PARTIAL BUDGETING—KEY QUESTIONS

Chapter 11

How can we analyze decisions that affect only part of the farm business?

What is the format of a partial budget?

How can we find the breakeven value for a key variable?

Partial Budget Format

A. Added Income       C. Added Costs

B. Reduced Costs      D. Reduced Income

Net Change = A + B - C - D

Example: Buy Replacement Dairy Heifers Instead of Raising Them

Added Income

Sell raised heifer calf 500 lb. @ $1.20 = $600

Reduced Costs

Pasture $ 20
Grain    $ 40
Supp & Mineral $ 45
Hay      $120
Health, etc. $ 55
Labor    $ 50
Total    $330

Added Costs

Purchase bred heifer $1,200

Reduced Income

None

Net Change = $600 + 330 - $1,200 = ($270)

Examples of Partial Budgeting Problems

- Own machinery vs. custom hire
- Natural sires vs. artificial insemination
- Use Bt corn or Roundup Ready soybeans
- Replant soybeans after frost
- Treat crops for insects or not
- Participate in government programs

Breakeven Analysis

1. Define one breakeven variable
2. Set gains equal to losses (net change = 0)
3. Estimate values for all other variables
4. Solve for the unknown (breakeven) value
5. For this value, the net change in $ is zero
6. Make a judgment about the chance of exceeding that value