ABSTRACT

Commodities are primary and essential goods. Agricultural products, energy products and metals are basic requirements. Continuous increase in its supply at affordable price is a basic policy concern of governance. Supply is constrained in short run as well as long run because they are natural products and hence beyond total control of man. Supply could become erratic if weather is not normal. Mismatch between supply and demand could cause price fluctuations. Commodities are characterized by higher volatility than the manufactured goods. Long price swings over time are also observed for many commodities. Commodities contribute significantly to national GDP and trade. For several countries more than 50 per cent of GDP is and/or trade is derived from commodities. Risk arising from price volatility of commodities impact income of producers and welfare of consumers. Large number of primary producers are small farmers whose income is almost entirely from the commodities produced. Majority of population in a country like India may comprise of such farmers. They do not have capacity to take large risks. Volatility in commodity prices cause large volatility in income of small producers which could severely reduce their welfare.

This study is focused on how this risk could be managed. Products, markets and institutions have been developed to manage the price and income risks. Commodity exchanges provide facility for hedging the risks. This study finds that these commodity exchanges in India are not efficient and require depth to make them meaningful for large number of potential participants, primary producers of commodity. The study develops models for price forecast and concludes that simple models as well as advanced
models could be applied to forecast prices in short run as well as long run. The study develops a model for innovative rainfall derivative. This product, now offered in India, could offer a low cost alternative to traditional crop insurance schemes.