

## *Food Trade Balances and Unit Values: What Can They Reveal About Price Competition?*

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For more information, contact: Mark Gehlhar at [mgehlhar@ers.usda.gov](mailto:mgehlhar@ers.usda.gov) or Daniel Pick at [dpick@ers.usda.gov](mailto:dpick@ers.usda.gov)

<http://www.ers.usda.gov>

**U**nit values are used extensively in economy modeling and analysis. Since data on prices in international trade are difficult to obtain, economic models of trade in policy analysis often rely on unit values as proxies for prices. The objective of this study is to determine whether

unit values for specific products are good proxies for prices. Economic models generally assume price competition when goods in a market flow from locations of relatively low prices to locations of higher prices. However, trade flows do not necessarily follow such a pattern when unit values are proxies for prices.

When unit value differences and trade flows are inconsistent with the price competition assumption, then nonprice factors—such as quality attributes—are involved, and the unit values might be invalid measures of the relative prices in international trade. This study concludes that nearly 40 percent of the value of U.S. food exports is inconsistent with the price competition assumption with unit values. This suggests that one needs to balance the relative ease of using unit values against the possible distortions they might introduce into assumed trade flows.

