

## MICROECONOMICS AT WORK EXERCISE

### THE MARKET FOR SUGAR

**REFERENCE:** ‘No way to sweeten the pill for sugar’ (by Robert Gottlieb), *The Australian*, February 16, 2004, p. 30.

**CHAPTERS RELEVANT TO THIS EXERCISE:** Chapters 3, 9.

### OVERVIEW

Sugar is a commodity that features heavily in international trade. There are a relatively small number of large producers, most of whom are heavily dependent on selling their product to other countries. Australia is one of them. On the other hand many countries that are large consumers of sugar produce little or none of their needs and hence are importers. In a situation of free trade (i.e. one of ‘free markets’) a ‘world price’ would be determined by demand and supply. But the world market is ‘distorted’ by the fact that some countries that are large consumers of sugar – notably the US – opt to produce sugar *themselves*, even though the cost of doing so is higher than buying sugar produced by other countries. This places severe restrictions on the import of sugar from other countries. This article analyses some of the implications of such a policy.

### QUESTIONS

1. Explain how it can be that, as the article suggests, 90 per cent of the world’s sugar is sold above the ‘official’ price (presumably ‘official’ means the world free market price).
2. Is it even more surprising (amazing, ludicrous?) that, as suggested, more than 40 per cent of the world’s sugar is sold at between 50 and 400 per cent above the world price? How can this happen? What are the implications of this situation?
3. Why do you think some countries – notably the US – have encouraged this situation?
4. How is the world price determined? Why is it referred to in the article as ‘artificially depressed’?
5. Explain the conclusion of one study (quoted in the article) that ‘if free trade comes to sugar the world price would double’.
6. Why is Australia particularly badly affected by the situation? Explain the suggestion that Australia ‘may have either to follow Brazil and Thailand... or simply get out of the business’.