

## Abstract

This paper examines the extent to which changes in global agricultural commodity price are transmitted to domestic prices in India and China. The focus is on short and medium-run adjustment processes using an error correction specification. In particular, we show that the extent of adjustment in the short and medium-run (from 0 to 3 years) is generally larger in China than in India. Second, the adjustment is larger for wheat, maize and rice than for fruits and vegetables in both India and China. In fact, the adjustment is the weakest for vegetables in both countries. Third, while most of the domestic commodity prices co-move with global prices, the transmission is *incomplete* presumably because of distortionary government interventions (e.g. subsidies for agricultural commodities) and failure to exploit spatial arbitrage. So potential benefits to farmers of higher food prices –especially in India– may be restricted, as also the supply response.

**Keywords:** agricultural commodities, prices, cointegration, error-correction model, adjustment

JEL Codes: C22, O13, Q11