

# Lecture 7: Vanilla

October 8, 2024

# Overview

1. Administrative Notes
2. Ripped from headlines
3. Elasticity and policy
4. Questions from Chapter 6? Taxes, Price Controls, and Quantity Regulations
  - 4.1 How taxes and subsidies change market outcomes
  - 4.2 Price regulations
  - 4.3 Quantity regulations
5. Vanilla!

## Course Administration

1. Hopefully your summary is turned in to BB
2. No office hours Monday, but office hours Thursday 4:30 to 6 pm
3. Annie's review session is Wed. Oct 9, 6 to 8 pm
  - 1957 E St., Room 316
  - Come with questions
4. Next lecture (8) is the midterm
  - you need pen, pencil and dumb calculator
5. Any other questions or outstanding issues?

## Today's Ripped from the Headlines

Afternoon, joint presentation

Finder	Presenter
Halle V.	Sawyer S.
Taryn G.	Samantha C.
Amanda K.	Sarah C.

Evening, individual presentation

Finder	Presenter
Lillien S.	Nathan D.

# Today: Tax Questions and Vanilla

1. Questions from Chapter 6? Taxes, Price Controls, and Quantity Regulations
  - 1.1 How taxes and subsidies change market outcomes
  - 1.2 Price regulations
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  - 1.1 How taxes and subsidies change market outcomes
  - 1.2 Price regulations
  - 1.3 Quantity regulations
2. Elasticity and policy
3. Vanilla!
  - 3.1 Establish agreement on facts
  - 3.2 Consider policy solutions to price swings

# Elasticity and Policy, 1 of 4

Has a cost-benefit analysis ever been swayed by the measurement of elasticity?

## Airlines and carseats

- Ask FAA to ban airline policy of letting kids  $< 2$  fly for free on parents' laps
- Benefit of ban:

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  - driving more dangerous/mile for infant
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- Assume family of four, one child  $< 2$ 
  - 5 children saved on planes
  - 25 lost on highways
  - + 70 family members killed on highways

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## Elasticity and Policy, 2 of 4

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What if EPA and DOT raise fuel economy standards?

- For each mile driven, less pollution
- Increases price of new cars
- → substitution into used cars, depending on cross-price elasticity
- Lower per-mile cost of driving
- “agencies use estimates of the elasticity of vehicle miles travelled with respect to the cost of driving to estimate side effects of driving more miles.”
- more driving → congestion, emissions of other pollutants, and crashes

Thanks to [Rich Theroux](#), retired OMB via Susan Dudley.

## Elasticity and Policy, 3 of 4

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### FDA and cost of clean water

- FDA proposes more stringent standards for bottled water
- OMB Economist 1 is concerned that costs  $>$  benefits, since standards more stringent than municipal water supplies
- Economist 2 counters that supply of spring water is very elastic
- Economist 1 agrees and does not oppose policy

Thanks to [Randall Lutter](#), retired FDA via Susan Dudley.

## Elasticity and Policy, 4 of 4

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FDA limits pseudoephedrine

- pseudoephedrine = low cost over-the-counter safe and effective cold medication
- pseudoephedrine = key ingredient in manufacturing methamphetamine



## Elasticity and Policy, 4 of 4

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- pseudoephedrine = key ingredient in manufacturing methamphetamine
- Congress pressures FDA to limit access by putting medication behind counter
- FDA says you can make meth from many things – supply of meth ingredients is elastic
- FDA loses, pseudoephedrine limited

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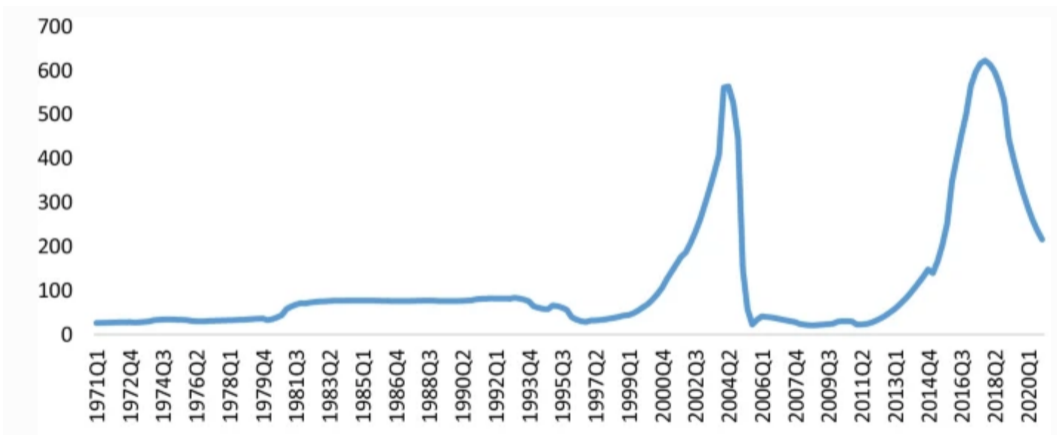
- pseudoephedrine = low cost over-the-counter safe and effective cold medication
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- Congress pressures FDA to limit access by putting medication behind counter
- FDA says you can make meth from many things – supply of meth ingredients is elastic
- FDA loses, pseudoephedrine limited
- meth supply does not decline
- meth prices do not rise

# Vanilla: 1. Agreement on Facts

## In Groups, Please Prepare the Following Questions

- What is the process of vanilla production?
  - what are fixed costs?
  - what are variable costs?
  - give an example about the extent of producer elasticity
- Did the elasticity of demand for real vanilla change? If so, when and why?
- Choose three points on price graph and explain whether they are supply or demand driven
  - Draw original equilibrium and new equilibrium with supply or demand shift

## “The Best Remedy for High Prices is High Prices”



Kahn et al, “Are there bubbles in the vanilla market?” *Agricultural and Food Economics*, 2022. [\[article\]](#)

# Vanilla: 2. Potential Policy Solutions

# Potential Policy Solutions

Problem: Very variable prices make life hard for Madagascar farmers

- Think of at least two policy solutions
- For each, outline benefits and costs

## For Next Class

- Study!
- Look at problem sets
- Look at lecture notes
- Look at textbook
- Bring a pen or pencil and a dumb calculator



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I will

- post these lecture notes on my webpage
- post link to lecture recording on Blackboard
- anything else?