

Supply Schedules

A supply schedule represents the quantities that an individual firm will produce at alternative prices, holding all other factors constant such as:

- Technology
- Price of inputs
- Opportunity costs
 - Returns from producing other products
 - Returns to fixed factors of production
- Random events, e.g. weather/diseases
- Government policies

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Shifts vs Movements in the Supply Schedule

- A change in a product/commodity price is depicted by a movement along a given supply curve (i.e. a change in the quantity supplied).
- A change in technology, price of inputs, weather, government policies will shift the entire supply schedule (i.e., a change in supply).

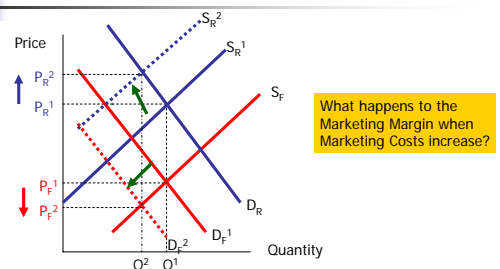
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Elasticity of Supply

$$\epsilon_s = \frac{\Delta Q_s}{Q_s} \cdot \frac{P}{\Delta P} = \frac{Q_2 - Q_1}{Q_1} \cdot \frac{P_2 - P_1}{P_1} = \frac{\% \text{ Change In } Q_s}{\% \text{ Change In } P}$$

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Effects of an Increase in Marketing Costs – Holding all other factors constant



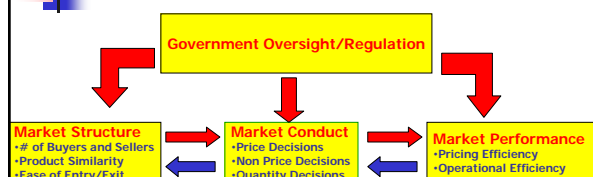
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Derived Demand vs Primary Demand

- The derived (farm-level) demand is "derived" from the primary (consumer or retail) demand.
 - > The farm level demand for wheat is "derived" from the retail level "primary" demand for bread and other bakery products.
 - > The farm level demand for tobacco is derived from
 - > The farm level demand for grain is derived from

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AEC 305 – Market Structure, Conduct, and Performance



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Elements of Market Structure – Chapter 2

- Main elements of market structure are:
 - Seller/buyer concentration
 - Product differentiation
 - Barriers to entry/exit
 - Growth rate of market demand
 - Import competition

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Elements of Market Conduct – Chapter 4 (10/29/04)

- “The importance of market structure lies in the way it induces firms to behave. We call their behavior in:

- Changing prices,
- Changing outputs,
- Product characteristics
- Selling expenses
- Research expenses

market conduct” Caves, p. 49

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Market Performance – Chapter 5 (11/1/05)

4 goals to provide maximum economic welfare

- Efficient in employing its scarce resources?
- Progressive in improving quality and variety of goods?
- Fully employed without inducing an unacceptable level of price inflation?
- Equitable distribution of income and wealth?

... Market Performance appraises how closely industry behavior accomplishes these goals

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Concentration Ratios

Firms	INDUSTRY Market Share	
	A	B
1	20	65
2	20	5
3	20	5
4	20	5
CR 4	80	80
5	5	5
6	5	5
7	5	5
8	5	5
CR 8	100	100

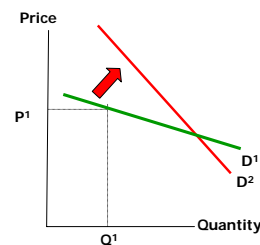
Which industry is the most concentrated by evaluating CR4 and CR8?
Which industry would you be concerned with the potential abuse of market power?

Barriers to Entry

- Actual vs Potential Rivals
- Measured by the highest price that will just fail to tempt new firms into the industry
- Scale economy issues (MES)
- Absolute cost barrier issues
- Consumer preferences to perceived differences in products

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Advertising Goals



The goal of advertising is to shift the demand to the right and make it less elastic

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Types of Mergers

- **Horizontal** – the combining of two or more competing firms (i.e. selling similar products/services) within a single firm
- **Vertical** – the combining of two firms into a single firm when one firm was a customer (e.g., input supplier) of the other
- **Conglomerate** – the combining of two or more firms in unrelated markets into a single firm.

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Efficiency

- **Operational or Technical Efficiency**
 - Does price occur at the ATC minimum?
 - Are economies of scale exhausted?
 - How does operational efficiency compare in concentrated vs. less concentrated industries?

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Efficiency

- **Operational or Technical Efficiency**
- **Pricing Efficiency**
 - Does $P = MR = MC$?
 - If not how much degree of pricing inefficiency occurs in this market? (i.e. how much is price above marginal cost)
 - How much is too much?
 - Is this due to market concentration or some other factor?

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Class Projects – Market Structure

- How many US producers? – go to Census of Agriculture or from ERS sources (<http://www.nass.usda.gov/census/>)
- <http://www.ers.usda.gov/Briefing/FoodMarketStructures/>
- How does foreign competition affect the structure of your industry?
- What about the number of buyers?
- Are prices farmers receive competitively determined?
- Is your commodity homogenous or are producers trying to differentiate their products?

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Market Conduct -- Projects

- How is price and quantity determined for your commodity?
 - Free market ?
 - Government Policies?
 - Price leaders – e.g. firm/country?
- Are there any generic advertising programs?
- Are there industry efforts to differentiate your commodity?
- Is research being conducted to improve yields, quality (taste, shelf-life, health-benefits) of your commodity?

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