Lecture 7: Vanilla Case
Answer Sketches for Vanilla Case

1. Interpreting the articles

   a) Draw a graph with time on the horizontal axis, and the price of vanilla on the vertical axis. Make your best guess about the price of vanilla over time. Use years 2000-ish to the present, and note explanations for price changes on your graph.

   Here are some good examples from the submitted answers:
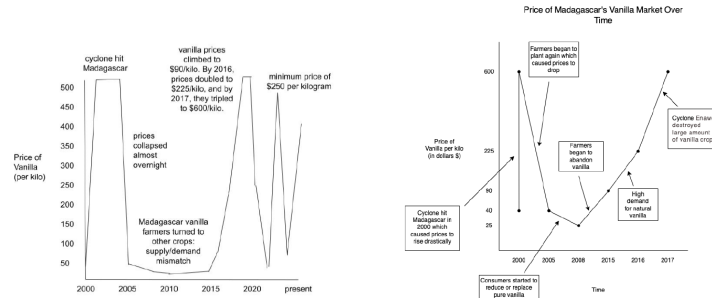
   b) How elastic is the supply of vanilla over the short run? Why?

   The supply of vanilla over the short run is relatively inelastic. Recall that the elasticity of supply is the change in quantity divided by the change in price for firms in a given industry. When prices increase, producers cannot immediately increase production because it takes multiple years to grow the vanilla. However, suppliers can decrease the quantity they bring to market when prices are low. One article gives an example of burning beans, which is a way of decreasing quantity.

   c) What happened to demand and supply in the vanilla market in the short run when developed world food producers wanted to shift to using natural vanilla? Draw a graph, labeling demand and supply shifts in order, if any.

   A good answer here shows a shift outward in demand. It should show little to no increase in supply, since producers are relatively inelastic in the short run.

2. Policy solutions

   a) Name at least two policy solutions for the highly variable prices in the vanilla market

   b) For each policy, list pros and cons, including market impacts of your solutions

   For these, I'm looking for two discrete policies. I'm also looking for an answer that considers market and non-market impacts of these policies.

   Any policy that leads to vanilla production with less labor is likely to favor farmers who are not in Madagascar. In addition to the climate, Madagascar can offer cheap labor. If the labor input becomes less important, it is no longer quite so important to have very very cheap labor.