

Supply, demand, and price elasticity assignment

[Economics](#)



**ASSIGN
BUSTER**

With the growing cultural diversity in the San Francisco Bay area, it is hard not to notice the Asian cuisines and restaurants in every corner of the block. Asian food had become a natural substitution choice for American fast food, and rice is the perfect substitution for wheat and flour. Rice is the seed of the monocot plant “*Oryza sativa*”.

As a cereal grain, it is the most important staple food for a large part of the world’s human population, especially in East and South Asia, the Middle East, Latin America, and the West Indies. It is the grain with the second-highest worldwide production after corn. In this paper, we will evaluate the cause and effects of rice’s supply, demand, price elasticity, and market equilibrium point. Some of the major rice providers, like Thailand and China, supply the world with rice. In order for a place to grow rice, it would require a lot of water and moisture like humidity (Workman, Daniel).

If that country were to encounter a drought, like a major heat wave, it would require more maintenance for the crop to grow. Also, it can destroy the crop making it non-harvestable. If a crop is non-harvestable, with the money put into it, it would be a 100% loss. More heat equals more water needed to keep the crop on its growth cycle and more maintenance equals more money in labor. The amount of investment has direct relationship to the price of the rice. If there is less rice harvested because of a drought, the less supply there will be.

If the demand stays constant, then the shortage of supply will result in an increase in price. In the other hand, when there are surplus of supply and demand is constant, there will be a decrease in price. If the supply is

constant and the demand is changing, the price will also be affected where more demand creates shortage, and less demand creates surplus. Shortage will increase the price, and surplus will decrease the price. In 2008 the price of rice was at a high of 24 cents per pound, which was twice the price that was a year before.

When the price of rice rose, major rice exporters banned the export of rice to other parts of the world. These countries were nervous that the increase in price would cause the low-income residents to become angry. So they decided to keep most of the rice within their country and hope that would bring down or at least keep the price of rice stable (Bradsher, 2008). This kind of action influences the product market equilibrium where consumers expect to pay more due to lower supply and higher demand. When the government decides to set a price for the rice, the price floor is set above the market equilibrium.

The price floor prevents the prices from being too low. The higher price will cause a decrease in demand, as some consumers will be looking for another more affordable substitution in the same commodity. Another factor that causes the increase of rice price was due to a general upward trend in grain prices caused by droughts in major producing countries, particularly Australia. Although there are no shortages of rice on world markets the general upward trend in grain prices led to panic buying and government rice export sanctions.

The increased use of grains for animal feed and US subsidies for bio-fuel production caused significant rises in rice prices. In late April 2008, Thailand

announced a project, called the Organization of Rice Exporting Countries (OREC) with the potential to develop into a price-fixing cartel for rice.

However, experts affirm the blame for higher rice prices was based on the weak U. S. dollar. It is determine that when the value of the dollar falls, the prices of internationally traded commodities, like gold and rice increase because more dollars are needed to purchase the same quantity of any commodity.

Commodities are products consumers purchase more of when the price of the commodity lowers. If the price of the commodity were to increase then consumers would buy less. Rice is a commodity and consumers will adjust the amount bought depending on the price of rice. Rice is considered to be a Griffin good. Griffin goods are inferior goods which have an upward sloping demand curve. The income effect is greater than the substitution effect. Normally with inferior goods, the income effect will cause the consumers to demand less of a good.

The substitution of rice as the cost decreases, are other foods which are not normally available to poor consumers. If the cost of rise is lower, the consumer buys less and spends his or her additional income on foods which are preferable but not as affordable (Hubbard, & O'Brien, 2010). Insulin, however, would not show the same results as rice. Insulin, as a necessity, would keep the same demand if the price lowered or increased. If the cost of insulin decreased then it is likely to see an income effect for other goods purchased by diabetic consumers.

The consumer would in a sense, have an increase of income. If the cost of the insulin increased the consumer demand would still remain the same but would need to decrease the demand for other goods. Next time when we go to an Asian restaurant and decided to have a rice dish, stop for a second and think about these questions; is the current world supply enough to fulfill the demand? Is the supply of grain and corn affecting the current price? What will the price be if there are shortage of supply and surplus of demand and how that would affect the equilibrium point?

Try to answer those questions like we did in this paper. It will help you gain more respect for the rice and appreciate its value and the effects it have on all of us. Reference: Workman, Daniel (April 16, 2008). Leading Rice Export Countries. In Suite101. com. Retrieved September 8, 2010, from <http://www.suite101.com/content/leading-rice-export-countries-a50965> . Bradsher, K. (2008, March 29). High Rice Cost Creating Fears of Asia Unrest. The New York Times. Retrieved from www.nytimes.com Hubbard, R. G. , ; O'Brien, A. P. (2010). Economics. Boston: Prentice Hall.