Agribusiness Economics Unit Project

**Overview:** in this project, your team will use an internet search engine (like Google) to find news stories related to the main unit objectives in economics. You will then use these news stories to demonstrate your understanding of economics with a portfolio and oral presentation.

Because this is a group project, each person should complete an equal share of the questions below. Remember – this is a demonstration of your knowledge. If you write only the bare minimum, it will be assumed you only learned the bare minimum, and you will only receive a bare minimum grade. In general, the more you write, the better you’ll do.

**For each objective, you should create a one-paged, typed document that includes the following:**

1. The objective.
2. A summary of what that objective means written in your own words (do NOT copy the class definition).
3. The title, author, agency/company, and website/newspaper of a news story related to this objective.
4. A summary of what happened in that news story.
5. How that news story is an example of the objective.

**Unit Objectives.**

1. **Objective**: explain the difference between opportunity cost and benefit, and how these terms can be used to determine if a choice was rational or irrational.
2. **Objective**: compare and contrast economic value and intrinsic value and use this understanding to explain why some things with low intrinsic value have high economic value due to scarcity and competition.
3. **Objective**: summarize why money is more valuable than bartering for a modern economy.
4. **Objective**: use the Laws of Supply and Demand, as well as equilibrium points, to explain how prices are determined.
5. **Objective**: explain the difference between moving along a supply or demand curve as opposed to shifting a supply or demand curve.
6. **Objective**: define and summarize the problem with creating a price floor or price ceiling instead of using the equilibrium price.
7. **Objective**: summarize how the futures market enables price discovery, reduces risk for hedgers, and provides opportunities for investment and profit by speculators.
8. **Objective**: summarize how each of the following are determined: GDP; unemployment; recession; depression; inflation.
9. **Objective**: explain how the US uses fiscal policy to meet its macroeconomic goals.
10. **Objective**: explain how the US uses monetary policy to meet its macroeconomic goals.
11. **Objective**: explain how the US uses exchange rate policy to meet its macroeconomic goals.
12. **Objective**: explain how the economy of the US is managed by the Fed through the federal discount rate, reserve ration requirement, open market operations, federal funds rate, and quantitative easing.
13. **Objective**: summarize the views of Smith, Keynes, Hayek, and Friedman.

EXAMPLE:

**Objective**: Define and explain the Tragedy of the Commons and how it is eliminated by private property.

**Summary**: the Tragedy of the Commons is when something this is publicly owned is abused or overused. This occurs because the benefit of abusing a resource is greater than the opportunity cost that occurs when everyone does it (the opportunity cost is the same whether you abuse the resource or not – eventually that resource will be destroyed. However, your benefit increases as you increase the likelihood that the resource is destroyed). Private property can eliminate the risk of Tragedy of the Commons because both the benefit and the opportunity costs of private ownership are experienced solely by the individual owner. If the owner takes care of their property, they will benefit by enjoying that resource longer. If the owner abuses their property, they will lose their ability to enjoy their property.

**Title**: It's Time For America To Talk About The Price Of Water. **Author**: Cynthia Barnett

**Source**: Huffington Post.

**Website**: <http://www.huffingtonpost.com/2014/10/07/america-price-of-water_n_5944662.html>

**Summary**: in this article, the author describes the drought affecting the southwest US, and about how 20 million gallons of freshwater was lost during a serious drought due to a busted water pipe. The author goes on to describe how water is our cheapest utility and how this is ironic given it is our most important utility (a good example of intrinsic value vs. economic value). The author argues that because water rates are determined by elected officials who are afraid to raise those rates (and risk not getting reelected), the price of water is too low and that the water is almost a free resource because of this. As a result, water is now experiencing a Tragedy of the Commons situation where too many people are using too much water too fast, and as a result many southwestern cities are critically low on water. There is no disincentive to use too much water, and so everyone uses too much water. Because water is a public resource and not a private property, it fits the TOC model perfectly. The author points to locations such as Australia who developed a market-based system to stop the Tragedy of the Commons problem. Australia created a ‘water market’ that is valued at $2.5 billion per year. This has increased the price of water, which has decreased consumption and has enabled Australia to survive similar droughts as the southwest US. The author concludes that a similar solution, with reduced prices in exchange for conservation efforts (like removing water-intensive grass) could help the Southwest.

**How this is an example of this objective**: in this news story, the commons is not a field where cows are overgrazing, but freshwater. Like the cows/field example, there is no private ownership of water. Because there is no private ownership and because this resource is also very limited, water is running out. There is no disincentive to use less water because water is so cheap. The opportunity cost is the same for everyone – if and when the water runs out, everyone will experience the same outcome. Therefore the incentive is for people to use too much water now because no one will have water later. Private property can overcome the tragedy of the commons. The author argues that creating a water market (by selling water rights at high prices) will encourage people to treat water like private property and conserve this resource more efficiently.