

DEPARTMENT OF FOOD, AGRICULTURAL & RESOURCE ECONOMICS  
UNIVERSITY OF GUELPH

FARE\*6920: APPLIED POLICY ANALYSIS II

**Instructor:** Rakhal Sarker  
**Office:** 318 J.D. MacLachlan  
**Ext.:** 52173  
**E-Mail:** rsarker@uoguelph.ca

**Fall 2013**  
**Office Hours:**  
Friday: 10:30-12:00 or by appointment

● **OBJECTIVES:**

The primary objective of this course is to expose students to quantitative analysis of domestic agricultural policies and agri-food trade policies in developed countries. To achieve this objective particular attention is given to recent developments in domestic agricultural policies and agri-food trade policies in Canada and in the United States. This is followed by a presentation and critical assessment of selected economic models used in applied policy analysis. At the conclusion of this course, students should be able to:

- assess **major changes in domestic agricultural policies and agri-food trade policies** and discuss their **implications for quantitative policy analysis**;
- evaluate **the usefulness and limitations of selected economic models** for applied policy analysis and articulate **the rationale for choosing a particular model**;
- conduct **quantitative policy analysis** and **demonstrate economic consequences** of major domestic agricultural policies and agri-food trade policies; and,
- highlight the “**gap(s)**” in the literature, frame **research questions**, collect **relevant data**, **conduct econometric analysis** and then **develop and communicate** the results.

● **ORGANIZATION:**

The course will be conducted in a lecture plus group discussion format. The class meets on Wednesdays and Fridays at **2:30 -3:50** in **Room MCLN #319**.

● **ASSESSMENT:**

• Assigned Tasks (2).....	12%
• Midterm (Oct.18, 2013).....	20%
• Policy Seminar: (November 06, 2013).....	8%
• Term Paper (Nov. 28, 2013) .....	20%
• Final Exam (Date and Time TBA).....	40%

● **Assigned Tasks & Term Paper:** All assignments and the term paper are individual. The assignments will be distributed throughout the semester. The term paper is an important vehicle for a student to demonstrate his/her ability to systematically study a policy issue/topic of his/her own choice. It must contain an **analytical and empirical research** rather than a **descriptive analysis**. The quality expectation of the term paper is very high and an ideal term paper would be publishable with minor changes in a leading agricultural economics journal (such as, *Agricultural Economics or Canadian Journal of Agricultural Economics*). The topic of the term paper must be agreed upon with the instructor during the week of **September 23, 2013**. The term paper is due on **November 28, 2013**. Submission of assigned tasks and the term paper after the due date will be subjected to a penalty at a rate of **20 percent** per day and no assigned task will be accepted for grading if it is more than 3 days late.

● **E-Mail Communication:** As per university regulations, all students are required to check their <uoguelph.ca> email account regularly.

● **When You Cannot Meet a Course Requirement:** When you find yourself unable to meet an in-course requirement because of illness or compassionate reasons, please advise the course instructor in writing, with your name, id #, and email contact. See [http://www.uoguelph.ca/registrar/calendars/graduate/current/genreg/sec\\_d0e1400.shtml](http://www.uoguelph.ca/registrar/calendars/graduate/current/genreg/sec_d0e1400.shtml) for details.

● **Course Evaluation:** The policy of the Department of Food, Agricultural and Resource Economics with respect to **Course Evaluations** and the **Course Evaluation Form** are available on the departmental web page. The course evaluation will take place during the last two weeks of the semester.

● **Religious Obligation:** Student experiencing a **conflict** between his/her **religious obligation** and a **scheduled test**, mid-term or final examinations, must contact the instructor within **two weeks** of the distribution of the course outline to make an alternative arrangement.

● **Academic Misconduct:** The University of Guelph is committed to uphold the highest standards of academic integrity and it is the responsibility of all members of the University community - faculty, staff and students, to be aware of what constitutes academic misconduct and how to prevent academic offences from occurring. It is your responsibility as a student to be aware of and abide by the University's policy regarding academic misconduct which is detailed in the Graduate Calendar. See [http://www.uoguelph.ca/registrar/calendars/graduate/current/genreg/sec\\_d0e1687.shtml](http://www.uoguelph.ca/registrar/calendars/graduate/current/genreg/sec_d0e1687.shtml) for details.

● **Drop Date:** The last date to drop this course, without academic penalty, is **October 31<sup>st</sup>, 2013**.

● **Recording of Materials:** Class lectures and other presentations related to this course cannot be recorded in any electronic media without the permission of the presenter.

● **Reading Material:**

There is no text book for this course. Selected chapters from the following books which are placed on reserve will be helpful.

- Schmitz, A., C. Moss, T. Schmitz, H. Furtan and C. Schmitz. 2010. *Agricultural Policy, Agribusiness and Rent-Seeking Behaviour*, Second Edition. Toronto: University of Toronto Press.
- Gardner, Bruce. 1987. *The Economics of Agricultural Policy*. New York: Macmillan Publishing Company.
- Just, R., D. Hueth and A. Schmitz. 2004. *The Welfare Economics of Public Policy*. Northampton: Edward Elgar Publishing Inc., Massachusetts 01060, USA.
- **Course Web-Site:** You may access the web-site through <http://courselink.uoguelph.ca/>.

# COURSE CONTENTS

## ● Module I: An Introduction

- Changing Nature of Agricultural Policies and Agri-Food Trade Policies
- International Patterns of Agricultural Protection
- Why Special Policy for Agriculture?
- Scope of agri-food policy and trade policy analysis

\*Agriculture and Agri-Food Canada. 2013. **An Overview of the Canadian Agriculture and Agri-Food System**. Research and Analysis Directorate, Strategic Policy Branch, AAFC, Ottawa, Ontario, Canada, March 2013.

\*Agricorp. 2013. **AgriStability Program Guidelines-2013-2018 (Growing Forward 2)**. (<http://www.agricorp.com/en-ca/Programs/AgriStability/Pages/Publications.aspx>.)

\*Ackrill, R. 2008. The CAP and its Reforms - Half a Century of Change? *EuroChoices* 7(2): 13-20.

\*Gardner, B. L. 1992. Changing Economic Perspective of the Farm Problem. *Journal of Economic Literature*, 30: 62-101.

\*Slesnick, D. 1998. Empirical Approaches to the Measurement of Welfare. *Journal of Economic Literature*, 36: 2108-2165.

Varian, Hal R. 1992. *Microeconomic Analysis*. Third Edition. New York: W.W. Norton & Company.

**Just, Hueth and Schmitz (2004). Chapters 2, 3, 4, and 5.**

## ● Module II: Domestic Agricultural Policies: Trade & Welfare Effects

- Measurement of economic welfare
- Identification of gainers and losers of public policy interventions in agriculture
- Measurement of the extent of gains and losses
- Measurement of welfare and trade effects of domestic agricultural policies.

\*Alston, J. and J. James. 2002. "The Incidence of Agricultural Policy". In B. Gardner and G. Rausser (eds.) *Handbook of Agricultural Economics*, Vol. 2B, Chapter 33 (pp. 1689-1749). Amsterdam: North-Holland.

Alston, J. and B. Hurd. 1990. Some Neglected Social Costs of Government Spending in Farm Programs. *American Journal of Agricultural Economics*, 72: 149-156.

Floyd, J. 1965. The Effects of Price Supports on the Returns to Land and Labour in Agriculture. *Journal of Political Economy*, 73: 148-158.

Gardner, B. 2003. "U.S. Commodity Policies and Land Values". In *Government Policy and FarmLand Markets*, Chapter 5, pp. 81-95, edited by Moss, C., and A. Schmitz, Iowa State University Press, Ames, Iowa.

\*Goodwin, B. and F. Ortalo-Magne. 1992. The Capitalization of Wheat Subsidies into Agricultural Land Values. *Canadian Journal of Agricultural Economics*, 40(1): 37-54.

Newbery, D. 1988. The Analysis of Agricultural Price Reforms. *Journal of Public Economics*, 35(1): 1-24.

\*Schmitz, A. and R. Just. 2003. The Economics and Politics of Farmland Values. In *Government Policy and FarmLand Markets*, Chapter 4, pp. 53-79, edited by Moss, C., and A. Schmitz, Iowa State University Press, Ames, Iowa.

**Gardner (1987). Chapters 2 and 3.**  
**Schmitz et al., 2010. Chapter 10.**

## ● **Module III: An Introduction to Quantitative Policy Analysis**

- A.
  - Supply Management in Canada
  - Stabilization and Safety Net Programs in Canada
- B.
  - US Farm Bills: 1996, 2002 and 2008
  - Dairy programs in the United States
- C.
  - CAP reforms and their economic consequences
  - Impacts of multifunctionality in agriculture

Australian Bureau of Agricultural and Resource Economics (ABARE). 2003. 2003 EU CAP Reforms. *Australian Commodities*, 10(3), September 2003.

Barichello, R. 1999. The Canadian dairy Industry: Prospects for Future Trade. *Canadian Journal of Agricultural Economics*, 47 (Special Issue): 45-58.

Barichello, R. , J. Cranfield and K. Meilke. 2009. Options for the Reform of Supply Management in Canada with Trade Liberalization. *Canadian Public Policy*, XXXV(2): 203-217.

\*Buckwell, A. 1997. "Some Microeconomic Analysis of CAP Market Regimes". In *The Common Agricultural Policy: 2<sup>nd</sup> Edition*, Chapter 7, pp. 139-162, edited by Ritson, C and D. Harvey. Wallingford: CAB International, Oxon, UK.

De Gorter, H., and D. S. Boughner. 1999. U.S. dairy Policy and the Agreement on Agriculture in the WTO. *Canadian Journal of Agricultural Economics*, 47 (Special Issue): 31- 42.

\*Dewbre, J. and C. Short. 2002. Alternative Policy Instruments for Agriculture Support: Consequences for Trade, Farm Income and Competitiveness. *Canadian Journal of Agricultural Economics*, 50(4): 443-464.

\*Meilke, K., R. Sarker and D. LeRoy. 1998. The Potential for Increased Trade in Milk and Dairy Products between Canada and the United States under Trade Liberalization. *Canadian Journal of Agricultural Economics*, 46(2): 149-169.

Sumner, D. A. 2005. Boxed In: Conflicts Between the U.S. Farm Policies and WTO Obligations. *CATO Institute*, December 5, 2005.

\*Schmitz et al. (2010). Chapters: 5, 6, 7 and 13.

## ● **Module IV: The Political Economy of Agricultural Policy**

- Agri-food policy formulation process and policy outcomes
- The costs and benefits of agri-food policies and persistence of distortionary policies
- The political economy approach: Theory and Measurement
- Factors driving systematic policy interventions in agriculture
- Agri-food policy and trade policy reforms

Gardner, B. 1983. Efficient Redistribution Through Commodity Markets. *American Journal of Agricultural Economics*, 65: 225-234.

\*----- . 1987. Causes of U.S. Farm Commodity Programs. *Journal of Political Economy*, 95: 290-310.

Rausser, G., and W. Foster. 1990. Political Preference Functions and Public Policy Reform. *American Journal of Agricultural Economics*, 72: 641-652.

Coggins, J. 1995. Rent Dissipation and the Social Cost of Price Policy. *Economics and Politics*, 7: 147-166.

Gisser, M. 1993. Price Support, Acreage Controls and Efficient Redistribution. *Journal of Political Economy*, 101(4): 584-611.

Bullock, D. and J. Coggins. 2002. "Do Farmers Receive Huge Rents for Small Lobbying Efforts?" In **Agricultural Policy for the 21<sup>st</sup> Century**, Chapter 8, pp. 146-159, edited by Tweeten, L. and S. Thompson. Ames: Iowa State University Press.

- \* Acemoglu, D., and J. Robinson. 2001. Inefficient Redistribution. *American Political Science Review*, 95(3): 649-661.
- \* Sarker, R., K. Meilke and M. Hoy. 1993. The Political Economy of Systematic Government Intervention in Canadian Agriculture. *Canadian Journal of Agricultural Economics*, 41: 289-309.
- Swinnen, J., and F. Van der Zee. 1993. The Political Economy of Agricultural Policies: A Survey. *European Review of Agricultural Economics*, 20(3): 261-290.
- \* Thies, C. and S. Porche. 2007. The Political Economy of Agricultural Protection. *The Journal of Politics*, 69(1): 116-127.

## ● **Module V: Macroeconomic Policies, Agriculture & Agri-food Trade**

- Macroeconomic Policies and Agriculture: Theory and Measurement
- How to measure the effects of exchange rate changes on trade flows?
- Exchange rate variability and agri-food trade flows: theory and measurement
- Should exchange rate be incorporated as a separate variable in trade models?
- Exchange rate, Exports and Pricing-to-Market (PTM) behaviour

Abbott, P. and A. McCalla. 2002. Agriculture in the Macroeconomy: Theory and Measurement. In B. Gardner and G. Rausser (eds.) *Handbook of Agricultural Economics*, Vol. 2A, Chapter 32. Amsterdam: North-Holland.

\*Balke, N., J. Ma, and M. Wohar. 2013. The contribution of economic fundamentals to movements in exchange rates. *Journal of International Economics*, 90(1): 1-16.

\* Chambers, R. and R. Just. 1979. A Critique of Exchange rate treatment in Agricultural Trade Models. *American Journal of Agricultural Economics*, 61(2): 249-257.

Carter, C., R. Gray and H. Furtan. 1990. Exchange rate Effects on Inputs and Outputs in Canadian agriculture. *American Journal of Agricultural Economics*, 72(3): 738-743.

Coleman, J. and K. Meilke. 1988. The influence of Exchange rate on Red Meat Trade between Canada and the United States. *Canadian Journal of Agricultural Economics*, 36(3):401-24.

\*Hellerstein, R. 2008. Who bears the cost of a change in the exchange rate? Pass-through accounting for the case of beer. *Journal of International Economics*, 76(1): 14-32.

\*Schmitz et al., 2010. Chapter 4.

## ● **Module VI: Regional Trade Agreements and Trade in Agri-food Commodities**

- Regional Trade Agreements: A Historical Overview
- Economic Consequences of RTAs: Theory
- How to Measure the Effects of RTAs?
- Use of Gravity Models to Measure the Effects of RTAs
- Pros and cons of using Gravity Models to Measure Agri-food Trade Policy Effects

Anderson, J. and E. Van Wincoop. 2003. Gravity with gravitas: a solution to the border puzzle. *American Economic Review*, 93(1): 170-192.

\* Anderson, J. and E. Van Wincoop. 2004. Trade Costs. *J. of Economic Literature*, 42: 691-751.

Baier, S., and J. Bergstrand. 2001. The growth of world trade: tariffs, transport costs and income similarity. *Journal of International Economics*, 53(1): 1-27.

\* Baier, S., and J. Bergstrand. 2007. Do Free Trade Agreements Actually Increase Members' International Trade? *Journal of International Economics*, 71(1): 72-95.

Deardorff, A. 1998. Determinants of bilateral trade: does gravity work in a neoclassical world? In *The Regionalization of the World Economy*, Frankel, J.A. (Ed.), pp. 7-32, University of Chicago Press: Chicago.

Feenstra, R. 2004. *Advanced International Trade: Theory and Evidence*. Princeton: Princeton University Press, New Jersey. [Chapter 5].

\* Grant, J., and D. Lambert. 2008. Do Regional Trade Agreements Increase Members' Agricultural Trade? *American Journal of Agricultural Economics*, 90(3): 765-782.

\* Grant, J. 2013. Is the growth of regionalism as significant as the headlines suggest? Lessons from agricultural trade. *Agricultural Economics*, 44(1): 93-109.

\* Sarker, R., and S. Jayasinghe. 2007. Regional trade agreements and trade in agri-food products: evidence for the European Union from gravity modeling using disaggregated data. *Agricultural Economics*, 37(1): 93-104.

(\* indicates Required Reading)