

# Industrial Organization and Public Policy

Agenda for first class.

- What is Industrial Organization?
- Logistics
- Three case studies to illustrate goals of the class

# Example 1.

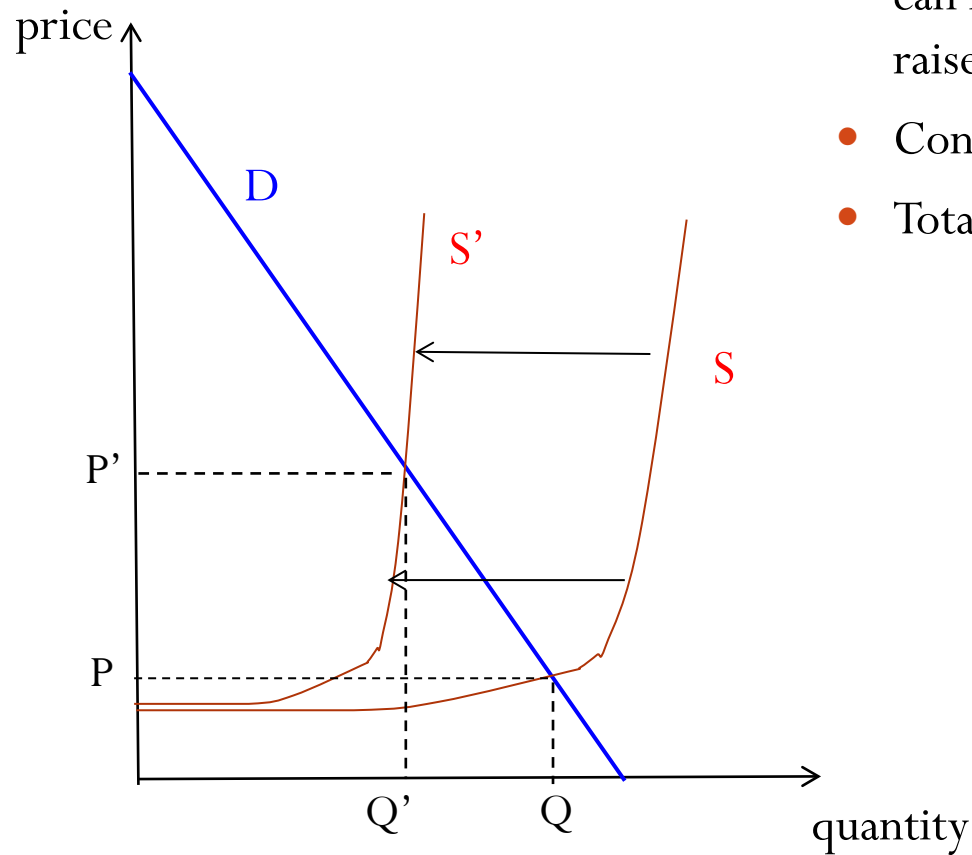
## Cabbage Growers Asked to Destroy Crop

- 220 tons of cabbage restrained from being shipped in December by the Ministry of Agriculture, Forestry and Fisheries. (Nippon Television News 12/3/2020)
- 7 prefectures decide to restrain shipping of cabbage and lettuce totaling 12,220 tons (Yomiuri Shimbun)

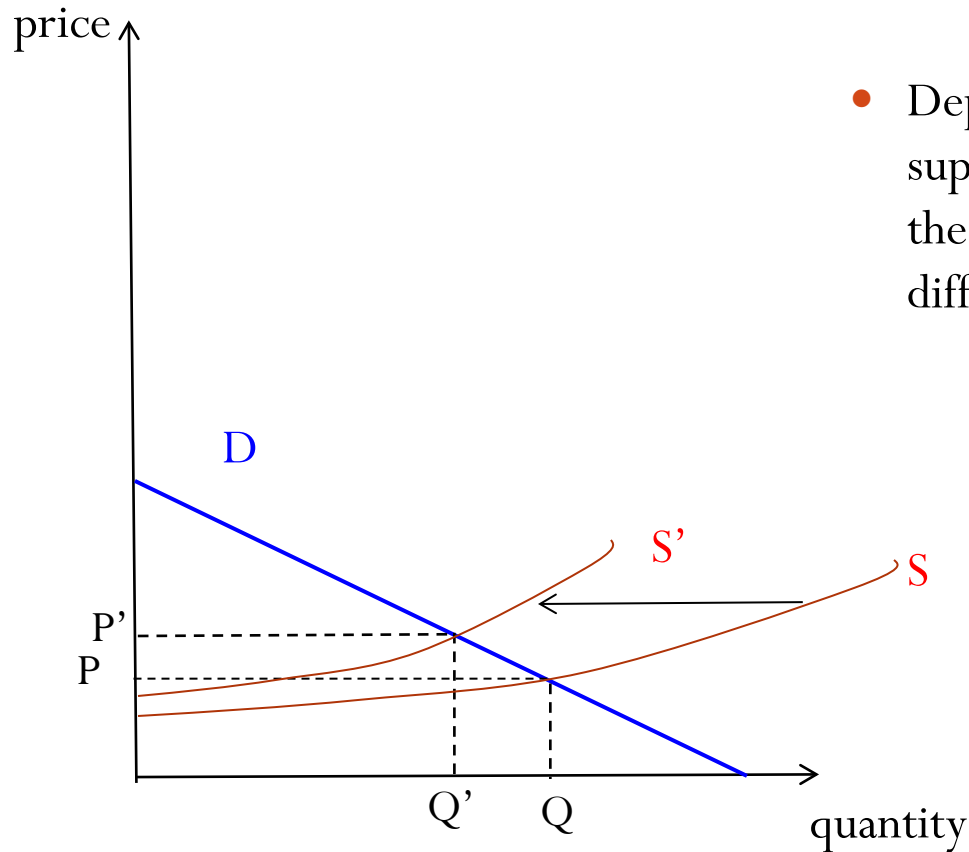


# Example: Bumper Crop of Cabbage

- Intentional destruction of products can help producers if doing so raises prices enough.
- Consumer welfare is reduced
- Total welfare is reduced.



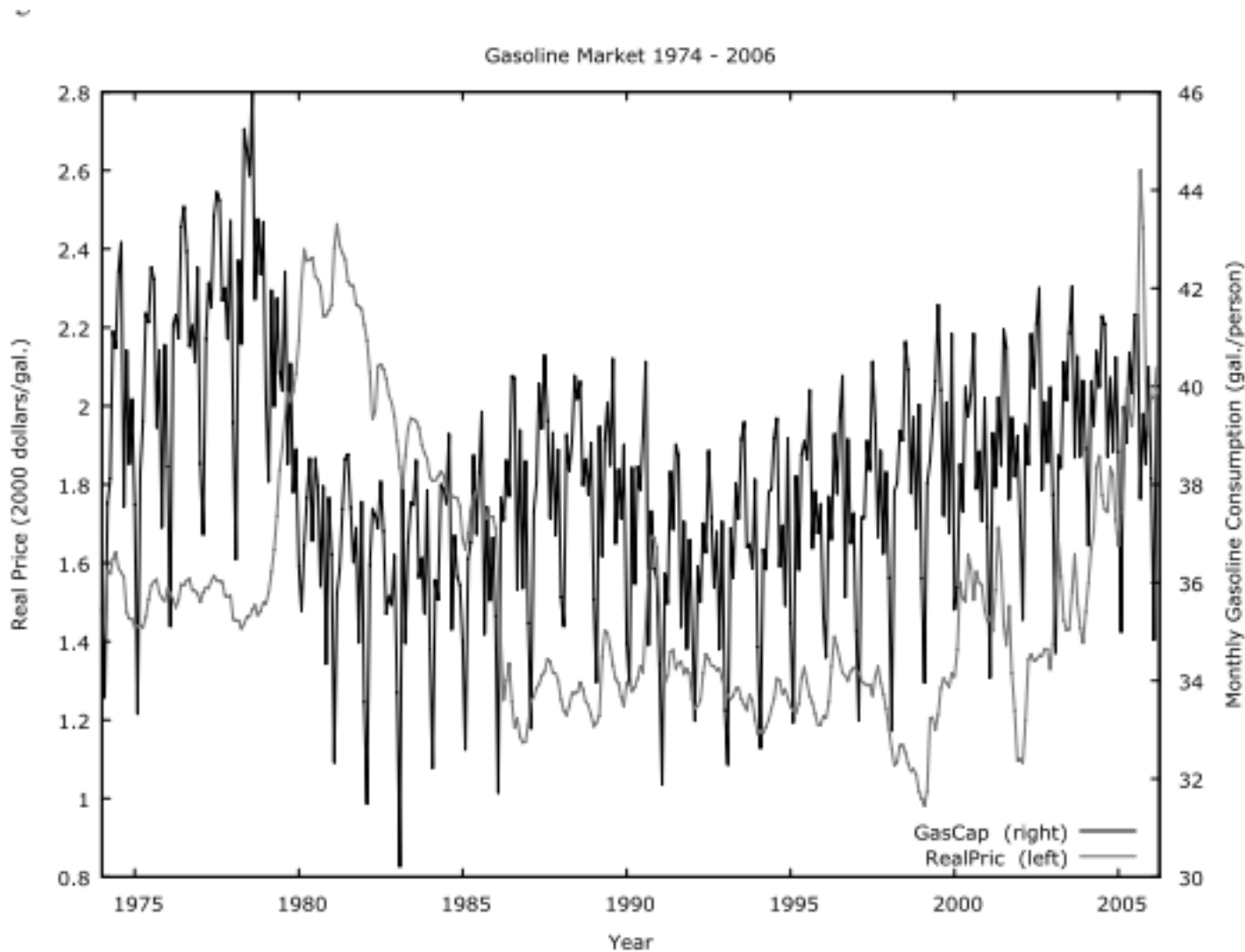
# Example: Bumper Crop of Cabbage



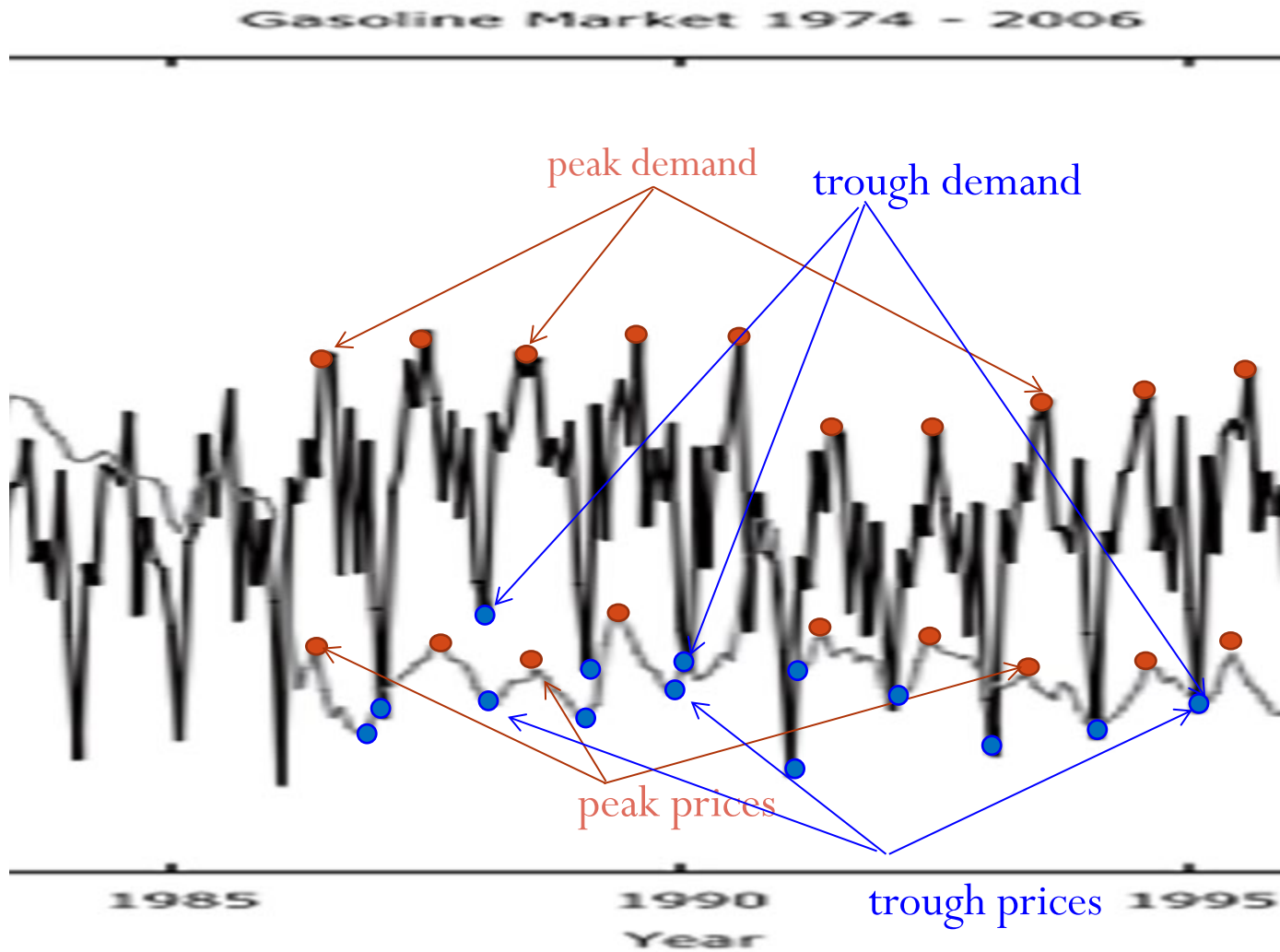
- Depending on the shape of the supply curve and demand curve, the same policy can have very different implications.

# Example 2:

## Price & Quantity of Gasoline, 1974-2006



# Price & Quantity of Gasoline, 1985-1995

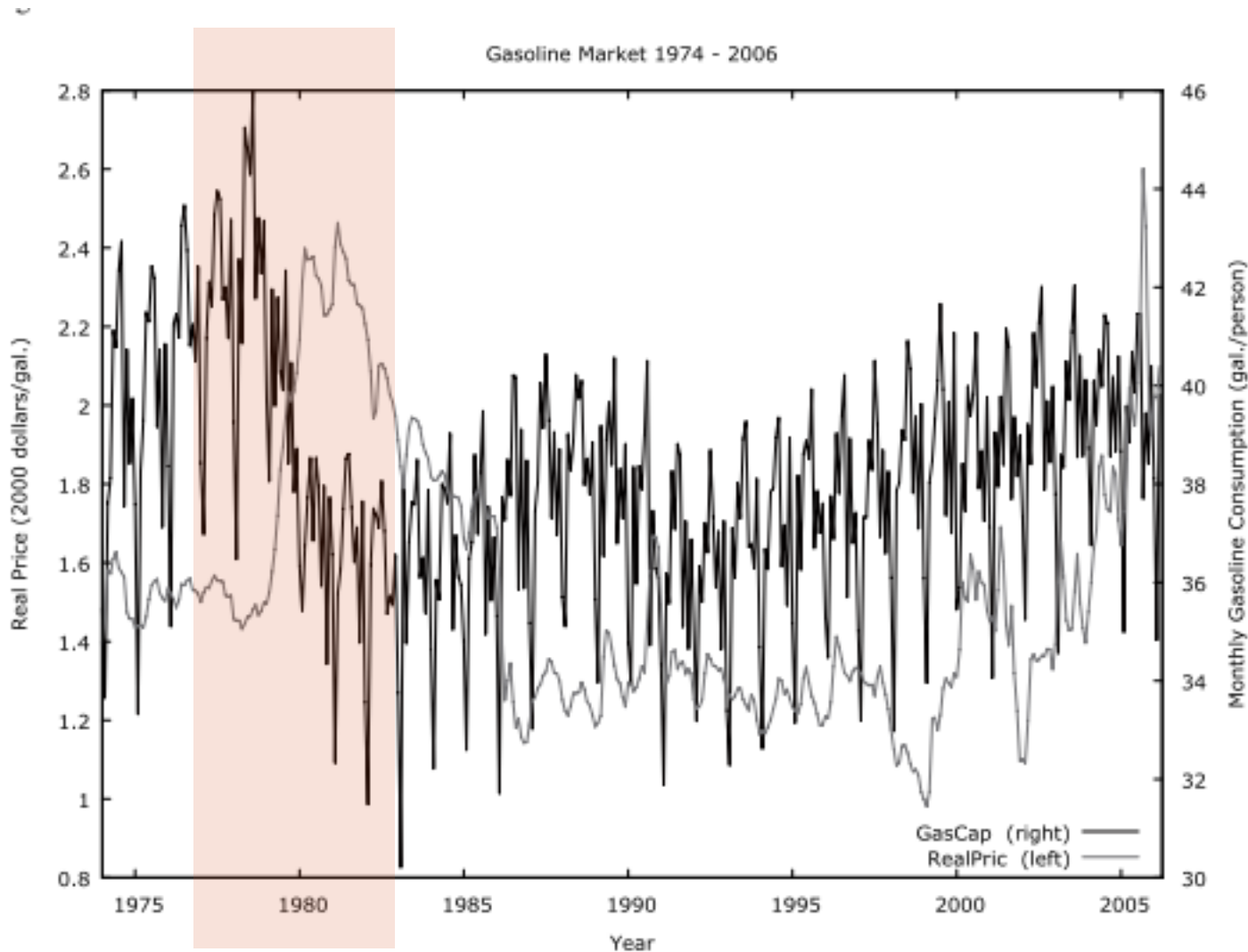


(Focusing on the period between 1985-1995) Explain the periodic dips and spikes in quantity and (to a lesser extent) in prices. Use a supply-demand diagram to explain.

(Again, focusing on the period between 1985-1995) Estimate the supply curve. Estimate the difference in aggregate per-month profits for the suppliers between months of peak demand and peak supply.



# Price & Quantity of Gasoline, around 1980



Explain the decline in quantity and increase in prices around 1980 using a supply-demand diagram.

# Impact of price cap on Russian oil



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DAKAR, Jan 21 (Reuters) - Western countries are working to structure price caps on Russian refined petroleum products to ensure continued flow of Russian diesel, but the markets are complicated and there is a chance things do not go to plan, Treasury Secretary Janet Yellen said.

Group of Seven countries and Australia implemented [a price cap on Russian oil Dec. 5](#), banning the use of Western-supplied maritime insurance, finance and other services for cargoes priced above \$60 per barrel.

Skadden

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## Price Cap Exemption

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The price cap provides an exemption to the sanctioned activities described above, and authorizes EU operators to trade, broker, transport, and provide covered services for Russian seaborne crude oil and petroleum products to third countries if those products are purchased at or below \$60. The price cap exemption applies to the transport, trading and brokering (and related services) of Russian seaborne crude oil and petroleum products to third countries (non-EU) only.

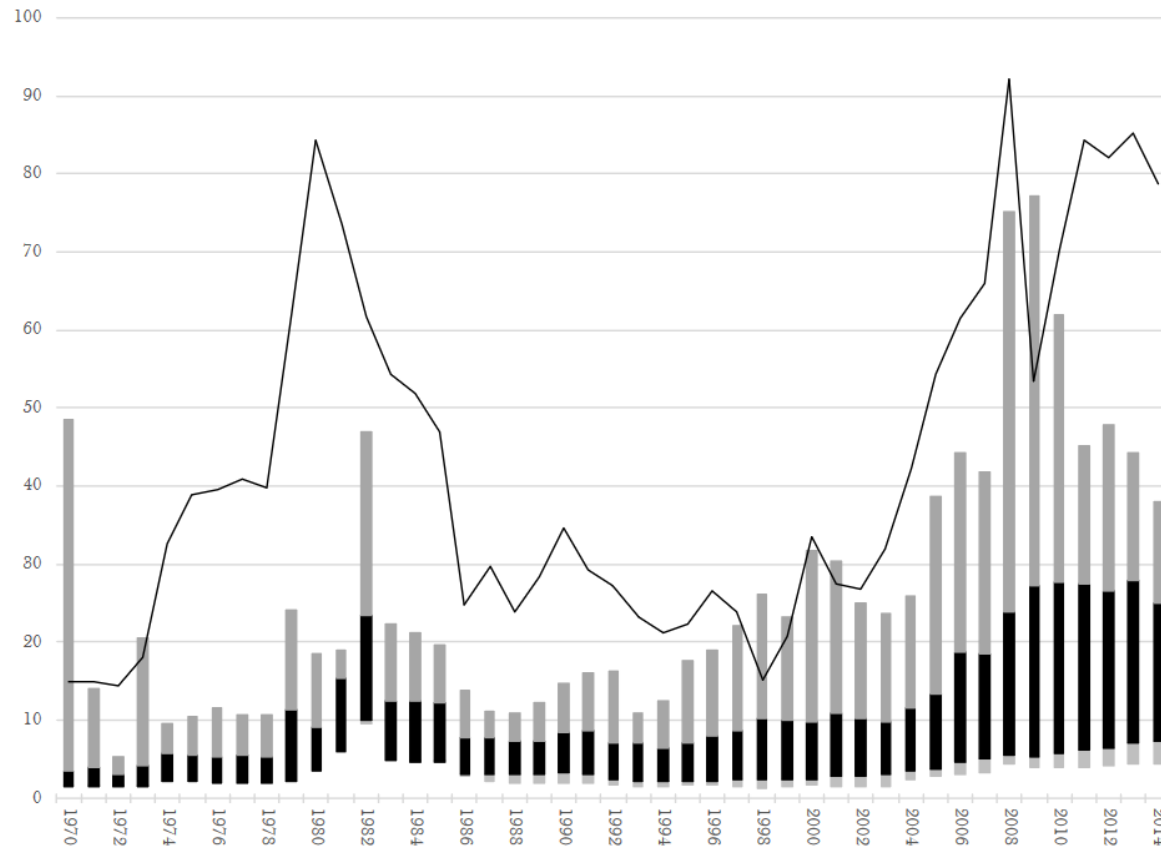
# Impact of price cap on Russian oil

Crude oil prices



# Impact of price cap on Russian oil

(b) Russia oil production costs (Asker et. al.)



# Impact of price cap on Russian oil

Given previous figures, predict the effect of price cap on crude oil on:

- 1) Russian oil production
- 2) Price of crude oil on exchange
- 3) Russian revenue from oil production
- 4) Profitability of EU brokers who buy Russian oil.