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the product at a given price. At that price all that is offered is sold.

Since demand and supply are constantly changing as result of changes in the other factors affecting demand and supply, that price for which all that is offered is accepted is also constantly changing. If more of a product is offered by producers than consumers are willing to purchase, the price decreases to the level at which consumers are willing to purchase all that is offered. If less of a product is offered by producers than consumers are willing to purchase, the price will increase.

The next round of price determination is affected by that latest market price and the current demand and supply situation. Producers will respond to the previously determined price and will usually produce less if the price is lower and more if the price is higher, given that all other factors affecting their decision remain unchanged. Consumers respond to the quantity of product offered and the price determination process results in a new market price.

Thus, the determination of price is a very dynamic process and

prices in a particular time period change depending on the changes in supply and demand.

Consumer Demand Keys Pricing Process

The key to the price determination process is consumer demand. Consumers will only purchase a given quantity of product at any given price at a specific point in time.

The producer in this situation is a price taker. In other words, unless producers are able to somehow control supply, they have no option but to accept the price consumers are willing to pay. At any given price, producers can't sell more than consumers are willing to buy. This is especially true in agriculture and even more extreme in the dairy industry.

The dairy industry is a regulated market in which the price of milk is controlled. Before the 1930s the dairy industry was unregulated and the price of milk was determined solely by supply and demand situations. However, during the 1930s the government became involved in the determination of milk prices. This is accomplished through the price support program. In this program, the government deter-

mines a desirable minimum price for milk in the United States. This price is a target price and the government tries to assure it will be paid to producers.

The Government's Role

How then can it be said that demand determines prices in the dairy industry?

The key element that makes this statement true in the dairy industry is the method by which the government seeks to assure that a minimum price for milk in the United States is obtained. The govern-

ment supports the price of milk through purchases of dairy products, butter, cheese and nonfat dry milk, from the market by the Commodity Credit Corporation.

These purchases actually support the price paid to producers by plants who use their milk to produce butter, cheese and nonfat dry milk. The price of this milk is unregulated in the sense that plants pay producers the price determined by the manufacturing market supply and demand. Thus, the price paid to producers decreases or increases dependent upon the level of supply

of milk available and the demand for butter, cheese and nonfat dry milk.


The U.S. Department of Agriculture establishes a price series, the Minnesota-Wisconsin price series, of the prices paid to producers by the milk plants producing butter, cheese and nonfat dry milk in the Minnesota-Wisconsin area.

The M-W price then serves as a basis for establishing the minimum Class I, II and III prices in Federal and State milk marketing orders. Dairy farmers are guaranteed these

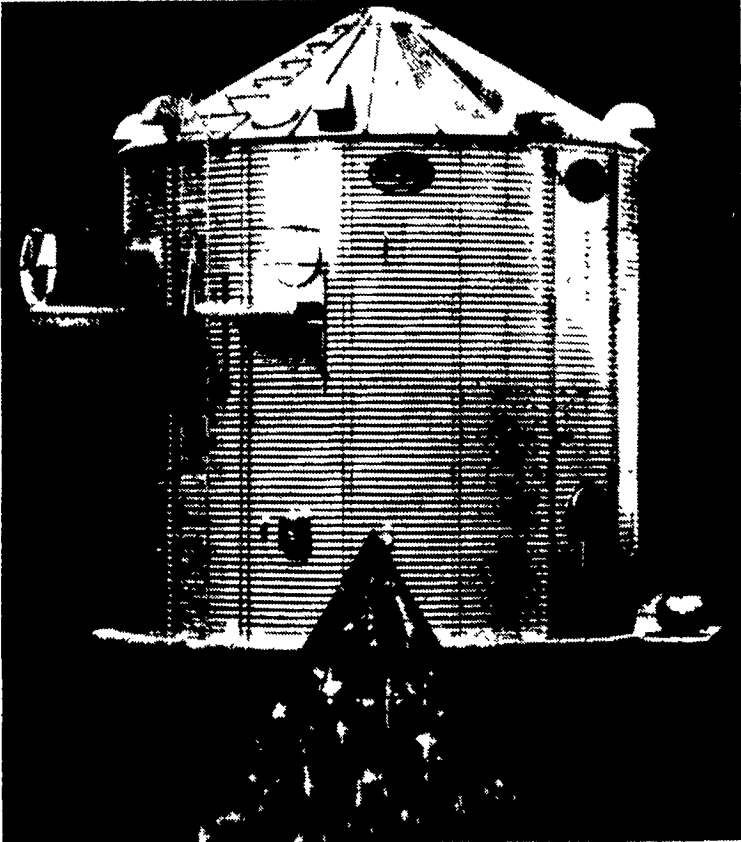
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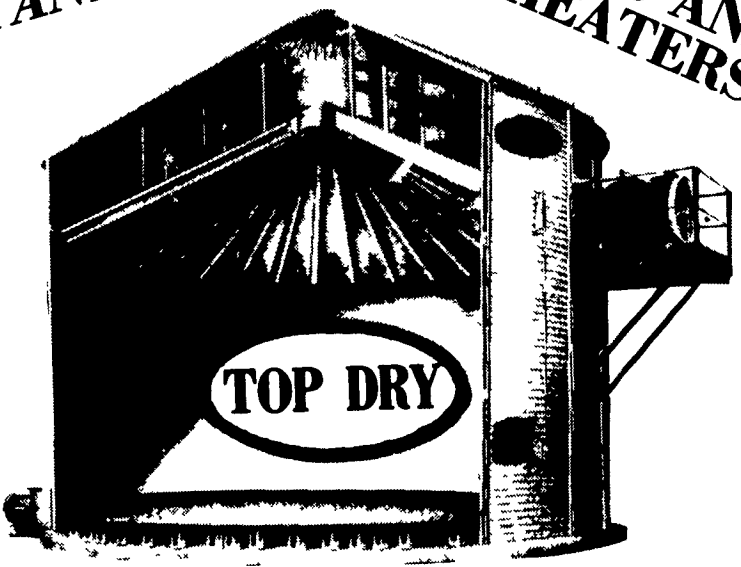
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