

**Conditionality and persistence of International Coffee Price Volatility and Trade Policy Effects  
on Tanzania  
A Garch Approach  
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Price volatility produces price uncertainties in commodity markets. The coffee industry of over 50 developing countries, including Tanzania, is important for foreign earnings and livelihoods. Coffee price volatility is a major issue for the economy. The aims of the research are: i) to examine the conditional volatility in the monthly coffee prices paid to growers from 1980 through 2008 in Tanzania; ii) to determine the degree of persistence of volatility effects over time, iii) to investigate possible effects of trade policies. In Tanzania, attempts to reduce price volatility such as changes of trade policies has been introduced including adoption of ICA and liberalization but coffee prices continued to fluctuate through both policy regimes. The literature indicates volatility is the result of various factors, including trade policy. Previous methods treated variation in price as unconditional and volatility addressed as constant over time but recent studies indicated that price instability exhibits autoregressive conditional heteroskedastic behaviour. This study is unique in employing the GARCH model to capture the conditional price volatility in coffee. The time-series used are international coffee prices paid to growers in Tanzania from 1980 through 2008. The study establishes that the price series are non stationary, shows no regular patterns but rather a random walk process, volatility coffee prices is non-conditional and its persistence over time displays memory decay. Changes in trade policies within Tanzania do not show any effect on the world coffee price. The likely explanation for this is that Tanzania is a price taker and cannot affect the setting of international prices. Price volatility is explained by various factors. such as weather, market forces as well as policy. The policy response to this, include new marketing approach, ethical trading such as fair trade, Tanzania can be marketed a brand, promotion of producers' groups and revitalise co-operatives.