

Problem Set 4

**From Montana tavern owners battling with beer brewers and Fight over craft beer brews with 2 bills at Montana Legislature**

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Brewery battles are heating up again in Helena as the Montana Tavern Association and the Montana Brewers Association prepare to put separate, vastly different bills before state legislators as they consider how best to regulate the growing craft brew industry. The groups have routinely failed to compromise on the issue of microbrewery regulation. This year has been no different. Montana Brewers Association executive director Tony Herbert said that microbreweries here operate under some of the most restrictive regulations in the country. His members want a way to continue to grow what has become a \$50 million-a-year industry in Montana. But Montana Tavern Association spokesman John Iverson said the successful brewery taprooms have become “virtually indistinguishable” from bars.

Both sides packed a state House Business and Labor Committee hearing looking at two bills. One brought by the tavern owners, House Bill 616, would put new licensing requirements on the brewing industry. The tavern owners argue that some breweries have grown into full-scale retail establishments not envisioned by the original law that allows tasting rooms. Another bill to study the issue, House Joint Resolution 18, was backed by brewers who said more conversation is needed to fairly reconcile differences.

A compromise had been reached in 1999 by brewers, when tavern owners and distributors changed state law to allow microbreweries to sell their beer out of “sample rooms,” but restricted it to 48 ounces per person per day and limited hours of service to 10 a.m. to 8 p.m. That law was intended to let wholesale breweries offer a little taste to retail customers. Supporters of taverns argue that some breweries now sell almost all their product to customers and resemble bars. House Bill 616 proposed to require many retail breweries to buy a new state license for \$100,000. Wholesale operations would not need the license.

Most Montana brewers opposed the law. They argued it would stifle growth in the industry. The brewers are instead suggesting a two-year study with the aim of producing new rules that everyone can support. They said House Bill 616 is being wrongly sold as a way to help the industry expand with new licensing rights. Farmers who sell grain to the breweries and customers who enjoy the beer also opposed the bill. “It was crafted by the Tavern Owners Association, and it is meant to benefit the Tavern Owners and it will crush many of the small-town mom-and-pop breweries in Montana,” said Helena attorney David Hull, who said he enjoys the breweries.

In the following problems, you will be investigating spatial issues in agricultural markets. In all diagrams, ensure that all axes, curves, and points of equilibrium are labeled. Specifically, don't forget to label all original and new quantities, prices, and curves.

1. Consider a tavern that can acquire beer from either large macrobreweries or from local microbreweries. Suppose that we consider a tavern in Bozeman, MT that can purchase beer from MillerCoors (in Golden, CO, located to the south) or from Montana microbreweries across different parts of the state. In the past 10–20 years, there has been increasing pressure on the transportation infrastructure associated with delivering beer from the south. That is, the demand for trains has continued to rise and trains are more scarce.

Using a spatial diagram, illustrates the impacts of these changes on the net price received by MillerCoors. Then, discuss what you expect to happen with respect to the type of beer sold in Montana taverns.

2. Now consider an alternate scenario. Legislative actions increase the transactions costs associated with local breweries producing and delivering beer to Montana taverns. Using a spatial diagram, illustrate the impacts of these changes on the net prices received by Montana microbrewers. Discuss the potential effects on the type of beer sold in Montana taverns.
3. Using a three-diagram trade model, illustrate a market that imports beer (such as Bozeman), a market that exports microbrewed beer (such as Belt, MT), and the trade market.
4. Replicate the model in #3 and illustrate the impacts of an increase in the demand for Montana-brewed beer in the import market. Discuss the economic implications for consumers and producers in all markets.
5. Replicate the model in #3 and illustrate the effects of a restriction (in terms of a tariff) imposed on microbrewers due to new legislation. Discuss the implications for consumers and producers in all markets.

Canada and the European Union tentatively agreed to a sweeping trade agreement some time ago. But while billed as a free-trade pact, the limited information released about its terms suggests that the details of any final deal may focus on adjusting import-export quotas and fine-tuning regulations as much as the easing of tariffs. Dairy farmers, who enjoy tight controls on imports, have been critical, as have some groups fearing the pact may increase the cost of drugs.

Once the agreement is put into effect, the European Commission expects trade between Canada and the European Union to increase nearly 23 percent, or 25.7 billion euros (\$35 billion). As a result of the pact, Canada said that 98 percent of European tariffs on Canadian goods would be lifted, though neither Canada nor Europe offered a similar statistic for Canadian tariffs. Some tariffs are more significant than others. Several sectors of Canada's agricultural industry—dairy, poultry, eggs and pork—are protected by tariffs as high as 300 percent, as well as by import quotas. Groups representing dairy farmers and cheese makers in Canada said they had been told that while the tariffs would remain, Europe would be allowed to export about 33,000 tons of cheese a year to Canada duty-free, an increase from about 14,000 tons.

In completing the problems below, please ensure that all axes, curves, and points of equilibrium are labeled and that you specify the market that you're illustrating.

6. First, let's analyze the effects of the free trade agreement on trade markets.
  - (a) Using a three-diagram trade model, illustrate the expected impacts of the trade agreement between Canada (export) and the European Union (import). Consider the information in the article above to determine the supply, demand, and/or policy changes that will occur.
  - (b) What could be an impact on the trade market between Europe (import) and the United States (export) as a result of the Canada–EU trade agreement? Discuss the economic intuition and illustrate in a three-diagram trade model.
7. Consider replacing the current dairy tariffs in Canada with an equivalent quota. That is, the quantity traded will not change, but the policy restricting that trade quantity will change. Illustrate and describe the welfare impacts of this change, and comment on the losers and winners of the change.
8. Consider a malt barley producer in Manitoba, Canada. She can deliver the barley to two equidistant elevators, Elevator A and Elevator B. Elevator A can then market the grain either in domestic markets or for export. Elevator B can only market the grain in domestic markets. Using a spatial net price diagram, illustrate the impacts of the Canada–EU trade agreement and discuss the implications for both elevators and the farmer.

9. Using a two-period storage model, describe the impacts on prices and quantities if there is an actual (realized) negative supply shock.
10. Using a two-period storage model, describe the impacts on prices and quantities if there is a negative supply shock is expected to occur during harvest, but has not yet occurred.
11. Using a combination of the food marketing channel model (the two-graph retail and farm level) and the two-period storage model to illustrate the effects of an increase in the supply of processing and marketing services.