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# Market Integration and Price Movement of White and Brown Cowpea in Urban and Rural Markets of Gombe State, Nigeria: A Granger - Causality Approach

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### Authors' contributions

This work was carried out in collaboration among all authors. Author UKI designed the study, performed the statistical analysis, wrote the protocol and wrote the first draft of this manuscript. Authors IM and SAJ managed the analyses of the study. Authors EFP and JM managed the literature searches. All authors read and approved the final manuscript.

#### **Article Information**

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#### **ABSTRACT**

The study investigated the price movement and market integration of rural and urban price of brown and white cowpea in Gombe State, Nigeria. Monthly market prices (measured in Naira per kilogram) of brown and white cowpea in the rural and urban markets from January 2009 to December 2014. The data was obtained from the Gombe State Agricultural Development Programme (GSADP). Augmented Dickey Fuller test was used to detect for the presence of unit root in the series. The Granger causality test was used to test the direction of influence between prices. The descriptive statistics shows that the average price of rural brown cowpea was

N109.88k, rural price of white was N95.71k, urban price of brown was N123.18k while urban price of white was N110. Unit root test indicated that the prices were stationary at level I(0) and first difference I(1). The Johansen co- integration analysis was used to test for the relationship between markets price and the results indicated that the rural and urban markets price were co- integrated. Pair-wise granger causality test indicated a bi-directional movement between the urban price of brown and urban price of white and a uni-directional movement between rural price of white cowpea and rural price of brown cowpea. There is need for the State government to establish market information centers and information centre of the GSADP should facilitate efficient communication and flow of information concerning prices of agricultural products using the mass media and social media.

Keywords: Stationarity; granger-causality; market integration; vector error correction model; price movement.

# 1. INTRODUCTION

Agricultural Production plays an important role in economic development of Nigeria. Apart from contributing to the largest share of the Gross Domestic Product (GDP), agriculture is the largest non-oil foreign exchange earner, the largest employer of labor and a key contributor to wealth creation and poverty alteration in Nigeria [1]. Markets are important for economic growth and sustainable development of a given country, but, emphases in development policies in agrarian countries have usually been placed on increasing agricultural production to serve as a base for rural development. In the absence of well-functioning markets, agricultural production can experience several drawbacks.

The pivotal role of marketing in enhancing rural economy world of the cannot overemphasized. One of the major functions of Agricultural marketing is to bring items of trade from surplus to deficit areas. Cowpea (Vigna unguiculata) is one of the agricultural produce in Gombe State, Cowpea marketing entails all the activities involved in moving cowpea from the point of production to where it is needed by the final consumer. It involves series of transaction costs which are reflected in the size of the marketing margin. These margins vary among brands, types, location and over time [2].

Cowpea is considered more tolerated to drought than soybeans and better adapted to sandy soils. Many cowpea cultivars have a vining growth habit, but modern plant breeding has also led to more upright, bush-type cultivars [3].

Cowpea is an important source of plant protein in the developing world and most especially in West Africa; cowpea is rich in protein and constitutes a staple food for people in rural and urban areas [4]. The need for the marketing system of cowpea to be well structured and efficiently organized cannot be overemphasized. It enhances the place of economic development by encouraging specialization, generation of foreign exchange earnings, development of an exchange economy, provision of income and employment opportunity for marketing [5].

Instability in commodity prices among markets could be detrimental to the marketing system and the economy as a whole. It could cause inefficiency in resources allocation among sellers and consumers depending on the source of variability. It could also increase poverty level among low income earners in the society (Polaski,) [6,2]. The extent of price movement affect the welfare of poor consumer and farmers, secondly the magnitude of price movement helps to determine the extent to which adjustment by producers and consumers will stabilize world price change [7]. Price of food commodity as stated by Goetz et al. [8] is key variable in an economy that is market-oriented with perfect information. The unstable food price comovement that was experienced during the crisis of 2007 rekindled interest in understanding the driving forces behind volatility and price comovement of food commodity.

Pries of cowpea is highly unstable between seasons and consumers pay different amount for the same product in different markets separated by a few kilometers [2].

In order to ensure maximum returns, farmers must market their production decisions considering the most favorable place, time and form in which their products could be marketed [9]. Prices of cowpea vary from month to month, variety and even day to day. Prices also differ between various grades of cowpea and also

differ between alternative markets. Farmers usually sell their surpluses to rural assemblers, who in turn sell to urban wholesalers directly or through commission agents, therefore Sustainability of agricultural activities is hinged on effective price system. In the recent past, the markets for agricultural commodities in Nigeria have shown a pattern of long-term price fall and short-term price instability (IMF) [10,2].

During harvesting periods, prices of farm product are generally low due to surpluses: In the offseason, prices rose due to reduced production and seasonal change (Akpan, [11] Akintunde et al.) [12]. Hence, agricultural commodity price is one of the major determinants of quantity of commodities supplied by farmers and demanded consumers. Price instability agricultural commodities is а regular phenomenon in markets across Nigeria and could be detrimental to the Marketing system and the economy as a whole. From the literatures reviewed, it can be seen that price movement and market integration studies on white and brown cowpea has not been widely investigated in the study area. Therefore to achieve these following specific objectives were achieved.

- To examine the degree of market integration of white and brown cowpea in the rural and urban markets in the study area
- To examine the Granger –Causality between the urban and rural price of white and brown cowpea.
- To examine the speed of adjustment to equilibrium of white and brown cowpea in the rural and urban markets in the study area.

#### 2. MATERIALS AND METHODS

Gombe State is located between latitude 9°30' and 12°30' N and longitude 8°45' and 11°45' E of the Greenwich meridian. It lies within the North east region of Nigeria and occupies a total area of about 20,265 square kilometres. The State had, as at 1998 an estimated population of 1,820,415 inhabitants (NPC, 2006). The projected population is about 2,275,518 people in 2016. It is a confluence of economic activities by its position as a meeting point for business people from the surrounding State. The State share boundary with Yobe and Borno to the north east, Taraba and Adamawa to the south and Bauchi to the west. This advantage has made the state vibrant in all respects. It has agriculture

as the mainstay of its economy with the production of varieties of cash crops with large percentage of the populace engaged in farming and agro allied activities. The soil is very fertile for crops like cowpea, maize, sorghum, millet, groundnut among others that are cultivated in the study area. The State has eleven (11) Local Government Areas grouped into three senatorial zones. Gombe north comprising of Gombe, Kwami, Dukku, Nafada and Funakaye and Gombe central comprising Yamaltu/Deba and Akko Local Government areas while Gombe south comprises of Billiri, Balanga, Kaltungo and Shongom Local Government areas respectively (www.gombe state.gov.ng) [13].

#### 2.1 Data Collection

The data for this study was sourced from Gombe State Agricultural Development Programme (GSADP). Secondary data on monthly prices of brown and white cowpea in rural and urban market spanning from 2009-2014 was collated. Accordingly, the sample consists of six years observation, the study period was limited to this time frame because of the availability of necessary data for the study. In all 72 monthly data was used for the research.

In achieving the objectives, this series must be stationary (integrated of same order) the the optimal lag length is determined for the model, the perform Johansen co-integration test if there is no co-integration, estimate the unrestricted VAR model but if there is co-integration then specify the restricted VAR model which is the VECM. All the variable in the VECM are endogenous, there are no exogenous variables, VECM is constructed where the variables are co-integrated and co-integration specifies evidence of a long run relationship among the variable VECM is obtained by differencing a VAR, hence losing a lag.

# 2.2 Empirical Models

# 2.2.1 Testing for unit root

A variable is said to have a unit root if it is nonstationary (Vavra and Goodwin,) [14]. A time series that has a unit root is known as a random walk. Vavra and Goodwin) [14] defined a random walk as a process where the current value plus an error term defined as a white noise.

A variable is said to contain a unit root or is 1 (1) if it b non-stationary. The use of data

characterized by unit roots may lead to serious error in statistical inference. According to Vavra and Goodwin [14].

$$y_t = \beta y_{t-1} + E_t \tag{1}$$

If equation (1) equals one, the model is said to be characterized by unit root (the equation becomes the random walk model), and the serious is non-stationary (Vavra and Goodwin) [14]. For a series to be stationary, must be less than unity in absolute value.

Hence, stationary requires that  $-1 < \beta < 1$ .

The reason for unit root is to determine whether the series is consistent with 1(1) (integrated order of one) process with a stochastic trend [15]. The commonly used test for the presence of unit root are the t-test proposed by Dickey-Fuller [16] & the alternative test proposed by Philips & Perron [17].

# 2.2.2 Co-integration test

Co-integration test is concerned with estimating long-run economic relationships among non-stationary and integrated variables. Variables are said to be integrated when they share common unit root and the sequence of stochastic shock is common for both. Co-integration is a powerful concept that allows capturing the equilibrium relationship even between non-stationary series (if such equilibrium relationship exists) within a stationary model (Vavra and Goodwin,) [14]. If the series indicates that the series are co-integrated, then one can test for transmission of price.

# 2.3 Model Specification

#### 2.3.1 Augmented Dickey Fuller Test (ADF)

$$\Delta Pit = \beta + \beta i T + \alpha i Pt-1 + \sum 1 \Delta Pt-1 + Et$$
 (2)

Where;

 $\Delta$  = the difference operator

T = time trend  $\beta$  =drift parameter  $\beta i$  ,q i and b i =coefficients E t = error term [16]

## 2.3.2 Johansen co- integration model

$$\Delta Pt = \alpha + \sum \Delta t - 1 + \Gamma \Delta Pt - 1 + \prod P + Ut$$
 (3)

where:

Pt = n \* 1 vector containing the cowpea price series at time (t)

 $\Delta$  = the first difference operator

Γi and ∏ = n\*n matrix of parameters on ith and kth lag of Pt

(Johasen and Juselius, 1990)

### **Decision Criteria:**

- \* Reject at the 5% level.
- \* Reject the null hypothesis if the value of the trace and Max statistic greater than 5% critical value, otherwise fail to reject the null hypothesis.

# 2.3.3 Vector error Correction Model (VECM)

The vector error correction model (VECM) restricts the long –run behavior of the endogenous variable to converge to their cointegrating relationship while allowing for a short run adjustment. It is a restricted VAR designed for use with non-stationary series that are known to be integrated. The Vector Error Correction Model (VECM) is an extension of co-integration method and this is what is used for this study to analysis price movement because it separates short and long-run market dynamics (Conforti,) [18].

$$\Delta y_{t} = \beta_{0+} \sum \Delta_{t-1+} \sum \Delta x_{t-1} + \psi Z_{t-1} + u_{t}$$

ECT and is the OLS Residual from the long-run co-integration equation.

 $\Psi$  = speed of adjustment. ( It measures the speed at which y returns to equilibrium after a change in X.

Cointegrating equation:  $Z_{t-1}$  =ECT $_{t-1}$  =Y $_{t-1}$  - $\beta_0$  - $\beta_1$   $X_{t-1}$ 

# 2.3.4 Granger causality test

After undertaking co-integration analysis of the long run linkages of the various market pairs, and having identified the market pairs that are linked, an analysis of statistical causation will be conducted. The causality test uses an error correction model (ECM) of the following form;

## 2.3.4.1 The granger model

$$Rpt = \alpha + \sum t - 1 + \sum j RPt - j + Et$$
 (4)

Where:

Rpt = rural market price

t-1= urban market price U= number of observations m= number of lags Et=error term  $\alpha$  and  $\beta$  =parameter to be estimated. (Baulch, 1997)

The mean price of 1 kg of brown cowpea in the rural market was ₩109.86k with a minimum price of ₩62 and maximum price of ₩210. The mean price of 1 kg of white cowpea was ₩95.71k with a minimum price of ₩30 and a maximum price of ₩200/kg. The mean urban price of brown cowpea per kg was ₩123.18k with a minimum price of \text{\text{\text{N}}}64 and a maximum price of ₩250/kg while the mean urban price of white cowpea was ₩110/kg with a minimum price of ₹64 and a maximum price of ₩250/kg. The prices of both white and brown cowpea were positively skewed to the right. The result of the kurtosis shows that the prices were leptokurtic meaning that the kurtosis are greater than 3 and are flat tailed. The standard deviation in the rural pw and urbanpw followed similar pattern (32.03011 and 36.54941) which indicates that the change in both prices assumed similar pattern, the same

goes for ruralpb and urbanpb (35.98393 and 44.52830).

The hypotheses to be tested are:

H<sub>o</sub>: Price series has a unit root H<sub>A</sub>: Price series has no unit root

#### **Decision Rule:**

If t-statistics value is greater than the ADF critical value we fail to reject H<sub>O</sub> and otherwise.

The result in the table shows the stationary test for urban and rural prices of brown and white cowpea. The results indicate that the variables were stationary both at levels I(0) and at first difference I(1) this is done in other to avoid a spurious regression and errors as a result of the data generating process. Therefore, the null-hypothesis was rejected in favour of the alternative. Thus the price series were stationary both at levels I(0) and first difference I(1) are requirements for the Johansen co-integration analysis. The result is in agreement with the findings of Mafimisibi et al. 2014, Akintunde et al. [12].

Table 1. Descriptive statistics of white and brown cowpea in the study area (2009-2014)

	Ruralpb	Rural pw	Urbanpb	Urbanpw
Mean	109.8750	95.70833	123.1806	110.0000
Median	100.0000	90.00000	110.0000	100.0000
Maximum	210.0000	200.0000	250.0000	250.0000
Minimum	62.00000	30.00000	64.00000	64.00000
Std. Dev.	35.98393	32.03011	44.52830	36.54941
Skewness	1.659353	1.205355	1.802193	2.382366
Kurtosis	5.418819	5.882478	5.891071	9.540859
Jarque-Bera	50.59349	42.36061	64.04968	196.4566
Probability	0.000000	0.000000	0.00000	0.000000
Sum	7911.000	6891.000	8869.000	7920.000
Sum Sq. Dev.	91933.88	72840.87	140776.7	94846.00
Observations	72	72	72	72

Source: Gombe State Agricultural Development Programme (GSADP), 2018, table is computed by Authors and price expressed in nominal terms. Unit of measurement (#/kg)

Table 2. Augmented Dickey- Fuller unit root test result of price series (2009 -2014)

Market price series	Price level 1(0)	Lag	First Diff (1)	Lag
Rural PB	7.9630 ***	(0)	9.5130***	(1)
Rural PW	4.9477 ***	(0)	11.7228 ***	(0)
Urban PB	3.6052 ***	(0)	8.2934 ***	(0)
Urban PW	5.3491 ***	(0)	13.0761 ***	(0)

Source: Authors extract, Significant at 1%

Table 3. VAR lag order selection criteria

VAR Lag Order Selection Criteria

Endogenous variables: RURALPB RURALPW URBANPB URBANPW

Exogenous variables: C Sample: 2009M01 2014M12 Included observations: 66

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-1160.626	NA	2.50e+10	35.29170	35.42440	35.34414
1	-1100.122	111.8400	6.49e+09*	33.94310*	34.60664*	34.20530*
2	-1091.469	14.94687	8.15e+09	34.16573	35.36008	34.63767
3	-1076.120	24.65206	8.43e+09	34.18544	35.91062	34.86714
4	-1068.167	11.80770	1.10e+10	34.42932	36.68532	35.32077
5	-1047.699	27.91191*	1.01e+10	34.29390	37.08073	35.39511
6	-1034.065	16.93901	1.16e+10	34.36560	37.68326	35.67657

\* indicates lag order selected by the criterion, LR: sequential modified LR test statistic (each test at 5% level), FPE: Final prediction error, AIC: Akaike information criterion, SC: Schwarz information criterion, HQ: Hannan-Quinn information criterion

From the VAR Lag Order Selection criteria table above the Akaike Information Criterion(AIC), Final prediction error(FPE),Schwarz information criterion(SC), and Hannan-Quinn information criterion(HQ) all selected a lag length of one(1) while sequential modified LR test statistic selected lag length of five(5). So we go with a lag length of one (1).

Test for co-integration between urban and rural market price of cowpea (white and brown).

The co-integration test carried out on all the price series to determine the existence of long-run relationship between the price series using Johansen co-integration test gave the result presented in Table (4). Both the trace statistics and maximum Eigen value indicated two co-integrating vectors for brown and white cowpea market price at 5% level of significance.

The null hypothesis of co-integration, r = 0 is rejected this is because the trace statistic for the null hypothesis of r = 0 were greater than the critical value of 5%. This implies that rural – urban market price for these commodities are co-integrate and there is significant existence of long-run market relationship. It also indicates that a perfect price transmission of formation exist in

both urban and rural markets of cowpea. When there is perfect transmission of price in a network of markets, producers, marketers and consumer, will realize the appropriate gains from trade because correct price signals will be transmitted down the marketing chain. This is in line with the findings of (Ojiako et al. [19] and Izekor et al. [20].

From the above co-integrating equations (Table 5), the signs of the coefficient is reversed in the long-run, and this shows that in the long-run falling price of urban price of brown cowpea are associated with the rising price of rural price of cowpea viceversa, RURALPB/RURALPW the coefficient is reversed in the long-run and this shows that in the longrun the rising price of urban price of white cowpea is associated with the rising price of rural price of brown cowpea vice-versa. While in the RURALPW/URBANPW in the long-run shows that the rising price of urban white cowpea is associated with the rising price of urban price of brown cowpea vice versa, the URBANPB/ URBANPW, in the long run shows that the rising price of urban price of white cowpea is associated with the rising price of urban price of brown cowpea and vice versa.

Table 4. Johansen co-integration result (2009-2014)

Market pair	Trace statistic	Critical Value (5%)	Max Eigen value	Critical value	Hypothesized No of CE (S)
Rural- Urban PB	32.57	15.49	21.03	14.26	At most 1
Rural PB- Rural PW	34.44	15.49	20.62	14.26	At most 1
Rural PW- Urban PW	34.44	15.50	23.45	14.26	At most 1
Urban PB- Urban PW	35.91	15.50	23.22	14.26	At most 1

Source: Authors Extract. \* Significant (P < 0.05)

**Table 5. Cointegrating equations** 

Market pair	Cointegrating	coefficient	Log likelihood
RURALPB/ URBANPB	RURALPB	URBANPB	
	1.000000	0.007707	-768.3542
		(0.41555)	
RURALPB/RURALPW	RURALPB	RURALPW	
	1.000000	0322020	-760.7569
		(0.59799)	
RURALPW/URBANPW	RURALPW	URBANPW	
	1.000000	-0.724583	-614.6303
		(0.07677)	
URBANPB/URBANPW	URBANPB	URBANPW	
	1.000000	-1.222191	-621.1777
		(0.07616)	

Source: From authors Eviews 9 Extact Values in parenthesis are standard errors

#### 3. RESULTS AND DISCUSSION

# 3.1 Speed of Adjustment Coefficients

The speed of adjustment coefficient given as – 0.935 and -0.866 for the rural price of brown cowpea and urban price of white cowpea. The negative sign indicates a move back towards equilibrium. The results indicate that if there is a positive direction for long-rum equilibrium the markets tends to respond with a decrease if both rural and urban prices of brown cowpea and white cowpea prices. The rural price of Brown cowpea tends to respond faster relative to urban price of white cowpea. The adjustment coefficient was statistically significant at 5% suggesting that the urban price of white cowpea is weakly

exogenous. This suggests that movement in urban price of white cowpea is less affected by the price of rural price of Brown cowpea. This means that the long-run equilibrium after exogenous shocks is restored.

The speed of adjustment coefficient is given as – 0.5514 and 0.4407 for rural price of white and urban price of brown cowpea. The results indicate that if there is a positive deviation from long-run equilibrium the markets tend to respond with decreases in both rural and urban price of cowpea. The rural price of white cowpea tends to respond faster compared to urban price of brown cowpea and at long run it will converge at equilibrium while the that of urban price of brown cowpea will not converge at long-run.

The adjustment coefficient was statistically significant at 5% suggesting that the urban price of brown cowpea is weakly exogenous.

Estimated VECM with RURALpb as target variable:

 $\Delta$ Ruralpb = 0.935060ect<sub>t-1</sub> + 0.097148 $\Delta$ Ruralpb<sub>t-1</sub> +0.112009 $\Delta$ Urbanpb<sub>t-1</sub> + 0.086067

Cointegrating equation( long-run)

 $ect_{t-1} = 1.000000Urbanpbt-1 - 0.519536Urbanpn_{t-1} - 46.29201$ 

Estimating VECM with URBANpw as target variable

 $\Delta Urbanpw = -0.0866278ect_{t-1} - 0.025234 \Delta urbanpw_{t-1} - 0.083578 \Delta urbanpb_{t-1} + 0.295933$ 

Cointegrating equation (long-run)

 $ect_{t-1} = 1.000000Urbanpw_{t-1} - 0.696457\Delta Urbanpb_{t-1} - 24.30492$ 

Estimating VECM with Ruralpw as target variable

 $\Delta$ Ruaralpw = -0.55147ect<sub>t-1</sub> + 0.101959 $\Delta$ Ruralpw<sub>t-1</sub> -0.390509 $\Delta$ urbanpw<sub>t-1</sub> + 0-187129

Cointegrating equation (long-run)

 $ect_{t-1} = 1.000000Ruralpw_{t-1} - 0.836287\Delta urbanpw_{t-1} - 3.6580507$ 

Estimating VECM with URBANpb as target variable

 $\Delta$ Urbanpb = 0.440712ect<sub>t-1</sub> - 0.197389 $\Delta$ urbanpb<sub>t-1</sub> + 0.374656 $\Delta$ Ruralpb<sub>t-1</sub> +0.237327

Cointegrating equation (long-run)

 $ect_{t-1} = 1.000000Urbanpw_{t-1} - 1.924795 \triangle Ruralpb_{t-1} + 89.10264$ 

Table 6. Granger- causality for urban and rural prices of white and brown Cowpea (2009-2014)

Direction of causality	No of lag	F-statistic	Decision
Urbanpb → Urbanpw	1	4.94277(0.0295)	Rejected
Urbanpw → Urbanpb	1	11.6964(0.0011)	Rejected
Ruralpb→ Urbanpw	1	1.23686(0.2700)	Accepted
Urbanpw → Ruralpb	1	11.2936(0.0013)	Rejected
Urbanpb→ Ruralpw	1	1.83690(0.1798)	Accepted
Ruralpw → Urbanpb	1	3.55414(0.0637)	Accepted
Ruralpb→ Ruralpw	1	1.14766(0.2878)	Accepted
Ruralpw → Ruralpb	1	04.17977(0.0448)	Rejected
Ruralpw→ Urbanpw	1	0.19863(0.6572)	Accepted
Urbanpw → Rural pw	2	0.01206(0.9129)	Accepted

Source: Author's Extract

Value in parenthesis= probability level.
Urbanpb = urban price of brown
Urbanpw = urban price of white
Ruralpb =rural price of brown
Ruralpw =rural price of white

From Table 6 the pair wise Granger causality test shows that the rural and urban price of brown and white cowpea does not granger cause each other except for urban price of brown (urbanpb) that that granger cause urban price of white(urbanpw) and also urban price white granger cause urban price of brown cowpea, urban price of white cowpea (urbanpw) granger cause rural price of brown(ruralpb), rural price of white(ruralpw) also granger cause rural price of brown cowpea(ruralpb). There are two unidirectional movement of price and one bidirectional movement. This means that passed price of rural price of white can be used to predict the future price of rural price of brown likewise the urban price of white can be used to predict the future price of urban white vise versa.

# 4. CONCLUSION AND RECOMMENDA-TION

The study used statistical and econometric method to analyze the movement of price and

market integration of white and brown cowpea in the rural and urban markets of Gombe State, Nigeria .The result for the unit root test between the rural and urban prices of white and brown cowpea shows that the prices were stationary at level I(0) and at first difference I(1). The Johansen co-integration test revealed that the urban and rural markets were integrated at longrun, and VECM result revealed that the prices will converge at long run to equilibrium except for urban price of brown cowpea. The Granger—Causality test revealed that two markets exhibited uni- directional movement of price and one bi- directional movement of price.

Therefore, based on the discoveries of this study, it is recommended that the Gombe State government should help in putting marketing infrastructures in place especially in rural areas, also effort should be made to reduce excessive charges by revenue collectors on the road from rural to urban centers. The State agricultural development programme should intensify effort to create a proper information sharing centers through the use mass media (radio, television etc) and even social media to facilitate efficient flow of information to cowpea farmers and consumers both within and outside the State. Despite the various effort by the government to

combat high fluctuations in food prices of food commodities in the markets, it has been very difficult for consumers to get enough supplies and also for the farmers to secure inputs and also there prices. There is need for policy shift at all levels and substantial investment in the transport infrastructure to enable produce to move from production areas to market place. Tere is also need to strengthen social capital in order for farmers to have the ability to negotiate in the market place and secure fairer prices for their products.

# **COMPETING INTERESTS**

Authors have declared that no competing interests exist.

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