Volatility Theme Day:
Discussion

Brian Wright

UC BERKELEY
My first thought:
Need for Precision in Communication

• It’s Good to know what you’re talking about

• Unfortunately the above statement is ambiguous, as revealed by two uses:

  A. “Do we know what he is talking about?”
  B. “Does he know what he is talking about?”

For the presenters, B is clearly true. But in discussing this topic, A can be a problem.
My second thought:

* After Chris Barrett’s talk I’ll never again give a talk with volatility in the title
Stabilize Price?
Or Stabilize Harvest?
Are they both feasible?

The two demand curves have opposite welfare effects.
Interpretation of Ethiopian result:

• Will anyone pay 32% of income to stabilize it?

• Maybe, if income is market income

• Otherwise, 35% does not seem like a second order effect....
Are recent real maize prices highest since early 1970s?

Source: USDA.
Was largest major grains production shortfall in early 1970s?

World total production of major grains in terms of calories

Source: Calculated using Data from PSD Online, USDA.

Note. World grains = wheat + maize + milled rice. All quantities converted into Calories assuming, for wheat 3338Kcal per Kg, for maize 3650 Kcal per Kg, and for milled rice 3656 Kcal per Kg).

2010/2011 is projection.
Severe weather events affecting markets?

Changes in production from last period

Source: Calculated using Data from PSD Online, USDA.
Why is price much more sensitive to shocks when stocks are minimal?

- **Equivalent shocks**
- **Demand for consumption**
- **Market demand, inclusive of stocks**
- **Quantity**
- **Price**

When stocks are low, price becomes very sensitive to disturbances in supply.

Different impact on prices:

- **With stocks**
- **Without stocks**

Why is price much more sensitive to shocks when stocks are minimal?
Politics Pollutes the Discussion

• Back in 2008: Spikes a financial phenomenon
• “Biofuels increased UC consumer food cost x%” – USDA
• Energy costs are the driver
Some parties gain from confusion

• Oil market will stabilize food market?
  – “Stabilization” that farmers like!
• “Productivity increases will restore equilibrium”
  – Do US Farmers believe that?
  – Iowa land price?
Dangers

• Biofuels expansion that keeps pace with productivity until E85 can keep prices around current mean for a decade at least
• Biofuels may spread to LDCs, with negative effects on food supply
Dangers

• Trade “reform” can hurt the poor
• China, India get bad rap?
• Chris Delgado: Land title grab is a real danger
  – But actual land grab reports are very misleading