INVESTIGATION OF PRICE DISCOVERY IN GOLD AND CRUDE OIL SPOT MARKETS

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ABSTRACT

Even though there is economic significance to figure out how the oil price is related to the gold price and whether the oil price has forward influences on the gold price. Research on oil price-gold price relationship is rather sparse. In this study, the major objective is to find relationship and price discovery in the Crude oil and Gold Market in India. The empirical analysis in the study is based on unit root test through ADF and PP test, VECM respectively. The study uses VECM test for relationship and discovery among the Crude Oil and Gold spot prices, 2177 observations are collected at Multi Commodity Exchange (MCX) from 29th April 2005 to 31st August 2012. The results reveal that there is Bi-directional relationship between the Crude oil and Gold prices. Crude oil and Gold spot market significantly react to short-term variation and long-term equilibrium at the same time. Thus, the results indicate that the price discovery is achieved from the both the market and have short term and long term relationship between them.

KEYWORDS: Crude Oil, Gold, Price Discovery, VECM, Cointegration.