Exploring the coffee beans market

ASSIGN BUSTER

Allocation of country's resources according to price mechanism: Allocation of country's resources according to price mechanism means considering the sectors as most potential sectors in which the demand is increasing rapidly and allocating the country's total resource on the basis of growth in demand. This process needs a long term analysis of previous market demand and relative supply.

Free Market Economy: The term free market economy primarily means a system where the buyers and sellers are solely responsible for the choices they make. It is the opposite of a controlled market, in which the state directly regulates how goods, services and labor may be used, priced, or distributed, rather than relying on the mechanism of private ownership. These prices, in turn, are fixed by the forces of supply and demand of a respective commodity. In cases of demand falling short of the supply of a respective commodity, the price will fall as opposed to a price rise when the supply is inadequate to meet the growing demand of a good or service. Free market economy is also characterized by free trade without any tariffs or subsidies imposed by the government.

Advantages of Free Market Economy: There are many advantages to a free market economy. They range from the moral issues to the practical issues. We will deal mainly with the practical ones.

The growth sectors will need a huge amount of labor force while developing. So a wide range of employment will be created and the man power of the country will be efficiently occupied.

Buyers are free to buy any commodity which they like and in whatever amounts. The producer can also produce whichever product they want to and also increase the capacity of any individual commodity depending upon the forces of the market. Producers are free to undertake the risks and rewards associated with increase in production. There is no state intervention in the functioning of the forces of the market.

With the increase of production in industrial or agricultural sector the country’s GDP will increase, as GDP is the market value of all goods and services produced in a year in a country. It will draw a positive effect on the country’s economic growth.

The biggest advantage that a market-oriented economy enjoys is the determination of a unique price determined by the demand and supply in absence of any monopolistic or oligopolistic influences. The decision of what to produce, for whom to produce and in what quantities is taken by the market forces and not determined by the state.

Though the resources are always scarce, by allocating resource on basis of price mechanism we can make the best use of available resource. The growth sectors will receive more investment so proper allocation of money will be ensured. Thus the utility of money and other resource can also be maximized.

Disadvantages of Free Market Economy:

If the potential sectors do not grow according to expectation, the total income of the country in a year will also not reach the expected level. In this

situation, there may be a big deviation between the actual tax collected and the government predicted to get as its income.

Because the free market is a quasi-mirror of nature, those who are stupid, lazy, or just tragically unlucky are often relegated to poverty and misery. To redress this, it is necessary to create institutions outside of, or in addition to, the market so that the least valuable people do not become so poor and desperate that they drag down the rest of society.

A market economy promotes trust and openness, which leaves a society possessing it venerable to enemies who wish to take advantage of that society's good will. it is the responsibility of the government to be watchful against such subversion even when the general public is not.

With a market economy and the freedom of choice it brings, people are able to make choices that are harmful to themselves. When parents do not teach their children to make intelligent choices, the total level of moral and physical disease, and vice in general will increase in a society. Each person can be their own worst enemy, and in a market economy, every citizen must be on guard against personal foolishness and irrationality, if they do not want to suffer the negative consequences of wrong action.

(B)

Planed Economy: Planned economy or command economy is an economic system in which the state directs the economy. It is an economic system in which the central government controls industry such that it makes major decisions regarding the production and distribution of goods and services. Its most extensive form is referred to as a command economy, centrally

planned economy, or command and control economy. In such economies, central economic planning by the state or government controls all major sectors of the economy and formulates all decisions about the use of resources and the distribution of output. Planners decide what should be produced and direct lower-level enterprises to produce those goods in accordance with national and social objectives. Planned economies are in contrast to unplanned economies, for example, the market economy, where production, distribution, pricing, and investment decisions are made by the private owners of the factories of production based upon their individual interests rather than upon a macroeconomic plan. They are many advantages and disadvantages of planned economy are given below:

Advantages of Planned Economy:

Since this system is centralized and directly under the control of the government, it is stable and safe for investors. There are standards laid down by the government which have to be followed by every investor and thus, it helps to establish more control.

All individual efforts are focused towards a certain goal, which means that all the energy can be concentrated towards achieving social and economic goal of the government.

Since this system is stable, long term financial projects and infrastructure can be made without the fear of market downturn, which may lead to abrupt abandonment.

In a planned economy, the individual efforts are directed towards a certain goal by the restrictions which mean that all the energy can be focused

towards achieving a specific economic and social goal of the government. It can eliminate consumerism and luxuries much easily.

Disadvantages of Planned Economy:

Planned economies are that since the production does not take into account what the consumers want; shortages and over supplies become quite common.

The planned economy does not operate a commercial stand point so even if the production systems are efficient, there may be no demand for the goods abroad that would earn foreign exchange.

In planned economy, planners are not always aware of consumer preferences, shortages, and surpluses with accuracy and therefore, cannot manage production accordingly.

This type of economy requires many planners and administration to run the system which results in slow decision making, less progressing, and corruption. There is surplus labor and materials which leads to waste of labor and resources that could have otherwise been used to fulfill other needs of the society.

Summary: Here in this task we have explained about different

Task # 2

(A)

Equilibrium: The equilibrium is a situation where no profit and no loss are observed and this of situation can be achieved with integration equilibrium price and equilibrium quantity of supply or demand where equilibrium price

refers such type of price. At which prices buyers and sellers would like to change their products or monitory values and equilibrium quantities introduce that amount of goods where buyer and seller would like to change product.

Equilibrium Price: The price in a competitive market where the quantity demand and quantity supply are equal where there is neither a shortage nor a surplus and where there is no tendency for price to rise or fall.

Equilibrium Quantity: The quantity demand and quantity supplied at the equilibrium price in a competitive market.

Market Equilibrium: Market equilibrium is a situation in which, at the prevailing price consumers can buy all of a good they wish and producers can sell all of a good they wish. Equilibrium price is the price at which quantity demanded equals quantity supplied.

The equilibrium price and equilibrium quantity of coffee beans is explained below:

Equation:

Demand curve, Qd = – 2P + 76

Supply curve, Qs = P – 8

Illustration about the diagram: The equilibrium price of coffee beans is determined by the interaction of demand and supply in the free market. We can see in figure 1, when the price of coffee beans is £26 the consumers would like to purchase 24 units, but the suppliers will sell 18 units at this price; so equilibrium does not form. But when price increases to £ 28, the

demand decreases and sets at 20 units; and with the increases in price the supply also increases and sets at 20 units, too. Here, the quantity demanded for coffee beans equals to the quantity supplied of coffee beans at the price of £ 28. So, the equilibrium price of coffee beans is £ 28. Now if the supply and demand gives shift, new equilibrium price is set in the same way.

(B)

Theory of Supply: If price rises when quantity supply rises, and if price falls when quantity supply falls. For example, if the Coffee beans price rises than will be quantity supply rises. Again, if the Coffee beans price falls than will be quantity supply falls.

The price chart of coffee beans is given as below:

Point

Price

“ Y”

Quantity demanded “ X”

Quantity supplied “ X”

A

10

20

20

B

20

10

30

The diagram of the supply of coffee beans is given below:

Description about the diagram: The government sets a minimum price of £ 20. Since the government cannot repeal the low of demand, consumers reduce the amount they purchase to 10 units. Producers, of course, are going to increase their production of X to 30 units in response to the £ 20 price. Now a surplus of 20 units exists. Because the government is not allowing the price of X to fall, this surplus is going to continue until it is either eliminated by the government or demand or supply shift cause market price to rise to £ 20 or high. In order for the government to ensure that producers do not illegally sell their surpluses for less than £ 20, the government must either restrict the production of X to 10 units or be willing to buy the 20 surplus units.

Theory of Demand: If quantity demand increases when price decreases, on the other hand quantity demand decreases when price increases, remaining all other things constant. Example: if the Coffee beans price increases than will be quantity demand decreases. Again, if the Coffee beans price decreases than will be quantity demand increases.

The demand chart of coffee beans is given below:

Equation: Demand curve, Qd = – 2P + 76

Supply curve, Qs = P – 8

Data:

Price (P)

Quantity Demanded (Qd)

Quantity Supplied (Qs)

8

60

0

18

40

10

28

20

20

38

0

30

The Diagram of the demand of coffee beans is given below:

Shortage

Ep

Pc

Figure-3: Effects of access demand on market equilibrium

Illustration about the diagram: The government imposes price ceiling to make daily necessary goods or services available to the people with lower income level so that they are not deprived from their basic needs. But while setting the ceiling price the government also stays concern that the producers of that good or service do not face loss by selling the product at ceiling price and can carry on their businesses properly. The government just takes the strategy to reduce price by making the businessmen (producers or investors) to sell goods at a lower price and make smaller profit.

The factors affecting the demand for the supply of coffee beans:

Consumers are willing and able to buy more units of coffee beans the lower the price is and will buy fewer units the higher the price is. If the price of coffee beans increases (decreases), the demand for supply of coffee beans decreases (increases), within a certain period of time.

If the demand of coffee beans increases (decreases) in the market, the demand for the supply of coffee beans also increases (decreases). Again, if the sellers think that the demand will rise (fall) in a future period, the demand for supply of coffee beans will increase (decrease) in the current period.

A movement in consumers' tastes toward coffee beans will increase demand and a movement in consumers' tastes away from coffee beans will decrease its demand.

The consumer for whom coffee beans is a normal good an increase (decrease) in his/her income will cause him/her to demand more (less) coffee beans. But the consumer for whom coffee beans is an inferior good an increase (decrease) in his/her income will cause him/her to demand less (more) coffee beans.

If the price of coffee beans falls because of government's price ceiling, there happens a sharp increase in the demand for supply of coffee beans.

Summary: When price ceiling is imposed, the producers or suppliers are enforced to sell product at ceiling price, though profit is lower. As price comes down, more people can afford to buy the good and thus the government makes price ceiling work.

Task # 3

(A)

The supply of coffee beans that are available for buying in the short-run is fixed because of the following reasons:

Coffee is an agricultural product and the supply of agricultural products is constant in the short run because their production is fixed in the short run.

Nowadays, the cultivation lands are losing fertility. So, it is impossible to increase the fertility of land within a short period of time.

As coffee beans are an agricultural product the effect of natural calamities is high on its production in the short run. A sudden attack of flood or tornado can cause a big decrease to the production of coffee beans of a region or a state.

(B)

Price Elasticity of supply of coffee beans: The degree of price elasticity is measured with the coefficient ES. We can define the elasticity of supply of coffee beans like this,

ES =

Percentage change in quantity supplied of coffee beans

Percentage change in price of coffee beans

The short run: The short run is a period of time too short to change plant capacity but long enough to use fixed plant more or less intensively.

In the short run, the farmer's plant (land and farm machinery) is fixed. But he does have time in the short run to cultivate coffee beans more intensively by applying more labor and more fertilizer and pesticides to the coffee beans. The result is the somewhat greater output in response to a presumed increase in demand; this greater output is reflected in a firm's output decision in the short-run of coffee beans, as shown by Ss in figure 2.

An illustration provided of firm's output decision of coffee beans in the short run:

Data:

Price (P)

Quantity Demanded (D1)

Quantity Demanded (D2)

Quantity Supplied (Qs)

10

25

30

5

20

20

25

10

30

15

20

15

40

10

15

20

50

5

10

25

Diagram:

Qo Qs

Ss

Ps

Po

D1 D2

Figure-4: Price of firm’s output decision of coffee beans in short run

Description about the diagram: Figure 4 shows the increase in demand from D1 (15 units) to D2 (17. 5 units) is met by an increase of 2. 5 units in

quantity from Qo to Qs, so there is a smaller price adjustment of £5 from Po (£30) to Ps (£35) than would be the case in the market period (£ 10). The equilibrium price of coffee beans is therefore lower in the short run than in the market period.

So, the supply of coffee beans is more responsive to the changes in price in the short run than in the market period. If we put it in the formula of elasticity, here,

ES = 16. 67/16. 67 = 1.

We know that supply is unit elastic if ES is equal to 1. Here, it is 1; that means the supply of coffee beans is unit elastic in the short run.

The long run: The long run is a time period long enough for firms to adjust their plant sizes and for new firms to enter (or existing firms to leave) the industry.

In the coffee beans industry the farmer has time to acquire additional land and buy more machinery and equipment. Furthermore, other farmers, may overtime, be attracted to coffee beans farming by the increased demand and higher price. Such adjustments create a large supply response for coffee beans, as presented by the more elastic supply curve Sl in figure 3.

An illustration provided of firm's output decision of coffee beans in the long run:

Data:

Price (P)

Quantity Demanded (D1)

Quantity Demanded (D2)

Quantity Supplied (Qs)

10

25

30

5

20

20

25

15

30

15

20

25

40

10

15

35

50

5

10

45

Diagram:

Qo Ql

Sl

Pl

Po

D1 D2

Fifure-5: Price of firm’s output decision of coffee beans in long run

Illustration about the diagram: Figure 5 shows that the outcome is a smaller price rise {from Po (£23. 5) to Pl (£ 26. 5)} and a larger output increase {from Qo (18. 5) to Ql (£21. 5)} in response to the increase in demand from D1 to D2. If we put it in the formula of elasticity, here,

ES = 16. 22/12. 77 = 1. 27

We know that supply is elastic if ES is greater than 1. Here, it is 1. 27; that means the supply of coffee beans is elastic.

(C)

The government might use the following short-term measures, apart from a price ceiling, to help alleviate the shortage of coffee beans:

When there emerges a huge shortage of coffee beans inside the country and the government fails to control the situation, it may ask for foreign aid to the wealthier countries that got surplus or extra storage of coffee beans or to the aid agencies to provide the starving people with sufficient coffee beans to within a short period of time.

The government can help consumers by purchasing coffee beans from the market at the equilibrium price and selling them to the poor people at a lower price, and absorbs the deviation between the purchasing and selling price from government funds.

The government can provide VGD cards to the people, which will allow them to buy a specific amount of coffee beans at a very low price.

Generally, government keeps a stock of necessary foods or crops to use at times of emergencies. The government can supply coffee beans from its stock to minimize the shortage of market.

Summary: At the end of the discussion we can say, the greater the amounts of time coffee beans producers have to adjust to a change in demand; the greater will be their output response. In the immediate market period there is insufficient time to change output, and so supply is perfectly inelastic. In the short run plant capacity is fixed, but change in the intensity of its use can alter output; supply is therefore more elastic. In the long run all desired

adjustments, including change in plant capacity, can be made and supply becomes still more elastic.

Task # 4

(A)

Price ceiling: The maximum price the government permits sellers to change for a good. When this price is below equilibrium a shortage occurs. When a price ceiling imposed by a government is higher than the market equilibrium price, the price ceiling has no impact on the economy. It does not restrict supply nor encourage demand. It says you cannot charge or be charged more than an amount that is higher than is already being charged. The government's imposed maximum price (ceiling price) above the market-determined equilibrium price, and has no measurable effect on the product's price. In this case, the market is unable to produce a price as high as the ceiling price. In the free market the price of any good is determined automatically by the interaction of demand and supply. At a price, the quantity demanded and the quantity supplied comes to an equal point and that is the equilibrium price (Ep). But when the equilibrium price of any good or service which is used to meet the basic needs of a country, becomes so high that most of the people cannot afford to buy it, the government may pose intervention in the market to help the people. The government sets a price which is below the Ep, so that more consumers can afford to buy that good or service, but it is above the producers' or suppliers' total cost so that the producers also do not face loss while selling the product at ceiling price.

(B)

How a price ceiling works: The government imposes price ceiling to make daily necessary goods or services available to the people with lower income level so that they are not deprived from their basic needs. The government just takes the strategy to reduce price by making the businessmen (producers or investors) to sell goods at a lower price and make smaller profit.

When price ceiling is imposed, the producers or suppliers are enforced to sell product at ceiling price, though profit is lower. As price comes down, more people can afford to buy the good and thus the government makes price ceiling work.

The diagram of the price ceiling of coffee beans is given below:

Figure-6: Price ceiling of coffee beans

Illustration of the diagram: From the above diagram we can see that the X-axis is showing the quantity demanded of the coffee beans and the Y-axis is showing the price of the coffee beans. If the price of coffee beans is £10 then the quantity demanded and quantity supply of coffee beans is 30 units. Ep is the equilibrium point. Then government will be fixed for coffee beans price from £10 to £5. Then, if the price of coffee beans decreases from £10 to £5, then the quantity demanded will be increases from 30 units to 40 units, supply will be decreases from30 to 20units. A shortage of 20 units result from the imposition of the £5 is price ceiling. Remaining other things held constant. Market forces will not be permitted to bid up the price to eliminate

the shortage because producers cannot sell good for more than £5. This type of shortage will continue until government eliminates the price ceiling or until shifts in either supply or demand cause the equilibrium price to fall to £5 or lower. Some consumer are willing to pay more than £5 for good X rather than do without it, and some producer are willing to sell good X for more than £5 rather than forgo the extra sales. In most cases the law is not a sufficient deterrent to the illegal trade of a good at price above the price ceiling.

(C)

In case of introducing a price ceiling the likely effect on the demand for coffee:

When the government imposes price ceiling on coffee beans, the price of beans comes down from its equilibrium price in the free market. Then, the consumer who had want or willingness to buy wheat but did not have ability because of high price, gain ability and new demand is created. So there will be a sharp hike in the demand for coffee beans.

In production govt. can use better technology, better quality seeds, better method of cultivation, and more fruitful fertilizer, than past and for this the production will increase. If happen so the govt. could overcome the crisis. But for this the govt. has to provide subsidy, hybrid seed, and fertilizer. Not only that the govt. must provide with training in scientific cultivating method practically.

Task # 5

Price Ceiling: A price ceiling is a government-imposed limit on the price charged for a product. Governments intend price ceilings to protect consumers from conditions that could make necessary commodities unattainable. However, a price ceiling can cause problems if imposed for a long period without controlled rationing. Price ceilings can produce negative results when the correct solution would have been to increase supply.

Effects of Price Ceiling:

Binding versus non-binding price ceilings:

A price ceiling can be set above or below the free-market equilibrium price. For a price ceiling to be effective, it must differ from the free market price. In the graph at right, the supply and demand curves intersect to determine the free-market quantity and price. The dashed line represents a price ceiling set above the free-market price, called a non-binding price ceiling. In this case, the ceiling has no practical effect. The government has mandated a maximum price, but the market price is established well below that. In contrast, the solid green line is a price ceiling set below the free market price, called a binding price ceiling. In this case, the price ceiling has a measurable impact on the market.

Diagram:

Figuar-9: Binding versus non-binding price ceilings

Consequences of binding price ceilings: A price ceiling set below the free-market price has several effects. Suppliers find they can’t charge what they had been. As a result, some suppliers drop out of the market. This reduces

supply. Meanwhile, consumers find they can now buy the product for less, so quantity demanded increases. These two actions cause demand to exceed supply, which causes a shortage-unless rationing or other consumption controls are enforced. It can also lead to various forms of non-price competition so supply can meet demand.

Diagram:

Figuar-10: Consequences of binding price ceilings

The effects depend on following factors: If all or most of the farms of the country are facilitated with storage system, they will stock up the produced coffee stretching up their supply with the reduction in price. But if the farms do not have storage facility, they will not be able to store that much coffee whatever the price is, and cannot reduce supply. So their supply will not be changed.

If ceiling is used for a long time, the storage cost may become so high that the farms may find it feasible to sell out the coffee at ceiling price rather than keeping it inside the cold storage. So in this case the supply of farms producing coffee beans may increase.

If the farms are depended on the sells revenue of current cultivation period, they cannot wait till the withdrawal of price ceiling. They have to sell their coffee beans instantly whatever the market price is. In this case, the supply of farms will remain unchanged. Reversely, if the farms have strong capital backbone, they can stock or wait till the government withdraws ceiling. So their supply decreases in such cases.

As coffee beans are a perishable item, the farms cannot keep it in the storehouse for a long time. So if the government uses price ceiling for a long time, the farms cannot change their supply.

(B)

Unintended consequences might occur as a result of the government's price ceiling:

Illegally: Though the price decreases because of price ceiling, the demand curve reveals that many buyers are willing to pay more than the ceiling price. It is more profitable for sellers to sell at prices above the ceiling. So products will be illegally bought and sold at prices above the legal limit.

Stock: At ceiling price the profit on a good is lower. Many dishonest businessmen think that now they can stock the good and wait till the government withdraws price ceiling. So that they will be able to sell them at a higher price and make a greater profit.

Low profit: As the selling price and profit is lower at ceiling price, the producers try to minimize their production cost to keep up their profit level.

Businessman shifting to another business: As profit level decreases because of price ceiling, there will be lower incentive to produce the coffee, rather producers and businessmen will start to close production or withdraw their investment from that business.

(C)

From my point of view I think the use of a price ceiling by the government may only make the situation worse because of the following reasons:

Because of lower profit margin, the producers will start to close the production of the good on which ceiling has been imposed. They will move to other similar products.

The investors will start to withdraw their investment form the product or service on which government has imposed ceiling, as there is less chances of making profit. New investment also will not come to that sector.

If the government uses price ceiling on any product for a long time the producers and investors of that product will face loss and it will become difficult for them to carry on production.

(D)

Supply: When price rises, quantity supplied also rises, and when price fall quantity supplied also falls. For example, if the coffee price rises than will be quantity supply rises. Again, if the Coffee beans price falls than will be quantity supply falls.

The price chart of coffee is given as below:

Point

Price

“ Y”

Quantity demanded “ X”

Quantity supplied “ X”

A

10

20

20

B

20

10

30

The diagram of the supply of coffee is given below:

Description about the diagram: The government sets a minimum price of £20. Since the government cannot repeal the low of demand, consumers reduce the amount they purchase to 10 units. Producers, of course, are going to increase their production of X to 30 units in response to the £20 price. Now a surplus of 20 units exists. Because the government is not allowing the price of X to fall, this surplus is going to continue until it is either eliminated by the government or demand or supply shift cause market price to rise to £20 or high. In order for the government to ensure that producers do not illegally sell their surpluses for less than £20, the government must

either restrict the production of X to 10 units or be willing to buy the 20 surplus units.

Demand: If quantity demand increases when price decreases, on the other hand quantity demand decreases when price increases, remaining all other things constant. Example: if the coffee price increases than will be quantity demand decreases. Again, if the coffee price decreases than will be quantity demand increases.

Data:

Price (P)

Quantity Demanded (Qd)

Quantity Supplied (Qs)

8

60

0

18

40

10

28

2