

# Foundations of Agricultural Market Analysis and Agricultural Policy

Koester

2020

ISBN 978-3-8006-6364-4

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# Foundations of Agricultural Market Analysis and Agricultural Policy

by

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Verlag Franz Vahlen München

**Dr. Dr. h.c. mult. Ulrich Koester:** Born 1938; studied Agricultural Sciences at the University of Giessen and at the University of Hohenheim, Economics at the University of Saarbruecken and at the University of Goettingen. He received his doctoral degree (Dr. rer. pol.) from the University of Goettingen in 1968. From 1978 to 2003 he held the Chair of Agricultural Market Analysis and Policy at the University of Kiel. He was awarded honorary doctorates from the University of Giessen, the Universities of Hohenheim and the Mongolian State University of Agriculture. Before he joined the faculty in Kiel in 1978, he had held a professorship in the Department of Agricultural Economics at the University of Goettingen from 1971 on. Ulrich Koester has taught and researched as a visiting professor for one semester at more than a dozen universities, most of them in Transition Countries. For 10 years, Prof. Koester used to be a visiting research fellow for 3–5 months annually at the International Food Policy Research Institute (IFPRI), Washington, D.C. In 1995, he was a visiting fellow at the World Bank, Washington, DC, and in 2000 at FAO, Rome. His interest in policy research resulted in his membership of the Scientific Advisory Council to the German Minister for Agriculture and Food for more than 20 years and in advisory service for the EU, OECD, FAO, and World Bank. Many of his former students hold professorships at German and foreign universities. Since 2003 he continues to teach and research as Emeritus in Kiel, as Associated Member at the Leibniz Institute of Agricultural Development in Transition Economies (IAMO), Halle; Germany and as Temporary Member of the National Research University, Higher School of Economics, Institute for Agrarian Studies, Moscow, Russia.

ISBN Print:978 3 8006 6364 4  
ISBN E-Book: 978 3 8006 6350 7

© 2020 Verlag Franz Vahlen GmbH  
Wilhelmstr. 9, 80801 München  
Typesetting: Fotosatz Buck  
Zweikirchener Str. 7, 84036 Kumhausen  
Cover Design: Ralph Zimmermann – Bureau Parapluie  
Printed by: Druckerei C.H. Beck Nördlingen  
Printed on acid-free, permanent paper  
(manufactured from chlorine-free bleached pulp)

## Preface

This book is based on the German textbook *Grundzüge der landwirtschaftlichen Marktlehre* (Principles of Agricultural Market Analysis and Policy), fifth edition, 2016, though it includes various updates and extensions. The extensions principally concern the policy section and, in particular, the additional chapter 10, titled “Epilog.” The author was fortunate to enjoy some favorable reviews of the German textbook, most of which ended with the sentence “[we] hope that this book will be published in English in the near future.”

Holding emeritus status since 2003, the author continued to teach in Kiel, Halle, numerous Eastern European countries, and Mongolia for several terms. In doing so, he became aware that there might be a market for such a book in the English language. A demand for the book in languages other than German has been found in the past. Earlier editions have been translated into Serbian and Russian, and a translation into Mongolian is in progress.

New European Union (EU) member countries, in particular, may be interested in a book that provides a theoretical background for analyzing the somewhat complicated Common Agricultural Policy of the EU. The first chapters of this book are devoted to the fundamentals of agricultural economics. While agricultural economics falls under general economics, it is special in including institutional and behavioral economics. Therefore, agricultural economics is a branch of applied economics.

Part One of this book, “Foundations of Agricultural Market Analysis,” provides the basis for analyzing the specifics of the agricultural sector. These specifics limit the application of plain neoclassical economics. Fortunately, the recent development of institutional and behavioral economics helps to explain the performance of the agricultural sector and the heavy involvement of many national governments in agricultural development and price formation.

Part Two, “Agricultural Policy,” reviews the role of agriculture in the achievement of specific agricultural policy objectives. Comparing free agricultural market developments and policy objectives confirms market failure. The existence of actual or perceived market failure explains the numerous policy instruments applied in the past and present in the agricultural policies of individual countries, as well as in the Common Agricultural Policy of the EU. The economic analysis presented in this book uses a general framework for policy evaluation that can be applied to any country. The second to last chapters focus on the EU; however, the EU experience can be of interest to other countries as well. The last chapter, Epilog, is very EU specific as it discusses the problem of the ongoing negotiations for the next seven years. Generally, the two parts of this book focus on the EU’s Common Agricultural Policy, the experiences presented can serve as case studies for any non-EU country.

Indeed, even if its examples and case studies are EU based, the book's content may be of interest for teaching applied economics or agricultural economics in non-European countries. Students do not necessarily have to learn facts, but they should be trained in analytical and critical thinking. Many agricultural economics graduates spend their professional lives in economic activities that are not directly related to agriculture or agribusiness; they are employed in all sectors of the economy where economic thinking is an asset. The author of this book has received extensive help in completing it. Dr. Miranda Savindze from Leibniz Institute of Agricultural Development in Transition Economies (IAMO) read certain chapters thoroughly and made suggestions for improvement. Elisabeth Roth and Annabel Frank, both Master students at the University of Halle, as well as Fenja Bahr and Meike Trispel, both Bachelor students at the University of Kiel, were very helpful in the translation and proofreading processes. The author would like to thank them all very much. Special thanks are also due to Kirsten Kriegel, MA, who not only carried out secretarial work with great competence but also critically read and commented on the entire text, making this book more accessible to students and readers from fields outside economics. Finally, Hermann Schenk, Diplomvolkswirt, deserves great thanks for having initiated and generously supported a new experiment of the Vahlen publishing house with this book.

Kiel, March 2020

Ulrich Koester



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