

Project Information Form

Project Title	The Effects of Subsidies and Mandates: A Dynamic Model of the Ethanol Industry
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Funding Source(s) and Amounts Provided (by each agency and organization)	USDOT - \$103,573.65
Total Project Cost	\$103,573.65
Agency ID or Contract Number	DTRT13-G-UTC29 UCD-DOT-210
Start and End Dates	October 1, 2015 – September 30, 2017
Brief Description of Research Project	<p>This paper analyzes the effects of government subsidies and the Renewable Fuel Standard (RFS) on the U.S. ethanol industry. The researchers first developed a stylized theory model of subsidies in which they examined which subsidies are more cost-effective for inducing investment in firm capacity and how the presence of a mandate affects the relative cost-effectiveness. Researchers then empirically analyzed how government subsidies and the RFS affect ethanol production, investment, entry, and exit through estimating an econometric model that including the distributions of investment costs, entry costs, and exit scrap values. The estimated parameters were used to evaluate three different types of subsidy: a production subsidy, an investment subsidy, and an entry subsidy, each with and without the RFS.</p> <p>While conventional wisdom and some of the previous literature favor production subsidy over investment subsidy, and while historically the federal government has used production subsidies to support ethanol, the results of this study show that, for the ethanol industry, investment subsidies and entry subsidies are more cost-effective than production subsidies for inducing investment that otherwise would not have occurred.</p>
Describe Implementation of Research Outcomes (or why not implemented) (Attach any photos)	

Impacts/ Benefits of Implementation (actual, not anticipated)	
Web Links <ul style="list-style-type: none">• Reports• Project website	https://ncst.ucdavis.edu/project/effects-of-subsidies-and-mandates-a-dynamic-model-of-the-ethanol-industry/