

**AEC 305**  
**Exam II – Fall 2006**

Name \_\_\_\_\_

**Each answer is worth 4 points, except where noted**

1. Briefly indicate and illustrate how each of the following events would affect the U.S supply for tobacco AND whether it would be represented as a movement along a given supply curve for tobacco, a shift in the supply curve for tobacco, or have no affect on the supply curve for tobacco. Clearly label your graphs.
  - a. A 10% increase in contract grower prices.
  
  
  
  
  
  
  
  
  
  
  - b. An early frost that destroys 5% of the crop.
  
  
  
  
  
  
  
  
  
  
  - c. Smoking bans and restrictions.
  
  
  
  
  
  
  
  
  
  
2. Answer the following questions.
  - a. Define the price elasticity of supply.
  
  
  
  
  
  
  
  
  
  
  - b. Assume the price elasticity of supply for peanuts in the short-run is 0.25. Based on this elasticity, how much of an expected price increase would be necessary to entice peanut growers to increase the quantity supplied by 2%, holding all other factors constant?
  
  
  
  
  
  
  
  
  
  
  - c. Identify two factors that could affect the short-run elasticity of supply for peanuts.
  
  
  
  
  
  
  
  
  
  
  - d. Assume an analysis of the peanut market reveals that the marketing margin for peanuts is 50 cents per pound. What does that mean?

**Multiple Choice: Circle the correct answer.**

3. Farm level prices are determined by the intersection of
- derived demand and derived supply
  - primary supply and derived demand
  - derived supply and primary demand
  - derived demand and primary demand
4. An increase in the cost of packaging materials (i.e., a marketing cost) will:
- shift the primary and derived demand to the right causing both producer and consumer prices to increase.
  - shift the primary and derived supply to the left causing both producer and consumer prices to decline.
  - shift the primary supply curve to the right, but shift the primary demand curve to the right causing consumer prices to fall and producer prices to increase and thus narrowing the marketing margin.
  - shift both the derived demand and the derived supply curves to the left causing consumer prices to increase, producer prices to fall, and thus widening the marketing margin.
5. Which of the following statements is correct?
- A few dominant firms/producers in an imperfectly competitive market will always charge higher prices than a market characterized by a large number of competitive firms/producers.
  - A monopsonist is a single seller who sets its profit maximizing quantity where marginal revenue is equal to marginal cost.
  - Predatory pricing enables firms/producers to set prices above the cost of production since effective barriers to entry are present.
  - Oligopoly and monopolistic competitive markets generally observe “sticky” prices where firms/producers generally adopt a variety of non-price competition strategies to enhance their sales and market share.

**Short answer**

6. Identify four factors that a marketing economist would examine in evaluating the market structure for a particular industry.

7.
  - a. Distinguish between brand and generic advertising.
  
  - b. Graphically illustrate the two expected outcomes of a successful advertising campaign on the primary demand curve for a particular brand of cereal.
  
  - c. If competition prevails in the cereal market, explain the potential effects this advertising campaign may have on the derived demand and farm-level prices for wheat and corn (which are inputs in cereal production)?
  
8. Define the following terms:
  - a. Economies of scale
  
  - b. Concentration ratio
  
  - c. Oligopsony
  
  - d. Pricing efficiency
  
  - e. Operational efficiency
  
9. Briefly discuss two major concerns of increased concentration in the food marketing system and two major benefits from either a producer or consumer viewpoint.

**Read the following statements. Indicate if the statement is True or False. If the statement is False, correct the statement to make it True. (3 points each)**

10. True or False? An increase in input prices (i.e. fertilizer) for corn farmers will shift the derived supply curve for corn to the left.

11. True or False? In the long-run, agricultural supply becomes more elastic as producers have time to adjust their resource base (land, labor, capital, etc) to changing price expectations.

12. True or False? An individual producer in a perfect competition market is a price taker and faces a perfectly elastic demand curve

13. True or False? An agribusiness firm that is successful in practicing price discrimination will always charge the higher price in the market that has the less elastic demand.

14. True or False? Firms/producers in a monopolistic competitive marketplace will face a more elastic demand curve than other forms of imperfect competition.

15. Provide a brief summary of the online article that you selected from our Wednesday, Nov 1<sup>st</sup> class that you found on “Oligopoly Watch” indicating the issues and concerns discussed of a particular industry/firm.