

Agricultural Price Formation in Theory and Reality

Book Review

Ulrich Koester and Stephan von Cramon-Taubadel (editors) 2023:
Agricultural Price Formation in Theory and Reality
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“Agricultural Price Formation in Theory and Reality”, edited by Ulrich Koester and Stephan von Cramon-Taubadel in a handy A5 format, hardly gives any hint from the outside of the innovative approach to follow inside. It is certainly unique among the few agricultural microeconomics textbooks that already exist. Without a doubt this book will find its way to basic and advanced agricultural economics lectures. But even more so, readily available on every agricultural economist’s bookshelf, this book may serve as an anchor and provide guidance not only to scientists and researchers, but also decision makers in politics and agribusiness.

This book surprises in several ways. Unlike standard textbooks, Ulrich Koester and Stephan von Cramon-Taubadel have chosen the institutions that shape agricultural prices as the starting point. Thus, chapter 1, “The Importance of Institutions for Agricultural Price Formation”, gives an overview of the embedded institutions on the supply and demand side of agricultural markets, and how they influence political decisions. Furthermore, the section lays down the importance of the institutional environment and governance for agricultural price formation. When goods and services are exchanged between economic actors, the embedded institutions, institutional environment and governance together determine the size of transaction costs, i.e. search, information, negotiation, decision, monitoring and enforcement costs, which are not considered in neoclassical models. Therefore, the remaining subsections of this chapter are devoted to the importance of transaction costs for price determination on agricultural markets, but also their influence on farm size and input markets.

Ulrich Koester and Stephan von Cramon-Taubadel make it clear that they recognize neoclassical price theory as “powerful and flexible”. Nonetheless, apart from its limitations, the authors emphasize how neoclassical theory has proven to be a good starting point for explaining economic reality in many situations. Thus, the neoclassical foundations of price formation are presented in chapter 2, “The Derivation of Optimal Price Relations in Closed and in Open Economies: The Neoclassical Approach”.

How fruitful it can be when neoclassical theory is extended by supplementing it with insights from New Institutional Economics is demonstrated by Ulrich Koester and Stephan von Cramon-Taubadel in the consequent three chapters. In particular, chapter 3, “Price Formation on Agricultural Land Markets”, gives attention to the importance of institutions and transaction costs for price formation on agricultural land markets; chapter 4, “Specific Characteristics of Agricultural Labor Markets”, explores the consequences of transaction costs for agricultural labor markets; and chapter 5, “Price Formation on Agricultural Credit Markets”, expands on the imperfect information about future market developments and the role of transaction costs for well-functioning credit markets.

The book also impresses with its richness surrounding the aspects of pricing in agriculture in the chapters that follow. The role of technical change for agricultural price developments and innovations in agriculture are addressed in chapter 6, “Technical Change and Price Formation in Agriculture”, by Ulrich Koester and Stephan von Cramon-Taubadel, as well as chapter 7, “Innovation in Agriculture” by David Zilberman.

“Pricing Under Imperfect Competition” (chapter 8) by Christoph Weiss gives a comprehensive introduction to the theoretical basis of market power and presents empirical strategies of measurement. Chapter 9, “Price Relationships and Price Changes in Selected Agricultural Markets”, by Sebastian Hess and Ulrich Koester, is devoted to price relationships between agricultural goods at the same processing stage as well as joint products. Jens-Peter Loy has contributed chapter 11, “Price Formation in Food Retailing”, which focuses on the role of market concentration for price formation.

Stephan von Cramon-Taubadel’s chapter on “Vertical Price Relations in Agriculture” (chapter 10) provides a unique introduction to the economics of price relationships along the food supply chain. The chapter impresses with its skillful combination of theoretical aspects with empirical application and examples. The topic is motivated with the empirically observed continuous decrease of the farmers’ share of consumer expenditures on food in Germany. Gardner’s model is introduced as the theoretical model underlying vertical price analysis, paying particular attention to the role of elasticities of factor substitution. A case study on raspberry yoghurt nicely illustrates how institutions, such as labelling regulations, might limit the transmission of price changes from raw material to the end consumer. Also, the extension of Gardner’s model for market power is discussed in an application to the Ukrainian milling industry. Furthermore, the chapter gives an overview on basic frameworks for measuring vertical price adjustment processes before it turns to aspects of asymmetric price transmission. The chapter closes by returning to the relevance for agricultural and food policy: It should not be expected that the trend of decreasing farm share in consumer expenditures can be stopped by “re-implementing price support”.

The book’s collection on agricultural price formation is further enriched by two additional chapters. “Price Volatility in Agriculture” (chapter 12) by Bernhard Brümmer is a well-balanced take of theoretical concepts, empirical measurement methods and findings on price volatility, potential drivers and spillover effects with coping strategies by farmers, policymakers and value chain actors. Chapter 13 on “Forward and Futures Markets and Their Influence on Agricultural Price Formation” by Teresa Vollmer, Ludwig Striewe and Stephan von Cramon-Taubadel is characterized by many details from a trader’s practice. Certainly, this makes it easier to ensure that the sections on underlying risk theory are well understood.

Overall, this book is very successful in illustrating the presented theoretical concepts using real-world examples. In particular, it is rich in representing empirical data with figures and tables. Each of the chapters also surprises with a range of exercises and quizzes to be completed as individual study or group discussions. Particularly those from the everyday life of agricultural policymakers are of high practical relevance, as they’re well suited to training on how to structure real-world problems with economic models to work out policy solutions. Furthermore, each chapter’s reference list serves as an excellent point of departure to deepen the subject. Even more, this book might be helpful for developing ideas not only for master theses, but also for PhD theses.

Lastly, it should be mentioned that several chapters of this book are also published in the German language in the book “Agrarpreisbildung: Theorie und Anwendung”, which also makes it suitable for teaching undergraduate classes at German speaking universities.

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