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Effects of futures trading of commodities in India and it's impact on prices of essential commodities.

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Preface

I, Munish Rathore, am a student of Hindu College, University of Delhi. I am currently pursuing B.A. (Hons.) English and am in the final year of my graduation. The whole idea of a work atmosphere that had the presence of interns from all over the nations working on various projects related to the policy-making procedures of the government

t was an alluring one. Such an opportunity was provided to me by Rakshak Foundation, which is a non-profit organization based in California. Being the part of the flagship program of the foundation was a wonderful learning experience. The topics were such that generated interest and to go into the minute details of it was an enriching process. To see and in a small way, experience the working of the mammoth institution of governance was something that filled one with awe. The process of learning was not merely restricted to one's own research but also through the works of fellow interns. Presentations and reports were something that helped one know about so many topics and at such great length, that one goes back home as an aware citizen. It is precisely these reasons that the program was initiated. Even on the part of the interns, including myself, the expectations were on similar lines and one can surely vouch for the fact that the experience was beyond the realm of ordinary expectations.

Acknowledgements

I would like to take this opportunity to express my heartfelt gratitude to Rakshak Foundation and Mr. Sachin Bansal Sir for thinking of me as worthy enough to be a part of t

his program. I feel elated at the prospect of being a part of such a noble endeavour that he envisaged about the nation. It would be highly unjust if the credentials of such a program go un-noticed, and hence many congratulations to Sir for having initiated an effort of this kind which surely holds great promise in the short as well as long run. I would extend all the formal courtesies of thanking to the administrative team at the foundation which included of Mr. Rohit Agrawal, Mr. Kunal Sharma and Mr. Braja Kishore who were not merely of the stature of the consulting body but they went all out of their way to help us out with the project as well as other issues. The project could not have matrialized without the immense help of my mentors Prof. Raghabendra Chattopadhyay from IIM-Calcutta and Prof. S.K. Mathur from IIT-Kanpur. They took out their precious time to help me with the intricacies of the project by guiding me on my way, providing me with useful insights into the issue, referring to the required reading material and providing me moral support. Gratitude would be very little to make up for their immense guidance throughout the stipulated time-period.

I would also like to extend a word of thanks to my fellow interns who were a constant source of inspiration and motivation. And not just that, they were the ones who made me aware of so many crucial issues vis-a-vis the nation by the virtue of their presentations and the discussions. The rapport built with them over time will surely be a long-lasting one as most of us share the dream of bringing about changes in our own little ways.

I would like to dedicate a few more words for the esteemed dignitaries who met us and interacted with us during the internship. Mr. Amitabh Yash, Mr. Prakash Tayal, Mr. Who took out time to share their experiences with us and help us fill with vigour and enthusiasm. Their presence made the entire experience even more rewarding.

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Executive Summary

The research mainly aims to bring to the fore a topic that has so far been not discussed extensively in the public domain. Despite the recent advent of futures trading in India, it has currently reached heights that were un-thought of. However like everything, it has had its pros and cons too. Where on one hand it has made the markets more liquid, on the other hand it has also resulted in price volatility. Here have been other problems too like the lack of awareness amongst the hedgers and lack of transparent price determination. The project strives to provide a critical insight into the working of this manner of trade and highlight the key flaws. One would also try and find implementable, pragmatic and hassle fee solutions to the same. Also by taking such an exclusive topic for research one would also hope to help spread awareness about one's project and disseminate information by means of interaction with colleagues or with the parties directly involved.

Main Body (5000-10000 Words)

1. Introduction

1.1 Background Information

Set up the proper background about your project including history and present scenario. It would basically include how it all started and progressed over the years.

Futures Trading in a commodity is a way of trading in which standardised contracts are formulated declaring the sale and purchase of the given commodity in the future at a pre-determined price. To exemplify the given statement ket us take up the case of a farmer that is cultivating a rice crop on his land. The crop will take around two months to be ready. Now if the farmer fears a decline in the price of rice I the coming two months, he comes out with a way wherein he signs a contract saying that he will sell a given amount of rice, two months later, at a price which has been decided today. Also, lets assume that there is a company that sells rice under its brand name. if the company owners feel that the price of rice could possibly go up in the coming few months they could draw a contract saying that they would purchase a given quantity of rice two months later at a price decided today. These two parties of consumers and producers that have the sole purpose of minimizing price-fluctuations related risks are called the hedgers, in the conventional terminology. The attempts made to tackle such risks are generally known as Price Risk Management. Apart from the two sets of hedgers, we aso have another component to this realm of trade, that being the speculators. They are the parties that do not trade in actual commodities, instead they deal with trade in the contracts. They do not have to either purchase or deliver any good, they just have to speculate and act according to their gut instincts. If a speculator feels that the price of a commodity is going to rise in the future, he purchases more forward contracts, in the language of a trader, he goes long. However, if a speculator has an opposing belief, he sells forward contracts, or goes short. If the market trends move in favour of the speculators, he makes a profit or else he ends up losing the amount from the money deposited as securities. Thus we see the evolution of a sophisticated system that determines the price of commodities in the future and also, ideally, aim to minimize price related risks to the hedgers.
The origin of forward contracts is believed to be in China, where ownership cards were issued by warehouse merchants. The cards could later be reimbursed to get the original commodity or the equivalent price. In India, futures trading existed since 1875 in cotton, 1900 in oilseeds, 1913 in wheat and 1920 in bullion. However, in 1939, an ordinance was issued by the government of Bombay to restrict futures tade. The ordinance later evolved into an act called the Defence of India Act, 1939. The mentioned act was utilized on a lerge scale to prohibit futures trading in various commodities. Essential Supplies Temporary Powers Act too was used t meet the fiven ends once the Defence of India Act lapsed in 1946.
There was a complete absence of futures trading from the scene of the economy till very late. Black marketing of forwards in a few commodities was present, however,

the magnitude of the same was not even comparable. With the coming in of liberalization in the early 90s, the government of India resolved to revive this sector. Various provision were made, like lifting of bans on futures trade from a few commodities and the setting up of national exchanges that could deal with the trade on forward contracts. With the help of concerted efforts on the part of the traders and the government alike, the market wass able to stand on its feet once more. The market saw a rapid boom with the government expanding the ist of commodities that could be traded in futures to include almost every essential commodity. At present, futures trading forms a considerable chunk of the monetary exchanges taking place all over the nation.

1.2 Main Problems, their scope and impact on the society

In this you need to focus on various problems affecting the society and how they are impacting it.

In a laissez faire economy, futures trading performs two important functions which are: price discovery and price risk management. Such trading in various commodities stands to benefit almost all the sectors of an economy. The forward prices act as advance indicators of an imbalance between demand and supply. Such an advanced information of the future price trends helps the government and other sectrs which utilize the commodities to brace themselves well in advance for a crisis-like situation, in case it emerges. This is a better alternative to rushing in to purchase commodities at a time when price volatility is high already. This ensures availability of adequate supplies and averts any sort of major price hike or fluctuation. In a similar way, in the case of a bumper harvest it helps to warn imports against any idle iport and also assists the exporters in planning export well in advance. At the same time, it enables the importers to hedge their position against commitments made for import and exporters to hedge their export commitments. As a result, the export competitiveness of the country improves. However, it has been witnessed over the years that excessive speculation has lead to a distortion in the way trade is being done. The ethical purpose of such trading has lost its way in the broad band width containing speculators and arbitrageurs. The involvement by actual hedgers is pretty constrained as compared to the involvement of the remaining agents. Hence, there have been volatility related problems regarding prices. So, we see that the way of trade has actually given rise to the same problem that it was envisaged to curb.
Findings have also shown that there is a considerable lack of awareness and dissemination of information about the benefits of commodity markets. Due to insufficient price information, the farmers literally sell their produce at much lower rates than the optimum price of the commodity. Further, large size of standardized contract offered by exchanges also dissuade the farmers to go in for future/forward trading. Many times, small farmers are more confused in understanding the real price of the commodities and some time make losses by participating in these markets. These are the few important troubles that are being faced by the trade sector dealing with futures commodity.

There has been a significant decline in the percentage of futures trading in the year 2006-07. The decline was majorly attributed to the de-listing of four commodities namely wheat, rice, urad and tur by the central government. The situation created a trust deficit in the market regarding futures trading and there was a consequent decline of almost 28.5% in the volume of futures trading in agriculture. The major decline in was recorded in commodities like chana, guar, menthe oil, menthe seeds, maize, potato, cardamom and chillies. These agro-products are the ones that form a major bulk of the futures trade and the de-listing of the above mentioned commodities lead to a resultant decline of almost 66.4%. these eight commodities form almost around 57%.

Taking the case study a bit further and seeing its implications by the means of certain figures, we would like to prove the case:

" FUTURES TRADE AND PRICE MOVEMENTS

Overall year-on-year WPI inflation showed a consistent upward movement from mid-2006 to reach a high of 6.69% in the week ending 27th January, 2007. The 6% mark, last recorded in December 2004 (23.12.04), was breached in the first week of January (6.1.2007) after which it remained consistently above 6% for almost 3 months when it started softening in April 2007. Year-on-Year inflation as measured by the Consumer Price Indices (CPI-IW, CPI-AL, CPI-UNME) showed even larger rise, reaching 7.6%, 9.8% and 7.8% respectively in February 2007. None of the CPIs had recorded 6% inflation since 2001, but all crossed this mark by June 2006 and declined below this only after September 2007. This rise in inflation was generally attributed to price rise in agricultural commodities and, with agricultural GDP growth actually accelerating from 1.8% in 2001-05 to 4.9% during 2005-07, one of the causes for this was in turn attributed to greater price volatility following the opening up of futures trading in a large number of such commodities. Therefore, a two stage enquiry is needed: (i) to what extent was the 2006-07 inflation led by price rise in agricultural commodities, particularly food-grains; and (ii) whether inflation and price volatility in these commodities had increased following the introduction of futures trade.

Contribution of Agricultural Commodities in WPI & CPI Inflation

There are 12 'food grain' (cereals & pulses) items in the basket of WPI index, with 5.01% weight. Among these, Rice & Wheat have significant weight while weight of other items is individually small. Contribution of foodgrains to overall WPI inflation is determined by increase in WPI of these items and their weight in the overall WPI index. In January 2007, y-on-y inflation was very high for gram and urad (about 30%), high for wheat (14%) but quite low for rice (4.7%). WPI "foodgrains" inflation averaged 10.85%. This was higher than the broader group "Primary Food Articles" (9.52%) and much higher than overall WPI inflation

(6.37%). Consequently the contribution of 'Food grains' in WPI inflation in January 2007 was, at 8.34%, significantly more than their weight in the index. But, nonetheless, the magnitude of this contribution was small because of low weight of foodgrains in WPI.

The weight of food items, particularly of foodgrains, is much higher in the Consumer Price Indices. The CPI-AL assigns a weight of 69.15% to food items, of which the weight of cereals is 40.94% and pulses 3.39%. While overall CPI-AL rose 9.8% y-on-y in February 2007, the food component rose 11.8%, so that contribution of food was as high as 83.4%. The CPI-IW assigns weight of 57% to food, of which 20.47% is on cereals and 3.59% on pulses. The food index increased 12.2% y-on-y to February 2007 as against 7.6% increase in overall CPI-IW, implying a contribution of 74%. Of the three available consumer price indices, CPI-UNME assigns the lowest weight to food (45.61%) and to food grains (10.97% to cereals and 2.51% to pulses). But even so, the contribution of food to y-on-y inflation to February 2007 was as high as 67% since the food component increased 11.5% against 7.8% rise in the overall index. Even excluding perishable items (fruits, milk, meat, egg and fish), contribution was 48.6%, with foodgrains alone contributing 20.2% and with sizeable contributions also by edible oils and condiments & spices which are traded in futures markets.

Clearly, food and foodgrains inflation during the period considered was significantly higher than overall inflation by all price indices. But their contribution to inflation varies widely depending on weights assigned, being highest in CPI-AL which is pertinent for the poor and lowest in the WPI. In particular, the contribution of foodgrains to overall WPI inflation is relatively small and much less than to CPI inflation. This is because, unlike the CPIs, the WPI also includes intermediate and capital goods which do not enter directly into consumption. However, because of this, the WPI permits a wider look at agricultural goods since many of these do not directly enter the food basket but are used as intermediates.

There are 87 processed and non-processed agricultural commodities in the WPI basket accounting for a combined weight of 25.65%. Of these 66 are primary agricultural commodities and 21 are processed commodities. If we examine the contribution of these 87 commodities in the WPI inflation during January, 2007 when y-o-y inflation was 6.37%, their contribution was 31.54% against their weight of 25.65% in WPI basket. This was 1.23 times their weight in WPI which indicates more than proportionate contribution in inflation.

Thus, as in case of food, considering all agricultural commodities shows higher inflation than overall WPI inflation. But, although this supports the view that the inflation in early 2007 was led by agricultural commodities, it is not possible to conclude that factors particular to these commodities were the only, or even major, reason behind the spurt in inflation. This is because manufactured products (with weight of 63.75% in WPI) also recorded inflation of around 6%. While some of this could be accounted for by cost-push from agriculture, other factors such as demand consequences of high growth in GDP and in money supply cannot be ruled out.

Price Rise in Agricultural Commodities

Notwithstanding that the contribution of agricultural commodities, particularly 'food grains', in WPI inflation was small due to relatively low weight, it is a fact that there was a significant upsurge in prices of some of the agri-commodities from the middle of 2006 to the first quarter of 2007. In view of their headline implications as also their impact on the poor, this deserves in-depth examination and monitoring.

In order to examine whether futures trade could have led to price rise in agricultural commodities, we have relied on WPI data as these are a closer proxy of producer prices of agricultural produce than retail prices. Of the 43 agricultural commodities that have futures trading, 24 commodities accounted for 98.7% of total value of futures trading of agricultural commodities in 2006-07. Not only do these 24 commodities account for almost the entire volume of futures trading in agricultural commodities, just the top eight commodities account for about 84% of the total value of trade.

However, among these 24 commodities with preponderant share in volume of futures trade, 3 do not feature in the WPI basket at all. Guar seed, Guar gum and Mentha oil having a share of 29.6% in value of total future trading in agricultural commodities are significant omissions in the WPI basket, and could not be used in the price analysis. This shows that a very significant share of futures trading in agricultural commodities is accounted for by commodities that are insignificant for the overall price level in the economy. Indeed, even the remaining 21 commodities, with weight of nearly 70% in agricultural futures trade, have a weight of only 11.73% in the total WPI basket and account for less than half of the weight of the 87 processed and unprocessed agricultural commodities that are included in the WPI.

A mapping was done of these 21 commodities with regard to the events of futures trade in these. It was observed that reasonable degrees of liquidity in most of these commodities came much after they were notified for futures trading. For some commodities, even after some liquidity was observed, this did not grow or stabilize continuously thereafter. After arriving at the month of the year when reasonable liquidity in trade in a specific commodity was gained, the WPI data was divided into two sub-sets of pre and post futures period having equal observations for that commodity. "*

The above mentioned details are an excerpt from the Abhijit Sen Committee Report. The given facts prove the case quite well that the policies formulated by the government in the given field did not work well. Various reasons can be attributed to the same, one can speak of irregularities on the part of the speculators or one could also blame the go stop attitude adopted by the government. Its random decisions to stop the trade in a few commodities does not go down well with the traders, thereby hurting market sentiments.

1.3 Goals and Objectives

The main issue that needs to be addressed in the sphere is not a single problem. Its a plethora of issues ranging from deep-rooted technical flaws to the more basic problems arising out of lack of awareness. The problem is multi-faceted and has various dimensions to it. When one thinks of excessive speculation in the futures trading market, one can not limit his analysis to the major role of the speculators but one also has to closely scutinize the lack of involvement of the producers and consumers in this mode of trade. If one talks of gap analysis, one cannot merely get away by saying that the efforts made by the policy makers have not been sufficient, one also has to realize that the involvement of the stake holders in a program of this kind too has been of a bare minimum level.

In this project one has tried to suggest simple ways by which this way of trading can be revived for the benefit of the various strata of society at a microcosmic level and for the society at large.

2. Methodology

2.1 Literature Search

One of the best ways to get a head start on any topic is by getting familiar with the intricacies of the issue. Since one did not have much of a prior information on the given topic, the first step that I undertook was to make use of the rich academic works undertaken by various authors in the nation and abroad to get acquainted with the most pertinent issues. One would remain ever indebted to the authors like Hull, Payrard and Jain whose intellect and research on the given topic come in handy for anyone who wishes to embark on a project pertaining to futures trading. One can not discount the other authors that one happened to chance upon while trying to get hold of authentic material. The various reports that have been published by the government authorities and other non-government bodies on the specific issue also helped shape an opinion on the issue. One gets a deeper insight into the deep-rooted troubles if one is aware of all the various facets available to the issue.

2.2 Meetings and Interviews

One of the lasting impressions formed on the topic was during my first meeting with my mentor, Prof. S. K . Mathur from IIT-Kanpur. His detailed analysis of the given topic and his personal take on the issue seemed of utmost relevance in the future work undertaken by oneself. This and the consequent meetings, details of which are listed below, helped provide direction to the course of the research. My mentor left an indelible impact wherein he discussed the fact that the noble method of trading aimed to benefit the entire producer and consumer spectrum has seen serious flaws because of its use to make profits by the speculators. The process, as envisaged by him could hold to profit the farmers and the day-to-day consumers however the entry of a wide range of speculators who in a way have lead to the entry of mean-money making methods in the loop.

3. Current NGO and Government Efforts

Various steps were taken by the government in the early 2000s to give a boost to the phenomenon of futures trading. The first and foremost step taken up in this direction was that in early 2003 the Government of India gave authorization to four bodies to set up nation-wide multi-commodity exchanges. The presence of national-level exchanges made the availability of futures contracts across the nation in the most cost effective manner through technology and at the same time helped improve the risk management systems to improve and maintain financial integrity of futures markets in the country. Three more steps were taken in the same year to help boost the trade. The second action was the expansion of permitted list of commodities whose futures could be traded, under the Forward Contracts (Regulation) Act, 1952 (FC(R)A).The scope of the second decision was so mammoth that it permitted forward trading in almost all possible goods. Expansion of list of commodities resulted in making available risk management mechanism for all commodities where such a demand existed in the past but could never be made possible. Thirdly, the previously prevalent 11 days restriction to

complete a spot market transaction (ready delivery contract) was abolished. Finally, non-transferable specific delivery (NTSD) contracts was removed from the purview of the FC(R)A. . The abolition of this restriction on spot market transactions, and removal of NTSD contracts from the purview of FC(R)A worked as was envisaged and led to unhindered forward contracting among the constituents of commodity trade value chain. Above four policy decisions have the potential to proliferate futures contracts' usage in India to manage price risk.

All forward contracts and related issues are dealt with by the Forward Markets Commission, which is a regulatory body that has been set by a provision under Chapter 3 of Forward Contract (Regulation) Act of 1952. Under the scheme of the current hierarchical structures, Forward Markets Commission is a body that has to report to the Department of Consumer Affairs. This department too is subservient to the Ministry of Consumer Affairs. The trade has been enlisted in the Union List and hence the government has the prime and first control over both FMC and all the other related matters of concern. In an effort to make the process of regulation more smooth and efficient, the government of 2007 introduced an amendment to FC(R)A, 1952. The bill was later withdrawn because of a few ordinances in related litigations. Thus, autonomy has still not been granted to the body.

So far one has talked about the measures taken on the part of the government to help revive the trade. Regarding the various problems faced by the trade sector, the government did set up a joint committee headed by Mr. Abhijit Sen to determine the relation between futures trading and inflation. The committee in its final report said that it has been unable to find any substantial argument to conclusively prove the relation between the two. Another bill has also been in the parliament for quite some time now, namely the Forwards Contracts Regulation Act Amendment Bill 2010. the bill aims to provide financial and decisive autonomy to FMC. The bill remains to be in the pipeline with a conclusive decision yet to be taken on the same.

One has to accredit the government through various times, to have supported the method of Futures Trading in commodities with all the necessary vigour. Various reports like: Dantawala Commitee Report (1966), Khusro Commitee Report (1980), Kabra Commitee Report (1994), UNCTAD and World Bank joint mission report "India: Managing Price Risks in India's Liberalized Agriculture: Can Futures Market Help?" (1996), The Expert Committee on Strengthening and Developing Agricultural Market (Guru Committee 2001). By the virtue of the given reports one can see the sincere efforts on the part of the government to help promote the cause.

In efforts too, the government never flinched from the ways to help promote the given mode of trade. In 2003, the remaining 54 products were opened for trading in futures and three national level exchanges were set-up at Bombay, Baroda and Indore

4. Results and Discussions

4.1 Findings from the literature

At certain points one does feel that there is a vast abyss of difference between theory and practice. It is one such area where the theory does not very much take into account the mis-givings that might creep into the functioning of futures trading in commodity. At a more pragmatic and practical level one gets to witness the stark difference. Futures trading takes into account various factors like the past trade structures, the regulation on price and other such things. These situations will vary from place to place leading to varying repercussions. The literature on the topic mentions all this but in a very unimportant manner. However it is only when the practical application is seen do we get a complete picture. As is the case of India, where futures trading in commodities like rice (excluding Basmati) is banned because the government need to procure a set quantity for its buffer stock, and hence can not allow the crop to enter into the market beforehand. The price regulations on sugar and wheat also impacts the market adversely because the role of a free market is curbed and in a restricted sphere the products will not yield maximum benefit from this mode of trading.

4.2 Gap analysis

It would hardly be fair to find faults with the government efforts in the case of futures trading in commodity. In the wake of liberalization and the opening up of the market economy to the world in the 90s the government has been active in promoting the cause of this way of trading. The government has effectively realized the importance of this mode of trading and has been of the mind to promote it. As has been mentioned above, the government by the virtue of both reports and affirmative actions has tried, both in voice and in deed to be a sole benefactor. The problems have crept in with the practical flaws that remain to be addressed. Since the phenomenon has been very naive with respect to our nation, one cannot conclusively prove that it has caused harm to the national economy or exchequer in any way. We do not have the required background knowledge of the practical functioning of this way of trading because it adapts variously to various cases. Hence it would be totally unjustified to blame government or its policies for the current problem.

5. Recommendations, Scope and Strategy for Implementation

5.1 Recommendation & Scope

Official report by the government says that India is suffering from a fiscal deficit of 5.9% of its Gross Domestic Product for the year 2011-12. This small percentage actually comes to be around 5,20,000 crores in the Indian National Rupee. Amidst rising fiscal deficit and low revenue generation it would be highly irresponsible to suggest ways out of a problem that would lead to a mammoth burden on the exchequer. One has to be pragmatic and circumspect while suggesting any recommendation for the government. One has to keep in mind the pressing need of any government to keep the machinery going by investing in the already running projects and departments like education, defence and transport. Any government can not go all out of its way just to implement one plan. Any mammoth undertaking would require financial support from external agencies like the World Bank or International Monetary Fund.
In such a dismal case, it becomes imperative for any researcher to take proper precaution while suggesting any idea. One has duly though these issues out and has come up with the most feasible plan that can help ameliorate the current situation.

The Indian Post and Telegraph Department has been a pioneer body and has been present in the lives on an Indian since time immemorial. The department boasts of nationwide presence and popularity. Our country has the largest postal network in the world with over 1,55,015 post offices of which around 89 per cent are in the rural areas. The expansion has not been merely in terms of physical, tangible presence but also in ways of functioning. The role of the post offices is not restricted to merely sending and receiving letters and parcels. It has now registered a stronger presence by coming up with schemes like Post Office savings Scheme, Postal Life Insurance, Money Order, International Money Transfer, Electronic Clearance Service, Mutual Funds and so on. On a particularly related note one would also like to bring in the fact that the postal department also handles foreign exchanges to a certain degree. The web site for the Indian Postal Service says:

"High growth Indian economy coupled with globalisation has resulted in thousands of Indians going abroad for travel, studies and business. Simultaneously, there is a huge inflow of foreign tourists visiting India on vocation and business. This has resulted in the need for a reliable and quality service provider for purchase and sale of Foreign Exchange.

Each one of them requires reliable, affordable and convenient Forex services. At many places, there is no Bank or other facilities to avail foreign exchange. India

Post, with a network of more than 155,000 post offices, is best poised to offer Forex services in an efficient and economical manner. Now India Post, in association with HDFC Bank, provides Forex services through select Post Offices across India. HDFC Bank is one of the leading providers of Forex services and through this association, India Post brings to the customers a range of Forex services in a professional manner."

Thus one gets a glimpse of the multi farious activities undertaken by the postal services. The fact that this recommendation is not just an idle hunch feeling is compounded by the fact of the dealings in foreign exchanges of the postal department.

Hence the plan that one proposes is that one should merge the futures trading with the Indian postal services. It can be an add-on to the existing features of the department. The obvious question that comes to ones mind is that in what way can a post office regulate futures trading?

The answer to the question is that farmers and consumers can sell and purchase futures contract from their nearest post office. This would inevitably eliminate the role of speculators and brokers and bring it to a bare minimum level. The wide and far-reaching presence of post offices even in the remotest corners of the nation would help farmers from all parts of the nations to indulge in this method of trading. Also the reliability factor too creeps in and one would obviously have more faith in the local bodies present at a nearby location than an external presence. Moreover the storage and transportation facilities of the Indian postal services can be availed for the delivery of goods at the various ware houses all over the nation. An already existing network of rail, road and air is made use of by this department hence no hassle of chalking out new routes.

5.2 Flowchart (Strategy) for implementation

1) **Recommendation:**
   Scope: Making futures contracts available at post-offices
   Flowchart:
   - The plan is put forth in front of the Department of Consumer Affairs and Indian Postal and Telegraph Department.
   - The idea should be duly discussed with both the eminent bodies and an execution plan should be chalked out.
   - One could either make use of the existing man-power by equipping them with the essential knowledge and information or can make

provisions for recruiting one person per post office to undertake this job.

- Proper advertising should be done after the given plan is executed via modes like television, news papers and radio so that the beneficiaries have the information about it.

6. Suggestions for future work

One has to realize that a few weeks time is not quite sufficient to come up with a perfect report. One does try to give in his best but scope for correction, deliberation and future work does subsist. In this report too, there are various directions that need to be worked up on for the proper solution. One has limited the scope of the project to merely that pertaining to commodities, however futures trading is also conducted in options. Exchanges and swaps. These are fields with multiple problems that go un-noticed due to the focus on essential commodities. Hence one would suggest that research into the working of future markets in these too be taken up for discussion elsewhere.

7. Conclusion

One would like to put in a few words at the end of the report. The method envisaged by the government has been a noble one. This initiative has been one that could have helped materialize various dreams pertaining to liquid markets and stable prices. However certain discrepancies crept in the given apparatus thereby harming the entire system. But one does not merely think of doing away with the entire process, instead ways and solution need to be found to help ameliorate the situation for a better tomorrow.

8. References

General Readings:

1. Payrard and Jain
2. Basic Econometrics by Gujrati
3. Abhijit Sen Report.

9. Appendix A

Meetings and Interviews

Date: June 14, 2012

Time: 11:00 AM

Duration of Discussion: 20 minutes

Discussion [Please use bullets]:

1. Mentor gave his opinions on the issue.
2. Mentor suggested me to make the make the analysis not just theory oriented but practically feasible.

Action Items before next discussion, please include timeline:

1. Read up on the topic from the books given by him.
2. Get hold of authentic reading material on the internet.

Date: July 2, 2012

Time: 12:00 PM

Duration of Discussion: 20 minutes

Discussion [Please use bullets]:

3. Mentor introduced me to the concept of excessive speculation.
4. Mentor asks me to back the findings with quantitative analysis.

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Rakshak Foundation is a 501(c)(3) non-profit organization headquartered in Santa Clara, California. It partners with Rakshak Foundation NGO, New Delhi, India. It researches different public policy issues and creates awareness about them. Rakshak Foundation sponsors Seminars on public policy matters, sponsors activities to involve the youth in social issues including volunteerism and supports programs to help the needy. Rakshak's Summer Internship Program is aimed at providing an opportunity to highly motivated college students to work on complex real life social/national problems under the mentorship of experts and policy makers.

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