

# Effects of Catfish, Crawfish, and Shrimp Imports on U.S. Domestic Prices

P.LYNN KENNEDY & YOUNG-JAE LEE

Department of Agricultural Economics and Agribusiness, Louisiana LSU AgCenter, Baton Rouge, Louisiana

## **Abstract**

*Recent increases in imports of catfish, shrimp, and crawfish have caused concern as to their impact on domestic prices. This study seeks to identify the linkages between imports of these goods and producer prices. Increases in imports of catfish and shrimp are shown to decrease related domestic prices. However, recent trends show a simultaneous increase in both imports and domestic prices of crawfish. An increase in consumer income also typically indicates a corresponding increase in the demand for catfish, crawfish, and shrimp. This study also showed that an increase in the supply of trout, clam, and chicken caused the domestic price of catfish to decrease, an increase in the supply of pork generated a decrease in the domestic price of crawfish, and an increase in the supply of trout, clam, and pork typically reduced the domestic price of shrimp. Each model showed different relationships between domestic prices of these three goods and other aquaculture and meat products. In addition, the reciprocal of the direct elasticity is not always a good approximation of the direct flexibility because of the stochastic properties of the econometric model. As a result, it is not proper to use the indirect price flexibility from inverted direct price elasticity with other variables for catfish, crawfish, and shrimp.*

*Keywords: catfish, crawfish, shrimp, direct price flexibility, indirect price flexibility, domestic price, import*

## **Background**

Lower-priced imported goods often displace domestically produced goods. Currently, many U.S. producers of catfish, crawfish, and shrimp are contending with economic hardships resulting from low-priced, imported catfish, crawfish, and shrimp. Although catfish, crawfish, and shrimp enter the domestic market through a variety of different agents or market channels, imports of these goods are consumed indiscriminately with respect to domestically produced catfish, crawfish, and shrimp. Consequently, we consider these imported and domestically produced goods to be homogenous. Price appears to be the strongest motivator in terms of influencing consumer's willingness to purchase

these products. The influence of price upon a consumer's decisions is only heightened due to the fact that it is difficult to distinguish between domestic and imported catfish, crawfish, and shrimp. The domestic prices of these goods are typically higher than the prices in major exporting countries due to relatively high costs of production.

The dramatic increase in catfish imports in 2001 caused prices to plummet. The farm catfish price fell almost continuously throughout the year, from a high of 69 cents per pound at the beginning of the year to a low of 55 cents a pound in December. After 2001, the farm price for catfish continued its downward trend, albeit more slowly, reaching a low of nearly 50 cents per pound. The relatively low production costs in Vietnam stimulated exports to the U.S. market. More than 90 percent of U.S. catfish imports originated from Vietnam. Although there has not yet been any reversal in the price declines that began in 2001, the USDA anticipated that stronger grower prices in 2003 could continue into 2004 if certain favorable market conditions exist. First, growers' sales to processors would have to slow from the relatively strong rate seen in the first 8 months of 2003. With a weak domestic economy and lower foodservice sales, it may take some time for the demand for catfish to increase. Second, imports would have to remain close to the low levels demonstrated during the first 7 months of 2003. Third, processors would have to reduce their inventory levels.

The declining price for crawfish is a bit different from catfish. Until 1999, the crawfish price hovered between \$3.50 and \$3.00 per pound. However, during the 1999-2000 and 2000-2001 crawfish seasons, an extreme drought reduced production quantities. As a result, crawfish imports increased. In 2001, imports peaked at 5,859 metric tons. This represented a more than 300 percent increase in imports when compared to the 1,762 metric tons imported in 1999. In the early 1990s, crawfish farming in Louisiana was a well-

established, profitable business. Since then, crawfish farmers in Louisiana, who account for 85-95 percent of total U.S. production, suffered as a result of increased imports of low-priced crawfish. Almost all imported crawfish is exported from China.

Shrimp imports, on the other hand, have had a more dramatic effect on domestic prices than was demonstrated when describing the two previously discussed commodities. The 2002 price plunged from \$7.95 per pound to a mere \$6.21 per pound, an almost 22% decrease from the previous year. Since 1996, the constant increase of shrimp consumption resulted in domestic supply shortages. Consequently, shrimp imports have increased constantly over the years in order to keep pace with consumer demand. The per capita consumption of shrimp increased to 3.8kg in 2002 from 2.5kg in 1996, a 152 percent increase. In the same period, the amount of shrimp imports increased to 429,302 metric tons from 264,207 metric tons, a 162 percent increase. This can be approximately equated to the increased rate of per capita consumption. The low-priced shrimp imports from Thailand, China, Vietnam, and Ecuador, countries in which a majority of shrimp is being farmed for export to the U.S. market, are threatening domestic shrimpers. In 2004, shrimp fishermen in eight states plan to file petitions seeking increased tariffs on shrimp imports from Thailand, China, Vietnam, Ecuador and a handful of other nations that supply nearly 90 percent of the U.S. market. This would serve as an emergency tariff protecting against a domestic price decline.

Even though domestic catfish, crawfish, and shrimp producers are facing strong competition from low-priced imports, the perceived health benefits associated with the consumption of these goods has resulted in increased consumption of these aquaculture products. According to several studies, low incidence of cardiovascular disease has been observed among Japanese whose per capita fish consumption averages 113g per day (FAO,

1980). Kromhout et al. (1985) suggest that fish consumption, as low as 30g per day or as little as one to two fish entrees per week, may be sufficient to reduce the risk of coronary heart disease. Fish consumption has also been linked to reduced hypertension, reduced blood-clotting tendencies, and more favorable plasma lipid and lipo-protein levels (Pavelec, 1989).

Aquaculture products like catfish, crawfish, and shrimp are becoming an important source of protein in addition to red meat and chicken. Along with increased health concerns, many high income consumers are now consuming more fish, as demonstrated by the dramatic increase in per capita consumption of shrimp. Yearly increases in consumption of catfish, crawfish, and shrimp are representative of new eating trends and consumers' health concerns. However, the domestic aquaculture industry is facing strong competition from low-priced imports. This study is intended to isolate the effect, not only of imports of catfish, crawfish, and shrimp, but also income and other related products on the domestic price. To accomplish this objective, this study will use the inverse demand equation to estimate the direct price flexibility. These estimated price flexibilities are used to analyze the effects of changes in imports, income, and supplies of other related products. In addition, this study will estimate the indirect price flexibility, using the ordinary demand system to compare indirect and direct flexibilities.

## **Literature Review**

Houck (1965 and 1966) illustrated that price flexibility is a very useful measure of the effect a change in quantity supplied will have on prices of agricultural products. Many agricultural production processes are such that market supplies of related commodities are determined largely in advance of current prices. Meinken, Rojko, and King (1956) wrote that the reciprocal of the price flexibility (indirect price elasticity) equals the price elasticity (direct price elasticity) only if cross flexibilities are zero. Harlow (1962) notes that if the effects of other goods are taken into account, the price elasticity is greater than that obtained by taking the reciprocal of price flexibility. This means that the direct price flexibility is less than that obtained by taking the reciprocal of elasticity. Waugh (1964) wrote that the reciprocals of price flexibilities are often taken to represent elasticities of demand. He preferred to use flexibilities themselves rather than their reciprocals. If, for any reason, the elasticity of demand is wanted, he would prefer to use regression equations, using quantities as the dependent variables.

The major implications of previous research is that 1) the reciprocals of the direct price flexibilities are not in general the same as the direct price elasticity and 2) the reciprocal of the price flexibility is absolutely less than the true elasticity if there are discernible cross effects with other commodities.

Huang (1994) examines the relationships between price elasticities and price flexibilities with emphasis on comparing sizes of difference between a directly estimated demand matrix and an inverted demand matrix. He concluded that the common practice of inverting an elasticity matrix to obtain measures of flexibilities or vice versa can cause sizable measurement errors. Therefore, it is not proper to use the inverted elasticity or flexibility measurements in agricultural policy and program analysis. Consistent with

Waugh's view, the flexibilities from a directly estimated inverse demand system should be used to assess the price effects of quantity changes. To evaluate quantity effects of price changes, however, only elasticities from a directly estimated ordinary demand system should be used.

Eales (1996) disagreed with Houngh's recommendation for three reasons. First, at least one set of direct estimates must be biased and inconsistent. Second, inversion of sensitivity matrices from conditional demand may or may not produce good estimates of unconditional sensitivities. That is, if one estimates an ordinary meat demand system and inverts the elasticity matrix, it cannot, in general, be expected to produce good estimates of the unconditional meat flexibilities and vice versa. Finally, expenditures cannot be viewed as predetermined in conditional demand systems. He argued that one should not employ directly estimated elasticities unless one is willing to believe that those estimates are consistent, i.e., prices and expenditure are predetermined.

However, according to Houang's reply to Eales's comment, there are at least two drawbacks in obtaining a matrix of demand elasticities by inverting a directly estimated price flexibility matrix or vice versa. He indicated that in the process of inversion, the point estimates must be treated as pure numbers representing the true parameters, ignoring the stochastic properties of the estimates.

This analysis will show the difference between true and stochastic parameters in the following theoretical framework section. Another drawback is that the inverted results are quite sensitive to the numerical structure (for example, existence of a singularity problem) of a demand matrix being inverted, and that could cause unstable results. Due to stochastic properties in estimating elasticities or flexibilities by adopting time series data, the consistency between direct and indirect flexibilities is still a controversial issue.

## **Theoretical Framework**

Previous studies suggest that the inverse demand function<sup>1</sup> is preferred to the ordinary demand function<sup>2</sup> when anticipating future trends of price and quantity for agricultural products. The biological nature of the production process results in many agricultural products being produced annually or only at regular time intervals. Some of these products are perishable or semi-perishable, and cannot be stored for long periods. The products must be consumed within a certain period of time. Hence, the situation results in fixed supply and a given level of demand for a specific time period. In the short term, the level of production cannot be changed. For such goods, the causality is from quantity to price; i.e., a price-dependent demand equation describes the situation.

Catfish, crawfish, and shrimp share characteristics common to other agricultural products such as a biological production lag and perishability. This study will focus on the estimation of direct price flexibilities of fixed supplied own products, related products, and shift variables, such as income.

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<sup>1</sup> Inverse demand function is defined as follows:

$$P_i = \beta_0 + \beta_1 Q_1 + \beta_2 Q_2 + \dots + \beta_n Q_n$$

Where

$P_i$ : price of good  $i$

$Q_1 \dots Q_n$ : own and other related goods supplied in the market including shift variable

<sup>2</sup> Ordinary demand function is defined as follows:

$$Q_i = \alpha_0 + \alpha_1 P_1 + \alpha_2 P_2 + \dots + \alpha_{n-1} P_{n-1} + \alpha_n Y$$

Where

$Q_i$ : quantity of good  $i$

$P_1 \dots P_{n-1}$ : prices of own and other related goods

$Y$ : income

The theoretic price flexibility is often treated as the inverse of the price elasticity. It is the percentage change in price resulting from a particular change in quantity, other factors held constant. The price flexibility coefficient ( $F$ ) is defined as

$$F = \frac{\Delta P/P}{\Delta Q/Q} = \left(\frac{\Delta P}{\Delta Q}\right)\left(\frac{Q}{P}\right)$$

As Houck and Eales indicated, under certain parameter conditions, the price flexibility ( $F$ ) is equal to the reciprocal of the corresponding price elasticity. If demand is inelastic, then the absolute value of the indirect price flexibility coefficient is likely to be greater than one. A flexible price is consistent with an inelastic demand. In other words, a small change in quantity has a relatively large impact on price. If demand is elastic, then the absolute value of the price flexibility coefficient is likely to be less than one. An inflexible price is consistent with an elastic demand.

In a statistical model, however, the direct price flexibility is derived from the inverse demand function in which price is a function of the supplied commodity, related commodities, and a shift variable. In contrast, the indirect price flexibility is acquired utilizing the ordinary demand function. In this case, quantity is a function of the price of the product as well as income. As Houg indicated, the reciprocal of the flexibility (elasticity) is not always a good approximation of the elasticity (flexibility) since different variables are held constant in the two equations. The difference between the estimation of true and stochastic parameters can be seen in the following examples. First, let us assume that there are two goods,  $X_1$  and  $X_2$ , and their respective prices,  $P_1$  and  $P_2$ , as well as income,  $Y$ . One can estimate both linear regression models for the inverse demand and ordinary demand equations.

First, the inverse demand regression is modeled as follows:

*Equation 1:*  $P_1 = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 Y + \varepsilon_1$

$$\text{Equation 2: } P_2 = \beta'_0 + \beta'_1 X_1 + \beta'_2 X_2 + \beta'_3 Y + \varepsilon_2$$

$P_1$  is the price of good 1,  $P_2$  is the price of good 2,  $X_1$  is the quantity of good 1,  $X_2$  is the quantity of good 2,  $Y$  represents income, and  $\varepsilon$  is the random error term. According to the assumption of linear regression model,  $E(\varepsilon_i) = 0$ , and  $X_i$  and  $\varepsilon_i$  are independent. Secondly, the ordinary demand regression is modeled as following:

$$\text{Equation 3: } X_1 = \alpha_0 + \alpha_1 P_1 + \alpha_2 P_2 + \alpha_3 Y + e_1$$

$$\text{Equation 4: } X_2 = \alpha'_0 + \alpha'_1 P_1 + \alpha'_2 P_2 + \alpha'_3 Y + e_2$$

In these equations,  $P_1$  is the price of good 1,  $P_2$  is the price of good 2,  $X_1$  is the quantity of good 1,  $X_2$  is the quantity of good 2,  $Y$  represents income, and  $e$  is the random error term.

According to the assumption of linear regression model,  $E(e_i) = 0$ , and  $P_i$  and  $e_i$  are independent.

By using four different equations, we can estimate the relationships among parameters,  $\beta_i$ ,

$$\beta'_i, \alpha_i, \text{ and } \alpha'_i. \text{ It can be shown that } \beta_0 = \frac{-\alpha_0 - \alpha_2 \beta'_0}{\alpha_1}, \beta_1 = \frac{-\alpha_2 \beta'_1 + 1}{\alpha_1}, \text{ and } \beta_2 = \frac{-\alpha_2 \beta'_2}{\alpha_1}.$$

In addition to this, let us assume  $P = X' \beta + \varepsilon$ .  $P$  and  $X$  are vectors of  $1 \times n$  dimension.

We can then rewrite this equation as  $X = P' \frac{1}{\beta} - \frac{1}{\beta} \varepsilon$ , where  $\alpha = \frac{1}{\beta}$ , and  $e = \frac{-1}{\beta} \varepsilon$ . Further

manipulation allows the following to be obtained:

$$\text{Equation 5: } \alpha = (P' P)^{-1} P' X$$

$$\text{Equation 6: } \alpha = (P' P)^{-1} P' (P \alpha + e)$$

$$\text{Equation 7: } \alpha = (P' P)^{-1} P' P \alpha + (P' P)^{-1} P' e$$

$$\text{Equation 8: } \alpha = (P' P)^{-1} P' P \left( \frac{1}{\beta} \right) + (P' P)^{-1} P' \left( \frac{-1}{\beta} \varepsilon \right)$$

$$\text{Equation 9: } \alpha = \left( \frac{1}{\beta} \right) - (P' P)^{-1} P' \left( \frac{1}{\beta} \varepsilon \right)$$

If  $P$  and  $\varepsilon$  are not independent, then  $\alpha \neq \frac{1}{\beta}$ ; however, if  $P$  and  $\varepsilon$  are independent, the direct price flexibility is equal to the reciprocal of the price elasticity.

Flexibility coefficients that are analogous to the concepts of income elasticity and cross elasticity may also be defined. The price flexibility of income is the percentage change in price in response to a 1 percent change in income, other factors held constant. It is calculated as follows:

$$\text{Equation 10: } F_{iy} = \left(\frac{\Delta P_i}{\Delta Y}\right)\left(\frac{Y}{P_i}\right)$$

Typically, the price flexibility of income is expected to be positive for normal goods. However, before asserting that this is true, we must investigate the relationship between demand, price, income, and supply. In the ordinary demand system, income will shift the demand curve. If there is an increase in income, the demand curve will move to the right so that at the same price, quantity demanded will increase. The increase price results in an increase in supply. According to economic theory, an increase in supply will decrease price. As a result, in the inverse demand equation it is difficult to predict the sign of the income coefficient in the inverse demand system. The cross flexibility of  $i$  with respect to  $j$  is the percentage change in the price of commodity  $i$  in response to a 1 percent change in the quantity supplied of commodity  $j$ , other factors held constant. The relationship is as follows:

$$\text{Equation 11: } F_{ij} = \left(\frac{\Delta P_i}{\Delta Q_j}\right)\left(\frac{Q_j}{P_i}\right)$$

The cross flexibility, based on the quantity of a substitute, is expected to be negative. This is in contrast to the cross elasticity for a substitute, which is usually positive. A large supply of a substitute results in a lower price for the substitute, which in turn, results in a

decline in demand for the first commodity. The lower demand implies a reduction in price. Hence, a larger supply of the substitute, commodity  $j$ , reduces the price of the commodity under consideration, commodity  $i$  (Tomek and Robinson, 1991).

### **Empirical Analysis**

In previous studies, several variables have been identified that influence the price and quantity of catfish, crawfish, and shrimp consumed of in the U.S. domestic market. The models in this study are formulated to examine the relationship between imports of own products, specifically, the domestic prices of these products, with imports of substitutes and income serving as exogenous independent variables (e.g., demand shifters). This study is intended to isolate the effect of imports of catfish, crawfish, and shrimp on the domestic price. The domestic producers of these products have suffered as a result of low-prices, perhaps caused by increased imports. In addition, this study also confirms Houck and Huang's theoretical assertion about the relationship between the direct price flexibility and the reciprocal of the price elasticity in catfish, crawfish, and shrimp.

To achieve these objectives, this study uses an ordinary demand equation and an inverse demand equation to estimate direct price elasticities and flexibilities. The ordinary demand equation is used to estimate the direct price elasticity of each variable. The estimated coefficient will then be converted into the reciprocal of price elasticity for comparison with the value of the direct price flexibility estimated by the inverse demand equation. This study approximates a conceptual demand relationship in the following form:

$$\text{Equation 12: } \ln Q_i = \sum_j e_{ij} \ln P_j + \eta_i \ln M \quad i, j = 1, 2, \dots, n$$

where  $e_{ij} = (\partial Q_i / \partial P_{ij})(P_{ij} / Q_i)$  is the price elasticity of the  $i^{\text{th}}$  commodity with respect to a price change of the  $j^{\text{th}}$  commodity. If  $i = j$ , then  $e_{ij}$  is the own price elasticity, and if  $i \neq j$ ,

then  $e_{ij}$  is the cross price elasticity. The income elasticity of the  $i^{th}$  commodity is  $\eta_i = (\partial Q_i / \partial M)(M / Q_i)$ . We assume that  $e_{ij}$  is the usual type of demand elasticity matrix in a general equilibrium model with direct elasticities on the diagonal and cross elasticities arranged around the diagonal in symmetric positions. In view of classical demand theory, this elasticity matrix is constrained by symmetry ( $e_{ji}/w_i + \eta_j = e_{ij}/w_j + \eta_i$ ), homogeneity ( $\sum e_{ij} + \eta_i = 0$ ), and the Engel aggregation condition ( $\sum w_i \eta_i = 1$ ), where  $w_i = P_i Q_i / M$  is the expenditure weight of the  $i^{th}$  commodity.

To estimate the direct price flexibility, it is important to understand the concept of the Antonelli matrix. The Antonelli equation, as opposed to the Slutsky equation, refers to the effect of a change in quantity on the price of the good. Houck and Huang stated that there are fewer flexibility estimates than elasticity estimates because most economists are not familiar with the Antonelli matrix essential for performing flexibility analysis. Huang's study states that when forecasting prices from an inverse demand model, flexibilities are more accurate. Also, price flexibility studies, using a direct method of estimated flexibility, would permit more accurate pricing forecasts to evaluate the effects of quantity changes on prices. This study approximates a conceptual inverse demand relationship of the following form:

$$\ln P_i = \sum_j f_{ij} \ln Q_j + \gamma_i \ln M \quad i, j = 1, 2, \dots, n$$

where  $f_{ij} = (\partial P_i / \partial Q_{ij})(Q_{ij} / P_i)$  is the price flexibility of the  $i^{th}$  commodity with respect to a quantity change of the  $j^{th}$  commodity. If  $i = j$ , then  $f_{ij}$  is the own price flexibility, and if  $i \neq j$ , then  $f_{ij}$  is the cross price flexibility.  $\gamma_i = (\partial P_i / \partial M)$  is the price flexibility of the  $i^{th}$  commodity with respect to income.

The conceptual models are formulated to examine the effects of imports of catfish, crawfish, and shrimp on the domestic prices of these goods, since previous research has

indicated that imports are one of the most important factors influencing the domestic prices of catfish, crawfish, and shrimp. Since no individual supplier affects the market price, this study considers this market as competitive. Thus all suppliers, including importers, are treated as price takers. As a result, the price and quantity are determined by interactions of demand and supply.

To estimate direct price flexibility coefficients for the variables used in this model, this study presents three different types of inverse demand functions. Using these models, coefficients of the variables are compared. For computational efficiency of price flexibility, each model is formulated using double log equations. In the double log inverse demand equations, the estimated coefficients directly represent the price flexibility in the manner of the differential-form demand model suggested by Haung. The inverse demand functions are estimated by the Seemingly Unrelated Regression (SUR) model to improve the efficiency of estimation since the error terms of the individual equations of each commodity may be correlated. To accomplish this, the SUR models are applied to monthly data.

The first model is estimated as follows:

$$(1) P_{us} = f(Q_m, Y)$$

where  $P_{us}$  is deflated domestic price,  $Q_m$  is quantity of imports, and  $Y$  is deflated per capita disposable income. This model is intended to isolate the effects of the imported good and income on the domestic price. This model assumes that the imported good is an imperfect substitute for the domestically supplied good. Under this assumption, the model estimates the direct price flexibility. To do this, imports of catfish, crawfish, and shrimp are predetermined.

The second model is estimated as follows:

$$(2) P_{us} = f(Q_m, Q_{us}, Y)$$

where  $Q_{us}$  is domestic production and inventory. As in the previous model (1), this model assumes that the imported good is heterogenous with the domestic good. This model is intended to isolate the effects of not only imported goods but also the domestically supplied good.

The next two models are estimated as follows:

$$(3) Q_d = f(P_{us}, P_{sub}, Y)$$

$$(4) Q_s = f(P_{us}, C)$$

where  $Q_d$  is domestic demand,  $P_{us}$  is deflated domestic price,  $P_{sub}$  is deflated prices of related goods,  $Y$  is deflated per capita disposable income,  $Q_s$  is domestic supply (domestic production plus inventory), and  $C$  is the input cost to produce these goods. These two models are intended to estimate the direct price elasticity of domestic demand and supply.

The final model is estimated as follows:

$$(5) P_{us} = f(Q_m, Q_{us}, S_m, S_{us}, Y)$$

where  $S_m$  is imported substitutes, and  $S_{us}$  is domestically produced substitutes. This model is formulated to examine the effects of imported goods, domestically produced goods, imported substitutes, domestically produced substitutes, and income. The coefficients estimated through these models will be compared with each other. As previously mentioned, the price flexibilities estimated through each model are also compared with the reciprocal of direct price elasticities to confirm the difference between true parameters derived from economic theory and stochastic parameter estimated by the stochastic regression model.

## **Data**

The models are generated using monthly data ranging from 1980 through 2002 on imports, domestic supply and demand, and real prices of catfish, crawfish, shrimp, and three other aquaculture products, and three major meats. The model is estimated using data from the following sources: (1) U.S. Import and Exports of Fishery Products Annual Summary, 1980-2002 (2) Livestock, Dairy and Poultry Situation and Outlook, Economic Research Service, USDA, and (3) the disposable personal income used in the study was obtained from the U.S. Department of Commerce. The inverse demand functions utilize price as the dependent variable so that price flexibilities can be estimated directly. The indirect price flexibilities are calculated using inverse elasticities.

## **Results and Discussion**

As is consistent with the initial assumption of this study, Table 1 shows that the indirect price flexibility is generally not the same as the direct price flexibility. The direct flexibilities are shown to be less, in absolute terms, than the indirect price flexibilities. As a result, sizable errors can be created when using the indirect price flexibility derived from inverted price elasticity with other variables for agricultural policy and program analyses.

Table 2 shows that there is an inverse relationship between imports and domestic price in catfish and shrimp. Although imports of catfish and shrimp negatively affect domestic price, the size of the impact is shown to be very small. If imports of catfish and shrimp increase by 10%, the prices will decrease by 0.2% and 1.2%, respectively. Unlike catfish and shrimp, imports and the domestic price of crawfish are shown to have a positive relationship. Decreases in domestic production of crawfish generated high domestic prices, due to heavy a drought. Consequently, a large amount of crawfish is imported from other

countries to satisfy demand. Imports of crawfish increasing by 10% were shown to correspond with a price increase of between 0.2% and 0.3%. Causality is an important issue here. The model showed that income has a negative impact on the domestic prices of catfish and shrimp and a positive impact on domestic price of crawfish. If disposable personal income increases by 10%, the price of catfish and shrimp will decrease by 1.5% and 4.2%, respectively, and the price of crawfish will increase by 3.3%.

Imports and domestic production have varying effects on domestic prices of catfish, crawfish, and shrimp, as shown in Table 3. Model (2) assumed that imported and domestically produced goods are heterogeneous and both have an affect on the domestic price of each good. Like in model (1), imports have a negative impact on domestic prices of catfish and shrimp but a positive impact on the price of crawfish. However, domestically produced catfish and shrimp are positively related to the domestic prices of catfish and shrimp, respectively, but domestically produced crawfish has a negative relationship with the domestic price of crawfish. Table 3 showed that a 10% increase in domestic productions of catfish and shrimp will generate a 1.2% and 0.1% increase in the domestic prices of catfish and shrimp, respectively. On the other hand, a 10% increase in domestic production of crawfish will decrease the domestic price of crawfish by 0.08%. The impact of income is shown to be the same with model (1) for each good.

For catfish, the model showed that pork is a substitute good at statistically significant levels in both the OLS and SUR regression models. Table 4 shows that an increase in price decreases consumption. For crawfish, the OLS regression model showed that pork is a substitute good while catfish and shrimp are complimentary goods. The SUR showed that pork is a substitute good and beef is a complimentary good at statistically significant levels. For shrimp, OLS showed that catfish is a substitute good, while SUR

showed that pork is a substitute good and beef is a complimentary good at statistically significant levels. Table 4 also shows that increases in disposable personal income increase consumption of catfish, crawfish, and shrimp. As a result, the model (2) showed that these three goods are normal goods.

The relationship between domestic productions of catfish, crawfish, and shrimp in relation to the domestic prices and imports of these three goods is presented in Table 5. The domestic price of catfish is shown to have a positive relationship with domestic production of catfish in both OLS and SUR, but it is statistically insignificant. Catfish imports are also shown to have a positive relationship with domestic production of catfish. OLS showed that if imports of catfish increase by 10%, domestic production of catfish increases by 0.4%. SUR showed the same result as OLS, however the results were statistically insignificant. The domestic production of crawfish is shown to have a negative relationship with the domestic price of crawfish. During early 2000, bad weather conditions reduced domestic production of crawfish so that domestic prices and imports of crawfish increased. OLS and SUR showed that a 10% increase in domestic price of crawfish caused domestic production of crawfish to decrease by 44.2%, and a 10% increase in imports of crawfish reduced domestic production by 5.3% and 1.9%, in OLS and SUR, respectively, with statistically significant levels except for  $\beta_2$  in SUR.

Like catfish, the domestic price of shrimp is shown to have a positive relationship with the domestic supply of shrimp in both OLS and SUR, but it is shown statistically insignificant except for  $\beta_2$  in OLS. Shrimp imports are also shown to have a positive relationship with domestic production of shrimp. OLS showed that for a 10% increase in imports of shrimp, domestic supply of shrimp increases by 11.1%. However, SUR showed

that a 10% increase in imports of shrimp results in a 0.6 increase in the domestic supply of shrimp.

In the extended model (5), this study estimated a variety of direct price flexibilities for these three goods including not only own goods produced domestically and imported but also eight other goods produced domestically and imported as independent variables. Table 6 shows that, as in model (1) and (2), imports of catfish caused domestic prices to decrease. OLS showed that a 10% increase in imports of catfish corresponded with an increase in the domestic price of catfish by 0.06%. However, this coefficient is not statistically significant. In OLS results, chicken imports are shown to have a negative relationship with catfish domestic prices at statistically significant levels while SUR showed imports of shrimp and trout and domestic production of clams have a negative relationship with the domestic price of catfish at a statistically significant level. OLS showed that a 10% increase in chicken imports reduces domestic catfish prices by 0.1%. SUR showed that a 10% increase in imports of shrimp and trout reduce domestic catfish price 2.7% and 0.7%, respectively. SUR also showed consistently within models (1) and (2) that income has a negative relationship concerning the domestic catfish price.

Table 7 shows that imports of crawfish caused the domestic price of crawfish to increase while an increase in the domestic production of crawfish decreases the domestic price of crawfish. OLS showed that a 10% increase in imports of crawfish increased the domestic price of crawfish by 0.1% and a 10% increase in domestic production of crawfish decreased the domestic price of crawfish by 0.03%, although neither is statistically significant. The OLS results show that domestic production of oysters is shown to have a positive relationship with the domestic price of crawfish at a statistically significant level. It showed that a 10% increase in domestic supply of oyster increases the domestic price of

crawfish by 1.9%. SUR showed that a 10% increase in imports of crawfish increases domestic price of crawfish by 0.27%, while a 10% increase in domestic production of crawfish decreases the domestic price of crawfish by 0.28%. SUR results showed imports of pork have a negative relationship and imports of catfish have a positive relationship with the domestic crawfish price at a statistically significant level. It showed that a 10% increase in imports of pork decreases the domestic crawfish price by 3.26%, while a 10% increase in imports of catfish increases the domestic crawfish price by 0.3%. In both OLS and SUR, it showed that income has a positive relationship with the domestic price of crawfish, although the coefficient is not shown to be statistically significant.

Table 8 shows that imported and domestic supply of shrimp caused the domestic price of shrimp to decrease in SUR while an increase in imports of shrimp increases the domestic price of shrimp with statistical insignificance in OLS. SUR showed that a 10% increase in imports and domestic production of shrimp decreases the domestic price of shrimp by 1.51% and 0.11%, respectively, although the domestic production coefficient is not significant. SUR results showed that the domestic production of catfish has a positive relationship with domestic price of shrimp and domestic production of clam and imports of pork have a negative relationship with domestic price of shrimp at a statistically significant level. It showed that a 10% increase in domestic production of catfish increases the domestic shrimp price by 0.87%, while a 10% increase in domestic clam production decreases the domestic shrimp price by 1.4% and a 10% increase in imports of pork decreases the domestic shrimp price by 3.11%. Unlike SUR, OLS showed that domestic production of beef has a positive relationship and imports in catfish and pork have a negative relationship with domestic price of shrimp at a statistically significant level. It showed that a 10% increase in domestic production of beef increases the domestic shrimp

price by 4.22% while a 10% increase in imports of catfish and pork decrease the domestic shrimp price by 1.55% and by 3.84%, respectively.

## **Conclusion**

The Trade Adjustment Assistance Program allows the Secretary of Agriculture to compensate certain growers for economic damages incurred when imports have reduced domestic prices. The imported good must, even if lightly processed, be a close substitute for the domestic raw product. Compensation may be warranted if imports have brought domestic prices below 80% of the five-year, 1998-2002 average (United States Department of Labor: Employment and Training Agency, 2002).

Agricultural prices may decline for reasons unrelated to changes in import supply. For example, they may fall on account of changes in income, or in the availability of the commodity's substitutes. Thus, in order to distinguish between import effects and other effects on domestic prices, this study constructed econometric models to provide (a) a practical means of determining the impact of a given import volume change on domestic prices; (b) an account of the potentially perishable nature and seasonality of lightly processed commodities; (c) the extent of substitutability between the domestic good, the imported good, and other related domestic and imported goods; and (d) account for any simultaneity between domestic demand and supply. In incorporating these features, this procedural study progressed from simpler to more complicated formulations, permitting observations of any gains from additional modeling sophistication.

As previously assumed, this study showed that the reciprocal of the direct elasticity is not a perfect approximation of the direct flexibility because of the stochastic nature of the inverted direct price elasticity with other variables for catfish, crawfish, and shrimp. Since

the inverse of the price elasticity estimate is not the same as the direct price flexibility estimated values, this analysis lends support to the assertion that it is not proper to use elasticities estimated in the ordinary demand system for agricultural policy and program analyses.

This study confirmed that increases in imports of catfish and shrimp decreased their respective domestic prices, while imports of crawfish have increased along with an increase in the domestic price of crawfish. This implies that the high domestic price generated during the collapse in domestic production due to heavy droughts in 2000 and 2001 strongly attracted imports of crawfish. This study shows that own prices of catfish, crawfish, and shrimp have had a negative relationship with consumption and increased income led to increased consumption of these three goods, implying that these are normal goods. An increase in income increases the domestic prices of catfish and shrimp, while an increase in income corresponded with decreased domestic prices for crawfish. This study also showed that trout, clam, chicken, and pork affected domestic prices of catfish, crawfish, and shrimp at a statistically significant level. Each model showed different relationships between domestic prices of these three goods and other aquaculture and meat products.

**Table 1. The relationship of direct price flexibilities to indirect price flexibilities**

Type		Direct Price Flexibility	Indirect Price Flexibility
Equation		$F_{di}^a = \frac{\Delta\% P^b}{\Delta\% M^c} \cdot \frac{M}{P}$	$F_{ii}^d = \frac{1}{\varepsilon_i^e} = \frac{1}{\frac{\Delta\% M}{\Delta\% P} \cdot \frac{P}{M}}$
Model I	Functional Form	$LnP = \beta_0 + \beta_1 LnM + \beta_2 LnY^f$	$LnM = \alpha_0 + \alpha_1 LnP + \alpha_2 LnY$
	Catfish	$\beta_1 : -0.02093$	$\alpha_1 : -0.56140$
	Crawfish Shrimp	$\beta_1 : 0.01993$ $\beta_1 : -0.05660$	$\alpha_1 : 0.37015$ $\alpha_1 : -1.50932$
Model II	Functional Form	$LnP = \beta_0 + \ln \beta_1 LnM + \ln \beta_2 LnX + \beta_3 LnY$	$LnM = \alpha_0 + \alpha_1 LnP + \alpha_2 LnY$
	Catfish	$\beta_1 : -0.02376$	$\alpha_1 : -0.56140$
	Crawfish Shrimp	$\beta_1 : 0.01044$ $\beta_1 : -0.13696$	$\alpha_1 : 0.37015$ $\alpha_1 : -1.50932$
Model V	Functional Form	$LnP = \beta_0 + \beta_1 LnM + \sum_i \beta_i \ln X^g_i$	$LnM = \alpha_0 + \alpha_1 LnP + \sum_j \alpha_j \ln P^h_j$
	Catfish	$\beta_1 : 0.00626$	$\alpha_1 : 0.37266$
	Crawfish Shrimp	$\beta_1 : 0.00541$ $\beta_1 : 0.08387$	$\alpha_1 : 0.99294$ $\alpha_1 : 2.09983$

<sup>a</sup> Direct price flexibility of imported good *i*

<sup>b</sup> Price of imported good *i*

<sup>c</sup> Imported good *i*

<sup>d</sup> Indirect price flexibility of imported good *i*

<sup>e</sup> Supply elasticity of imported good *i*

<sup>f</sup> Disposable personal income

<sup>g</sup> Other related goods

<sup>h</sup> Prices of other related goods

**Table 2. Regression analysis and estimated price flexibilities of catfish, crawfish, and shrimp**

Type of Regression		OLS		SUR	
		Coefficients	t-value	Coefficients	t-value
Catfish	$R^2$	0.5935		0.5990	
	$\beta_0$	19.98138	16.90**	19.87338	16.99**
	$\beta_1$	-0.02093	-2.52**	-0.02229	-2.68**
	$\beta_2$	-1.53807	-12.86**	-1.52657	-12.90**
Crawfish	$R^2$	0.1746		0.2362	
	$\beta_0$	-2.26927	-1.35	-0.82957	-0.43
	$\beta_1$	0.01993	2.54**	0.032438	3.05**
	$\beta_2$	0.33636	1.99*	0.191056	0.98
Shrimp	$R^2$	0.3278		0.6978	
	$\beta_0$	7.51200	7.89**	7.88477	1.66
	$\beta_1$	-0.12094	-3.79**	-0.06586	-2.78**
	$\beta_2$	-0.41684	-3.71**	-0.52548	-1.12

Inverse demand function:  $LnP = \beta_0 + \beta_1 LnM + \beta_2 LnY$

\* Statistically significant at 0.05

\*\* Statistically significant at 0.01

**Table 3. Regression analysis and estimated direct price flexibilities of catfish, crawfish, and shrimp**

Type of Regression		OLS		SUR	
		Coefficients	t-value	Coefficients	t-value
Catfish	$R^2$	0.6198		0.6589	
	$\beta_0$	19.98693	17.42**	19.56156	17.23**
	$\beta_1$	-0.02376	-2.93**	-0.02923	-3.49**
	$\beta_2$	0.11710	3.36**	0.13920	3.58**
	$\beta_3$	-1.61034	-13.65**	-1.58157	-13.49**
Crawfish	$R^2$	0.2117		0.2205	
	$\beta_0$	-3.03009	-1.79	-2.44638	-1.38
	$\beta_1$	0.01044	1.35	0.01332	1.66
	$\beta_2$	-0.00809	-1.98*	-0.00938	-1.96*
	$\beta_3$	0.41955	2.47*	0.36095	2.03*
Shrimp	$R^2$	0.3324		0.3500	
	$\beta_0$	7.24160	7.35**	7.57193	6.67**
	$\beta_1$	-0.13696	-3.88**	-0.10521	-2.01*
	$\beta_2$	0.01120	1.07	0.01048	0.27
	$\beta_3$	-0.38412	-3.30**	-0.45	-3.11**

Inverse demand function:  $LnP = \beta_0 + \beta_1 LnM + \beta_2 LnX + \beta_3 LnY$

\* Statistically significant at 0.05

\*\* Statistically significant at 0.01

**Table 4. Regression analysis and estimated demand elasticities of catfish, crawfish, and shrimp**

Type of Regression		OLS		SUR	
		Coefficients	t-value	Coefficients	t-value
Catfish	$R^2$	0.1874		0.2126	
	$\beta_0$	-26.73300	-1.13	-16.6434	-0.71
	$\beta_1$	-0.01328	-0.02	0.20918	0.39
	$\beta_2$	-1.50686	-2.33*	-1.72333	-2.78**
	$\beta_3$	1.54084	1.95	1.09808	1.43
	$\beta_4$	3.93684	1.47	4.13023	1.57
	$\beta_5$	0.96751	0.40	0.78756	0.33
	$\beta_6$	-3.44734	-3.13**	-3.30844	-3.12**
	$\beta_7$	3.02309	1.67	2.10938	1.19
Crawfish	$R^2$	0.1546		0.4631	
	$\beta_0$	-109.74312	-2.21*	-19.6842	-4.53**
	$\beta_1$	-3.25963	-2.98**	0.10507	1.07
	$\beta_2$	-2.26597	-1.72	-0.14321	-1.28
	$\beta_3$	5.36634	3.45**	-0.06278	-0.45
	$\beta_4$	7.01879	1.38	-0.08938	-0.19
	$\beta_5$	7.58999	1.57	1.36826	3.11**
	$\beta_6$	-7.89023	-3.46**	-0.55991	-2.90**
	$\beta_7$	8.26524	2.17*	2.62635	8.14**
Shrimp	$R^2$	0.5358		0.8359	
	$\beta_0$	-9.64363	-1.47	-19.6842	-4.53**
	$\beta_1$	0.25460	1.63	0.10507	1.07
	$\beta_2$	-0.39826	-2.25*	-0.14321	-1.28
	$\beta_3$	-0.44035	-2.03*	-0.06278	-0.45
	$\beta_4$	1.06258	1.46	-0.08938	-0.19
	$\beta_5$	1.08251	1.61	1.36826	3.11**
	$\beta_6$	-0.24664	-0.82	-0.55991	-2.90**
	$\beta_7$	1.20980	2.44*	2.62635	8.14**

Ordinary demand function:  $\ln C_i = \beta_0 + \beta_1 \ln P_1 + \beta_2 \ln P_2 + \beta_3 \ln P_3 + \beta_4 \ln P_4 + \beta_5 \ln P_5 + \beta_6 \ln P_6 + \beta_7 \ln Y$

Where

$P_1$ : Crawfish price

$P_2$ : Catfish price

$P_3$ : Shrimp price

$P_4$ : Chicken price

$P_5$ : Beef price

$P_6$ : Pork price

\* Statistically significant at 0.05

\*\* Statistically significant at 0.01

**Table 5. Regression analysis and estimated supply elasticities of catfish, crawfish, and shrimp**

Type of Regression		OLS		SUR	
		Coefficients	t-value	Coefficients	t-value
Catfish	$R^2$	0.0390		0.2499	
	$\beta_0$	5.70137	9.69**	5.64134	10.03**
	$\beta_1$	0.07336	0.60	0.06489	0.56
	$\beta_2$	0.04662	2.52*	0.04613	2.55
Crawfish	$R^2$	0.1897		0.7123	
	$\beta_0$	11.61601	4.68**	8.98277	5.34**
	$\beta_1$	-4.42193	-2.02*	-4.64169	-3.23**
	$\beta_2$	-0.53543	-3.48**	-0.19509	-1.75
Shrimp	$R^2$	0.1420		0.9392	
	$\beta_0$	-4.2935	-1.44	8.28336	8.48**
	$\beta_1$	1.10562	1.95	0.05222	0.33
	$\beta_2$	1.11011	5.15**	0.06197	0.83

Domestic production function:  $LnS_i = \beta_0 + \beta_1 LnP + \beta_2 LnM$

\* Statistically significant at 0.05

\*\* Statistically significant at 0.01

**Table 6. Regression analysis and estimated direct price flexibilities for catfish**

Type of Regression	OLS		SUR	
	Coefficients	t-value	Coefficients	t-value
$R^2$	0.6813		0.8302	
$\beta_0$	2.21817	0.33	26.85023	6.97**
$\beta_1$	-0.00659	-0.64	0.00781	0.99
$\beta_2$	0.00687	1.19	-0.00909	-1.36
$\beta_3$	0.00626	0.69	-0.00841	-0.92
$\beta_4$	-0.13076	-2.40*	0.03786	0.90
$\beta_5$	0.07438	0.67	-0.26855	-3.33**
$\beta_6$	0.00666	0.22	-0.02412	-0.40
$\beta_7$	0.00512	0.17	-0.07433	-3.06**
$\beta_8$	-0.00282	-0.31	-0.01042	-1.04
$\beta_9$	-0.04200	-0.66	0.08287	1.30
$\beta_{10}$	0.06533	0.59	-0.16284	-2.20*
$\beta_{11}$	0.00779	0.14	0.03896	1.12
$\beta_{12}$	0.06461	0.97	0.03128	0.44
$\beta_{13}$	-0.09791	-2.71*	-	-
$\beta_{14}$	0.42935	1.48	0.31534	1.78
$\beta_{15}$	-0.16324	-1.92	0.00667	0.08
$\beta_{16}$	0.39789	1.62	0.11691	0.39
$\beta_{17}$	0.12544	0.99	0.01015	0.13
$\beta_{18}$	-0.23481	-1.17	-0.01716	-0.09
$\beta_{19}$	-0.30272	-0.39	-2.21579	-4.88**

Inverse demand function:

$LnCARP =$

$\beta_0 + \beta_1 LnCRIM + \beta_2 LnCRDP + \beta_3 LnCAIM + \beta_4 LnCADP + \beta_5 LnSHIM + \beta_6 LnSHDP + \beta_7 LnTRIM$

$\beta_8 LnTRDP + \beta_9 LnCLIM + \beta_{10} LnCLDP + \beta_{11} LnOYIM + \beta_{12} LnOYDP + \beta_{13} LnCHIM + \beta_{14} LnCHDP +$

$\beta_{15} LnBEIM + \beta_{16} LnBEDP + \beta_{17} LnPOIM + \beta_{18} LnPODP + \beta_{19} LnDPI$

\* Statistically significant at 0.05

\*\* Statistically significant at 0.01

**Table 7. Regression analysis and estimated direct price flexibilities for crawfish**

Type of Regression	OLS		SUR	
	Coefficients	t-value	Coefficients	t-value
$R^2$	0.4685		0.4709	
$\beta_0$	-17.19413	-1.84	0.31825	0.06
$\beta_1$	0.01074	0.75	0.02742	2.65**
$\beta_2$	-0.00302	-0.38	-0.02773	-3.16**
$\beta_3$	-0.00257	-0.21	0.02981	2.48*
$\beta_4$	0.01932	0.26	0.06399	1.16
$\beta_5$	0.14119	0.91	0.07556	0.72
$\beta_6$	-0.04364	-1.05	-0.00337	-0.04
$\beta_7$	-0.04966	-1.18	-0.01478	-0.46
$\beta_8$	0.00443	0.35	0.01316	1.00
$\beta_9$	0.02254	0.26	0.14132	1.69
$\beta_{10}$	0.22420	1.45	-0.15403	-1.59
$\beta_{11}$	0.01565	0.21	-0.01633	-0.36
$\beta_{12}$	0.19484	2.11*	-0.01258	-0.13
$\beta_{13}$	-0.10003	-2.00	-	-
$\beta_{14}$	-0.70504	-1.75	-0.44596	-1.92
$\beta_{15}$	-0.01376	-0.12	0.01035	0.10
$\beta_{16}$	0.32434	0.96	0.14656	0.37
$\beta_{17}$	-0.22622	-1.28	-0.32554	-3.12**
$\beta_{18}$	-0.56590	-2.04	-0.20818	-0.80
$\beta_{19}$	2.18822	2.03	0.52098	0.88

Inverse demand function:

$LnCRRP =$

$\beta_0 + \beta_1 LnCRIM + \beta_2 LnCRDP + \beta_3 LnCAIM + \beta_4 LnCADP + \beta_5 LnSHIM + \beta_6 LnSHDP + \beta_7 LnTRIM$

$\beta_8 LnTRDP + \beta_9 LnCLIM + \beta_{10} LnCLDP + \beta_{11} LnOYIM + \beta_{12} LnOYDP + \beta_{13} LnCHIM + \beta_{14} LnCHDP +$

$\beta_{15} LnBEIM + \beta_{16} LnBEDP + \beta_{17} LnPOIM + \beta_{18} LnPODP + \beta_{19} LnDPI$

\* Statistically significant at 0.05

\*\* Statistically significant at 0.01

**Table 8. Regression analysis and estimated direct price flexibilities for shrimp**

Type of Regression	OLS		SUR	
	Coefficients	t-value	Coefficients	t-value
$R^2$	0.7765		0.6502	
$\beta_0$	-15.62031	-3.05**	7.24527	2.16*
$\beta_1$	-0.00369	-0.47	0.00879	1.28
$\beta_2$	0.00531	1.21	-0.00594	-1.02
$\beta_3$	-0.01548	-2.25*	-0.01001	-1.25
$\beta_4$	-0.00653	-0.16	0.08732	2.39*
$\beta_5$	0.12084	1.43	-0.15159	-2.16*
$\beta_6$	-0.04027	-1.76	-0.01135	-0.22
$\beta_7$	-0.00254	-0.11	-0.04574	-2.16*
$\beta_8$	-0.00933	-1.34	-0.00485	-0.56
$\beta_9$	-0.00776	-0.16	0.09227	1.66
$\beta_{10}$	0.12764	1.51	-0.13968	-2.17*
$\beta_{11}$	0.00883	0.21	0.02649	0.87
$\beta_{12}$	-0.01996	-0.39	0.02255	0.36
$\beta_{13}$	0.01875	0.68	-	-
$\beta_{14}$	-0.39261	-1.78	-0.16645	-1.08
$\beta_{15}$	-0.05913	-0.92	0.01103	0.16
$\beta_{16}$	0.42246	2.27*	-0.41682	-1.59
$\beta_{17}$	-0.38378	-3.97**	-0.31050	-4.47**
$\beta_{18}$	0.02986	0.20	0.38408	2.21*
$\beta_{19}$	1.75045	2.96**	-0.07390	-0.19

Inverse demand function:

$$\ln SHRP =$$

$$\beta_0 + \beta_1 \ln CRIM + \beta_2 \ln CRDP + \beta_3 \ln CAIM + \beta_4 \ln CADP + \beta_5 \ln SHIM + \beta_6 \ln SHDP + \beta_7 \ln TRIM$$

$$\beta_8 \ln TRDP + \beta_9 \ln CLIM + \beta_{10} \ln CLDP + \beta_{11} \ln OYIM + \beta_{12} \ln OYDP + \beta_{13} \ln CHIM + \beta_{14} \ln CHDP +$$

$$\beta_{15} \ln BEIM + \beta_{16} \ln BEDP + \beta_{17} \ln POIM + \beta_{18} \ln PODP + \beta_{19} \ln DPI$$

\* Statistically significant at 0.05

\*\* Statistically significant at 0.01

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