Price Volatility of Food and Agricultural Commodities: A case Study of Pakistan

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Abstract:
Rapid price increase in food/agricultural commodities has gained attention after the “Price Spike” in 2007-2008. Again the same trend was observed in 2010 due to which it increases concern about the volatility in commodity prices. This study aims to investigate the factor affecting volatility of selected food and agricultural commodities. Monthly data from April 1983 to April 2013 is taken for analysis. GARCH (1, 1), GJR (1, 1) and EGARCH (1, 1) models are estimated for all the variables using normal and Student-t distribution. The results conclude that the mean and the volatility effect of exchange rate and interest rate are transmitted across all the selected commodities. Volatility in the price of fertilizer is only transmitted on the volatility of sunflower oil. Later, analysis shows that past price has significant impact on current prices for all the commodities except for soybean oil, sunflower oil and cotton.

Key words: Food and agricultural commodities, Price volatility, Exchange rate, interest rate, fertilizer, GARCH models

JEL: Q22, Q110, C220