

# Practice Session

University of California  
Agriculture and Natural Resources

John Hewlett  
Jay Parsons



RIGHT RISK RMA

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## What is RISK?

- RISK: The probability of an event occurring that can negatively impact your:
  - *Current profit level*
  - *Financial situation (equity position)*
  - *Satisfaction and well-being*

RMA RIGHT RISK

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## Sources of Risk in Agriculture – Ag Risk 5

1. Marketing and Price Risk
2. Production Risk
3. Institutional Risk
4. Human Risk
5. Financial Risk



RMA

Right Risk

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## Strategies for Managing Risk

1. Avoid it
2. Reduce it
  - a) Reduce the probability it will happen
  - b) Reduce the impact if it does happen
3. Transfer it outside the business
  - a) Insurance
  - b) Contracting
4. Build your internal capacity to bear
  - a) Increase reserves
  - b) Maintain flexibility
5. Accept it

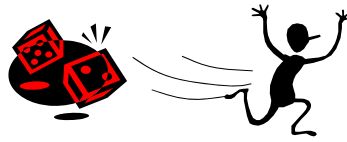
RMA

Right Risk

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# Types of Risk Preference

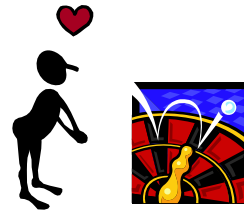
Risk Averse



Risk Neutral



Risk Loving



## Finding Your Ability and Preference to Tolerate Risk

**Risk Navigator**  
Risk Preference Calculator

Would you give up income to have less risk or take on more risk to make more money? If so, how much risk would you exchange for profit? Everyone has different attitudes about risk. Fortunately, researchers in different fields have developed different methods to portray individual risk attitudes. This tool has three methods. Experiment with one or all of them.

1- Industry Tolerance:  
Researchers have estimated how risk tolerant a "typical" business or industry is based on the business's income, sales or equity.

2- Estimate My Preference:  
Estimate your risk preference and tolerance score based on how much you would pay for various lotteries.

3- Take a Quiz:  
Take a quiz to determine how tolerant you are to risk compared to other producers.

### Investment Risk Tolerance Quiz

1. In general, how would you have based your decision on a risk choice?

2. You are on a TV game show and must choose one of the following. Which would you prefer?

3. You have just finished working for a friend in a "blowout" sale. There were about 100 people in store, you saw your job, the sale.

4. If you were a professional gambler, how would you feel about the following?

5. If you were a professional gambler, how would you feel about the following?

6. If you were a professional gambler, how would you feel about the following?

7. If you were a professional gambler, how would you feel about the following?

8. If you were a professional gambler, how would you feel about the following?

9. If you were a professional gambler, how would you feel about the following?

10. If you were a professional gambler, how would you feel about the following?

11. If you were a professional gambler, how would you feel about the following?

12. If you were a professional gambler, how would you feel about the following?

13. If you were a professional gambler, how would you feel about the following?

14. If you were a professional gambler, how would you feel about the following?

15. If you were a professional gambler, how would you feel about the following?

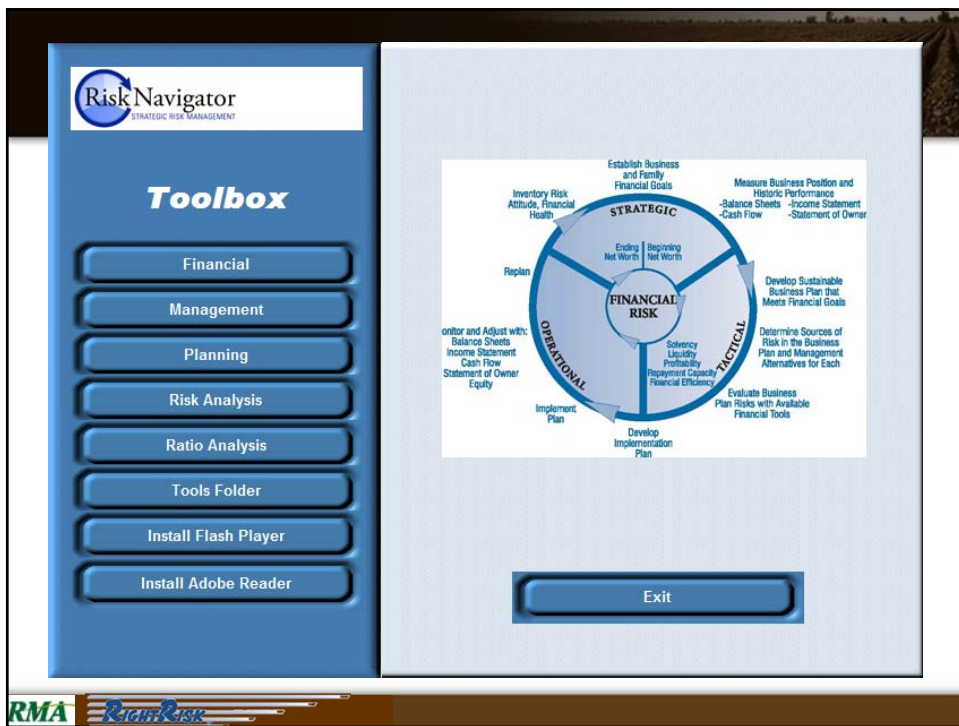
16. If you were a professional gambler, how would you feel about the following?

17. If you were a professional gambler, how would you feel about the following?

18. If you were a professional gambler, how would you feel about the following?

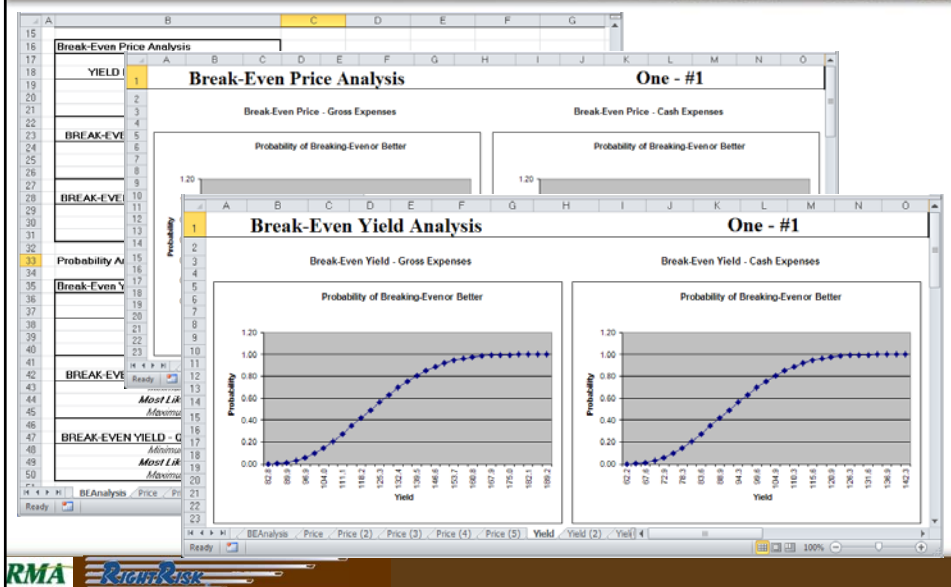
19. If you were a professional gambler, how would you feel about the following?

20. If you were a professional gambler, how would you feel about the following?



# Enterprise Risk Analyzer

# Breakeven Analysis



A collage of educational materials from RMA RightRisk. It includes several CD-ROMs with titles such as 'Insuring Success for Wyoming Agriculture 2006', 'A LASTING LEGACY', 'Getting on Track: Better Management Through Basic Ag Records', and 'Pasture, Rangeland, Forage (PRF) Pilot Insurance Program'. A book titled 'Applied Risk Management in Agriculture' by Dana L. Hoag is also featured. A screenshot of the 'AG SURVIVOR' website is shown, along with a 'Risk Navigator' software window. The RMA RightRisk logo is prominent at the top left. A green arrow at the bottom right points to the website address: <http://RightRisk.org>

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- Risk Preference Calculator
- RDFinancial
- Enterprise Risk Analyzer
- General Risk Management Questions
- More. . .

