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# CONTENTS

Sr. No.	TITLE & NAME OF THE AUTHOR (S)	Page No.
1.	<b>mHEALTH EFFECTIVENESS AND POTENTIAL IN INDIA</b> <i>SURENDRA NATH SHUKLA, J K SHARMA &amp; DR. BALVINDER SHUKLA</i>	1
2.	<b>AN EFFICACY OF IMPACT OF TURNOVER RATIOS ON PROFITABILITY WITH SPECIAL REFERENCE TO INDIAN PHARMACEUTICAL INDUSTRY</b> <i>DR. N. PASUPATHI</i>	7
3.	<b>5S TECHNIQUE: THE EMERGING CONCEPT OF SERVICE QUALITY</b> <i>SIMERJEET SINGH BAWA, DR. HARPREET SINGH &amp; DR. NITYA</i>	11
4.	<b>PERCEIVED ORGANIZATIONAL SUPPORT AND AFFECTIVE OCCUPATIONAL COMMITMENT AS MEDIATING VARIABLES ON THE RELATIONSHIP BETWEEN ORGANIZATIONAL CAREER GROWTH AND EMPLOYEES PERFORMANCE</b> <i>SAUD NAPITUPULU, TULUS HARYONO, HUNIK SRI RUNNING SARWITRI &amp; MUGI HARSONO</i>	16
5.	<b>PUBLIC SERVICE INNOVATION: STUDY OF MASS TRANSPORT SERVICE THROUGH THE MASS RAPID TRANSIT (MRT) IN JAKARTA</b> <i>ERIE SYAHRIAL, DR. SRI SUWITRI, DR. BAMBANG RIYANTO &amp; DR. SUNDARSO</i>	28
6.	<b>ROLE OF ISO IN IMPROVING QUALITY OF MANAGEMENT EDUCATION IN INDIA</b> <i>DR. KOMAL CHOPRA &amp; DR. PRADNYA CHITRAO</i>	34
7.	<b>REPORTING QUALITY OF SOCIAL SUSTAINABILITY INDICATORS OF INDIAN MANUFACTURING FIRMS: AN ANALYSIS</b> <i>DIGANTA MUNSHI &amp; DR. SRABONI DUTTA</i>	38
8.	<b>SERVICE QUALITY IN HIGHER EDUCATIONAL INSTITUTIONS: AN EMPIRICAL ASSESSMENT</b> <i>DR. MUSHTAQ AHMAD BHAT &amp; MUDASIR QUADIR SOFI</i>	42
9.	<b>AN EMPIRICAL STUDY ON PMJDY SCHEME IMPLEMENTATION AT KANEKAL MANDAL OF ANANTAPUR DISTRICT</b> <i>G DIVAKARA REDDY</i>	49
10.	<b>HRM PRACTICES AND ITS CONTRIBUTION TO LEARNING ORGANIZATION: A LITERATURE REVIEW</b> <i>ESHA SINGH</i>	53
11.	<b>KISSAN CREDIT CARD SCHEMES AND FARMERS AWARENESS - INITIATIVES OF KERALA GRAMIN BANK</b> <i>DR. PRAKASH. C, NEBU CHERIAN. P &amp; JOBY JOSEPH THOOMKUZHY</i>	56
12.	<b>A CASE STUDY ON CASH MANAGEMENT PRACTICES IN COOPERATIVE BANKS</b> <i>DR. MOHD. IQBAL DARZI</i>	75
13.	<b>FINANCIAL INCLUSION IN VILLAGES OF INDIA: A CASE STUDY OF VILLAGES OF SHYAMSUNDAR GRAM PANCHAYAT</b> <i>DR. BANESWAR KAPASI</i>	77
14.	<b>MARKETING STRATEGIES OF RETAIL SECTOR IN INDIA</b> <i>PRIYA MALIK</i>	80
15.	<b>YOUTH ENTREPRENEURSHIP DEVELOPMENT</b> <i>DR. B. KANNAN. &amp; R. DHANABAL</i>	85
16.	<b>A STUDY ON AGRICULTURAL COMMODITY IN TRICHY</b> <i>K. DHINESHNI &amp; DR. S. P. DHANDAYUTHAPANI</i>	88
17.	<b>PORTRAYAL OF NATURE IN ENGLISH LITERATURE AND CONSERVATION OF NATURE</b> <i>SANGEETHA .J</i>	91
18.	<b>A STUDY ON SUPPLY CHAIN MANAGEMENT IN FMCG IN MYSURU CITY</b> <i>JAGATH PONNANNA &amp; SANDHYA P</i>	93
19.	<b>ASSESSMENT OF FACTORS AFFECTING PERFORMANCE OF WOMEN ENTREPRENEURS IN MSEs: THE CASE OF EAST SHOA ZONE OF OROMIA REGIONAL STATE-ETHIOPIA</b> <i>SILESHI LETA NEMERA</i>	96
20.	<b>FACTORS AFFECTING ECONOMIC DEVELOPMENT AND GROWTH OF INDUSTRY IN INDIA</b> <i>SHRUTI SHARMA</i>	99
	<b>REQUEST FOR FEEDBACK &amp; DISCLAIMER</b>	100

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**A STUDY ON AGRICULTURAL COMMODITY IN TRICHY**

**K. DHINESHNI**  
**STUDENT**

**DEPARTMENT OF MANAGEMENT STUDIES**  
**ANNA UNIVERSITY (BIT CAMPUS)**  
**TRICHY**

**DR. S. P. DHANDAYUTHAPANI**  
**ASST. PROFESSOR**  
**DEPARTMENT OF MANAGEMENT STUDIES**  
**ANNA UNIVERSITY (BIT CAMPUS)**  
**TRICHY**

**ABSTRACT**

*Agriculture provides the essential means of livelihood for majority of Indian's population. Agriculture accounts for large export earnings and provides raw material to large number of industries. The general price level of agricultural commodity is affected by a variety of market forces that can alter the current or expected balance between supply and demand. Study on agricultural commodity market in Trichy. The study deals with the commodities such as wheat, cereals, sugarcane, banana and pulses. The purpose of the study is to analyze price fixing method for above mentioned commodities.*

**KEYWORDS**

spot price, price discovering, seasonal factor.

**INTRODUCTION**

A commodity market is defined as the market that trades in primary economic sector rather than manufactured products. Commodities are classified into two types: Hard and soft commodities. Hard commodities are natural resources that must be mined or extracted (gold, rubber, oil etc.) where as soft commodities are agricultural products or livestock (corn, wheat, coffee, sugar, soybeans)

Agricultural Commodities are considered as a new assets class. The word commodity means an article of trade. The word originated from old French word "commodite" which means convenience. Commodities include agricultural products are fuels and metals and are traded in bulk on a commodity exchange on spot market. Commodities interchangeable with another product of the same types in which investors buy or sell through future contract. The price of the commodity is subjected to supply and demand.

Commodities are categorized as energy commodities, exotic, metals and agricultural commodities. India is an agricultural country and one third population depends on the agricultural sector directly or indirectly.

Spot price refers to the current price of a security which can be bought and sold at a particular place and time. Spot prices are most commonly used for serving as a base indicator of pricing future contracts based on the spot price of the security, traders and investors are able to make assumptions about the future price movements of the security.

Future price refers to two participants involving the future contracts agree to transactions the settlement data.

A future contract considered as a standardized forward contract which can be easily traded between parties other than two initial parties to the contract. At first the parties agree to buy and sell an asset or commodity for price agreed upon today (forward price) with delivery and payment occurring at a future market, the delivery date.

The purpose of the study to analyze price fixing method for above mentioned commodities

**PRICE DISCOVERING PROCESS IN TRICHY**

Arrivals of banana, wheat, cereals, groundnut and paddy which had come down sharply over the past few months owing to the drought condition have picked up at Gandhi market in the city over the past few days ahead of the festival season.

The price of the agricultural commodity however is expected to rule steady and not likely to come down owing the festival demand, wholesale traders at the market said the price of good quality commodity had increased by over the past couple of months as arrivals had trickled.

Price discovery is the general process used in determining spot prices. These prices are dependent upon market condition affecting supply and demand. For e.g. if the demand for a particular commodity is higher than its supply the price will typically increase and vice versa.

Price discovery refers to the act of determining the proper price of security commodity or good services by studying market supply and demand other factors associated with transaction.

**SPOT AND FUTURE MARKET**

Spot and future price refers that future price tend to be higher than spot price. Modern day commodity market can be classified as spot and future markets. Spot markets are called as physical markets where delivery of commodity within a day. All commodities are exchanged in a spot market. In the present days, buyers and sellers used to gather in the market where dealings in commodities lead to immediate delivery.

Future contract refers that agreement to buy or sell a set of commodities at a future date or future month at a price agreed upon by the buyer and seller at the market. Risk transfer and price discovery are two of the major roles of future market. By risk transfer from hedgers to speculators and arbitrageurs make to have an effective price risk management.

**SPOT AND FUTURE PRICES**

The spot price refers that current price studying on basis behavior. Basis the difference between cash price and the future price or it defined as relationship between the spot and the future contract.

Basis=Spot price-Future price.

**OBJECTIVES**

- To study on agricultural commodity price in Trichy.
- To identify growth rate in Trichy.



- To study on spot and future price in agricultural commodity in Trichy.
- To study on seasonal factors influencing on agricultural commodity.

## LITERATURE REVIEW

Easwaran, (2008) Commodity future and derivatives considered as important role to play in the risk management process especially in agriculture. The present study deals with the future markets in agriculture commodity in India. The statistical analysis of data considered as on price discovery in a sample of four commodities traded in future exchange have indicate that price discovery is not necessary for agriculture commodity future market. The tools used for econometric analysis relationship between price return, volume, market depth and volume.

S. Karthikeyan, (2014) Consuming fruits consider as several benefits to human body. Among various gets an important place and which is followed by banana. Production process of one fourth of total banana production in the world. India is the leading country for banana production and properly usage of land for cultivating banana. The countries also adopt innovative method used for banana production.

Kumar, (2014) Agriculture still forms the life of our Indian and vital activity of human being. Agriculture sector in India providing nearly half of national income. Agriculture sector providing job opportunity for employees. Agriculture important role in the economic development process of a country. The data were collected from secondary source of economics and statistics 2011-2012. The productivity index values are calculated and differentiated the productivity regions in Trichy.

Mehta, (2013) This study analysis the market behavior and price discovery of Indian Agriculture commodity markets. Commodity future trading was permitted in 2003. The commodity market faced a phenomenal growth. The study considered on average monthly future price of nine commodity data on 2009-2010. The efficient methodology adopted in market increasing high level of productivity. Always increase in GDP in India. The result of the study on price discovery mechanism is quite different commodities suggests that causality can be used in forecasting spot and future price.

R. Sanders, (2012) the first decade faced more structural change in commodity future markets than all previous decades combined. Not only trading volumes and also open interest increased markedly time period also changes in both trading and participants. The available literature on indicates that the harmful impacts of the structural changes in commodity markets over the last decade have been minimal. In the situation expanding market participation may have decreased risk premiums and cost of hedging decreased price and financial market.

## METHODOLOGY

The research study based on descriptive research has been applied and also data collected from and secondary data.

The modern literature study on Engle and Granger methodology for error correction in order to draw inference about causality. This method is used for some limitations like approach is only valid given an ergogeneity assumption. This test helps in understanding the long-run economic relationship between multiple variable. The present study on relationship between two variables on future price and spot price.

## HYPOTHESIS

H0: There is no significant difference between spot price and future price.

Hypothesis is considered with a constant convenience yield. That is inventories decrease (increase) the spot price will increase (decrease) and the convenience yields will also increase (decrease).

## DATA ANALYSIS

This study on both spot and future price for five commodities for time period from 2014 and 2015. The study needs both spot and future data, commodities based on availability of both spot and future data series. Nationalized commodity exchanges like the Multi Commodity Exchange(MCX)and National Commodities and Derivative Exchange (NCDEX).

The study on weekly prices of five commodities spot and future price date for a time period of 2014 and 2015. Wheat, groundnut, paddy, banana and cereals are the five commodities.

## ANALYSIS

TABLE 1: UNIT ROOT TEST RESULTS FOR RETURN SERIES

Commodities	ADF Test statistics	
	Spot	Future
Wheat	-8.25232	-8.24508
Banana	-9.64712	-9.847
Pulses	-7.71459	-8.04178
Groundnut	-10.4524	-10.4076
Paddy	-9.02398	-9.17727
All are significant at 1%		

TABLE 2: LONG HORIZON REGRESSION TEST RESULT FOR 5 COMMODITIES

Commodity	Future				Spot			
	Coefficients				Coefficients			
	A	$\beta$	R2	F	$\alpha$	$\beta$	R2	F
Wheat	0.137926	0.221592	0.106966	35.33458	0.137366	0.19374	0.091086	29.56307
t-vale	0.394032	5.064918			0.398933	5.40549		
p-value	0.6938	0		0	0.6902	0		0
Banana	0.248652	0.165376	0.080108	26.9088	0.187552	0.101033	0.0444	14.35696
t-value	0.865099	4.675603			0.187552	0.101033	0.0444	14.35696
p-value	0.3877	0		0	0.4112	0.0164		0.000182
Pulses	0.383558	0.151046	0.071317	34.32673	0.381484	0.110271	0.050918	23.89131
t-value	1.56135	4.946153			1.889287	3.910399		
p-value	0.1191	0		0	0.059	0.0001		0
Groundnut	0.304035	0.218881	0.100409	38.8423	0.329133	0.201416		33.49595
t-value	1.247098	5.890722			1.340041	4.911022		
p-value	0.2132	0		0	0.1811	0		0
Paddy	0.2061	0.160397	0.075885	33.17499	0.176167	0.083829	0.03724	15.62672
t-value	0.83963	5.66321			1.009061	3.539805		
p-value	0.4016	0		0	0.3135	0.0004		0.000091

## CONCLUSION

Present study on various developments in the Trichy commodity market. The relationship between spot and future prices are detail study come out with long-run equilibrium relationship between them. The disequilibrium between spot and future price and the speed of adjustment towards the equilibrium dynamics between

the prices. Further study on five commodities and seasonal variations. Seasonality is observed in all the agriculture commodities of future and spot price. Finally, five commodity prices have been modeled using state –specification. The forecasts are mostly efficient for most of the commodities considered under the study.

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