



**Original Contribution**

**A CASE STUDY OF THE DEVELOPMENT OF PRIME COST AND PRICES OF SHEEP-BREEDING PRODUCTS FOR SHEEP FARMS IN THE SOUTHEAST OF BULGARIA**

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**ABSTRACT**

The aim of the current survey was to examine the development of prime cost and prices of the sheep-breeding products for the sheep farms in the southeast of Bulgaria.

A major difficulty in this analysis is the identification of the relations and the dependencies between market prices and prime cost and the optimization of their proportion.

The production and economic results data from the farms range over three years – from 1999 to 2001.

The economic analysis is based on the study of the main structural units (sheep farms in the southeast of Bulgaria)

**Key words:** Prime cost, prices, sheep- breeding products

**INTRODUCTION**

By studying the levels of prime cost and prices as well as their development we can determine the condition of the economic system they refer to and we can also establish the relationships among them(3,4).

The aim of this survey is to study the development in prime cost and price of the sheep breeding products based on information provided by sheep breeding farms in the southeast of Bulgaria covering a three-year period (1999-2001).

**METHODS**

This analysis is based on a study of the basic sheep-breeding unit in Bulgaria, which is a sheep-breeding farm. It uses mean weight values for the prime cost and prices of the sheep-breeding products, aimed at achieving its final objective (2).

**RESULTS AND DISCUSSION**

Single prices have been used to illustrate best the development of prime cost and prices as given in Table 1 below:

It is evident from the data that all products have marked a decrease of their prime cost, the greatest being that of wool in year 2000.

A reason for that can be found in the reduced production costs per unit of produce. It can be noticed that the prime cost for the lamb weight increase keeps its level which is a sign of a steady production cost level per unit of produce even in 2001 as well. Milk features prime cost reduction every year.

The obtained figures related to the price development show that there are differences in the three products. Compared to wool, which features price fluctuations during the three years, lamb weight increase features a continuous increase rate reaching 106,5 % in 2001. Sheep milk retained its price in 2000 and 2001 at the same level, which is 104,5 % of its price in the reference period.

This study leads to the following conclusions:

Concerning product prime cost a favourable trend has been recorded leading to its decrease. That is caused by a reduction of the production costs per unit of produce. All three products feature an increase of their prices, the greatest being that of lamb weight increase.

Concerning the products any farmer can make a decision of his own whether to offer his produce on the market individually or in a partnership with other producers through the so called marketing co-operations. Talking about the choice of marketing we could point out several existing pricing options (1, 5, 6, 7).

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**Table 1.** Development of prime cost and prices of sheep breeding products for sheep farms in the southeast of Bulgaria.

| Products           | 1999           |             | 2000           |             | 2001           |             |
|--------------------|----------------|-------------|----------------|-------------|----------------|-------------|
|                    | Level<br>(BGN) | Rate<br>(%) | Level<br>(BGN) | Rate<br>(%) | Level<br>(BGN) | Rate<br>(%) |
| 1. Milk            | 0,45           | 100         | 0,36           | 80          | 0,35           | 78          |
| 2. Wool            | 0,80           | 100         | 0,57           | 71          | 0,60           | 75          |
| 3. Weight increase | 2,08           | 100         | 1,65           | 79          | 1,65           | 79          |

**Table 2.** Development of prime cost and prices of sheep breeding products for sheep farms in the southeast of Bulgaria.

| Products           | 1999           |             | 2000           |             | 2001           |             |
|--------------------|----------------|-------------|----------------|-------------|----------------|-------------|
|                    | Level<br>(BGN) | Rate<br>(%) | Level<br>(BGN) | Rate<br>(%) | Level<br>(BGN) | Rate<br>(%) |
| 1. Milk            | 0,67           | 100         | 0,70           | 104,5       | 0,70           | 104,5       |
| 2. Wool            | 1,20           | 100         | 1,10           | 92          | 1,20           | 100         |
| 3. Weight increase | 3,10           | 100         | 3,20           | 103,2       | 3,30           | 106,5       |

- In the first option the farmer can fix a current price for his products in their high season when the market is flooded with them. That is valid for the lamb from April to June, for the wool in June and early July and so on. This price is quite unfavourable for the producers since it is lower than the average yearly market price of the product. Needless to say, this price is free to fluctuate up and down depending on the demand and supply. These prices are defined at separate local markets but usually the prices on the central or so called terminal markets are higher than the prices reported on decentralized markets. For that reason farmers often prefer the central markets where the demand for their product is higher, provided they could make up for the additional transport expenses by the higher price difference.

- The second option is that the farmer can fix an average market price for his products keeping it steady for a longer period of time. This is typical of the so-called systematic marketing of farm products and it is applicable for more durable goods such as wool, grains, etc.

- The third pricing option is typical for goods that need special storage (cold stores or warehouses) for indefinite time in waiting for more favourable prices to come. This option is quite often used for lamb, grains

and other products with variable demand throughout the year. Deciding about the time for showing up on the market depends on whether the possible price the farmer might get will exceed the current average market price plus the storage expenses. Otherwise, the additional current expenses for storage capacity, ventilation, cold rooms and the like related to product storage make no sense.

- The fourth market option is adopting the so-called unified market price for farm products, typical of the farmers who are members of the marketing co-operation. So the producers avoid the individual marketing risk and they can contend for local market monopoly aimed at achieving a higher market price that will ensure a higher return of the average overall expenses.

- The fifth option of price defining is by formation of fixed prices for the farm products based on farm animal breeding agreements. In general, these are written agreements between the farmer and the Purchaser regarding times of product supply at a future fixed price. This option eliminates the price risk of the farmer and ensures a fixed income for a definite amount of production. A major disadvantage of this option is that the farmer is deprived of the opportunity to take advantage of any favourable situations on the market as he has

agreed in advance to sell the goods he expects to produce at fixed prices.

- The futures are another option that might be of interest in times of higher market instability. Being an alternative to fixed pricing it makes it possible for the farmer to rely on certain security that ensures some adequacy in quality delivery periods and price. Futures are usually contracted for products of qualities that have been known in advance such as certain types of wool, the required sort of grains, etc. The secured prices in such deals are balanced and bound with high requirements concerning product quantities, quality, delivery place and date.

It will not be serious for farmers to think that any of the above six options for market pricing of farm products completely protect them against risks. In many cases the low market risk achieved by compromising about the product price (with relatively stable or increasing expenses) could result in small profit that could not ensure further increase of production.

## CONCLUSIONS

Related to the transition to market economy in the agricultural sector in Bulgaria we could depend on several approaches to ensure some steadiness of farmers' incomes. One of them is the price support of farm products by the so-called intervention prices. That is a way out in case that the marginal profit is below the marginal loss for certain products. The problem resulting from this approach is that high supporting prices burden additionally the state budget and it creates conditions for excessive production. In case that the government makes a decision to support the price of a certain product, it is logical to result in its larger supply.

The difference between demand and supply produces a surplus that might be stored for later distribution. Such products in sheep-breeding are the cheese and wool. In such cases the increased production quantity cannot be sold locally and the surplus that results should be somehow offered for export. So we have come to the other approach aimed at stimulated export of sheep-breeding products based on export bonuses (provided the domestic prices are higher than the international ones). The situation in Bulgaria for most of the farm

products is reversed, so that no budget expenses as export bonuses are needed.

The Government has to protect the farmers against the import of farm products such as Australian wool, lamb and sheet meat in a move to protect their incomes. Such a protection is possible through levelling fees that will make up for the difference between the low import prices and the local prices. Otherwise the impact of the comparatively low prices the imported sheep-breeding products might have on the local market can only be treated as a deliberate dumping policy. Therefore, thinking of the market as an elementary system that could do without any control by the government through various approaches is risky and unreliable. Any steps undertaken by the Government for protection against the so-called "subsidized import from third countries" is in fact a responsible political behaviour of the government because setting up barriers to the import of sheep-breeding products will safeguard the local producers and provide conditions for normal local market environment.

Maintaining secure minimum prices, export subsidizing based on export bonuses, tight customs measures against unregulated import of agricultural products and other ways of restricting of their supply will be meant not just to increase the amount of local agricultural products but that will save the farmers from going bankrupt.

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