

COMMODITY FUTURES AND RISK MANAGEMENT - A STUDY BASED ON SELECTED COMMODITIES FROM THE INDIAN COMMODITY FUTURES MARKET

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ABSTRACT

This paper examines whether commodity futures are an effective mechanism of price discovery and risk transfer in agricultural commodities. Using the co-integration analysis of Johansen and the methodology perfected by Ribba, the study found significant evidence of market efficiency in commodity futures market. Futures market performs its twin functions of price stabilization and price discovery efficiently as evident from the flow of information from future market to spot market.

KEYWORDS: Commodity Futures, Unit Roots, Co-Integration, Error Correction, Price Discovery