One of the main characteristics of Argentina's wine industry is the low degree of vertical integration of grape growers and the existence of three different markets: a) the grapes market, b) the bulk wine market among producing wineries and c) the final consumer wine market.

Small grape-growers and vineyard contractors concur to the grapes market to sell a perishable product, which is their only source of income. The grapes and bulk wine markets thrive in conditions of imperfect competition, with important distortions due to the existence of strong power asymmetries between supply and demand forces. Moreover, being grapes production highly dependent on climate, the volume of harvest is subject to a high variability from year to year, making grapes growing a very risky activity due to the uncertainty associated to a high degree of price and income volatility.

Given the particular payment conditions prevailing in the grape and bulk wine markets, producers are faced most of the time with a serious financial shortage. The need for extra cash at harvest time to cover the harvesting and transportation costs increases the already mentioned structural inequities.

Since the main interest of this study is to analyze the forces that interact in determining prices of grapes and bulk wine, we have identified those variables that play a decisive role in that process such as: total production of grapes for any given year, the volume of grapes diverted from wine making to be devoted to concentrated must, and the carry over of wine from the previous year.

As mentioned before, the total production of wine for a given year is largely determined by exogenous climatic factors rather than economic variables, therefore the yearly supply function is completely inelastic.

On the other hand, the total demand for wine in between harvests is given by the sum of two components: a) the "consumer demand" as measured by the sum of monthly dispatches of wineries to the domestic market during the twelve months period following the date of release of the new wine, and b) the "speculative demand" as given by the volume of wine hold by producers in a given time period waiting for better prices in the future.

The interdependence among consumer demand, speculative demand and price, introduced a simultaneity problem in the econometric model, which was properly solved when the equations system was formulated. Otherwise, the corresponding price and income elasticity would not be possible to be estimated by using observed market prices and quantities.

The parameters of the reduced form equation were estimated and allowed us to
make predictions for price of wine. As a main application of this study, once the yearly production of wine is known, this value together with the projected equilibrium price of wine and the price elasticity of demand were used to calculate the optimal level of stocks for the stabilization of the domestic bulk wine market.