Define a Market

- Time, Form, and Place
- Important when quoting a price or quantity
- Need to reference all three

Marketing Adds Value

- Time utility: Storage
- Form utility: Processing
- Place utility: Transportation
- Does the added value offset the added cost?
- Is the cost the same for everyone?

Law of One Price

Definition: Under competitive market conditions all prices within a market are uniform after taking into account the cost of adding place, time, and form utility.
Law of One Price

• Reason the Law of One Price Works: Arbitrage
  – Profit seeking individuals acting in their own self interest
    • Sellers, Buyers, Middlemen
  – Buy low and sell high for profit by changing time, space, and form

Law of One Price

• Arbitrage opportunities
  – Transportation
  – Storage
  – Processing
• How much price difference is sustainable between the two markets?
Seasonal Grain Prices

- Storable commodity
- One harvest period
- Used throughout the year
Transportation

- Products flow from surplus region to deficient region.
- Competing demand for surplus in some regions.
- Transportation infrastructure important
Grain Price Map

CARD: Daily Corn and Soybean Basis Maps for Iowa

JUL 22 CORN BASIS

Legend
- Basis: Calculated from CBOT O'F Futures Prices 223.3 cents per bushel
- NOTE: To expand the map to its real size, click the orange color button at the right bottom of the page

CARD: Daily Corn and Soybean Basis Maps for Iowa

MARCH 1 CORN BASIS

Legend
- Basis: Calculated from CBOT March Futures Prices 243.8 cents per bushel
- NOTE: To expand the map to its real size, click the orange color button at the right bottom of the page

CARD: Daily Corn and Soybean Basis Maps for Iowa
Optimal Plant Size???

- Assume processing plant captures economies of scale
- But, large size shift region from surplus to deficit
- Which is better one large plant or several smaller plants?

It Depends!!!
Farmer Marketing Decisions

- Profit maximizing individuals
- Working with projections
- What to sell: Form
- When to sell: Time
- Where to sell: Place