MARKET INTEGRATION AND PRICE LEADERSHIP IN SELECTED SUGAR MARKETS - THE CASE OF COLOMBIA, BRAZIL AND THE WORLD

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ABSTRACT

In the present empirical study we used the Johansen maximum likelihood procedure to evaluate spatial market integration for raw sugar among the Colombian, Brazilian and World markets. The Johansen (1988) cointegration approach allowed relating the three market sugar prices in a multivariate cointegrated vector error correction model. The law of one price and the general patters of influence were tested. To support the study monthly sugar price series for the three markets ranging from 1998 to 2007 were used. The overall empirical results revealed that the null hypothesis of perfect market integration cannot be rejected, i.e. $X_2(2) = 0.94684[0.62286]$, which implies that raw sugar prices from the three markets move proportionally in the long-run following the law of one price. In addition, for the world sugar price the null hypothesis of weak exogeneity cannot be rejected, i.e. $X_2(2) = 0.00704093[0.99648]$, evidencing that the World sugar market has the price leadership, whereas the Brazilian and Colombian markets are price followers.