Adoption of organic farming in Germany and Austria
- An integrative dynamic investment perspective –

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Abstract

Farm-level adaptation to changing economic environments is often slower than expected. Technological innovations, for instance, are frequently adopted at a later date than the net present value of investment suggests. This can be explained by a model of "investment under uncertainty," which consistently accounts for uncertainty, sunk costs, and the flexibility of investment timing. Its essential conclusion is that, due to temporal opportunity costs, critical incremental cash flows that trigger investments might be higher than those needed for simple cost recovery. This accounts for an ostensible reluctance to invest (economic hysteresis). In this article, we demonstrate how slow conversion to organic farming in general, and the different rates of conversion in Germany and Austria in particular, can be explained by the new investment theory.

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