

PRICE VARIATIONS OF SELECTED COMMODITIES IN THE PRE AND REFORM PERIODS OF KERALA

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ABSTRACT

The development of agriculture sector as well as overall economy is significantly influenced by agricultural commodity price changes. It has important role in the decision making process of both producers and consumers. Different studies have shown that price changes of agricultural commodities are more frequent in the Reform period. On this context this paper examines whether price variation are more frequent for Internally Integrated Commodities compared to that of Domestic Consumption Led Commodities. In both set of commodities price changes in both Pre Reform and Reform Period are studied. This study could conclude that price variations are less in the Pre reform period for both set of commodities. But the study could not conclude price variations are more frequent for the Internationally Integrated Set of commodities in the Reform period of Kerala.

KEYWORDS: Domestic Consumption Led Commodities, Kerala, Internationally Integrated Commodities, Price Variation, Reform Period

INTRODUCTION

Agricultural commodity price changes have significant impact on the sector as well as the overall economy. The prices act as an indicator for allocation of resources by producers and consumers. It determines distribution of income between agricultural and non agricultural sector and also induces capital formation in the sector. It is the remuneration farmers receive which sustains their interest for cultivation. The secondary sector growth and the demand for tertiary sector are also influenced by agricultural price changes. Therefore violent price fluctuations do have serious repercussions in the economy. If prices fall below the remunerative level producers' income affected, investment in the sector deteriorates and their demand for secondary and tertiary sector diminishes. If the prices rise above a certain level, cost of living increases and leads to general price rise in the economy.

Price fluctuations of agricultural commodities mainly arises because of lower price and income elasticity's of agricultural commodities, unstable nature of agricultural production and changes in the policies regarding production and marketing (Sekhar 2004). In the Pre Reform period to maintain stability in commodity prices Government of India introduced a series of measures. These were aimed at protecting interest of both producers and consumers. Active involvement of Government was a feature during the period. In the initial decades the price policy aimed at increasing production but later to adjust production according to the demand. To make commodities available to consumers at affordable prices was also taken care of. But there are opinion that these kind of price polices affected the competitiveness of the sector affecting optimal resource allocation. Farmers could not take production decision by the price changes. (Acharya 2004 and Misra 1997)

However with the introduction of Reform the Government involvement in price determination got limited. Farmers were exposed to the dynamism of market. Studies have shown that instability of agricultural prices is rising in this period. Moreover increasing integration with the world market intensifies the instability because international commodity market is more volatile. Chand and Saxena (2014) in their study on selected crops noted price instability is increasing in recent years. Sudaram (2011) quoted rising instability of food grains since 2006. Vyas (2005) identified larger fluctuations in the output price of the commodities. Sekhar(2004) noted about imperfect nature and higher volatility of international agricultural commodities. With the integration to the world market this volatility and imperfections are transmitted into the domestic market also.

Objective

The study aims to do a comparison on price variation of selected commodities in the context of Kerala. The comparison is made between a set of Internationally Integrated and Domestic Consumption led commodities. Price changes in the Pre and Reform Period are considered. By this it examines whether price variation is associated more with Internationally Integrated Commodities or not.

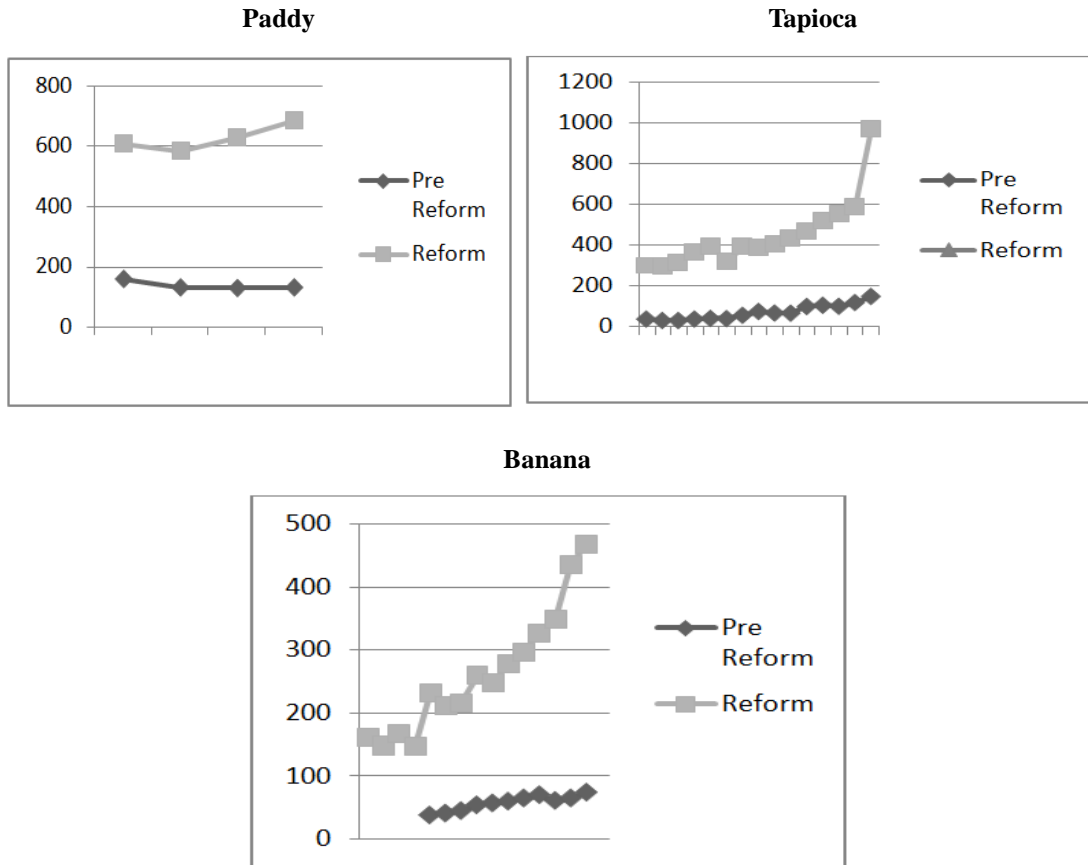
Methodology

Time series data of 15 years on prices (farm wholesale) for both pre and reform period are analyzed. The period covered in the pre reform is 1976 to 1990 and the reform period is 1996 to 2010. Yearly averages of prices are considered. The Three crops from internationally well integrated (rubber, pepper and coffee) and three commodities which are not integrated internationally or used for domestic consumption (paddy, banana and tapioca) are studied (crops selected based on the information of Economic Review 2010). Because of non availability of data for banana four years (pre reform) are excluded. Similarly for coffee data in the reform period (1996-99) and in the pre reform period (1985, 1986) could not be included. The overall movement of prices is made by the linear graphical representation of the data. To have a better understanding of price variation, standard deviation and range for each crop are calculated.

Data and Interpretation

1: Domestic Consumption led Commodities (Paddy, Tapioca and Banana)

In the pre reform period these crops were having reasonable stability in their prices. This is clear from both linear graphical representations (Graph: 1) and values of standard deviation and range. The graphs are almost flat in the Pre reform period and in the Reform Period they started showing a gradually upward trend for all the commodities. For banana the upward movement is more relevant with a significantly rising slope. In the Reform period compared to Pre Reform period the values of standard deviation increased three times for paddy, five times for tapioca and eight times for banana. The values of range also exhibit almost the same pattern. That is, in comparison to Pre Reform period, Reform Period witnessed a rising price variation for all the three commodities, with a slightly higher intensity for banana.

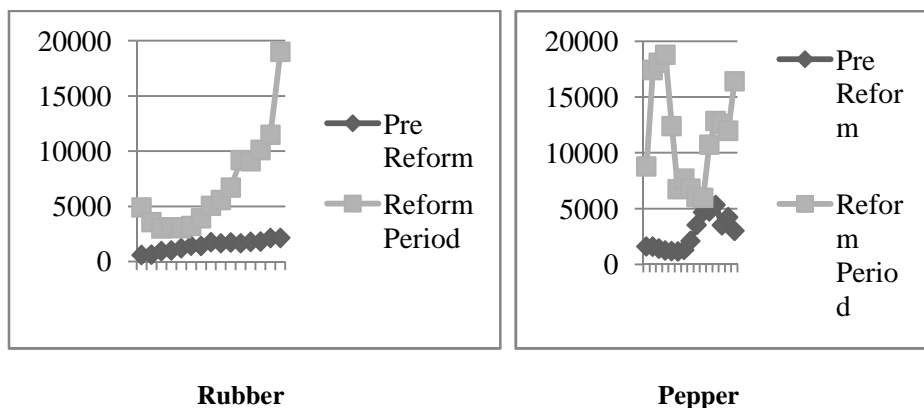


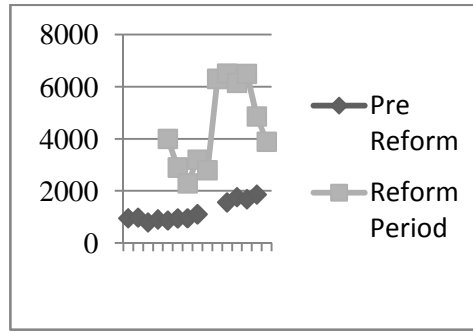
Graph: 1: Linear Graphical Representations (Domestic Consumption Led Commodities)

The data for the graphs are obtained from different years of Economic Review and Price Statistics, Department of Economics and Statistics, Government of Kerala

2: Internationally Integrated Commodities

The linear graphs (graph 4) are less fluctuating in the Pre Reform period in comparison to the Reform period. In the Reform Period pepper and coffee price are showing considerable fluctuations. Significant ups and downs are visible in their graphical representations. For rubber the price is showing continuously upward trends except a few years of price fall. Compared to the pre reform period the values of range and standard deviation increased around nine times for rubber, three times for pepper and 4 times for coffee. The values of range are also showing the same trend with lesser value in the Pre Reform period.





Coffee

Graph: 2: Linear Graphical Representation (Internationally Integrated Commodities)

The data for the graphs are obtained from different years of Economic Review and Price Statistics, Department of Economics and Statistics, Government of Kerala

Table: 1: Values of Standard Deviation and Range

	Crops		Pre Reform Period	Reform Period
Domestic Consumption led crops	Paddy	Range	174	630
		Standard Deviation	59.32	165.23
	Tapioca	Range	115	719
		Standard Deviation	34.48	164.95
	Banana	Range	36	320
		Standard Deviation	11.22	95.16
Internationally integrated crops	Rubber	Range	1544	16009
		Standard Deviation	471.78	4280.88
	Pepper	Range	4158	10435
		Standard Deviation	1454.85	4379.83
	Coffee	Range	1066	4208
		Standard Deviation	379.07	1557.84

Computed from different years of Economic Reviews and Price Statistics, Department of Economics and Statistics, Government of Kerala

CONCLUSIONS

The study could find out that price variation for commodities in the both set (Domestic Consumptions Led and Internationally Integrated Commodities) was lower in the Pre Reform Period. However this study could not conclude price variation is higher in the Internationally Integrated Set of commodities in the Reform Period. Because by looking at the values of standard deviation and range from both Set of commodities one commodity each are (banana and rubber) showing around nine to ten times increase from Pre Reform to Reform Period. The graphical representation for these two commodities show an almost continuously upwardly rising slope. The other two commodities in both set are having lesser times increase in values of deviation and range from pre to reform period. To be noted though coffee and pepper is having significant ups and downs in their prices in Reform period this didn't lead to a rise in value of standard deviation and range. Therefore this study concludes domestic changes in demand and supply is also strong enough to create significant price variation.

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