9/22 The derivatives market can provide valuable price signals
S2 and help farmers and other stakeholders to take informed decisions. Explain.

The income support for farmers and produce has been enough for governments. The derivatives market can greatly cushion the price volatility the farmers face.

Hedging risks

The insurance schemes such as the PM Fasal Bima Yojana provides cover to the yield risk and the farmers are unprotected to price risk which can be met by the derivative market.

Agriputs - the puts option, buys the produce from the farmers at a predetermined price. The option can serve minimum price to farmers at the time of sowing. If the price drops trade can be done at predetermined price and if price rises farmers can open sell at the market

It transfer the risk from the farmers to the market participants.

Derivating benefits

The derivative market can send price signals to the cobweb model practised by farmers based on the previous prices crops are sold.

This has led to over production leading to dumping of tomatoes, grapes, etc and under production of onion at times.

The NCDEX National commodity derivative Index launched the Agridex for trading agriculture produce. The number of crops presently to has to be unreserved and it has the option of commodity wise capping to prevent monopoly.

Future The Draft food bill can include the derivative market for agriculture and reduce the government regulation thus encouraging investments.