



# Market dynamics *and* price behaviour

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IT has perhaps escaped notice of many that the national and international events preceding and during both 1974 and the current year have many similarities. During both these years the nation was struck by two consecutive monsoon floods that not only wrought widespread damage to aus and aman crops, but also greatly increased the misery of the people. Before the nation recovered from these shocks, it was hit in both these years by devastating cyclonic storms with large losses to life, property and agricultural crops. The aftermath of these natural calamities greatly stressed government budget and administration.

To compound problems, the international commodity prices, especially petroleum and cereals, increased by leaps and bounds during both these periods. The annual average crude oil price increased by nearly four times between 1973 and 1974. International rice price increased by 178 per cent, and wheat price increased by 78 per cent.

The price increases in

recent times were less, but nonetheless quite severe. Between December 2005 and December 2007, international rice price rose by nearly 30 per cent whereas wheat price increased by about 125 per cent. Crude oil price increased by 67 per cent during 2007 (all price increases are in dollar terms). The currency also depreciated. These international events had strong flow-on effects on the domestic economy. The process of trade liberalisation that accelerated during the nineties has integrated the domestic economy firmly into the world economy. For a small open economy like Bangladesh, it is extremely difficult to cushion itself from international trends. Even during 1974, when Bangladesh economy was far less open than it is today, the flow-on effects of rising world prices could not be quarantined.

Business people today are well-informed and market savvy. International market trends get reflected in domestic conditions fairly quickly (just as they do in advanced economies). Domestically, arbitrage activities of local business people do not allow the price of a commodity, say

rice, to vary much (except for transaction costs) between say Dinajpur and Cox's Bazar. Similarly, international arbitrage forces domestic prices to follow global market trends. Hence, these days domestic prices of tradable goods in any country do not differ much from the global trends. This is especially true of a small country that is only an insignificant part of the global market. The costs of deviations from the global trends could be very high. Rather than attempting to buck the international trends, which may prove very costly, it would be more useful to find alternative ways of minimising the adverse effects and adjusting to the new conditions.

World cereal prices were exceptionally low during 2000-01. For example, the dollar price of rice in 2001 was absolutely the lowest since 1972. Similar pictures also emerge for wheat, maize, and soybean and palm oil prices. Such low prices helped the economy to hold down the inflation rate which was at its lowest in 2001. Unfortunately, this comfortable situation did not last long; international cereal prices went on a roller

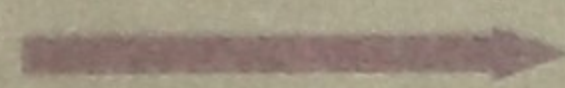
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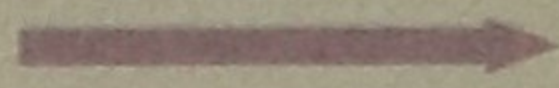
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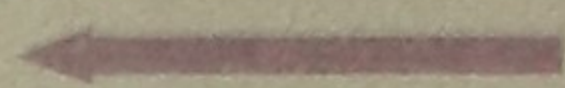
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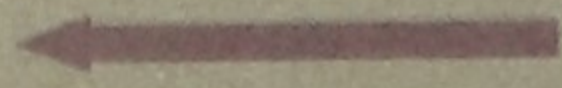
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