

OPERATING RISK ANALYSIS FOR AGRICULTURAL INVESTMENTS

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Abstract:

Decisions for substantiating the investments projects in agricultural sector are based on the assessment of the business's profitability but also, of the economic risk assumed by the enterprisers. The paper presents a dynamic analysis model of the operating risk which is validated in a case study using an example of an agricultural holding from viticulture. The appreciation of the economic risk is based on the Degree of operating leverage indicator, and the proposed analysis model offers the possibilities to identify the factors which can lead to an adequate management of risk. The case study presented validates the theoretical approach and highlights that the economic risk diminished due to modification of costs structure, flexibility of activity, variation of safety margin, sales and profit.

Keywords: operating risk, agriculture, investment, degree of operating leverage

JEL codes:: L21, O22, Q14