**Question Bank**

**Chapter 13**

**Production and Profit Beyond the Farm Gate**

**Think Break Questions** (from Book: p. 184, 190)

1. As indicated, Chipotle certainly believes going to organic tortillas will increase revenues more than cost, so that profits will increase. Draw a figure similar to figure 13.3, but where profit increased instead of decreased. Does the optimal output have to increase in this case?

2. List some reasons why you think the total revenue would be *greater* or the total cost would be *less* for healthy foods. Explain your economic reasoning. Do you have any evidence for or against this position?

3. What implications do you think the concepts of market segmentation and specialization being limit by the extent of the market have for nutrition policies targeting unhealthy foods?

4. As we have discussed, many stakeholders in the food environment often take vehement and polemic positions regarding the food environment and the distribution of unhealthy foods in the food system. What would figure 13.5 look like if the CSR maximized at zero (i.e., the optimal CSR value was *G* = 0)? Does this help explain why some advocacy groups may take extreme positions in the media? Explain. Repeat this exercise from the industry perspective where some may *claim* profit is maximized far to the right.

5. The idea of incentive compatibility is an important concept when confronting different objectives. Though taxing unhealthy foods or subsidizing healthy foods may be considered opposite sides of the same coin, discuss why one is incentive compatible with CSR and profit and the other is not.

***Multiple Choice Questions***

1. The food marketing sector is defined to consist of all firms downstream in the supply channel from the farm.

a. True

b. False

2. In the food processor and grocery store relationship in the food supply chain

a. the food processor is upstream from the grocery store.

b. the food processor is downstream from the grocery store.

c. the food processor is across the stream from the grocery store.

3. As the price of an input to the marketing service firm decreases, the firm’s cost curves shift down as cost decreases, the output level increases, and consequently the supply curve shifts to the right.

a. True

b. False

4. Upstream and downstream firms in the supply channel (chain) are connected through prices and the

a. output price for the downstream firm is the input price for the upstream firm.

b. input price for the downstream firm is the output price for the upstream firm.

c. output price for the downstream firm is the output price for the upstream firm.

5. The profit a firm takes in \_\_\_\_\_\_\_\_\_ when the selling price increases (fill in blank)

a. decreases.

b. increases.

c. could decrease or increase.

6. For a firm that is *not* a price taker, profit is maximized where total revenue is maximized.

a. True

b. False

7. As a firm changes some attribute of a food other than price (e.g., fat content, organic vs inorganic ingredients) then

a. revenue is expected to change.

b. cost is expected to change.

c. a and b.

8. If a firm changes some positive attribute of a food other than price (e.g., more organic or healthier ingredients) then revenue and profit will always increase.

a. True

b. False

9. If a firm changes some positive attribute of a food other than price (e.g., more organic or healthier ingredients) and cost increases, then profit will always decrease.

a. True

b. False

10. Knowledge of consumer preferences, consumer demand, and changes in revenue are sufficient to determine if a new product will be profitable.

a. True

b. False

11. Healthy foods are more profitable than unhealthy foods.

a. True

b. False

12. Unhealthy foods are more profitable than healthy foods.

a. True

b. False

12. If firm A and firm B are both selling the same amount of unhealthy foods, then if they both start selling more healthy food their profits will always move in the same direction (increase or decrease).

a. True

b. False

13. Market segmentation implies

a. different consumers and producers have different preferences, production capabilities, and resources.

b. the same or different firms will sell different products in different markets.

c. different firms will try to sell the same product to everyone.

d. a and b.

e. a and c.

14. Corporate social responsibility (CSR) refers to

a. a measure of cooperation between firms in pursuing social goals.

b. actions that appear to further some social good, beyond the interests of the firm and that which is required by law.

c. none of the above.

15. Social goodwill capital is any activity that improves the public social image of a company in aggregate.

a. True

b. False

16. If the incentives for maximizing corporate social responsibility and profit are incompatible, then corporate social responsibility has no impact on decisions that affect profit.

a. True

b. False

17. Compared to profits, corporate social responsibility is difficult to measure as its units are subjective.

a. True

b. False

18. Actions or investments that increase corporate social responsibility and profit are called

a. strategic CSR investments.

b. complementary CSR investments.

c. competitive CSR investments.

***Short Answer Questions***

1. Explain the connection between a downstream and an upstream firm.

2. Explain how market segmentation affects the distribution of healthy and unhealthy foods.

3. Explain the concept of corporate social responsibility (CSR) and why there may be a tension between CSR and profit.

4. Explain the idea of incentive compatibility in the context of corporate social responsibility and profit.

***Discussion Questions***

1. Using a graph, show and explain what will happen to a downstream firm’s supply function if the price of an output in the upstream firm increases. Give a hypothetical example.

2. People often confuse maximizing revenue (sales) with maximizing profit. Discuss the difference in these concepts. Using figure 13.2 explain what this error – a difference without distinction fallacy – would imply about the total cost curve. Discuss if this total cost curve condition makes any economic sense.

3. Brainstorm about different policies the government may pursue to increase the amount of healthy food in the market place. Choose three of these policies and analyze them within the context of the corporate social responsibility and profit graph (i.e., how would they change the graph? What curves would shift? In which direction? Why?)