

RISK-BEARING ABILITY AND RISK ATTITUDE

Producers of agricultural products are constantly faced with risk. Some risks are known in advance, while other risks may come as a surprise. "Risk management" is a title used with increasing frequency as producers consider tools that may reduce or even eliminate their vulnerability to risk.

Dennis Kaan, Colorado State University Extension, and John P. Hewlett, University of Wyoming Extension, have an interesting presentation on the USU Extension website. (extension.usu.edu/cooperative/agribusiness/) The authors refer to Risk Bearing Ability and Risk Attitude as factors to consider when assessing risk management tools.

Risk bearing ability is directly related to financial measures such as liquidity, solvency, profitability, repayment capacity and financial efficiency. Some are in a better position than others to take a financial hit.

Risk attitudes are more a measure of personal management styles. The risk-averse individual will sacrifice some level of expected return in order to reduce the possibility of a loss. Risk-preferring individuals are more adventuresome and will select alternatives with some probability of higher income. Risk-neutral individuals are not concerned with losses nor are they determined to achieve the highest outcome.

Most Utah agricultural producers should have received a Risk Management computer CD in the mail this week. The CD was prepared cooperatively by personnel in the Department of Agricultural Economics at Utah State University and by USDA's Risk Management Agency (RMA). The purpose of the CD is to assist Utah producers in considering all options in reducing risk on the farm or ranch. I have quickly reviewed the material on the CD and find it easy to follow and most helpful. I encourage all producers to study the material presented and explore some of the other sites that are identified on the CD.

Ten lessons systematically take producers through a series of well organized materials. Lesson 1 introduces you to the important aspects of risk management and leads to Lesson 2 which defines risk and investigates the five major sources of risk. Lesson 3 leads one through the process of strategic planning and goal setting and identifies factors that influence the goal setting process. Lesson 4 gets to the nuts and bolts of RMA insurance products and under scores the value of keeping track of actual production history (APH). Lesson 5 focuses on crop production and revenue insurance products, while Lesson 6 focuses on livestock insurance products. Lesson 7 describes production risk management options when RMA products are not available. The Non-insured Crop Disaster Assistance Program (NAP) is one that has proven beneficial to many Utah growers. Price risks for alternative crops are covered in Lesson 8 while Retained Ownership of Livestock is the focus of Lesson 9. The concluding Lesson 10 covers Drought Mitigation. I also like the glossary which helps identify the meaning of words and terms that are often new jargon for many.

We think producers of agricultural products will find the material to be valuable in managing individual operations. For those who have additional questions, you are encouraged to contact our office (752-6263) or visit with one of the extension economists at Utah State University (797-2310). If additional CD copies are needed, Bruce Godfrey (bruceg@ext.usu.edu or 797-2294) will be happy to provide them.

We are constantly being reminded of our need to be businesspeople if we are to survive volatile markets and unpredictable weather. It is also important to stay in close contact with the appropriate agents and personnel at our local Farm Service Agency office (FSA) (753-6029) to meet closing date deadlines.