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World Black Tea price volatility, Market Linkages and coping strategies among global tea auction markets

The primary determinant of the growth of the global tea economy is demand for the commodity. Tea auction markets refer to market leaders to discover prices and market behavior. The purpose of the study was to evaluate the degree of integration between the world markets price measured by FAO composite price index and black tea auction markets around the world. The study captures tea price dynamics and evolution of tea prices at the major tea auction markets around the world. It reports the study utilizes monthly tea auction data from 2003 to 2009 to investigate tea price dynamics to capture price evolution and volatility at the key tea auction markets around the world. The research uses time series methods to analyze tea auction prices. The hypothesis of integration was tested using the Augmented Dickey-Fuller test, and Johansen Cointegration estimation procedure. The study uses Granger causality test to discover how price information and volatility transmits between market

The study found that multivariate cointegration test suggests one common stochastic trend driving all the tea prices, indicating volatility in the prices. Granger causality interestingly shows that most of the tea auction prices have a significant trend and cyclical components. Volatility seems to spill across all tea markets with markets experiencing common shocks, rather than being isolated from each other. Sri Lanka is Granger causing all the other markets.

The findings of the study indicate that tea agribusiness firms refer to Sri -Lanka prices to make decisions on markets behavior and are likely to incorporate world price information into planting decisions which will create significant challenges whose implications will lead to oversupply if world consumption of tea does not improve in tandem with increased production

Keywords

tea price volatility, tea auction markets, Granger causality, Cointegration

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