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A SOURCES AND USES OF FUNDS STUDY

on

SOUTH AUSTRALIAN FARMS

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Table of Contents

<u>Chapter</u>		<u>Page</u>
1	INTRODUCTION	1
	Background	1
	Scope of the Study	3
2	PROCEDURE AND DESCRIPTION OF THE AREA	5
	Selection of the Area	5
	Procedure	8
	Selection of the Sample	8
	Reliability of the Results	10
	Description of the Area	14
	Some Sample Characteristics	16
3	FARM FUNDS FLOWS	18
	Introduction	18
	Definitions	19
	Methodology	22
	Results and Discussion	28
4	CREDIT - A REVIEW OF THE LITERATURE	43
5	FARM INDEBTEDNESS	53
	Methodology	53
	Debt Levels	55
	Credit Sources	58
	Credit Uses	63
	The Interaction Between Sources and Uses	69
	Factors Related to Farm Indebtedness	74
6	CREDIT THEORY	79
	Introduction	79
	Empirical Evidence	81
	Capital Rationing - Internal	82
	External	83
	The Supply of Capital	84
	A Conceptual Problem	89
	The Role of Time	94

<u>Chapter</u>		<u>Page</u>
7	AVAILABILITY OF CREDIT	98
	Introduction	98
	Methodology	99
	The Supply of Capital	102
	External Capital Rationing	115
	Results and Discussion	117
8	CREDIT RATIONING - A THEORETICAL MODEL	124
	Introduction	124
	The Simple Model under Conditions of Perfect Knowledge	127
	Hodgman's Model	132
	The Modified Model	134
	Results and Discussion	149
APPENDIX	1	160
APPENDIX	2	163
APPENDIX	3	168
APPENDIX	4	171
APPENDIX	5	173
APPENDIX	6	176
SELECTED	BIBLIOGRAPHY	178

SUMMARY

The twin aims of this study were to derive information on farmers' expenditure patterns and the methods used to finance their expenditure; and to investigate in more detail several aspects of borrowing to finance farm expenditure. Because of the lack of empirical work in both of the above fields which has been carried out in established, well developed, and relatively prosperous regions, this study was conducted in a typical wheat-sheep area in the mid-North of South Australia. The actual area selected was the hundreds of Belalie, Booyoolie, Bundaleer, Caltowie, Crystal Brook, Narridy, Reynolds and Yangya in the county Victoria. Data was collected by way of a random sample survey of fifty-nine wheat-sheep farmers, and covered the three financial years 1961/2 to 1963/4.

Where possible, separate flow of funds statements were constructed for each farm for the years 1961/2, 1962/3, and 1963/4. Unfortunately it was only possible to derive a complete set of funds statements for twenty-six farms. However, the fact that no significant differences were found to exist between the sub-sample of twenty-six farmers and the full sample of fifty-nine with respect to five important farm and personal characteristics suggests that any results derived from the subsample are unlikely to be seriously biased. As expected, farm income was the dominant source of funds, but the most significant feature of cash inflows was the fact that the use of past savings was at least as important as the use of external finance when expenditure exceeded farm cash receipts.

Farmers' expenditure was dominated by farm operating expenses, farm investment, and family living expenses. The results suggested that the survey farmers had a low average and marginal propensity to consume, while closer investigation of an apparent relationship between farm receipts and farm investment suggested that short-run changes in farm income may not exert an important influence on farm investment.

An investigation of farmers' borrowing practices showed that the trading banks were the main source of credit in the area studied, but that credit from non-institutional sources also accounted for a large proportion of outstanding debt. Purchase of farm land was by far the most important use made of borrowed funds. However, a breakdown of loans by source and purpose revealed some interesting relationships between the source of the loan and the purpose for which it was used.

To assess the adequacy of the borrowing facilities available to farmers, a method of estimating external capital rationing was devised. Application of this method confirmed the view that, at least in the area studied, farm investment was only rarely constrained by limited availability of credit.

Finally, the application of probability theory to the decision making process was used to construct a theoretical model of lender behaviour under conditions of uncertainty. The model assumed that all lenders base their lending decisions solely on the borrower's ability to repay debt, and was used to demonstrate the conditions under which credit rationing will occur, and to investigate various aspects of the supply of credit.

This thesis is submitted in partial fulfilment of the requirements for the degree of Master of Agricultural Science. It does not contain any material which has been accepted for the award of any other degree or diploma in any University. Nor to the best of my knowledge does it contain any material previously published or written by another person, except when due reference is made in the text.

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