Markets and Trade Glossary

FEWS NET Markets Tool

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*** NOTE: This document will be periodically updated with new terms.*

Anomaly – is a deviation from the norm or average.

Arbitrage – is taking advantage of a price differential. The two most common types of arbitrage related to food security are spatial arbitrage (where commodities are moved from areas or markets with lower prices to areas or markets with higher prices and the difference exceeds the transfer costs) and temporal arbitrage (where commodities are obtained, stored and sold at a point in the future when prices are expected to be higher and the difference exceeds the costs associated with the temporal transfer.

Assembly market – is a market where smaller quantities of a commodity are accumulated or aggregated usually from different farmers and small scale traders. Assembly markets facilitate marketing and the movement of commodities as well as reduce the costs of marketing. They can also enable sellers of smaller surpluses from more remote locations to reach distant buyers.

Budget share – is the portion (percentage) of the household budget spent on a given good (maize), service or grouped goods and services (food). This is essentially the same thing as expenditure shares.

Commodity – is something tangible, that has value and can be exchanged. Commodities include food and cash crops, livestock, non-food consumer items and even labor.

Commodity flow – is the movement of commodities through space, generally from surplus to deficit areas.

Complementary good (complement) – a commodity which is consumed in combination with another commodity. When demand for one commodity rises, demand for the other will rise as well.

Conduct (market conduct) – refers to the patterns of behavior that traders follow and strategies that they employ in adjusting to the markets in which they sell or buy.

Consumer basket – is a typical household's market (expenditure) basket of goods, services, fees, etc. It is used for tracking the prices of consumer goods and services and the overall cost of living. The basket may be comprised of the actual quantities of consumption goods or services acquired or used by households in some period. Sometimes, a consumer basket can also be made up from hypothetical quantities created.

Consumer price index (CPI) – an index of consumer prices which measures the change in prices associated with a typical market basket of goods and services over time. The CPI expresses current prices in terms of prices during the same period in a previous year (base or reference year), to show inflation or changes in purchasing power.

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Consumption season – is related to agricultural production and refers to the period of time during which agricultural output is sold, typically extending from one harvest period to the next. It is the same as the marketing season.[1]

Core CPI – a price index where certain items are excluded from the CPI basket on the basis that their prices are highly volatile, subject to temporary influences or are affected by government policies. The index is used to calculate "core inflation" and reflects the underlying inflationary pressures in the economy.

Correlated – means that the variation in one thing is related to the variation in another. The two can vary in the same direction (directly or positively correlated) or in opposite directions (inversely or negatively correlated). Correlation does not imply causation.

Cost of living index – an index that measures between two periods the change in the minimum expenditures that would be incurred by a consumer, in order to maintain a given level of standard of living or welfare, assuming that his/her preferences or tastes remain unchanged.

Cost Insurance Freight (CIF) – describes pricing or valuation of a good and includes all of the costs (known as transfer costs) of delivering a good to the point of consumption. It may be contrasted with the FOB (or free on board) where the transfer costs are excluded. Imports are often valued at CIF prices and exports at FOB prices.[2]

Cross border trade/flows – refers to the movement of commodities from one country to a neighboring country, and is usually measured in terms of magnitude (e.g., metric tons) and direction (from country A to country B).

Cross price elasticity of demand – is the relationship between two commodities which can be substituted for one another (see also to elasticity of demand).

Deficit areas – areas that either do not produce or produce an insufficient amount of a given commodity to meet local demand (derived or final demand).

Demand curve – is the description of the relationship between the price of a commodity and the quantity that buyers are willing or able to buy, with all other things being equal. For most commodities, there is an inverse relationship between price and quantity demanded: a rise in price is associated with a decline in quantity demanded.

Derived demand – is demand for a commodity to be used as an input to another productive activity (e.g., the demand for maize as feed for poultry production).

Dynamic analysis of margins – analysis of changes in marketing margins over time.

Effective demand – is the desire to buy together with the ability pay for as good or service. Those who have a desire to buy but cannot pay the price or cost are said to have limited or no effective demand.

Effective exchange rate (EER) – is the actual rate at which one unit of foreign currency is exchanged for local currency.

Elastic supply (demand) – refers to a commodity for which the percentage changes in supply (demand) is proportionately greater than the percentage change in price. For example, a one percent change in the price of the good or service leads to a greater than one percent change in the quantity supplied (demanded).

Elasticity – is the measure of a percentage change of one thing relative to a percentage change in another. For example, the price elasticity of demand is the percentage change in quantity demanded relative to the percentage change in the price.

[1] In some instances, the consumption year is defined to begin with the onset of the green harvest.
[2] Chopak (1998). "Price Analysis for Early Warning Monitoring and Reporting." SADC.

Elasticity of demand – is the percentage change in quantity demanded relative to the percentage change in the price. When the change in quantity demanded is related to the price of the commodity, we use the term *“own price elasticity”* of demand. When the change in quantity demanded is related to the price another commodity, we use the term *“cross price elasticity”* of demand.

Elasticity of supply – is the percentage change in the quantity supplied relative to a percentage change in the price of a commodity.

Exchange rate – is the rate at which one currency can be exchanged for another.

Expectations – is what a market actor believes will occur at some point in the future, and that time frame is usually defined, e.g., expected sales price is the price a seller believes he or she will receive at a specified time in the future, e.g. three months, one year, etc from now.

Expenditure shares – is the portion of a household’s expenditures allocated to a particular good, service or group of goods and services. This is essentially the same as budget shares.

Export parity price (XPP) – is the monetary value of a product sold at a specific location in a foreign country, but valued from a specific location in the exporting country.

Farm gate (producer market) – is at or near the farm or location of production. Usually, but not always, the place where a commodity is first exchanged: farmers can also bring their produce to assembly, wholesale and even retail markets.

Farm gate price – is the price that the farmer or producer receives at the farm or location of production. It is the price of the product available at the farm, excluding any marketing costs or transport and delivery charges.

Food Balance Sheet – presents a comprehensive picture of the pattern of a country's food supply during a specified reference period. A food balance sheet shows for each food item - i.e., each primary commodity and a number of processed commodities potentially available for human consumption - the sources of supply and its utilization.[3]

Food price index – is a price index where only food items appearing in the consumer basket are included in the calculation of the index.

Foreign Exchange Premium (FXP) – is the percentage that the Official Exchange Rate (OER) overvalues the local currency.

Formal trade – is typically large quantities transported by road, rail or ship which are inspected, taxed and reported in official statistics.[4] Formal trade is typical legal trade.

Free on Board (FOB) – the price of a commodity loaded on board a carrier at the port of exit.

Hedgers – are people who buy contracts to sell the stocks/commodities in the future at a price agreed upon today, thus protecting themselves from price fluctuations.

Imperfect substitute (commodity) – is a commodity that consumers choose to consume in place of another preferred commodity when the price of the preferred commodity rises. However, the imperfect substitute does not satisfy a need or want to the full extent of the preferred commodity, so there is a less than one for one substitution.

[3] http://www.fao.org/ES/ESS/consweb.asp
[4] Evaluation of the WFP/FEWS NET Informal Cross-Border Trade Monitoring System (June 2005).

Import parity price (IPP) – is the monetary value of a unit of product bought from a foreign country, valued at a geographic location of interest in the importing country.

Incentive – something that incites an action or provides a motive (e.g., potential profits, benefits or gain from performing a particular economic activity).

Income elasticity of demand – is the percentage change in the quantity of a good demanded given a one percent change in income.

Index reference period – is the period for which the value of the index is set at 100. This is the same as the base year.

Industrial organization – is the field of economics that studies the behavior of firms, the structure of markets, their interactions and affect on the performance of markets.

Inelastic – is a commodity for which the percentage change in quantity supplied (demanded) is less than the percentage change in price.

Inflation – is an overall rise in the prices of good and services in an economy. There is an inverse relationship between the prices of goods and services and the value of money in an economy: other things being equal, as prices rise over time, a given amount of money will be able to purchase a fewer and fewer goods and services.

Informal markets or (cross border) trade – refers to small-scale transactions of a few bags or less of a commodity, which are exchanged outside of official channels and are typically undocumented, unlicensed and unregistered. Informal cross border transactions are often carried across the border on bicycles or headloaded. While each transaction may be small, the total or aggregate volume and value of these transactions can be quite significant. This term is also often used to refer to illegal trade, although, these two types of trade are not necessarily equivalent. This has lead to some confusion in the literature. Therefore, it is important to define this term when it is used.

Inter-spatial transfer costs – is the monetary payment made as a marketing cost to transport a product from one geographic area to another for sale.

Inter-temporal transfer costs – is the total monetary payment made paid as a marketing cost to store a product for sale at a later date.

Laspeyres price index – is an index that measures the change in the value of the basket of goods and services actually purchased in the earlier of the two periods.

Law of one price (LOOP) – is a situation where the unit price of a product is the same in all locations and time points, after adjusting for transfer costs.

Logistics – is the management of the flow (distribution) of products, information, resources or people between the point of origin and the point of consumption with an aim to meet the requirements of consumers.

Market – is where buyers and sellers come together to trade. Markets can be viewed as social arrangements that allow buyers and sellers to discover information or carry out a voluntary exchange of goods or services. Markets are normally physical locations, but not always. Transactions can occur on the phone, over the internet, through intermediaries, etc. Commodities (e.g., crops and food), livestock and labor can be exchanged through markets.[5] For the purpose of these lessons, the focus is primarily on markets where physical goods are traded.

Market actor – is someone who is active in the market such as traders, wholesalers, transporters, storeowners, consumers, etc. A market actor is equivalent to market participant.

[5] http://en.wikipedia.org/wiki/Market

Market calendar – depicts the availability of a commodity or a group of commodities in the market over the calendar year.

Market catchments (catchment areas) – generally refers to the areas from which commodities or labor is sourced and brought into a particular market or the market system as a whole. These areas usually include key production zones that have significant marketable surpluses.

Market centers – are physical locations where buyers and sellers meet and exchange.

Market chain (market channel) – is a group of people or organizations that direct the flow of commodities from production to consumers. Market chains are usually vertical.

Market efficiency – is a situation where price differences for a specific product that are compared in different places or points in time are equal to the transfer costs. This is equivalent to the situation where the law of one price holds.

Market failure – will result when the price of a good or service does not reflect the true costs of producing and consuming the good or service. The existence of a market failure implies some inefficiency in the market. A market failure is not the same as a market shortfall.

Market integration – is the ease at which prices are transmitted from one market to another and is usually measured by the degree of correlation between prices in different markets. Generally, a high correlation implies more integration. Integration implies a relationship, but not necessarily causality.

Market networks – describes commodity flows and points of exchange from production to the final consumer. The emphasis of market networks is on spatial and exchange relationships.

Market shortfall – with respect to market availability, refers to a food gap where requirements exceed supply. With respect to a particular market, where there is a scarcity of a commodity and demand exceeds supply.

Market system – includes the whole commodity distribution system from production to consumption. A market system describes key linkages between the different stages in a commodity's distribution such as producer-wholesaler, wholesaler-food processor or storeowner-consumer. It also describes the spatial and functional relationships between markets and market actors. A market system is spread over a geographic area, which can be small such as just a few villages that exchange among themselves, or very large and spread across a country, group of countries or over the entire world.

Marketable surplus – is the excess product which is made available after meeting producer needs (seed, home consumption, animal feed, in kind labor payments and transfers). It is important to note that many producers sell product without fulfilling their complete food requirements: they rely on the sale of product for cash income and resort to the market to access a portion of their food requirements.

Marketing margin – is typically the difference between the price paid by consumers and that obtained by producers. It is also called the farm-retail price spread. Margins can be calculated all along the market chain and each margin reflects the value added at that level of the market chain.

Marketing margin share – is the difference between two prices at different levels of the market, expressed as a ratio. For example, the difference between the retail price and producer price divided by the retail price. Therefore, marketing margin share can also be thought of as the marketing margin expressed as a ratio. Marketing margin shares can be calculated all along the market chain, and each margin reflects the proportion of the value added at that level of the market chain.

Marketing season – is related to agricultural production and refers to the period of time during which agricultural output is sold, typically extending from one harvest period to the next. It is the same as the consumption season.

Net marketing margin – is the price spread minus the costs associated with either moving a commodity from one location to another or storing the commodity over time: a measure used to assess the price arbitrage incentives.

Nominal prices – are prices that have not been adjusted for inflation. The nominal price is equal to the money that is paid for a unit of a good or service in the market, at the shop, etc.

Monopoly – is a market with only one seller or controlled by one seller.

Monopsony – is a market with only one buyer or controlled by one buyer.

Official trade – is trade that has been registered or accounted for. It is often measured as well.

Oligopoly – is a market with only a few sellers or controlled by only a few sellers.

Oligopsony – is a market with only a few buyers or controlled by only a few buyers.

Own price elasticity of demand – *see price elasticity of demand.*

Parity (price parity) – means equivalent and refers to making prices of a commodity in one location equivalent to the same commodity in another location, usually in a different country.

Parity pricing – refers to making prices of a commodity in one location equivalent to the same commodity in another location, usually in a different country. It adjusts for marketing costs involved in transferring and transforming the product between two locations.

Performance – refers to the extent to which markets or traders do things that society expects – do they operate efficiently, provide a reliable source of food, supply food at reasonable prices, etc.

Price – is the cost or value of a good or service expressed in monetary terms. It is the financial cost paid when one buys a unit of a specific product or service. Prices, in the purest sense, indicate value that has been added to a particular commodity. This value added can be changes in the form (e.g., production or milling), place (e.g., transportation), or time (e.g., storage) of a commodity. Price signals can carry information about cost of production, transportation, storage, perceptions and desires as well as, in some instances, distortions.[6]

Price differential – refers to a spatial or temporal difference in prices (also see spatial and temporal/seasonal arbitrage).

Price elasticity – is the percentage change in the quantity demanded (supplied) given a percentage change in the price of a commodity.

Price reference period – is the period to which prices in other periods are compared. This is used when calculating the CPI.

Price relative – is the ratio of the price of an individual product in one period to the price of that same product in the reference period.

Price spread – is the difference between two prices.

Price transmission rate – is the degree of ease with which price information is relayed and communicated among different markets and market participants over geographic space and time.

Processing conversion factor (PCF) – is the ratio of the quantity of a processed product to the quantity of the unprocessed product.

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[6] Chopak, Chuck (2000). "An Early Warning Primer: An Overview of Monitoring and Reporting." FEWS Project.

Profit margin – is the difference between the cost and the selling price of a product or service.

Purchasing power – is a measurement of the relative value of money in terms of the quality and quantity of goods and services it can buy. It represents the ability of a household to acquire goods and services based on its access to money or other forms of wealth.

Real prices – are prices that have been adjusted for inflation. Real prices hold the value of currency constant, and allow you to compare the exchange value of a good or service in different time periods.

Reference market – is a market that provides good information and orientation for food security analysis. Reference markets would include markets in areas characterized by food insecurity and vulnerability or key markets that influence the performance of other markets directly tied to food insecure and vulnerable populations.

Reference period/year – is a period of time used to help explain or project into the future the performance and likely food security outcomes of the current period. For example, previous drought years provide an illustration of the potential progression and outcome of a current drought year.

Relative prices – is the exchange value of one good or service for another (i.e., the price of one good in terms of another) and is usually measured in terms of the price ratio of the two goods.

Rents to arbitrage – the difference between the net marketing margin and the transfer costs accrued when transferring the product from one market to another or one point in time to another.

Response – refers to actions taken to address food insecurity and can take the form of policies or programs (e.g., manipulation of strategic grain reserves to manage prices or supplies, food distribution).

Retail market – is a market where commodities are largely sold to end users, especially consumers. Per transaction volumes tend to be smaller, e.g., per kg or small bowl.

Retailers – are traders, merchants or storeowners who tend to sell to consumers and other end users. Retailers usually sell in smaller volumes than wholesalers; their average transaction size is smaller.

Seasonal arbitrage (temporal arbitrage) – is taking advantage of the price differential over time, usually over the agricultural season. The differential must exceed all costs associated with handling and storing the commodity.

Spatial arbitrage – is taking advantage of the price differential across locations or markets. The differential must exceed all costs of in moving the commodity from one location or market to another (costs of the inter-spatial transfer). A simple measure of potential spatial arbitrage is the difference between the prices observed for the same product in two different locations.

Speculators – are people who buy contracts to buy and/or sell commodities/stocks for profit without physically moving or storing the commodities/stocks.

Standard of living – is a level of material comfort as measured by the goods, services, and luxuries available to an individual, group, or nation. The standard of living can also capture broader aspects of well-being or the quality of life such as health, education, etc.

Static analysis of margins – is an analysis of the composition/structure of marketing margins at any one point in time.

Structure – refers to the number and size distribution of buyers and sellers, the degree of product differentiation and the ease of entry of new firms into an industry.[7]

Structure-Conduct-Performance (SCP) – is a framework or an approach to market analysis that is based on the premise that the structure of a market influences the conduct of its participants (buyers, sellers and other participants), which, in turn, influences the performance of markets. While the SCP framework is originally an outgrowth of Industrial Organization, a branch of economics, the approach presented here has been adapted to food security analysis.

Substitute good – is a commodity that can replace another in consumption or production such as millet for sorghum. When the price of one commodity rises, consumers will decrease their consumption of that commodity and increase consumption of the substitute commodity.

Supply chain – is the series of production, transformation and transfer activities/functions that start with raw material and natural resources and ultimately provide a product for sale to a consumer.

Supply chain level – is a segment of the supply chain, comprising of a specific activity or a small set of specific activities (e.g. packaging and storage).

Supply curve – is the description of the relationship between the price of a commodity and the quantity that sellers are willing or able to sell, with all other things being equal. For most commodities, there is a direct relationship between price and quantity supplied: a rise in price is associated with a rise in quantity supplied.

Surplus areas – are areas that produce in excess of that demanded locally and therefore can provision other areas.

Temporal arbitrage (seasonal arbitrage) – is taking advantage of the price differential over time, usually over the agricultural season. The differential must exceed all costs associated with handling and storing the commodity over time (costs of inter-temporal transfer). A simple measure of potential temporal arbitrage is the difference between the prices observed for the same product in two different time points.

Terms of trade – is the rate at which one good or service can be exchanged for another and is typically expressed as a ratio.

Transaction costs – are the costs associated with transacting: it includes time, effort and cash expenses and are all costs other than the price. It includes costs associated with gathering information about the market and market opportunities and enforcing agreements as well as formal and informal commissions and fees and the cost of physically moving the product from seller to buyer.

Unit elastic – is a commodity for which the percentage change in the quantity supplied (demanded) is equal to the percentage change in price.

Value added – is the increase in monetary worth of a product when an economic activity (either production, transformation, or transfer) is performed at a point along a product supply chain.

Value chain – refers to all the activities and services that bring a product (or a service) from conception to end use in a particular industry—from input supply to production, processing, wholesale and finally, retail. It is so called because value is being added to the product or service at each step.[8]

[7] Breimyer, Harold (1976). Economics of the Product Markets for Agriculture. University of Iowa Press.

[8] ACDI/VOCA "Value Chain Approach: Bringing Small Enterprise into Competitive Industries in the Global Economy." http://www.acdivoca.org/852571DC00681414/Lookup/ValueChainApproach-overview-lo-res/$file/ValueChainApproach-overview-lo-res.pdf

Weight of the consumer basket – is a set of numbers that represent expenditure shares of the different commodities that form the basket. The weights generally sum up to one. Conventionally, weights are determined using data from expenditure household surveys or household budget surveys. These weights are also called expenditure shares or budget shares.

Weight reference period – is the period used to compute the household expenditures shares or budget shares. The weight reference period is usually a specific year.

Wholesale market – is a market where generally traders sell to traders. Per transaction volumes tend to be larger, e.g., multiple 50 kg bags and even metric tons.

Wholesaler – are traders who tend to sell to other traders. Wholesalers buy and resell commodities. Wholesalers tend to work in larger volumes than retailers: their average transaction size is larger.