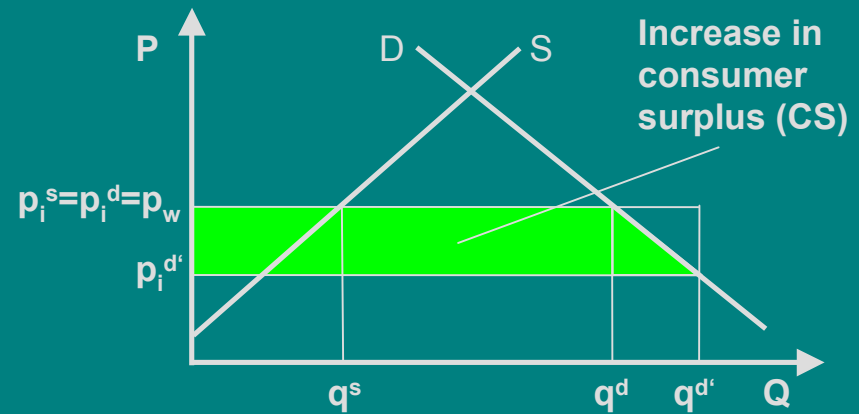
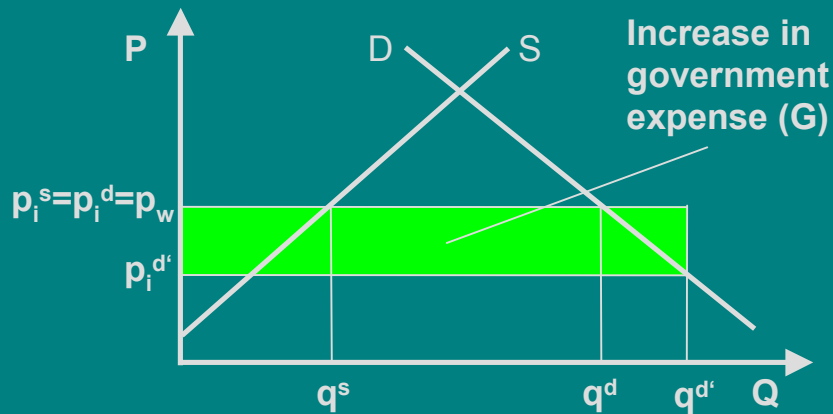
Welfare Effects of Producer Incentive Prices and Cheap Food Prices for Consumers

Import subsidy



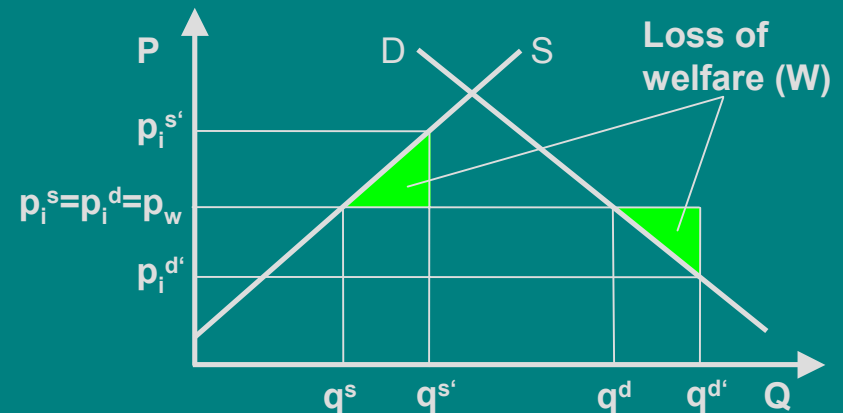
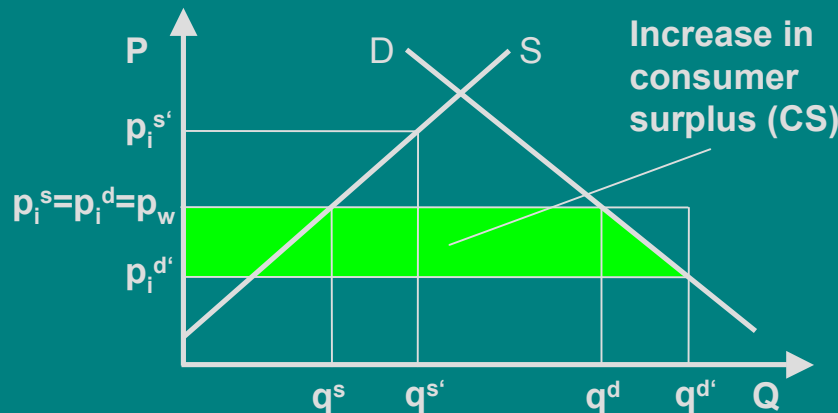
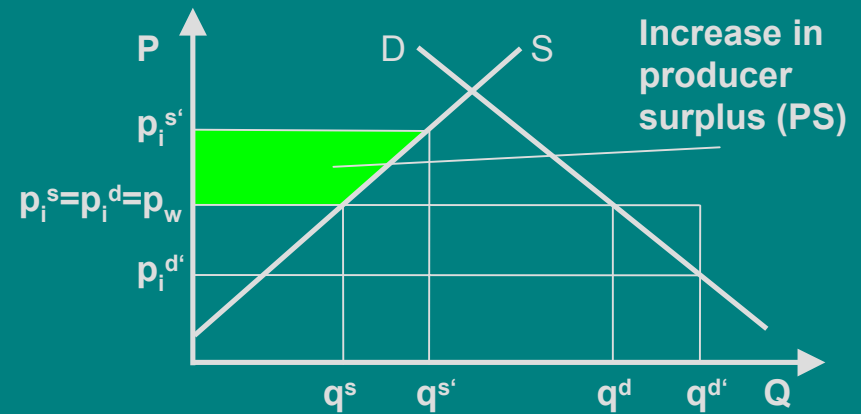
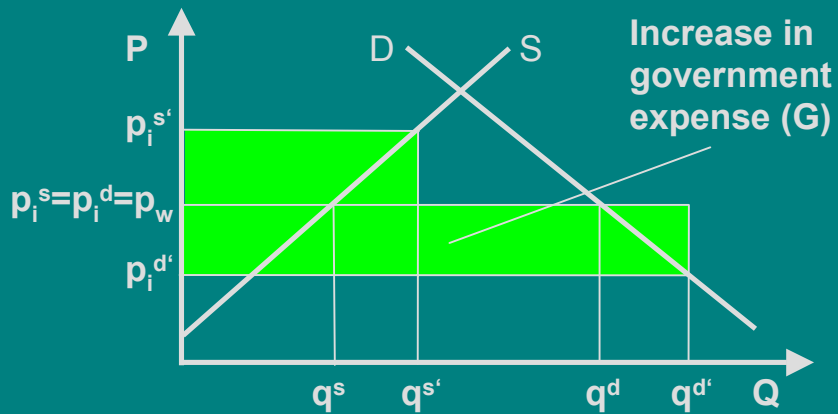
Welfare Effects of Producer Incentive Prices and Cheap Food Prices for Consumers

Consumption subsidy



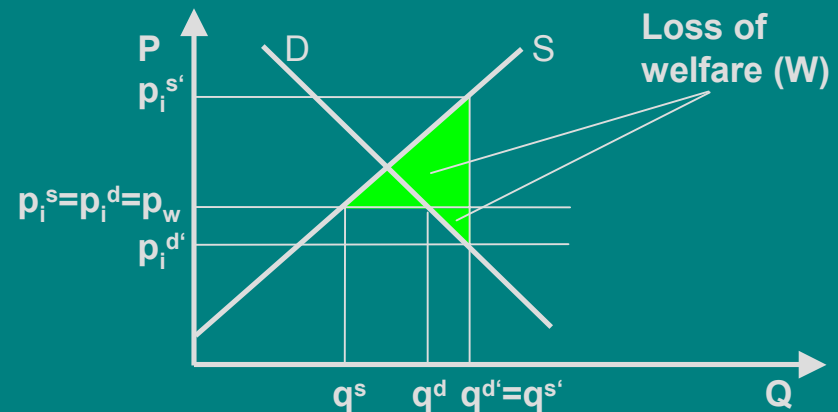
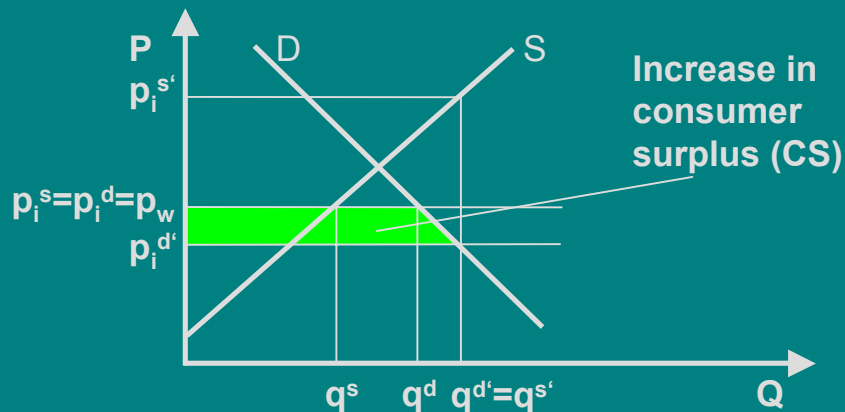
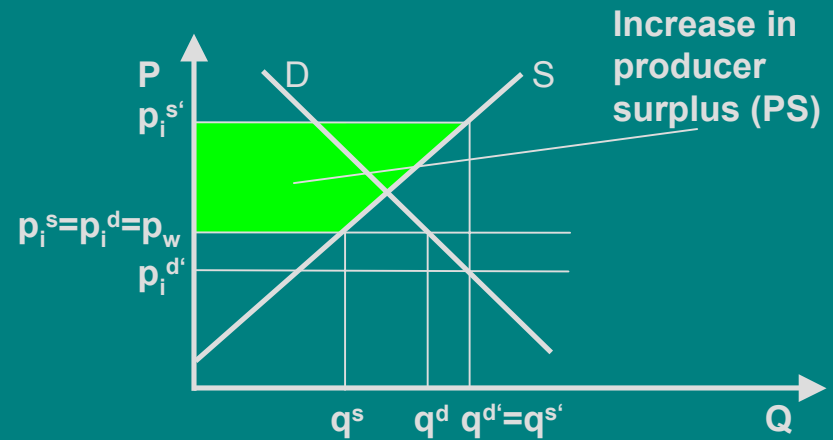
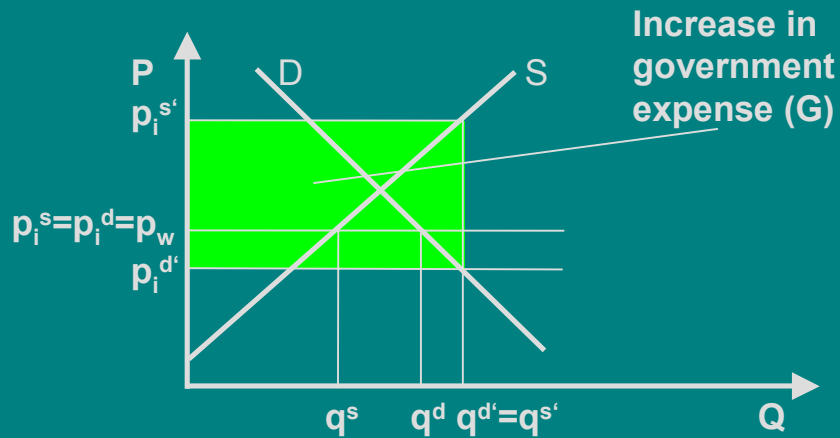
Welfare Effects of Producer Incentive Prices and Cheap Food Prices for Consumers

Consumption and production subsidy



Welfare Effects of Producer Incentive Prices and Cheap Food Prices for Consumers

“Social food policy”



Discussion

- Should everything be counted in money?
- Do Markets impose a „dollar democracy“?

Literature

- * Houck, J.P. (1986): *Elements of Agricultural Trade Policies*. New York: Macmillan, pp. 45-60, 87-93
- * Pindyck, R.S.; Rubinfeld, D.L. (1998): *Microeconomics*. 4th. ed. Upper Saddle River: Prentice-Hall, pp. 289-329
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Questions

1. How can welfare be measured with supply and demand curves?
2. Explain the two different approaches to welfare measurement based on economic activities and economic groups!
3. What are the economic consequences of policies to increase foreign exchange earning? Give an example!
4. What are the economic consequences of policies to increase government revenue? Give an example!
5. Explain the budgetary consequences of various policies to provide producers with incentive prices and consumers with cheap food prices!