Price Dynamics and Extent of Integration in Indian Wholesale and Retail Wheat Markets

R. Sendhil1*, T. Arti2, P. Lal2, B. M. Gururaj2, A. Jamaludheen2, U. Chaudhary2, and R. Rathore2

ABSTRACT

Uncertainty in staple food prices places the economy under jeopardy if not managed coherently and markets are not integrated. An attempt was made to analyze the wheat price behavior and extent of integration across selected wholesale and retail markets in India sourcing monthly data from FAO (July 2000-June 2016). Findings indicated that the price in wholesale and retail markets as well as its divergence was lowest in Patna, implying a major production and consumption zone, and highest in Chennai, indicating a negligible production. Monthly price indices exhibited a clear-cut seasonality linking with the arrivals of post-crop harvest. Extent of price integration was examined using Johansen’s approach to know whether markets share a linear deterministic trend followed by testing the Law Of One Price (LOOP). The maximum likelihood test indicated a strong integration in different combinations of markets with some market pairs showing unidirectional-causality, while the rest exhibiting either bidirectional-causality or no-causality. Barring Patna, Delhi, and Mumbai’s retail and wholesale markets, the rest of the market combinations did not confirm the LOOP. The study advocates rational allocation of resources based on the extent of price integration and reducing the market distortion for improving the overall performance.

Keywords: Allocation of resources, Law of one price, Market integration, Price integration, Seasonal price index.

INTRODUCTION

Wheat is an integral part of food basket and a critical ‘staff of life’ for around 2.5 billion poor consumers earning less than US$ 2 per day, apart from around 30 million farm families producing the cereal (Singh et al., 2016). India is the second largest producer of the nutritious cereal feeding million mouths irrespective of income categories. Production in rural farms and the subsequent price divergence between rural and urban areas is one of the major factors that influence the level of consumption (Ramdas et al., 2012; Nasurudeen et al., 2006). Wheat being a major staple food, its price volatility, which represents the risk (Sendhil et al., 2014a), has a significant influence on production as well as consumption decisions. The price of the necessary commodity set by the interaction of demand and supply forces is by and large inclined to the production, stock, government policies on procurement, support price, and other subsidies which ultimately get reflected in the market (Acharya et al., 2012), and sometimes by international price movement (Bakucs et al., 2015).

Well-functioning markets effectively transmit price signals, both spatially (across regions) and temporally (across time), which helps in distribution of market resources and encourages investment (Qureshi, 1974; Dagher et al., 1991; Kurosaki, 1996; Ahmad, 2003). Alternatively, market performance is decided by the degree (and direction) of price integration since stabilizing prices in one key market will produce a desired outcome in...
others through arbitrage process (Sharma and Burark, 2015). Volatility in commodity prices is a major concern since it has decided the fate and fortune of several countries on account of its association with information flow, particularly in an arbitrage free economy (Sendhil et al., 2014a). In addition, economic policies like the recently proposed Goods and Services Tax (GST) do affect the functioning of the agricultural commodity market system.

Wheat price from the perspective of stakeholders is an important factor considered for ascertaining the market performance in an agrarian economy like India, which the government substantially controls in terms of production, procurement, stock, trade, and pricing. The extent of wholesale and retail price movement and their inter-relationship in different markets is also considered a major factor in determining the efficiency. Commodity prices are inherently noisy, non-stationary, and likely to be leptokurtic, and hence it becomes cumbersome to capture the dynamics (Sendhil et al., 2014a). In addition, diversity in regional production and consumption adds more complexity. Unquestionably, several studies have been done on price analysis and spatial market integration, but the main motivation arises to understand the price dynamics along with integration (horizontal and vertical) and price transmission in wholesale and retail markets of wheat, a staple commodity that is largely supported by the government. Given the complex conditions prevailing in wholesale and retail markets, an in-depth investigation will help to prioritize investments, reduce distortions, and suggest policies for improving the overall performance. In the milieu, the present study was an attempt to address the fundamental issues in major Indian wheat markets.

MATERIALS AND METHODS

The study sourced wholesale and retail monthly price data on wheat for four selected markets viz., Patna, Delhi, Mumbai and Chennai (Figure 1 and Table 1) in India from the FAO-FPMA (Food Price Monitoring and Analysis) tool. The data pertains to the agricultural year 2000-2001 to 2015-2016 (i.e. July 2000 to June 2016). Conventional tools

Figure 1. Selected wheat markets in India and their geographical location.
Market Integration in Indian Wheat

Table 1. Selected wheat markets and the basis for selection.

<table>
<thead>
<tr>
<th>Markets (Wholesale and retail)</th>
<th>Basis for selection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patna</td>
<td>Eastern India (High production and high consumption zone)</td>
</tr>
<tr>
<td>Delhi</td>
<td>Northern India (High production and high consumption zone)</td>
</tr>
<tr>
<td>Mumbai</td>
<td>Western India (Moderate production but high consumption zone)</td>
</tr>
<tr>
<td>Chennai</td>
<td>Southern India (Negligible production but increasing consumption zone)</td>
</tr>
</tbody>
</table>

and techniques were used to analyze the data for obtaining valid conclusions.

**Compound Annual Growth Rate (CAGR)**

The growth rate in wheat prices was estimated by the following formula (Gujarati, 2013; Sonnad et al., 2011; Ramdas et al., 2012):

\[ Y_t = Y_0 (1 + r)^t \]  

(1)

Take log on both side of the Equation (1) to transform into logarithmic form.

\[ \ln Y_t = \ln Y_0 + t \ln(1 + r) \]  

(2)

Where, \( Y_t \) is the price at time ‘\( t \)’ for which growth has been calculated, \( Y_0 \) is a constant and \( r \) is the compound annual growth rate. The above equation was estimated using the Ordinary Least Square (OLS) method and the growth rate is interpreted in terms of percent.

**Instability Index**

To examine the extent of variation and risk involved in prices, instability index was calculated using the Cuddy-Della Valle approach (Cuddy and Della Valle, 1978).

\[ CDVI = CV \times \sqrt{1 - R^2} \]  

(3)

Where, \( CDVI \) is the Cuddy-Della Valle instability Index in per cent, \( CV \) is the Coefficient of Variation in percent and \( R^2 \) is the coefficient of determination from a time trend regression. The estimated index is a close approximation of the average variation in monthly prices, which were adjusted for trend.

**Seasonal Price Index**

Seasonal variation in prices was estimated as a ratio of the actual month prices to the proportion of that particular month to the complete 12 months prices for the selected month’s year. Then, the de-seasonalized data has been computed using the following formula:

\[ \text{Deseasonalised data} = \frac{\text{Actual data for i th month}}{\text{Seasonal index of i th month}} \times 100 \]  

(4)

The Intra-year Price Rise (IPR) and coefficient of Average Seasonal Price Variation (ASPV) was used to estimate the extent of seasonal variation in the prices.

\[ IPR = \left[ \frac{HSPI - LSPI}{LPSI} \right] \times 100 \]  

(5)

\[ ASPV = \left[ \frac{HSPI - LSPI}{(HSPI + LSPI)/2} \right] \times 100 \]  

(6)

Where, \( HSPI \) is the Highest Seasonal Price Index and \( LSPI \) is the Lowest Seasonal Price Index.

**Market Integration**

Market integration is an ideal situation wherein trade occurs between the selected markets with arbitraging in the presence of transaction cost (Ravallion, 1986; McNew, 1996; Baulch, 1997). A detailed review and application of market integration tools, particularly in developing countries, have been discussed by Rapsomanikis et al. (2006). Gonzalez et al. (2001), Omar et al. (2014), and Sendhil et al. (2013b and 2014b) opined that integrated markets facilitate the flow of information across space, time, and form. Several tests have been developed over a period of time and used to test the degree of price integration between markets since the procedure given by Engle and Granger (1987). The test is a two-step process, which is easy to apply but embedded with several limitations and, sometimes, can provide misleading
results. An alternate approach is given by Johansen (1988) which can check for multiple co-integrating vectors. Kumar and Sharma (2003) reported the superiority of Johansen’s test over others owing to its simplicity in computation, robustness sans a priori assumptions on variables either endogenous or exogenous in nature with testing simultaneously the number of co-integration vectors unimposed earlier. Amid typical statistical assumptions for price time series, Johansen’s (1988, 1994, and 1995) co-integration test has been widely used in market integration studies (Sendhil et al., 2013b and 2014b; Mahalle, 2015; Sharma and Burark, 2016) to address the problem of spurious series with zero mean in the case of Equation (7), that \( Y_t \) is stationary around a deterministic trend, \( \delta \equiv 0 \) (\( p=1 \)) is null hypothesis, i.e. there is a unit root, it means that ‘\( r \)’, the time series, is non-stationary. The alternative hypothesis is that \( \delta \) is less than zero and the time series is stationary. Under the null hypothesis, the conventionally computed \( t \) statistics is known as the \( \tau \) (tau) statistic, and its critical values were given by Dickey and Fuller (DF) (Dickey and Fuller, 1979). If the null hypothesis is rejected, it means that \( Y_t \) is a stationary time series with zero mean in the case of Equation (7), that \( Y_t \) is stationary with a non-zero mean (= \( \beta_1 / (1-p) \)) in the case of Equation (8), and that \( Y_t \) is a stationary around a deterministic trend in Equation (9).

To test the hypothesis that \( \delta = 0 \), it is to be noted that the critical values of the tau test are different for each of the highlighted three specifications of the DF test. If the computed absolute value of the tau statistics exceeds the DF or MacKinnon critical tau values, the null hypothesis that \( \delta = 0 \) will be rejected, implying the time series is stationary. Alternatively, if the computed (\( \tau \)) value does not exceed the critical value, the null hypothesis will not be rejected, indicating the non-stationarity in the selected price time series. The DF test assumes the absence of correlation between the error-terms i.e. auto-correlation. However, if they are correlated, Dickey and Fuller have developed an alternate test known as the Augmented Dickey-Fuller (ADF) test (Dickey and Fuller, 1981) and it is conducted by “augmenting” the preceding equation by adding the lagged values of the dependent variable \( A \Delta Y_t \). The ADF test equation is as follows:

\[
\Delta Y_t = \beta_1 + \beta_2 t + \delta Y_{t-1} + \alpha_1 \sum_{i=1}^{m} \Delta Y_{t-i} + \epsilon_t \tag{10}
\]

Where, \( \epsilon_t \) is the pure white noise error-term and \( \Delta Y_t = (Y_{t,1} - Y_{t,2}), \Delta Y_{t,2} = (Y_{t,2} - Y_{t,3}) \) and so on. The number of lagged difference terms to be included in the test equation is determined empirically and the idea behind inclusion is to make the error-terms serially uncorrelated. The null hypothesis is still that \( \delta = 0 \) or \( \rho = 1 \), that is, a unit root exists in \( Y \) (i.e., \( Y \) is non-stationary).

Post unit root checking by ADF test, co-integration analysis was done using Johansen’s (1988) approach. It is a multivariate generalization of DF test with the following formulation:

\[
p_{it} = A_1 p_{it-1} + \epsilon_t \tag{11}
\]

Subtracting \( p_{it-1} \) on both the sides, Equation (11) becomes,

\[
\Delta p_{it} = A_1 p_{it-1} - p_{it-1} + \epsilon_t \tag{12}
\]

\[
\Delta p_{it} = (A_1 - I) p_{it-1} + \epsilon_t \tag{13}
\]

\[
\Delta p_{it} = \Pi p_{it-1} + \epsilon_t \tag{14}
\]

Where, \( p_{it} \) and \( \epsilon_t \) are \((n \times 1)\) vectors; \( A_1 \) is an \((n \times n)\) matrix of parameters; \( I \) is an \((n \times n)\) identity matrix; and \( \Pi \) is the \((A_1 - I) \) matrix. The rank of \((A_1 - I) \) matrix equals the number of co-integrating vectors and is determined by the trace statistic.

\[
\lambda_{\text{trace}} (r) = -T \sum_{j=r+1}^{n} \ln (1 - \lambda_j) \tag{15}
\]

Where, \( \lambda_j \) denotes the estimated values of the characteristic roots (Eigen values) obtained.
from the estimated $\Pi$ matrix; and $T$ is the number of usable observations.

**Price Transmission**

Prices from one market to the other are transmitted owing to perfect integration coupled with the development in information and communication technologies. In addition, the speed of price convergence depends on the market regulations and policy reforms (Sendhil, 2013a). Sometimes, exogenous variables also influence price transmission (Hassouneh et al., 2016). In the present study, Granger (1969) causality test was conducted after Johansen’s procedure to find out the direction of price transmission. The test helps to know whether market $p1$ Granger causes market $p2$ or vice-versa, and it was tested using the following equation:

$$p_{it} = c + \sum_{j=1}^{n} (\phi_{1t-j} + \delta_j p_{2t-j})$$  \hspace{1cm} (16)

The null hypothesis of the joint significance $\delta_n$ was tested for the causal relationship between two selected markets. The test determines the effect of lagged values of explanatory variables on the current values of dependent variable. However, it does not imply the instant causality or transmission and hence the results were reported with a concern/caution for short-run relation, which is also a limitation for this study.

$$H_0: \delta_1 = \delta_2 = ... = \delta_n = 0$$  \hspace{1cm} (17)

**Law of One Price (LOOP)**

In spatial terms, the classical paradigm of the law of one price, as well as the predictions on price integration provided by the typical spatial price determination econometric models (Enke, 1951; Samuelson, 1952; Takayama and Judge, 1971) assume that price transmission is complete with equilibrium prices of a commodity sold at competitive markets viz. foreign and domestic markets differ only by transfer costs under common currency conversion. This postulation shall be validated by the LOOP against its strong version *vis-à-vis* weak version (Bakucs et al., 2015).

The law of one price, in its weak version, was tested following the approach of Gandhi and Koshy (2006), Awokuse and Bernard (2007), and Sendhil et al. (2013b, 2014b) to identify whether wheat had the same price in spatially separated wholesale and retail markets barring the transfer costs. The ideal condition can be tested using the $\alpha$ and $\beta$ coefficients obtained from the Johansen’s co-integration equation by imposing restrictions. For instance, while testing the integration between two spatially separated commodity markets, the rank of $\pi = \alpha \beta'$ will be equal to one and, therefore, matrices for $\alpha$ and $\beta$ take the order 2×1. Subsequently, the restriction of $\beta' = (1, -1)$ was imposed to test the LOOP for two markets, and it was considered as a valid test in the long-run owing to the long-run parameters of the co-integrated system embedded by the $\beta$ matrix. On the other hand, the n–1 co-integrating vectors indicate that all prices in different markets follow the same stochastic trend and hence pairwise co-integration exists, validating the law. The approach shall be generalized for ‘n’ number of markets as well by imposing the required restriction (Gandhi and Koshy, 2006).

**RESULTS AND DISCUSSION**

**Price Dynamics**

Deciphering the price trends across spatially separated markets provides the dynamism behaviour of the time series in different regions (Figure 2) which facilitates drawing of economic implications. It is explicit that the prices have been surging from 2000-2001 to 2015-2016 irrespective of market category and regions. Agricultural production is biological in nature with geographical concentration, thus wheat prices in selected markets across India (Table 1) exhibited spatial and temporal variations (Sendhil et al., 2014a). However, it is interesting to note that the price divergence between the markets witnessed a sharp increase from the initial selected period, 2000-2001 to the recent period, 2015-2016 (Figure 2), indicating the need to study the degree of price integration and price transmission among the selected markets.
Sendhil et al.

Figure 2. Price trend in selected wheat markets (AY 2000-2001 to 2015-2016)

The growth, variation, and descriptive statistics of wheat prices in different regional markets indicated a clear-cut difference between the wholesale and retail prices (Table 2). A symmetric pattern was observed in all the estimated parameters for the wholesale and retail prices. Patna witnessed the lowest estimates for the majority of the parameters. The wholesale and retail prices were highest in the case of Chennai (Wholesale price: `26 kg⁻¹ and Retail price: `34.14 kg⁻¹), indicating the lack of production in that zone despite growing consumption demand for wheat-based products in the southern region. However, the price divergence between the retail and wholesale markets was highest in Mumbai (2.68 kg⁻¹), followed by Chennai (2.63 kg⁻¹), Delhi (1.57 kg⁻¹) and Patna (1.07 kg⁻¹). The wholesale and retail prices were lowest in Patna implying the region is a major production and consumption zone. The wholesale prices were considered as a proxy for the producer or farm gate prices (Acharya et al., 2012). The selected price series were positively skewed ranging from 0.08 to 0.57, indicating that the distribution tail is longer on the right side in comparison to the left. Alternatively, the majority of the monthly prices clustered towards the left of the mean, with only a few extreme observations found on the right side of the tail, a common feature of the high frequency time series data (Sendhil et al., 2013b). Agricultural commodity prices in general behave non-stationary with leptokurtic distribution (Sendhil et al., 2014a). However, the estimates of kurtosis was found to be negative for all the markets, specifying the platykurtic (fat or short tailed) distribution i.e.

Table 2. Summary statistics for the wheat market prices (AY 2000-01 to 2015-2016), (n=192).

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Patna Wholesale</th>
<th>Patna Retail</th>
<th>Delhi Wholesale</th>
<th>Delhi Retail</th>
<th>Mumbai Wholesale</th>
<th>Mumbai Retail</th>
<th>Chennai Wholesale</th>
<th>Chennai Retail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum (` kg⁻¹)</td>
<td>18.00</td>
<td>20.00</td>
<td>18.44</td>
<td>20.05</td>
<td>25.16</td>
<td>33.69</td>
<td>26.00</td>
<td>34.14</td>
</tr>
<tr>
<td>Minimum (` kg⁻¹)</td>
<td>5.70</td>
<td>6.00</td>
<td>5.72</td>
<td>7.00</td>
<td>9.02</td>
<td>10.25</td>
<td>8.00</td>
<td>10.00</td>
</tr>
<tr>
<td>Range (` kg⁻¹)</td>
<td>12.30</td>
<td>14.00</td>
<td>12.72</td>
<td>13.05</td>
<td>16.14</td>
<td>23.44</td>
<td>18.00</td>
<td>24.14</td>
</tr>
<tr>
<td>Mean (` kg⁻¹)</td>
<td>10.77</td>
<td>11.84</td>
<td>11.19</td>
<td>12.77</td>
<td>14.88</td>
<td>17.56</td>
<td>16.29</td>
<td>18.91</td>
</tr>
<tr>
<td>Standard Deviation</td>
<td>3.69</td>
<td>4.18</td>
<td>3.92</td>
<td>4.31</td>
<td>5.11</td>
<td>6.79</td>
<td>5.79</td>
<td>7.52</td>
</tr>
<tr>
<td>Skewness</td>
<td>0.36</td>
<td>0.39</td>
<td>0.30</td>
<td>0.16</td>
<td>0.48</td>
<td>0.57</td>
<td>0.08</td>
<td>0.51</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>-1.02</td>
<td>-1.07</td>
<td>-1.20</td>
<td>-1.36</td>
<td>-1.12</td>
<td>-1.00</td>
<td>-1.53</td>
<td>-1.07</td>
</tr>
<tr>
<td>Coefficient of Variation (%)</td>
<td>34.23</td>
<td>35.35</td>
<td>35.02</td>
<td>33.76</td>
<td>34.32</td>
<td>38.69</td>
<td>35.56</td>
<td>39.78</td>
</tr>
<tr>
<td>Cuddy-Della Valle Index (%)</td>
<td>11.37</td>
<td>11.50</td>
<td>8.71</td>
<td>6.40</td>
<td>10.57</td>
<td>11.34</td>
<td>9.61</td>
<td>10.48</td>
</tr>
<tr>
<td>CAGR (%) a</td>
<td>0.60</td>
<td>0.62</td>
<td>0.64</td>
<td>0.63</td>
<td>0.59</td>
<td>0.67</td>
<td>0.66</td>
<td>0.70</td>
</tr>
</tbody>
</table>

* Compound Annual Growth Rate
relatively flatter than a normal distribution but with a wide peak. Further, the skewness and kurtosis estimates imply that the monthly prices in the respective markets are widely spread around its mean (Table 2). *Inter alia*, government control over the staple’s price shall be attributed to the witnessed dynamics and distribution pattern.

On perusal of the Table 2, it can be concluded that the standard deviation and variation were highest in Chennai’s wholesale and retail markets corroborating the fact that Chennai is a metro city with increasing consumption rate but nil production. Likewise, it was lowest for Patna markets being the major production and consumption region. The risk in prices accounted by the Cuddy-Della Valle index indicated that barring Chennai wholesale and Delhi wholesale and retail markets, the rest exhibited instability by more than 10%. The growth in monthly prices – estimated by the Compound Annual Growth Rate (CAGR) – revealed a positive but less than one per cent change for each month. It was highest in the case of Chennai’s retail price (0.70%), followed by Mumbai’s retail price (0.67%) and Delhi’s wholesale price (0.64%).

### Seasonal Variation in Prices

Seasonal fluctuation in agricultural products are periodical in nature and have to be monitored continuously for taking economic decisions based on the past pattern as well as future values. Seasonal indices of monthly prices revealed a clear-cut seasonal price variation in different wheat markets across the country (Figure 3). The index was highest in Patna retail market (April: 105.71) and lowest in Mumbai wholesale market (July: 94.61). The indices across markets were peaking highest during the months prior to harvest *i.e.* January to March, because of the dearth in wheat supply. Thereafter, the indices started to decline owing to the market arrivals after harvest supporting the findings of Mahalle *et al.* (2015). Seasonal price variation in general was highest in Patna and lowest in Delhi in comparison to the rest. The indices were highest in February for three markets, with the exception of wholesale market in Delhi and retail market in Chennai, wherein, January registered the highest variation. The price variations were lowest during July in three markets barring Patna. The lower price indices were observed from May to October because of high market arrivals and release of public stocks.

The average de-seasonalized values for each month explicitly revealed the fact that the wholesale prices were lower than the retail prices for all the months, and the divergence between them was relatively higher in Chennai and Mumbai (Table 3). Further, the average

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![Figure 3](image_url)  
*Figure 3.* Seasonal indices of monthly prices in selected wheat markets (AY 2000-2001 to 2015-2016).
de-seasonalized prices across the months were observed to be similar in the respective wheat markets. It was lowest in the case of Patna, followed by Delhi, Mumbai, and Chennai. The seasonal price indices vis-à-vis de-seasonalized prices carry economic implications to different stakeholders in the wheat production system viz., producers, middlemen, and consumers for taking rational decisions like buying, selling, and stocking. Across wheat markets, the estimated growth (CAGR) in seasonal indices was positive but minimal, and found to be less than one per cent. The CV for seasonal indices was hovering around 3 per cent (Table 4) and it ranged between 2.29 per cent (Mumbai retail market) and 3.48 per cent (Delhi wholesale market). The Intra-year Price Rise (IPR) and Average Seasonal Price Variation (ASPV) were found to be highest in Patna retail market (Table 4). The IPR ranged from 6.86 to 10.85%, while the ASPV ranged from 6.63 to 10.29%. The coefficients of IPR and ASPV also provide implications for taking decision related to production, consumption, and trade (Mahalle et al., 2015).

### Market Integration

The hypothesis under efficient markets is perfect integration of commodity prices, which should adjust and correct instantly with the available information (Sendhil et al., 2014b). In order to know the extent of market integration, Augmented Dickey Fuller (ADF) test was first done to check the stationarity and order of integration of level variables. The test indicated the presence of unit root in all the level series followed by non-stationarity in their first differencing (Table 5). It was concluded from the ADF test that the variables were integrated of order one \( I(1) \). The confirmation that each level series is \( I(1) \) helped to proceed with the Johansen’s

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**Table 3.** Average de-seasonalized monthly prices in wheat (AY 2000-2001 to 2015-2016).

<table>
<thead>
<tr>
<th>Month</th>
<th>Patna Wholesale</th>
<th>Patna Retail</th>
<th>Delhi Wholesale</th>
<th>Delhi Retail</th>
<th>Mumbai Wholesale</th>
<th>Mumbai Retail</th>
<th>Chennai Wholesale</th>
<th>Chennai Retail</th>
</tr>
</thead>
<tbody>
<tr>
<td>July</td>
<td>10.83</td>
<td>11.94</td>
<td>11.17</td>
<td>12.76</td>
<td>14.74</td>
<td>17.38</td>
<td>16.23</td>
<td>18.82</td>
</tr>
<tr>
<td>August</td>
<td>10.81</td>
<td>11.94</td>
<td>11.20</td>
<td>12.80</td>
<td>14.81</td>
<td>17.46</td>
<td>16.39</td>
<td>18.90</td>
</tr>
<tr>
<td>September</td>
<td>10.80</td>
<td>11.88</td>
<td>11.23</td>
<td>12.82</td>
<td>14.88</td>
<td>17.51</td>
<td>16.42</td>
<td>18.92</td>
</tr>
<tr>
<td>October</td>
<td>10.77</td>
<td>11.85</td>
<td>11.19</td>
<td>12.78</td>
<td>14.91</td>
<td>17.51</td>
<td>16.39</td>
<td>19.05</td>
</tr>
<tr>
<td>November</td>
<td>10.75</td>
<td>11.84</td>
<td>11.16</td>
<td>12.75</td>
<td>14.93</td>
<td>17.51</td>
<td>16.39</td>
<td>19.03</td>
</tr>
<tr>
<td>December</td>
<td>10.73</td>
<td>11.82</td>
<td>11.16</td>
<td>12.72</td>
<td>14.98</td>
<td>17.59</td>
<td>16.33</td>
<td>19.03</td>
</tr>
<tr>
<td>January</td>
<td>10.79</td>
<td>11.85</td>
<td>11.15</td>
<td>12.72</td>
<td>14.92</td>
<td>17.62</td>
<td>16.21</td>
<td>18.92</td>
</tr>
<tr>
<td>February</td>
<td>10.74</td>
<td>11.79</td>
<td>11.17</td>
<td>12.73</td>
<td>14.91</td>
<td>17.70</td>
<td>16.30</td>
<td>18.89</td>
</tr>
<tr>
<td>March</td>
<td>10.75</td>
<td>11.75</td>
<td>11.19</td>
<td>12.75</td>
<td>14.90</td>
<td>17.71</td>
<td>16.23</td>
<td>18.82</td>
</tr>
<tr>
<td>April</td>
<td>10.73</td>
<td>11.74</td>
<td>11.26</td>
<td>12.78</td>
<td>14.84</td>
<td>17.60</td>
<td>16.12</td>
<td>18.82</td>
</tr>
<tr>
<td>May</td>
<td>10.80</td>
<td>11.82</td>
<td>11.21</td>
<td>12.80</td>
<td>14.87</td>
<td>17.57</td>
<td>16.21</td>
<td>18.89</td>
</tr>
<tr>
<td>June</td>
<td>10.79</td>
<td>11.85</td>
<td>11.24</td>
<td>12.80</td>
<td>14.86</td>
<td>17.54</td>
<td>16.24</td>
<td>18.95</td>
</tr>
</tbody>
</table>

**Table 4.** Growth and variation in seasonal price index.

<table>
<thead>
<tr>
<th>Market</th>
<th>(CAGR) (%)(^a)</th>
<th>(CV) (%)(^b)</th>
<th>(IPR) (%)(^c)</th>
<th>(ASPV) (%)(^d)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patna WP</td>
<td>0.55</td>
<td>2.96</td>
<td>9.90</td>
<td>9.44</td>
</tr>
<tr>
<td>Patna RP</td>
<td>0.71</td>
<td>3.42</td>
<td>10.85</td>
<td>10.29</td>
</tr>
<tr>
<td>Delhi WP</td>
<td>0.42</td>
<td>3.48</td>
<td>10.52</td>
<td>10.00</td>
</tr>
<tr>
<td>Delhi RP</td>
<td>0.59</td>
<td>2.73</td>
<td>9.36</td>
<td>8.94</td>
</tr>
<tr>
<td>Mumbai WP</td>
<td>0.65</td>
<td>3.00</td>
<td>9.78</td>
<td>9.33</td>
</tr>
<tr>
<td>Mumbai RP</td>
<td>0.54</td>
<td>2.29</td>
<td>6.86</td>
<td>6.63</td>
</tr>
<tr>
<td>Chennai WP</td>
<td>0.53</td>
<td>2.90</td>
<td>8.90</td>
<td>8.52</td>
</tr>
<tr>
<td>Chennai RP</td>
<td>0.61</td>
<td>2.92</td>
<td>8.96</td>
<td>8.58</td>
</tr>
</tbody>
</table>

\(^a\) Compound Annual Growth Rate, \(^b\) Coefficient of Variation, \(^c\) Intra-year Price Rise, \(^d\) Average Seasonal Price Variation
Table 5. Estimates of Augmented Dickey Fuller (ADF) test for the monthly prices.

<table>
<thead>
<tr>
<th>Market</th>
<th>ADF statistic for testing unit root</th>
<th>Order</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Level (Assumption: Constant, linear trend)</td>
<td>1st Difference (Assumption: Constant)</td>
</tr>
<tr>
<td>Patna WP</td>
<td>-0.93</td>
<td>-13.38*</td>
</tr>
<tr>
<td>Patna RP</td>
<td>-0.95</td>
<td>-11.38*</td>
</tr>
<tr>
<td>Delhi WP</td>
<td>-0.99</td>
<td>-11.36*</td>
</tr>
<tr>
<td>Delhi RP</td>
<td>-0.74</td>
<td>-11.16*</td>
</tr>
<tr>
<td>Mumbai WP</td>
<td>-0.59</td>
<td>-13.68*</td>
</tr>
<tr>
<td>Mumbai RP</td>
<td>0.16</td>
<td>-12.46*</td>
</tr>
<tr>
<td>Chennai WP</td>
<td>-0.85</td>
<td>-12.15*</td>
</tr>
<tr>
<td>Chennai RP</td>
<td>-0.21</td>
<td>-11.07*</td>
</tr>
</tbody>
</table>

* Indicates the significance at 1% of MacKinnon (1996) one-sided P-values.

Prior to performing the co-integration analysis, correlation between market prices was investigated. Table 6 shows the degree of short-run linear association as revealed by the correlation coefficients. All the market pairs exhibited a strong level of significant correlation (> 0.94) owing to the symmetric price movement in all the markets as evident from Figure 2.

Subsequently, Johansen’s co-integration analysis was done after identifying the optimal lag length using the Akaike Information Criterion (AIC) value. The long-run integration was established by the Eigen value and trace statistics (Table 7). Despite the presence of short-run linear association between the wholesale and retail prices in all the markets, Chennai failed to exhibit the long-run linear co-movement in wheat prices. This might be due to the absence of production in that zone, increasing transaction costs (Mukim et al., 2006), and transfer costs (Rapsomanikis et al., 2006). The test rejected the null hypothesis of no co-integration (r = 0) between the retail and wholesale prices at 5% probability level for the rest of the markets, indicating the presence of one co-integration vector among the retail and wholesale wheat markets (Acharya et al., 2012; Mahalle et al., 2015).

Co-integration among the retail, wholesale, and retail-wholesale prices of all markets were also tested after identifying the optimum lag length in each category (Table 7). The idea behind the test was to find whether the selected wheat markets were integrated in the long-run and thereby price transmission held true in each market group. In the case of wholesale prices, Johansen’s test indicated the possibility of two co-integration vectors among the selected markets by rejecting the framed null hypothesis of no co-integration (r = 0) to utmost one relationship (r ≤ 1) between wheat markets at 1% probability level. Likewise, one co-integration vector was identified between the retail prices. In the case of co-integration comprising both wholesale and retail prices, the test rejected the null hypothesis for utmost two relationships (r ≤ 2) at 1% level of probability, indicating that there

Table 6. Estimates of correlation analysis.

<table>
<thead>
<tr>
<th>Market</th>
<th>Chennai RP</th>
<th>Chennai WP</th>
<th>Delhi RP</th>
<th>Delhi WP</th>
<th>Mumbai RP</th>
<th>Mumbai WP</th>
<th>Patna RP</th>
<th>Patna WP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chennai WP</td>
<td>0.96*</td>
<td>0.98*</td>
<td>0.97*</td>
<td>0.95*</td>
<td>0.96*</td>
<td>0.96*</td>
<td>0.95*</td>
<td>0.95*</td>
</tr>
<tr>
<td>Delhi WP</td>
<td>0.98*</td>
<td>0.97*</td>
<td>0.98*</td>
<td>0.96*</td>
<td>0.96*</td>
<td>0.96*</td>
<td>0.97*</td>
<td>0.96*</td>
</tr>
<tr>
<td>Delhi WP</td>
<td>0.97*</td>
<td>0.98*</td>
<td>0.99*</td>
<td>0.96*</td>
<td>0.96*</td>
<td>0.96*</td>
<td>0.96*</td>
<td>0.96*</td>
</tr>
<tr>
<td>Mumbai WP</td>
<td>0.95*</td>
<td>0.98*</td>
<td>0.96*</td>
<td>0.96*</td>
<td>0.96*</td>
<td>0.98*</td>
<td>0.95*</td>
<td>0.94*</td>
</tr>
<tr>
<td>Mumbai WP</td>
<td>0.96*</td>
<td>0.98*</td>
<td>0.97*</td>
<td>0.98*</td>
<td>0.98*</td>
<td>0.97*</td>
<td>0.97*</td>
<td>0.97*</td>
</tr>
<tr>
<td>Patna WP</td>
<td>0.95*</td>
<td>0.97*</td>
<td>0.96*</td>
<td>0.96*</td>
<td>0.95*</td>
<td>0.97*</td>
<td>0.97*</td>
<td>0.99*</td>
</tr>
<tr>
<td>Patna WP</td>
<td>0.95*</td>
<td>0.96*</td>
<td>0.96*</td>
<td>0.96*</td>
<td>0.94*</td>
<td>0.97*</td>
<td>0.97*</td>
<td>0.99*</td>
</tr>
</tbody>
</table>

* Indicates the significance of Pearson’s correlation coefficient at one per cent level of probability (2 tailed).
Table 7. Estimates of Johansen’s co-integration analysis (Assumption: Linear deterministic trend).

<table>
<thead>
<tr>
<th>Markets</th>
<th>Lag length (AIC value)</th>
<th>$H_0$: Rank = r</th>
<th>Eigen value</th>
<th>Trace statistic</th>
<th>Critical value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patna WP</td>
<td>1</td>
<td>$r = 0^a$</td>
<td>0.156</td>
<td>33.17</td>
<td>15.50</td>
</tr>
<tr>
<td>Delhi WP</td>
<td>(-7.25)</td>
<td>$r \leq 1$</td>
<td>0.005</td>
<td>0.911</td>
<td>3.841</td>
</tr>
<tr>
<td>Mumbai WP</td>
<td>1</td>
<td>$r = 0^a$</td>
<td>0.083</td>
<td>16.47</td>
<td>15.50</td>
</tr>
<tr>
<td>Chennai WP</td>
<td>(-7.98)</td>
<td>$r \leq 1$</td>
<td>0.000</td>
<td>0.001</td>
<td>3.841</td>
</tr>
<tr>
<td>Patna WP</td>
<td>(-8.46)</td>
<td>$r \leq 1$</td>
<td>0.142</td>
<td>66.88</td>
<td>47.86</td>
</tr>
<tr>
<td>Delhi WP</td>
<td>1</td>
<td>$r \leq 1^a$</td>
<td>0.123</td>
<td>37.87</td>
<td>29.80</td>
</tr>
<tr>
<td>Mumbai WP</td>
<td>(-14.68)</td>
<td>$r \leq 2$</td>
<td>0.063</td>
<td>12.83</td>
<td>15.49</td>
</tr>
<tr>
<td>Chennai WP</td>
<td>(-15.86)</td>
<td>$r \leq 3$</td>
<td>0.003</td>
<td>0.541</td>
<td>3.841</td>
</tr>
<tr>
<td>Patna WP</td>
<td>(-32.44)</td>
<td>$r \leq 3$</td>
<td>0.226</td>
<td>198.7</td>
<td>159.5</td>
</tr>
<tr>
<td>Delhi WP</td>
<td>1</td>
<td>$r \leq 1^a$</td>
<td>0.212</td>
<td>149.9</td>
<td>125.6</td>
</tr>
<tr>
<td>Mumbai WP</td>
<td>(-2.47)</td>
<td>$r \leq 2^a$</td>
<td>0.174</td>
<td>104.7</td>
<td>95.75</td>
</tr>
<tr>
<td>Chennai WP</td>
<td>(-6.17)</td>
<td>$r \leq 3$</td>
<td>0.144</td>
<td>68.39</td>
<td>69.82</td>
</tr>
</tbody>
</table>

*a* Denotes rejection of the null hypothesis at five per cent level of MacKinnon-Haug-Michelis (1999) probability.

could be three possible co-integration vectors among the selected wheat markets (Table 7).

**Price Transmission**

The pair-wise Granger causality test indicated a bi-directional influence of prices in Chennai retail and Delhi wholesale market on all other markets, with the exception of Chennai wholesale, and, Patna retail and wholesale markets, respectively (Table 8). Chennai wholesale market had shown a bi-directional influence of prices on Delhi retail as well as wholesale and Patna wholesale markets, with a uni-directional transmission to the rest. Likewise, Delhi retail market had a bi-directional influence of prices on all the markets barring Patna retail and wholesale markets. However, Patna retail and wholesale prices had no causal relationship with the Delhi retail prices. Further, Patna retail prices had no influence on Chennai wholesale, and, Mumbai retail and wholesale prices. Similarly, Patna wholesale prices had no influence on Delhi wholesale, and, Mumbai retail and wholesale prices as well. Unexpectedly, there was no price transmission from the wholesale prices in Chennai and Mumbai to their respective retail markets. *A priori*, a bi-directional influence of prices was noticed only in Delhi market indicating the price transmission from wholesale to retail markets and *vice-versa*. A majority of the markets exhibited a bi-directional transmission leading to price adjustment from the demand and supply information.
available between markets (Mahalle et al., 2015).

**Law of One Price (LOOP)**

Out of four bivariate relationships viz., Patna (WP and RP), Delhi (WP and RP), Mumbai (WP and RP) and Chennai (WP and RP), three showed the presence of one co-integrated vector (Table 9). The numbers of stochastic trends were found to be one, having two markets in total. The conformation of LOOP was validated in all the three regions, except Chennai. The implication is that out of four regional markets, three have the same price barring the transfer cost.

Likewise, the LOOP was tested in different combination of markets. The retail, wholesale, and the subsequent combination of retail and wholesale markets failed to exhibit the LOOP, indicating the presence of distortion leading to differential prices. Markets that fulfill the LOOP indicate that any price shock originated at one market is fully reflected at the market, a consequence of perfect market integration (Zahid et al., 2007). Alternatively, transfer costs of commodities in developing countries may give rise to a threshold over which eliminating the arbitraging process and result in market disintegration (Rapsomanikis et al., 2006).

**CONCLUSIONS**

Commodity prices transmit signal to the stakeholders and facilitate them to take economic decisions. Analysis on prices indicates that the wholesale and retail prices were highest in the case of Chennai, indicating the lack of production in that zone. Price divergence between the retail and wholesale markets was highest in Mumbai because of lack of production and high consumption demand for wheat and was lowest in Patna, implying the region is a major production and consumption zone. Monthly price indices exhibited a clear-cut seasonal price variation peaking highest during the months prior to

---

### Table 8. Price transmission between markets by Granger causality test.

<table>
<thead>
<tr>
<th>Market</th>
<th>Chennai_RP</th>
<th>Chennai_WP</th>
<th>Delhi_RP</th>
<th>Delhi_WP</th>
<th>Mumbai_RP</th>
<th>Mumbai_WP</th>
<th>Patna_RP</th>
<th>Patna_WP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chennai_RP</td>
<td>X</td>
<td>←</td>
<td>←</td>
<td>←</td>
<td>←</td>
<td>←</td>
<td>←</td>
<td>←</td>
</tr>
<tr>
<td>Chennai_WP</td>
<td>X</td>
<td>→</td>
<td>←</td>
<td>←</td>
<td>←</td>
<td>←</td>
<td>←</td>
<td>←</td>
</tr>
<tr>
<td>Delhi_RP</td>
<td>←</td>
<td>←</td>
<td>←</td>
<td>←</td>
<td>←</td>
<td>←</td>
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<td>←</td>
</tr>
<tr>
<td>Delhi_WP</td>
<td>←</td>
<td>←</td>
<td>←</td>
<td>←</td>
<td>←</td>
<td>←</td>
<td>←</td>
<td>←</td>
</tr>
<tr>
<td>Mumbai_RP</td>
<td>←</td>
<td>←</td>
<td>←</td>
<td>←</td>
<td>←</td>
<td>←</td>
<td>←</td>
<td>←</td>
</tr>
<tr>
<td>Mumbai_WP</td>
<td>←</td>
<td>←</td>
<td>←</td>
<td>←</td>
<td>←</td>
<td>←</td>
<td>←</td>
<td>←</td>
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<tr>
<td>Patna_RP</td>
<td>←</td>
<td>←</td>
<td>←</td>
<td>←</td>
<td>←</td>
<td>←</td>
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</tr>
<tr>
<td>Patna_WP</td>
<td>←</td>
<td>←</td>
<td>←</td>
<td>←</td>
<td>←</td>
<td>←</td>
<td>←</td>
<td>←</td>
</tr>
</tbody>
</table>

*a No causality. b Bi-directional, and c Uni-directional.

### Table 9. Confirmation of the LOOP for wheat markets.

<table>
<thead>
<tr>
<th>Markets</th>
<th>Number of co-integrated vectors</th>
<th>Number of stochastic trends</th>
<th>Confirmation of LOOP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patna WP-Patna RP</td>
<td>1</td>
<td>2−1= 1</td>
<td>Yes</td>
</tr>
<tr>
<td>Delhi WP-Delhi RP</td>
<td>1</td>
<td>2−1= 1</td>
<td>Yes</td>
</tr>
<tr>
<td>Mumbai WP-Mumbai RP</td>
<td>1</td>
<td>2−1= 1</td>
<td>Yes</td>
</tr>
<tr>
<td>Chennai WP-Chennai RP</td>
<td>0</td>
<td>2−0= 0</td>
<td>No</td>
</tr>
<tr>
<td>Patna WP-Delhi WP-Mumbai WP-Chennai WP</td>
<td>2</td>
<td>4−2= 2</td>
<td>No</td>
</tr>
<tr>
<td>Patna RP-Delhi RP-Mumbai RP-Chennai RP</td>
<td>1</td>
<td>4−1= 3</td>
<td>No</td>
</tr>
<tr>
<td>Patna WP-Delhi WP-Mumbai WP-Chennai WP- Patna WP-Delhi RP-Mumbai RP-Chennai WP</td>
<td>3</td>
<td>8−3= 5</td>
<td>No</td>
</tr>
</tbody>
</table>
harvest because of dearth in wheat supply, and lower after harvest because of high market arrivals and release of public stocks. The estimated growth in seasonal indices was positive but found to be less than 1%, indicating price insulation. Co-integration analysis showed the presence of integration between the wholesale and retail prices in all the markets, but Chennai failed to exhibit the long-run linear co-movement in wheat prices due to the absence of production in that zone. The pair-wise Granger causality test indicated a bi-directional influence of prices in one market with the other for the majority of the cases. Barring Patna, Delhi and Mumbai’s retail and wholesale markets, the rest of the combinations did not confirm the existence of LOOP. The study calls for a pragmatic approach on rational allocation of resources based on the extent of price integration across wholesale and retail markets as well as reducing the price distortion in less integrated markets through reduction in transaction and transfer costs for improving the overall performance of wheat markets in India.

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REFERENCES

پویایی قیمت و گستره یکپارچگی در بازارهای عمده فروشی و خرده فروشی گندم هندوستان

در سندهیل، ت. آرتنی، پ. لال، ب. م. گروجیا، ا. جمالودهن، ی. جاده‌ری و د. ساندرور

چکیده

چنانچه اقتصاد به گونه‌ای هم‌اکنون، اقتصاد را به مخاطره می‌اندازد. در این ژورنال، نشان داده شد با استفاده از داده‌های ماهانه FAO، رفتار قیمت و گستره یکپارچگی در سراسر هندوستان تجزیه و تحلیل شود. یافته‌ها نشان داد که قیمت در بازار عمده فروشی و خرده فروشی گندم در هندوستان تا حدودی یکپارچه است. البته در ناحیه Patna، قیمت در بازار عمده فروشی و خرده فروشی نیز واگرایی قیمت کمترین مقدار را داشت و این واقعیت نشان دهنده بود که منطقه مربوط به محل اصلی تولید و مصرف گندم بود. حالیکه در ناحیه Chennai، قیمت گندم و واگرایی آن بیشترین مقدار را داشت و نشانگر بود که این منطقه محصولات مختلف گندم و خرده‌ها در هندوستان را در ضمن بیشترین مقدار قیمت در بازار عمده فروشی و خرده فروشی نشان می‌داد. در این ناحیه، قیمت‌ها به‌طور گسترده‌ای با بازارهای دیگر در هندوستان یکپارچه بوده و قانون اول قیمت (Law of One Price) در این ناحیه می‌باشد. البته بازارهای عمده فروشی و خرده فروشی (Market pairs) محصولات مختلف از گندم و خرده‌ها در بازارهای دیگر نشان دادند که منطقه‌ای در هندوستان وجود دارد که قیمت‌ها به‌طور گسترده‌ای با بازارهای دیگر در هندوستان یکپارچه نمی‌باشند. البته بازارهای عمده فروشی و خرده فروشی (Market pairs) محصولات مختلف از گندم و خرده‌ها در بازارهای دیگر نشان دادند که منطقه‌ای در هندوستان وجود دارد که قیمت‌ها به‌طور گسترده‌ای با بازارهای دیگر در هندوستان یکپارچه نمی‌باشند.