

Title: Market Integration of Wheat in Pakistan

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Abstract: Market integration in developing countries is an important issue in the current research and this study is an attempt to analyze the wheat market integration in Pakistan. In the past, researchers tried to analyze market integration in Pakistan but they focused on some particular regions like; south and north Punjab, relied on co-integration only, did not consider the dynamic models and transaction costs to analyze the degree of integration. Present study therefore, is first attempt to analyze the extent of market integration in the whole country using a dynamic model. Monthly wholesale price data of five regional markets from January 1988 to April 2011 are used under this study. Price series were tested for stationarity with Augmented Dickey Fuller (ADF) test and found that all markets are I(1). Co-integration was also found in all the pairs using Johansen co-integration test. Vector Error Correction Model (VECM) is applied to the data to analyze extent of market integration. Adjustment to shock or disequilibrium was higher by Lahore and Rawalpindi markets as compared to Hyderabad and Peshawar market because of the high consumption, low production and good infrastructure in these regions. Adjustment coefficient was significant for most of the market pairs. Threshold Vector Error Correction Model will be applied in the next step to incorporate the transaction costs with a band of non-adjustment.

JEL codes: C32; F15.

Key words: Market integration, co-integration, wheat, commodity prices

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