

A Florida Freeze

Farmer Jones owns a citrus grove in central Florida. In anticipation of a bountiful harvest he sold his expected harvest to wholesalers at \$100 a crate. However, before he could pick the oranges his groves were damaged by an unexpected frost. The frost destroyed a significant percentage of his crop and the crops of other farmers in the state. Subsequent to the freeze, the wholesale price of oranges rose to \$120 a crate.

It is impossible for Farmer Jones to fulfill all of these commitments with the diminished harvest. He has announced that he can no longer honor these contracts. He is willing, however, to sell them whatever he can harvest at the current market price of \$120 a crate.

Farmer Smith also owns a citrus grove in central Florida and he also sold his expected harvest to wholesalers at \$100 a crate. His groves are located in a low valley that luckily escaped the frost. He is fully able to meet all of his pre-frost commitments. However, due to change market conditions he will no longer honor the price in the original contracts. He is willing to renegotiate the previous contracts if the wholesalers will accept the current market price of \$120.

Questions

1. Assume it cost the buyers \$120 to purchase oranges after the frost, what are their damages?
2. Is there any economic reason for assessing lesser damages for Jones than for Smith?
3. Suppose the buyers could pass on the higher price of oranges to the final consumer? Is there any economic reason for making Jones or Smith pay damages for breaching?