ESSAYS ON FRESH VEGETABLE PRODUCTION AND MARKETING PRACTICES

Michael Vassalos
University of Kentucky, michaelvassalos@outlook.com

Recommended Citation
Vassalos, Michael, "ESSAYS ON FRESH VEGETABLE PRODUCTION AND MARKETING PRACTICES" (2013). Theses and Dissertations--Agricultural Economics. 12.
https://uknowledge.uky.edu/agecon_etds/12

This Doctoral Dissertation is brought to you for free and open access by the Agricultural Economics at UKnowledge. It has been accepted for inclusion in Theses and Dissertations--Agricultural Economics by an authorized administrator of UKnowledge. For more information, please contact UKnowledge@lsv.uky.edu.
STUDENT AGREEMENT:

I represent that my thesis or dissertation and abstract are my original work. Proper attribution has been given to all outside sources. I understand that I am solely responsible for obtaining any needed copyright permissions. I have obtained and attached hereto needed written permission statements(s) from the owner(s) of each third-party copyrighted matter to be included in my work, allowing electronic distribution (if such use is not permitted by the fair use doctrine).

I hereby grant to The University of Kentucky and its agents the non-exclusive license to archive and make accessible my work in whole or in part in all forms of media, now or hereafter known. I agree that the document mentioned above may be made available immediately for worldwide access unless a preapproved embargo applies.

I retain all other ownership rights to the copyright of my work. I also retain the right to use in future works (such as articles or books) all or part of my work. I understand that I am free to register the copyright to my work.

REVIEW, APPROVAL AND ACCEPTANCE

The document mentioned above has been reviewed and accepted by the student’s advisor, on behalf of the advisory committee, and by the Director of Graduate Studies (DGS), on behalf of the program; we verify that this is the final, approved version of the student’s dissertation including all changes required by the advisory committee. The undersigned agree to abide by the statements above.

Michael Vassalos, Student

Dr. Carl Dillon, Major Professor

Dr. Michael Reed, Director of Graduate Studies
ESSAYS ON FRESH VEGETABLE PRODUCTION AND MARKETING PRACTICES

DISSERTATION

A dissertation submitted in partial fulfillment of the requirements for the degree of Doctor of Philosophy in the College of Agriculture at the University of Kentucky

By
Michael Vassalos
Lexington, Kentucky

Director: Dr. Carl Dillon, Professor of Agricultural Economics
Lexington, Kentucky
2013

Copyright © Michael Vassalos 2013
Commercial fresh vegetable production is one of the most rewarding and risky farming activities. The price and yield variations throughout the production year, the special characteristics of fresh vegetable produce (i.e. perishability), and the changing consumer demands are some of the factors contributing to the increased uncertainty faced by vegetable producers.

This dissertation combined mathematical programming and econometric techniques to:
1) investigate the optimal production and marketing practices under different price distribution information scenarios, risk aversion levels and marketing outlets and
2) examine growers’ preferences as well the effect of risk aversion levels and growers’ risk perception on the choice of marketing contracts.

Specifically, the following three modeling approaches were adopted in order to achieve the dissertation objectives:
1) quadratic programming under a mean-variance framework,
2) discrete choice experiments and
3) a combination of quadratic and integer programming embodied in a mean-variance framework.

The findings indicate that optimal production practices and the resulting net returns are substantially influenced not only by the choice of marketing channel but also by growers’ risk aversion levels as well as price knowledge. Furthermore, regarding the choice of marketing contracts, the results highlight the existence of heterogeneity in preferences and illustrate the importance of certification cost, in line with the previous literature. Lastly, the findings indicate that risk aversion and risk preferences do not play a significant role in the choice of contractual agreements by farmers.

KEYWORDS: Vegetable Marketing, Vegetable Production Practices, Integer Programming, Quadratic Programming, Choice Experiment, Marketing Contracts
ESSAYS ON FRESH VEGETABLE PRODUCTION
AND MARKETING PRACTICES

By

Michael Vassalos

__________________________
Director of Dissertation

__________________________
Director of Graduate Studies

April 30, 2013
ACKNOWLEDGEMENTS

It would not have been possible to complete the following dissertation without the help and support of the kind people around me, to only some of whom it is possible to give particular mention here. First and foremost, I would like to thank my Dissertation Chair, Dr. Carl R. Dillon, a gracious professor, mentor, colleague and friend. Without his guidance, help and encouragement I could not have come this far.

Furthermore, I am most grateful to my committee members: Dr. Angelos Pagoulatos, Dr. Wuyang Hu, Dr. Timothy Woods, Dr. Jack Schieffer and Dr. Timothy Coolong. Their advice, support and friendship have been invaluable on both an academic and personal level since my first day as a graduate student.

I also want to acknowledge and thank Karen Pulliam and David Reese for all their help every time I had a computer-related problem. Moreover, I would like to thank Janene Burke Toelle, Patricia Thompson and Rita Parsons for assisting me with the administrative procedures since my first day in the University of Kentucky.

In addition to the technical and instrumental assistance above, I want to thank my father, Philip Vassalos, my mother, Maria Vassalou, and my sister Georgia Vassalou for all their love, support and understanding during the long years of my education.

Last but not least, I would like to thank my friends and colleagues Kar Ho Lim, Bruce Yang, Guzhen Zhou and my office mates Pedro Miguel Fernandes da Costa and Vivian Li for all their help and support.
Table of Contents

Acknowledgements ........................................................................................................... iii

List of Tables .................................................................................................................... vi

List of Figures .................................................................................................................. vii

Chapter 1: Introduction ...................................................................................................... 1
  1.1 Chapter Initiatives .................................................................................................. 2

Chapter 2: Optimal Land Allocation and Production Timing for Fresh Vegetable Growers
under Price and Production Uncertainty ............................................................................ 5
  2.1 Introduction ............................................................................................................ 5
  2.2 Data Collection and Yield Validation .................................................................... 8
    2.2.1 Yield Data Estimation ................................................................................... 8
    2.2.2 Yield Validation .......................................................................................... 11
    2.2.3 Economic and Resource Data Estimation ................................................... 12
  2.3 Theoretical Framework ........................................................................................ 14
  2.4 Empirical Framework .......................................................................................... 15
  2.5 Results .................................................................................................................. 20
    2.5.1 Optimal Production Management Results .................................................. 20
    2.5.2 Economic Results ........................................................................................ 22
  2.6 Conclusions .......................................................................................................... 24

Chapter 3: Fresh Vegetable Growers’ Risk Perception, Risk Preference and Choice of
Marketing Contracts: A Choice Experiment .................................................................... 35
  3.1 Introduction .......................................................................................................... 35
  3.2 Data Collection and Survey Design ..................................................................... 38
    3.2.1 Conjoint Experiment and Selection of Attributes ....................................... 40
  3.3 Econometric Models ............................................................................................ 45
  3.4 Empirical Results ................................................................................................. 47
    3.4.1 Growers’ Risk Perception, Risk Preferences and Choice of Contracts ..... 49
  3.5 Conclusions .......................................................................................................... 53

Chapter 4: Risk Aversion and Production Uncertainty as Parameters Influencing Growers
Marketing Choice: A Mathematical Programing Approach ............................................ 68
  4.1 Introduction .......................................................................................................... 68
  4.2 The Hypothetical Farm ........................................................................................ 69
  4.3 Marketing Channels ............................................................................................. 71
    4.3.1 Wholesale Market ....................................................................................... 71
    4.3.2 Contract Design .......................................................................................... 71
  4.4 Economic Model .................................................................................................. 74
  4.5 Production Environment and Biophysical Simulation Model ......................... 77
    4.5.1 Yield Estimates and Validation .................................................................. 78
List of Tables

Table 2.1: Soil Characteristics ...........................................................................................29
Table 2.2: Summary of Production Practices Used in the Biophysical Simulation Model .................................................................................................................................30
Table 2.3: Price and Yield Summary Statistics ..................................................................31
Table 2.4: Production Costs per Acre ................................................................................32
Table 2.5: Summary of Optimal Production Practices by Risk Attitude .........................32
Table 2.6: Net Returns by Risk Attitude ..........................................................................34
Table 3.1: Registered Commercial Tomato Growers and Usable Response Rate by State ....................................................................................................................................57
Table 3.2: Descriptive Statistics Associated with Commercial Tomato Growers ...........58
Table 3.3: Factors that Encourage Growers Participation in Marketing Contracts ..........59
Table 3.4: Factors that Discourage Growers From Participating in Marketing Contracts ...60
Table 3.5: Choice Based Experiment Attributes and their Levels ..................................61
Table 3.6: Main Effect Conditional and Mixed Logit Estimations ..................................62
Table 3.7: Marginal values under Mixed Logit Model .....................................................63
Table 3.8: The Payoffs and Corresponding Risk Classification .......................................64
Table 3.9: Growers’ Risk Perception: Response to Scale Questions ...............................65
Table 3.10: Mixed Logit Estimations Including Growers’ Risk Perception and Risk Preferences Interaction .............................................................................................................66
Table 3.11: Marginal Value Estimates Under Mixed Logit Models ..................................67
Table 4.1: Production Costs per Acre ................................................................................87
Table 4.2: Contract Attributes and their Levels .................................................................88
Table 4.3: Soil Characteristics ...........................................................................................89
Table 4.4: Summary of Production Practices Used in the Biophysical Simulation Model .................................................................................................................................90
Table 4.5: Summary Statistics ...........................................................................................91
Table 4.6: Net Returns Above Variable Costs ...................................................................92
Table 4.7: Summary of Optimal Production Practices by Risk Attitude .........................93
Table 4.8: Production Practices Under Contract (Risk Neutral Only) ...............................94
List of Figures

Figure 2.1: Simulated Tomato Yields ................................................................. 26
Figure 2.2: Sweet Corn Yields ................................................................. 27
Figure 2.3: Fresh Tomatoes Monthly Producer Price Index (1982=100) .............. 28
Figure 3.1: Example Choice Set ................................................................. 55
Figure 3.2: Risk preferences elicitation question ........................................ 56
Figure 4.1: Simulated Tomato Yields ................................................................. 85
Figure 4.2: Sweet Corn Yields ................................................................. 86
Chapter 1: Introduction

Successful commercial fresh vegetable production is a demanding task that requires a combination of production and marketing skills from the grower. This is a consequence of the special attributes of fresh produce. For instance, the perishability of fresh vegetables leads to fewer storage opportunities compared to other agronomic crops. As a result, growers are compelled to accept the market price close to, or during, their harvesting period. Furthermore, traditional risk mitigation options (i.e., future markets) do not exist for fresh vegetables. Thus, growers are more vulnerable to market fluctuations. Finally, growers need to operate in a changing market environment with greater demand for more varieties and quality (Dimitri et al., 2003). If the vegetable produced does not meet the required standards, then the grower has to sell at a lower price or not at all.

The aforementioned discussion illustrates the importance of selecting the most appropriate market outlet. Specifically, “which type(s) of market(s) to enter?” should be among the first decisions made by a fresh vegetable grower. Adequate examination of this topic requires consideration of several crops (herein tomatoes and sweet corn), different markets (herein wholesale or a combination of wholesale and marketing contracts), production practices (herein several transplanting/planting and harvesting periods), risk aversion levels and the competition for resources across enterprises.

Despite the extensive research regarding: i) growers’ choices under uncertainty and ii) the factors affecting the use and selection of contracts (i.e., age, education, income, etc.) the literature sheds little light on: i) the interaction of production and marketing practices and how they are influenced by risk aversion and ii) growers’
preferences for contractual agreements. The present dissertation is an effort to help fill this gap.

Specifically, the dissertation has two general objectives. First, it attempts to answer the question of optimal marketing outlet and production timing for fresh vegetable growers aiming to maximize net returns. Second, it examines how growers’ preferences, risk aversion levels and risk preferences affect their marketing choices. Two marketing options are examined in this case: 1) wholesale marketing and 2) a combination of wholesale and marketing contracts. The former has limited legal requirements from the growers. However, the prices offered are lower, compared to other options, and vary significantly throughout the production year. Participation in a marketing contract, on the other hand, is more demanding from the grower but offers more stable prices.

In order to achieve these objectives, mathematical programming and econometric techniques are employed. The present dissertation follows a three-essay format. Each manuscript can be considered as an extension of the previous one with increased complexity. Thus, although separate from each other, the three manuscripts are complementary. This approach allows the investigation of several aspects of fresh vegetable marketing and production practices. Furthermore, it enables comparison of results among different scenarios and estimation techniques. A discussion of the three manuscripts follows.

1.1 Chapter Initiatives

The second chapter has two main objectives. First, it investigates the effect of price variability, yield variability and risk aversion on the choice of optimal production
timing for wholesale marketing. Second, it examines the impact of price seasonality consideration on the optimal production practices and economic outcomes. The focus area is Fayette County, Kentucky (KY), one of the top vegetable producing counties in the state. Two crops are examined: 1) tomatoes and 2) sweet corn. These two are the top vegetables produced in KY both in terms of acres and number of farms. A hypothetical five-acre vegetable producer is used as the case study.

A combination of biophysical simulation and whole farm modeling is used to answer the research question. Specifically, a resource allocation mean-variance quadratic formulation is employed to examine the role of price, yield variability and growers’ risk aversion on optimal production timing. Wholesale marketing is the examined market outlet.

The focus of the third chapter shifts to grower preferences for marketing contracts. Discrete choice modeling is employed to answer this research question. The main data source is a mail survey administered to 315 wholesale tomato growers in four states: 1) Illinois, 2) Indiana, 3) Kentucky and 4) Ohio. The effect of eight contract attributes (early price, peak price, late price, early volume requirements, late volume requirements, peak volume requirements, penalty, 3rd party safety cost), as well as the role of growers’ risk aversion and risk preferences, are examined.

The fourth chapter provides a synthesis of the previous two under a mathematical programming formulation. Specifically, a combination of quadratic and integer programming, embodied in a mean-variance framework, is employed to examine the role of growers’ risk aversion in the choice of optimal marketing mix. More precisely, growers’ preferences between two marketing options (wholesale marketing versus a
A combination of wholesale marketing and marketing contracts) under ten risk aversion levels are examined. Additionally, alterations in production practices required under the different market outlets and risk aversion levels are examined.

The final chapter of the dissertation provides a summary and discussion of the findings and methods used. Furthermore, the chapter discusses areas for future research.
Chapter 2: Optimal Land Allocation and Production Timing for Fresh Vegetable Growers under Price and Production Uncertainty

2.1 Introduction

Growers’ decisions (i.e. choice of inputs, land allocation, production mix, etc.) in the uncertain environment created by production and price variability are a subject that has attracted scholars for more than five decades. Mapp et al. (1979) and Babcock et al. (1987) provide a discussion and review of the early research endeavors in this topic. Following the work of Chavas and Holt (1990), growers’ risk behavior became an important element in the study of their allocation choices (i.e. Liang et al., 2011; Nivens et al., 2002; Wang et al., 2001).

In addition to the production and price variability, fresh vegetable growers face increased uncertainty due to the special characteristics of their product. For instance, the high perishability of most fresh produce results in limited storage opportunities; thus, the vegetable supply in the short run is highly inelastic (Sexton and Zhang, 1996; Cook, 2011). As a result, growers are compelled to accept the price during or close to the harvesting period. Consequently, plant and harvest timing plays an important role in the income received from vegetable production. Furthermore, the impact of quality on the prices of fresh vegetables should not be understated. Specifically, if the vegetable produced does not reach the quality standards expected by the buyer (i.e. consumers, retailers, intermediaries, etc.) then the growers have to accept a lower price (Hueth and Ligon, 1999).

Despite an abundance of research regarding growers’ decisions under uncertainty and the increased risk faced by vegetable growers, the literature regarding how 1)
growers’ risk aversion levels and 2) consideration of price seasonality\textsuperscript{1} impact the production decisions, particularly timing of planting and harvest, is limited\textsuperscript{2}. The research presented is an effort to fill this gap.

The objectives of this study are threefold. First, the study seeks to develop a dual crop vegetable farm model with a land allocation and production timing decision interface focusing on economic optimization. Second, it examines the effect of price/production variability and of growers’ risk preferences on their decisions regarding the optimal production practices (land allocation, transplant timing). Third, the study investigates potential alterations in optimal production practices and in the economic results with and without considering seasonal price trends, a factor that may influence growers’ production timing decisions. Mathematical programming modeling in conjunction with biophysical simulation techniques will be used to achieve these goals.

The focus area for the present paper is Fayette County, Kentucky. The following two reasons dictated the selection of Fayette County as study region: i) it is among the top vegetable producing counties in Kentucky (2007 Census of Agriculture) and ii) the abundance and availability of weather and soil data. These data are essential requirements for the biophysical simulation.

Kentucky was ranked 42 out of 50 states within the U.S.A. based on the 2010 value of farm cash vegetable receipts. However, the importance of vegetable crops in the overall agricultural economy of the state is rising. Two facts highlight the growing role of vegetable production in Kentucky. First, in contrast to the overall decline of farm numbers in the state, there is an increase in the number of farms with some type of

\textsuperscript{1} Price seasonality is defined as the price patterns occurring within a “crop marketing period”

\textsuperscript{2} A notable exception is Simmons and Pomareda (1975)

The latter fact indicates an additional opportunity for enhanced growth, since it represents a 51% increase in cash receipts per acre over a 10 year period, which annualizes to a modest growth of just over 4% annually or slightly more than the inflation rate. Looking at the demand side, the percentage of adults who consumed vegetables three or more times per day in Kentucky is higher than the national average (29.4% compared to 26%, Centers for Disease Control Prevention, 2010). This increased demand is coupled with growing interest among consumers for local products, due in part to the success of the Kentucky Proud program. These factors highlight a great range of opportunities for benefiting producers.

Tomatoes and sweet corn are the crops included in the whole farm economic model. These vegetables were selected because they are among the top vegetables produced in Kentucky, both in number of farms and in acres. Specifically, sweet corn was ranked first among vegetables in terms of acres and second in number of farms. Tomatoes were ranked first in terms of farm number and third in acres planted (2007 Census of Agriculture). In addition to their overall importance in the agricultural sector of Kentucky, tomatoes and sweet corn were selected because growers can easily rotate among them (Coolong et al., 2010).

The comparison of economic outcomes and the estimation of optimal production timing for vegetables, with and without consideration of seasonal price trends, constitute the main contribution of the study to the literature. Furthermore, it is among the first
research endeavors that utilize the Decision Support System for Agrotechnology Transfer (DSSAT) to overcome data limitations for economic studies that include multiple vegetables.

2.2 Data Collection and Yield Validation

The present section has the following three objectives: 1) discuss the biophysical simulation model used for the estimation of yield data, 2) illustrate how the biophysical simulation model was validated and 3) describe the sources of data used in the study.

2.2.1 Yield Data Estimation

One interesting strand of the applied economic/agricultural literature relates to efforts made by scholars with the goal of developing the most accurate possible model for yield forecasting. Two of the most widely cited techniques for yield forecasting are statistical regression equations and simulation methods (Walker, 1989; Kauffmann and Snell, 1997). The advantages and shortcomings of these two approaches have been widely discussed (Walker, 1989; Kauffmann and Snell, 1997; Tannura et al., 2008; Jame and Cutforth, 1996). Among the advantages of the biophysical simulation are: i) that there is no need to specify a functional form, ii) it can provide yield data for different weather and production practices, iii) the use of biological principles for crop growth and iv) the use of shorter time periods to estimate growth. However, it is more difficult to use simulation techniques for large geographical areas and there is no incorporation of historical yield data.

A lack of yield data for the examined vegetables, the need to estimate the effects of different production practices and soil types on yields, the focus on a specific geographical area and the overall objective of using these data for economic modeling

---

3 Biophysical simulation is a special case of the simulation models (Musser and Tew, 1984)
suggest the use of biophysical simulation as the most appropriate yield estimation technique for the present study (Dillon et al. 1991).

Biophysical simulation techniques have been extensively applied in the literature (e.g. Shockley et al., 2011; Deng et al., 2008; Archer and Gesch, 2003; Barham et al., 2011). Among the several biophysical models that have been developed and used, the present study will utilize the Decision Support System (DSSAT v 4.0, Hoogenboom et al., 2004; Jones et al., 2003). DSSAT was selected for the following reasons: i) it is well documented, ii) it has been used and validated in numerous studies over the last 15 years and iii) it is well suited for the present study since it incorporates modules for the two examined vegetables (tomatoes and sweet corn).

The minimum data set required in order to generate yield estimates using DSSAT include weather data, soil data and production practices information for the examined region (Fayette County, Kentucky). Daily weather data for 38 years (1971-2008)4 were obtained from the University of Kentucky Agricultural Weather Center. The data set includes information regarding daily minimum/maximum temperature and rainfall. The weather data collection was finalized with the calculation of solar radiation from DSSAT weather module.

Soil data were gathered from the National Cooperative Soil Survey of NRCS. According to the soil maps the most common soil type in Fayette County is silt loams. Following Shockley (2010), the percent slopes from the soil maps are used as a criterion for distinguishing between deep and shallow soils. Specifically, if the slope is between 0% - 6% then the soil is characterized as deep. If the slope is between 6% - 20% then the soil is characterized as shallow. Based on these scales, 65% of the land is classified as

---

4 These years of weather data were available when the biophysical model of the study was constructed
deep silt loam and 35% as shallow. Furthermore, the default soil types of DSSAT were modified to better depict the characteristics of Fayette County soil conditions. Soil color, runoff potential, drainage and percent soil slope were among the parameters modified. Table 2.1 reports the exact specifications of the used soil types. Last but not least, the seasonal analysis option of DSSAT is used for the yield simulation. Under this option the soil water conditions, nutrients and organic matter are reset to initial levels every year on January 1.

Information about the typical production practices for the vegetables considered in the study is obtained from the University of Kentucky Extension Service Bulletins (Coolong et al.; 2010). Tomatoes in the examined region are transplanted from early May (spring crop) through early August (fall crop). Regarding sweet corn, planting period extends from April 20 to July 20. In addition, 65 to 80 days after transplant and 70 to 95 days after planting are the typical harvest periods for tomatoes and sweet corn respectively. Including all the combinations of transplanting/planting days and harvesting periods requires modeling for 9,500⁵ treatments, the inclusion and evaluation of such is beyond the scope of this study. The production practices examined here included eight bi-weekly transplanting days for tomatoes (starting May 1) and ten weekly planting days for sweet corn (starting April 25). Four, weekly harvest periods for each crop were initially included in the model⁶.

---

⁵ (120 transplanting days * 15 harvesting days for tomatoes) + (120 planting days for sweet corn * 25 harvesting days) * 2 for the 2 soil types examined
⁶ 63, 70, 77, 84 days after transplant for tomatoes and 70, 77, 84 and 91 days after planting for sweet corn.
2.2.2 Yield Validation

Due to data limitations\(^7\), two non-statistical validation methods were used in the present paper. First, the estimated yields were presented to Dr. Timothy Coolong\(^8\) and he was asked whether or not they were a reasonable representation of expected yields in Central Kentucky for the crops evaluated based on his observations and experience. Some parameters of the biophysical model (i.e. fertilizer levels, irrigation, etc.) were modified based on his recommendations. For instance, based on the simulated yield results and on Dr. Coolong’s suggestions, three harvest periods (63, 70, 77 days) for tomatoes and one (84 days) for sweet corn are kept in the final model formulation\(^9\) instead of the four initially included. One cultivar was examined for each of the two crops because only one was available from DSSAT v4. Detailed information regarding the production practices included in the model is reported in Table 2.2. The simulated yields were considered higher than what an average vegetable grower can achieve but not unreasonable for the best producers. Table 2.3 reports summary statistics for the simulated yields.

Second, the simulated yields were compared with findings from previous studies. Specifically, for tomatoes, consistent with past research (i.e. Hossain et al.; 2004, Huevelink; 1999, Schweers and Grimes; 1976) the simulated yields are substantially influenced by transplant period. Furthermore, consistent with the aforementioned studies simulated yields had approximately a bell shaped form (Figure 2.1). Similarly, in agreement with previous research for sweet corn (Williams, 2008; Williams and Linquist, 2007), our findings illustrate that planting date plays an important role in

\(^7\) The historical yield data available was too limited to do a validation through regression.  
\(^8\) Extension Vegetable Specialist, Assistant Extension Professor, University of Kentucky.  
\(^9\) 84 days harvest period for tomatoes and 70, 77 and 91 days for sweet corn are excluded from the final formulation since the simulated yields, for these periods, are not achievable in the examined area.
production, with yield decreasing substantially during later planting periods (Figure 2.2). There is no comparison of absolute values between the simulated yields and yields in the previous studies due to the differences in soil and weather conditions.

Finally, the simulated yields were compared with four experimental trials for tomatoes (Rowell et al.; 2004, Rowell et al., 2005; Rowell et al., 2006; Coolong et al., 2009) and one for synergistic sweet corn (Jones and Sears, 2005) conducted in Fayette County and Eastern Kentucky respectively. Regarding tomatoes, the biophysical simulation results compare favorably to the highest yielding cultivars. For sweet corn, the average simulated yields are slightly lower than the best yellow cultivar of the experimental trial.

2.2.3 Economic and Resource Data Estimation

In addition to the data requirements for the biophysical simulation model the following supplementary data were needed in order to achieve the objectives of the present study: 1) price data for the examined vegetables, 2) suitable field hours per day, 3) land availability, 4) input requirements and input prices.

Weekly price data for 13 years (1998-2010) were obtained from the USDA Agricultural Marketing Service (AMS). Specifically, the Atlanta terminal market prices are used. AMS terminal market reports are created using price data on vegetables traded at the local wholesale markets for 15 major cities. The price information is received by wholesalers for vegetables that are of “good merchantable quality” (USDA, 2012). The tomato data set used in the study includes information for different variety (mature greens, immature greens, vine-ripe), crop size (medium, large, extra-large) and package size (20 and 25 pound boxes). However, DSSAT v 4.0.2 does not differentiate yield
based on product variety and tomato size. In order to overcome this difficulty, following Dr. Coolong’s recommendations, two assumptions are made: i) 90% of yield is assumed to be mature green (the rest 10% is immature greens or vine ripes) and ii) the simulated yield is divided in three sizes based on the following distribution: 15% medium, 60% large and 25% extra-large. The prices were transformed in a $/pound base. Considering that the price data set provides limited information regarding quality and the same is true for the biophysical simulation model, no specific quality assumptions are made. Thus, the whole harvest (after a 20% reduction for cull tomatoes) was considered of good merchantable quality. For sweet corn, prices are transformed in a $/dozen basis. The price set used is for yellow sweet corn.

Since there was a yearly trend detected in the price data set, in order to avoid overestimating the price variance, the Hodrick and Prescott (HP) filter is used to remove the trend movements. Following Ravn and Uhling (2002), a smoothing parameter ($\lambda$) of 6.25 is used. Table 2.3 reports summary statistics for the price data set. The combination of 13 years of price data with 38 years of simulated yield generates 494 (13*38) different states of nature. This approach for determining the underlying revenue distribution assumes a perfectly competitive environment wherein the producer does not impact prices received. Furthermore, it is consistent with low correlation between prices and yield calculated for the data used.

Field conditions dictate whether or not a given time is suitable for fieldwork. Following Shockley et al. (2011), the probability of not raining more than 0.15 inches per day over weekly periods for the 38 years of weather data available is first calculated. This probability was multiplied with the days worked in a week and the hours worked in a day
to determine expected suitable field hours per week. The land constrained was set at 5 acres based on information obtained from the 2010 Kentucky Produce Planting and Marketing Intentions Grower Survey and Outlook (Woods, 2010).

The Mississippi State Budget Generator (MSBG) is used to estimate weekly labor requirements and input cost per acre for tomatoes and sweet corn. MSBG is a software tool (Laughlin and Spurlock, 2007) developed by Mississippi State University that utilizes machinery costs, input prices (i.e. fertilizes, fuel etc.) and labor cost to calculate a per acre cost for a field operation (Ibendhal and Halich, 2010). For the present study, the 2012 vegetable budget files of MSBG were modified to depict the Fayette County specifications. In detail, input requirements and prices were modified following the suggestions of Dr. Coolong and the 2008 vegetable budget developed by the University of Kentucky extension service publications\(^\text{10}\). A detailed representation of the included costs is reported in Table 2.4.

2.3 Theoretical Framework

This section will provide the theoretical background for the economic model that will be implemented in the study. Whole farm economic analysis has been used by scholars to answer important questions such as: What is the optimal crop mix? Should I invest in new technologies? What is the best rotation strategy? A review of related work is presented by Lowe and Preckel (2004).

An interesting modeling aspect of the whole farm analysis is associated with the efforts made to incorporate risk in the objective function. Among the most frequently implemented techniques to cope with this issue is the mean-variance (E-V) formulation originally developed by Markowitz (1952). One of the following conditions must be

\(^{10}\) Available at http://www.uky.edu/Ag/CDBREC/vegbudgets08.html
satisfied in order for the results of E-V analysis to be equivalent to expected utility theory: i) the utility function of the decision maker is quadratic, ii) normal distribution of outcomes (net returns), iii) Meyer’s location-scale (L-S) condition (Dillon, 1992). The first two conditions are overly restrictive and have well documented theoretical deficiencies. For instance, quadratic utility functions have the unrealistic characteristics of wealth satiation and increasing absolute risk aversion (Bigelow, 1993).

Considering the previously mentioned limitations the more general L-S condition is adopted for the present study. Since yields and price for sweet corn and tomatoes are the stochastic elements of net returns it is sufficient to illustrate that they satisfy the L-S condition. Following Dillon (1992) a sufficient condition to meet the L-S requirements is for the ranked yields to be linear function of one another. The minimum correlation for the ranked yields was 97% and for ranked prices 87%. Thus, the use of mean variance analysis is considered legitimate for this study. Quadratic programming is commonly used to produce efficient E-V frontiers. The present study utilizes a formulation consistent with Freund (1956).

2.4 Empirical Framework

This section will discuss in detail the formulation of the economic model that is used in this paper. Specifically, an E-V formulation will be implemented to depict the economic environment of a hypothetical fresh vegetable farm in Fayette County, Kentucky. In line with Dillon (1999), the proposed model incorporates accounting variables as well as endogenous calculation of net returns variance instead of a variance-covariance matrix.
The objective of the grower is the maximization of net returns above selected variable costs less the risk aversion coefficient multiplied by the variance of net returns. The hypothetical farm is assumed to have five acres of cropland available and grow tomatoes and sweet corn in rotation with 50% of acres in any year devoted to each crop. This represents a two year crop rotation which is commonly followed by growers in the examined region (Coolong et al., 2010). This will lead to a maximum of 2.5 acres with tomatoes, which is close to the average acres cultivated with tomatoes in Kentucky reported from an unpublished survey of wholesale tomato growers (Vassalos et al., 2012). Rotation is required to prevent pathogen build up in the soil and control certain insects such as corn rootworms (Coolong et al., 2010). In addition to land limitation and rotation, the model includes the following constraints: i) labor resource limitation, ii) sales balance by crop and year, iii) input purchases by input, iv) net return balance and v) ratio of soil type. The final constraint guarantees that production practices will be distributed across both soil depths.

The model will be estimated for the following two scenarios: 1) the grower considers seasonal price trends and 2) the grower considers only annual price trends. The aforementioned scenarios do not necessarily reflect growers with different price information knowledge. They examine the conscious decision of a grower to adjust, or not, the production timing decisions based on the historical price trends. More precisely, the seasonal price trend scenario incorporates an interaction of seasonal price movement with yield differences associated with the alternative production practices examined.

The reason for examining these two scenarios vis-à-vis lies on the importance of production timing discussed earlier. Presumably, one of the factors that can drive optimal
timing decisions is whether or not the growers consider historical price trend information. This is especially true for fresh vegetable marketing which is characterized by substantial price seasonality (Figure 2.3).

The thirteen years of weekly price data for tomatoes and sweet corn from AMS are employed for the estimation of the first scenario (seasonal trends). A two-step experimentation process is adopted for the latter scenario (yearly trends). First, the optimal management decisions are identified when only considering the annual average price for each AMS year. Second, these optimal decisions are imposed in the optimization model with the complete weekly historical price information to ascertain actual economic outcome. It is important to mention that the model in the present study is a steady state equilibrium model and that the decision variables do not alter by state of nature under both scenarios.

In addition to the risk neutral case, the two specifications of the model (with and without full price information) were estimated for nine different risk aversion coefficients. These coefficients were calculated using the McCarl and Bessler (1989) approach. Based on this approach, a grower is said to maximize the lower limit from a confidence interval of normally distributed net returns. Each one of the nine examined levels in this study corresponds to a 5% increment from the previous level, starting from 50% (risk neutral) and ending with 95%. The mathematical specification of the model follows:

The grower’s objective is to maximize net returns above selected variable costs less the risk aversion coefficient multiplied by the variance of net returns and is given by:

\[(2.1) \quad \bar{Y} - \Phi \sigma_y^2\]
Subject to: land availability constraint, given by:

\[(2.2) \sum_c \sum_d \sum_h x_{c,d,h,s} \leq acres_s \forall s\]

Weekly labor resource limitation, given by:

\[(2.3) \sum_c \sum_d \sum_h \sum_s \text{lab}_{c,d,h,w,k} x_{c,d,h,s} \leq flday_{w,k} \forall w,k\]

Marketing balance:

\[(2.4) \sum_d \sum_h \sum_s yld_{c,d,h,t,s} x_{c,d,h,s} - sales_{c,y,r,w,k,t,s} = 0 \forall c, t, w, y, r\]
Input purchases by input:

\[(2.5) \sum_{c} \sum_{d} \sum_{h} \sum_{s} \text{REQ}_{1,c}X_{C,D,H,S} - \text{PURCH}_{1,c} = 0 \quad \forall I \]

Soil depth ratio constraint:

\[(2.6) C_{SOILRATIO}^{\text{shallow}}X_{C,D,H,\text{"deep"}} - C_{SOILRATIO}^{\text{deep}}X_{C,D,H,\text{"shallow"}} = 0 \quad \forall C, D, H \]

Crop rotation constraint:

\[(2.7) \sum_{c} \sum_{d} \sum_{h} \sum_{s} \text{ROTA}_{c}X_{C,D,H,S} \leq 0.5 \text{ACRES}_{S} \quad \forall S \]

Net returns by year are given by:

\[(2.8) \sum_{I} I_{P} \text{PURCH}_{I,c} - \sum_{wk} \sum_{c} \sum_{ts} P_{C,WK,TS}\text{SALES}_{C,YR,WK,TS} + Y_{YR} = 0 \quad \forall YR \]

Expected profit balance is given by:

\[(2.9) \sum_{YR} \frac{1}{N} Y_{YR} - \bar{Y} = 0 \]

Where, activities include:
- \(Y_{YR}\): Expected net returns above selected variable cost
- \(X_{C,D,H,S}\): Production of crop C, under transplanting/planting period D, harvesting period H and soil depth S
- \(\text{PURCH}_{I,c}\): Purchases of input I
- \(Y_{YR}\): Net returns above selected variable cost by year
- \(\text{SALES}_{C,YR,WK,TS}\): Tomato sales by size (medium, large, extra-large) in pounds and sweet corn sales in dozens of ears by week and year respectively

Indices include:
- C: Crop
- S: Soil depth
- TS: Tomato Size (medium, large, extra-large). There is only one size for sweet corn.
- H: Harvesting period (1 for sweet corn)
- YR: Year
- D: Transplant date for tomatoes, Planting date for sweet corn
- WK: Week
- I: Input
- N: State of Nature

Coefficients include:
- \(\Phi\): Risk aversion
- \(P_{C,WK,TS}\): Weekly price for different tomato sizes in $/pound and for sweet corn in $ per ear
- \(YLD_{C,D,H,TS,S}\): Expected yield of tomatoes by size in pounds and of sweet corn by ears
- \(FLD\text{DAY}_{WK}\): Available field days per week
- \(\text{ROTA}_{C}\): Rotation matrix by crop C
- \(P_{C,WK,TS}\): Weekly price in $/pounds per tomato size and in $/ear for sweet corn
- \(C_{SOILRATIO}^{\text{shallow}}\): Ratio of total acres allocated to depth S
2.5 Results

The results obtained from the mean-variance quadratic formulation, in conjunction with a discussion about them, are presented in this section. Tables 2.5 and 2.6 report results for three of those nine risk levels: low (65% significance level), medium (75% significance level) and high (85% significance level) risk aversion, as well as the risk neutral case. The selection of the above mentioned risk aversion attitudes was made in order to better depict the changes that take place in the optimal decisions (i.e. transplant/plant and harvest timing) and the economic outcomes as the risk aversion level increases.

2.5.1 Optimal Production Management Results

In order to achieve the best possible economic outcome, and reduce their risk exposure (if they are risk averse), growers need to take into consideration production timing. This is especially true for fresh vegetable production where even the most basic decisions, such as when to plant, can lead to significant improvement or decline of economic results due to: i) the price variability and ii) the seasonal and perishable attributes of fresh produce. Table 2.5 reports the model results regarding three possible production strategies: i) land allocation/production mix, ii) planting schedule and iii) harvesting schedule.

As far as land allocation choice is concerned, due to the rotation constraint, 50% of the available acres are devoted to tomato production and 50% to sweet corn for all risk aversion levels and for both scenarios examined. Furthermore, all the available acres (five) are used by the hypothetical farm.
Regarding the optimal transplant/plant and harvest timing, two strategies are observed from Table 2.5, depending on risk aversion levels. Under the seasonal price trend consideration scenario, a risk neutral grower who seeks to maximize expected net returns should focus on a combination of late tomato transplanting (July 10, July 24) and late sweet corn planting (June 21), as well as late tomato harvest (77 days after transplant). Under this plan the grower can receive higher prices, on average, for tomatoes and sweet corn.

As risk aversion levels increase and growers are willing to accept lower but more certain net returns, two risk mitigating strategies are suggested from the findings. First, risk averse growers should focus on an earlier tomato transplanting period compared to risk neutral farmers (June 12 instead of July 24). Specifically, the higher the risk aversion level the greater the transition to earlier period is observed in terms of acres cultivated with tomatoes (Table 2.5). This transition indicates a movement from a focus on higher prices to focus on higher yields and more stable prices. Specifically, the price coefficient of variation drops from 19% (July 24, 77 days harvest) to 10% (June 12, 77 days harvest) and the weighted average price declines from approximately $16.30 per 25 pound box to $13.40.

A Similar strategy (transition to earlier planting period for a risk averse grower compared to risk neutral) is observed for sweet corn (Table 2.5). In antithesis to tomato production, the land allocation for sweet corn does not change further with higher risk aversion levels. Besides reducing the price variation, an additional benefit of earlier planting for sweet corn is the reduced ear worm pressure.
In contrast to the first scenario, the second model formulation (where the grower has limited knowledge of the price set or consciously decided not to use the whole price information) findings indicate only minor changes in production schedule as risk aversion levels increase (Table 2.5). Specifically, tomato transplant and sweet corn planting periods remain the same across all four risk aversion level with a small increase of acres devoted to later transplanting periods (June 26) for higher risk coefficients. Last but not least, for both formulations the number of transplanting dates for tomatoes increases from two to three for the highest risk aversion level in seeking production practice diversification.

Regarding tomato harvesting, the model always recommends as the optimal schedule harvesting 77 days after transplant (Table 2.5). The higher yields and prices associated with these periods (in contrast with 63 and 70 days after transplant) explain this choice (Figures 2.1, 2.2).

2.5.2 Economic Results

The economic results associated with the previously mentioned production strategies are reported in this section. As can be seen from Table 2.6, the average net returns above selected variable costs, the coefficient of variation and the minimum possible net returns vary substantially between the different risk aversion levels and among the two model formulations.

Risk neutral growers under the full within season price distribution knowledge/consideration scenario have an average net return above selected variable costs of $85,382 combined with a coefficient of variation (C.V.) of 24.52%. As the level of risk aversion increases, in line with the underlying theory, a decline in both average
net returns and C.V. is noticed. For instance, the mean net returns for a highly risk averse grower correspond to 88% of the risk neutral case, while those for the low risk aversion scenario corresponded to 96%. However, the risk neutral case is associated with higher levels of standard deviations and coefficient of variation (almost 7% greater than the highly risk averse case).

The importance and impact of a farm manager’s conscious consideration of price seasonality is investigated as a primary objective of this study. This is accomplished by calculating the economic outcomes that would result from a suboptimal solution ignoring the weekly fluctuation in prices. This depicts a more naïve production strategy that disregards within season price variation. Results provide evidence to support the importance of timing both in terms of enhanced profitability and greater potential for risk management.

As can be seen from Table 2.6, a risk neutral grower who schedules production timing with consideration of weekly price variation enjoys 15% higher expected net returns compared to one who disregards the ability to exploit production timing based on price information. Furthermore, a greater opportunity to manage risk is permitted for the former hypothetical grower. Specifically, under the first scenario the coefficient of variation (C.V.) ranges from 17% to 24.7%. On the other hand, under the second scenario, C.V. has a substantially reduced span from 17.14% to 17.56% with the interesting finding that higher risk aversion levels are associated with higher C.V. in contrast to the initial expectations. These findings validate the hypothesis that growers who decide to plan production without consideration of seasonal price variation have limited opportunities to manage risk.
Finally, a comparison of the estimated net returns above selected variable costs with a 2008 vegetable budget (Crop Diversification & Biofuel Research & Education, University of Kentucky) resulted in some thought provoking observations. Specifically, the estimated net returns (on a per acre basis) are from 1.5 (highly risk averse) to two times (risk neutral) greater than the ones reported on the 2008 vegetable enterprise budget. This difference can be attributed to the combination of the conservative price/yield estimations of the extension service in contrast to the higher prices (obtained from the Atlanta AMS) and yields (from the biophysical simulation) used in the study. However, the findings of the study are closer to the estimations of Rowell et al. (2006) who indicate that for the best tomato cultivars that season it is possible to achieve close to $16,000 per acre.

2.6 Conclusions

The present study combines biophysical simulation and mathematical programming modeling to develop an economic model that will provide some guidelines regarding the optimal production mix and planting decisions for vegetable production. The area of study was Fayette County, Kentucky and the enterprises of tomatoes and sweet corn were evaluated.

Considering the importance of production timing, due to the perishability of vegetable production, and the role that seasonal price trends consideration may play in optimal transplant/planting and harvesting schedules, two distinct scenarios are examined. Under the first, the hypothetical grower plans production timing considering weekly price variation, while, under the second one the grower chooses a simpler but less complete focus of annual price trends only. Three risk aversion levels are examined for
each scenario. The findings indicate that vegetable producers have the potential to improve their economic results if they follow a structured farm management plan. Specifically, under the first formulation (full price knowledge) growers can achieve average net returns that are from 4% to 15% higher than the ones from the second formulation (not full price knowledge). Furthermore, they have greater opportunity to manage risk.

Limitations of this study are primarily associated with the nature of the biophysical simulation model used. Specifically, yield estimations were made only for one variety and there are no calibrations for locally grown cultivars. Examination of different varieties may lead to different results, considering the different performance each variety has under different weather patterns and soil conditions. In addition to including more vegetables in the model, future work can investigate how the results are affected when multiple markets are examined simultaneously.
Figure 2.1: Simulated Tomato Yields

The graph depicts average tomato yields across years and soil types.

Source: Biophysical simulation results
The graph depicts average sweet corn yields across years and soil types.
Figure 2.3: Fresh Tomatoes Monthly Producer Price Index (1982=100)

Source: USDA, ERS Fresh Tomato Monthly Producer Price Index, U.S. Tomato Statistics
<table>
<thead>
<tr>
<th>Soil</th>
<th>Color</th>
<th>Drainage Potential</th>
<th>Runoff Slope (%)</th>
<th>Runoff Curve #</th>
<th>Albedo</th>
<th>Drainage rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deep Silty Loam (65%)</td>
<td>Brown</td>
<td>Moderately Well</td>
<td>Lowest</td>
<td>3</td>
<td>64</td>
<td>0.12</td>
</tr>
<tr>
<td>Shallow Silty Loam (35%)</td>
<td>Brown</td>
<td>Somewhat Poor</td>
<td>Moderately Low</td>
<td>9</td>
<td>80</td>
<td>0.12</td>
</tr>
</tbody>
</table>

Source: Shockley, 2010
# Table 2.2: Summary of Production Practices Used in the Biophysical Simulation Model

## 1) Tomato Production Practices

<table>
<thead>
<tr>
<th>Practice</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transplanting date</td>
<td>May 1, May 15, May 29, June 12, June 26,</td>
</tr>
<tr>
<td></td>
<td>July 10, July 24, August 7</td>
</tr>
<tr>
<td>Harvesting period</td>
<td>63, 70, 77 days after transplant</td>
</tr>
<tr>
<td>Cultivar</td>
<td>BHN 66</td>
</tr>
<tr>
<td>Actual N/week (lbs/acre)</td>
<td>10</td>
</tr>
<tr>
<td>Irrigation</td>
<td>Drip irrigation, 1 inch water/week</td>
</tr>
<tr>
<td>Plant population (plants/acre)</td>
<td>5,000</td>
</tr>
<tr>
<td>Transplant age</td>
<td>42 days</td>
</tr>
<tr>
<td>Planting depth</td>
<td>2.5 inches</td>
</tr>
<tr>
<td>Assumptions</td>
<td>Dry Matter = 6%, Cull ratio = 20%</td>
</tr>
</tbody>
</table>

## 2) Sweet Corn Production Practices

<table>
<thead>
<tr>
<th>Practice</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planting Date</td>
<td>April 25, May 2, May 9, May 16, May 23,</td>
</tr>
<tr>
<td></td>
<td>May 30, June 7, June 14, June 21, June 28</td>
</tr>
<tr>
<td>Harvesting Period</td>
<td>84 days after planting</td>
</tr>
<tr>
<td>Cultivar</td>
<td>Sweet corn cultivar of DSSAT v. 4</td>
</tr>
<tr>
<td>Actual N/week</td>
<td>2 applications of Ammonium Nitrate. One pre-plant (90 lb. actual N/acre)</td>
</tr>
<tr>
<td></td>
<td>and a second 4 weeks after planting (50 lb. actual N/acre)</td>
</tr>
<tr>
<td>Irrigation</td>
<td>Drip irrigation, 1 inch water/week</td>
</tr>
<tr>
<td>Plant Population (plants/acre)</td>
<td>20,000</td>
</tr>
<tr>
<td>Planting Depth</td>
<td>2 inches</td>
</tr>
<tr>
<td>Assumptions</td>
<td>Dry matter = 24%, Cull ratio = 3%, Ear weight = 0.661 pounds</td>
</tr>
</tbody>
</table>
Table 2.3: Price and Yield Summary Statistics

<table>
<thead>
<tr>
<th></th>
<th>MEDIUM</th>
<th>LARGE</th>
<th>EXTRA LARGE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TOMATO YIELDS BY SIZE</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average (pounds/acre)</td>
<td>6,580</td>
<td>26,321</td>
<td>10,967</td>
</tr>
<tr>
<td>Standard Deviation</td>
<td>1,976.92</td>
<td>7,907.67</td>
<td>3,294.86</td>
</tr>
<tr>
<td>Coefficient of Variation</td>
<td>30.00</td>
<td>30.00</td>
<td>30.00</td>
</tr>
<tr>
<td>Maximum Yield</td>
<td>10,425</td>
<td>41,700</td>
<td>17,375</td>
</tr>
<tr>
<td>Minimum Yield</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>TOMATO PRICES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average ($/25 pound boxes)</td>
<td>$15.04</td>
<td>$15.56</td>
<td>$16.31</td>
</tr>
<tr>
<td>Standard Deviation</td>
<td>3.12</td>
<td>3.48</td>
<td>3.84</td>
</tr>
<tr>
<td>Coefficient of Variation</td>
<td>20.00</td>
<td>22.00</td>
<td>23.00</td>
</tr>
<tr>
<td>Maximum Price ($/25 pound box)</td>
<td>29.55</td>
<td>30.58</td>
<td>30.70</td>
</tr>
<tr>
<td>Minimum Price ($/25 pound box)</td>
<td>8.99</td>
<td>9.77</td>
<td>9.68</td>
</tr>
<tr>
<td><strong>SWEET CORN YIELD</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average (ears/acre)</td>
<td>12,687</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Standard Deviation</td>
<td>6,140</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coefficient of Variation</td>
<td>47.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maximum Yield</td>
<td>28,579</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minimum Yield</td>
<td>903</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>SWEET CORN PRICE</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average ($/crate)</td>
<td>$13.04</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Standard Deviation</td>
<td>3.94</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coefficient of Variation</td>
<td>30.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maximum Price ($/crate)</td>
<td>33.78</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minimum Price ($/crate)</td>
<td>6.56</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: DSSAT model yield results, Atlanta Agricultural Market Station prices

---

13 The maximum and minimum yields reported on the table refer to different production practices, thus one is not expected to add the maximum yield of medium, large and extra-large to obtain maximum yield per acre.
Table 2.4: Production Costs per Acre

<table>
<thead>
<tr>
<th>Type of Expense</th>
<th>Tomato Expenses Cost ($)</th>
<th>Type of Expense</th>
<th>Sweet Corn Expenses Cost ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fertilizer</td>
<td>319.67</td>
<td>Fertilizer</td>
<td>194.16</td>
</tr>
<tr>
<td>Herbicide</td>
<td>2.33</td>
<td>Herbicide</td>
<td>21.16</td>
</tr>
<tr>
<td>Insecticide</td>
<td>97.47</td>
<td>Insecticide</td>
<td>208.10</td>
</tr>
<tr>
<td>Seed &amp; planting supplies</td>
<td>1575.08</td>
<td>Seed &amp; planting supplies</td>
<td>126.00</td>
</tr>
<tr>
<td>Labor</td>
<td>3688.26</td>
<td>Labor</td>
<td>116.58</td>
</tr>
<tr>
<td>Machinery expenses</td>
<td>139.69</td>
<td>Machinery expenses</td>
<td>66.76</td>
</tr>
<tr>
<td>Other expenses (i.e. boxes)</td>
<td>1600.00</td>
<td>Other expenses (i.e. crates)</td>
<td>580.00</td>
</tr>
<tr>
<td>Interest on capital</td>
<td>76.00</td>
<td>Interest on capital</td>
<td>10.58</td>
</tr>
<tr>
<td>Irrigation supplies</td>
<td>627.00</td>
<td>Irrigation supplies</td>
<td>410.00</td>
</tr>
</tbody>
</table>
Table 2.5: Summary of Optimal Production Practices by Risk Attitude

### Model 1: Seasonal Price Trend

<table>
<thead>
<tr>
<th>Risk Levels</th>
<th>Transplanting Date</th>
<th>Tomatoes</th>
<th>Sweet Corn</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>DSL a DSL b</td>
<td>Acres (% of total)</td>
<td>Planting Day</td>
</tr>
<tr>
<td>Risk Neutral</td>
<td>July 10</td>
<td>27.0% 14.7%</td>
<td>June 21</td>
</tr>
<tr>
<td></td>
<td>July 24</td>
<td>5.2% 2.8%</td>
<td></td>
</tr>
<tr>
<td>Low Risk Aversion</td>
<td>June 12</td>
<td>5.4% 3.0%</td>
<td>May 23</td>
</tr>
<tr>
<td></td>
<td>July 10</td>
<td>27.0% 14.6%</td>
<td></td>
</tr>
<tr>
<td>Medium Risk Aversion</td>
<td>June 12</td>
<td>16.6% 9.0%</td>
<td>May 23</td>
</tr>
<tr>
<td></td>
<td>July 10</td>
<td>16.0% 8.6%</td>
<td></td>
</tr>
<tr>
<td>High Risk Aversion</td>
<td>June 12</td>
<td>23.0% 12.4%</td>
<td>May 23</td>
</tr>
<tr>
<td></td>
<td>July 10</td>
<td>8.4% 4.4%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>July 24</td>
<td>1.2% 0.6%</td>
<td></td>
</tr>
</tbody>
</table>

### Model 2: Yearly Trend

<table>
<thead>
<tr>
<th>Risk Levels</th>
<th>Transplanting Date</th>
<th>Tomatoes</th>
<th>Sweet Corn</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>DSL a DSL b</td>
<td>Acres (% of total)</td>
<td>Planting Day</td>
</tr>
<tr>
<td>Risk Neutral</td>
<td>June 12</td>
<td>26.8% 14.4%</td>
<td>May 30</td>
</tr>
<tr>
<td></td>
<td>June 26</td>
<td>5.7% 3.0%</td>
<td></td>
</tr>
<tr>
<td>Low Risk Aversion</td>
<td>June 12</td>
<td>15.0% 8.2%</td>
<td>May 30</td>
</tr>
<tr>
<td></td>
<td>June 26</td>
<td>17.4% 9.4%</td>
<td></td>
</tr>
<tr>
<td>Medium Risk Aversion</td>
<td>June 12</td>
<td>14.4% 7.8%</td>
<td>May 30</td>
</tr>
<tr>
<td></td>
<td>June 26</td>
<td>18.0% 9.8%</td>
<td></td>
</tr>
<tr>
<td>High Risk Aversion</td>
<td>June 12</td>
<td>14.2% 7.6%</td>
<td>May 30</td>
</tr>
<tr>
<td></td>
<td>June 26</td>
<td>16.8% 9.0%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>July 10</td>
<td>1.4% 0.8%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Economic Model Results

*a DSL stands for Deep Silty Loam

*b SSL stands for Shallow Silty Loam

---

14 Optimal harvesting period for tomatoes, for all the risk aversion levels and for both models, is 77 days after transplanting.
Table 2.6: Net Returns by Risk Attitude

<table>
<thead>
<tr>
<th>Economic Results</th>
<th>Risk Neutral</th>
<th>Low Risk Aversion</th>
<th>Medium Risk Aversion</th>
<th>High Risk Aversion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean ($)</td>
<td>84,573</td>
<td>81,492</td>
<td>77,192</td>
<td>74,391</td>
</tr>
<tr>
<td>Min ($)</td>
<td>42,064</td>
<td>48,676</td>
<td>48,216</td>
<td>46,497</td>
</tr>
<tr>
<td>Standard Deviation ($)</td>
<td>20,939</td>
<td>16,914</td>
<td>14,120</td>
<td>12,816</td>
</tr>
<tr>
<td>Coefficient of Variation</td>
<td>24.76</td>
<td>20.76</td>
<td>18.29</td>
<td>17.13</td>
</tr>
</tbody>
</table>

Model 1: Seasonal Price Trend

Model 2: Yearly Trend

<table>
<thead>
<tr>
<th>Economic Results</th>
<th>Risk Neutral</th>
<th>Low Risk Aversion</th>
<th>Medium Risk Aversion</th>
<th>High Risk Aversion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean($)</td>
<td>71,827</td>
<td>71,429</td>
<td>71,407</td>
<td>71,994</td>
</tr>
<tr>
<td>Min($)</td>
<td>41,807</td>
<td>40,282</td>
<td>40,202</td>
<td>40,970</td>
</tr>
<tr>
<td>Standard Deviation ($)</td>
<td>12,453</td>
<td>12,562</td>
<td>12,582</td>
<td>12,783</td>
</tr>
<tr>
<td>Coefficient of Variation</td>
<td>17.34</td>
<td>17.59</td>
<td>17.62</td>
<td>17.76</td>
</tr>
</tbody>
</table>

Source: Economic Model Results
Chapter 3: Fresh Vegetable Growers’ Risk Perception, Risk Preference and Choice of Marketing Contracts: A Choice Experiment

3.1 Introduction

Fresh vegetable production is a high risk farming activity. Fresh vegetable growers, in addition to the traditional sources of risk associated with farming (i.e., production, price, and financial risk), face increased uncertainty due to the characteristics of their products (Cook, 2011; Ligon, 2001; Hueth and Ligon, 1999). Some of those characteristics include: i) the perishability of fresh vegetable products, ii) the lack of traditional policy measures (i.e., price and income support programs) and futures markets, and iii) the importance of quality of production.

Fresh vegetable growers have limited opportunities to mitigate this risk. A possible option towards this goal is the adoption of marketing contracts. Marketing contracts typically refer to a written or oral agreement between a grower and a buyer who set a price and possible price adjustments, including quality specifications, a delivery period schedule, and other terms of transaction (MacDonald et al., 2004; Katchova and Miranda, 2004). Under this type of agreement, producers assume all risk related to production (yield, quality, etc.) and input prices, but share risk related to output market price with the buyer (MacDonald et al., 2004).

A number of arguments have been presented in the literature to explain the increased use of contractual arrangements. First, contract agreements help both parties to better manage risk (Wolf et al., 2001; MacDonald, 2004). Second, the incentives/penalties embodied in a contractual agreement may act as catalysts to induce a particular behavior, i.e. provide better product quality (Hueth and Ligon, 1999; Wolf et al., 2001). Calvin et al. (2001) highlighted several reasons that shippers have for
contracting. Among the most important ones, according to ERS marketing study interviews (Calvin et al., 2001) are the secured markets and the maintenance of future relationships with buyers. Last but not least, contractual arrangements can help growers and buyers in their resource allocation decisions due to the predictability introduced into production (Hueth et al., 1999).

Although extensive research has been conducted regarding several aspects of contractual agreements in agriculture, the literature regarding estimation of growers’ preferences and their willingness to accept/pay for different marketing contracts attributes is limited. A notable exception is Hudson and Lusk (2004), who used discrete choice experiments (DCE) to estimate the marginal values of six attributes (expected income, price risk shifted, autonomy, asset specificity, provision of inputs, length of contract) of hypothetical contracts using a sample of 49 growers from Mississippi and Texas. The findings of their study indicate that risk avoidance and transaction costs play a major role in the choice of contractual agreement. Furthermore, the study highlights the heterogeneity of preferences among growers.

DCE analysis refers to a broad range of survey-based statistical techniques used by scholars in order to draw inferences for important questions such as: i) consumers’ preferences, ii) tradeoffs that consumers are willing to make in order to enjoy specific attributes, iii) how consumers may react to introduction of new products or changes in existing ones, and iv) market-share predictions (Green et al., 2001; Louviere et al., 2010)\textsuperscript{15}. Since marketing contracts can be described in terms of several distinct attributes, using DCE analysis in order to estimate the marginal value of them to growers is justifiable.

\textsuperscript{15} Discrete choice experiments (DCE) are referred in Green et al. (2001) as choice based conjoint analysis.
The objective of the study is twofold. First, the study seeks to examine growers’ preferences for a number of marketing contract attributes. Second, it investigates the effect of growers’ risk perceptions and risk preferences on the choice of a marketing contract agreement.

The marketing contract attributes examined include different levels of price, volume requirements, transaction costs, and penalties. Elicitation of growers’ risk preference is achieved with the use of a “multiple price lists” design where growers are presented with several lottery choices and are asked to select one (Binswanger, 1980; Bisnwanger, 1981). Growers’ risk perception is determined through a number of Likert scale questions.

A mail survey questionnaire was used to gather data from tomato producers and consisted of five sections. Supplementary data used included tomato prices and yields in order to design reasonable contract options for the choice experiment. Those data were obtained from the USDA Agricultural Marketing Service Atlanta Terminal Market and with the use of biophysical simulation, respectively. Growers’ preferences toward marketing contracts are estimated using mixed-logit modeling. This approach allows the relaxation of the restrictive independence from irrelevant attributes assumption and accounts for heterogeneity in preferences.

The use of DCE techniques to examine preferences for fresh vegetable marketing contracts is a primary contribution of this study to the literature. In comparison with Hudson and Lusk (2004), the present study focuses on a specific crop (tomatoes) and group of growers (wholesale tomato growers), but the results have implications for both growers and a broader range of stakeholders who can benefit from the insights offered by
this study. These specifications allow the evaluation of more concrete contractual agreements. Last but not least, it is the first effort to examine how growers’ risk perceptions affects their choice of contracts.

The findings of the study can provide useful insights both to policy makers and to the vegetable production industry. This is so for several reasons. Consumer interest in locally-sourced foods has increased dramatically, and marketing contracts are one method for commercial scale buyers and retailers to develop a reliable supply of local produce. Thus, a better understanding of farmers’ preferences can increase the adoption of mutually beneficial contracts. Second, information regarding farmers’ acceptance and perceived tradeoffs between the different attributes in interaction with their risk perception and risk preferences levels will provide useful intuition in better understanding how different producers view this emerging market. Finally, the study will further examine the importance of transaction costs in contractual agreements, which may give guidance to relevant policy.

3.2 Data Collection and Survey Design

The main data source for the study is a mail survey. The survey was administered to a sample of wholesale tomato producers in four states: Kentucky, Illinois, Ohio and Indiana. Growers who direct market the majority of their produce were excluded from the sample since they are less likely to operate under contractual agreements (MacDonald et al., 2004). Mailing information for the growers was gathered from the Market Maker web sites within these respective states, after obtaining permission to use the data base of the site. A total of 315 mailing addresses were retrieved.
From the 315 surveys, ten were returned for insufficient or wrong addresses and five were no longer farmers, leading to an effective survey group of 300 growers. In order to mitigate non-response bias problems, the three wave survey design (survey - reminder - survey) proposed by Dillman (1978) was implemented. A monetary incentive ($25) was offered with the intention of boosting the response rate. The overall response rate was 18.3% (55 returned surveys) with an effective response rate of 16.3% (49 usable surveys). The sample size and the response rates for each state are presented in Table 3.1. Descriptive statistics are reported in Table 3.2.

The study sample includes a greater percentage of women operators and slightly younger growers compared to 2007 Census of Agriculture (Table 3.2). Furthermore, the average acres with tomatoes in the study compare closely to the average of total harvested acres with tomatoes from the 2007 census of agriculture. The final form of the survey questionnaire (i.e., wording, ordering of questions, etc.) is the result of several focus group discussions with vegetable growers, extension specialists and persons involved with marketing of fresh vegetables. Two of the major focus groups took place during the 2011 Kentucky Farm Bureau Convention and the 2012 Kentucky Fruit and Vegetable Trade Show.

The survey questionnaire consisted of five sections. First, general questions about the characteristics of the farm were solicited. The next section incorporated questions regarding growers’ perceptions and experience with marketing contracts. The third section asked questions related to growers’ risk comfort levels. The choice experiment is included in the fourth section. The survey concluded with questions on demographic characteristics.
The importance of various factors in growers’ decisions to participate, or not, in a marketing contract agreement is also examined in the second section of the survey instrument. More than 50% of growers indicated reduced price risk and secure income among the most important reasons for participating in a marketing contract agreement (Table 3.3). Considering the price volatility of fresh vegetable production, those preferences are not surprising. Conversely, 28 out of 49 respondents indicated unsatisfying price terms among the most important factors that may discourage them from participating in marketing contracts. Furthermore, a significant portion of respondents indicated that the difficulty of satisfying the quality and quantity requirements imposed in a marketing contract may discourage them from participating in such an agreement (Table 3.4).

Two types of questions were used to elicit growers’ risk comfort levels (third section of the questionnaire). The first type of question was based on expected utility and the second type consisted of a self-rating. The former approach is based on an allocation game suggested by Gneezy and Potters (1997), Charness and Gneezy (2010) and Binswanger (1980, 1981). This approach is used to elicit growers’ risk preference. The latter is a series of Likert-scale questions based on Pennings and Garcia (2001). This approach is used to elicit growers’ risk perception.

3.2.1 Conjoint Experiment and Selection of Attributes

One of the first steps required in order to conduct a DCE analysis is the choice of product attributes and their corresponding levels that will be used in the study (Green et al., 2001). The following includes a discussion regarding the selection of contract attributes used in the study and of their levels.
The focus of the study on marketing contracts and on fresh vegetable production, in conjunction with previous literature and the discussions that took place during the focus groups, are the main factors that influenced the selection of attributes for the choice experiment. Under a marketing contract, in contrast to production contracts, growers bear all the risk associated with production (yield, quality) and input prices and share some or all of the output price risk (MacDonald et al., 2004; Ligon, 2001; Vavra, 2009). This is depicted in the choice experiment with the inclusion of volume and quality requirements and by eliminating possible requirements regarding varieties, production practices, etc.

In detail, the choice profiles used in the study consisted of the following eight attributes: early period price, peak period price, late period price, early period volume, peak period volume, late period volume, certification cost, and penalties. The first seven attributes have three levels each and the penalties four levels. A description of these attributes and their levels is reported in Table 3.5. In addition to the previously mentioned contract attributes, an important requirement of the examined contracts relates to quality of tomatoes. Specifically, the examined contracts refer to U.S.D.A. number 1 grade tomatoes.

Based on the number of attributes and their levels, a full factorial design corresponds to 8,748 (or $3^7 \times 4$) profiles. In order to reduce this number, a fractional factorial design was implemented. The fractional factorial design corresponds to a sample of the full factorial that retains the main and first order interaction effects (Louviere et al., 2000). The \%mktex macro algorithm in SAS returned 18 choice sets of two choices. In order to minimize the time to complete the questionnaire and mitigate the fatigue of the participants, those 18 sets were randomly distributed in groups of 6 to 3 versions taking
care not to include a clearly superior choice. In addition to the two choices, a third “no contract” choice was added. A sample choice experiment is reported in Figure 3.1. Each respondent was assigned to only one version of the survey (differ only in choice sets) and made 6 choices. As a result, a total of 49*6=294 choices are represented in the data.

The price attribute refers to the monetary amount that the contractors should pay the growers during or before the payment deadline. Among the several price mechanisms suggested in the literature (Hueth and Ligon, 1998; Hueth and Melkonyan, 2004; Hueth and Ligon, 2002; Katchova and Miranda, 2004), a price per pound contingent on quality and period of the year is adopted for the examined contracts. Following Hueth and Ligon (1999) and Hueth and Melkonyan (2004), the payment offered depends on the tomato price of a downstream market. Specifically, USDA-AMS tomato prices from the Atlanta Terminal Market were used in the study as base prices. In order to capture the seasonal price variability of tomatoes and achieve a constant supply flow, three different time periods are used. Early period refers approximately to the period up to July 4, the peak period covers July and August and the late period spans September and October. Following the focus group discussion three different price levels are used for each period (Table 3.5). The range of prices provided to growers is abstract due to the lack of data from actual contractual agreements.

Regarding volume requirements, the scarcity of detailed yield data leads to the use of biophysical simulation techniques. Specifically, tomato yields for thirty-eight years under different production practices (transplant days and harvesting days) were estimated with the use of the Decision Support System for Agrotechnology Transfer (DSSAT v.4, Hoogenboom et al., 2004). Validation of the simulated yields was made based on
previous literature (Ciardi et al., 1998; Heuvelink, 1999) and expert opinion for fresh
market tomatoes grown in Kentucky. Specifically, the model parameters and the
simulated yields were evaluated with Dr. Timothy Coolong, Extension Vegetable
Specialist at the University of Kentucky. The estimated yields were considered higher
than what an average producer may achieve but would be expected for experienced
wholesale growers. Since growers do not generally contract all of their production
(Katchova and Miranda, 2004), the volume requirements specified on the choice profiles
correspond to 10%, 15% and 20% of the average yield calculated by DSSAT for each of
the three periods (early, peak and late). Similarly with the price per pound, the range of
volume requirements is theoretical due to the lack of actual data from real contractual
agreements.

One of the most important provisions in a contractual agreement is related to the
cost that growers have to face in case they fail to meet their obligations. A grower may
face a penalty under the following two circumstances: i) failure to provide the agreed
volume and ii) failure to provide the required quality. Analogous to price mechanisms, a
number of different cost structures (penalties) have been suggested in the literature (Wolf
et al., 2001; Hueth et al., 1999). In the context of the present study, the penalties are
reported as price reductions. Four different penalty levels are used in the discrete choice
experiment of the survey: 5%, 10% and 15% of price and terminate contract. The last
option (terminate) indicates that the contract will no longer be valid and the grower will
have to sell his production in the spot market.

Considering that the price and penalty mechanisms of the examined contracts
depend on the quality of the supplied tomatoes, a quality measurement instrument is
required in order to eliminate possible disputes among growers and buyers. A number of different quality validation options have been suggested in the literature (Hueth and Ligon, 1999; Wolf et al., 2001).

The certification cost attribute corresponds to the payments that growers may have to provide for third party food-safety audits, one of the possible quality control options. Hatanaka et al. (2005) provide a review regarding the development of third party audits, their benefits and the challenges associated with those. Third party audits can be an expensive quality assurance function that larger buyers may require of their fresh produce suppliers as buyers try to manage food safety risks. Part of the challenge for growers is the variation in certification requirements among buyers. In any case, such audits have become a central element to the discussion regarding marketing arrangements between growers and buyers (Hatanaka et al., 2005; Mahshie, 2009). Actual certification costs can vary, depending on the 3rd party auditor and the buyer requirements. We used three levels of $0 (no requirement), $500 and $1000 to represent possible associated certification expenses based on direction from the growers in the focus groups.

As far as the expected signs are concerned, Hudson and Lusk (2004) illustrated that increases in the expected income from contracts are positively related with the probability of contract adoption. On the other hand, higher transactions cost lead to lower probability of contracting. In the context of this study, the higher the price per pound offered, the higher the expected income for the grower. Thus, the a priori expectation is to have a positive sign associated with price per pound. Penalties and certification cost represent the transaction costs in the examined contracts. The higher they are, the more costly the contract enforcement, suggesting a negative influence in the adoption
probability. Finally, the higher the volume requirements are, the more difficult it will be for growers to satisfy the contract agreement, indicating a greater possibility of penalties. Thus, the initial expectation regarding volume requirements is that they will negatively influence the adoption probability.

3.3 Econometric Models

The conceptual foundation of DCE models lies on the seminal work of Lancaster (1966). In detail, Lancaster’s theory of demand posits that consumers gain utility from the characteristics that a good possesses rather than the “actual” good. Additionally, McFadden’s (1974) random utility theory (RUT) provides the theoretical background that connects consumers’ selection of an alternative and their utility (Louviere et al., 2000). Specifically, based on RUT, an individual’s \( (i) \) utility from choosing an alternative \( j \) in the \( t \)-th choice set can be expressed as a combination of two elements: one deterministic and one stochastic. This can be denoted as:

\[
U_{ijt} = X_{ijt}\beta + \varepsilon_{ijt}
\]

where \( \beta \) is a vector of unobserved parameters that will be estimated, \( X_{ijt} \) is a vector of observed variables, and \( \varepsilon_{ijt} \) is the random error term. The individual \( (i) \) will choose the alternative \( j \) that will generate the highest utility.

The selection of the most appropriate statistical technique for the analysis of the data (i.e., conditional logit, multinomial probit, nested logit, etc.) depends on the assumptions that the researcher will make regarding the error term and on the experimental design of the DCE.
Specifically, under the assumption that the error term is independent and identically distributed, with an extreme value Type I distribution, then the probability that the individual \((i)\) will choose the \(j\) alternative can be formulated as:

\[
P_{ijt} = \frac{e^{X_{ijt}\beta}}{\sum_{k=1}^{J} e^{X_{ikt}\beta}}
\]

This corresponds to the conditional logit model (MacFadden, 1974). One important restriction associated with the conditional logit model is the assumption of independence of irrelevant alternatives (IIA) (Louviere et al., 2000).

The mixed logit model (or random parameters logit) is an extension of the basic multinomial logit model (Train, 2003) that allows the relaxation of the restrictive IIA assumption. Furthermore, a number of additional desirable properties of mixed logit formulation have been discussed in the literature. First, the model accounts for heterogeneity in preferences (Louviere et al., 2000). Second, it allows for correlation of unobserved factors over time (Train, 2003). Third, the model does not restrict the distribution of random components to normal. A number of other distributions can be used, depending on the analysts’ assumptions. Lastly, the mixed logit model allows researchers to consider the panel data nature of most repeated choice data such as in this study.

In contrast to conditional logit, in a mixed logit model, the unobserved vector of coefficients \(\beta\) varies in the population following a distribution function \(f(\mu, \nu)\), with \(\mu\) representing the mean and \(\nu\) the variance of the distribution. The objective of the mixed logit is the estimation of \(\mu\) and \(\nu\) instead of \(\beta\). As shown in Train (2003), the unconditional choice probability of mixed logit is expressed as:
(3.3) \( P_{ijt} = \int_{0}^{1} \frac{e^{x_{ijt}\beta}}{\sum_{k=1}^{J} e^{x_{ikt}\beta}} h(\beta) d(\beta) \)

where, \( h(\beta) \) is the density function for the random parameters \( \beta \). Due to the fact there is no closed form solution for equation (3), the integral is calculated using simulation techniques.

3.4 Empirical Results

The results obtained from the econometric estimation in conjunction with a discussion of them are presented in this section. In addition to the main effects estimation, both for conditional and mixed logit models, interaction terms between contract attributes and growers’ risk perception and risk preferences are estimated. Two approaches are used for the interpretation of the results. First, the statistical significance and the signs of the coefficients are discussed. Second, a monetary interpretation based on marginal values is provided. Following Hu et al. (2009), the marginal value (MV) in a mixed logit model is calculated as:

\[
(3.4) \quad MV = \frac{\beta_{\text{attribute}} + \beta_{\text{attribute} \cdot D} D}{\beta_{\text{price}} + \beta_{\text{attribute} \cdot D} D}
\]

where \( \beta_{\text{attribute}} \) and \( \beta_{\text{price}} \) are the coefficients associated with a contract attribute and a price (early, peak, late season) respectively. \( D \) is a vector of risk preference or risk perception variables, and \( \beta_{\text{attribute} \cdot D} \) is estimated coefficient of the interaction term between attributes and the estimated risk variables. Under the marketing contract framework examined, MV can be generally interpreted as the amount by which the price per pound offered should be increased or decreased in order for a grower to accept a marginal increment in one of the contract attributes (eg. 1% increase in the penalty levels).
The results of the basic estimation, without any interaction terms, for the conditional and mixed logit models are reported in Table 3.6. Following the \textit{a priori} expectations and in line with Hudson and Lusk (2004), the early price ($/lb.) attribute has a statistically significant and positive coefficient. Thus, \textit{ceteris paribus}, growers show preference for contracts offering higher price for tomatoes expecting to reach the market early in the season (before July 4). Taking into account the greater yield risk associated with early planting, due to weather conditions, this finding is not surprising.

The penalty and certification cost variables represent the transaction costs (cost of monitoring and enforcement) of the examined contracts. The highly statistically significant negative coefficients of these two attributes indicate the considerable negative impact they have on growers’ utility. Specifically for certification cost, this negative impact on utility can be attributed to two factors. First, growers seek to avoid higher transaction costs, since this will result in reduced income. Second, it may indicate growers’ reluctance to increase their dependence on quality determination from the buyer or third party audits. Especially if there is no scientific base for this quality verification\(^{16}\), the penalties may be activated easily, which would result in reduction of growers’ income or even termination of the contract. Lastly, these findings provide further empirical validation for the transaction cost theory (Allen and Lueck, 1995).

The random variable “no contract” represents the third alternative in the choice sets. It is selected by growers if they would rather not choose any of the two contract alternatives offered. For both model estimations (conditional and mixed logit), the variable “no contract” is not statistically significant. This finding indicates that, on average, growers do not suffer utility loss if they do not have the option to participate in a

\(^{16}\) i.e. it is not uncommon to have multiple demands placed in to growers (Mahshie, 2009)
marketing contract agreement. However, under the mixed logit formulation, the standard deviation estimate of this coefficient is statistically significant. This result, in agreement with Hudson and Lusk (2004), indicates unobserved preference heterogeneity among growers.

Regarding volume requirements, none of those described in this experiment (early, peak, late period volume) had a significant impact on growers’ utility (Table 3.6). Considering that the volume requirements included in the examined contracts do not exceed 20% of possible yield per acre, this finding is not surprising.

The mixed logit formulation provided a slightly better fit as measured by the McFadden $R^2$. The incorporation of the random variable (no contract) which indicated the existence of unobserved heterogeneity in growers’ preferences can explain this increase.

Estimated marginal values (MV) resulting from the mixed logit formulation indicate that, in order to accept a 1% increase in penalty levels, growers must be compensated by $0.3/\text{lb.}$ higher early price (Table 3.7). Considering the range of offered early price in the present study is $0.62/\text{lb.}$ - $0.72/\text{lb.}$, on average, growers want 0.4%-0.5% higher early price to accept 1% increase in penalty levels. Similarly, the average MV of $0.0004$ for certification cost (Table 3.7) indicated that growers must be offered a 0.05% - 0.06% higher early price in order to accept a $1$ increase in the expenditures associated with certification cost.

**3.4.1 Growers’ Risk Perception, Risk Preferences and Choice of Contracts**

The second objective of the study is to investigate how growers’ risk perception and risk preferences affect their selection of marketing contracts. The present section
discusses the techniques used to elicit growers’ risk preferences and risk perception as well as the results from the subsequent econometric estimation.

An interesting strand of the contract literature refers to the examination of growers’ risk preferences and whether or not these affect the choice of contracts. Thus far, research findings regarding this issue are mixed. For instance, Ackerberg and Botticini (2002) and Hudson and Lusk (2004) indicate that risk is an important determinant of contract choice. On the other hand, findings from Allen and Lueck (1995, 1999) illustrate that risk preferences do not have significant impact on the choice of contracts.

Growers’ wealth, yield coefficient of variation, and risk transferred to the buyer are among the proxies used in the aforementioned studies to estimate growers’ risk preferences. The present paper uses a multiple price list design, following previous work (Binswanger, 1980; Binswanger, 1981; Gneezy and Potters, 1997; Charness and Gneezy, 2010) in order to draw inferences regarding growers’ risk preferences. Specifically, in this experiment, growers were asked to select among two different hypothetical tomato plant varieties. The two plants have different levels of resistance to disease and, depending on whether or not the disease occurs, different economic returns. The probability that a disease will occur is 50%. Growers were presented with a set of six possible payoffs and were asked to select one (Figure 3.2).

In accordance with Binswanger (1980), higher expected returns were offered at the cost of higher variance. The corresponding risk classification levels and the estimated partial risk aversion coefficient are reported at Table 3.8. Under the assumption that
growers’ exhibit constant partial risk aversion, the partial risk aversion coefficient can be estimated using a utility function of the following form (Binswanger, 1980):

\[(3.5) \quad U = (1 - S)M^{1-s}\]

Where \(M\) is the certainty equivalent and \(S\) is the approximate partial risk aversion coefficient\(^{17}\). In line with Lusk and Coble (2005), the measure used in the analysis as an individual’s risk aversion coefficient \((S)\) is the midpoint of the possible minimum and maximum range of \(S^{18}\). Another alternative is to use the geometric average; however both approaches gave similar results.

In addition to growers’ risk preferences, their risk perception is also required in order to elicit optimal risk behavior (Lusk and Coble, 2005). Three Likert-scale questions from Pennings and Garcia (2001) were used to elicit growers risk perception (Table 3.9). A measure of growers’ risk perception is obtained by the sum of responses to questions 1-3 (Lusk and Coble, 2005).

After the elicitation of growers’ general risk perception and risk preferences, three specifications of the mixed logit framework were estimated (Table 3.10). In contrast to the main effects model, discussed previously, these specifications include grower-specific information that will provide a better interpretation of their preferences. In detail, growers’ general risk perception (Model 1), risk preference (Model 2), and an interaction term between risk preferences and risk perception (Model 3) are included in the

\(^{17}\) In order to calculate \(S\) (Table 8) we have to solve for the indifference point among two consecutive choices using equation 5. For instance, for choices A and B the \(S\) is calculated from the following equation: \(50^{1-s} + 50^{1-s} = 40^{1-s} + 70^{1-s}\). This equation can be solved in Excel or in Mathematica after graphing the equations to estimate where the functions crosses the x-axes.

\(^{18}\) Following Binswanger (1981), for the regression analysis alternative F (Table 3.8) was given a value near zero (0.18) and the value for alternative A was set to 2.47
estimation as interaction terms. In all the three model formulations, the “no contract” attribute is assumed to have a random coefficient.

The results of the three estimated models are consistent with the findings of conditional logit and main effects mixed logit formulations, discussed previously. In detail, certification cost and penalty have negative impact on growers’ utility, while growers show preference for contracts with higher early price.

Furthermore, findings from Model 1 illustrate that certification cost has a higher negative impact on utility of growers with higher general risk perception (RP) as indicated by the highly statistically significant, negative coefficient of the interaction term “certification cost*RP”. If selection of contracts is primarily driven by growers’ general risk perception then, in line with Hanaka’s (2005) suggestions, educational or financial assistance can be an important element in altering growers’ behavior in favor of marketing contract agreements.

As can been seen from Model 2 findings (Table 3.10), growers’ risk aversion (RA) did not have any significant impact on their preferences regarding marketing contracts. However, when the interaction term between growers’ risk perception and risk aversion is included in the estimation (Model 3, Table 3.10), the interaction between this term and the certification cost is statistically significant with the expected negative sign.

Marginal values based on the three previously mentioned models are also calculated. In order to gain a better understanding of how different growers’ value different contract attributes two levels of risk perception and risk preferences are examined. For risk perception these values are -2 and 2 representing risk seeking and risk averse growers. For risk aversion the selected levels are 0.5 and 2. For comparison
purposes, marginal values are also estimated for the average levels of risk aversion and risk preferences.

Table 3.11 reports only the statistically significant results of these estimations. In contrast to the results from Model 1, none of the marginal values estimations for the risk perception interaction term are statistically significant. This finding indicates that the effects may not be large enough to have a perceptible value. On the other hand, the higher the growers’ risk aversion coefficient, the greater compensation (in terms of early price) they should be offered to accept a 1% increase in penalty or a $1 increase in certification cost.

3.5 Conclusions

The present study used discrete choice experiments in conjunction with estimation of random utility models to investigate: i) how growers’ value different attributes of marketing contracts and ii) how growers’ risk perception and preferences affect their selection of marketing contracts. The main data source is a mail survey administrated to 315 wholesale tomato growers in 4 states: Kentucky, Illinois, Ohio and Indiana. Fresh vegetable growers were selected as the sample of the present study due to the increased sources of risk they face and the limited opportunities they have to reduce this uncertainty.

The empirical results in line with the initial hypothesis and with previous literature (i.e. Hudson and Lusk; 2004, Allen and Lueck; 1995) highlight the role of transaction costs as an important determinant of contract choice. Specifically, the findings indicate that certification cost requirements (or third party audits) have a significant negative impact on growers’ utility concerning the selection of contracts.
Furthermore, the findings indicate the existence of unobserved heterogeneity regarding growers’ preferences for marketing contracts.

The effect of risk on the selection of contracts is a widely discussed topic in the literature; however, no common consensus has been reached. The present study used a multiple price risk game and a number of Likert scale questions to elicit growers’ risk aversion and risk perception, respectively. In contrast with Hudson and Lusk (2004), the results indicate that growers’ risk aversion and risk preferences have a limited impact on growers’ selection of marketing contracts. Last but not least, buyers who wish to enter into marketing contracts with growers need to provide a high early price, as well as improve the determination of quality criteria, thus reducing the third party audit costs.

Future research may include larger samples and different geographic areas where the use of marketing contracts is more common than in the examined region. If the importance of third party audit cost in these regions, where growers are more familiar with contracts, is lower and risk perception is still a significant determinant of choices, then it may indicate that education can alter growers’ preferences.
Figure 3.1: Example Choice Set

<table>
<thead>
<tr>
<th>Delivery Period</th>
<th>Option A</th>
<th></th>
<th>Option B</th>
<th></th>
<th>Option C</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Price ($/lbs)</td>
<td>Volume (pounds/acre/week)</td>
<td>Penalty</td>
<td>Certification Cost</td>
<td>Price ($/lbs)</td>
</tr>
<tr>
<td>Early</td>
<td>$0.74</td>
<td>2,200/acre/week</td>
<td>5%</td>
<td>$1000</td>
<td>$0.62</td>
</tr>
<tr>
<td>Peak</td>
<td>$0.53</td>
<td>6,000/acre/week</td>
<td>5%</td>
<td>$1000</td>
<td>$0.55</td>
</tr>
<tr>
<td>Late</td>
<td>$0.70</td>
<td>5,100/acre/week</td>
<td>5%</td>
<td>$1000</td>
<td>$0.77</td>
</tr>
</tbody>
</table>

Please choose only one option □ Option A ↔ □ Option B ↔ □ Option C
Figure 3.2: Risk preferences elicitation question

Please consider the choice you would make in the following hypothetical situation:
You will be given 150 tomato plants (in 5 bundles of 30 plants each) for free, to use in
the coming season. There are two types of plants, A and B, and you can choose any
combination of the two that totals 5 bundles.

The A and B plants have different levels of resistance to tomato diseases. The A plants
have potentially higher harvests but are more vulnerable to disease. If disease does not
occur, the A plants will produce a harvest worth $30 per bundle. However if disease
occurs (50% of the time), the A plants’ harvest is worthless ($0 per bundle). The B plants
are disease-resistant and always produce a harvest worth $10 per bundle.

The following table illustrates the different combinations of type A and B plants that you
could receive, and the value of their combined harvests based on the weather. Please

**check one box** to indicate which combination of plants you would choose.

<table>
<thead>
<tr>
<th>I choose (check one of the six combinations A-F below)</th>
<th>Bundles of 30 type A plants</th>
<th>Bundles of 30 type B plants</th>
<th>If disease does not occur (50%)</th>
<th>If disease occurs (50%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>o A</td>
<td>0</td>
<td>5</td>
<td>$50</td>
<td>$50</td>
</tr>
<tr>
<td>o B</td>
<td>1</td>
<td>4</td>
<td>$70</td>
<td>$40</td>
</tr>
<tr>
<td>o C</td>
<td>2</td>
<td>3</td>
<td>$90</td>
<td>$30</td>
</tr>
<tr>
<td>o D</td>
<td>3</td>
<td>2</td>
<td>$110</td>
<td>$20</td>
</tr>
<tr>
<td>o E</td>
<td>4</td>
<td>1</td>
<td>$130</td>
<td>$10</td>
</tr>
<tr>
<td>o F</td>
<td>5</td>
<td>0</td>
<td>$150</td>
<td>$0</td>
</tr>
</tbody>
</table>
Table 3.1: Registered Commercial Tomato Growers and Usable Response Rate by State

<table>
<thead>
<tr>
<th>State</th>
<th>Registered Growers</th>
<th>Usable Responses</th>
<th>% Usable Response Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Illinois</td>
<td>116</td>
<td>17</td>
<td>14.6 %</td>
</tr>
<tr>
<td>Indiana</td>
<td>53</td>
<td>12</td>
<td>22.6 %</td>
</tr>
<tr>
<td>Kentucky</td>
<td>50</td>
<td>12</td>
<td>24.0 %</td>
</tr>
<tr>
<td>Ohio</td>
<td>81</td>
<td>8</td>
<td>9.8 %</td>
</tr>
<tr>
<td>n</td>
<td>300</td>
<td>49</td>
<td>16.3%</td>
</tr>
</tbody>
</table>

Source: Market Maker, survey questionnaire
<table>
<thead>
<tr>
<th>Variable</th>
<th>Average</th>
<th>Std.</th>
<th>Min.</th>
<th>Max.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender (1=female)</td>
<td>0.24</td>
<td>0.43</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Age</td>
<td>49.2</td>
<td>12.43</td>
<td>30</td>
<td>70</td>
</tr>
<tr>
<td>Experience with contracts (1=yes)</td>
<td>0.36</td>
<td>0.48</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Household size</td>
<td>2.4</td>
<td>1.28</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Household income</td>
<td>71,480</td>
<td>33,169</td>
<td>20,000</td>
<td>137,500</td>
</tr>
<tr>
<td>Education</td>
<td>15</td>
<td>2.5</td>
<td>5</td>
<td>19</td>
</tr>
<tr>
<td>Off farm employment (1= yes)</td>
<td>0.42</td>
<td>0.49</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Acres with Tomatoes</td>
<td>17.5 (17)</td>
<td>85.5</td>
<td>0.125</td>
<td>600</td>
</tr>
</tbody>
</table>

Source: Survey questionnaire

*Numbers in parenthesis come from 2007 census of agriculture for vegetables, potatoes and melons.*
Table 3.3: Factors that Encourage Growers Participation in Marketing Contracts

<table>
<thead>
<tr>
<th>Factor</th>
<th>Freq.</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduced price risk</td>
<td>29</td>
<td>10.3%</td>
<td>20.7%</td>
<td>31.0%</td>
<td>37.9%</td>
</tr>
<tr>
<td>Secured income</td>
<td>39</td>
<td>2.6%</td>
<td>12.8%</td>
<td>41.0%</td>
<td>43.6%</td>
</tr>
<tr>
<td>No need to worry about supply channels</td>
<td>23</td>
<td>26.0%</td>
<td>39.1%</td>
<td>8.7%</td>
<td>26.1%</td>
</tr>
<tr>
<td>Access new market opportunities</td>
<td>31</td>
<td>25.8%</td>
<td>25.8%</td>
<td>25.8%</td>
<td>22.6%</td>
</tr>
<tr>
<td>Bonuses for better quality</td>
<td>19</td>
<td>43.4%</td>
<td>10.5%</td>
<td>10.5%</td>
<td>10.5%</td>
</tr>
<tr>
<td>Opportunity to sell higher volumes</td>
<td>30</td>
<td>33.3%</td>
<td>20.0%</td>
<td>20.0%</td>
<td>23.3%</td>
</tr>
<tr>
<td>Prior experience with contracts</td>
<td>8</td>
<td>62.5%</td>
<td>12.5%</td>
<td>12.5%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Lower distribution cost</td>
<td>13</td>
<td>46.1%</td>
<td>7.7%</td>
<td>7.7%</td>
<td>15.4%</td>
</tr>
<tr>
<td>Maintenance of future relationships with buyers</td>
<td>18</td>
<td>44.4%</td>
<td>16.0%</td>
<td>16.7%</td>
<td>5.6%</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
<td>50.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>50.0%</td>
</tr>
</tbody>
</table>

Source: Survey questionnaire
Table 3.4: Factors that Discourage Growers From Participating in Marketing Contracts

<table>
<thead>
<tr>
<th>Factor</th>
<th>Freq.</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Difficult to satisfy quality</td>
<td>32</td>
<td>21.8%</td>
<td>28.1%</td>
<td>21.9%</td>
<td>28.1%</td>
</tr>
<tr>
<td>requirements</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unhappy with price terms</td>
<td>28</td>
<td>10.7%</td>
<td>10.7%</td>
<td>32.1%</td>
<td>46.4%</td>
</tr>
<tr>
<td>Severe penalties</td>
<td>19</td>
<td>15.8%</td>
<td>26.3%</td>
<td>15.8%</td>
<td>42.1%</td>
</tr>
<tr>
<td>Inflexibility to pursue other</td>
<td>23</td>
<td>34.8%</td>
<td>26.1%</td>
<td>17.4%</td>
<td>21.7%</td>
</tr>
<tr>
<td>markets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of enforcement</td>
<td>11</td>
<td>9.0%</td>
<td>36.4%</td>
<td>18.2%</td>
<td>36.4%</td>
</tr>
<tr>
<td>Bad previous experience with</td>
<td>12</td>
<td>25.0%</td>
<td>50.0%</td>
<td>16.7%</td>
<td>8.3%</td>
</tr>
<tr>
<td>contracts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unhappy with quality terms</td>
<td>19</td>
<td>5.3%</td>
<td>43.4%</td>
<td>26.3%</td>
<td>21.0%</td>
</tr>
<tr>
<td>Delivery time</td>
<td>17</td>
<td>23.5%</td>
<td>41.2%</td>
<td>17.6%</td>
<td>17.6%</td>
</tr>
<tr>
<td>Method of payment</td>
<td>12</td>
<td>50.0%</td>
<td>16.7%</td>
<td>25.0%</td>
<td>8.3%</td>
</tr>
<tr>
<td>Not enough information about</td>
<td>18</td>
<td>16.7%</td>
<td>22.2%</td>
<td>22.2%</td>
<td>38.9%</td>
</tr>
<tr>
<td>contracts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Difficult to satisfy volume</td>
<td>28</td>
<td>39.3%</td>
<td>14.3%</td>
<td>17.9%</td>
<td>28.6%</td>
</tr>
<tr>
<td>requirements</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Not enough land</td>
<td>12</td>
<td>33.3%</td>
<td>16.7%</td>
<td>16.7%</td>
<td>33.3%</td>
</tr>
<tr>
<td>Other</td>
<td>1</td>
<td>100%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

Source: Survey questionair
<table>
<thead>
<tr>
<th>Variable</th>
<th>Description</th>
<th>Levels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Early Price</td>
<td>Price offered for late June-Early July ($/lb)</td>
<td>0.62 0.68 0.74</td>
</tr>
<tr>
<td>Peak Price</td>
<td>Price offered for July-August ($/lb)</td>
<td>0.53 0.55 0.58</td>
</tr>
<tr>
<td>Late Price</td>
<td>Price offered for September – October ($/lb)</td>
<td>0.70 0.77 0.84</td>
</tr>
<tr>
<td>Early Volume</td>
<td>Volume requirements for Late June- Early July (lbs./acre)</td>
<td>2,200 2,400 2,600</td>
</tr>
<tr>
<td>Peak Volume</td>
<td>Volume requirements for July- August (lbs./acre)</td>
<td>5,000 5,500 6,000</td>
</tr>
<tr>
<td>Late Volume</td>
<td>Volume requirements for September- October (lbs./acre)</td>
<td>4,300 4,700 5,100</td>
</tr>
<tr>
<td>Penalties</td>
<td>Price reduction if the contract agreements are not satisfied (% of price)</td>
<td>5% 10% 15% Terminate</td>
</tr>
<tr>
<td>Certification Cost</td>
<td>3rd party audit cost</td>
<td>0 500 1000</td>
</tr>
</tbody>
</table>
Table 3.6: Main Effect Conditional and Mixed Logit Estimations

<table>
<thead>
<tr>
<th></th>
<th>Conditional Logit</th>
<th>Mixed Logit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coefficient</td>
<td>Std. Error</td>
</tr>
<tr>
<td>Early Price</td>
<td>3.546*</td>
<td>1.960</td>
</tr>
<tr>
<td>Peak Price</td>
<td>3.902</td>
<td>4.748</td>
</tr>
<tr>
<td>Late Price</td>
<td>0.569</td>
<td>1.690</td>
</tr>
<tr>
<td>Early Volume</td>
<td>-0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>Peak Volume</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>Late Volume</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>Certification Cost</td>
<td>-0.001***</td>
<td>0.000</td>
</tr>
<tr>
<td>Penalty</td>
<td>-1.228***</td>
<td>0.288</td>
</tr>
<tr>
<td>No Contract</td>
<td>5.140</td>
<td>4.34</td>
</tr>
<tr>
<td>No Contract S.D.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>McFadden R²</td>
<td>0.118</td>
<td></td>
</tr>
<tr>
<td>Adj. McFadden R²</td>
<td>0.090</td>
<td></td>
</tr>
</tbody>
</table>

n=49

*, ** and *** indicate 10%, 5% and 1% significance level respectively.

McFadden R² is given by one minus the ratio of unrestricted to restricted log likelihood values.
Table 3.7: Marginal Values Under Mixed Logit Model

<table>
<thead>
<tr>
<th></th>
<th>Early Price</th>
<th></th>
<th>Peak Price</th>
<th></th>
<th>Late Price</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean</td>
<td>Std. Error</td>
<td>Mean</td>
<td>Std. Error</td>
<td>Mean</td>
<td>Std. Error</td>
</tr>
<tr>
<td>Early Volume</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>Peak Volume</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>Late Volume</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>Certification</td>
<td>0.00004*</td>
<td>0.0002</td>
<td>0.000</td>
<td>0.000</td>
<td>0.001</td>
<td>0.001</td>
</tr>
<tr>
<td>Cost Penalty</td>
<td>0.393*</td>
<td>0.238</td>
<td>0.282</td>
<td>0.303</td>
<td>1.015</td>
<td>1.351</td>
</tr>
<tr>
<td>No Contract</td>
<td>-1.8</td>
<td>1.4</td>
<td>-1.3</td>
<td>0.95</td>
<td>-5.3</td>
<td>6.86</td>
</tr>
</tbody>
</table>

* Indicates 10% significance level

a The standard errors are estimated using the delta method.
Table 3.8: The Payoffs and Corresponding Risk Classification

<table>
<thead>
<tr>
<th>Choice</th>
<th>Low Payoff (Disease occurs)</th>
<th>High Payoff (No disease)</th>
<th>Risk Aversion Class&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Approximate Partial Risk Aversion Coefficient (S)</th>
<th>Percentage of Choices in Experiment</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>50</td>
<td>50</td>
<td>Extreme</td>
<td>$\infty$ to 2.48</td>
<td>16.3%</td>
</tr>
<tr>
<td>B</td>
<td>40</td>
<td>70</td>
<td>Severe</td>
<td>2.48 to 0.84</td>
<td>22.45%</td>
</tr>
<tr>
<td>C</td>
<td>30</td>
<td>90</td>
<td>Intermediate</td>
<td>0.84 to 0.5</td>
<td>34.69%</td>
</tr>
<tr>
<td>D</td>
<td>20</td>
<td>110</td>
<td>Moderate</td>
<td>0.5 to 0.33</td>
<td>18.37%</td>
</tr>
<tr>
<td>E</td>
<td>10</td>
<td>130</td>
<td>Slight to Neutral</td>
<td>0.33 to 0.19</td>
<td>6.12%</td>
</tr>
<tr>
<td>F</td>
<td>0</td>
<td>150</td>
<td>Neutral to Negative</td>
<td>0.19 to $-\infty$</td>
<td>2.04%</td>
</tr>
</tbody>
</table>

<sup>a</sup> Based on Binswanger (1980) classification
Table 3.9: Growers’ Risk Perception: Response to Scale Questions
(-4= strongly Disagree, 4= Strongly Agree)

<table>
<thead>
<tr>
<th>Question</th>
<th>Definition</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>With respect to the conduct of business I avoid taking risk</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(2.00)⁴</td>
</tr>
<tr>
<td>2</td>
<td>With respect to the conduct of business I prefer certainty to uncertainty</td>
<td>1.5</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(1.7)</td>
</tr>
<tr>
<td>3</td>
<td>I like “playing it safe”</td>
<td>0.8</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(1.8)</td>
</tr>
</tbody>
</table>

n=49

⁴Number in parentheses are standard deviations
<table>
<thead>
<tr>
<th></th>
<th>Model 1&lt;sup&gt;a&lt;/sup&gt;</th>
<th></th>
<th>Model 2&lt;sup&gt;b&lt;/sup&gt;</th>
<th></th>
<th>Model 3&lt;sup&gt;c&lt;/sup&gt;</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coeff.</td>
<td>Std. Error</td>
<td>Coeff.</td>
<td>Std. Error</td>
<td>Coeff.</td>
<td>Std. Error</td>
</tr>
<tr>
<td>Early Price</td>
<td>3.439</td>
<td>2.200</td>
<td>Early Price</td>
<td>4.049*</td>
<td>2.168</td>
<td>Early Price</td>
</tr>
<tr>
<td>Peak Price</td>
<td>7.247</td>
<td>5.540</td>
<td>Peak Price</td>
<td>6.171</td>
<td>5.437</td>
<td>Peak Price</td>
</tr>
<tr>
<td>Late Price</td>
<td>1.257</td>
<td>1.923</td>
<td>Late Price</td>
<td>1.739</td>
<td>1.917</td>
<td>Late Price</td>
</tr>
<tr>
<td>Early Volume</td>
<td>-0.000</td>
<td>0.000</td>
<td>Early Volume</td>
<td>-0.001</td>
<td>0.001</td>
<td>Early Volume</td>
</tr>
<tr>
<td>Early Volume* RP</td>
<td>0.000</td>
<td>0.000</td>
<td>Early Volume* RA</td>
<td>0.001</td>
<td>0.000</td>
<td>Early Volume*</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Peak Volume</td>
<td>0.000</td>
<td>0.000</td>
<td>Peak Volume</td>
<td>0.000</td>
<td>0.000</td>
<td>Peak Volume</td>
</tr>
<tr>
<td>Peak Volume*RP</td>
<td>-0.000</td>
<td>0.000</td>
<td>Peak Volume*RA</td>
<td>-0.000</td>
<td>0.000</td>
<td>Peak Volume*RA</td>
</tr>
<tr>
<td>Late Volume</td>
<td>0.000</td>
<td>0.000</td>
<td>Late Volume</td>
<td>0.000</td>
<td>0.000</td>
<td>Late Volume</td>
</tr>
<tr>
<td>Late Volume *RP</td>
<td>0.000</td>
<td>0.000</td>
<td>Late Volume *RA</td>
<td>-0.000</td>
<td>0.000</td>
<td>Late Volume *RA</td>
</tr>
<tr>
<td>Certification Cost</td>
<td>-0.001***</td>
<td>0.000</td>
<td>Certification Cost</td>
<td>-0.001**</td>
<td>0.000</td>
<td>Certification Cost</td>
</tr>
<tr>
<td>Certification Cost*RP</td>
<td>-0.000**</td>
<td>0.000</td>
<td>Certification Cost*RP</td>
<td>-0.000</td>
<td>0.000</td>
<td>Certification Cost*RP</td>
</tr>
<tr>
<td>Penalty</td>
<td>-1.429***</td>
<td>0.334</td>
<td>Penalty</td>
<td>-0.922*</td>
<td>0.581</td>
<td>Penalty</td>
</tr>
<tr>
<td>Penalty*RP</td>
<td>-0.053</td>
<td>0.627</td>
<td>Penalty*RA</td>
<td>-0.635</td>
<td>0.0559</td>
<td>Penalty*RA</td>
</tr>
<tr>
<td>No Contract S.D.</td>
<td>3.138***</td>
<td>0.624</td>
<td>No Contract S.D.</td>
<td>3.218***</td>
<td>0.629</td>
<td>No Contract S.D.</td>
</tr>
<tr>
<td>McFadden R&lt;sup&gt;2d&lt;/sup&gt;</td>
<td>0.14</td>
<td>0.139</td>
<td>McFadden R&lt;sup&gt;2&lt;/sup&gt;</td>
<td>0.089</td>
<td>0.082</td>
<td>McFadden R&lt;sup&gt;2&lt;/sup&gt;</td>
</tr>
</tbody>
</table>

**n=49**

*, **, *** Indicate 10%, 5% and 1% significance level respectively

<sup>a</sup> Model 1 includes interaction terms with growers risk preference levels (RP)

<sup>b</sup> Model 2 includes interaction terms with growers risk aversion levels (RA)

<sup>c</sup> Model 3 includes as an interaction term a combination of risk aversion and risk preference levels (RARP)

<sup>d</sup> McFadden R<sup>2</sup> is given by one minus the ratio of unrestricted to restricted log likelihood values
<table>
<thead>
<tr>
<th>R.A. levels</th>
<th>Early Price ($/pound.)</th>
<th>Std. Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>Certification Cost</td>
<td></td>
<td></td>
</tr>
<tr>
<td>0.5</td>
<td>0.0003*</td>
<td>0.0002</td>
</tr>
<tr>
<td>1</td>
<td>0.0004*</td>
<td>0.0002</td>
</tr>
<tr>
<td>2</td>
<td>0.0005*</td>
<td>0.0003</td>
</tr>
<tr>
<td>Penalty</td>
<td></td>
<td></td>
</tr>
<tr>
<td>0.5</td>
<td>0.306</td>
<td>0.191</td>
</tr>
<tr>
<td>1</td>
<td>0.384*</td>
<td>0.215</td>
</tr>
<tr>
<td>2</td>
<td>0.541*</td>
<td>0.315</td>
</tr>
</tbody>
</table>

* Indicates statistical significance at 10% level
4.1 Introduction

Following the pioneering work of Coase (1937), Cheung (1969) and Stiglitz (1974) numerous empirical studies have used either mathematical programming or econometric techniques to model growers’ choices regarding contractual agreements. The first group of research primarily utilized whole farm economic analysis to evaluate the selection of the optimal marketing mix (e.g. Barry and Willmann, 1976; Buccola and French, 1977; Buccola and French, 1979; Miller, 1986; Bailey and Richardson, 1985). Studies in the second group of research used a wide variety of econometric techniques such as: i) limited dependent variable models (Goodwin and Schroeder, 1994; Musser et al., 1996; Katchova and Miranda, 2004; Sartwelle et al., 2000), ii) binary variable models (Paulson et al., 2010; McLeay and Zwart, 1998) and iii) discrete choice experiments (Hudson and Lusk, 2004). The questions that these studies answered included: i) what factors influence the choice of contracts, ii) how much production to sell under contracts, and iii) what tradeoffs are growers willing to make in order to participate in contractual agreements?

Despite this abundance of research there is no general consensus of the role of risk aversion in contract choices. The following three possibilities have been suggested in previous research: 1) risk aversion is an important parameter in contract choice (i.e. Ackerberg and Botticini, 2002; Parcell and Langmeir, 1997; Zheng et al., 2008), 2) to a greater extent, it is the transaction cost or the provision of incentives that dictates the choice of contracts (i.e. Allen and Lueck, 1999; Allen and Lueck 1995; Predergast, 1999; Aggarwal, 2007) and 3) both transaction costs and risk aversion are significant.
determinants of contract choice (i.e. Hudson and Lusk, 2004; Fukunaga and Huffman, 209).

The objective of the present study is to investigate the role of growers’ risk aversion in the choice of optimal marketing mix. Specifically, growers’ preferences between two marketing options (wholesale marketing and combination of wholesale marketing and marketing contracts) under ten risk aversion levels are examined.

The contribution of the study to the literature is threefold. Specifically, it is the first research endeavor, to the authors’ knowledge that: i) utilizes integer programming and biophysical simulation techniques to model contract choices, ii) discusses changes in optimal production practices induced by the participation in a contractual agreement and iii) compares the results of a mathematical programming formulation with findings from discrete choice experiments. Specifically, the results of this study were compared with the findings of Vassalos et al. (2013) who used a choice experiment to examine wholesale tomato growers’ preferences for marketing contracts. The following sections provide a detailed discussion regarding the hypothetical farm of the study, the marketing options, the economic model and the production practices examined.

4.2 The Hypothetical Farm

The hypothetical vegetable farm of the study is located in Fayette County, Kentucky (KY). Three reasons dictated the selection of this region. First, Fayette County is among the top vegetable producing counties in the state. Second, Fayette County includes Lexington, a regional urban center with a relative large number of restaurants. Moreover, the increased demand for local products among wholesale buyers and commercial buyers indicates an opportunity to exploit marketing contracts in the area as
an alternative market option (Cable, 2011; Ernst and Woods, 2011). Third, there is an abundance of soil and weather data for Fayette County. These data are essential requirements for the biophysical simulation model as discussed later.

Based on the average size of operation observed in the 2010 Kentucky Produce Planting and Marketing Intentions survey (Woods, 2010), the hypothetical farm is assumed to have five acres of cropland available and grow tomatoes and sweet corn in a rotation with 50% of acres in any year devoted to each crop. The choice of these vegetables is driven by two factors. First, in terms of acres and number of farms tomatoes and sweet corn are the top two vegetables produced in KY (2007 Census of Agriculture). Second, growers can easily rotate among these two crops (Coolong, 2010).

The 2012 vegetable budget files of Mississippi State Budget Generator (Laughlin and Spurlock, 2007; Ibendhal and Halich, 2010) were modified for Fayette County (KY) conditions\(^{19}\) and used to estimate the selected variable costs. A detailed presentation of these costs is reported in Table 4.1.

An important first step for the success of a commercial vegetable farm is the selection of a marketing channel (Rowell, Woods, Mansfield, 1999). For the purposes of the present study the following two marketing options are available: i) wholesale market or ii) a combination of marketing contracts and wholesale marketing. Detailed discussion for these two options is provided in the following section.

\(^{19}\) The required modifications were based on the 2008 vegetable budget developed by University of Kentucky Extension Service and on personal communication with Dr. T. Coolong.
4.3 Marketing Channels

4.3.1 Wholesale Market

Under this option, an intermediary initially buys from the grower and afterwards sells to a retailer or the consumer. Wholesale markets have limited legal requirements for the grower and there is no need for advertisement. On the other hand, the price offered is lower compared to other market outlets such as farmers markets.

To represent the wholesale marketing option, price data for tomato and sweet corn is obtained from the USDA Agricultural Marketing Service (AMS). The AMS terminal market price data set is based on vegetable sales taking place at the local wholesale markets for 15 major cities. The prices reported are those received by wholesalers for products that are of “good merchantable quality” (USDA, 2012). Prices from the Atlanta terminal market in proximity to Kentucky markets are used in this study.

Specifically, the data set utilized includes 13 years (1998-2010) of weekly price data for yellow sweet corn and for three different sizes (medium, large, extra-large) of mature green tomatoes. The Hodrick and Prescott (HP) filter is used to remove the observed yearly trend of the price data. Following Ravn and Uhling (2002) a smoothing parameter ($\lambda$) of 6.25 is used. Finally, the prices were transformed to $/pound and $/dozen ears for tomatoes and sweet corn respectively.

4.3.2 Contract Design

The second marketing option available for the hypothetical grower represents a combination of marketing contracts for large tomatoes and wholesale marketing. A marketing contract is defined as an oral or written agreement between a grower and a

---

20 Only large tomatoes are examined in order to better imitate the conjoint experiment in Vassalos et al. (2013)
buyer (wholesaler, restaurant, grocery store, etc.) who sets some quantity/quality requirements, a price for the product coupled with possible price adjustments, and delivery period requirement (McDonald et al., 2004; Katchova and Miranda, 2004). Marketing contract agreements can act as a tool to coordinate the market, achieve a constant supply of local vegetables, and possibly improve the economic outcome of producers.

Three mutually exclusive marketing contracts (contract 1, contract 2, and contract 3) are defined for this study utilizing different levels of the following eight attributes: early period price, peak period price, late period price, early period volume requirements, peak period volume requirements, late period volume requirements, penalty and certification cost. Early period, refers approximately to the period up to July 10, the peak period covers July and August, and the late period includes September and October. Selection of these time periods is based on focus group discussions with buyers. Definitions for each attribute are reported in Table 4.2.

The present study employs a price per pound mechanism contingent on the quality of the product and the delivery period. The USDA-AMS tomato prices from Atlanta Terminal Market are used as base prices and are modified accordingly following comments from focus groups. Specifically, following the feedback from the focus group, the examined contracts offer the highest price range levels for late period production ($0.70 to $0.84 per pound) followed by early period production ($0.62 to $0.74 per pound) and peak period production ($0.53 to $0.58 per pound). For comparison purposes, the average AMS prices for large tomatoes are $0.67, $0.57, $0.53 for the late, early and peak period respectively.
Regarding volume requirements, the scarcity of detailed yield data leads to the use of biophysical simulation techniques. Since growers do not generally contract all of their production (Katchova and Miranda, 2004), the volume requirements specified on the contract profiles correspond to 10%, 15% and 20% of the average yield calculated by DSSAT, evenly distributed among the three periods (early, peak and late).

If the grower fails to satisfy the requirements of the contract then a penalty clause is activated. The literature examines several possible penalty structures (Wolf et al., 2001; Hueth et al., 1999). For the purposes of the present study, the penalties are defined as a percentage of the full contract price. Specifically, three penalty levels are used in the study: 5%, 10% and 15% of the price. In line with the price determination, the final selection of penalty levels is made following the feedback from the focus groups.

The certification cost attribute refers to lump sum payments that growers have to provide for third party audits conducting quality control. The importance of such costs in the choice of contractual agreements has been mentioned earlier. Based on feedback from the focus groups three levels of certification cost were used: $0 (no certification cost), $500 and $1000. Finally, the volume requirements of the three contracts correspond to 10%, 15% and 20% of the average yields estimated through the biophysical simulation model (discussed in the next section) for each of the three periods (early, peak and late).

Contract 1 consists of a combination of the minimum values of each attribute. Contract 2 includes a combination of the medium levels of each one of the eight attributes. Finally, contract 3 incorporates a combination of the highest price, highest volume requirements, highest penalty levels and highest certification cost (Table 4.2). The selection of these combinations for the examined contracts is made in order to avoid
the existence of a clearly superior contract (i.e. high price, low penalties, zero certification cost).

4.4 Economic Model

The economic environment of the hypothetical wholesale vegetable farm is modeled with a combination of quadratic and integer programming formulation embodied in a mean-variance framework (E-V). Two reasons justify the use of integer programming (IP). First, the contractual agreements offered in the study are mutually exclusive and non-negotiable. This is required in order to imitate the discrete choice experiment environment. IP enables an efficient modeling of such constraints. Second, IP is a powerful and efficient tool when multiple choice sets are considered simultaneously (Danok et al., 1980).

The objective of the model is the maximization of net returns above selected variable costs less the risk aversion coefficient multiplied by the variance of net returns. The risk aversion coefficients are estimated using the McCarl and Bessler (1989) approach. This technique assumes that a grower maximizes the lower limit from a confidence interval of normally distributed net returns. Based on this approach, nine levels of risk aversion are estimated. Each one of these levels corresponds to a 5% increment from the previous one starting from 50% (risk neutral) up to 95% (extreme risk aversion).

Regarding the model formulation, the present essay expanded the model introduced in the second chapter of the dissertation to include the following additions:

\[
\sum_{CONTR} PICK_{CONTR} \leq 1
\]

\[
SHORTAGE_{CONTR,WK,YR} - M * FAIL_{CONTR,WK,YR} \leq 0, \forall CONTR, WK, YR
\]
(4.3) \( \text{CONTRSALES}_{CONTR,WK,YR} + M \cdot \text{FAIL}_{CONTR,WK,YR} \leq M, \forall \text{CONTR,WK,YR} \)

(4.4) \( \sum_{CONTR} \sum_{WK} \text{CONTRSALES}_{CONTR,WK,YR} - M \cdot \text{SATISFY}_{YR} \leq 0, \forall \text{YR} \)

(4.5) \( \sum_{CONTR} \sum_{WK} \text{PENSALES}_{CONTR,WK,YR} - M \cdot \text{SATISFY}_{YR} \leq 0, \forall \text{YR} \)

(4.6) \( \sum_{CONTR} \sum_{WK} \text{FAIL}_{CONTR,WK,YR} + M \cdot \text{SATISFY}_{YR} \leq M + 2, \forall \text{YR} \)

(4.7) \( \text{CONTRSALES}_{CONTR,WK,YR} + \text{PENSALES}_{CONTR,WK,YR} + \text{SHORTAGE}_{CONTR,WK,YR} - \text{CONTRVOL}_{CONTR,WK} \cdot \text{PICK}_{CONTR} = 0 \; \forall \; \text{CONTR,WK,YR} \)

where \( \text{SATISFY}_{YR}, \text{FAIL}_{CONTR,WK,YR}, \text{PICK}_{CONTR} \) are binary variables and \( M \) is a number larger than the highest number of pounds that can be sold under contract (Danok et al., 1980). \( \text{SHORTAGE}_{CONTR,WK,YR} \) is a continuous variable defined as the difference between the contract volume requirements for the different weeks and the large tomato pounds actually produced during those weeks for each of the production years examined.

The first constraint (equation (4.1)) insures that only one, if any, contract will be selected. This approach enables the simulation of the choice experiment described by Vassalos et al. (2013)\(^{21} \), which is one of the objectives of the present study.

If a contract option is selected then the grower will either 1) satisfy the weekly (WK) volume requirements specified by the examined contracts each production year (YR) or 2) fail to satisfy the volume requirements. Under the former option the grower will sell the required amount of tomatoes (CONTRALES) at the original contract price.

\(^{21} \) Under the choice experiment, the growers were asked to select one and only one option from three choices: two distinct marketing contract formulations and the option of “I will not choose any of the offered contracts”. 
Under the latter case the grower will sell the amount of tomatoes produced (PENSALES) under a reduced penalty price.

The aforementioned options are formulated with the use of either/or constraints (Equations (4.2) and (4.3)) and with the use of Boolean logical conditions specified in the model (Equations (4.4) and (4.5)). For instance, if \( \text{FAIL}_{\text{CONTR, WK, YR}} = 0 \) then the constraint (4.3) holds and the grower will be able to meet the contract requirements.

Marketing contracts frequently include disclaimers that allow the buyer to terminate the contractual agreement if the grower repeatedly fails to meet the agreed terms. Equation (4.6) models such a disclaimer. Specifically, it establishes that the contract agreement will be terminated if the grower fails to meet the requirements more than two weeks during that year. Lastly, equation (4.7) establishes the balance requirement for the contract volume. The complete mathematical formulation is presented at appendix B.

In order to estimate whether a given period is suitable for fieldwork, the approach used in Shockley et al. (2011) is employed. Specifically, the probability of not raining more than 0.15 inches per day is calculated based on weather data from 1971 to 2008. This probability was multiplied with the days worked in a week and the hours worked in a day to determine expected suitable field hours per week. Daily weather data for the 38 year period are obtained from the University of Kentucky Agricultural Weather Center.

The model is estimated under two scenarios. In the first one, the grower is able to select some combination among two marketing channels: 1) wholesale marketing only and 2) wholesale marketing and contractual agreements (for large tomatoes). Under the second scenario, sensitivity analyses tests were conducted to examine the effect of price
alterations on the choice of marketing outlet. This approach will help to identify changes
in economic performance production practices resulting from the participation in
marketing contracts.

4.5 Production Environment and Biophysical Simulation Model

Statistical regression equations and simulation models are the two main
techniques used in the literature to overcome yield data limitations (Walker, 1989). The
present study employs a special case of simulation modeling known as biophysical
simulation (Musser and Tew, 1984). Specifically, yield data for tomatoes and sweet corn
are estimated using the Decision Support System for Agrotechnology Transfer (DSSAT
v. 4.0) a biophysical simulation model (Hoogenboom et al., 2003; Jones et al., 2003). The
selection of DSSAT is based on the following three reasons: i) it is well documented, ii)
it has been validated in numerous studies over the last 15 years and iii) it incorporates
modules for tomatoes and sweet corn.

The minimum data requirements to generate yield estimates using DSSAT
include: i) soil data, ii) daily weather data and iii) production practices information for
the region and crops under consideration. These data sets are obtained from the National
Cooperative Soil Survey of NRCS, the University of Kentucky Agricultural Weather
Center and the University of Kentucky Extension Service Bulletins (Coolong et al., 2010)
respectively.

Based on the soil maps the most common soil type in Fayette County (KY) is silt
loams with 65% of the soil classified as deep silt loams and 35% as shallow. This
distinction is based on the percent slopes from the soil maps. Specifically, following
Shockley (2010), soils with slopes less than 6% are characterized as shallow and soils
with slopes between 6% and 20% as deep. In order to better simulate the soil conditions of the examined region, the default soil types of DSSAT were modified. The parameters altered include soil color, runoff potential, drainage and soil slope. The exact soil specifications are reported at Table 4.3.

The weather data set used in the study includes daily climate information (minimum/maximum temperature, precipitation) for 38 years (1971-2008). The data set was finalized with the estimation of solar radiation from the DSSAT v. 4.0 weather module.

The production practices data set contains information for transplanting period (tomatoes), planting period (sweet corn), harvesting period, irrigation requirements, plant population, planting depth, fertilization requirements and cultivar types. In the examined region, tomato transplant extends from early May (spring crop) through early August (fall crop) and sweet corn is planted from April 20 to July 20. Tomatoes are typically harvested 65 to 80 days after transplant and sweet corn is usually harvested 70 to 95 days after planting.

4.5.1 Yield Estimates and Validation

Yield estimation for all the possible combinations of transplanting/planting and harvesting periods requires coding of more than 9500 treatments\(^{22}\) in DSSAT which is beyond the scope and objectives of the present essay. In order to reduce the number of treatments, the examined production practices include eight bi-weekly transplanting days for tomatoes (starting May 1), nine weekly planting days for sweet corn (starting April

---

\(^{22}\)\((120\) transplanting days\(^*\) 15 harvesting days for tomatoes\)+\((120\) planting days \(^*\)25 harvesting days for sweet corn\)\(^*\)2 for the 2 soil types
25) and four weekly harvest periods for each crop. One cultivar is examined for each crop since only one is available in DSSAT v 4.0.

One of the most important aspects in biophysical simulation modeling is the validation of the estimated yields. Considering the lack of yield data in the examined region (Fayette County, KY) the following two non-statistical validation methods are employed: i) expert’s opinion and ii) comparison with findings from previous studies.

Specifically, for the former approach, the initial yield estimations were presented to Dr. Timothy Coolong\textsuperscript{23} and he was asked whether or not they were a reasonable representation of yields in Central Kentucky for tomatoes and sweet corn. Following Dr. Coolong’s recommendations, three harvesting periods for tomatoes (63, 70, 77 days) and one for sweet corn (84 days) are kept in the final model formulations. The simulated yields were considered as higher than what an average vegetable grower can achieve but not unreasonable for the best producers. Yields estimated for harvesting periods 84 days after transplanting for tomatoes and 70, 77 and 91 days after planting for sweet corn are removed from the yield data set since they were considered as not achievable in the examined area. Tables 4.4 and 4.5 provide detailed information regarding the production practices examined and summary statistics for the simulated yields respectively.

For the latter approach trends observed in previous research were compared with trends in the simulated yield data set. As such, in line with Hossain et al. (2004), Huevelink (1999) and Schweers and Grimes (1976), the simulated tomato yields had approximately a bell shaped form and are substantially influenced by the transplanting period (Figure 4.1). Regarding sweet corn, consistent with Williams (2008) and Williams and Linquist (2007) planting period plays an important role in production (Figure 4.2).

\textsuperscript{23} Extension Vegetable Specialist, Assistant Extension Professor, University of Kentucky
Since the weather conditions and soil data in Fayette County (KY) are different from the ones in the previously mentioned studies, absolute yield values are not compared. However, in order to provide further validation, the simulated yields for tomatoes and sweet corn are compared with experimental trials that conducted in Central and Eastern Kentucky. For tomatoes, the simulated yields compare favorably to the highest yielding cultivars in the experimental trials (Rowell et al., 2004; Rowell et al., 2005; Rowell et al., 2006; Coolong et al., 2009). Regarding sweet corn, the average simulated yields are slightly lower than the best yellow cultivar of the experimental trials (Jones and Sears, 2005).

4.6 Results

The findings of the mathematical programming formulation indicate that wholesale marketing is preferred, over a combination of wholesale marketing and marketing contracts, for all risk aversion levels (Table 4.6). This result are in line with Vassalos et al. (2013) who illustrated that, on average, wholesale growers do not suffer utility loss if a contract option is not available to them. The primary reason for not selecting a mix of wholesale marketing and contracts lies in the yield losses associated with the earlier production, required by a marketing contract agreement (Figure 4.1). In agreement with the underlying theory, as risk aversion levels increase growers’ trade off expected net returns for lower variance. For instance, the net returns for an extremely risk averse grower (level 9) correspond to 80% of the maximum possible net returns coupled with a reduction in coefficient of variation (C.V.) from 24.52% to 16.18% (Table 6).

Compared to other agronomic crops, fresh vegetables have fewer storage opportunities and therefore an inelastic supply at a given time period. Consequently, in
order to satisfy the requirements of the selected market outlet and achieve the optimal economic outcome growers have to carefully plan their planting and harvesting activities.

Table 4.7 reports the optimal production schedule and land allocation for four of the examined risk aversion levels. The findings indicate that the optimal schedule for a risk neutral grower, seeking to maximize net returns, includes a combination of late transplanting/harvesting period for tomatoes and late planting for sweet corn. Specifically, July 10 and July 24 are selected as optimal transplanting periods for tomatoes and June 21 as optimal planting for sweet corn. Regarding tomato harvesting, 77 days after transplant is the time selected as optimal (Table 4.7). All the available five acres are utilized.

The following three alterations are adopted as risk aversion levels increase: 1) gradually shift focus towards earlier transplanting periods for tomatoes (June 12 instead of July 10), 2) earlier planting for sweet corn (from June 21 to May 23) and 3) expand the number of optimal transplanting periods from two to three for the highest risk aversion level level (Table 4.7). These strategies help to reduce the variation in net returns, which is an objective for risk averse growers. The reduction in C.V. results from a reduced price variation. Specifically, the price coefficient of variation drops from 19% (July 24, 77 days harvest) to 10% (June 12, 77 days harvest). Similarly to the risk neutral case, all five acres are utilized.

The results from Vassalos et al. (2013) indicated that growers are more likely to participate in a marketing contract agreement if the early price offered is higher. Consequently, an intriguing research question is to examine the impact of higher contract prices, ceteris paribus, on the choice of optimal marketing outlet in the mathematical
programing framework. In order to answer this question sensitivity analyses were conducted. Specifically, for the risk neutral case, the following four scenarios are examined: i) increase only in the early period price, ii) increase only in the peak period price, iii) increase only in the late period price and iv) increase all prices simultaneously. The findings indicate that the combination of wholesale and marketing contracts is preferred, for the first time, when all three prices increase simultaneously by 70%. The contract selected as optimal under this scenario is contract 3.

If the model formulation “enforces” participation in a marketing contract agreement, by increasing the contract prices, then the optimal production practices are significantly altered compared to those under only wholesale marketing. Specifically, two major changes occur under this scenario for a risk neutral grower: 1) Harvesting 70 and 77 days after transplanting is preferred, instead of after 77 days only and 2) transplanting occurs all eight of the examined weeks between May 1 and August 7 (Table 4.8). However, transplanting at July 10 and harvesting 77 days later is still the period with the greater number of acres with tomatoes. No alteration is realized for sweet corn production practices (Table 4.8). The aforementioned changes are required in order to satisfy the volume requirements of the contract and receive the higher prices.

4.7 Conclusions

The present study employed a whole farm modeling approach to investigate optimal marketing strategies for fresh vegetable growers, under different risk aversion levels. Specifically, a combination of integer and quadratic programming are used to model the economic environment of a vegetable farm located at Fayette County,
Kentucky. Two marketing options, wholesale marketing only and a combination of wholesale marketing with marketing contracts, are examined.

The former approach is characterized by greater volatility in prices, but provides increased freedom to the grower regarding the choice of production practices. The latter option provides higher and more stable prices but requires constant production throughout the year, additional cost in the form of third party audits and reduced yield compared to wholesale marketing only.

The findings of the study indicated that wholesale marketing is preferred over a combination of wholesales and marketing contracts. Risk aversion levels influenced the selection of optimal production practices but not the choice of marketing outlet. Furthermore, findings from a sensitivity analysis illustrated that when all three contract prices (early, peak, late) are increased simultaneously, from the base price scenario, a risk neutral grower will prefer the combination of wholesale marketing and contracts over only wholesale marketing.

When the grower selects a combination of wholesale marketing and contractual agreements as a market outlet two main changes in production practices are noticed compared to wholesale marketing only. First, transplanting dates cover the whole period allowed. Second, harvesting occurs during multiple time periods.

The findings of the study may act as a guide for the growers. In particular, the results highlight the importance of a carefully scheduled production plan in order to achieve the best possible economic outcome for commercial fresh vegetable production.

Limitations of this study are related with the use of biophysical simulation modeling to overcome yield data limitations. Specifically, DSSAT v 4.0 includes only
one variety for tomatoes and sweet corn that are not commonly used in Kentucky.

Finally, future work may investigate how the results change if i) the model is utilized in areas where marketing contracts are a more common practice, or, ii) with the inclusion of a farmers’ market option if the required price data are available.
Figure 4.1: Simulated Tomato Yields\textsuperscript{24}

The graph depicts average tomato yields across years and soil types.

\textsuperscript{24} The graph depicts average tomato yields across years and soil types.
Figure 4.2: Sweet Corn Yields$^{25}$

The graph depicts average sweet corn yields across years and soil types. Harvesting period is 84 days after planting.
<table>
<thead>
<tr>
<th>Type of Expense</th>
<th>Cost ($)</th>
<th>Type of Expense</th>
<th>Cost($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tomato Expenses</td>
<td></td>
<td>Sweet Corn Expenses</td>
<td></td>
</tr>
<tr>
<td>Fertilizer</td>
<td>319.67</td>
<td>Fertilizer</td>
<td>194.16</td>
</tr>
<tr>
<td>Herbicide</td>
<td>2.33</td>
<td>Herbicide</td>
<td>21.16</td>
</tr>
<tr>
<td>Insecticide</td>
<td>97.47</td>
<td>Insecticide</td>
<td>208.10</td>
</tr>
<tr>
<td>Seed &amp; planting supplies</td>
<td>1575.08</td>
<td>Seed &amp; planting supplies</td>
<td>126.00</td>
</tr>
<tr>
<td>Labor</td>
<td>3688.26</td>
<td>Labor</td>
<td>116.58</td>
</tr>
<tr>
<td>Machinery expenses</td>
<td>139.69</td>
<td>Machinery expenses</td>
<td>66.76</td>
</tr>
<tr>
<td>Other expenses (i.e. boxes)</td>
<td>1600.00</td>
<td>Other expenses (i.e. crates)</td>
<td>580.00</td>
</tr>
<tr>
<td>Interest on capital</td>
<td>76.00</td>
<td>Interest on capital</td>
<td>10.58</td>
</tr>
<tr>
<td>Irrigation supplies</td>
<td>627.00</td>
<td>Irrigation supplies</td>
<td>410.00</td>
</tr>
<tr>
<td>Variable</td>
<td>Description</td>
<td>Levels</td>
<td></td>
</tr>
<tr>
<td>---------------</td>
<td>--------------------------------------------------</td>
<td>--------</td>
<td></td>
</tr>
<tr>
<td>Early Price</td>
<td>Price offered for late June- Early July ($/lb)</td>
<td>0.62</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>0.68</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>0.74</td>
<td></td>
</tr>
<tr>
<td>Peak Price</td>
<td>Price offered for July-August ($/lb)</td>
<td>0.53</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>0.55</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>0.58</td>
<td></td>
</tr>
<tr>
<td>Late Price</td>
<td>Price offered for September – October ($/lb)</td>
<td>0.70</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>0.77</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>0.84</td>
<td></td>
</tr>
<tr>
<td>Early Volume</td>
<td>Volume requirements for Late June- Early July</td>
<td>323</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(lbs./week)</td>
<td>353</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>382</td>
<td></td>
</tr>
<tr>
<td>Peak Volume</td>
<td>Volume requirements for July- August (lbs./week)</td>
<td>753</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>809</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>882</td>
<td></td>
</tr>
<tr>
<td>Late Volume</td>
<td>Volume requirements for September- October</td>
<td>632</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(lbs./week)</td>
<td>691</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>735</td>
<td></td>
</tr>
<tr>
<td>Penalties</td>
<td>Price reduction if the contract agreements are</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>not satisfied (% of price)</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>Certification Cost</td>
<td>3rd party audit cost ($)</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>500</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>1000</td>
<td></td>
</tr>
</tbody>
</table>
Table 4.3: Soil Characteristics

<table>
<thead>
<tr>
<th>Soil</th>
<th>Color</th>
<th>Drainage</th>
<th>Runoff Potential</th>
<th>Slope (%)</th>
<th>Runoff Curve #</th>
<th>Albedo</th>
<th>Drainage rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deep Silty Loam (65%)</td>
<td>Brown</td>
<td>Moderately Well</td>
<td>Lowest</td>
<td>3</td>
<td>64</td>
<td>0.12</td>
<td>0.4</td>
</tr>
<tr>
<td>Shallow Silty Loam (35%)</td>
<td>Brown</td>
<td>Somewhat Poor</td>
<td>Moderately Low</td>
<td>9</td>
<td>80</td>
<td>0.12</td>
<td>0.2</td>
</tr>
</tbody>
</table>

Source: Shockley, 2010
Table 4.4: Summary of Production Practices Used in the Biophysical Simulation Model

1) Tomato Production Practices

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transplanting date</td>
<td>May 1, May 15, May 29, June 12, June 26, July 10, July 24, August 7</td>
</tr>
<tr>
<td>Harvesting period</td>
<td>63, 70, 77 days after transplant</td>
</tr>
<tr>
<td>Cultivar</td>
<td>BHN 66</td>
</tr>
<tr>
<td>Actual N/week (lbs/acre)</td>
<td>10</td>
</tr>
<tr>
<td>Irrigation</td>
<td>Drip irrigation, 1 inch water/week</td>
</tr>
<tr>
<td>Plant population (plants/acre)</td>
<td>5,000</td>
</tr>
<tr>
<td>Transplant age</td>
<td>42 days</td>
</tr>
<tr>
<td>Planting depth</td>
<td>2.5 inches</td>
</tr>
<tr>
<td>Assumptions</td>
<td>Dry Matter = 6%, Cull ratio = 20%</td>
</tr>
</tbody>
</table>

2) Sweet Corn Production Practices

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planting date</td>
<td>April 25, May 2, May 9, May 16, May 23, May 30, June 7, June 14, June 28</td>
</tr>
<tr>
<td>Harvesting period</td>
<td>84 days after planting</td>
</tr>
<tr>
<td>Cultivar</td>
<td>Sweet corn cultivar of DSSAT v. 4</td>
</tr>
<tr>
<td>Actual N/week</td>
<td>2 applications of Ammonium Nitrate. One pre-plant (90 lb. actual N/acre) and a second 4 weeks after planting (50 lb. actual N/acre)</td>
</tr>
<tr>
<td>Irrigation</td>
<td>Drip irrigation, 1 inch water/week</td>
</tr>
<tr>
<td>Plant population (plants/acre)</td>
<td>20,000</td>
</tr>
<tr>
<td>Planting depth</td>
<td>2 inches</td>
</tr>
<tr>
<td>Assumptions</td>
<td>Dry matter =24%, Cull ratio= 3%, Ear weight = 0.661 pounds</td>
</tr>
</tbody>
</table>
### Table 4.5: Summary Statistics

<table>
<thead>
<tr>
<th>Tomato Yields by Size (simulated)</th>
<th>Medium</th>
<th>Large</th>
<th>Extra Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average (pounds/acre)</td>
<td>6,580</td>
<td>26,321</td>
<td>10,967</td>
</tr>
<tr>
<td>Standard Deviation</td>
<td>1,976.92</td>
<td>7,907.67</td>
<td>3,294.86</td>
</tr>
<tr>
<td>Coefficient of Variation</td>
<td>30.00</td>
<td>30.00</td>
<td>30.00</td>
</tr>
<tr>
<td>Maximum Yield</td>
<td>10,425</td>
<td>41,700</td>
<td>17,375</td>
</tr>
<tr>
<td>Minimum Yield</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Tomato Prices</th>
<th>Medium</th>
<th>Large</th>
<th>Extra Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average ($/25 pound boxes)</td>
<td>$15.04</td>
<td>$15.56</td>
<td>$16.31</td>
</tr>
<tr>
<td>Standard Deviation</td>
<td>3.12</td>
<td>3.48</td>
<td>3.84</td>
</tr>
<tr>
<td>Coefficient of Variation</td>
<td>20.00</td>
<td>22.00</td>
<td>23.00</td>
</tr>
<tr>
<td>Maximum Price ($/25 pound box)</td>
<td>29.55</td>
<td>30.58</td>
<td>30.70</td>
</tr>
<tr>
<td>Minimum Price ($/25 pound box)</td>
<td>8.99</td>
<td>9.77</td>
<td>9.68</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sweet Corn Yield (simulated, one size)</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Average (ears/acre)</td>
<td>12,687</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Standard Deviation</td>
<td>6,140</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coefficient of Variation</td>
<td>47.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maximum Yield</td>
<td>28,579</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minimum Yield</td>
<td>903</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sweet Corn Price</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Average ($/crate)</td>
<td>$13.04</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Standard Deviation</td>
<td>3.94</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coefficient of Variation</td>
<td>30.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maximum Price ($/crate)</td>
<td>33.78</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minimum Price ($/crate)</td>
<td>6.56</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: DSSAT model yield results, Atlanta Agricultural Market Station prices

---

26 The maximum and minimum yields reported on the table refer to different production practices, thus one is not expected to add the maximum yield of medium, large and extra-large to obtain maximum yield per acre.
Table 4.6: Net Returns Above Variable Costs

<table>
<thead>
<tr>
<th>Risk Levels$^a$</th>
<th>Optimal Market Outlet</th>
<th>Mean Net returns</th>
<th>% of Max. net returns</th>
<th>Standard Deviation</th>
<th>Coefficient of Variation (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk neutral</td>
<td>Wholesale</td>
<td>85,382</td>
<td>100 %</td>
<td>20939</td>
<td>24.52</td>
</tr>
<tr>
<td>1 (z= 55%)</td>
<td>Wholesale</td>
<td>85,288</td>
<td>99.8 %</td>
<td>20747</td>
<td>24.33</td>
</tr>
<tr>
<td>2 (z= 60%)</td>
<td>Wholesale</td>
<td>83,779</td>
<td>98.0 %</td>
<td>18452</td>
<td>22.02</td>
</tr>
<tr>
<td>3 (z= 65%)</td>
<td>Wholesale</td>
<td>82,301</td>
<td>96.2 %</td>
<td>16914</td>
<td>20.55</td>
</tr>
<tr>
<td>4 (z= 70%)</td>
<td>Wholesale</td>
<td>80,066</td>
<td>93.3 %</td>
<td>15363</td>
<td>19.19</td>
</tr>
<tr>
<td>5 (z= 75%)</td>
<td>Wholesale</td>
<td>78,001</td>
<td>90.5 %</td>
<td>14120</td>
<td>18.10</td>
</tr>
<tr>
<td>6 (z= 80%)</td>
<td>Wholesale</td>
<td>76,581</td>
<td>88.5 %</td>
<td>13399</td>
<td>17.50</td>
</tr>
<tr>
<td>7 (z= 85%)</td>
<td>Wholesale</td>
<td>75,200</td>
<td>86.4 %</td>
<td>12816</td>
<td>17.04</td>
</tr>
<tr>
<td>8 (z= 90%)</td>
<td>Wholesale</td>
<td>73,231</td>
<td>83.4 %</td>
<td>12098</td>
<td>16.52</td>
</tr>
<tr>
<td>9 (z= 95%)</td>
<td>Wholesale</td>
<td>71,591</td>
<td>80.7 %</td>
<td>11581</td>
<td>16.18</td>
</tr>
</tbody>
</table>

$^a$ Following McCarl and Bessler (1989), under the assumption of normal distribution, the risk levels are given by: \( r(X) = \frac{2z}{\sigma_y} \)
Table 4.7: Summary of Optimal Production Practices by Risk Attitude

| Risk Levels | Transplanting Date | Tomatoes | | | | | Sweet Corn | | | | |
|-------------|---------------------|----------|----------|----------|----------|----------|----------|----------|----------|
|             | DSL | SSL       | DSL | SSL |         | DSL | SSL |         |
| Risk Neutral | July 10 | 27.0% | 14.7% | June 21 | 32.5% | 17.5% |         |
|              | July 24 | 5.2% | 2.8% |         |         |         |         |         |
| 3 (z=65%) | June 12 | 5.4% | 3.0% | May 23 | 32.5% | 17.5% |         |
|              | July 10 | 27.0% | 14.6% |         |         |         |         |         |
| 5 (z=75%) | June 12 | 16.6% | 9.0% | May 23 | 32.5% | 17.5% |         |
|              | July 10 | 16.0% | 8.6% |         |         |         |         |         |
| 7 (z=85%) | June 12 | 23.0% | 12.4% | May 23 | 32.5% | 17.5% |         |
|              | July 10 | 8.4% | 4.4% |         |         |         |         |         |
|              | July 24 | 1.2% | 0.6% |         |         |         |         |         |

27 Optimal harvesting period for tomatoes, for all the risk aversion levels and for both models, is 77 days after transplanting.
Table 4.8: Production Practices Under Contract (Risk Neutral Only)

<table>
<thead>
<tr>
<th>Transplanting Date</th>
<th>Harvesting Period</th>
<th>Tomatoes Acres (% of total) DSL</th>
<th>Tomatoes Acres (% of total) SSL</th>
<th>Sweet Corn Planting Day</th>
<th>Sweet Corn Acres (% of total) DSL</th>
<th>Sweet Corn Acres (% of total) SSL</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 1</td>
<td>70</td>
<td>0.32</td>
<td>0.18</td>
<td>June 21</td>
<td>32.5%</td>
<td>17.5%</td>
</tr>
<tr>
<td>May 15</td>
<td>70</td>
<td>0.52</td>
<td>0.28</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>May 29</td>
<td>70</td>
<td>0.48</td>
<td>0.26</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>June 12</td>
<td>70</td>
<td>0.44</td>
<td>0.24</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>June 26</td>
<td>70</td>
<td>0.42</td>
<td>0.22</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>July 10</td>
<td>70</td>
<td>0.38</td>
<td>0.20</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>July 24</td>
<td>70</td>
<td>0.40</td>
<td>0.22</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>August 7</td>
<td>70</td>
<td>0.68</td>
<td>0.36</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>May 1</td>
<td>77</td>
<td>0.24</td>
<td>0.12</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>May 15</td>
<td>77</td>
<td>0.42</td>
<td>0.22</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>May 29</td>
<td>77</td>
<td>0.38</td>
<td>0.20</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>June 12</td>
<td>77</td>
<td>0.38</td>
<td>0.20</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>June 26</td>
<td>77</td>
<td>0.36</td>
<td>0.20</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>July 10</td>
<td>77</td>
<td>26.74</td>
<td>14.4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>July 24</td>
<td>77</td>
<td>0.36</td>
<td>0.18</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>August 7</td>
<td>77</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Chapter 5: Conclusions and Future Work

The present dissertation combined mathematical programming and discrete choice experiment techniques in a three essays format to investigate: 1) fresh vegetable growers’ choice of optimal production practices and market outlet under different risk aversion levels, ii) the impact of season price versus annual price trend consideration on the optimal choice and iii) growers’ preferences for marketing contracts.

Four main data sets are used to achieve the research objectives. First, biophysical simulation modeling is employed to overcome yield data limitations. This approach facilitated the development of an extensive data set, for tomatoes and sweet corn, that includes yield information for different production practices, soil and weather conditions. Second, primary data are used to evaluate growers’ preferences for marketing contracts. Third, the required price data for the analysis are obtained from the USDA agricultural market stations (Atlanta). Lastly, production practice data (for example tomato transplanting periods, sweet corn planting periods, and fertilizer requirements) are obtained from University of Kentucky Extension Service production guideline bulletins.

The contribution of this dissertation to the literature is threefold. Specifically, it is the first research endeavor that: i) examines the interaction among production practices, market timing and risk aversion for vegetable production, ii) investigates growers’ preferences for marketing contracts as well as the effect of risk perception on the contract choices and iii) employs biophysical simulation for an economic study on vegetables.

The second chapter of the dissertation investigates the role of risk aversion and price distribution knowledge on the choice of optimal production practices for a hypothetical wholesale vegetable grower in Fayette County, Kentucky. Two scenarios are examined: 1) the grower considers seasonal price trends and 2) the grower considers only
annual price trends. Quadratic programming formulation, embodied in a mean-variance framework, is used to model the economic environment of the hypothetical farm. This approach enabled consideration of competition among resources for the two crops (tomatoes and sweet corn) and permitted the examination of ten different risk aversion levels.

The findings indicate that a risk neutral grower, aiming to maximize net returns, should primarily focus on late production both for sweet corn and tomatoes (June 21 and July 10 respectively). As the risk aversion level increases a couple of alterations in production practices are highlighted to reduce growers’ risk exposure. First, growers’ should shift focus to earlier planting/transplanting periods, and thus earlier marketing periods. Second, for high risk averse growers, the number of optimal transplanting periods is increased (from two to three). Moreover, in line with the initial expectations, the findings indicate that if the grower knows considers seasonal price variation then he/she can substantially improve the expected net returns and better manage risk.

Besides modifying production practices, growers can mitigate risk with participation in marketing outlets that offer more stable prices throughout the season compared to a wholesale only option. An example of such an outlet is the use of marketing contract agreements. Despite the very rich literature regarding factors affecting participation in contracts (i.e., age, education, etc.) the research regarding growers’ preferences for marketing or productions contracts is rather limited.

The third chapter of the dissertation is an effort to fill this gap. Specifically, with the use of a discrete choice experiment, the manuscript identifies fresh vegetable growers’ preferences for eight marketing contract attributes and the role of risk
perception as well as the role of risk preferences in the choice of contracts. The attributes examined are early period price, late period price, peak period price, early period volume requirements, peak period volume requirements, late period volume requirements, penalty and certification cost.

The main data set used in the manuscript is obtained from a mail survey administrated to 315 wholesale tomato growers in Kentucky, Illinois, Ohio and Indiana. Conditional logit and mixed logit models are used to analyze preferences. Both models indicate that growers prefer contracts with higher early price offered coupled with lower penalties and certification cost. The mixed logit formulation revealed that, on average, growers do not suffer from utility loss if they do not have a contract choice offered. However, the results also indicate heterogeneity in preferences among growers. Lastly, the findings indicate that risk aversion and risk preferences have a minimal impact on the choice of contract agreements.

Chapter four combines the previous two chapters. Specifically, the model formulation of chapter two is extended, with the use of integer programing, in order to enable the inclusion of a combination of wholesale marketing and marketing contracts as an alternative to wholesale only. Three marketing contracts and ten risk aversion levels are examined. The findings indicate that, irrespectively of risk aversion, wholesale marketing is preferred over the combination of wholesale marketing and marketing contracts. Although risk aversion levels do not influence the choice of marketing outlet, the findings indicate that they affect the choice of optimal production practices. This finding is in line with the results of the second chapter. Furthermore, sensitivity analyses findings illustrated that a combination of wholesale marketing and marketing contracts is
preferred when the prices for all periods (early, peak, and late) are increased. This finding differs from the results in chapter 3 indicating that growers prefer contracts with higher early price.

In summary, the findings of the dissertation provide valuable insights both to growers and to buyers. More precisely, the results identified critical aspects that can help mitigate the risk associated with fresh vegetable production and achieve the optimal economic outcome. For instance, consideration of seasonal price information and appropriate selection of production timing, based on the risk levels of the grower, are two of these factors. Furthermore, the information regarding growers’ preferences for marketing contracts can be utilized by buyers in order to create contracts that can attract greater participation of growers.

As far as future research endeavors are concerned, a number of possibilities exist. First, if the required price data sets are available, inclusion of additional marketing options (i.e. farmers’ market, CSA marketing, etc.) can be incorporated in the model to examine how growers’ optimal marketing decisions are modified. Furthermore, the findings of the study can be compared with either choice experiments or mathematical programming formulations examining preferences for locations where marketing contracts are more commonly used and fresh vegetable farming is more popular. Lastly, an intriguing topic may be the inclusion of more than two crops in the examined model formulations.

Last but not least, without doubt there will be errors, omissions and oversimplifications for which I take absolute responsibility, while hoping that the rest of the
material will be enough to stimulate new trains of thought into the economics of fresh vegetable production and marketing.
Appendices

Appendix 1: Survey Questionnaire

University Of Kentucky

Tomato Marketing Study

Thank you for agreeing to participate in this research. In this survey, we are interested in your opinions and choices of possible marketing contracts for fresh tomatoes. You will need about 15-20 minutes to complete the survey. We appreciate your time.
We would like to start the survey by learning about the characteristics of your farm. The person who answers the survey should be the one that is primarily involved in the management of the farm.

A1. Where is your farm business located?  
State: ____________  
County: _________  
Zip Code: _______

A2. What is your total farm size?  
- 0.1 to 0.9 acres  
- 1 to 4.9 acres  
- 5 to 14.9 acres  
- 15 to 24.9 acres  
- 25 to 49.9 acres  
- 50 to 99.9 acres  
- More than 100 acres

A3. How many acres are dedicated to field grown production?  
- 0.1 to 0.9 acres  
- 1 to 4.9 acres  
- 5 to 14.9 acres  
- 15 to 24.9 acres  
- 25 to 49.9 acres  
- 50 to 99.9 acres  
- More than 100 acres

A4. Are you involved with any greenhouse or protected tomato production?  
- No  
- Yes

A5. Are you in a position to expand your operation to grow more tomatoes if the right opportunity came along?  
- No  
- Yes

A6. Over the last three years, your tomato production has:  
- Decreased  
- Stayed the same  
- Increased
A7. Do you have experience growing grain crops?

☐ No  ☐ Yes

A8. What marketing channel(s) are you using for your vegetable crops (check all that apply)?

☐ Direct marketing (i.e. farmer’s market, on farm sales, CSA’s, u-pick etc.)
☐ Local Wholesalers (i.e. local grocers, DSDs or restaurants)
☐ Regional Wholesalers (i.e. chain store distribution centers, terminal markets, brokers etc.)
☐ Marketing Cooperatives
☐ Produce Auctions
☐ Other ______________________

A9. For the field grown tomatoes on your farm, please provide the following information

Acres with field grown tomatoes: ______________ acres

Average yield (lbs./acre or # of 25 pound boxes) the last 3 years: __________________________ (units)

Typical transplanting periods (dd/mm): ____________________

__________________

__________________

__________________
Now, we would like to know a bit more about your perception and your experience with marketing contracts.

Marketing contracts, in the context of this survey, refer to a written agreement between a producer and a buyer that sets a price and possible price adjustments (i.e. penalties for bad quality) as well as an outlet for the vegetables produced before harvest or before the commodity is ready to be marketed. The grower assumes all risk related to amount produced, but shares risk related to market price with the buyer.

B1. Have you ever participated in a marketing contract agreement for any kind of agricultural product?

☐ No ☐ Yes

B2. Would you be interested in participating in produce marketing contract agreements?

☐ No ☐ Maybe, depending on the terms ☐ Yes

B3. Please, rank the top four reasons that would encourage you to use a marketing contract (1= the least important and 4 = the most important reason)

☐ Reduce price risk  ☐ Opportunity to sell higher volume
☐ Secure income  ☐ Prior experience with contracts
☐ No need to worry about supply channels  ☐ Lower distribution cost
☐ Access new market opportunities  ☐ Maintenance of future relationship with buyers
☐ Bonuses for better quality  ☐ Other (Specify):

B4. Please, rank the top four reasons that would discourage you from using marketing contracts for your vegetable production (1= the least important and 4= the most important reason)

☐ Difficult to satisfy quality requirements  ☐ Unhappy with the quality terms
☐ Unhappy with the price terms  ☐ Delivery time
☐ Severe penalties  ☐ Method of payment
☐ Inflexibility to pursue other markets  ☐ Not enough information about contracts
☐ Cost of enforcement  ☐ Difficult to satisfy volume requirements
☐ “Bad” previous experience  ☐ Not enough land
☐ Other: (Specify)
C1. With the following questions we would like to learn a bit more about your risk comfort levels.

Please consider the choice you would make in the following hypothetical situation:

You will be given 150 tomato plants (in 5 bundles of 30 plants each) for free, to use in the coming season. There are two types of plants, A and B, and you can choose any combination of the two that totals 5 bundles.

The A and B plants have different levels of resistance to tomato diseases. The A plants have potentially higher harvests but are more vulnerable to disease. If disease does not occur, the A plants will produce a harvest worth $30 per bundle. However if disease occurs (50% of the time), the A plants’ harvest is worthless ($0 per bundle). The B plants are disease-resistant and always produce a harvest worth $10 per bundle.

The following table illustrates the different combinations of type A and B plants that you could receive, and the value of their combined harvests based on the weather. Please check one box to indicate which combination of plants you would choose.

<table>
<thead>
<tr>
<th>I choose (check one of the six combinations A-F below)</th>
<th>Bundles of 30 type A plants</th>
<th>Bundles of 30 type B plants</th>
<th>If disease does not occur (50%)</th>
<th>If disease occurs (50%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>o A 0</td>
<td>5</td>
<td>$50</td>
<td>$50</td>
<td></td>
</tr>
<tr>
<td>o B 1</td>
<td>4</td>
<td>$70</td>
<td>$40</td>
<td></td>
</tr>
<tr>
<td>o C 2</td>
<td>3</td>
<td>$90</td>
<td>$30</td>
<td></td>
</tr>
<tr>
<td>o D 3</td>
<td>2</td>
<td>$110</td>
<td>$20</td>
<td></td>
</tr>
<tr>
<td>o E 4</td>
<td>1</td>
<td>$130</td>
<td>$10</td>
<td></td>
</tr>
<tr>
<td>o F 5</td>
<td>0</td>
<td>$150</td>
<td>$0</td>
<td></td>
</tr>
</tbody>
</table>

C2. With respect to the conduct of business, I avoid taking risk (select one):

I strongly disagree I Strongly Agree

o -4 o -3 o -2 o -1 o 0 o 1 o 2 o 3 o 4

C3. With respect to the conduct of business, I prefer certainty to uncertainty (select one):

I strongly disagree I Strongly Agree

o -4 o -3 o -2 o -1 o 0 o 1 o 2 o 3 o 4
C4. I like “playing it safe” (select one):
I strongly disagree  I Strongly Agree
-4  -3  -2  -1  0  1  2  3  4
Suppose you have the opportunity to enter a marketing contract agreement for fresh tomatoes. In the following choice situations you will be presented with a series of options for marketing contracts. Each choice situation contains three options described by their characteristics. Please select the option that is better for you. Please, bear in mind that:

- Please choose ONLY ONE OPTION in each situation
- Marketing contracts A and B given in each situation are identical in all other features not specifically listed
- Assume that the options in EACH situation are the ONLY ones available
- Do NOT compare options in different situations

In the following six choice situations you will be considering marketing contracts for Large Tomatoes US #1. Average Prices from Agricultural Market Service (Atlanta Terminal Market) for the period 1998-2010 were: $0.54/lb for June, $0.53 for July-August and $0.64 for September-October.

**Delivery Period:** 1) early refers to late June early July (approximately 3 weeks up until 4th of July), peak period refers to July and August (approximately 8 week period) and, 3) late refers to September and October (approximately 8 week period).

**Penalties** refer to price reduction in case that the producer fails to deliver the agreed volume and quality. The terminate contract option means that the contract is no longer valid and the producer has to sell the production in the spot market.

Options A and B correspond to two different possibilities of marketing contract arrangements. Under the no contract option the producer will receive market price.

**Certification Cost** refers to a dollar amount that the producer has to pay to a third agency that will verify the quality of production (3rd party audit).

Once again, suppose you are making these choices in real life. Please, try to select the options that would be closest to what you would do in real life.
## SITUATION 1\(^{28}\)

| Delivery Period | Contract A | | Contract B | | No Contract |
|------------------|------------|------------------|------------------|------------------|
|                   | Price / Pound | Volume (pounds/ acre/ week) | Penalty | Certification Cost | Price / Pound | Volume (pounds/ acre/ week) | Penalty | Certification Cost |
| Early             | $ 0.62     | 2,200/acre/week | Terminate\(^{29}\) | $0      | $ 0.74     | 2,600/acre/week | 5%      | $1000 |
| Peak              | $ 0.55     | 5,500/acre/week | Terminate | $0      | $0.53      | 6,000/acre/week | 5%      | $1000 |
| Late              | $ 0.70     | 5,100/acre/week | Terminate | $0      | $0.77      | 4,300/acre/week | 5%      | $1000 |

Please choose only one option:

- □ Contract A  
- □ Contract B  
- □ No Contract

---

\(^{28}\) Penalties refer to a price reduction if the producer fails to deliver the required quantity/ quality of tomatoes

\(^{29}\) Terminate contract means that the contract will no longer be valid if the grower fails to deliver the required quality/quantity of tomatoes. Thus, production will be sold in the spot market
### SITUATION 2

<table>
<thead>
<tr>
<th>Delivery Period</th>
<th>Contract A</th>
<th>Contract B</th>
<th>No Contract</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Price / Pound</td>
<td>Volume (pounds/ acre/ week)</td>
<td>Penalty</td>
</tr>
<tr>
<td>Early</td>
<td>$0.62</td>
<td>2,400/acre/week</td>
<td>Terminate</td>
</tr>
<tr>
<td>Peak</td>
<td>$0.53</td>
<td>5,500/acre/week</td>
<td>Terminate</td>
</tr>
<tr>
<td>Late</td>
<td>$0.77</td>
<td>5,100/acre/week</td>
<td>Terminate</td>
</tr>
</tbody>
</table>

Please choose only one option:

- □ Contract A  OR  □ Contract B  OR  □ No Contract

### SITUATION 3

<table>
<thead>
<tr>
<th>Delivery Period</th>
<th>Contract A</th>
<th>Contract B</th>
<th>No Contract</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Price / Pound</td>
<td>Volume (pounds/ acre/ week)</td>
<td>Penalty</td>
</tr>
<tr>
<td>Early</td>
<td>$0.74</td>
<td>2,200/acre/week</td>
<td>5%</td>
</tr>
<tr>
<td>Peak</td>
<td>$0.53</td>
<td>6,000/acre/week</td>
<td>5%</td>
</tr>
<tr>
<td>Late</td>
<td>$0.70</td>
<td>5,100/acre/week</td>
<td>5%</td>
</tr>
</tbody>
</table>

Please choose only one option:

- □ Contract A  OR  □ Contract B  OR  □ No Contract
### SITUATION 4

<table>
<thead>
<tr>
<th>Delivery Period</th>
<th>Contract A</th>
<th>Contract B</th>
<th>No Contract</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Price / Pound</td>
<td>Volume (pounds/ acre/ week)</td>
<td>Penalty</td>
</tr>
<tr>
<td>Early</td>
<td>$0.68</td>
<td>2,400/acre/week</td>
<td>10%</td>
</tr>
<tr>
<td>Peak</td>
<td>$0.55</td>
<td>6,000/acre/week</td>
<td>10%</td>
</tr>
<tr>
<td>Late</td>
<td>$0.77</td>
<td>5,100/acre/week</td>
<td>10%</td>
</tr>
</tbody>
</table>

Please choose only one option: □ Contract A OR □ Contract B OR □ No Contract

### SITUATION 5

<table>
<thead>
<tr>
<th>Delivery Period</th>
<th>Contract A</th>
<th>Contract B</th>
<th>No Contract</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Price / Pound</td>
<td>Volume (pounds/ acre/ week)</td>
<td>Penalty</td>
</tr>
<tr>
<td>Early</td>
<td>$0.68</td>
<td>2,600/acre/week</td>
<td>Terminate</td>
</tr>
<tr>
<td>Peak</td>
<td>$0.53</td>
<td>5,000/acre/week</td>
<td>Terminate</td>
</tr>
<tr>
<td>Late</td>
<td>$0.70</td>
<td>4,700/acre/week</td>
<td>Terminate</td>
</tr>
</tbody>
</table>

Please choose only one option: □ Contract A OR □ Contract B OR □ No Contract
## SITUATION 6

<table>
<thead>
<tr>
<th>Delivery Period</th>
<th>Contract A</th>
<th>Contract B</th>
<th>No Contract</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Price / Pound</td>
<td>Volume (pounds/ acre/ week)</td>
<td>Penalty</td>
</tr>
<tr>
<td>Early</td>
<td>$0.68</td>
<td>2,600/acre/week</td>
<td>Terminate</td>
</tr>
<tr>
<td>Peak</td>
<td>$0.58</td>
<td>6,000/acre/week</td>
<td>Terminate</td>
</tr>
<tr>
<td>Late</td>
<td>$0.84</td>
<td>4,300/acre/week</td>
<td>Terminate</td>
</tr>
</tbody>
</table>

Please choose only □ Contract A \(\leftrightarrow\) □ Contract B \(\leftrightarrow\) □ No Contract one option:
Finally, we would like to know a bit more about you

D1. Gender:
☐ Male
☐ Female

D2. Age Group:
☐ 15- 26- 36- 46- 56- 66+
  25  35  45  55  65

D3. What is your annual household income?
☐ Under $ 15,000 ☐ $ 50,000 – 74,999
☐ $ 15,000 - $ 24,999 ☐ $ 75,000 – 99,999
☐ $ 25,000 - $34,999 ☐ $ 100,000 - $125,000
☐ $ 35,000 - $49,999 ☐ Above $ 125,000

D4. What percentage of your household income is your farm income?
☐ Under 10% ☐ 50%-90%
☐ 10%-20% ☐ More than 90%
☐ 20%-50%

D5. What is your education level?
☐ Some classes of primary school ☐ Graduated high school
☐ Completed primary school ☐ Completed technical school
☐ Some classes of secondary school ☐ Some college no degree
☐ Completed secondary school ☐ Completed college
☐ Some classes of high school ☐ Completed graduate school

D6. How many members are in the household, including you? ___________

D7. Are there any children under 18 in your household?
Yes ☐ No ☐

D8. What is your current marital status?
☐ Married ☐ Widow/widower ☐ Divorced ☐ Separated ☐ Never Married

D10. Do you have off farm employment?
☐ No ☐ Yes, but less than my farm income ☐ Yes, more than my farm income
Thank You!!
Please use the following space to express any comments/questions you may have about the survey.
Appendix 2: Mathematical Specification of the Economic Model for Chapter 4

The grower’s objective is to maximize net returns above selected variable costs less the risk aversion coefficient multiplied by the variance of net returns and is given by:

\[(A.1) \bar{Y} - \Phi \sigma^2_Y \]

Subject to: land availability constraint, given by:

\[(A.2) \sum_C \sum_D \sum_H X_{C,D,H,S} \leq ACRES_s \forall S \]

Weekly labor resource limitation, given by:

\[(A.3) \sum_C \sum_D \sum_H \sum_S LAB_{C,D,H,WK}X_{C,D,H,S} \leq FLDDAY_{wk} \forall WK \]

Marketing balance:

\[(A.4) \sum_D \sum_H \sum_S YLD_{C,D,H,TS,S}X_{C,D,H,S} - SALES_{C,YR,WK,TS}
- \sum_{CONTR} CONTRSALES_{CONTR,WK,YR} - PENSALES_{CONTR,WK,YR} = 0 \forall C,TS,WK,YR \]

Input purchases by input:

\[(A.5) \sum_C \sum_D \sum_H \sum_S REQ_{I,C}X_{C,D,H,S} - PURCH_{I,C} = 0 \forall I \]

Soil depth ratio constraint:

\[(A.6) CSOILRATIO_{shallow}X_{C,D,H,**deep**} - CSOILRATIO_{deep}X_{C,D,H,**shallow**} = 0 \forall C,D,H \]

Crop rotation constraint:

\[(A.7) \sum_C \sum_D \sum_H \sum_S ROTATE_{C}X_{C,D,H,S} \leq 0.5 ACRES_s \forall S \]
Contract choice given by:

\[(A.8) \sum_{CONTR} PICK_{CONTR} \leq 1\]

Either or constraints given by:

\[(A.9) \text{SHORTAGE}_{CONTR, WK, YR} - M \times \text{FAIL}_{CONTR, WK, YR} \leq 0, \forall \text{CONTR, WK, YR}\]
\[(A.10) \text{CONTRALES}_{CONTR, WK, YR} + M \times \text{FAIL}_{CONTR, WK, YR} \leq M, \forall \text{CONTR, WK, YR}\]

Boolean logical constraints given by:

\[(A.11) \sum_{CONTR} \sum_{WK} \text{CONTRALES}_{CONTR, WK, YR} - M \times \text{SATISFY}_{YR} \leq 0, \forall \text{YR}\]
\[(A.12) \sum_{CONTR} \sum_{WK} \text{PENSALES}_{CONTR, WK, YR} - M \times \text{SATISFY}_{YR} \leq 0, \forall \text{YR}\]

Terminate contract disclaimer given by:

\[(A.13) \sum_{CONTR} \sum_{WK} \text{FAIL}_{CONTR, WK, YR} + M \times \text{SATISFY}_{YR} \leq M + 2, \forall \text{YR}\]

Balance requirement for contract volume

\[(A.14) \text{CONTRALES}_{CONTR, WK, YR} + \text{PENSALES}_{CONTR, WK, YR} + \text{SHORTAGE}_{CONTR, WK, YR} - \text{CONTRVOL}_{CONTR, WK} \times \text{PICK}_{CONTR} = 0 \forall \text{CONTR, WK, YR}\]
Net returns by year are given by:

\[
(A.15) \sum_t IP_tPURCH_{1,c} - \sum_{WK} \sum_c \sum_{TS} P_{c,WK,TS}SALES_{C,WR,WK,TS} - \\
\sum_{CONTR} \sum_{WK} CONTRREVENUE_{CONTR,WK,YR} - \\
- \sum_{CONTR} \sum_{WK} PENREVENUE_{CONTR,WK,YR} + Y_{YR} = 0 \ \forall YR
\]

Contract Revenue given by:

\[
(A.16) CONTRREVENUE_{CONTR,WK,YR} \\
= CONTRSALES_{CONTR,WK,YR} * CONTRPRICE_{CONTR,WK,YR} \forall CONTR, WK, YR
\]

Penalty Revenue given by:

\[
(A.17) PENREVENUE_{CONTR,WK,YR} \\
= PENSALES_{CONTR,WK,YR} * PENPRICE_{CONTR,WK,YR} \forall CONTR, WK, YR
\]

Expected profit balance is given by:

\[
(A.18) \sum_{YR} \frac{1}{N} Y_{YR} - \bar{Y} = 0
\]
Where, activities include:

\( \bar{Y} \): Expected net returns above selected variable cost

\( X_{C,D,H,S} \): Production of crop C, under transplanting/planting period D, harvesting period H and soil depth S

\( PURCH_{I,C} \): Purchases of input I

\( Y_{YR} \): Net returns above selected variable cost by year

\( SALES_{C,YR,WK,TS} \): Tomato sales by size (medium, large, extra-large) in pounds and sweet corn sales in dozens of ears by week and year respectively

\( CONTRSALES_{CONTR,WK,YR} \): Large tomato sales requirement under contract by week and year when the volume requirements are met

\( PENSales_{CONTR,WK,YR} \): Large tomato sales under contract if volume requirements are not met, by week and year

\( PICK_{CONTR}, FAIL_{CONTR,WK,YR}, SATISFY_{CONTR,WK,YR} \): Binary integer decision variables

Coefficients include:

\( \Phi \): Risk aversion

\( C \): Crop

\( S \): Soil depth

\( TS \): Tomato Size (medium, large, extra-large). There is only one size for sweet corn.

\( H \): Harvesting period (1 for sweet corn)

\( YR \): Year

\( D \): Transplant date for tomatoes, Planting date for sweet corn

\( WK \): Week

\( I \): Input

\( N \): State of Nature

(13*38) \( CONTR \): Contract

Indices include:

\( CONTRPRICE_{CONTR,WK} \): Price paid to the grower if the contract requirements are met by contract and week

\( PENALTYPRICE_{CONTR,WK} \): Price paid to the grower if a contract is selected and the volume requirements are not met

\( M \): A large number (Big M)
References


Crop Diversification & Biofuel Research & Education, University of Kentucky.

Internet site: http://www.uky.edu/Ag/NewCrops/budgets.html


Ligon, E. “Contractual Arrangements for Fresh Produce in California”. 


http://www.ca.uky.edu/agc/pubs/id/id134/id134.pdf


University of Kentucky, College of Agriculture –UKAg weather center. Internet site: http://wwwagwx.ca.uky.edu


Copyright © Michael Vassalos 2013
VITA – MICHAEL VASSALOS

EDUCATION

• Ph.D. in Agricultural Economics
  University of Kentucky, Lexington, KY. GPA: 3.85/4 Expected to be awarded August 2013
  DISSERTATION: “Essays on Fresh Vegetable Production and Marketing Practices”.

• M.Sc. in Agricultural Economics
  University of Kentucky, Lexington, KY. GPA: 3.82/4 December 2008
  THESIS: “Common Agricultural Policy, Greek Agriculture and Multifunctionality”.

• 5-year Ptyxio (M.Sc. equivalent) in Agricultural Economics
  Agricultural University of Athens GPA: 7.31/10 November 2005

FIELDS OF SPECIALIZATION

• Primary: Agribusiness/Farm Management
• Secondary: Production Economics and Local Development
• Research Interest: Grower's Decisions Under Risk and Uncertainty, Risk Management, Precision Agriculture and Agricultural Policy

COLLABORATION ON FUNDED GRANTS


REFEREED JOURNAL ARTICLES


MANUSCRIPTS UNDER REVIEW


COMPETITIVE PRESENTATIONS


AWARDS

• $400 travel award from University of Kentucky Graduate School in order to attend AAEA 2012 annual meeting. August 2012.

PROFESSIONAL EXPERIENCES

Research Assistant, Department of Agricultural Economics, University of Kentucky 2006-Present
Research Assistant, Agricultural University of Athens, Department of Ag. Economics
Spring 2005
Internship, Greek Ministry of Rural Development and Food, Athens-Greece
July-August 2004
Internship, Greek Ministry of Rural Development and Food, Athens-Greece
August 2003

SERVICES

4. Co-coordinator of the seminar series for the Department of Agricultural Economics, University of Kentucky, with Dr. C.R. Dillon and Dr. T. Woods. 2011-2012.
1. Elected President of the Agricultural Economics Graduate Student Organization 2010-2011.

PROFESSIONAL ORGANIZATIONS

- Agricultural and Applied Economic Association
- European Association of Agricultural Economists
- Southern Agricultural Economic Association
- Athens Institute for Education and Research (ATINER)
- GAMMA SIGMA DELTA Honored Society of Agriculture
- Golden Key International Honored Society

COMPUTING SKILLS

- Advanced User: MS Word, Excel, PowerPoint
- Experienced User: SPSS, STATA, GAMS, LaTeX, DSSAT
- Limited Exposure: R, ArcGIS

Copyright © Michael Vassalos 2013