Microeconomics

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A case study of PT Bakrie Group in the manufacture of palm oil

Factors determining demand and supply

In determining the demand and supply of the palm oil for PT Bakrie Group, price plays an important role in the market (Casson, 2010). In the palm oil industry, PT Bakrie Group experiences an increase in prices in the market, which motivates PT Bakrie Group supply in the market leadings to shift the demand curve from left to right demonstrating an increase in demand (FRANK, 2010).

Since an increase in demand leads to an increase in supply, the supply will also shift to the right. Consumer taste and preference also plays an important role in determining the demand and supply of palm oil in the market (Casson, 2010). When consumer develop a new taste for other products instead of palm oil the demand will reduce and thereby forcing PT Bakrie Group to also reduce their supply of palm oil products in the market.

price

Product complements and substitutes

The consumption of palm oil is a common aspect of the modern life today. This is because people consume palm oil one way or another through instant noodles, breakfast bars, either doughnuts, margarine or French fries. Palm oil is also in the manufacture of skin care products, toiletries, cosmetics, candles and soap. Therefore, the consumption of palm oil provides better room for health improvement as palm oil contains vegetable oils, which is rich in nutrients and is known to contain more vitamin A than a carrot (FRANK, 2010).

Alternative vegetable oil to palm oil include Soybean, Rapeseed and coconut. All these alternative vegetable oil are technically feasible but does present the challenge of affordability, accessibility and sustainability (Casson, 2010). These alternatives have not gained much support in the public as compared to palm oil. This is because they do not meet the demand and is not acceptable to buyers or end users. For these reasons, it is not sustainable from the production and health point of view (Casson, 2010)

Factors determining elasticities of demand and supply

Palm oil is a necessity to the consumer as it is required for human survival since it is widely used commodity in the world. Therefore, due to these facts, the demand for palm oil is inelastic since it is a basic need and its demand does not fluctuate when the prices changes. Palm oil has a small number of substitute’s goods in the market, which includes coconut, Soybean and Rapeseed (FRANK, 2010).

These substitutes are scarce in the market and therefore does not affect the marketshare of Palm oil. Due to these, palm oil have a less elasticity of demand in the market (Casson, 2010). This means palm oil is less sensitive to change in price in the market. Since a change in prices for palm, oil cannot affect the demand of palm oil. Elasticity of demand of palm oil is less for higher income earners because they do not care about prices but rather quality (FRANK, 2010). While, the elasticity of demand and supply for higher for low-income earners. This is because they consider prices as a major factor.

Factors determining production decisions

In production decision, natural factors such as climatic conditions, flood, and drought can diminish productions. This means production decision that were planned during a specific period will have to be canceled out (FRANK, 2010). However, technical factors such as improved technology can boost production decision as fertilizers and insecticide can now be used in the production of palm oil.

Political factors can affect or improve palm oil production as decision pertaining to taxation, investment or fiscal policies of government can influence production decision and affect production process of palm oil (Casson, 2010). In addition, in production setting, the character of employees can affect the production decision of a company. This is because hard working employees who are sincere tend to increase productivity of palm oil, which influences the decision made production managers in a firm.

Costs of production

In Indonesia, the cost of production for palm oil production for PT Bakrie Group has always been increasing at an alarming rate (Casson, 2010). This is because of the environmental factors; palm oil relies on for production purpose. According to recent studies, PT Bakrie Group have incurred costs in relation to acquisition of land near rainforest areas. The company incurred a cost of $5 million dollars on land acquisition only (Casson, 2010).

This is because of the degrading value of land as rainforest areas a cut down which destroys the growth process of palm oil for PT Bakrie Group. The company has now resorted to fertilizers and pesticides, which amount to $1 million annually (Casson, 2010). In general, the cost of production for palm oil production for PT Bakrie Group is increasingly becoming expensive as the company faces the threat of global warming which will lead to the degradation of rainforest lands, which help in the production of palm oil.

The labor force available in PT Bakrie Group mainly contributes majority of total cost of production. The country’s economic policies are becoming stricter as companies are required to meet minimum wage laws aimed at improving worker condition and better payment package. PT Bakrie Group incurs a cost of $2 million every year to cater for labor requirements rules and regulations (Casson, 2010). PT Bakrie Group has resorted into the purchase of mechanical equipment in replacement of additional workers to reduce cost incurred through hiring of new staff to help in the management of PT Bakrie Group.

Industry structure and how the firm competes

The palm oil is industry is one of the most competitive industry in Indonesia duty the largest dependency of palm oil products by a large market. Majority of the Indonesian population depend on Palm oil products to certain the economy, this is because of the large increase in dependencies in the country. In addition, competition from the Malaysia have also contributed to the wide spread of high competition in the industry (FRANK, 2010).

However due to organizational stiff competition, Indonesian government have come up with rules and regulations that have been able to regulate the competition of foreign companies within its country (FRANK, 2010). The policies Indonesian government has introduced are based on the protection of companies within Indonesian jurisdiction against foreign companies that have more advantage over popularity than others do. Due to these initiatives, such companies PT Bakrie Group have managed to penetrate the Indonesian market.

Strategic decision making and game theoretic models

PT Bakrie Group generates an approximate of $5 billion dollars every year over its both local and international sales of palm oil products (Casson, 2010). The large profits the company generates is due to the increase in demand for palm oil products over the last three years. PT Bakrie Group also engages its trading capacity in an international level, which increases more opportunity for the company to increase its presence.

Sales and profits of the firm

In Indonesia, PT Bakrie Group, both manufacture palm oil products for both industrial use and civilian use purposes. These increases its sales volume as one of the most recognized company in the world, which specializes in palm oil production. In 2010, the company recorded a revenue of $10 billion based on its both local and global sales volume reports (Casson, 2010). The increase in revenue for PT Bakrie Group is because of the increased demand of palm oil product and its efficiency in the market.

Market failures

There are a number of externalities that PT Bakrie Group faces in its operation, which is a market failure. Pollution is becoming a problem in the society as global warming increases, the future for palm production becomes deem and less productive. Companies such as PT Bakrie Group have to resort to technological efforts in order to support the production and manufacture of palm oil products (Casson, 2010).

This is because the degradation of rainforest is taking place at a faster rate as companies are uncertain over the damage of the natural forest in Malaysia and Indonesia (Casson, 2010). In addition, the rapid growth of the palm oil production industry have also been criticized over its environmental pollution over the last decades. The manufacture of palm oil production have begun to affect the environment as well hence affecting the natural environment in return (FRANK, 2010). Alternative sources of vegetable oil production is being currently researched in order to eliminate palm oil production with aim of ensuring sustainability within the environment.

# References

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