"Reining in Onion Prices by Introducing a Vertically Differentiated Substitute: Models, Analysis, and Insights"

Abstract

We examine the pricing ordeal in India’s onion markets caused by the fresh produce traders. As a remedy, policy makers have been proposing to establish processed produce competition in the market by either cooperatives or private firms. We formulate and analyze this situation in a mathematical model that captures (i) competition between non-profit and for-profit organizations, (ii) consumers' valuation discount for the processed produce, and (iii) perishability of the fresh produce. We identify and discuss the conditions under which (i) it is optimal to introduce the processed produce; and (ii) the processed onion should be managed by cooperatives instead of private firms.