

# The Economics Of Investment Analysis

Journal of Applied Sciences Research 5(7): 815-819, 2009  
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## Profitability Analysis of Sheep Farming in Turkey: a Case Study

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**Abstract:** In this study, the data were obtained through personal interview with 46 sheep farmers of Tokat province for the year of 2006. In order to achieve the objectives, the values such as Net Present Value (NPV), Cost-Benefit Ratio (CBR) and Internal Rate of Return (IRR) were calculated. Three different discount rates (8, 5 and 3%) were used to get the NPV and CBR. The NPV were found to be positive (77.33 \$/head; 149.06 \$/head; 212.73 \$/head). In addition to that, the CBR were bigger than 1 (1.07; 1.12 and 1.15). The IRR was 12.92 percent. According to the results that achieved by the study, it was determined that the investment is economically feasible and profitable.

**Key words:** Sheep Farming, Investment Analysis, Net Present Value, Benefit Cost Ratio, Internal Rate of Return

### INTRODUCTION

Livestock plays an indispensable role in the traditional agriculture and largely subsistence economy of Turkey. It is known that livestock production on a farm has many advantages. It permits the use of labor to some profit during parts of the year when it could not be used in producing crops. It permits the conversion of some marketable crops into other products, which can be disposed of to better advantage<sup>[1]</sup>. Small ruminants in Turkey are well adapted to the rangelands and marginal/degraded lands of Anatolia and contribute to the livelihood of vulnerable and resource-poor farmers living under extremely difficult conditions in the semi-arid areas and highlands of the country. These species convert natural vegetation into valuable products such as meat, milk, wool, hair (mohair), skins, pelts and manure<sup>[2]</sup>.

Sheep farming requires low capital and not much specialized machinery compared with most of the other agricultural production alternatives<sup>[3]</sup>.

The biggest sheep population (155.73 million head) in the world is in China and England (35.50 million head) is in European Union (25). Turkey has an important place in the sheep population (25.20 million head) taking 8<sup>th</sup> rank in the world and 2<sup>nd</sup> rank in the EU. The total livestock population in Turkey is estimated as 25.20, 10.07, 0.11, 6.61, 296.00, 3.90 and 0.80, 0.04 million sheep, cattle, buffaloes, goats, chickens, turkeys and ducks, pig respectively. The annual meat production in Turkey is about 1647035 metric ton, where as sheep meat contributes 272000 metric ton<sup>[4]</sup>.

Investment analysis is usually made to get financial aid from government agencies. The producer would like to know the results of his economic activity by working out a detailed cost-benefit analysis of the investment in the project<sup>[5]</sup>. Quantitative studies related to the economics of sheep growing are limited in literature. The main objective of this study is to analyze the feasibility and profitability of investment in sheep farming.

### MATERIAL AND METHODS

In this study, the data were obtained through personal interview with 46 sheep (Karayaka sheep growing commonly in the region) farmers of Tokat province in the mid Black Sea region of Turkey for the year of 2006. Simple Random Sampling Method was applied in selecting sheep farms<sup>[6]</sup>. The farms were selected randomly. Sample size was calculated for 95% reliability and 5% permissible error.

Karayaka, a native sheep breed, is the most populous and dominant breed in the mid Black Sea region of Turkey, comprising approximately 3% of the Turkish sheep population. The Karayaka breed with coarse fleece traits is primarily raised to produce meat due to its high meat quality, although meat and offspring yields are low<sup>[7]</sup>.

The economic life of the activity is taken as 15 years, with 1 year of farm establishment, and 15 years of production. The annual production cost and income for each farm were obtained.

In order to achieve the objectives, the values such as Net Present Value (NPV), Cost-Benefit Ratio (CBR) and Internal Rate of Return (IRR) were calculated.

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