

Do you think that banning of future trade is a rational solution to arrest inflation in the country? Comment (200 words)

Futures are market instruments to achieve price discovery, market price stabilisation and price risk management in which buyer and ~~to~~ seller agree to trade a commodity in future at a particular date

Recently Securities Exchange Board of India banned futures and options trading in certain agricultural commodities like Chana, Mustard, Soyabean etc. Government has taken this step in order to curb inflation

Banning of futures do not curb inflation why?

Inflation in a economy is

because of various reasons like the following

- (1) failure of crop productivity
- (2) Reduced area of cultivation
- (3) Increase in export of particular commodity in sizeable amount.
- (4) Hoarding of commodity.

Banning despite not reducing inflation also brings some cons :

Futures have acted as an tool for farmers to know about demand of particular commodity and sow, harvest according to it. When such derivative tool is removed it could create imbalance in demand - supply relationship.

Government steps against concerns over futures:

The Forward Markets Commission ~~has~~ has been established under Agriculture Ministry to delist commodity from futures trade when required.

Eg: Urad, Tur were delisted in 2007

Apart from these even the research reports of National Institute of Agricultural Marketing shows there is no significant inflation caused by futures trading. So it could not be a rational solution (banning of futures).