

Introduction of the factors that affect the



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Introduction

Trade industry is one of the most dynamic of all activities done by man. Price of commodities changes from time to time due to various reasons. These factors or their combination work either to increase or decrease the market price of one commodity or another. Some of these factors may be man made while others are due to the changes in nature. Governments influence prices of commodities by regulating imports and exports, taxation and subsidies. Weather conditions either favor or affect different produce.

Seasons determine planting and harvesting which in turn determine supply. Costs of production of different commodities are usually transferred to the consumer hence affecting the prices. Customer confidence on integrity of a given commodity determines demand and thus influences the prices.

Festivities such as Christmas seasons increase demand for certain commodities hence dictating their prices. These and many other factors determine whether price of a given commodity will either go up or down. This paper discusses some of the factors that affect the price of milk powder, cooking oil and rice.

Influence on price of milk powder

Milk is one of the most important commodities consumed by man all over the world.

Milk is used in different forms such as fresh milk, skimmed milk, milk powder, ghee among others. Milk price depends on different factors. These are some of the factors that determine the price of milk powder:

Weather Condition

Milk powder is a by product of milk a product obtained from cows. The amount of milk produced by cows depends on how well the cows are fed and the prevailing weather conditions. When there are enough rains there is more feeds to give to the cows and hence more milk. The cost of producing milk at this time goes down and this means more milk at a low price. Due to more supply than demand the prices of milk goes down.

However when there is drought or other catastrophes such as cyclones and floods as was witnessed in milk producing areas such as Australia and new Zealand cows produce little milk as there is less feed and at the same time the cost of producing milk goes up and this cost is transferred to the consumer thus the price goes up.

Disease Outbreaks and Contamination

Milk powder being a food product is vulnerable to contamination and food poisoning. When there is disease outbreak the government will always issue a ban on exportation or importation of milk and milk product hence increasing the price of the few stock of milk powder left in a country.

Customer confidence may be eroded when such news of disease outbreak or milk contamination comes out. Customers are afraid to take milk and milk products and prefer other alternative sources. This was witnessed when milk from China was suspected to be contaminated and people avoided milk powder hence making the price of milk to shoot down. Disease out break may affect cows making them produce less milk hence the demand surpasses the supply causing the prices to shoot up.

Seasons

Milk powder is usually more consumed when the fresh milk is scarce or more expensive.

This means that when the rainy seasons come, fresh milk supply is more and at a low price thus people consume fresh milk more than milk powder due to the low cost hence the prices of milk powder goes down. During dry seasons fresh milk becomes very expensive and people prefer powdered milk instead thus increasing demand which in turn raises the prices. Milk producers make more milk powder at time when there is plenty of fresh milk and then sell it when it gets scarce.

Government Policies

The government always has the upper hand in regulating the prices of commodities in order to protect its citizens from high prices.

A very good example is the total export ban of milk and milk products from India the worlds biggest milk producer. By doing this the government has regulated the price in that country and at the same time this caused increase of the price of milk and milk products to other countries where that milk is exported. The government may also subsidize the production of milk and thus the price of milk and milk products such as milk powder reduces. Government taxes may also affect the price of milk powder. When the government raises tax on milk and milk products the price of milk powder is likely to go up and also go down when government decides to waive taxes on milk the price goes down.

Inflation

When there is inflation in a given country prices of all commodities increase.

This means that the price of milk powder will go up since the cost of production will have gone high. When the opposite happens and the economy of the country improves all the costs of production goes down and hence the price of milk and milk products goes down as well.

Price of other related goods

When prices of other related products change the price of milk powder will also change. The price of other complementary goods such fresh and long life milk may change due to various reasons such as cost of production of those commodities. The price of fresh milk may be low during rainy season and high during dry season and this affects the demand of milk powder. If their prices goes up then demand shifts to milk powder which is likely to make prices go up however when the price goes down people shift from milk powder to complementary products hence demand decreases which makes prices to go down.

Changes in the cost of production

Milk powder heavily depends on heat processes to steam the milk until all the water has evaporated.

Many milk factory plants use either electricity or fuel to process milk powder. When there are changes in the prices of electricity or fuel as it happen when global fuel prices increase the cost of production and transport increases hence raising the cost of production for milk powder resulting to increased consumer prices. The reverse happens when the cost of energy goes down.

However the greatest determinant of the price of milk powder is the changes in seasons which heavily affect the supply thus affecting the prices.

COOKING OIL

Cooking oil is a commodity that is very important to man due to its wide variety of uses. The price of cooking oil depends on a number of factors or a combination of factors. Some of these factors include weather conditions, cost of production change in other uses among others.

Weather factors

Cooking oil is produced from plants that produce oil seeds which are processed to make cooking oil. Some other forms of cooking oil are processed from animal products. Weather conditions affect both plants and animals. When there is adequate rainfall and other climatic conditions that are favourable for growing of these plants then production cost increases and this increases supply hence the prices goes down. When there are droughts or other unfavourable weather conditions such as floods, supply reduce and consequently the prices go up.

Costs of production

The processing of cooking oil demands use of high temperatures during the process of hydrogenation. This implies that when the price of energy increases as it happens when global oil prices goes up the cost of production goes up and thus the price of cooking oil also goes up.

When the cost of energy especially global oil goes down the cost of production goes down and thus cooking oil prices go down too. Cost of farm

inputs such as fertilisers and pesticides are usually transferred to the consumer hence increasing prices of cooking oil.

Other oil products

There are different uses of vegetable oils especially in the industries such as soap, candles, cosmetics and other products. When the demand for these products increases manufactures prefer investing more on producing these products and this implies that the supply of cooking oil will reduce hence increasing the prices.

Economic stability of cooking oil producing countries

Most of the oil consumed in the world is processed from palm and soya bean which thrive well in certain countries. United States of America is believed to be the world's largest producer and exporter of cooking oil and other related products.

This implies that the price of cooking oil will largely depend on the economic stability of the producing countries. This can be seen when cooking oil prices increased during the U. S economic crisis period.

The prices later went down when the economy stabilised.

Emerging markets

It is believed that the world's population is increasing with time due to various factors. When the population increases in certain areas especially due to urbanisation then demand for cooking oil surpasses the supply and this causes the prices of cooking oil to go up. This can be seen in countries that have recorded high urban development which have made demand to go up in those areas.

Cost of other related goods

Cooking oil is used for cooking various foods.

Different kinds of food are made in different communities. When food supply is high the demand for oil to cook the food also goes up and this means that the price of cooking oil will rise up. When food supply goes down there is relatively less food to cook with the cooking oil and thus demand for cooking oil decreases making the prices to go down.

Health issues

There has been claims that some cooking fats and oils contain a substance called cholesterol that has been linked with heart and other related diseases. Due to relatively higher cholesterol levels in cooking fat than in cooking oil then the population prefer using the safer alternative and that is cooking oil.

This increases the demand of cooking oil hence increasing the prices. This is more common in markets where the consumers have the ability to spend more on the safer alternative. The same effect is usually observed when health experts intensify the campaigns towards safe cholesterol levels since customer awareness makes them to prefer cooking oil rather than fat hence increasing the demand of the latter.

Technology of producing cooking oil

A lot of input goes towards production of cooking oil. The efficiency of the production processes determines the overall cost of production. Due to the current advancement in technology new production techniques especially in crushing and hydrogenation processes have been invented and this has resulted to low production costs.

This is clearly observed in the developed countries such as America where they use more efficient production technologies as compared to other oil producing countries in developing world. This is likely to reduce the prices of cooking oil in developed countries as compared to developing countries.

Market forces and other factors behind production and selling of cooking oil have resulted to relatively constant prices of cooking oil throughout the year as compared to other products such as milk which may fluctuate in different seasons of the year.

RICE

Rice being a cereal is one of the most important food commodities in all communities of the world.

It is a staple food for some communities a very important source of starch and energy. There are many other uses of rice such as rice Bran, husks, milk pudding and so on. Rice prices depend on many factors some of which include.

Weather conditions

Its believed that weather conditions such as the amount of rain, temperature and other factors greatly affect the production of rice which largely depends on enough water and soil moisture during the planting season and a dry weather conditions during harvest season, when these conditions are favourable the supply goes up hence the prices goes down. When there are calamities such as draught and floods then production reduces and this increases the price of rice.

Substitute products

Rice being a cereal has many substitute products such as maize and wheat.

When the price of other substitute commodities goes down, consumers shift towards them as an alternative hence reducing demand of rice which results in reduction of rice prices. When prices of other substitutes go up, people shift to the cheaper alternative, demand for rice increases thus raising the prices.

Seasons

Rice is heavily dependent on seasons due to its requirement of special growing conditions.

The supply is usually high during harvest season and this increases supply thereby reducing the prices. The prices then shoot up during planting season when the supply is less than demand.

Government policies

Government plays a very influential role in regulating prices of commodities. Government may subsidise rice production, regulate export of rice. This in turn may reduce the cost of rice on its country and on the other hand government may ban exports of rice to other countries for various reasons. This makes the supply of rice in those countries to go up hence raising the prices.

Rice products

Rice is used for making a wide variety of products such as rice adhesives, vinegar, paper, beverages, rice milk and other products.

When the demand for these products increases more rice is needed and this makes supply less than demand resulting to increase in rice prices.

Technology

Advancement in technology allows production of rice at a lower cost and this makes it possible to reduce the price of rice in the market. Other factors that may influence the price of rice include festivities such as Christmas seasons. There is more rice consumption during these times as compared to other times especially in communities where rice is not the staple food.

This makes the rice price to go up during these seasons. Competition with other rice producing countries makes the supply to increase and as different suppliers fight for the available market they reduce prices. The price of rice is dynamic and is likely to change in different seasons of the year due to different factors such as planting and harvesting seasons and festivities.

Competition

Countries that produce rice often compete for the available market.

When the supply is greater than demand then the producers reduce the prices in order to capture the market this makes the prices to go down. On the other hand when there are few producers compared to the available market the producers may increase the prices if the competition is low.

Demand

Demand of rice may rise due to various reasons such as increase in population of a given community or country, urbanisation which raises population in urban centres. Demand may also increase when the economic status of the consumers increase. There are more consumers who have the

potential to buy rice and these increases the demand. When demand is high the prices go up.

Conclusion

There are different factors that influence the price of commodities at the market. These factors either directly or indirectly affect the price of one commodity or another.

Sometimes the price is affected by a combination of many factors. Milk powder prices have been seen to be affected by different factors such as prevailing weather conditions which affect production, disease outbreak and contamination which affects consumer confidence. Changes in seasons along the year have been observed to be the largest factor affecting milk powder production. Government policies, inflation and cost of other related goods contributed to changes of price of milk powder. Different factors were observed to affect the price of cooking oil. These factors were seen to vary from weather conditions which increase or decrease production of cooking oil, cost of production as production process uses a lot of energy, economic stability of producing countries.

Other factors include influence of emerging markets, cost of related goods, health factors and technology. The price of rice was observed to be affected by different factors such as weather conditions during the growing season, the prices of other substitute commodities such as wheat and maize, seasons which determine supply during harvest and planting periods.

Government policies such as export regulation, taxation and subsidies could affect price of rice. The cost of production, production technology and

festivities were other factors that could either result to rise or fall of price of rice. The price of cooking oil was observed to remain relatively constant along the year with probable slight fluctuations due to increased demand as observed during festive seasons. However the prices of milk powder is greatly influenced by change in season with prices going up during dry seasons when there is more demand and goes down during rainy seasons. The price of rice was also observed to be volatile rising up during planting seasons when supply is low and goes down during harvest seasons when the supply is high.