

Answer on Question #44158 – Economics – Microeconomics

- Ethanol is again viewed as one part of a solution to the problem of shortages of petroleum products. Ethanol is made from a blend of gasoline and alcohol derived from corn or sugar cane. What would you expect the impact of this program to be on the price of corn, soybeans and wheat? Discuss.

Why invest capita in purely competitive industries with equilibrium margins that are razor thin and entrants that erode quasi profits? Suppose volume is not exceptionally large, why then?

Solution

As ethanol is produced from such plants as corn, soybeans and wheat, so if the use of ethanol increases, the demand for corn, soybeans and wheat will increase, so the price of corn, soybeans and wheat will increase too, as these plants are raw materials for production of ethanol.

Purely competitive firms are price takers, price is equal to marginal costs, demand is perfectly elastic, i.e. constant and horizontal, the firms make small or zero economics profits. There is a sense, because you will earn small, but profit with the small risks, the market is efficient, there is no deadweight loss, and the competition itself leads the firms to create innovations, to decrease costs and to produce more efficient goods.