EVALUATION OF EFFICIENCY FORM OF THE COMMODITIES MARKET:
AN EMPIRICAL STUDY OF THE INDIAN SCENARIO

C.Srinivas Yadav **

** Asst.Professor, Dept.of commerce, Sri Sathya Sai Institute of Higher Learning, Brindavan Campus, Kadugodi, Bangalore, 560067.

Rakesh Roshan Panigrahi *

*Student (II MFM Class), Dept.of commerce, Sri Sathya Sai Institute of Higher Learning, Brindavan Campus, Kadugodi, Bangalore, 560067.

ABSTRACT

This study examines the weak form efficiency (random walk model) and the unbiasedness of two commodities futures market in India. While data for spot and futures prices of Aluminum and Copper is collected from the Multi Commodity Exchange of India Ltd. (MCX). The data regarding the volumes of futures traded is also collected from the websites of the respective Exchanges. The study is analysed by using econometric tools. The spot prices are regressed on the near month, middle month and far month futures prices to test the weak form of efficiency and unbiasedness. The effect of speculation on the unexpected movement of spot prices is also examined. Co-integration and Error correction model are applied to know the long run relationship and deviations from such equilibrium. The impulse response model is used to know the impact of shock of futures prices on the spot prices. Cholesky’s Decomposition model is used to understand the forecast variance. Wald test is performed to check the coefficient restrictions. Durbin-Watson test is done to check the random walk theory at the maturity of contracts. The results show that all the commodity futures prices and spot prices are related in the long run hence, errors of short deviations are corrected to maintain the equilibrium. The random walk theory does not hold good as the contract maturity comes closer. The results conclude that two commodities, considered in the study are inefficient. However, the market efficiency cannot be rejected at all the time. Thus, being India a nascent market in commodities derivatives, there is a scope for better price discovery (efficiency and unbiasedness).