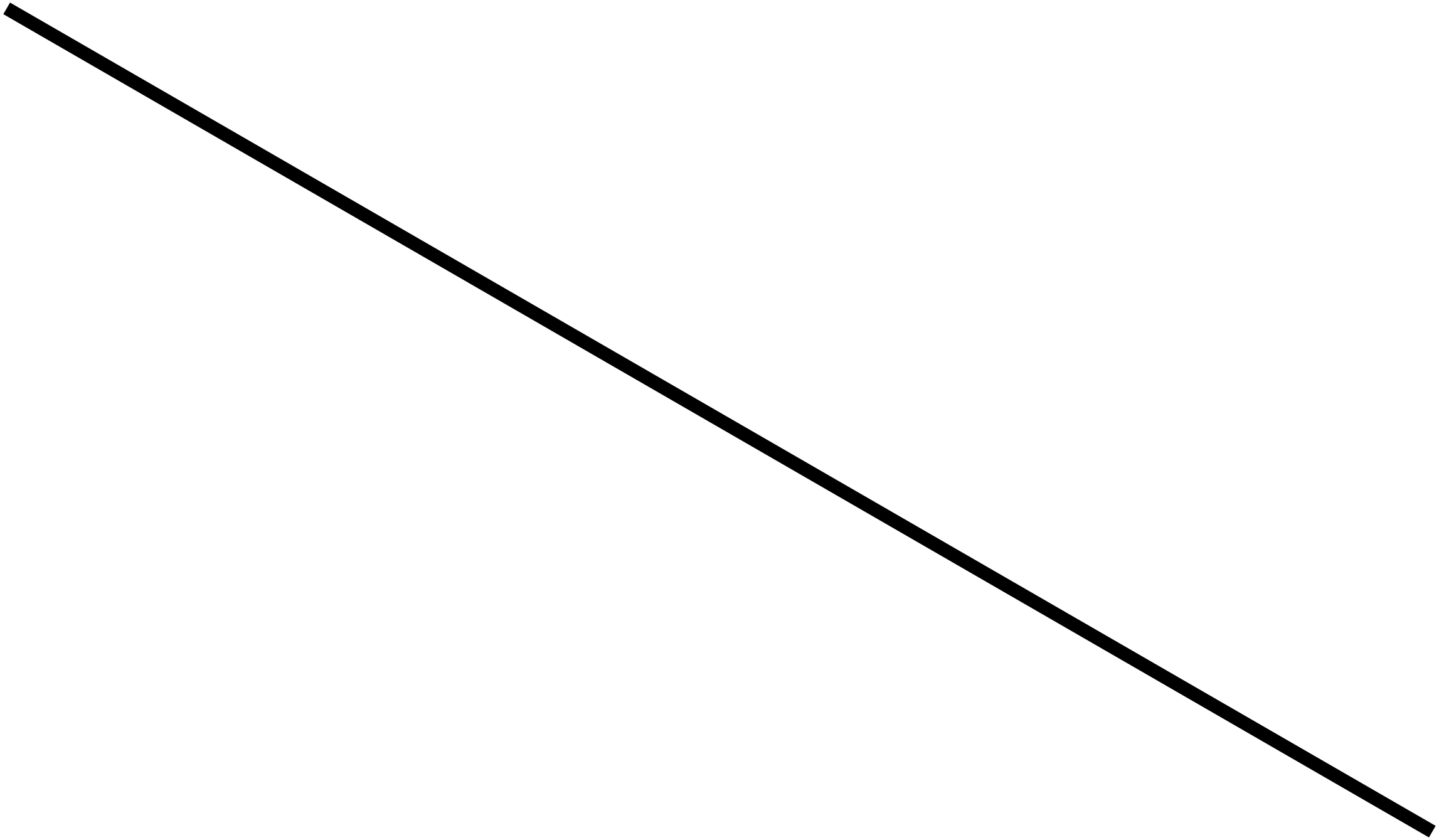
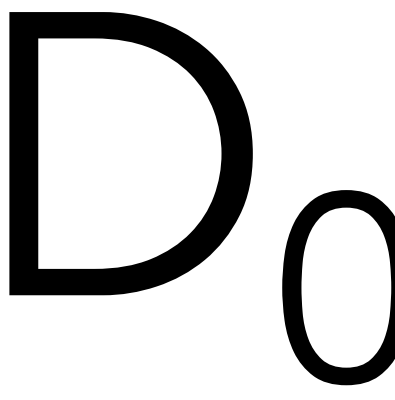
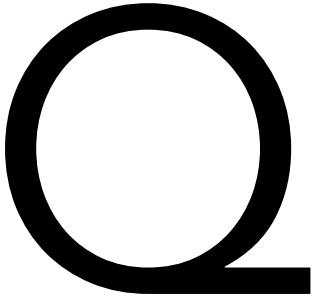
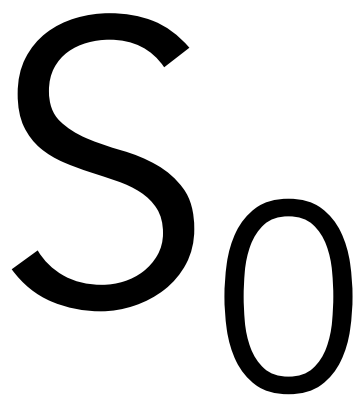
Loans to Farmers

64

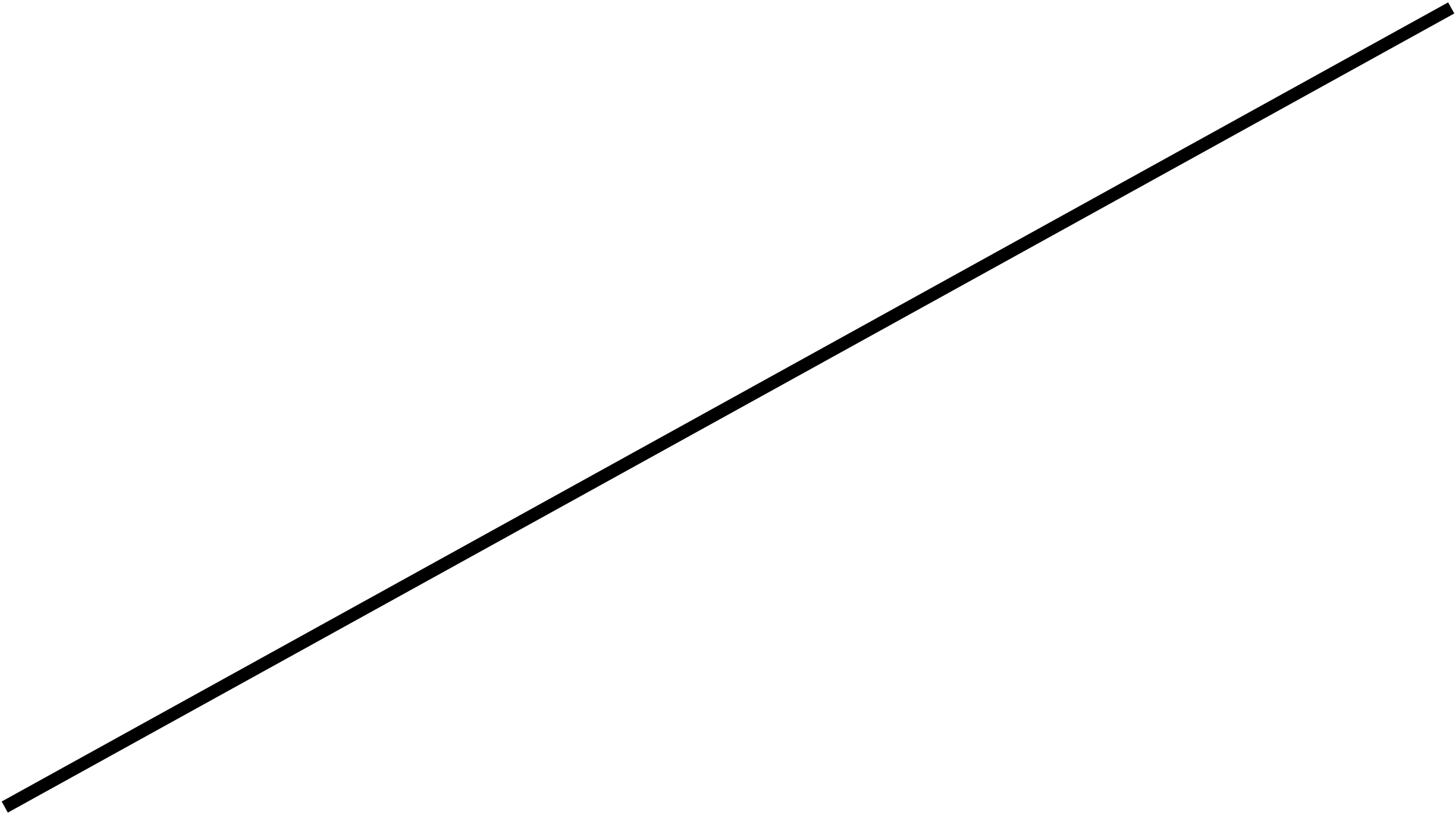



D0




S0

$1.5



40

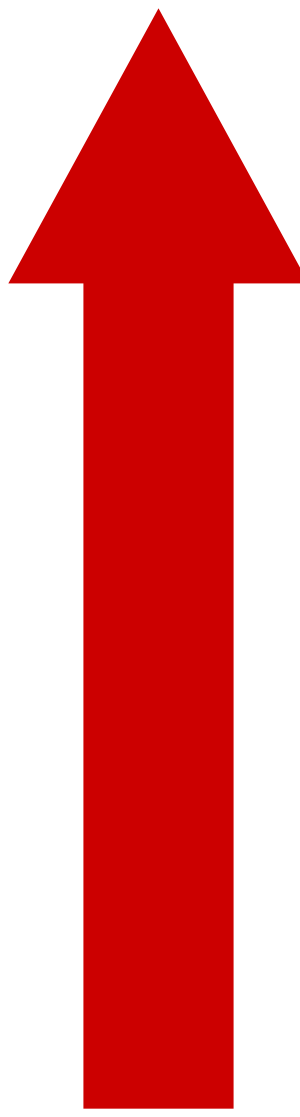
20

$2

60

$0.5

$1



D1

If the price in the market falls below $2, the farmer forfeits the grain and does not repay the loan

$2.5

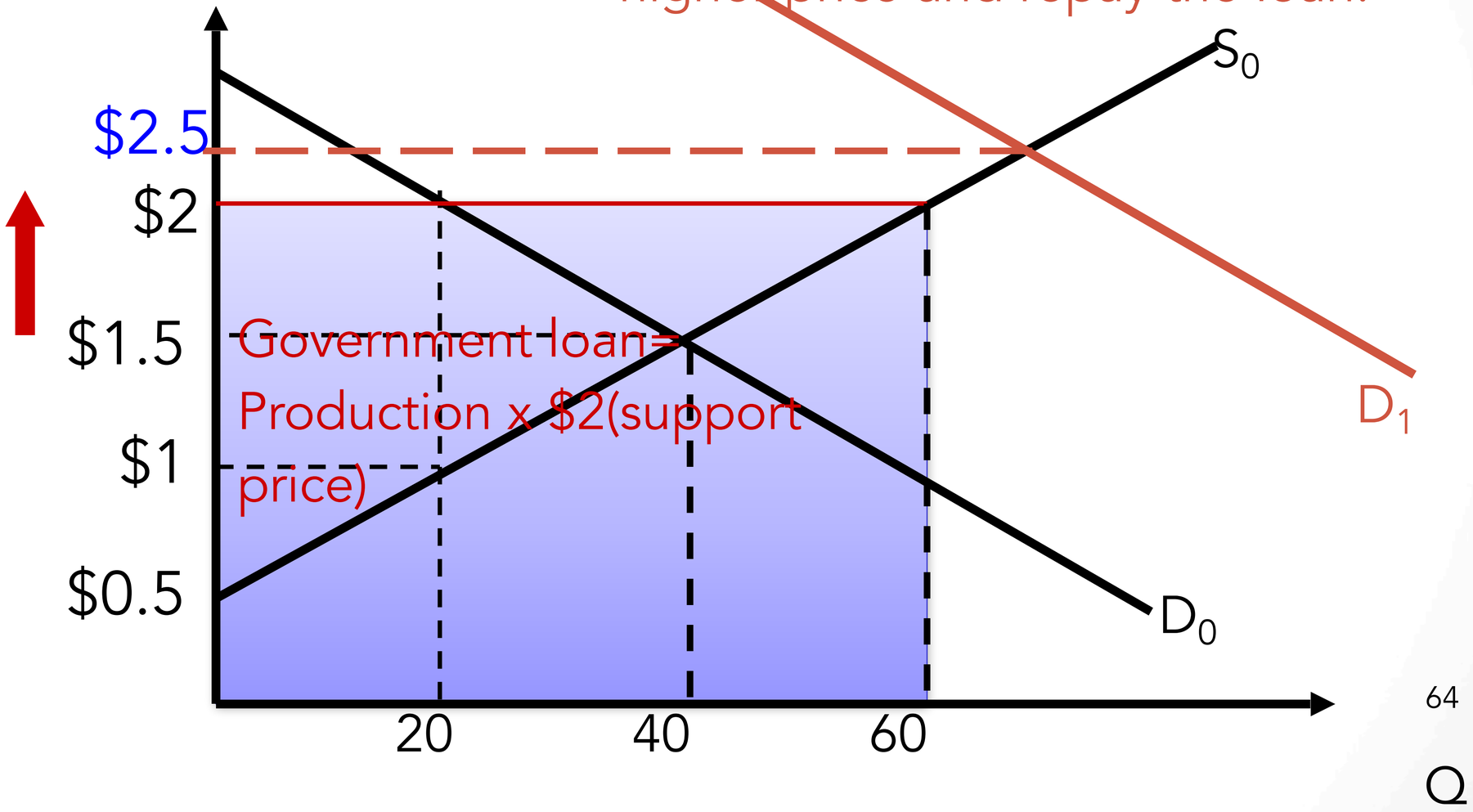
If the price in the market rises above $2, farmers sell their crop at the higher price and repay the loan.

Government loan= Production x $2(support price)

Loans to Farmers

If the price in the market falls below $2, the farmer forfeits the grain and does not repay the loan

If the price in the market rises above $2, farmers sell their crop at the higher price and repay the loan.



Effect of Price Supports