

Glossary

Assets	Items of capital owned by the farmer.
Capital	Items produced as a result of “human effort”.
Cash flow	The flow of money into the farm from sales and the flow of money out of the farm through purchases.
Competitive enterprises	Farm enterprises for which the output level of one can be increased only by decreasing the output level of the other.
Complementary enterprises	Enterprises for which increasing the output level of one also increases the output level of the other.
Cost of capital	Payment of interest for capital investments.
Demand	The amount buyers are willing to buy at a particular price.
Depreciation	The loss of value of an asset over time, either because it is being used or because it will eventually become obsolete.
Efficiency	The wise use of the resources available to the farmer.
Factors of production	The resources needed for production.

Farm enterprises	The range of products produced on a farm.
Farm profit	The money left after the variable costs and the fixed costs have been paid.
Fixed costs	Costs that do not vary with changes in production.
Gross margin	A measure of what the enterprise is adding to farm profits. The gross margin for a crop or livestock product is obtained by subtracting the variable costs from the value of production.
Inputs	Items that are used for production.
Investment	Money used to purchase a capital item that provides future benefits.
Labour	The work of farmers, their family and hired labourers; human effort.
Market	A place where the exchange of products for money takes place.
Market price	The price that both the buyer and the seller are willing to accept for the product that is being exchanged for money.

Marketing	A process by which produce produced by farmers reaches consumers.
Natural resources	“Gifts of nature”, including land, water, soil and rainfall.
Net farm family income.	The net farm income after taking into account the cost of family labour used to generate it.
Opportunity cost	The income that could be received by employing a resource in its most profitable alternative use.
Outputs	The crops and livestock produced.
Production function	The relationship between inputs and outputs.
Rate of return	The increase in profit as a percentage of the capital cost of the investment required to increase the profit.
Risk	A situation in which more than one possible outcome exists, some of which may be unfavourable.
Salvage value	The market value of a depreciable asset at the time it is sold or removed from service.



Supplementary enterprises

Farm enterprises that use resources that might otherwise not be used “supplement” one another. An example of a supplementary enterprise is intensive livestock such as poultry or pig – that has no significant demand on land as a resource.

Supply

The amount that farmers are prepared to sell at a particular price.

Value of production

The money received from the sale of produce together with the value of produce that is consumed and stored.

Variable costs

Costs that vary according to the size of an enterprise and the amount of inputs used.

Working capital

Working capital consists of the money needed to buy stocks of inputs and materials and items of expenditure paid in advance of income earned.

The following is a list of the booklets in the
FARM MANAGEMENT EXTENSION GUIDE series:

Economics for
MARKET-ORIENTED FARMING
2008, 90pp.

MANAGING RISK in farming
2008, 107pp.

In preparation

FARM BUSINESS ANALYSIS
using benchmarking

Proposed

The role of the specialist in
FARM MANAGEMENT ADVISORY SERVICES

These publications are available from the
Agribusiness and Finance Group of the
Rural Infrastructure and Agro-Industries Division (FAO).
Suggestions for further publications are welcome.

For further copies of this publication
and for information on FAO's activities
related to farm management
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This guide has been prepared for agricultural extension workers to introduce them to some of the principles of economics that are relevant to smallholder farming and in particular market-oriented farming. The reader will gain a basic understanding of some of the terms and concepts used in economics and relate them to the day-to-day decisions that farmers make. The aim of this guide is to build skills that will enable extension workers to assist farmers make the kinds of farm management decisions that lead to greater farm profitability.

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