

MICROECONOMICS AT WORK EXERCISE

SUPPLY AND DEMAND INFLUENCES ON PRICES AND PRODUCER INCOMES

REFERENCE: ‘Reversal of fortune’ (by Anthony Hoy), *The Bulletin*, 6 August 2002, p. 26.

CHAPTERS RELEVANT TO THIS EXERCISE: Chapters 3, 9.

OVERVIEW

The fortunes of agricultural producers in different industries will depend on the prices of the agricultural commodities that they produce. In turn these prices will be affected by the various influences on the supply of and demand for the commodities in question. Producers’ incomes will also be affected by the *amount* that they are able to produce (supply) and sell.

In March 2002 it was predicted that the aggregate income of agricultural producers would be the highest for two decades, yet only a few months later it appeared that a number of influences on supply and demand would impact adversely on prices and producer incomes.

Among the influences are widespread drought, the appreciation of the Australian dollar, a fall in US cattle prices, the BSE scare in Japan, and a renewal of subsidies to producers in competing markets.

QUESTIONS

1. How is drought likely to affect the price of wool and the incomes of Australian wool producers?
2. How is an appreciating Australian dollar likely to affect producer incomes?
3. How can one analyse the effect of the ‘BSE scare’ in Japan?
4. How do ‘European subsidies’ affect Australian farm incomes?