Team Working Title Group Assignment 1

Basically what we have is a downward sloping curve based on a regression that included price in real (2005) dollars of coal from the period of 1948-2005 and the quantity sold in short-tons. The line is downward sloping in every model we used including logs. Given the negative slope, we called it a demand curve and submit that that is basic interpretation of the data. That said, a proper equation for demand would include much more in the way of independent variables like the price of substitutes like natural gas, complimentary goods like coal fired generators, the price of raw materials (leases and or actual coal itself outside of the production) the price of labor and capital. To estimate demand with any accuracy we would have to include all of the standard variables. We estimated the elasticity of demand to be .6 before the market manipulations by OPEC in 1973 and 1 in the period following that. It would make sense that demand for coal would be more elastic as it would follow the demand for hydrocarbons which proved to be more elastic than initially thought and as the world came to see after OPEC had overplayed their hand.

I the period since 2005, the demand for coal has surely become even more elastic as both technology and market response to environmental regulation have made natural gas the preferred substitute.

However dubious our model may be in its limited scope, the conclusions are consistent with research done on the topic.