

FAQ 10

How Do I Manage Risk?

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NCR-406, which combines Purdue Extension publications EC-647, EC-648, and EC-649, discusses risk and how to manage it.

Excerpt from *Managing Risk in Agriculture* (NCR-406)

Decision-Making in a Risky Environment discusses goals and risk attitudes which differ among individuals. It explains some of the concepts involved in decision-making under risk. These include probabilities, measures of variability, expected values and expectations. Many farmers use these concepts, often without recognizing them. This publication is intended to help farmers recognize some of the factors underlying the decision-making process and also to facilitate understanding of the other publications in the series.

Variability and Risk in Agriculture, identifies sources of risk in agriculture and discusses producers’ views of the importance of variability in crop and livestock production. Data on the historical variability of prices and yields of the primary Indiana commodities are presented, and some managerial implications are discussed.

Risk Management Strategies, examines production, marketing and financial responses farmers use to deal with risk. Producers’ views of the importance of these risk responses and their use of them are reported. The concept of risk balancing is introduced, and the need for an integrated risk management strategy combining production, marketing and financial responses is discussed.

Risk Responses by Area of the Farm Business and Primary Effect in Risk Management

Area of the Farm Business	Examples of Farm Business Management Responses that:	
	Reduce Chances of Event’s Occurrence	Provide Protection Against Event’s Adverse Consequences
Production	Choosing low risk activities Diversifying enterprises Dispersing production geographically	Selecting and diversifying production practices Maintaining flexibility

Marketing	Obtaining market information Spreading sales Forward contracting Hedging	Participating in government programs Options trading
Financial	Working off farm	Insuring against losses Maintaining reserves Pacing investments Acquiring assets Limiting credit and leverage

Resources for Risk Management

Resources	Sources
<i>Managing Risk in Agriculture</i> (NCR-406). North Central Regional publication.	http://www.ces.purdue.edu/extmedia/NCR/NCR-406.html
National Ag Risk Library, University of Minnesota	http://www.agrisk.umn.edu

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