minimum Class II price in southeast Florida and the basic formula price. Both differentials were assumed to be constant over the simulation period. The observed basic formula price was included in the model by means of a table function (BFPT*). Blend price received by producers equals total producer returns (TPR) divided by total milk allocated to Class I and II uses (RAC1+RAC2).

An examination of prices paid by consumers and received by producers for Class I milk shows that the relationship between these two prices can be closely approximated by a step function (C1CST, Figure 6). For example, when producer prices vary between $6.40 and $6.85 per hundredweight, the consumer price remains fairly constant at $14.2 per hundredweight. Consumer prices of Class I milk (C1C) used to compute consumer expenditures were determined by geometric smoothing of the Class I consumer prices generated by the table function (C1C*). Geometric smoothing permits consumer prices to adjust gradually to changes in producer prices.

Consumer prices of Class II products involved more elaborate computations. During the 1966-69 period Florida milk was allocated to nine major Class II uses: buttermilk, flavored milk drinks, half and half, table cream, sour cream, cottage cheese, ice cream, ice milk, and sherbert. Since Class II uses constitute a secondary outlet for producer milk, Class II products were treated as a single-use category. Since consumer prices are used to compute consumer expenditures on milk, the aggregation of Class II products into a single category necessitated a weighted average consumer price for Class II products in terms of whole milk equivalents. A whole milk equivalent price was needed since the Class II utilization rate (C2UR) is measured in whole milk equivalents (3.5% milk). Computation of the Class II consumer price is explained in Appendix B. The initial (computed) Class II consumer price for January 1966 (IC2C=$14.75) was increased by five cents per month by adding the Class II price trend (C2T which is a Ramp function) to the initial price. This gave the Class II consumer price (C2C) used to compute consumer expenditures.

Prices received by processors for Class I and Class II products (PRPC1, PRPC2) were defined, since no data were available on these prices, by multiplying one minus the gross retail price margins (RMARG1, RMARG2) by consumer prices. Since data on retail milk margins are not published for Florida, the margins were based on price margin data for 50 Midwestern supermar-