

Cost Elasticity of demand for Agricultural Credit



Economics

KEYWORDS : Cost elasticity, credit demand, terms of credit

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ABSTRACT

Cost elasticity of demand for agricultural credit is more than unity in all the case of farm sizes, sources of credit, and terms of credit and purpose of credit. Cost elasticity of demand for credit increases as on switches over from marginal to big farm size, institutional to non-institutional, short to long term and from production purpose to investment purpose.

Introduction

The degree of elasticity depends on (a) size of farms (b) terms of credit (c) purpose of demand for credit and (d) source of supply of credit

Literature review

Study of Kumar Joshi and Murlidharan (1978) says that demand elasticity for credit w.r.t input and output prices are very high. In this case, interest rate depends on agricultural growth, price fluctuations, monetization and the growth of organized agencies (Ghatak, 1975). Study of Patel and Khankhoje (1993) shows that the rate of interest on term loan has been lower than on the working capital loan. Rath (1989) argued that term loan advance had an important role to play in capital formation in agriculture. In the similar view, Binswanger (1993) study shows that a rising interest rate has a negative effect on draft animal, milk animal and investment for pump sets.

Objective

To know the cost elasticity of demand for agricultural credit.

Methodology

Cost of production includes material (seeds, manures and fertilizers, pesticides, tractors charges, threshers charges, waters), wages to labour and financial cost. Crop loan is production credit while credit for agricultural implements is investment credit. Field survey comprises 208 borrowers of Faizabad district, Uttar Pradesh.

Analysis

Cost elasticity of demand for agricultural credit depends on four factors-farm size, sources of credit, terms of credit and purpose of credit. All these four situations have been shown in table-1,2,3 and 4. Findings show that cost elasticity of demand for credit is more than unity in all cases. It infers that Cost elasticity of demand for agricultural credit is high. Credit becomes more and more elastic as farm size as increases.

Table-1: Cost elasticity of credit with respect to farm sizes

Farm size	Marginal (upto 2.50 acres)	Big (above 10.0 acres)	Elasticity
Per acre Credit demand (Rs.)	3785	7717	16.63
Per acre Cost of production (Rs.)	6263	5875	

Source: Primary field survey

Table-2: Cost elasticity of credit with respect to sources of credit

Source	Institutional	Non-institutional	Elasticity
Per acre Credit demand (Rs.)	2406	4125	3.47
Per acre Cost of production (Rs.)	5881	4671	

Source: Primary field survey

Table-3: Table-2: Cost elasticity of credit with respect to terms of credit

Terms	Short (upto 15 months)	Long (more than 5 years)	Elasticity
Per acre Credit demand (Rs.)	2754	1676	5.83
Per acre Cost of production (Rs.)	5437	5802	

Source: Primary field survey

Table-4: Cost elasticity of credit with respect to purpose of credit

Purpose	Production	Investment	Elasticity
Per acre Credit demand (Rs.)	2832	1892	2.01
Per acre Cost of production (Rs.)	5398	5703	

Source: Primary field survey

Conclusion

Cost elasticity of demand for agricultural credit is more than unity in all the case of farm sizes, sources of credit, and terms of credit and purpose of credit. Cost elasticity of demand for credit increases as on switch over from marginal to big farm size, institutional to non-institutional, short to long term and from production purpose to investment purpose.

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