

University of Hohenheim

Faculty of Agricultural Sciences

Institute of Agricultural Policy and Agricultural Markets

Department of Agricultural and Food Policy

**Spatial price transmission analysis for
selected maize and wheat markets in
Ethiopia**

Master thesis

Supervised by Prof. Dr. Harald Grethe

Submitted by

Sonja Berweck

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Abstract

The Ethiopian cereal sector is still characterized by volatile prices, as lately seen during the world food crisis in 2008. However, the consideration of the integration between local markets and world market is for the analysis of high food prices and possible strategies to stabilize future prices, often neglected. Yet, the links between the world market and local markets in Ethiopia are not quite clear.

Therefore, a price transmission analysis (Unit Root Test, Cointegration, VECM) using monthly wholesale prices from 1999 to 2010, has been accomplished for four wheat and maize markets in Ethiopia (Addis Ababa, Shashemene, Assela, Nazreth, Jimma), respectively. Furthermore, qualitative interviews observed the underlying market structure on the different markets and identified related problems.

The price transmission analysis showed no evidence for integration between US maize market and maize market in Addis Ababa. Low integration between US wheat market and related market on the national level was revealed. Moreover, there was integration between one regional market (Jimma, Shashemene) and the US wheat and maize market, respectively, suggested. However, there was strong evidence that these relationships were rather a consequence of spurious results. From six observed regional wheat market pairs, all indicated a cointegration relationship. Within the wheat sector the production market of Assela indicated a possible price leader role. From the six observed regional maize market pairs, five showed evidence for cointegration. For two out of five pairs, prices were completely transmitted. The qualitative interviews exposed limitations in the market structure of the research area related to transportation, storage, missing grading system, handling costs and price information.

Recent high food prices in Ethiopia were not an outcome of a close dependence to the world market, but rather a consequence of macroeconomic aspects and still strong government intervention in the cereal trade.

Key words: Price transmission, market integration and market structure