



**Research Paper**

# Futures trading of maize in India: A tool for price discovery and risk management

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**ABSTRACT :** The historic green revolution, which targeted at increasing crop yield, established India as one of the world's biggest agricultural producer. Although India is an agricultural economy, farmers are not getting remunerative prices for their crops because of price fluctuation and market imperfections prevailed all over the country. Futures trading, as a tool for price discovery and risk management can pave the way for improving such market imperfections. The present study was conducted to examine the impact of futures trading on spot market of maize in India. The secondary data of maize spot and futures prices for the year 2005 to 2015 were collected from NCDEX. Johansen cointegration test was employed to access the relationship between futures and spot prices of maize. Further the direction of relationship was studied by using granger causality test and to investigate the long run causality and speed of price adjustment VECM was employed. The study found that spot and futures prices were independent and there was unidirectional causality between them. Further, results unveiled the long run causality from futures to spot market and it was the spot market which adjust itself to attain the long run equilibrium. The study concluded that futures are the market where framer can hedge their price risk and can explore the maximum possible profit from volatile prices. Therefore, policy measures should be adopted to bring the more agricultural crops under the network of futures trading.

**KEY WORDS :** Cointegration, Futures trading, Granger causality, Price discovery, VECM

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