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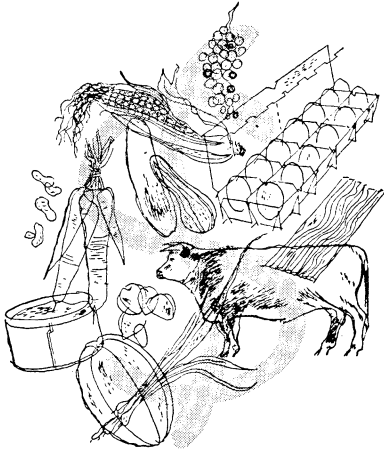
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Prices, Pricing



A key to how well we think the market is doing its job is our satisfaction or dissatisfaction with prices, for prices help decide farmers' incomes on the one hand and consumers' costs on the other. Economists explore many aspects of a controversial issue—competition and pricing—and advance their own opinions, some of which are presented here. Several programs of the Department of Agriculture provide price assistance to farmers. The most important, price-support programs, bring into the market place an additional type of buyer—the Government—a potential buyer with

relatively unlimited financial resources. The Government competes with commercial buyers, but unlike them, its objective is to stabilize prices received by farmers rather than to make a profit. Another program is marketing agreements and orders. The agreements and orders provide the means of regulating the prices of fluid milk and the supplies of vegetables and fruits in order to effect orderly marketing and improve prices to producers.

The Place of Competition

The basic factor that keeps markets in line with one another at different levels, in different places, at different times, and for different commodities is competition among the buyers and sellers.

Competition in the performance of any marketing function generally assures that charges for performing it do not get far out of line with the costs involved. If based on accurate information, competition will cause the goods to flow from one market to another whenever the price differential between them exceeds the intervening costs.

Prices of food in different stores in the same community are tied together by the possibility that consumers will shift their purchases from one store to another if the prices and services they offer get out of line. Such competition is most obvious when two foodstores

are side by side or in the same shopping center. Competition of a more complex sort occurs between the large supermarket and the small grocery-delicatessen. If the latter's prices get too high, some consumers will forego buying, until their next chance to visit a larger store or shopping center.

Perfect competition means perfect knowledge of alternative opportunities on the part of each buyer and each seller. Not that every consumer needs to know the prices charged for a given commodity by every seller in the United States. It may be enough that he know the price policies of half a dozen retail stores in his community. The cost in time, inconvenience, and actual transportation outlays of grocery shopping in a neighboring town or even in a distant part of the same town is usually so high that only a small number of relatively nearby stores are of real interest to him. He may not even be curious about prices in foodstores in other parts of a large city because of the ties he knows (or assumes) exist between the individual retail stores. He may know or assume that the national chains or local chains of supermarkets maintain common price policies in his area. Also, consumers living a few blocks away

from him are shopping in some of the stores which he patronizes and also in two or three stores which are beyond his reach. That factor in itself tends to produce a great deal of cohesion among prices in different stores in a city even though the purchase habits of most individual consumers may be highly routinized.

But the retail food market in a city is tied together in other ways as well. An individual retailer may keep track of the price policies and major price changes of his main competitors. He or a representative may shop the competing stores often enough so that he thinks he knows pretty well what they are doing. In addition, the leaders or best buys of some of the larger competitors are advertised in newspapers each week, so that other retailers and consumers are informed of the more spectacular price changes. Through market news reports and the sales representatives of wholesale grocers and processors, he knows pretty well what most of his competitors pay at wholesale for the products they buy.

Just as the behavior of consumers and retailers integrates the retail market structure of a city, the behavior of carlot purchasers in terminal markets helps to integrate the market structure between major producing and consuming centers. If the same commodity is produced in both remote and nearby areas, the carlot receiver often finds it advantageous to buy from the nearer source. The buyer's main objective is to obtain any given commodity at the lowest cost as delivered to him. When he compares prices at different shipping points he must allow for differences in transportation costs from the various points to his own terminal.

In each producing area or processing center, shippers make similar calculations. The shipper's usual goal is to sell his products in the markets that will return him the highest net price at the point of shipment. When he compares prices at different terminal markets, he must deduct transporta-

tion costs to determine which will yield him the highest net return.

Thus the nationwide market is tied together through the action of buyers in all consuming centers trying to buy from the cheapest source and by sellers in all producing or processing centers trying to sell in the most remunerative market.

On perishable products, daily market news reports are issued in many of the large consuming centers and at many of the more important shipping points. When the reports indicate that a certain shipping point is an unusually cheap source for a given terminal, buyers at that terminal will direct most of their orders to the given shipping point. If reports indicate that a certain terminal is an unusually profitable destination for a particular shipping point, shippers there will intensify their selling efforts in the given terminal. The redirection of shipments speedily eliminates unusual advantages to either buyers or sellers. For example, west coast shippers of fruits and vegetables have long availed themselves of the possibility of diverting rolling cars from one market to another in the same general direction. If the price of California oranges in Baltimore on one day is significantly out of line with the price in Washington, D. C., the situation usually can be corrected within 24 to 48 hours.

Besides watching the daily market news reports, large shippers and buyers are in frequent telegraphic or telephone communication with their chief customers or suppliers. Large processing concerns like some of the meat-packing and milling companies maintain branch houses or sales offices in major consuming centers and thus keep in close touch with retail markets in many parts of the country. The purchasing departments of the large concerns keep in touch with the producer and f. o. b. markets for the raw products. Chainstores perform a somewhat similar function in that they watch f. o. b. markets in all parts of the United States as well as retail markets

in the communities they serve. Some of the large farmers' cooperatives also keep in contact with the market on a nationwide scale.

A smaller food processor maintains contact with wholesale buyers in the consuming centers which fall within his natural marketing territory. He also maintains contact with farmers and shipping-point markets in the areas which are for him feasible sources of supply. The time and cost involved in transporting raw materials from long distances to a given plant limit the area within which he is an active competitor for supplies.

Similarly, an individual farmer may be particularly interested in the activities of only a few buyers or in prices at only a few markets. Sometimes he may know from experience that the local buyer pays on the basis of some well-recognized central market price. To the extent that the different buyers available to him follow consistent policies he may normally sell to the one buyer whose policies seem most advantageous to him. Also, in the local market, as well as at other levels, potential competition may be more important than the actual shifting of sellers from one buyer to another may suggest.

MOST BUYERS and sellers in the marketing system, from farmers to consumers, do not try to capture the last penny of possible advantage. If a consumer carefully studied the prices of all individual food products in all the stores that were readily accessible to him, for example, he might find that his grocery bill would be lowest if he bought 15 items from store A, 8 from store B, 5 from store C, and 1 from store D. That would mean three additional walks or automobile trips and three additional trips past check-out counters, not counting his initial visits to scout the stores.

Even if a customer made such a comprehensive calculation he might decide that the savings he might make were not worth the additional time

and inconvenience. Furthermore, there might well be enough variation in the prices charged by different stores from week to week so that his least-cost market basket in the second or third week would involve a somewhat different combination of stores and commodities. In that sense least-cost shopping would involve a terrific overhead cost in terms of time and mental effort on the part of any consumer who attempted it.

In order to save energy and cut down on mental wear and tear, consumers and marketing firms tend to lay down certain routines, habits, and policies. The policies and terms of trade followed by various wholesale buyers become known to the retailers who patronize them. Most of the time a given retailer may buy a certain line of products exclusively from a single buyer whose policies he feels are by and large the most advantageous to him. Only if a striking disparity appears between the terms offered by his regular supplier and some other supplier will he think it worthwhile to make a change. The fact that he does shift when another supplier offers an unusual bargain serves to keep his regular supplier in line with his competitors.

So far we have mostly considered markets separated in space. In them, market information tells shippers and carlot receivers whether or not different markets and shipping points are in line with the structure of actual transportation costs.

MARKETS ALSO ARE SEPARATED in time. Sometimes the lapse of time between sale by the farmer and consumption by the individual is negligible, as in the case of fluid milk. As retail milk prices are changed only infrequently in a given city, little or no price risk is involved in the marketing of a given lot of raw milk.

That is not true for fresh fruits and vegetables, even from nearby areas. In response to a high price for fresh peaches on Monday, enough truck-

loads may be delivered to the market on Tuesday to cause a sharp drop in price and consequent disappointment to the producers who rushed their fruit to market. Produce shipped from California to the East is in transit several days. Once it is unloaded at a given terminal it is seldom feasible to reload and ship it to another center. Furthermore, it must be moved into consumption within a few days. Hence, temporary gluts of a few days' duration may occur in individual terminals so that certain shippers, wholesalers, and retailers will incur considerable losses on particular shipments and purchases.

Just as prices at different places are related to one another by the structure of transportation costs, prices of the same commodity at different times may be related to one another by storage costs. Seasonal swings in production of eggs and milk are partly ironed out through storage. Stocks are accumulated most actively during the season at which prices are usually lowest and resold during the season when production is low and prices are usually above the average for the year.

The cost of carrying eggs from April to October in a commercial cold-storage warehouse is just as definite as the cost of transporting those eggs from Chicago to New York. But the prices of eggs in two different months are much more likely to be out of line with storage costs than are prices at different places to be out of line with transportation costs. The uncertainties of movement through time are much greater than those of movement through space where commodity prices are concerned.

Much of our discussion has assumed that we were dealing with a single commodity which had only one form at any given market level. We have indicated some of the forces which tie together the prices of such a commodity in different retail stores, at different terminal markets, and at different shipping points. These factors collectively determine the national market structure for a commodity with only

one end use. But some farm products reach the consumer in different competing forms, and for them the market structure is more complex.

For example, oranges are marketed in three forms—fresh, as canned single-strength juice, and as frozen concentrated juice. Markets for these three products at retail are tied together partly by competition at the retail level. Some consumers vary their purchases in response to changes in the relative prices of the different products. But the markets are also tied together at the farm price level. In areas where growers are not organized to control marketings, processors of frozen and canned juices must pay the same price as fresh-market shippers for oranges of comparable quality. Given the same farm price for oranges for all uses, and given sufficient competition among firms processing and distributing each of the three forms, the retail price of each form will tend to equal the common farm price plus the specific cost of processing and distributing it.

While this tendency may average out fairly well over a period of years, it does not do so in any one year because of time lags in the distribution of canned and frozen juices. Production of oranges is seasonal, and processors try to concentrate their purchases in the months when fresh-market prices are lowest. The processed products are sold to distributors over a period of months and may not all move through to consumers for nearly a year after the initial processing date. Consequently, in competing for supplies of fresh oranges processors must try to anticipate the demand for their processed products several months in advance. As that can be done only imperfectly, processors are likely to make windfall profits or suffer windfall losses in most individual years.

WHEN producers are able to control the allocation of a raw product between different uses, they sometimes find it advantageous to set different prices for the raw product in each use.

If the supply going into use A is reduced, the retail price and equivalent farm value in that use will rise. If the supply going into use B is increased by the same amount, the retail price and equivalent farm value in that use will fall. A shift in utilization will be profitable to producers if the total farm value of the raw product is thereby increased.

Generally the maximum farm value for the crop as a whole would be obtained by charging different prices for the same raw product in different uses. Thus, orange producers in California have frequently accepted much lower returns on fruit for processing than on fruit of comparable quality for fresh market. Multiple pricing of milk for different uses has been characteristic of many of our metropolitan milk markets, and the practice has been permitted or facilitated by Federal marketing orders and by many State milk-control laws.

Controlled utilization and multiple price programs (which exist for relatively few farm products) create arbitrary breaks at the raw-product level between markets for different forms of a commodity. But prices of any one end product at different locations and levels of distribution may be determined on a competitive basis once the initial allocation of raw product has been made.

For some commodities, such as corn, the end products are so different as to be noncompetitive at the consumer level. Cornstarch, cornmeal, corn oil, and corn sugar or sirup are not directly competitive with one another, although each may compete with products made from different raw materials. Corn processors buy the raw commodity in competition with livestock feeders, manufacturers of mixed feeds, and others.

All those buyers are interested in end products that will be ready for market several weeks or months after the corn is purchased. Here again is a long-run tendency for prices of different corn products (and prices of livestock

products which rely heavily on corn as a feed) to equal the price of corn plus the various costs specific to each end use.

But relationships between the price of corn and prices actually realized on finished corn products are quite variable in any one month or year, and the effects of competitive pricing are obscured by the uncertainties involved in trying to anticipate future conditions of demand and supply.

Thus, for products with several end uses, demand at the farm level may be regarded as the sum of a number of derived demands—demands reflected back from the actual or anticipated demands for each final product. Each distributor or processor makes his own estimates as to future demands and prices at the market levels of interest to him, and these chains of actual costs and anticipated price changes are reflected back through the marketing system to the farm price level.

Ties also exist among markets for different commodities. At the consumer level there is obvious and clear-cut competition within certain commodity groups. Price competition is noticeable among beef, pork, lamb, chicken, and turkey. It is evident that consumers, by and large, vary their purchases of meats and poultry in response to changes in their relative prices. This shifting of purchases means, for example, that a large supply of pork will tend to reduce the prices of competing meats, although to a lesser extent than the price of pork itself.

Other commodity areas in which competition at the consumer level is important are canned fruits, canned juices, and table spreads—butter and oleomargarine. Some consumers may make more extreme substitutions among foods. But such substitutions are made only in response to extreme changes in relative prices or in the income position of the consumer. Thus, substitution of eggs for meat in response to price changes cannot be demonstrated from the national market statistics although some individuals

may regard them as alternatives for particular meals.

Further ties among markets for different commodities are provided at the processor level. As an example, different vegetable oils, and even vegetable oils and animal fats, are interchangeable for some purposes. Some substitutability is found among different grades and staple lengths of cotton in the production of specified fabrics.

Competition among feedstuffs is much keener than is typical at the consumer level. Other grains are almost perfect substitutes for corn in many feeding uses, although each may have special advantages in some uses. (The nonfeed demands for feed grains, such as barley for malt and corn for cornmeal, are, of course, highly specialized and distinct.) Individual farmers in feed-deficit areas vary their purchases of different grains and protein feeds at least moderately in response to changes in their relative prices. And manufacturers of mixed feeds are continually on the alert for substitutions that will lower the raw-material cost of dairy or poultry rations without reducing their feeding value. (*Karl A. Fox.*)

Prices and Pricing

If we consider them alone, neither price nor pricing has much practical meaning. They must be considered together as parts of the economic system.

Prices and pricing guide the production, distribution, and consumption of commodities. Farmers and handlers are nearly always faced by many possibilities when they make a business

decision. They must decide what kind of farm or plant to buy or build; how big it shall be; and what, when, and where to produce, process, and sell.

Prices affect business decisions of producers, marketers, and consumers. Those decisions in turn affect prices. A pricing system that facilitates the making of rational decisions by investors, producers, handlers, and consumers also contributes to an efficient economic system.

Because there are so many decisions of different kinds to make, with alternatives for many of the decisions, there are many different kinds of prices. Each type of price has certain functions to perform.

Prices guide the use of some products even if no actual transfer of ownership occurs. A farmer in the Corn Belt can sell his corn or feed it to his own hogs. His decision depends on whether he expects that the future return from selling hogs will exceed the present cash return from selling his corn by a sufficient amount to cover the risks of deferred sale. In the purchase of farm supplies, buyers shift from one product to another or from one supplier to another in response to relative prices. Thus, both in selling and in buying, prices help the farmer to select from among the alternative products, outlets, or sources of supply available to him those which will yield him the best expected income.

If a certain fertilizer has high productivity, the farmer can pay a higher price for it than for another less productive fertilizer. With given productivities, and with given methods of production, the prices of the factors of production will largely determine their use. Changing productivities of the resources will normally affect their prices.

Some buyers want a product more intensely or have higher purchasing power than others do. Thus some purchasers will bid higher prices for the same amounts of a commodity or are willing to buy greater amounts at a given price.