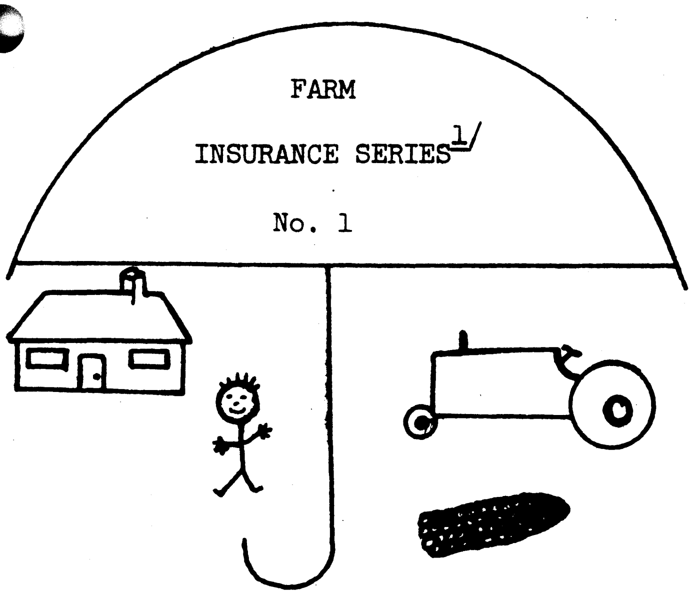
ESO 450



AGRICULTURAL RISKS

Farmers are not alone when it comes to risk. Risk, an important part of life, is much like love; difficult to define or predict; hard to get along with or without; too much is bad yet too little is worse; an inspiration to some and hopelessly frustrating to others.

Different Reactions to Risk

Like the rest of humanity, farmers react differently to risk. At one extreme is the risk-lover who seeks out risk, enjoys the challenge it presents, and views it as an opportunity. At the other extreme is the risk-averter who will do almost anything to prevent encountering a risk, is frustrated by the problem it creates, and views it as a losing situation. Most individuals are somewhere between these extremes. It is not difficult, however, to look around us and identify those who are, to a degree, risk-lovers and those who are risk-averters. Ohio farmers

---

1/ Series prepared by A. Lines, Extension Economist, and J. Howell, D. Miller, W. Smith, and D. Moore, Area Farm Management Agents in the Department of Agricultural Economics and Rural Sociology, The Ohio State University, Columbus, Ohio.

can be classified, in general, as being more or less risk-loving. Those farmers producing fruit in central Ohio clearly accept more risk than those producing corn in Van Wert County, who in turn, face more risk than dairy farmers in Wayne County.

What is Risk

The terms peril, hazard, loss, and risk are often used interchangeably in everyday conversation. This creates confusion for the individual trying to understand what insurance is all about. Loss, the undesirable result of risk, is an unexpected decrease in value. Risk is the uncertainty associated with loss. Peril is defined as the cause of risk and a hazard is a factor contributing to the peril. An example will help clarify the relationship between these terms: Mr. I. M. Careful knows that storing gas in his garage is a hazard (contributing factor) that contributes to the peril (cause of risk) of fire which causes risk (uncertainty of loss), which may result in loss (decrease in value).

Risk Classification

While most risks are of an economic nature, farmers do face risks that usually do not have financial consequences: loss of friends, psychological, spiritual, etc. The economic risks associated with a farm business can be divided into two kinds: speculative and pure. Speculative risks are those that businessmen look for in their search for profit, they involve a chance of loss or gain (i.e., prices, buying land, storing crops, etc.). Pure economic risks, on the other hand, are those that only present the chance of loss or no loss (fire, windstorm, hail, etc.). Pure risks are generally divided into three categories: (a) personal, (b) property, and (c) liability.

Personal risk is primarily concerned with the time of death or disability through accidental injury, illness, or old age, and are often subdivided into life and health risks. Property risks are those that arise from the destruction of real or personal property. Direct loss by fire, flood, or other forces of nature and indirect loss of profits may occur when property is destroyed. Liability risks are the results of laws that make an individual legally liable for injury or damage to another's person or property.