Discussion of IATRC Theme Day Paper:

“Optimal food price stabilization in a small open developing country”

Christophe Gouel and Sébastien Jean

Ian Sheldon (Ohio State University)

THE OHIO STATE UNIVERSITY
DEPARTMENT OF AGRICULTURAL, ENVIRONMENTAL, AND DEVELOPMENT ECONOMICS
aede.osu.edu

Summary of paper

Motivation: analyze optimal price stabilization policies where on average country is self-sufficient

Literature: trade policy optimal with incomplete insurance markets; storage-trade models have not focused on optimal trade policies

Model: risk-averse consumers; no producers; storage under rational expectations; exogenous world price represented by storage model; discretionary policy based on Markov-perfect equilibrium

Analysis: no-closed form solution; policies analyzed via calibration and numerical methods

Comments on paper

Modeling: logical choices for modeling policy in dynamic setting with storage; cannot deal explicitly with collective action problem

Results: combination of trade and storage policies stabilizes domestic prices, with transfers from producers and shippers to consumers

Mean domestic price rises with storage policy

Clear motivation for trade policy choice, but significantly distorts excess supply curves

Banning export taxes though, substantially increases occurrence of high domestic prices

Comments on paper

What would results look like with first-best policies?

What exactly does consumer risk aversion imply?

Why model import subsidies if they are so rare?

What if domestic and world shocks are correlated?

Why not have an explicit political economy framework for domestic policy function? e.g., loss aversion

Can model account for partial offset of changes in world prices on domestic prices?