

Week 3 Case

Study Name

Your Email

Business Economic

Professor Luan Eshtrefi

Due Date

Supply and Demand of Organic Foods

Introduction:

Organic food has been a popular trend in the U.S. dated back as 2005. The term organic, is simply natural grown from the earth's soil without any synthesized growth hormone. There are many organic consumable products out there such as fruits, vegetables, and dairy as well. Most importantly, they are pesticide, non-scientific growth hormone type food that will do less harm for your body. People are switching to organic food products, with an increase of natural food consumption as number of cancer cases increase each year. Because more Americans are concerned about their health more than ever, there is an ironic increase of demand for organic food in the market today. We will examine how this causes an economic shift of increase of supply and price of buying organic food. We will take a closer look at which supply and demand of non-price determinants cause an economic shift due to preference, prices of related goods, and expectations for a rising demand of organic food in the market in the last few years.

As we see a demand for more organic food produce, we can agree that the inclination of farmers producing more supply in organic food increases as well. Therefore, we will see a correlation between price and quantity of organic food.

Since 1997, the sales of organic food have increased drastically from \$3 billion to over \$10 billion in 2003, in a span of six years. The fast pace rise of organic food has the food industry growth of 10% per year, and is expected to keep it at a steady rise for the next 20 years.

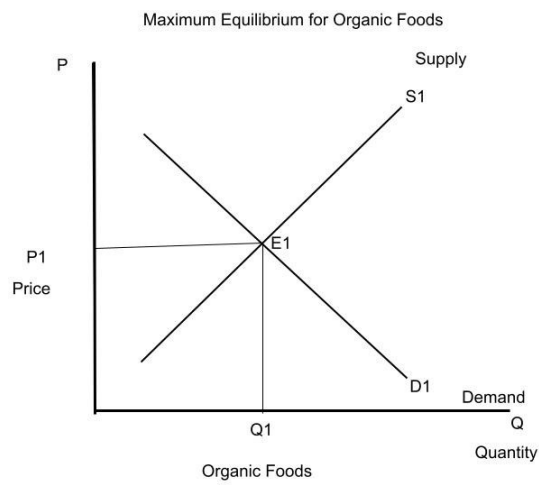
Demand Determinants:

- Personal preference caused an increase of awareness and benefits of personal health amongst the population towards organic foods.

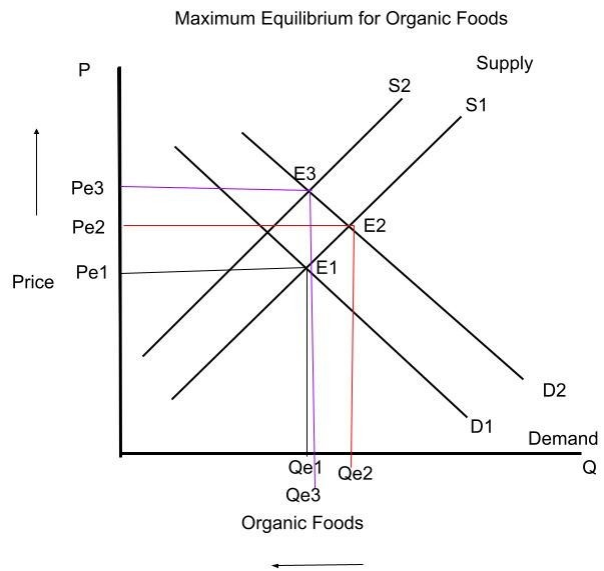
Supply Determinants:

- Due to the increase of demand of organic food, the number of producers of supply from farmers increase to meet the demand.

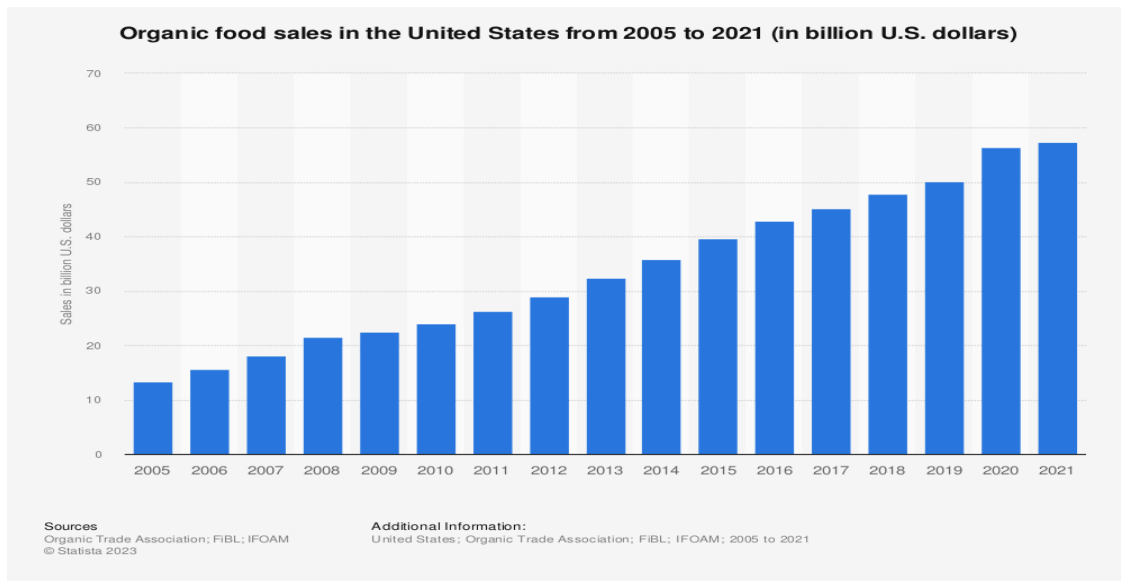
Data:



Picture 1



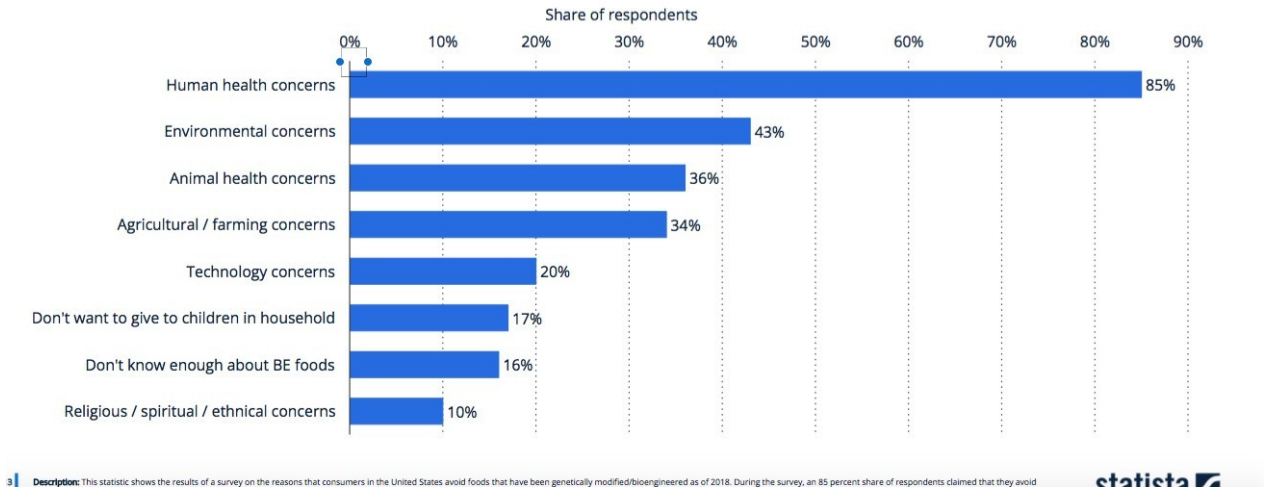
Picture 2



Picture 3

Reasons why consumers avoid foods that have been genetically modified/bioengineered (BE) in the U.S. as of 2018*

Reasons consumers avoid GM foods in the U.S. 2018



Picture 4

Analysis

Although the demand of organic foods is growing at a fast pace, the supply is still slow in the market. According to statistica.com, organic food sales in the United States amounted to about 57.5 billion U.S. dollars in 2021 [CITATION Org05 \l 1033].

A former exporter of organic food giant, the U.S. has spent approximately \$1 billion a year of imported organic foods from other countries. Thus, the ratio of import to export of organic foods is 8:1, and is due to factors such as:

- Unable to adapt quickly from inorganic to organic farming.
- Not all farmers follow strict cultivation standards to abide environmental protections in farming.
- Not enough farmers to meet the supply of organic foods.

As a result, the supply of organic foods is quite low compared to non-organic foods. The condition was just reverse in the past, when due to low awareness level and health consciousness amongst the consumers the demand of organic foods was low compared to its supply [CITATION Aur21 \l 1033].[CITATION Go118 \l 1033]

Considering the past scenario, the demand was low and supply was also low. The equilibrium price and quantity is as:

Analysis from picture 1: Market Equilibrium for Organic Foods

As you see picture 1 from above, there is a downward slope curve in demand due to inverse relation with price and demand. As the price increase, the demand decrease. There is also a maximum utility related due to the law of demand. The equilibrium point as E, is when supply and demand curve intercept. You can see there is an upward sloping in supply curve because as the price of the product increases due to direct relationship between price and demand. The maximum utility for suppliers is to make the maximum profits as the economic law of supply.

Consumer's preference is a result of increased awareness and health consciousness. Therefore, the demand of organic foods has increased considerably and the demand curve shifts rightwards due to the non-price determinants of demand. As a result, the equilibrium price has increased from P to P1 and equilibrium quantity has increased from Q to Q1.

Analysis from Picture 2

As you see from picture 2 above, there is an increase of demand of organic food as more people consume organic foods from picture 1, showing a shift to the right in demand on picture 2. We will label that as D2. Price equilibrium (E1), and quantity equilibrium (Qe1) also gave a new equilibrium points based on the increase for both Q and E. However, as price increase for

organic food, there is a supply non price determinants decrease due to of number of producers' shortage in the organic farming market.

Conclusion

Americans are more aware of what they're putting into their bodies due to unsafe food and food safety: from toxic pesticides, synthetic fertilizers and genetically modified organisms (GMOs). Organic products are seen as being of high quality and are considered safer for both health and the environment. Moreover, Americans demand more farmers to follow a strict cultivation standard which may have impact on farming methods, and the quality of soil, water and air farmers use today. It is hard to maintain a number of producers in organic farming as people demand a natural balance of the ecosystem.

References

Auriga. (2021, 6 7). Reasons for the Increase in the Demand of Organic Food Worldwide. *Food Safety Help Line*.

Golijan, J. (2018, December). Global organic food market. *Acta Agriculturae Serbica, Vol. XXIII*.

Organic Trade Association. (2005). *Organic food sales in the United States from 2005 to 2021* .

Organic Trade Association.