PGDM (IB), Batch 2016-18
International Commodity Management
Subject Code: IB 405
Batch 2016-18

Trimester – IV, End-Term Examination: September 2017

Time allowed: 2.5 Hours Max Marks: 50

Roll No: ____________

Instruction: Students are required to write Roll No on every page of the question paper, writing anything except the Roll No will be treated as **Unfair Means.** In case of rough work please use answer sheet.

Sections	No. of Questions to attempt	Marks	Marks
A	3 out of 5 (Short Questions)	5 Marks each	3*5 = 15
B	2 out of 3 (Long Questions)	10 Marks each	2*10 = 20
C	Compulsory Case Study	15 Marks	15
		Total Marks	**50**

Section A: Please attempt any three out of the five given questions (5 marks each)

1. State the functions performed by the commodity exchanges. Comment on the regulation of commodity markets in India.
2. How is market order different from limit order? What is meant by volume and open interest?
3. Explain how basis risk will impact a long hedge differently from a short hedge?
4. Why should margin money be deposited at the time of placing an order on the exchange?
5. How an exchange is traded future contract different from forward contract?

Section B: Please attempt any two out of the three given questions: (10 marks each)

1. The three oil marketing companies of India – Indian Oil Corporation, Hindustan Petroleum Corporation Limited and Bharat Petroleum Corporation Limited – faced mounting losses in 2007 and 2008 because domestic prices of oil were not set at levels that could recover the costs of import, since these costs were volatile and rising. Find out about the strategy for hedging used by each of these companies, and explain its rationale.
2. An automobile manufacturer has entered into a contractual agreement to export automobiles two months later to dealers in the east European market. Should he use the exchange where he trades in derivative contracts to receive delivery of the steel he needs? What can the automobile manufacturer do if he does not find steel contracts listed on any exchange?
3. How does the export dependence on commodities affect international trade prospects of nations? Does it differ across nations?

Section C: Case Study (7.5 marks each)

Farmers are using futures contracts to counter price risks

According to NCDEX, over 25,000 small and marginal farmers from 13 FPOs have successfully hedged their crops on its trading platform in the past 10 months

New Delhi: In a bumper crop year when farmers across the country have been battered by lower crop prices, farmers' groups are using futures contracts to hedge against price dips during the harvest season.For instance, Samriddhi Mahila Crop Production Co. Ltd, a farmer-producer organization (FPO) for women in Bundi district of Rajasthan with 2,300 members, used the futures market to sell produce at prices that were higher than what wholesale markets offered two months later. In September, it sold 100 quintals of soybean on the NCDEX (National Commodities and Derivates Exchange) futures platform at Rs 3,300 per quintal. By November, when markets were flooded with soybean following a record crop, prices had fallen to Rs3,000 per quintal—and the FPO made a tidy profit of Rs30,000.

This was a revelation for farmers like Savitri Goad, chairperson of the FPO. "We did not know that a standing crop can be sold at a price decided by us even before the harvest," she said.The experience prompted the group to take more positions: since January the FPO has sold 400 quintals of mustard on NCDEX for delivery in April, at Rs3,900 per quintal. The current mandi or spot price for mustard is Rs3,500 per quintal and a record harvest means prices may dip further. According to NCDEX, over 25,000 small and marginal farmers from 13 FPOs have successfully hedged their crops on its trading platform in the past 10 months."We used futures to minimize price risks for our farmer which is severe during good harvest years," said Souvik Dhar from the non-profit Srijan, which helps the Bundi-based FPO in its operations. "We wish pulses were allowed too. Urad prices have halved compared to last year and our farmers are selling at lower than government support prices," he added. Currently rules do not allow futures trading in pulses and rice over fears it may lead to speculation or stoke inflation, but experts suggest a rethink."We need to allow futures and forward markets for a wider variety of crops and promote it aggressively," said Pravesh Sharma, former head of the Small Farmers' Agribusiness Consortium, a specialized agency of the agriculture ministry tasked with creating FPOs and linking them to markets.

"The government has to understand that while individual farmers cannot take positions (due to limited scale of produce) groups of farmers registered as FPOs will be attracted when more crops are allowed. State agencies can procure only in limited quantities (like in pulses) and the futures market can efficiently signal prices and help farmers make better crop choices," Sharma added. A change may not be far off. The Union budget presented last month has signalled the government's intent to radically reform agriculture marketing. Planned reforms include a new model law on contract farming that states can adopt, and the establishment of a committee to find ways to integrate spot and derivatives market for trading in agricultural commodities.

1. Discuss how the exchange traded commodity derivatives are reducing the business risks of the farmers.

2. Explain briefly the selling hedge mechanism likely to be adopted by the farmers using futures contract.