**Buffer Stock Schemes**

Sketch a diagram and explain what happens in a market for an agricultural commodity when there is a poor harvest.

Sketch a diagram and explain what happens in a market for an agricultural commodity when there is a bumper harvest.

So what can we conclude about prices of commodities?

One way to tackle this is to set up a buffer stock scheme which combines elements of maximum and minimum pricing.

An intervention price is set. If the free market price is below the intervention price (minimum price) set then the buffer stock agency buys up enough supply to restore prices to the minimum price. (draw a diagram to illustrate)

If the free market price is above the intervention price it can sell stocks it has accumulated forcing the price down to the intervention level. (draw a diagram to illustrate)

In effect the buffer stock shifts the ­­­­­­­­­­­­­­­­­­\_\_\_\_\_\_\_\_\_\_\_\_\_\_ curve for the product to the ­­­­­­­­­­­\_\_\_\_\_\_\_\_ when free market prices are below the intervention price and shifts the \_\_\_\_\_\_\_\_\_\_\_ curve to the \_\_\_\_\_\_\_\_ when free market prices are above the intervention price.

Buffer stock schemes are not common. Why do you think this is the case?