

## MICROECONOMICS AT WORK EXERCISE

### THE PRICE OF IRON ORE

**REFERENCE:** A. Trounson and P. Alford, 'Iron ore price to soar', *The Australian*, 23 February 2005, p. 21.

### CHAPTER RELEVANT TO THIS EXERCISE: 3

#### CONTEXT

The *demand* for iron ore comes from producers of steel. Apart from the US, the world steel industry is dominated by a relatively small number of producers, especially in Japan and China. (There are several smaller producers including, in Australia, BlueScope; but their demand for iron ore is relatively insignificant.) The world *supply* of iron ore (again outside of the US which also has its own iron ore mining companies) is produced by a similarly relatively small number of producers, concentrated in Australia and Brazil. (In Australia the dominant producers are BHP Billiton and Rio Tinto, in Brazil the company CRVD – the three companies between them accounting for over three quarters of world seaborne trade in iron ore.) The world *price* of iron ore is determined largely by the relative demand and supply of the Asian producers and the suppliers in Australia and Brazil.

#### QUESTIONS

1. Explain and analyse the reasons for what is referred to in the heading to the article as 'the Brazilians' 71.5% [price] hike'.
2. Why does the article predict this to flow on to BHP and Rio Tinto?
3. What is the cause of the sharp price increase?
4. Why are prices expected to fall in the medium term?
5. What are the implications for BlueScope Steel (the Australian steel producer)?
6. Explain the suggestion in the article that the price rise 'will be cheered' by shareholders in the Australian iron ore mining company Portman Mining.