AEC 841 - ANALYSIS OF FOOD SYSTEM ORGANIZATION AND PERFORMANCE

Course Web Site:  [http://www.msu.edu/course/aec/841/](http://www.msu.edu/course/aec/841/)
See also the Course Angel Site at [angel.msu.edu](http://angel.msu.edu) (for those enrolled in the class)

Summer Semester, 2008
M,W 10:20-11:40, Room 48 Agriculture Hall

Instructor: John Staatz (staatz@msu.edu)
Department of Agricultural, Food & Resource Economics
205 Agriculture Hall (5-1519)

Secretary: Pat Neumann, 219 AGH (2-0848)
(e-mail: neumannp@msu.edu)

Office Hours: Monday & Wednesday, 1:30-2:30 and by appt.

COURSE OBJECTIVES

1. To help students develop a conceptual framework and analytical approaches to understand the relationships between market structure, organizational rules, and food system performance in low-, middle- and high-income countries.

2. To increase students' familiarity with agricultural marketing institutions, market processes, and issues of organization, control and public policy.

3. To help students get to know agricultural marketing as a subject matter area in agricultural economics.

FORMAT

The course is organized as a lecture/discussion, with emphasis on a Socratic approach. You should therefore do the assigned readings prior to the class in which they will be discussed, as you are likely to be called upon, and class participation is an important dimension of the course. In the lectures and discussion, we will cover conceptual and analytical approaches as well as case studies that apply the concepts in both industrialized and developing countries. We will also have occasional outside speakers.

PREREQUISITES

Students should have taken courses covering basic economic theories of pricing and competition (EC 301 or equivalent; AEC 805 is preferable). Students without this background should consult the instructor.
READING LIST

The reading list includes both assigned and optional material. For special discussion sessions, there may be additional readings that will either be posted on the course Angel site or made available in hard copies.

Required Texts:


Caves, Richard. *American Industry: Structure, Conduct, Performance*. NOTE: Editions 6 or 5 are fine and are much cheaper (available on-line) than the current 7th Edition.

Additional readings will be posted on the course Angel site.

Recommended Text (available for free):

Schertz, Lyle P. and Lynn M. Daft. *Food and Agricultural Markets: The Quiet Revolution*. Washington; USDA, ERS, and the National Planning Association, 1994–Copies of this book, which is out of print, will be distributed to students on a CD, which will also contain some other course readings.

Useful Web Sites—See the set of links listed on the course website (http://www.msu.edu/course/aec/841/).

WRITTEN ASSIGNMENTS

Written assignments include:

• Weekly 1-page summaries and analyses of materials covered in class.

• A 10-15 page (double-spaced) research paper that requires you to apply concepts from the course to analyzing some aspect of food system performance (see below).

• A peer review of one of your colleagues’ draft research paper.

In addition, there will be a midterm and a final exam.

RESEARCH PAPER

In order to apply some of the concepts explored in this class, written assignments include a 10 to 15-page (double-spaced) paper. It can be: (a) a critical appraisal of a dissertation or other major study of some aspect of food system performance, (b) a research proposal that outlines a plan for
an empirical study of an important issue in a particular subsector or industry in the food system, or (c) an analysis, using concepts from the course, of a particular issue of food system performance in an industry or subsector with which you are familiar. The main objective of the paper is to give you an opportunity to apply concepts from the class to analyze a particular problem of your choosing.

Ideally, students will select a subsector or industry relevant to their possible Plan B, thesis, or dissertation topic. The weekly 1-page summaries can provide a foundation for this paper. By highlighting key issues relevant to your chosen subsector or industry, the weekly summaries can provide the ideas and preliminary analysis for this paper. You should choose the topic for your longer paper early, as this will let you use the one-pagers as raw material for the longer paper. You need to select a paper topic by June 18, but should do so earlier if possible. The instructors will be happy to discuss potential topics with you and provide lists of dissertations and other studies for those wanting to a critical appraisal.

A first draft will be due on July 14. You will exchange drafts with one of your colleagues, who will prepare a 2-3 page peer review of it. You will then revise the paper based on the comments received. The final version of the paper will be due July 28. A statement summarizing your topic (less than one page) is due on June 18.

**GRADE TO BE DETERMINED AS FOLLOWS**

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<th>Percent</th>
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<tbody>
<tr>
<td>Weekly 1-page summaries and analyses</td>
<td>15</td>
</tr>
<tr>
<td>Midterm exam</td>
<td>20</td>
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<tr>
<td>Research paper</td>
<td>25</td>
</tr>
<tr>
<td>Peer Review of Colleague’s Paper</td>
<td>10</td>
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<tr>
<td>Discussion/Group participation</td>
<td>10</td>
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<tr>
<td>Final exam</td>
<td>20</td>
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<td>TOTAL</td>
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**Late Papers:** The grade on late papers, both the weekly summaries and the research design, will be reduced by .5 of a grade point (on a 4.0 scale).

**Plagiarism**

University policy and basic academic standards require that you give appropriate credit to the sources you use for your papers and avoid copying material from another author without clearly indicating that it is a quote (including indicating the source). Failure to indicate such sources constitutes plagiarism, defined as “the appropriation of another person’s ideas, processes, results or words without giving appropriate credit”([http://www.msu.edu/unit/ombud/plagiarism.html](http://www.msu.edu/unit/ombud/plagiarism.html)). Failure to provide appropriate attribution to your sources is a violation of the University’s policy on Research Integrity, as outlined in the Department’s Graduate Program and Policy Handbook ([http://www.aec.msu.edu/agecon/grad/gradpol.htm#research20integrity](http://www.aec.msu.edu/agecon/grad/gradpol.htm#research20integrity)). It will result in a
failing grade on the assignment. If you have any questions about plagiarism, please review the two websites mentioned above and discuss the issue with the instructors.

**KEY DATES:**

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
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<tbody>
<tr>
<td>Wednesday, June 18</td>
<td>Final date for submitting statement on research paper</td>
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<tr>
<td>Wednesday, June 25</td>
<td>Midterm exam</td>
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<tr>
<td>Monday, July 14</td>
<td>Exchange draft paper with reviewer</td>
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<tr>
<td>Monday, July 21</td>
<td>Peer review due</td>
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<tr>
<td>Monday, July 28</td>
<td>Research paper due</td>
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<tr>
<td>July 28-30</td>
<td>AAEA meetings (no class this week)</td>
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<tr>
<td>Wednesday, August 6</td>
<td>Final exam</td>
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2008 Topic Outline of AEC 841

I. Introduction
   A. Scope of the Course
   B. How does the system get coordinated? The Nature of Markets and Marketing; Markets and Other Coordinating Processes
   C. Recent Evolution of World Food System
      1. Evolving Nature of Demand: From Commodities to Attributes
      2. Changing Technology (information, biotechnology, processing)
   D. Marketing as a Field of Study

II. Food System Organization and Economic Development

III. Elements of a Conceptual Framework for Analyzing Food System Organization and Performance
   A. The Food Systems Framework
   B. The I-O /SCP Framework of Analysis
      1. Structure
      2. Conduct
      3. Performance; Empirical Testing of the SCP Model
   C. New Empirical Industrial Organization - Theory & Methods
   D. The Subsector and Value Chain approaches, with emphasis on:
      1. Vertical coordination
      2. Price Discovery
      3. Transaction costs and the choice of coordination arrangements
      4. Contracting
      5. Implications of Transaction-Cost Analysis for Industrial-Organization Policy

IV. Applications of the Framework
   A. Subsector and Value Chain Case Studies
   B. Assessing Selected Dimensions of Food System Performance
      1. Globalization & Intercommodity Linkages—e.g., Food & Fuel
2. Role of Biotechnology in the Food System
3. Greening of the Food System: Food System Organization & the Environment

C. Market Regulation and Facilitation
   1. Market Regulation: Conceptual Issues and Historical Experience
   2. Control and Use of Information
   3. Collective Action in the Food System (Cooperatives, Professional Associations, Marketing Boards and Orders, etc.)
   4. Food Safety & Health (Obesity)

D. Non-Market Food Distribution/Safety Nets

V. Course Wrap Up
### Tentative Schedule

**AEC 841**  
**Summer, 2008**

<table>
<thead>
<tr>
<th>Date</th>
<th>Topic</th>
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<tbody>
<tr>
<td>Monday, May 12</td>
<td>Introduction &amp; Course Organization; Markets and other Coordinating Processes; Market Failure and Government Failure</td>
</tr>
<tr>
<td>Wednesday, May 14</td>
<td>Markets and other Coordinating Processes; Recent Evolution of the World Food System; Evolving nature of demand and changing technologies; Video on driving forces in the Michigan Food System</td>
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<tr>
<td>Monday, May 19</td>
<td>Evolution of agricultural markets, market policy &amp; market analysis in the US; Markets &amp; Development</td>
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<tr>
<td>Wednesday, May 21</td>
<td>Markets, Food System Evolution, and Economic Development</td>
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<tr>
<td>Monday, May 26</td>
<td>Memorial Day–no class</td>
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<tr>
<td>Wednesday, May 28</td>
<td>Markets, Food System Evolution, and Economic Development</td>
</tr>
<tr>
<td>Monday, June 2</td>
<td>The Food Systems Framework; Introduction to the Industrial Organization (I-O) framework</td>
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<tr>
<td>Wednesday, June 4</td>
<td>The I-O/SCP Framework: Structure; The I-O/SCP Framework of Analysis/Conduct and Performance</td>
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<tr>
<td>Monday, June 9</td>
<td>The I-O/SCP Framework of Analysis/Conduct and Performance</td>
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<tr>
<td>Wednesday, June 11</td>
<td>The I-O/SCP Framework of Analysis/Performance and Empirical Applications; Introduction to the New Empirical Industrial Organization</td>
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<tr>
<td>Monday, June 16</td>
<td>New Empirical Industrial Organization - Theory &amp; Methods</td>
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<tr>
<td>Wednesday, June 18</td>
<td>Subsector &amp; Value Chain Approaches/Vertical Coordination; Research paper statement due</td>
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<tr>
<td>Monday, June 23</td>
<td>Transaction Cost Approach and Contracting</td>
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<tr>
<td>Wednesday, June 25</td>
<td>MIDTERM EXAM</td>
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<tr>
<td>Monday, June 30</td>
<td>Subsector and Value Chain Case Studies (video)</td>
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<td>Date</td>
<td>Topic</td>
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<tr>
<td>Wednesday, July 2</td>
<td>Subsector and Value Chain Case Studies</td>
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<tr>
<td>Monday, July 7</td>
<td>Globalization &amp; Intercommodity Linkages: Food &amp; Fuel</td>
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<tr>
<td>Wednesday, July 9</td>
<td>Biotechnology &amp; the Food System</td>
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<tr>
<td>Monday, July 14</td>
<td>Greening of the Food System Organization &amp; the Environment; Draft of term papers due; Exchange papers with peer reviews</td>
</tr>
<tr>
<td>Wednesday July 16</td>
<td>Regulation of the Food System; Information issues in the food system.</td>
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<tr>
<td>Monday, July 21</td>
<td>Collective Action in the Food System: Cooperatives and Marketing Orders; Peer reviews due</td>
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<tr>
<td>Wednesday, July 23</td>
<td>Coordination in the seed industry (Gary Brinkman, Pioneer Hi-Bred International).</td>
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<tr>
<td>Monday, July 28</td>
<td>AAEA meetings, no class. Revised Term Papers Due (submit electronically)</td>
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<tr>
<td>Wednesday, July 30</td>
<td>AAEA meetings, no class</td>
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<tr>
<td>Monday, August 4</td>
<td>Food Safety; Non-market Food Distribution/Safety Nets; Course wrap-up</td>
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<tr>
<td>Wednesday, August 6</td>
<td>Final Exam</td>
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AEC 841--READING LIST
Summer 2008

1. Available to download from electronic source as noted. If no source is noted, then article is available via the MSU Library Electronic Resources (http://er.lib.msu.edu/)
2. Course Angel site
3. Available from Patricia Neumann, 219 Agriculture Hall
4. Required Text
5. Optional Text
6. Main Library, Regular Collection
7. Class Handout
8. Available from Instructor
9. Cook Hall Reading Sets
10. On Course CD (handed out at beginning of course)

I. INTRODUCTION

Markets and Other Coordinating Processes
Recent Evolution of the World Food System–The Evolving Nature of Demand: From Commodities to Attributes; and Changing Technologies
Marketing as a Field of Study

McMillan, Chapters 1-2


Jean D. Kinsey, “The Big Shift from a Food Supply to a Food Demand Chain.” Minnesota Agricultural Economist no. 698 (Fall, 1999). (2)

Optional Readings

Schertz and Daft, Introduction and Chapters 1-3. (10)


II. FOOD SYSTEM ORGANIZATION AND ECONOMIC DEVELOPMENT

McMillan, Chapters 16, 3 (4)


Optional Readings


Chapter 1, pp. 1-11
Chapter 5, pp. 83-110, and especially, Figure 5.1
Chapter 6, pp. 111-130


III. CONCEPTUAL FRAMEWORK

A. The Food Systems Framework


Section 3.1, "Sector Analysis", pp. 7-12.
Section 3.2.2, "Description and Analysis: The Food System Matrix", pp. 16-21.

B. The I-O/SCP Framework

1. Structure


McMillan, Chapter 8 (4)

2. Conduct


McMillan, ch. 14, 9. (4)

Optional Reading


3. Performance; Empirical Testing of the SCP Model


Optional Readings


C. New Empirical Industrial Organization - Theory & Methods


Optional Reading:


D. Subsector & Value Chain Approaches/Vertical Coordination & Price Discovery


GTZ, Value Chain Analysis and “making markets work for the poor” (M4P): Poverty reduction through value chain promotion. Draft report, Eschorn, Germany, 2006. (2)

McMillan, Chapters 6-7 (on auction markets). (4)

Optional Readings


  Introduction, pp. xxxi-xxxvi.
  Part II, Chapter 2, Chapter 3 plus pp. 185-196, 418-31 and 450-52. (6)

E. Transaction Cost Approach and Contracting

McMillan, Chapter 5 (4)


Alan Barkema, Mark Drabenstott and Mike Cook. "The Industrialization of the U.S. Food System." Chapter 1 in Food and Agricultural Marketing Issues for the 21st Century. (2)


Optional Reading


**MIDTERM EXAM–WEDNESDAY, JUNE 25**

**IV. APPLICATIONS OF THE FRAMEWORK**

**A. Subsector, Value Chain, and Industry Studies**

In-class video of Thai silk subsector


Skim summary of discussion on how to carry out value chain analysis at the *Focal Point for Rural Development* website: 


**Optional Readings**


Schertz and Daft, Chapters 6, 9. (10)


**B. Assessing Selected Dimensions of Food System Performance**

1. **Globalization & Intercommodity Linkages: Food & Fuel**

Readings to be announced
Optional Readings

MSU Agricultural Economics Staff Paper no. 92-26, April, 1992.  

Ian M. Shelton and Philip C. Abbot, eds.  Industrial Organization & Trade in the Food 

Schertz and Daft, Chapter 11  

Dennis R. Henderson, Charles R. Handy, and Steven A. Neffs, eds.  Globalization of 
the Processed Foods Market.  USDA. ERS. Agricultural Economic Report no. 742. 

Ian M. Sheldon and Dennis R. Henderson, eds.  Industrial Organization and 
International Trade: Methodological Foundations for International Food and 
Agricultural Market Research.  NCR-194 Research Monograph no. 1.  Columbus, 

2. Role of Biotechnology in the Food System  

Schertz and Daft, Chapter 12.  

Choices, Selected articles from Spring 2002 issue on biotechnology, pg. 6-21, 31-33, 39-42  

3. Greening of the Food System: Food System Organization & the Environment  

School Case no. 794-128 (1994)  

Other Readings to be announced  

C. Market Regulation and Facilitation  

1. Market Regulation: Conceptual Issues & Historical Experience  

McMillan, Chapters 10, 11, 12, 17.  


James Shaffer. "Observations on the Political Economics of Regulations."  
Available via JSTOR (http://www.jstor.org)
Optional Readings


Schertz and Daft, Ch. 4, 17.


2. Control and Use of Information

Schertz and Daft, ch. 20.


Kenneth C. Clayton and Barbara A. Caffey. "No News is Bad News...For Markets." Choices, Fourth Quarter, 1993, pp. 18-20.


Optional Readings


3. Collective Action in the Food System: Cooperatives, Marketing Boards, and Professional Associations


Optional Readings


4. **Food Safety & Health (Obesity)**


**Optional Readings**


Schertz and Daft, Ch. 18.

**D. Non-Market Food Distribution/Safety Nets**


Look at the material on US food assistance programs at the USDA’s Food and Nutrition Service’s website: [http://www.fns.usda.gov/fns/](http://www.fns.usda.gov/fns/) (1)
**Optional Reading**


**E. Course Wrap-up**

**Required Reading**

McMillan, Chapter 17. (4)

**FINAL EXAM: Wednesday, August 6, 10:20 - 11:40**