Solving the Model

In solving the model, all commodity prices and quantities are simultaneously determined as a competitive equilibrium subject to agricultural program provisions, that is, the marginal revenues from expanding the production of each commodity by one standard unit are equalized across all commodities while simultaneously equalizing marginal values (shadow prices) of limiting factors across all activities using that factor. Each solution to this model represents the equilibrium adjustment by the farm sector to the economic situation portrayed in that scenario under the assumption that producers think the change is a permanent, once-and-for-all change. Scenarios from the base period equilibrium assume that producers have had time to adjust to a new equilibrium under the changed policy. For all but very large displacements, this is approximately the second year after enactment of the change in the scenario.