

LIGHTHOUSE CPA SOCIAL SCIENCES DEPARTMENT

ECONOMICS

VIDEO STUDY GUIDE # 6 - PERFECT COMPETITION AND INELASTIC DEMAND



TERMS THAT YOU MAY NEED INFORMATION ON :

- 1. PRICE SUPPORTS / SUBSIDIES - GOVERNMENT GUARANTEES A PRICE FOR A GOOD OR SERVICE > USUALLY USED BECAUSE THERE IS A SURPLUS AND THE PRICES HAVE FALLEN BELOW THE COST OF PRODUCTION**
- 2. SOIL BANK - GOVERNMENT PAYS FARMERS NOT TO GROW CROPS > A POLICY DESIGNED TO CONTROL SUPPLY**
- 3. LOBBY / LOBBYISTS - AN ORGANIZATION THAT IS PAID BY SOMEONE (INDIVIDUALS OR MORE COMMONLY CORPORATIONS) TO REPRESENT THEIR INTERESTS. THE “ LOBBY'S ” MAIN JOB IS TO ESTABLISH A STRONG CONTACT WITH GOVERNMENT LEGISLATURES AND INFLUENCE MEMBERS OF THE LEGISLATURE TO VOTE IN FAVOR OF THEIR CLIENT'S INTERESTS.**
- 4. AGRARIAN ECONOMY - AN ECONOMY THAT IS DOMINATED (NUMBER OF BUSINESS AND PEOPLE EMPLOYED) BY AGRICULTURE**

**** STORY # 1 > THE COLLAPSE OF THE AGRICULTURE INDUSTRY AFTER WORLD WAR I > A STORY ABOUT WHAT HAPPENS WHEN ECONOMIC CONDITIONS CHANGE AND DEMAND DOES NOT TURN OUT TO BE WHAT THEY THOUGHT IT WOULD BE :**

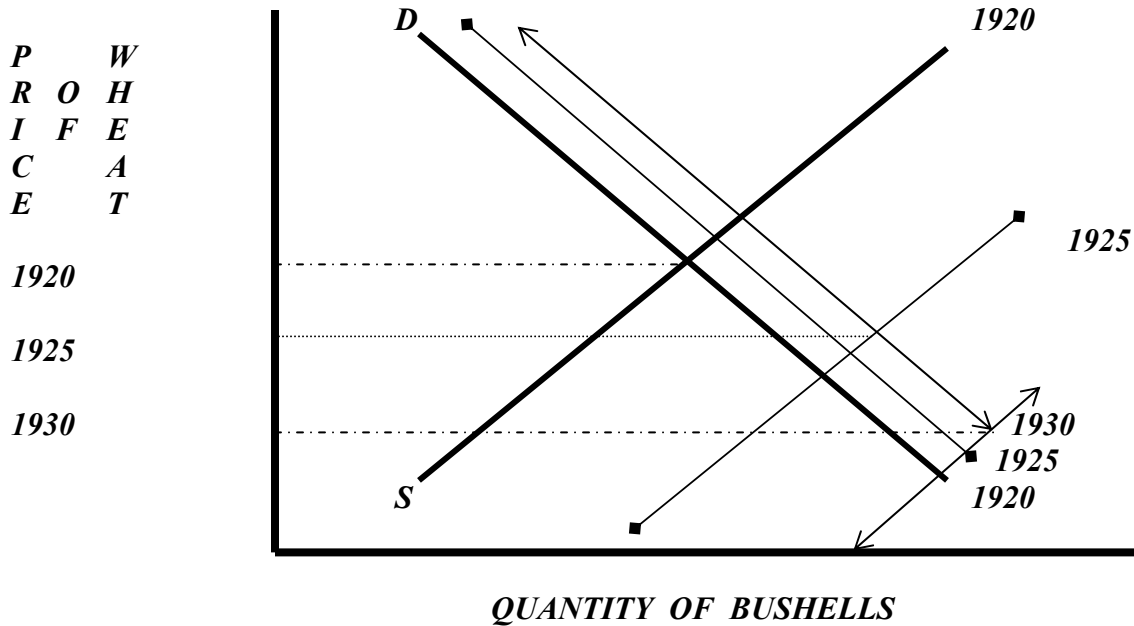
WORLD WAR I WAS A PROSPEROUS TIME FOR ALL BUSINESSES. FARMERS WERE ENCOURAGED TO “ FEED THE WORLD ” BY SUPPORTING THE WAR EFFORT AND MAKING UP FOR THE DROUGHT AND DESTRUCTION OF THE AGRICULTURE INDUSTRY IN EUROPE. FARMERS ARE MAKING MILLONS AND SEE ONLY GOOD TIMES AHEAD. WHAT DO THEY DO TO SUPPORT WHAT SEEMS TO BE UNLIMITED DEMAND ?

WHEN DEMAND FALLS AFTER WORLD WAR I, WHAT DO THE FARMERS KEEP DOING AND WHAT HAPPENS ?

WHY DID FARMERS LOOSE THEIR BUSINESSES / FARMS ?

HOW MANY FARMERS LOOSE / CLOSE THEIR FARMS ?

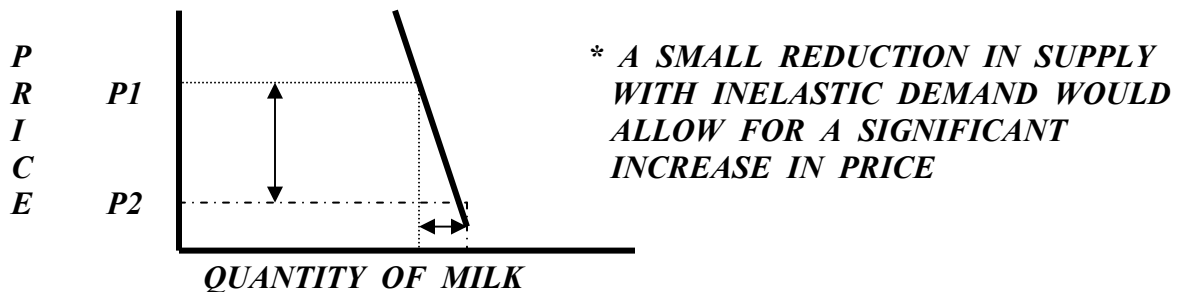
MR. GILL SAYS THAT BY CONTINUING TO OVER PRODUCE , THE FARMERS TOOK THE “LAWS OF SUPPLY AND DEMAND ” OUT OF THE PICTURE. HERE IS HIS CHART TO ILLUSTRATE HIS QUOTE :



**** STORY # 2 > THE DEPRESSION HURT MANY INDUSTRIES AND PEOPLE > HERE IS THE STORY OF THE DAIRY FARMERS WHO, ALTHOUGH UNDERSTANDING HOW TO CORRECTLY READ DEMAND AND MANAGE SUPPLY, FIND OUT THAT IT IS MUCH HARDER TO CONTROL HUMAN NATURE WHICH CAN HAVE A TREMENDOUS IMPACT ON THE BEST PLANS :**

SO MANY PEOPLE ARE BADLY HURT BY THE DEPRESSION THEY CAN'T AFFORD TO BUY MILK UNLESS THE PRICE COMES WAY DOWN – BELOW THE COST OF PRODUCTION = NO PROFITS FOR THE DARIY FARMER !! WHAT DO THE DAIRY FARMERS DECIDE TO DO ?

WHAT WAS THEIR STRATEGY IN DECIDING TO LIMIT THE SUPPLY OF MILK BY CREATING A SHORTAGE ? (HINT SEE MR. GILL'S CHART BELOW)



DID THIS STRATEGY WORK AND WHY ?

WHAT OTHER CONSIDERATION ABOUT CONSUMER REACTION WOULD HAVE TO BE TAKEN INTO ACCOUNT TODAY ?

**** STORY # 3 > TRIES TO ANSWER WHY THE UNITED STATES ALWAYS HAS A PROBLEM WITH THE AGRICULTURE INDUSTRY :**

**IN 2001 _____ OF ALL FARM SUBSIDIES WENT TO THE _____
10 % OF FARMS**

**ACCORDING TO TERRY BARR , THE ECONOMIST FOR THE NATIONAL COUNCIL
OF FARMERS COOPERATIVES , IF YOU WANT TO HAVE AN _____
AND _____ FOOD SUPPLY , YOU HAVE TO HAVE SUBSIDIES**

**IN 2002 PRESIDENT BUSH SIGNED A FARM SUBSIDY BILL COSTING _____
BILLION OVER 10 YEARS**

THE DEBATE REGARDING FARM SUBSIDIES IS OVER WHAT TWO THINGS ?

1. _____ 2. _____

**IN 1933 UNDER PRESIDENT ROOSEVELT'S _____
IT WAS THE FIRST TIME THAT THERE WAS A NATIONAL PROGRAM TO RAISE
FARM _____ BY GUARANTEEING MINIMUM _____
FOR FARM PRODUCTS**

WHO RECEIVES MOST OF THE FARM SUBSIDIES TODAY ?

**IN 1996 PRESIDENT CLINTON SIGNED THE “ FREEDOM TO FARM ACT “
WHICH WAS SUPPOSED TO DO TWO MAJOR THINGS :**

1. GRADUALLY REDUCE _____ OVER TIME
2. GIVE FARMERS THE _____ TO GROW WHAT
THE MARKET CALLED FOR

BRIAN RIEDL OF THE HERITAGE FOUNDATION SUGGESTS THAT _____
_____ WOULD BE A BETTER SOLUTION THAN SUBSIDIES

TODAY THE UNITED STATES HAS APPROXIMATELY _____ MILLION FARMS
WHICH ARE HOME TO ONLY _____ % OF OUR POPULATION

TODAY ONLY _____ % OF THE FARMS ACCOUNT FOR _____ % OF THE
SALES OF FARM PRODUCTS

ECONOMIST NARIMAN BEHRAVESH SAYS THAT FARM POLICY HAS MORE TO
DO WITH _____ THAN _____

THE POLITICAL POWER OF FARMERS STEMS FROM TWO FEARS :

1. THE _____ OF THE FOOD SUPPLY
2. THE DESIRE TO PRESERVE THE LIFE OF _____
_____ OWNED FARMS

FARM SUPPORT PROGRAMS HAVE BEEN PROVEN TO BE VERY _____
AND _____

FOR THE PAST 100 YEARS THE FARMERS HAVE BECOME MORE _____
WHICH HAS RESULTED IN HAVING _____ FOOD AT _____
PRICES