



Agriculture firms under uncertainty - financing and attitude to risk

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The paper examines the risk behavior of a competitive agriculture firm under price uncertainty. The aim was to find the answer for the question: what are the major determinants of the agriculture firm's attitude to risk and therefore of the firm's willingness to produce under uncertainty? This study started from the approach of Greenwald and Stiglitz, which implies solely risk averse behavior of firms due to its restrictive assumptions about firm's financing. Based on other theoretical concepts mostly from agency theory and soft budget constraint literature we have incorporated other plausible assumptions about firm's financing: partial access to the equity market and possible existence of the soft budget constraint related to debt financing and there were formulated the conditions, under which the firm is induced to behave in more risky conditions. While the agriculture firm's attitude to risk directly influences its willingness to produce, our results indicate that in the environment of uncertainty the price and technology are not the only important determinants of the agriculture firm's optimal output level as is the case for the neoclassical theory of firm. The results of our study have shown that additional factors like firm's net worth position, sensitivity of managers to bankruptcy, firm's ability to raise new equity, softness of the budget constraint and degree of uncertainty about the future prices may play an important role for agriculture firm's optimal output considerations. On the other side, the perception of risk faced by firm can explain all types of attitude to risk (risk averse, risk neutral and risk-seeking behavior) and can potentially have large effects on the optimal output level.