

Q. The derivative market can provide reliable price signals and help farmers and other stakeholders to take informed decisions. Explain.  
Introduction:

A derivative which has agricultural produce as agricultural commodity as the underlying asset

Initiative to Boost in Agricultural Derivatives.

↳ Removed Prohibition of forward trading and demutualization of exchanges.

↳ Budget of 2015 → SEBI as New Regulator

↳ Options Trading

↳ Simplification of Securities Transaction Tax (STT)

Problem in Agricultural Farming

↳ Monsoon cycles, Price uncertainty, Supply-chain inconsistencies etc.

To protect farmers

↳ Crop Insurance → PMFBY - Pradhan Mantri Fasal Bima Yojana

↳ Derivative Instrument & Derivative contracts

RISK

Farmer → Market → Premium.

(Please do not write anything except the question number in this space)  
कृपया इस स्थान में प्रश्न संख्या के अतिरिक्त कुछ न लिखें।

# UPSC

Answer Questions in NOT MORE THAN the Word Limit specified for each in the Parenthesis.  
Content of the Question is more important than length.  
(Specimen Answer Booklet - For Practice Purpose Only)

उम्मीदवारों को इस हारा में नहीं लिखना चाहिए।  
Candidates must not write on this margin

## Transfer of Risk

↳ Government must consider creating an Agricut Fund to pay fully or partly the Initial Premium.

↳ A well functioning Derivative Markets can also send strong price signals for Agricultural commodities.

↳ Asymmetry in Agricultural Market is captured by Economic model called Cobweb model

## Challenges

↳ Multiple market imperfection in Agricultural Derivatives.

↳ Overarching participation of Government in every stage. eg. MSP declaration, open-ended procurement.

## Way Ahead

↳ Private sector participation.

↳ Efforts must be made to disseminate financial literacy and fintech training to farmers

↳ Enable farmers to become Entrepreneurs.

Atmanirbhan in true sense.

↳ Create single national market for Agri Commodities through (ENAM) project.