

THE EFFECTS OF INCREASED CORN-ETHANOL PRODUCTION ON U.S. NATURAL GAS PRICES

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ABSTRACT

In recent years, there has been a push to increase biofuel production in the United States. The biofuel of choice, it seems, has been ethanol produced from corn. The effects of increased corn-ethanol production on the consumer prices of food and energy continue to be studied and debated. This study examines, in particular, the effects of increased corn-ethanol production on domestic natural gas prices. A structural model of the natural gas market is developed and estimated using two-stage least squares. A baseline projection for the period 2007 to 2015 is determined, and shocks representing the effects of U.S. biofuel policies are applied. The results indicate that the increased level of corn-ethanol production occurring as a result of the current U.S. biofuel policies may lead to natural gas prices that are as much as 6% higher, on average, than if no biofuel policies were in place.