

SPATIAL EQUILIBRIUM ANALYSIS, BUFFERSTOCKS AND SUPPORT PRICES

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PRICES OF agricultural commodities are prone to experience considerable fluctuations from year to year. These fluctuations take place if there are abrupt changes in supply, which are not neutralized given the relatively low elasticity of consumer demand for most agricultural products, especially food-grains.

If the elasticity is very low, then even a small decrease in supply is likely to cause a big spurt in prices and *vice versa*. Under such circumstances it is the task of the Government, as a policy maker, to plan in such a way that in the event of large fluctuations of supply, the stability of prices is maintained.

This can be done successfully if the Government implement buffer-stock schemes, so that when the prices tend to rise (fall) due to excessive demand (supply), the Government will enter the market as a seller (buyer). Thus the prices will be restored to their desired level. In this note an attempt has been made to develop a model which combines changes in demand due to changes in price, with fluctuations in supply, with a view to finding out conditions under which stability of the prices is ensured.

V. M. Dandekar (1) has given the guide lines for a policy and programme of minimum support prices and maximum ceiling prices under short- and long-term considerations.

The minimum support prices are of interest to the producer who desires the existing price to be supported when it is tending to go down during a good harvest. Similarly a maximum ceiling price is a thing which a consumer will be looking for at a time when the existing price is rising due to bad harvest (or shortage of supply of the commodity).

Thus the minimum support price and the maximum ceiling price determine the limits within which the normal market is allowed to function. The model developed in this note considers a system of mar-