ABSTRACT

World agricultural prices have experienced an increasing degree of volatility in the last decade. Global food crisis designates a period from the early 2007 to the mid-2008, during which the prices of a number of food commodities increased sharply. It was followed by a period of collapsing prices in the second half of 2008. The recent rise of volatility in international agricultural commodity prices has intensified the debate about risk related agricultural policies due to price transmission mechanism. I use cointegration tools to analyze the dynamics of world price transmission to domestic price in six agricultural commodities (rice, wheat, banana, orange, tea, coffee) for monthly data from April 1994 to August 2010. I detect domestic prices of banana, orange, coffee is cointegrated with world price while no cointegration exist between domestic price and world price of wheat, rice and tea. Also, world prices and domestic prices of commodities (banana, orange and coffee) positively affect eachother.

Key Words: Price Transmission, Cointegration.