

RICE

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Supply Responsiveness of Rice Under Risk in Jambi Province

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Abstract

Farmers' supply responsiveness planting of rice in Jambi Province was estimated using Land Acreage analysis function. The objective of study is to analyze rice farmers' supply response under risk. The first, the lagged production function was postulated for empirical estimation of expectation variables. The estimated parameters showed that risk variables played an important role for farmers in making decisions. The result also showed that farmers are risk averse. Therefore, government policies have to consider risk management, and dynamic considerations. Finally, in order to evaluate the effectiveness of this policy especially in government farm program, the risk variables will again give an effect and impact on final result.

Keywords : supply response of rice, Land Acreage function, and risk

I. INTRODUCTION

At the time of Regional Autonomy (decentralization) today, local government seeks to find and exploit the potential of the region in order to increase revenue. As with other areas in Indonesia, the main source of public revenue Jambi is from agriculture, especially rice farming which has become one of the most strategic business nowadays because it can increase farmers' income. Jambi province, which is one of the rice-producing areas in Indonesia, showed improvements in rice production from year to year, this is because of the availability of infrastructure and production facilities for farmers (Anonymous, 2013).

The development of this production that while effective in recent years, may be relatively difficult to be repeated in the future (Anonymous, 2013). This is because of economic crisis and financial difficulties which resulted in reduced subsidies for this activity. With these conditions, some areas of agricultural policy experts interested in observing the response of supply and demand for inputs in rice farming. Estimation of supply response, such as changes in input use has been reported in several studies (Bapna et al. 1991; David and Barker, 1988; and Guyomard, et al. 1996). But very few have examined the response of supply and input demand in relation to price changes.

In Jambi Province, the same thing with other places, a lot of farm production and investment decisions are made under uncertainty of commodity prices, crop yields, and government policies in agriculture (Anonymous, 2013). The government has been keeping input subsidies (such as fertilizer) and price support policies to improve farm production. This policy is very controversial. In order to evaluate this policy, it is very important to understand the response of farmers to economic stimuli such as factor prices and not prices.

The farmers' responses to price changes for specific products aimed at many conditions, which include applying resources especially land and family labor, plant selection and techniques, opportunities outside labor, the price of the product and the presence of income uncertainty as well as farmers' attitudes towards risk (Olwande, 2009). Further according to Darmawi (2005) also asserted that in any business activity in sector of agriculture or agribusiness, the business is always faced with situations of risk and uncertainty.

The farmers' response to price changes is useful for policy formulation. If farmers respond positively to price movements, supply of rice will be affected by the increase in price. Effectiveness and cost of alternative pricing policies depends on the magnitude and significance of the estimated response (Smith et al. 2009).

Knowledge of the impact of other variables on the response of production is important for policy makers. Important variables include input prices, changes in technology, farm management, risk and financial constraints must be considered in studying the response of production for this study is more realistic and useful (Keeney and Hertel, 2008).

The role of the response of agricultural production has gained much attention in empirical studies today. Neoclassical theory of the model of production behavior of farmers in terms of maximum profit has been tested and accepted in the literature (Brennan, 1982). Choi and Helmberger (1993) have demonstrated theoretically that the increased uncertainties resulting price decline in optimal production from farming to compete.

Although many problems in its estimation, production response has a value of better consideration of policy makers in examining the basic program of farming in the province of Jambi to efficiency, the impact of distribution and production improvements. Key considerations in testing the response of production are (a) the production decisions made under ex-ante expectations and (b) many manufacturers are repellent risk (risk aversion) of at least limited income (Polome et al. 2006).

If there is risk involved in the production process or input prices and output, the agent assumed to behave as if they maximize expected utility of profits. Depending on the agents risk preferences, the marginal

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