Demand of corn oil

Business, Industries

Rising oil prices in the United States have forced discussion on seeking alternative energy sources. One option that keeps being discussed by researchers is the usage of corn oil as a viable solution. This paper will explore the economic factors such as supply, demand and price elasticity around corn oil and its substitute soybeans. Supply of Soybeans If the demand for corn increases due to is use as an alternative energy source, the supply of corn's substitutes such as soybeans will decrease.

Based upon the determinants of supply - producers, resources, market expectations, subsidies and taxes andtechnology- the factors point to a decrease in supply. The number of producers of soybeans may decrease. Some farmers may choose to use some of their land to grow corn as opposed to soybeans, to meet the increase in corn demand. A decrease in producers would also cause a decrease in resources used to grow soybeans. Also, the market would expect corn as that is what is being touted as the viable energy source, so there's more pressure on farmers to have corn.

The US government currently gives subsidies to corn farmers, which gives them an even bigger incentive to grow corn instead of soybeans. While the technology is there to grow soybeans, there is only so much farm space and corn is the primary focal point. Price of Corn Oil If the demand for corn increases, the price of corn oil will also decrease. Whenever demand for something increases, and the supply for that item decreases, it drives the price of it up in the marketplace.

It becomes that much more valuable as it's that much harder to attain. If everyone wants corn, but there's only so much corn available, the corn

farmers can charge more for it because they know consumers will be willing to pay more to have it. Price Elasticity of Demand and Total Revenue According to Wally Sparks' article, corn is an inelastic good because there are so few substitutes for it (Sparks, 2007). When a good is inelastic, that means that customers are not as sensitive to price changes, versus those of an elastic good.

So even when corn prices were at an all time high years ago, people were still consuming corn because in the short run, they had few other options. When a good is inelastic, and the price of that good goes up, total revenues also go up. Let's say corn was $8/barrel and a farmer normally sells 100 barrels. That will yield $800 for that farmer. Well if he raises the prices to $10/barrel and still sells at least 100 barrels - since th good is inelastic and demand hasn't changed - that same farmer has now made $1, 000.

While this is just a made-up example, it shows how the increase in price yields more total revenue when a good is inelastic. Conclusion Supply and demand are king in understanding and predicting market trends. When something is in high demand, sometimes producers aren't able to make enough of it quickly enough. This causes prices to go up because supply is down. This principle applies to everything from the cars we drive to thefoodwe eat, and in this case the corn oil we use.