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Free market in hops 101 [1]

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There may be trouble brewing for some microbreweries! A worldwide shortage of hops is starting to make its mark on the price of beer. The cost of some hops, the ingredient that gives beer its distinctive flavour, has quadrupled in price over recent years.

A whole host of factors are behind the current price rise: poor crops, bad weather, and most of all lower prices. All of which has led to a decrease in supply. This is a perfect example of supply and demand economics in action. The price fluctuations that the consumer sees are a reflection of a market that is free.

The price of hops had fallen in recent years due to over production and low demand from breweries. This meant that many producers left the market to grow other more profitable crops, such as cherries and apples. But then as hop production fell, beer had a resurgence in popularity. While the big companies have insulated themselves from this through futures contracts the microbreweries have been left to fight it out over the remainder. It?s all very apparent from the global hop acreage figures, which have fallen from 236,000 acres in 1992 to 123,000 in 2006.

Hops then wouldn't be a bad investment for the farmers of South East England. Unfortunately it takes three years for a hop field to produce, so in the meantime beer drinkers are going to face slightly different tasting and higher priced beers. And unfortunately for some microbreweries, they may go out of business, especially if the taste of their beers is not able to match up to the price.

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