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Asymmetries in Commodity Price Behaviour

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Many developing countries are dependent on commodity prices as their main source of income. Additional income from commodity price booms can benefit the economies of low income countries that are reliant on a few commodities, while a slump in commodity prices can be harmful. Policy prescriptions can be potentially catastrophic if the income from a commodity boom is diagnosed as permanent when in actual fact turns out to be temporary. It is no surprise therefore, why the dynamic properties of commodity prices in relation to manufactures has been of great interest to economists and policy makers. Deaton and Laroque (1992) in an influential paper have described commodity prices to have long periods of doldrums punctuated by sharp upward spikes. This would imply that in relation to a threshold, commodity prices would be persistently below the threshold and when prices move above it then the movement would be sharp, in the sense that it would revert quickly back to the attractor or long run intertemporal equilibrium.

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