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**Modeling the Price of Dairy Quotas under Price Ceiling Legislation: A Case Study
of the Market for Dairy Quotas in Québec**

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In this paper I estimate the price of dairy quotas that would be realized in the absence of price ceiling legislation in Québec. Starting from a dynamic economic model of the demand for quotas, I develop an econometric model that is used to estimate producers' discount factor. The model is estimated using producer-level data from the Québec Federation of Management Clubs' Agritel database. My results suggest that the rapid escalation in quota prices during the late 1990s can be attributed to an increase in producers' discount factor. Using my estimate of producers' discount factor for the period 1993-2005 and the formula for the equilibrium price, I estimate the price of dairy quotas in Québec for the period 1993 to 2010. The modelled price "fits" the actual quota exchange price reasonably well during the pre price ceiling era. After the introduction of the price ceiling in 2007, the modelled price falls well above the price ceiling in the years 2008-2010. This provides evidence that the price ceiling represents an undervaluation of the economic value of production quotas in Québec. In 2010, I estimate that dairy quotas in Québec would trade at a price of \$31,955 per unit. My results indicate that lowering the valuation of quotas to \$25,000 would require an 11.83% reduction in the price of farm milk in Québec. In 2010, an 11.83% reduction in operating revenue would have reduced Québec dairy farmers' profit margins to the lowest level in recent history.