

An article on the growth of soy “milk” in the Washington Post of March 6 related the dairy industry’s growing concern over the increasing popularity of the beverage. The article went on to describe the drops in milk consumption due to health concerns over the last 30 years. It also related evidence that soy milk’s popularity is now extending beyond “fringe health-food devotees.”

a) In economic terms, what is changing in the market for soy milk?

In this market, consumers’ preferences (tastes) are changing. While it may be that other factors are changing as well (income, prices of related goods, etc.), “health concerns” are a form of preference.

b) Why are dairy producers concerned? That is, how will this affect them? Use graphs to explain.

The change in preferences will be seen as a decrease in demand for dairy milk (a shift to the left in the demand curve). In the short run, this will lower price and quantity both.

In the long run, the lower demand will likely cause “firms” to exit; it will cause dairy farmers to leave the industry. As farmers exit, supply will fall (shift left) causing price to recover but there will be fewer farmers and less dairy production.