Glossary of Terms

Composite demand. Composite consumer demand or output is a value measure of a group of related final (elementary) products that consumers actually purchase. For example beef, pork, or poultry might be considered a composite product. Establishing that a particular market satisfies conditions for a composite allows analysts to treat a group of diverse final products as a single good in every way. Retail-farm price margins are most meaningfully computed for composite food markets.

Diminishing returns. Diminishing returns to a factor of production means that, holding all other inputs constant, the marginal productivity of the factor declines as more of the factor is used in production. The feature of diminishing returns characterizes variable proportions production functions.

Elementary products. Elementary products are the final goods that consumers actually purchase and are associated with a composite market. For example, consumers purchase beef (i.e., the composite) through actual purchases of elementary products such as hamburger, soup bones, steak and processed beef products. In contrast to a composite output, elementary products are considered homogeneous and so can be measured in terms of physical units.

Fixed-proportions production. A fixed-proportions technology is characterized as one in which input-output ratios remain fixed regardless of changes in relative input prices. When fixed-proportions production is assumed to apply to a composite market, firms and consumer products are implicitly assumed to be homogeneous.

Marketing bill. The marketing bill for a food market is the difference between consumer expenditures for retail food products and the farm value (or receipts) of those products.

Retail-to-Farm Price Margin or Spread. The retail-farm price margin or spread is the value that the market places on the marketing service component of food. Price spreads for a competitive market are computed as the difference between the retail price and the retail-equivalent farm price. In a competitive market, it is the value that consumers place on attributes of food associated with the marketing service component; and it is also the marginal cost of that an industry faces in providing the marketing service component.

Variable-proportions production. A variable-proportions technology is characterized as one in which input ratios change with changes in relative factor prices. At the market level, variable-proportions is implied if firms or products are diverse. That is, even if each firm in an industry produces according to fixed-factor proportions, if the fixed factors vary across firms, variable-proportions production characterizes industry production.