

# The industry and ethanol producing firms

Business



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Due to equilibrium in demand supply of maize and production of ethanol, and subsidies, farmers producing maize were getting good prices till 2014.

However, with withdrawal of subsidy in 2016, firms getting subsidy lost some of the incentive that is bound to affect their profitability.

Since demand for gasoline is always going to be there and is ever increasing with no substitute product available, as such there shouldn't be any external business threat to firms producing ethanol. However, to sustain their profitability, they would be looking to reduce production costs or pass on the increase in prices to their consumers. At the same time, by reducing their production cost they can be more competitive in the market. Thus in the new scenario, only those ethanol producing firm would be profitable who would be able to keep their costs down and be more competitive in pricing. Another scenario for the firms can be to operate at lower per unit profit but doing volume sales to increase their gross revenue. For an individual firm, lower ethanol costs will mean higher sales. The industry is likely to witness exit of small ethanol producing firms.

It is assumed that gasoline production won't be affected due to withdrawal of subsidy on ethanol production. Therefore, demand for ethanol would be hardly affected. As such, there won't be any reduction in production of ethanol.

There are a large number of farmers producing maize and there is no barriers on selling maize to any of the ethanol producing firm. Further there is no big entry cost involved in maize production farming. Therefore, it presents a perfect competition scenario with farmers having no bargaining power over the buyers and have to go by the market prices. However with large produce at their disposal, their gross revenue is likely to be affected only marginally.

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At the same time cost per unit of sale is bound to decrease. Thus, ethanol producing firms are more likely to procure more maize. This aligns well with the demand and supply law. This also means that small farmers will no more find it profitable to produce maize and they are more likely to move out of this.