Midterm Practice

On the front page of the 9.23.19 edition of the newspaper USA Today one reads: *"Dairy Farmers weigh drop in milk drinkers. Consumption declines in favor of soy, almond and other 'fake' milks."* Assume the market for cows' milk produced by dairy farmers approximates the model of perfect competition.

1. What is the likely effect of the "drop" in the number of "milk drinkers" on the market price of milk and the market quantity?
2. If the market demand for milk is elastic, what is the likely effect of the "drop in milk drinkers" on the total revenue going to milk producers (i.e., dairy farmers)?
3. Given this trend in milk consumption, what is the likely effect on the number of milk producers?
4. What is the likely effect of the "drop in milk drinkers" on the price of yogurt products (cows' milk being an input for yogurt production)?

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5. If the U.S. Department of Agriculture determines that milk prices are "too low" to be fair for dairy farmers and "supports" the price of milk at a level higher than the market clearing (or equilibrium) price, what is the economic consequence of the price support?
6. What are two policy measures the government might take to make the milk price support effective?
7. What is the likely effect of the drop in the consumption of cows' milk on the price of what the article calls "soy, almond and other 'fake' milks"?

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Define the following:

- Pareto optimality
- Income elasticity of demand
- Perfectly inelastic demand curve
- Search or transaction costs