Preface

Prices form the nerve centre of all economic activity. The political and economic stability of a country are crucially dependent on them. From production to consumption, industrial growth, wage rates and employment, prices have a definite bearing on any stage of economic activity under free enterprise. Given their utmost importance, their instability would fail to serve as an adequate guide to production plans and would create in efficiencies in the allocation of resources. This would, in turn, lead to wide ranging economic and social consequences.

In Bangladesh, the agricultural sector holds the key to general price stability in the country. Accounting for approximately one-third of the Gross Domestic Product and being the source of employment to more than 60 percent of the workforce, this sector assumes prime importance in the overall development of the country. A fluctuating food price regime would, therefore, have disastrous consequences for the economy, especially for the large majority of the population who live below subsistence and spend a large part of their income on food.

Moreover, Bangladesh liberalised its foodgrain trade in the early 1990s, thus, throwing the economy open to international price volatility. Hence, price stabilisation assumes heightened importance, now that the overall growth, in general and agricultural growth in particular, depends much more on domestic price stability and ratio of inflation.

The basic objective of this study is to conduct an inquiry into the effect of government intervention measures in containing foodgrain price fluctuation in Bangladesh. Of course, mild swings in prices can never be ruled out – what is important is the extent to which wild ups and downs can be prevented. The study is divided into seven chapters. Chapter one gives a brief literature review, in addition to highlighting some of the issues surrounding the concept of price stabilisation. Chapter two presents an overview of the foodgrain system in Bangladesh. It gives a brief account of foodgrain production in the country and the various tools that the government uses to restrain
wide fluctuations in their prices. Chapter three focuses on the analytical framework of the study. It explains in some detail the concepts of unit roots, cointegration and error correction modelling and briefly touches upon the other statistical tools used in the analyses. An important function of price stabilisation as an instrument of agricultural policy is to stimulate production, particularly when technology is available for that purpose. For a price policy to be effective, it is necessary that the authorities must have a reliable estimate of the price elasticity of supply. Chapter four is, thus, devoted to supply response behaviour of farmers. Short and long run elasticities to changes in both price as well as non-price factors have been worked out. Chapter five concentrates on the trends and variability in the domestic price regime. Both seasonal as well as annual variability in foodgrain prices have been examined. A comparison is, then, drawn with the fluctuations in foodgrain prices in the world market. Chapter six deals with the effectiveness of different public intervention measures in stabilising foodgrain prices in Bangladesh. Finally, in Chapter seven, follows the broad findings of the study and some policy suggestions.