

Introduction

Cotton prices are, and are expected to remain, volatile because of the residual nature of the world cotton market (Mues and Simmons 1988). During the 1970s and 1980s, however, cotton prices have fluctuated within seasons more widely than in the past (see Figure 1). At least in recent years, these wide price movements have been a result of large changes in world cotton stocks (see Figure 2) and changing government policies affecting cotton consumption and production (International Cotton Advisory Committee 1988). These factors are expected to continue to affect the world market. The volatility of prices has implications for the efficiency of farming operations, or more specifically, for production, resource allocation and marketing decisions.

The viability of agricultural producers depends partly on their ability to manage financial risk. During the 1980s, the number of ways in which Australian cotton growers can sell their crop has increased dramatically. These new marketing alternatives may provide growers with opportunities to manage the price risks they face in the volatile cotton market.

Growers will choose among the marketing alternatives according to - among other things - their attitude to risk, their financial position and the returns and risk characteristics of the marketing methods. A grower free from debt may choose the method offering the highest return, regardless of the uncertainty surrounding that return, whereas an indebted grower may choose a method offering a lower return but a greater probability that the price received will be close to that budgeted. The project reported here was undertaken with the object of providing growers with some indication of the characteristics of currently available marketing methods and with an assessment of the relative merits of each, to facilitate decisions between the alternatives.