

# Investment and disinvestment in the dairy sector under competition, uncertainty and market interventions

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Due to strong changes in general economic conditions and increasing market volatility, a higher level of investments and disinvestments in the dairy sector can be observed. Therefore, the simultaneous analysis of firms' investment and disinvestment decisions under consideration of uncertainty and market interventions is of high relevance. In this paper, a flexible real options market model is applied to the German dairy sector. The model considers disinvestment besides investment options and, moreover, allows the integration and assessment of different market interventions that are relevant to the dairy sector. According to the results, production ceilings and investment subsidies are preferable to price floors because the welfare is less reduced for a given stimulation of the firms' willingness to invest. Moreover, it is shown that not considering disinvestment options, which in reality often exist, can lead to incorrect valuations of investment strategies at firm level and incorrect policy impact analyses at macroeconomic level.

