

THE IMPACT OF MARKET IMPERFECTIONS ON HETEROGENEOUS FIRM OUTPUT, PRODUCTIVITY, AND PROFIT

by

Pavel Ciaian

**European Commission (DG Joint Research Centre), Catholic University of
Leuven (LICOS), Slovak Agricultural University (SAU), and Economics and
Econometrics Research Institute (EERI)**

and

d'Artis Kancs

**European Commission (DG Joint Research Centre), University of Kiel (CAU),
Catholic University of Leuven (LICOS), and Economics and Econometrics
Research Institute (EERI)**

Journal of Rural Cooperation, 39(1), 2011:49-72

Abstract

The present paper studies the impact of market imperfections on heterogeneous firm output, productivity, and profit in the presence of food price volatility. Using a unique firm-level panel data set for about 20,000 agricultural producers in Central and Eastern Europe (CEE), we estimate the impact of food price shocks on small- and medium-sized individual farms (IF) and large corporate farms (CF). Our empirical findings suggest that, in relative terms, the rising food prices might reduce the output, productivity, and profit of individual farms compared to large corporate farms. Simulation results show that, depending on the relative price changes in input and output markets, the output response of individual farms is between 6% and 18% lower than the output response of corporate farms.

Keywords: market imperfections, credit constraint, food price shock, food policy, heterogeneous firms, individual farms, corporate farms, CEE