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Prices and production cost in aluminium smelting in the short and the long run

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Abstract-

The main objective of this study is to reflect the institutional changes that have characterized the aluminium industry as a result of the introduction of London's Metal Exchange (LME) trading. In doing this, it is shown that product prices are taken exogenously and linked to input prices via risk sharing agreements. This forces producers, in a competitive environment, to minimize costs. The latter is completed with a description of their investment decision–making mechanism, in which investment is determined by cost, and a measure of Tobin's q.
The main contributions of this study are: the use of a proprietary and complete industry data set that allows one (a) to set up the short run input and output price relationships; (b) to model the optimizing behaviour of the sector via a flexible cost function (translog) allowing scale economies and non–constant factor substitution; and (c) to describe the investment–process that has emerged with the introduction of LME trading.

Index Terms-

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