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Economic importance of parcel structure on Finnish farms

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Abstract

This study estimates shadow prices for land parcel characteristics in Finland, such as size and distance from the compound, by characteristics to the conditional profit maximisation model. The profit functions are production line-specific, and the endogenous production line is controlled for by a switching-type Probit-model. The results suggest that the small parcel size and their location from the compound significantly affect the farmer choice of allocating most land either to grass or to grain. The endogenous choice of production also has significant statistical implications in relation to profits, output supplies and input demand. Small parcels tend to increase costs significantly by hindering farmers from adopting the most efficient production technologies and practices. The structural development in Finnish agriculture implies that the constraints imposed by small parcels of land are becoming more acute. Grassland farming is predicted to lose its comparative advantage in the most fragmented agricultural areas, as farm sizes increase. Operations to re-structure parcels of land amongst a group of neighbouring farms, although often costly and time consuming, will increase returns.

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