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REGIONAL AND INTERNATIONAL MARKET INTEGRATION OF A SMALL OPEN ECONOMY

ABSTRACT

This paper studies the relationship between a set of commodity prices in a small open economy like Uruguay and the corresponding international and regional prices. The empirical methodology used is the multivariate cointegration procedure based on maximum likelihood methods introduced by Johansen (1988) as well as estimations of half-life persistence indicators. In the case of cereals, the evidence suggests strong market integration between domestic and regional markets and, to some extent, also to international markets. Therefore, directly or indirectly, domestic prices are connected with the efficient price signal. Results for beef indicate strong market integration between the domestic market and the regional market, which is not so well connected with international markets. Thus, domestic price appears to be linked to a regional price that is not linked to the efficient price signal.

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