most primary products. It frequently matters little what the current price is; the same amount will be purchased regardless of price. Since the product is characteristically a small component of the total cost of the final product and is a technical requirement of production, a change in the price of the primary commodity will have little effect on demand. In other cases, the primary commodity may be a basic element in the level of living. Within limits, people buy wheat and rice in roughly the same quantities regardless of price. Under these circumstances a relatively small change in volume, perhaps resulting from bad weather, a strike, disease, or some other cause may have a substantial effect upon price.

In addition, the relationship of quantity supplied to the price of a primary commodity also tends to be inelastic in the short run. Once the crop is planted or the mine is in operation, the producer will make every effort to produce as much as he can, regardless of current price. The producer is interested in getting as much income as he possibly can out of existing capacity. A shift in demand, say from some speculative reason, against a supply which is unresponsive to price, may result in a large price change.

In the case of a number of primary commodities there is a considerable time lag between investment in new capacity and the output from that capacity. For example, it takes 5 or 6 years after planting for coffee and cocoa trees to begin yielding. The producers may start planting when prices are high, in the expectation that the price will remain the same. Seven years later the new capacity begins producing and total output may greatly exceed demand at the old price. The result is a sharp decline in price. The current low price for coffee is in part a result of an expansion of capacity undertaken in 1953 when the price of coffee was very high.

To take the analysis one step further, when producers find that their new capacity is not profitable, there is little or no new investment in new capacity and existing capacity is not properly maintained. Over time, supplies available on the market are reduced, but demand continues to rise, culminating in another period of high prices, and another period of excessive investment in new capacity.

Instability may also occur in the case of crops which are planted annually if producers, through faulty evaluation of the market, make current output decisions on the basis of last year's prices or the rate of change of prices. The producer may expand output this year if last year's price was high and curtail output this year if last year's output was low. This may set up an oscillation between price and volume which may continue indefinitely.

Inventories may act either as a stabilizing or a destabilizing influence in primary commodity markets, depending upon their level and the behavior of those who hold them. If there are stocks and there is either an upsurge in demand or a shortfall in current output, inventories may be sold and the price stabilized by changes in volume exported. Alternatively, if demand was temporarily depressed or good weather resulted in an unusually large output, stocks may be accumulated, thus maintaining price. In many cases the judicious employment of stocks has helped to stabilize primary commodity markets.

There are some drawbacks, however. It is expensive to maintain stocks and this cost ultimately becomes a part of the costs of produc-