AGEC 3603 Agricultural Finance

Lecture 1 - Introduction

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Time and Place

We will meet here in L328 14:00-15:50 Monday and Wednesday
My office is in the ICB Building Room 315.
Office Hours Tuesday 10:00-12:00
I expect most questions can be dealt with in class or using Piazza
(https://piazza.com/cau.edu.cn/fall2016/agec3333/home)

What is the course about?

This course is concerned with how agricultural firms finance their operations and and the markets that they employ to do so.

Where should finance be taught?

- Should finance be taught in business schools or economic departments?
- Is finance a business discipline or an economics discipline?
- Financial management vs Financial Economics

Finance, Financial Management and Financial Economics

- Financial management studies the decision of individual or firm as to how to fund operating reuirements.
- Financial economics focusses on markets
- Finance encompasses both

In addition we have financial mathematics and mathematical finance. Financial mathematics involves calculations of financial ratios and investment and financial formulae. Mathematical finance involves mathematical modelling of financial markets and instruments

Investment vs Finance

- Finance is the source of funds
- Investment is where funds go
- If books balance then these are equal they are "two sides of the same coin"'.

Finance involves decision-making over time

Example

Decision-maker may own farmland and machinery but needs to purchase, seed, fertilizer, fuel and hire labor. He needs to purchase these things BEFORE receiving money for the sale of his crop. To do this he needs finance. another source of funds besides revenue from the sale of his crop. The farmer lacks OPERATING CAPITAL. He/She can approach a bank for an OPERATING LOAN.

Debt vs Equity Instrument

Balance sheet equation:
Asset - Liabilities = Equity
Liabilities are funds obtained through loans Equity is funds obtained through investment in return for a share of ownership.
There are therefore fundamentally two ways to obtain funds via Debt instruments or via Equity instruments.

Equity transaction

Example

The farmer could offer a partnership in return for funds. The investor (principle) takes some pre-agreed share (percentage) of profits.

In a plain vanilla partnership the investor's liability for losses is not limited. In some countries limited liability partnerships exist.

In the event of bankruptcy typically creditors to whom the farm has a liability are first in the queue and need to be paid their share of the assets if possible. Partners and shareholders only receive their share of the asset value after creditors have been paid.

Trade credit

Merchants such as agribusinesses supplied by the farm may advance inputs into production on credit to the farmer, e.g. grain elevators, cotton gins, etc. A cotton gin may sell seed, fertilizer and agricultural chemicals (pesticides, fungicides) to farmers and is able to offer credit in return for a share of the crop value or a fixed payment or at a specified interest rate.

Chapter summary

- Time is important in finance
- Uncertainty, concerning future economic outcomes is important
- Market structure and organization is important
- Institutional structure of markets is important in determining which financial instruments are available
- Financial management is concerned with financial decisions within the firm
- Financial economics is concerned with how these decisions impact markets and markets impact these decisions and how government policy impacts both.