Risk in Agriculture

Risk is an important aspect of the farming business. The uncertainties inherent in weather, yields, prices, Government policies, global markets, and other factors that impact farming can cause wide swings in farm income. Risk management involves choosing among alternatives that reduce financial effects that can result from such uncertainties.

Five general types of risk are described here: production risk, price or market risk, financial risk, institutional risk, and human or personal risk.

- ***Production risk*** derives from the uncertain natural growth processes of crops and livestock. Weather, disease, pests, and other factors affect both the quantity and quality of commodities produced.

- ***Price or market risk*** refers to uncertainty about the prices producers will receive for commodities or the prices they must pay for inputs. The nature of price risk varies significantly from commodity to commodity.

- ***Financial risk*** results when the farm business borrows money and creates an obligation to repay debt. Rising interest rates, the prospect of loans being called by lenders, and restricted credit availability are also aspects of financial risk.

- ***Institutional risk*** results from uncertainties surrounding Government actions. Tax laws, regulations for chemical use, rules for animal waste disposal, and the level of price or income support payments are examples of government decisions that can have a major impact on the farm business.

- ***Human or personal risk*** refers to factors such as problems with human health or personal relationships that can affect the farm business. Accidents, illness, death, and divorce are examples of personal crises that can threaten a farm business.

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https://www.ers.usda.gov/topics/farm-practices-management/risk-management/risk-in-agriculture.aspx