Wine grapes contribute significantly to the economy of California, with a gross production value of more than $2 billion in 2010. Studies on economic issues in the industry require measures of demand response to price, but despite the economic importance of this industry, estimates of elasticities of demand for wine grapes have not been published. We estimate simultaneous systems of equations for California’s four major wine grape growing regions and eight of the most widely grown varieties. We find that California wine grape production is, on the whole, inelastic with respect to prices received. Wine grapes contribute significantly to the economy of California, with a gross production value of more than $2 billion in 2010. Studies on economic issues in the industry require measures of demand response to price, but despite the economic importance of this industry, estimates of elasticities of demand for wine grapes have not been published. We use a flexible-form inverse demand system model to estimate elasticities of demand for wine grapes from three grape-growing regions in California, representing three different quality (price) categories. The resulting estimates of own-price elasticities Many wine-market observers believe the way in which growers make output decisions produces regularly recurring grape supply and price cycles that culminate in repeated periods of boom and bust. This chapter provides a description of the institutional features of the market for wine grapes and an economic analysis of the cyclical nature of wine-grape production and prices. Wine grapes are sold on both a long-term contract market and a spot market. This chapter discusses the economic activity of wine production. In economics, production is defined as the transformation of inputs into output. Economists typically use an analytical device called a production function to represent or describe a production process. A production function treats a production process as a "black box."