

## Lecture 7: Vanilla Case

### Goals for this class

- Apply economic theory to real-world problems
- Discuss policy solutions to variation in prices
- Draw graphs that represent key shifts in demand and supply

### What to prepare

- Read the four linked articles under Lecture 7
- Understand the multi-step process of vanilla growing
- Be ready to discuss fixed and variable costs for vanilla production. Cite directly from the articles for your evidence.
- Think about how technological change in production impacted the supply of vanilla over the very long run
- Think about whether the elasticity of demand for real vanilla change. If so, when and why?

### What to turn in

Write your name and assignment number at the top of your answer.

Answer each of the following questions, labeling each question.

#### 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.
- b) How elastic is the supply of vanilla over the short run? Why?
- 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.

#### 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

### How to turn in

- Turn assignment into Blackboard
- Go to “assignments” and you’ll see the Lecture 7 case study submission.
- Submit a pdf.