MAIN FINDINGS AND THEIR IMPLICATIONS

The following pages which are in the nature of an epilogue, are added with a view to highlighting the main findings and the methodological and practical implications of the study.

Main Findings:

(1) Nature of Expectations about Future Price: Farmers expect prices which they are likely to get for their products in the form of ranges of prices within which the future prices are expected to fall. Though it is not possible to measure on an interval scale the subjective probabilities with which different prices within the ranges are expected, alternative prices can be ordered according to their chances of occurrence on the basis of these probabilities. Hence, it is possible to identify a price for a product within a range, which the farmers think is most likely to occur. There is a strong tendency among farmers to round off the expected prices to the nearest multiples of five. The image date for the future expected price of a product is generally the next farm harvest. The future price expectations are formed by the farmers themselves independently and they do not simply borrow the expectations of their leaders. In the same producing area different farmers may have conflicting expectations in any year for the same crop. However, the extent by which the expected prices of different farmers would differ
depends largely on the magnitudes and direction of changes in relative prices in the last two years.

(ii) Expectancy Behaviour:

Foundations of Expectations: The expectations about the future prices are mostly based on the observed behaviour of price movements during the preceding two years, though other (non-price) variables like governmental action, political change and crop prospects etc. also influence expectations, to some extent. The direction of the likely trend is solely determined on the basis of the observed behaviour of price movements and non-price variables affects only to a very small extent the amount by which the price is expected to move in the direction of the anticipated trend.

Expectation of Likely Trend: Though farmers generally tend to project the past observed trend in the prices into the future, in situations in which the farmers felt that prices in the recent past had moved in an abnormal direction the expected trend in the prices is in the direction opposite to the observed trend.

Aggregation of Effects of Past Observed Changes: Farmers generally expect prices to move in the direction of the expected trend by an amount which is a function of the past observed change. However, the rate at which prices are expected
to increase is greater than the rate at which they are expected to go down (even when the rate at which the prices had increased in the past is equal to the rate at which they had declined). The cross-sectional differences in the expected prices of different farmers would be more in the cases in which the fluctuations in farm harvest prices in the preceding two years were larger than in the cases in which fluctuations were not very significant.

Supply Response: Farmers are price responsive, the acreage changes significantly with changes in the relative expected price of the crop. However, the acreage under cash crop responds more significantly in comparison to acreage under a crop which is a staple food crop of the area.

Methodological Implication: The feasibility of effectively integrating the cross sectional findings about the expectations behaviour of farmers with the analysis of time series data of acreage allocation for finding acreage response has been clearly demonstrated by the findings of the study. The method has two distinct advantages: (i) cross sectional differences in the expectations of different farmers are taken care of (otherwise, the estimates of supply response are seriously biased towards zero), (ii) The method renders it possible to frame the problem in the form of multivariate linear regression model for which the best linear unbiased estimates (BLUE) can be obtained by following generalized least squares (GLS) estimation procedure.
Practical Implications: Implications of the findings, (i) that farmers respond quickly, effectively and normally to price changes and (ii) that the cross sectional differences between the expectations of different farmers would be very significant in a year, in the recent past years of which there were marked fluctuations in the prices, are that the fruits of a positive price policy would be obtained only if the magnitudes of fluctuations in the prices within a year and of variations over the years are kept within shorter limit.

Areas for Further Research: The findings of the study suggest the following two areas for further research work in this field.

(i) The impact of 'degree of belief' with which prices are expected on the acreage response needs to be studied in depth.

(ii) The possibilities of improving expectation models developed on the basis of the data collected by a survey carried out at a point of time by collecting more data about expectations though repeated surveys at later points of time shall be explored.