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Economic Naturalist Assignment

Coming to from New York, where food is expensive and the produce selection limited, to Portland, where, for instance, supermarkets and farmer's markets offer three types of organic bananas, and avocados are 50c less than in New York, I really appreciate the difference. When my mom and I spent a week in Portland before the school year started, we also noticed generally more reasonable prices in restaurants. But now as a student my consumption choices have somewhat changed. My budget constraint curve has shifted significantly to the left and my demand for time significantly to the right. Given my corresponding utility curve, there are some things I really miss about New York: the \$1 toasted buttered bagel, the \$2 slice of pizza, and the \$1.10 coffee. You can find these within a few blocks of anywhere in Manhattan and most areas of any other borough. Nicer places, especially ones with wifi, generally will charge an extra 25c for the buttered bagel, and somewhat more for pizza or coffee, but these prices are never too far down the street. In Portland, the prices of bagels are--surprisingly for me--almost completely irregular. New Seasons, a Portland supermarket chain, for instance, charges \$1 for a bagel, but \$2 for a bagel with butter! (You can, however, help yourself to gourmet olive oil in the seating area.) Many cafés charge \$1.50 or more for bagels, and often more than \$0.50 for butter. On campus, Bon Appétit charges nothing for butter but charges for cream cheese (I don't remember the price because I'm strictly a buttered bagel type of person), while the Paradox charges \$1 for a bagel, \$1.25 for a bagel with cream cheese, and does not offer butter at all. The price for the bagel itself generally falls between \$1- \$2, sometimes going up to \$2.50. The price for butter falls anywhere between \$0.25-\$1.50. The prices for pizza or more regular. A regular slice (referred to in Portland as a "cheese slice") is generally \$2.75-\$3. The price of coffee changes somewhat from store to store but seems to depend on ambience. Cafés with more pretension or fame charge more--Palio Dessert and Espresso House, a local mellow-mood gourmet café that attracts university students who live in surrounding (well-off) neighborhood, charges \$1.65 for a small coffee, while a few blocks away New Seasons charges \$1.50 for the same size, and in the other direction a new café that closes at 7PM charges \$1.50 and Seven-Eleven charges \$1.39. This all has led me to the question everyday when naturally trying to be economical--Why the lack of reliable super-cheap eats in Portland? I will focus my consideration here on bagels as the two markets show the clearest contrast in regularity and price and as bagels are the most homogeneous good of the three.

The characteristics of bagel supply in Portland, relative to those of New York, in some ways promote lower prices and in some ways higher. Supermarkets, cafés, and vendors in farmer's markets or on streets all pay less for their space than in New York, probably a lot less, and the owners of the stores can live very well on a lot less because the costs of living in Portland are lower. The cost of homogenous ingredients seems to be similar to that of New York or somewhat less in Portland. At the retail level, flour costs about the same (e.g. five pounds of Gold Medal flour is \$3.39 both at New Seasons supermarket in Portland and Fairway supermarket in New York), while butter is slightly more expensive in New York. These factors lead to lower marginal costs and, all else being equal, a shift in the supply curve to the right relative to that of New York. Additionally, lower rents and property prices would ostensibly allow for freer entry, promoting more perfect competition. This would cause both a lower market price and more regularity throughout. On the other hand, the minimum wage is higher in Portland, and I tend to see more "regularly-employed" employees in Portland who may, in addition to receiving minimum wage, receive benefits or be paid more than minimum wage, while New York's many cafés and delis often pay under the table or hire part-time to escape having to provide health insurance (from my own experience). There is a much larger unskilled work force, particularly full of immigrants, "legal" or not, who are willing to work for minimum wage or lower. The different character of the work force in Portland might lead to an increased cost of labor, shifting the supply curve (all else being equal) to the left, due to higher marginal cost of labor.

Another factor promoting higher prices in Portland is the lower quantity supplied overall. While lower property values promote freer entry, New York's high population has over a long time accumulated thousands of delis and cafés. Because of the large supply in New York, more perfect competition is promoted, and the supply curve shifts to the right and is more even. The cost of ingredients also may turn out to be higher in Portland. Though homogeneous supermarket products generally cost the same or more in New York, the ingredients in New York café food may be of lower quality than in Portland, the reasons for which lie in the characteristics of the demand curve. Better quality ingredients mean higher ingredient prices, which raises marginal costs and shifts the supply curve to the left.

Lastly, the character of the stores is different in Portland from New York. The cheap deli market in Portland seems largely dominated by Seven-Eleven and the Plaid Pantry (though 7-11 does not actually sell bagels.) Independent sources of bagels generally don't take the form of "cheap" places perhaps because of the market power of these two stores. It also may be because of the sense of small town community in Portland, leading suppliers to focus more on "quality" and ambience than quantity and/or profits. Most cafés and delis in New York, even the many that use the word "Gourmet" on their awning and have a large selection, distinctly lack ambience or, to be more precise, lack cleanliness and cohesive interior design. Interestingly, in New York, in contrast to the domination in Portland of the cheap food market by Plaid Pantry and 7-11, the nice-looking café market is reigned by Starbucks, which is a big reason why stores that are strictly cafés are lacking in New York. Portland's nice-looking cafés can on the one hand distinguish themselves from the cheap market and on the other distinguish themselves from each other by their distinctive moods--e.g. the dark-wooded mellow-music-ed Palio café, the friendly, busy First Cup café (near Reed), etc. Their monopoly power allows them to charge more. Overall, the factors in favor of higher and less regular Portland prices may slightly outweigh factors against. The most significant reasons are probably the amount of supply the style, i.e. increased monopoly power, of the Portland suppliers.

However, I think the characteristics of demand in the two cities have a more decisive influence on the difference in prices. There are some factors in demand that would promote lower prices in Portland. The demand in New York overall is higher, and bagels are generally more popular. There are also overall higher incomes in New York, and so there is a large demographic of people that can expect and afford to pay more for food. These characteristics of demand promote higher prices in New York.

On the other hand, the characteristics of the consumers in New York are much different and overall lead to much higher price elasticity. One difference is the spread of financial statuses. While the overall incomes in New York may be higher, there is a much larger section of poor and very poor, both in number and in percentage. People in this section of the population may be completely price elastic and, knowing they can find a \$1 bagel, choose never to buy at a higher price. For a company to give up this entire demographic, particularly for an item that appeals in large part to the lower-to-middle classes, means giving up a lot of business. The poor in New York have more market power, and their high elasticity affects the cheap food market. Also, New Yorkers in general are more price elastic. While the preferences of consumers in Portland seem to include cleanliness, community feel, quality ingredients, sustainable practices, and good design, New Yorkers, when not going "out to eat," that is not specifically going to a nice restaurant to eat, generally look at price. One reason is that the outside environment in Portland is cleanly, well-designed, has a community feel, and incorporates nature and sustainable practices--such as (actually respected) bike lanes and rose gardens--throughout its layout, so Portlanders like to find the same attributes in the places they eat. A New Yorker, after riding in a dirty subway, walking through dirty streets and the dirty fumes of various construction projects and bumping into lots of probably pretty dirty people on the way, may not demand that where they eat breakfast or lunch hold a higher standard of cleanliness than everywhere else they are. They are not willing to pay for those aspects, and so stores can't distinguish themselves and charge

more for that reason. The clearly café-type places do distinguish themselves, but the fact that bagel prices are generally low forces the prices of bagels at these cafés to be low. Additionally, Portlanders value a name, a story, and real, preferably friendly and attractive, people behind the counter. These values give another opportunity for stores to distinguish themselves and hold market power. New Yorkers do not generally care about these things. Even in higher-priced markets, the standard might be reviews or Zagat ratings, or often proximity, but usually not the personal story of the store. For low-price markets, the standard is usually just price. When you go to Famous Ray's pizza, if you are from New York, you have an understanding that this Famous Ray's is not the original Ray's (even if it's called "The Original Famous Ray's") that became famous, and that the many other Famous Ray's are not connected nor actually famous by name, nor is there probably a man name Ray who owns the store. The value for authenticity in Portland allows stores to distinguish themselves and gain market power, which allows them to charge higher and irregular prices.

Another difference in demand is the regularity with which bagels are demanded. Because they are so regularly demanded in New York, consumers come into contact with prices every day and know what the market price is, and because they are used to regular market prices, they notice and react more strongly when a store does not adhere to market price. There is also great enough demand for stores to be close enough to each other to offer no competitive edge or information gap due to location. Overall, the demand in New York is much more price elastic and so forces a lower and more regular price than in Portland.

Looking at the characteristics of the markets overall, there is also the fact that New York's bagel market is older and has had more time to become competitive than Portland's. Additionally, New York's market is more capitalistic, more focused on profits and consumer surplus, while Portland's market is more focused on perhaps the whole social reality.

These are the probably reasons for Portland's higher and less-regularly priced bagels. They are also not as delicious, but that might be beside the point.