

Relationships Between Prices of Oils and Oilseeds in India

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The objective of this paper is to investigate the short-run interrelationships between prices of oils and oilseeds in India by applying Koyck's (1954) distributed lag model. Since most edible and even non-edible oils can be substituted one for another in many uses, we postulate dependence of each oil price on prices of all others. Depending upon the significance of estimated relationships we shall differentiate between unidirectional and bidirectional causality.

The paper is divided into four sections. Section I gives an overview of oil and oilseed sector in India, and the framework of the price mechanism. Section II deals with the methodology. Section III discusses results, and section IV presents summary and conclusions.

I OVERVIEW

The average domestic availability of oils, the major producing states, and important uses are presented in Table 1. All oilseeds and oils can be classified into edible and non-edible types. Edible oils are those which are consumed by the household sector for cooking purpose. Important among them are groundnut, rape and mustard, sesamum, safflower (Kardi), coconut, niger, soyabean, sunflower, cotton seed oil etc. There are, however, strong regional preferences for these oils. For instance, rape and mustard is preferred in north-eastern India especially Bengal; coconut in Kerala; groundnut in Gujarat, Maharashtra and the southern states. However, some edible oils such as coconut are mostly used for industrial purposes.

Non-edible oils, also called industrial oils, are not suitable for human consumption and are used in the industrial sector. They are castor, linseed, and oils of tree origin like neem, karanji, mahua, sal, kusum etc. Inherent characteristics make some of these oils highly suitable for specific industrial