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“Solidarity in a competing world —
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Persistence of Food Price Shocks and Domestic Market Performance in Ethiopia

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Abstract

Persistence of food price shocks is an overriding challenge faced by consumers in Ethiopia. The empirical evidence on the dynamics of relative price convergence of commodities and the persistence of price shocks is crucial to capture the policy effects of domestic market intervention measures and for designing marketing channel development and price stabilisation objectives with optimum policy costs. To investigate the problem of food price convergence and persistence of price shocks, a panel dataset of 18-year monthly price series of nine agricultural commodities widely traded and consumed in seven regions and cities was used. To analyse the dynamic process of food price convergence and persistence of shocks, the period was divided into two sub-periods (1996–2004 and 2005–2013). The first period was characterised by depressed food prices and the second by food price inflation in Ethiopia. To estimate the rate and speed of relative price convergence of commodities in the two periods, two panel unit root tests (LLC and IPS), fixed-effects, and half-life methods were employed. The empirical findings markedly indicate that rate and speed of relative price convergence of food commodities were considerably low, suggesting that higher proportion of food price shocks was persistent among regions and markets. Domestic market interventions undertaken by the government were less effective in adjusting food price shocks among regions and over time, leading to higher consumer price risks in Ethiopia. The results generally suggest the need to design relevant and proactive market policy interventions in improving convergence of food prices and adjustment of price shocks among regions and markets in Ethiopia.

Keywords: Ethiopia, fixed-effects, half-life, persistence, price convergence