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Generalized safety first and the planting of crops


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Abstract

This article adapts a modern shortfall-based portfolio selection rule developed by Stutzer (2000) and Haley and Whiteman (2008) to the farm manager's land allocation problem. The approach provides a useful normative model of land allocation that obviates distributional assumptions and expected utility specifications, and one that selects an optimal allocation that weighs skewness and other higher order moments in addition to mean and variance. This is of particular interest because crop returns often exhibit skewness, which is not accounted for by traditional Mean-Variance (MV)-based approaches. The rule is demonstrated using the data from Lence and Hart (1997).

 Keywords: [land allocation](#) [skewness](#) [shortfall](#)

 JEL Classification: [Q10](#) [Q15](#)

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Notes

¹See Stutzer (2000) and Haley and Whiteman (2008) for a thorough presentation of the PPI and GSF. Haley (2005) contains a broader discussion of the land allocation problem.

²Source: the Economic Research Service, a division of the US Department of Agriculture.



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