

SOME PROBLEMS OF PRICE ANALYSIS FOR RICE

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Prices of rice in India have fluctuated widely during recent years. These fluctuations have been troublesome to cultivators who make formal commitments for production expenses on the assumption of satisfactory returns from the sale of the marketable surplus. Consumers are also disturbed by price fluctuations because of the difficulties involved in meeting their obligations for living expenses. Some of the price variations are attributable to imperfections in the market for rice in India. But the basic inelasticity of demand for rice causes additional price changes as supplies become more or less available. This paper will consider some of the problems involved in an analysis of rice prices in India.

A Perfect Market

"The distinguishing feature of a perfect market is that all the buyers and sellers in it have perfect knowledge of demand, supply, and prices; and act rationally upon that knowledge. In the simplest case, all the buyers and sellers of a particular commodity are located at a single point in space, and are doing business at a single instant of time. In such a market, a uniform price prevails".¹

A perfect market becomes more difficult as the buyers and sellers who constitute it become scattered over a considerable territory. With perfect knowledge, however, prices will vary only by necessary transportation and handling costs between areas. But, if the instant in time is extended to a crop season, price differences are necessary to allow for the cost of storing the commodity from the period of production until it is consumed. With perfect knowledge, however, traders or other intermediaries can earn only the actual costs required for the performance of essential services.

A further difficulty results from physical differences in different lots of the same commodity. The differences may be in colour, shape, hardness, moisture content, taste, maturity, condition and the like. Under ideal conditions, each quality factor is reduced to definite monetary terms by establishing grades and standards which can reflect commercial values of each recognized level of quality. These differences are usually found in combinations so that judgement is required to place individual lots within a particular grade. If this can be accomplished satisfactorily, however, trading can be carried on without physical inspection of each lot and the concept of the perfect market can still be realised.

¹ Shepherd G. S., *Marketing Farm Products*, The Iowa State College Press, Ames, Iowa, 1949, p. 402.