

Optimal Rotation Problem Revisited: Internal Rate of Return, Land Expectation, and Profit Maximization

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In contrast with IRR and LEV, this paper proposes to use annual profits for determining optimal rotation for given land, labor and capital. It is argued that the criteria (IRR, LEV and profit) are fundamentally same. The only difference is in terms of the recipient(s) of the residual value or net value from forest management. In contrast to LEV that assumes the landowner to receive the total net value, the other factors, labor, capital and entrepreneurs, might share the rise and fall of the net value. Considering the emerging market of land and the increasing role of entrepreneurs and investors in land management, we argue that profit maximization might be a more general and suitable approach in addressing optimum rotation.

Key Words: Land market, entrepreneur, capital theory, land value, forest management

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