Price determination

- is the broad forces of supply and demand establishing a market clearing price for a commodity.

Price Discovery

- is the process by which buyers and sellers arrive at a specific price for a given lot of produce at a given location for a specific time period.

- A human process, subject to relative bargaining power of the buyer and seller.

- Two stage process
  » Evaluate S&D and Pe
  » Estimate the price for the specific trade.
Centralized pricing

- All buyers and sellers in one place at one time.
  - Full and immediate information
  - Competitive bidding
  - Equalizes market power
  - Transaction cost
  - Physical movement of product

Decentralized Pricing

- One-to-one negotiations
  - Reduced transportation cost
  - Reduced transaction cost
  - Depends on skills and information
  - Higher search cost
Hybrid markets

- Electronic markets
  - Centralized pricing
  - Decentralized product movement
- Examples
  - Satellite auctions
  - Electronic auctions
  - Tel-o-auction
  - E-commerce

Performance issues

- “Least cost” method of price discovery
- Effect of the mechanism on price behavior
- Marketing v. pricing efficiency

Information and markets

- Price reporting
  - Role of the government
  - Collection and dissemination and timely reporting of prices that were discovered.
  - Other private treaty buyers and sellers incorporate new information into their negotiation.
  - Facilitates formula pricing
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