

Scope, management  
selects the production  
level land



**Scope, Importance and Characters:**

The term farm Management consists of two words, ' Farm' and ' Management'. ' Farm' is a modified piece of land held or operated as a unit for the production of agricultural products. ' Management' means the art of managing the farm. It involves the process of determining how the farm unit shall be organised and operated. Management performs three unique and vital functions — (i) Management makes decisions: To make decision means to decide upon each course of action; to choose wisely among alternatives where such exist.

(ii) Management acts on decisions: After making decisions, the next step is to act, to work; the farm management selects the production level land technology and practices for products for producing and marketing the farm products. He must find and assemble all resources. (iii) Management takes Financial: Responsibility: The financial responsibility involves assembling. Using and maintaining the farm resources. Farm management is concerned with decision making.

The main decisions of agriculture business which will maximise the returns to the resources used in the farm business are; 1. What to produce? It decides which products to produce and shows the product-product relationship. 2. How to produce? It relates to choosing the most effective method of producing a given quantity of a particular product. It shows the factor-factor relationship. 3. How much to produce? (Factor- Product-Relationship).

It relates to the problems in converting the several farm resources into the final farm product. 4. Time relationship: It shows the relationship between <https://assignbuster.com/scope-management-selects-the-production-level-land/>

the time that farmer makes investment of capital and that later date when this investment returns the physical production. Scope of Farm Management: The study of farm management comes under microeconomics. The subject of farm management covers selection, size and appraisal of farm, appraisal of farm resources, investment decisions, enterprise relationships, planning the crops, farm labour and livestock, farm power machinery and equipment, costs returns on individual enterprises, complete budgeting, risk and uncertainty and marketing of farm produce. Nature of Farm Management: Farm management is both pure and an applied. It is pure science. It is pure science because it deals with the collection, analysis and explanation of facts and the discovery of principles, it is an applied science because the ascertainment and solution of farm problems are within its scope.

The study of farming from the point of view of art would involve a careful examination of the thought, process and skill used by farmers in farming. Thus farm management is both a science and an art. Limitations: The limitations of the farm management are: (i) Small size of farm business: Due to fragmentation and subdivision of holding the average size of operational holdings is very small. (ii) Inadequate capital: It is the most serious problem in agriculture. The farmers do not get adequate and timely financial aid from the institutional agencies. (iii) Slow adoption of new technology: The farmers do not get eager to adopt new technology, because it requires heavier inputs such as more fertilizers, timely irrigation, high yielding varieties of seeds and plant protection measures etc.

(iv) Under-employment: Under-employment reduces efficiency and

productivity of rural people. Small size of operational holding, more family  
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labour supply and seasonal nature of agricultural production are the source of the causes of underemployment in farming. (v) Managerial problems: The illiterate farmers face difficult problems in managing the farm. Their managerial skill is very poor. Economic Principles Applied to Farm Management: The economic principles applied to farm management have been developed directly or indirectly from the fundamental concepts and laws of economics. The economic science plays a very important part in all decisions of farm management. They are applicable to crop production, livestock production, machinery, farm buildings, labour and farm practices and production in general. The most important principles that help the farmers in making the choice and decisions to all phases of farming are: 1.

The Law of Diminishing Returns: It is physical law of fundamental importance in organising and operating the farm business. It is an important guiding factor in farming to decide the level at which a farmer can increase the output. It is practical experience of every farmer that after a certain stage in cultivation, the application of successive doses of labour and capital to a given area of land does not bring about much return as the previous dose. Additional dose of labour and capital applied to the same place gives diminishing returns. This tendency is known as the law of Diminishing Returns. Prof.

Marshall has given three conditions which may delay the operation of the law in agriculture. 1. Improvement in the art (technique) of agriculture.

2. Increase in the efficiency or skill of the farmer. 3. Such precious doses of labour and capital applied to land that more than a proportional return is obtained from their increased application.

The following table will illustrate principle of diminishing returns. It is clear from the above table that as the units of inputs is increasing the marginal physical product increases upto 3rd unit of input, after that it becomes constant and from 4th unit the marginal physical product starts decreasing, it becomes negative on 7th unit of input. To find out optimum level of output it is essential to change the physical units of input and output.

The economic point will be where marginal revenue and marginal cost are equal. In the above table 5th unit is the optimum level from the economic point of view. 2. Cost Principle: This principle is of great importance in making decisions of farm business. Cost in general, refers to the expenses incurred on productive services and physical productivities are guided by the cost of various input factors. Mainly cost are of two types.

(i) Fixed Cost: Fixed costs present farming expenses of an overhead nature and do not change with the output, e. g., interest on fixed capital, depreciation, revenue etc. (ii) Variable Cost: It varies with the level of output. It includes changes of hired human labour, seed, fertilizer, irrigation, insecticides and pesticides etc. There are seven costs of production.

(a) Total Variable Cost (TVC): It is obtained by multiplying the amount of variable input by the price per unit in input. (b) Average Variable Cost (AVC): It is computed by dividing total variable costs by the amount of output AVC

varies with the level of production. =  $TVC / \text{Output}$  (c) Marginal Cost (MC):

MC is the change in total cost as related to change in output.

= ?  $\Delta C / \Delta Y$  The marginal or added cost of each unit of output is important in determining how far we should push producing and how much of the various resources we should use. (d) Total Fixed Cost: Total fixed cost shows the sum of expenditures which will be incurred irrespective of the output. (e) Average Fixed Cost: It is the sum of total fixed cost and total variable cost.  $TC = TFC + TVC$  (g) Average Total Cost: It is worked out by dividing TC by output.  $\bar{C} = TC / \text{Output}$  3. The Law of Comparative Advantage: The law of comparative advantage helps to explain regional specialization.

Farmers tend to produce those items which give more income at a lowest relative cost. With the income, they buy the items needed for production and for living which are produced at lowest relative cost in other areas. In short, specialised and diversified farming are based on this principle. 4. The Law of Equimarginal Returns: Equi-means 'equal' and marginal means additional or incremental. The law states that profit will be greatest if each unit of labour, capital and land is used where it adds the most to the return. The table below illustrates this principle. Added or Marginal Returns to Capital on Three Enterprises

Enterprises	Marginal returns	Amount of capital used (Rs.)
Vegetable and		
crops	1000	1500
Dairy	1400	1250
Poultry	2000	1250
	1250	1100
	3000	1200
	1000	1050
	4000	1100
	950	950
	5000	1000
	900	950
Total returns	Form	Rs. 5000.
	0060	5055
	0052	50
Net profits	1050	500250
Average Return	/Rs.	1211.

)Vegetable and

cropsDairyPoultry10001500140012502000125012501100300012001000105

04000110095095050001000900950Total returns Form Rs. 5000.

00605055005250Net profits1050500250Average Return/Rs. 1211.

101. 05 In the above table, if we examine average return only, our advice to the farmer would be to produce only vegetable crops. By investing Rs. 5000 he will get Rs. 1050 as net returns.

But let us apply principle of equimarginal return for addition of resources. The farmer should apply Rs. 2000 on vegetable and crop, Rs. 2000 on dairy farming and Rs. 1000 on poultry keeping to get total returns of Rs. 6650 and net returns of Rs. 1650. 00.

5. The Law of Substitution: The principle which helps selection from a number of alternatives is called law of Substitution. According to this law the least cost combination of inputs or practices is obtained when the inputs or practices replaced is equal to the value of the input or the practice added.

Procedure for finding out least cost combination — 1. Computation of Marginal Rate of Substitution (MRS) by dividing the number of units of the replaced input ( $x_1$ ) by the number of units of added input ( $x_2$ ). Substitution Ratio = No.

of units of replaced input / No. of units of added input Symbolically it may be expressed as  $MRS = \frac{X_1}{X_2}$  Where  $X_1$  is being replaced by  $X_2$ . 2.

Computation of price ratio by dividing the price of added input ( $P_{x2}$ ) by the price of the replaced input ( $P_{x1}$ ). Thus price Ratio = Price of added input / Price of replaced input Price Ratio =  $P_{x2} / P_{x1}$  Where  $x_1$  is replaced by  $x_2$ . 3. Calculation of least cost combination by equating  $(MRS) = \frac{x_1}{x_2} = \frac{P_{x2}}{P_{x1}}$

**Farm Planning:**

Definition: It is a process of making decisions regarding the organisation and operation of a farm business.

Merits of Farm Planning 1. Income Improvements: Income maximizations could be achieved from a given resources by reorganising present type of production activities as well as introducing changes in technology. 2.

Educational Process: Farm planning is an educational tool to bring about change in the outlook of the cultivators and the extension workers. 3.

Desirable Organizational Changes: Farm planning introduces desirable changes in farm operations and makes a farm a viable unit. 4. To Farmers: i. It helps him to examine carefully his existing resource situation and past experiences as a basis for decision. ii. To make rational decisions on what to do. iii.

To find out the credit needs. iv. To gives him an idea of the expected income after paying off his loans. Characteristics of a Good Farm Plan: 1.

It should provide for efficient use of farm resources such as labour power and equipment. 2. Crop plan should have balanced combination of enterprises. 3. Avoid excessive risks. 4.

Provides flexibility. 5. Utilize farmer's knowledge, training and experience and take account of the farmer's likes and dislikes.



**Farm Budgeting:**

Definition: Farm budgeting is a method of analysing plans for the use of agricultural resources by the decision maker.

Types of Farm Budgeting: (a) Partial Budgeting: Partial Budgeting is a estimation of returns and expenses for a single enterprise or specific part of entire farm unit. e. g. Poultry unit (or) particular crop or one (or) few activities. i.

It used as an aid in full budgeting. ii. It used to estimate the effects or outcomes of possible adjustments in the farm business before such adjustments are actually made. (b) Enterprise Budgeting: i.

It is used to estimate input required, costs involved, and expected returns from a particular enterprise. ii. It is used to aid in selection of inputs and enterprises consistent with the resources available and to show combinations that will increase income from the farm business. (c) Complete (or) Total Budgeting: i. It involves estimation of returns and expenses for the entire farm as a single unit.

Evaluates all enterprises of the farm i. e., crops, livestock, labour, machinery, buildings, managerial ability to obtain an overall financial picture of a farm.

ii. Process by which the farmer readjusts his resources to his long run objectives and opportunities. iii. Farmers make both long run and short run or annual budget plans.

Merits of Complete Budgeting: i. Brings about progressive changes in income. ii. Takes care of all factors affecting farm income. Differences between partial budgeting and complete budgeting Partial Budgeting: 1. It considers a few alternatives. Complete Budgeting: 1.

In considers all alternatives. 2. Do not affect the organization vitally. 2. Affects the organization.

3. Easy and simple it requires less time and efforts. 3. It requires more time efforts and more data in accurate form. 4. It estimates only the changes in costs and returns associated with variations in organization and operation. 4. It involves estimating the results of a particular organisation and operation of a farm.

iii. Resources and enterprises are considered simultaneously. Steps in Farm Planning and Farm Budgeting 1.

Inventory of limited resources: Prepare a complete list of the farm resources which limit the size of the different farm enterprises. 2. Examine the Existing Farm Planning: Full information on how each resource is being utilized and what are the outputs obtained from various enterprises adopted on the farm. 3. Locate the Weakness of the Present Plan: Careful analysis of the resource use in the existing plan will throw up the imbalances.

The various weaknesses in the existing plan will act as guidelines for bringing about improvements in the alternative plan. 4. Prepare the alternative plane: Within the framework of resource restrictions and keeping

in view the weakness of the existing plan the alternative plans are developed.

5. Analysis of the alternative plans: New plans are analysed for costs and returns and the optimum plan which promises the highest returns (to fixed resources) is selected. 6. Implementing the plan: i. There may be certain difficulties in implementing the plan, unless all the problems are properly anticipated. ii. Good plan must provide for flexibility.

### **Types and Systems of Farming:**

Based on factors like crop and live stock raising and mode of social and economic planning, farming is classified into. I. Types of Farming: When farms in a group are similar in the kinds and proportion of the crops and live stock that are produced and methods and practices followed in production. II.

Systems of Farming: Combination of products on a given farm and the methods or practices that are used in the production of the product. I. Types of Farming: 1. Specilised Farming: 50% or more of income derived from single source. In these areas where special market outlets and fairly uniform economic conditions for a long period are present.

2. Diversified Farming: No single product source income equals as much as 50% of the total Receipts. Farmers depend on several sources of income. 3. Mixed Farming: Combination of crop production with particular amount of livestock raising.

4. Ranching: Livestock grazes on natural vegetation and multiply under natural surroundings. Ranch land not used for cultivation. 5. Dry Farming: Dry areas with less than 20 inch rainfall dry farming is practised.

No irrigation is provided. Farming predominantly rainfed. II. Systems of the Farming: 1. Co-operative Farming: All or part of agricultural operations carried out jointly by the farmers on a voluntary basis. Farmer retains the right of his own land.

Lind would be treated as one unit after pooling their land, labour and capital.

2. Collective Farming: Members surrender their land and livestock to the society. Members work together under management committee elected by themselves. Committee directs matters of allocation of work, distribution of income. 3. Capital Farming: Based on capitalistic methods.

In India practised in commercialised agriculture areas where farm production is profit and market oriented. 4. State Farming: Farms managed by government officials. Workers paid weekly or monthly based wages.

In India all state farms are governed by State Farm Corporation. 5. Peasant Farming: Agriculture practices followed in their own way. Entire farm family making and executing the decisions of farming programme.