Commodity Economics

Economics

Why commodity prices swing so violently.

Why prices are volatile.

Causes of volatility

- Supply takes years to adjust
- Demand is inelastic in the short run
- Weather and geopolitical shocks
- Storage costs limit smoothing
- Speculative amplification

Consequences

- Exporters face unstable revenue
- The resource curse in weak institutions
- Boom-time borrowing, bust-time crisis
- Sovereign wealth funds as a buffer

> The resource curse is not automatic. Countries with strong institutions before the discovery generally avoid it.