

# The United States Sugar Program: Notes for Class Preparation

14.03/14.003 Microeconomic Theory and Public Policy, Fall 2016

Please read “The U.S. Sugar Program” case to understand how sugar prices are set in the United States and how this affects the behavior of U.S. sugar growers, foreign sugar exporters, and U.S. producers of High Fructose Corn Syrup (HFSC). Although this case was written years ago, it accurately describes an enduring U.S. policy.<sup>1</sup> To make our work easier, we will use the numbers in the original case rather than updating them from 1990 to 2016.

Please answer the following questions, which I will ask you about during lecture:

1. What was the world price of sugar at the time this case was written? What was the U.S. price?
2. What is the mechanism used by the U.S. Sugar Program to keep U.S. sugar prices at their price per pound for raw cane sugar?
3. What are the sources of supply of sugar and sugar-equivalents (AKA, “nutritive sweeteners”) to the U.S. market?
4. How much can each of these sources supply and at what price per pound?
5. Based on the information given in the case on total U.S. sugar consumption at the U.S. sugar price and the (uncompensated) elasticity of U.S. demand for sugar, how would you estimate the equilibrium quantity of sugar that the U.S. would consume at the *world* sugar price (rather than the U.S. sugar price)?
6. Question for you to contemplate for class:

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<sup>1</sup>If you have any doubt that the U.S. Sugar Program is alive and well, see <http://www.ers.usda.gov/topics/crops/sugar-sweeteners/policy.aspx#.VC6xzNPF-H0>

- (a) Who gains and loses from the program (e.g., farmers, other nutritive sweetener manufacturers, consumers, foreign sugar producers) relative to a hypothetical competitive setting where sugar is sold in the U.S. as the world market price?
- (b) What transfers does the program make between these economic actors relative to a competitive setting?
- (c) How would you go about estimating the deadweight loss (DWL) from the U.S. Sugar Program relative to the competitive setting?

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