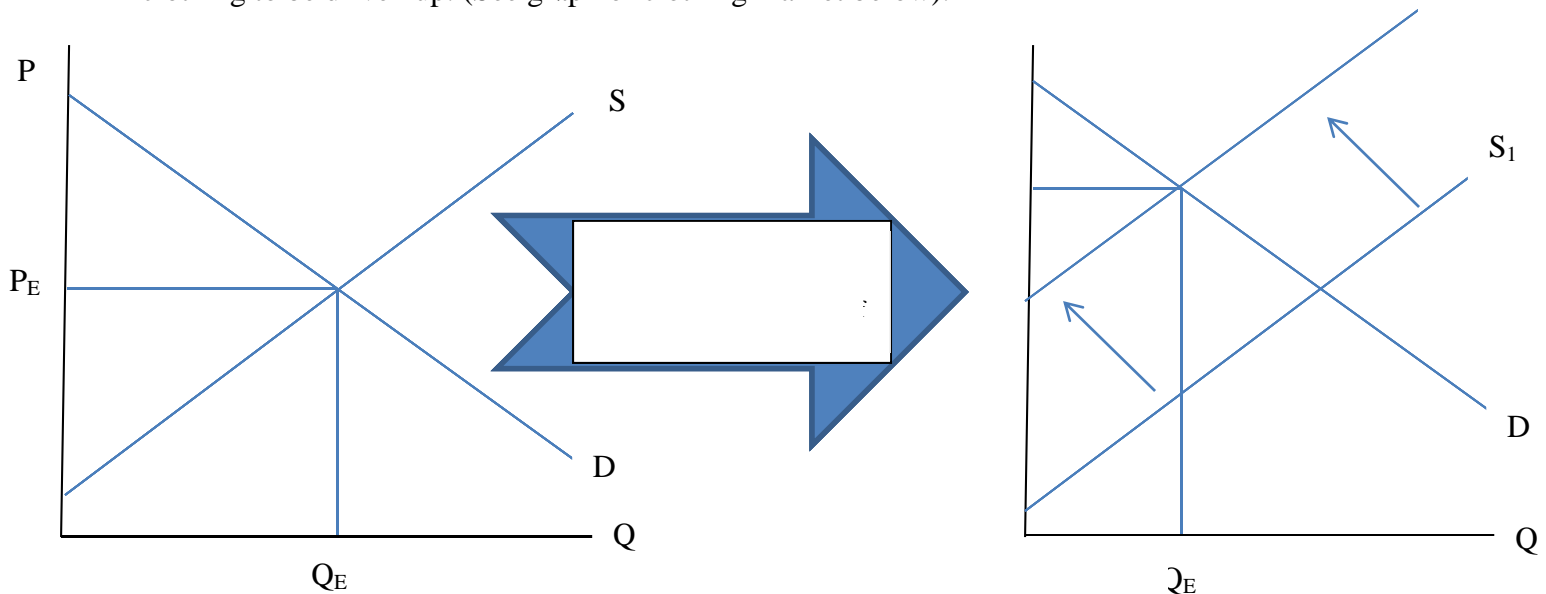


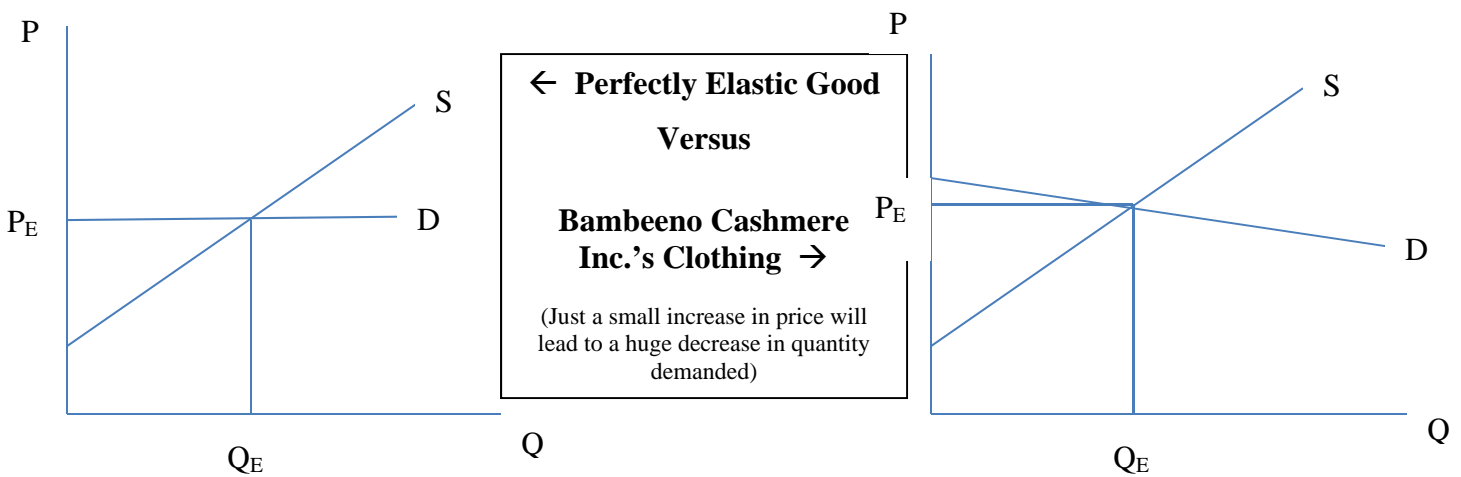
Student Name
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Econ. 150
McFall

Writing Assignment 1

The article I read for this assignment was “Flashback to 1870 as Cotton Hits Peak” from the Wall Street Journal on October 16, 2010. This article summarizes how the current spike in cotton prices will affect industries in the near future, particularly the clothing industry. Cotton prices are the highest the world has ever seen, and China’s growing demand for raw materials such as cotton and several bad harvests of cotton have people worried that a cotton shortage is in the near future. Some clothing manufactures are worried that this potential shortage of cotton will drive up prices even higher, therefore drastically increasing their costs of production of most clothing. Executives of these clothing companies are struggling with the question of how much of the increased cost of production to pass along to consumers. The potential shortage of cotton and higher cotton prices will mean that it will cost more for clothing producers to manufacture shirts, jeans, dresses, and any other article of clothing containing cotton. This increased cost of production will mean that suppliers are forced to produce fewer of the goods, causing a decrease of supply of clothing in the general market. This decrease in supply would cause the price of clothing to be driven up. (See graph of clothing market below).



The article mentions the particular plight of Jennifer Fritz, the chief executive of the children's clothing producer Bambeeno Cashmere Inc. The rising cotton prices and consequential increase in price for clothing has caused Ms. Fritz to decide to drop all cotton-cashmere blend clothing items from her company's spring line of clothing. This is directly linked to the fact that children's clothing, especially cashmere children's clothing, has a very high elasticity, meaning that the goods produced by Bambeeno Cashmere Inc. are very elastic. There are thousands of companies which produce children's clothing, so there are thousands and thousands of substitutes for the articles of clothing that Bambeeno Cashmere Inc. produces. A perfectly elastic good is a good that if the price changed at all, no one would purchase the good anymore. The children's clothing produced by Bambeeno Cashmere Inc. is not perfectly elastic, but because of the high number of substitutes and alternatives, it is a very elastic good, meaning that just a small change in price will have a big impact on the number of consumers. If the price of the clothing goes up because of the increased cost of cotton, the number of consumers of Bambeeno Cashmere Inc.'s children's clothing will fall drastically. (See graph below).



The increase in cotton prices will affect much more than just clothing producers. Because of the increased cost of production and high elasticity of clothing items, consumers will see

changes in the clothing market: they may see different types of clothing on the market or the absence of certain types of apparel (like children's cotton-cashmere blends).