

U.P.S.C.

The derivative market can provide reliable price signals and help farmers and other stakeholders to take informed decision.
Explain.

Ans: Farmer's yield that is compromised due to monsoon cycle, price uncertainty, supply chain uncertainty, perishable output can be compensated by PM Fasal Bima Yojana. But price risk can be compensated by derivative market.

Reasons for Price Risk

- ① skewed incentives through MSP declaration and open-ended procurement of some crops
- ② Asymmetry in agricultural markets due to cobweb model
- ③ Supply and demand mismatch of perishable items like tomatoes, red chillies etc.

Advantage of derivative market

- (1) The risk is transferred from the farmer to the market participants
- (2) Skewed procurement through MSP will no longer needed.
- (3) A well functioning derivative market reduce information asymmetry about commodities
- (4) Farmers and stakeholders can take informed decisions.

Challenges

- (1) Farmers are not well aware about these complicated instruments
- (2) Farmers are not aware about cobweb problems, and other related problem
- (3) They are financially illiterate,
- (4) Farmers and PPO are deprived of futuristic training.

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Government Measures

- (1) Government can create an Agrispet to support premium.
- (2) Government can hope in PPP model and CSR fund to solve premium burden.
- (3) It can take initiative of financial literacy programme to PPOs and farmers.

Thus, a conducive environment create thriving market. Govt can make farmer Atmanirbhar.