Corn farmers

Corn Farmers Corn Farmers The federal subsidy has ended in and farmers are feeling the pinch because the ethanol production has plummeted. Ethanol was used in the place of gasoline by blending it in certain proportion that has raised the demand of ethanol. It is known that gasoline has a huge demand. To reduce gasoline consumption, the government has provided subsidy to blenders of the ethanol. The withdrawal of subsidy now makes blending costly to that extent. Corn is a raw material for producing ethanol and thus, it suffers lesser demand from the ethanol producers. As per the law of demand and supply of economics, lesser demand of corn will push the price of corn down ward to an extent so that equilibrium in demand and supply reaches. Individual corn farmers will thus face the state of lesser demands then previously what they had catered to. The market of corn can be assumed as perfectly competitive for the following reasons. 1. There are large producers and suppliers of corn in the market. It means that each producer is too small compared to the entire market to influence price by its own supply. 2. Corn Market has bountiful suppliers with standardized products. Buyers perceive them all identical. 3. Buyers have perfect information available about the prices of corn producers. 4. There are no entry or exit barriers for the firms in the long run; market is always open for competition for new suppliers. 5. The market is said to have reached in long run equilibrium by 2014 and in a perfectly competitive state as the marginal firm makes a normal profit in the long run. Since market of corn is nearly perfectly competitive, any reduction in demand or increase in its supply will push the price down ward so as to find a new equilibrium of demand and supply during 2016 and beyond. (Kindly refer Appendix I) Above happening is bounded by certain assumptions, which are enumerated as per the following. a. Ethanol is being used as a substitute to gasoline so it is necessary that gasoline price remains fairly constant in 2016 and beyond. If it does not happen so and gasoline prices move upward; ethanol price too will move upward in sympathy as per the law of demand and supply. b. Again, the price of gasoline depends upon its own demand-supply curve and it is assumed that it remains fairly in equilibrium at the current price during the period. Any variation in demand and supply of gasoline will have related price effects and that will exert its effect on the price of ethanol and that will have percolating effect on the price of corn as per the law of demand and supply of economics. c. No other uses of ethanol are discovered during the period so as to have its increased demand to tilt the pricing as per the economic law. Increased Supply of Corn Will Push Price Downward Above assumptions describe the demand limitations of corn but corn will have variations in its own supply as this year, it is going to have bumper crops. It means that with the fairly constant demand of the market, supply of corn will increase drastically. The law of increased supply (having a constant demand) tells us that its price should go down to find a new equilibrium between demand and supply assuming other things remain the same. (Pl. refer appendix I) In a given situation, farmers need to find out if they can absorb the subsidy cost to have price just above the marginal cost charged to ethanol producer then demand of corn from ethanol producers will remain the same. Otherwise, farmers need to grow some other crop at the earliest until situation reverses. Reference Allen, Bruce W., Weigelt, K., Doherty, N., and Mansfield, E., (2010). Managerial Economics: Theory, Applications and Cases, 7th edition, Amazon. Appendix I D2 is the demand of corn until 2014 when subsidy was available. D1 is the demand in 2016 when demand of the corn has plummeted.