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## **SPOT AND FUTURE PRICES OF CRUDE OIL: EVIDENCES OF CO-INTEGRATING RELATIONSHIP**

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### **ABSTRACT**

The study was intended to find out the relationship between the spot price and future price of crude oil which in turn will help in determining the prices of the commodities. While constructing a portfolio, high correlation among assets cannot be taken as a sufficient measure for long term diversification benefits, there is a need to enhance the standard risk-return modeling methodologies to take account of common long term trends among the asset prices. To complement this, the paper extends the traditional models by including a preliminary stage in which the asset prices are analyzed, and then augments the correlation analysis to include both short term and long term dynamics. The aim of the paper is to estimate the long and short run relation of asset prices applying the principle of co integration, vector error correction approach and granger causality to time series analysis.

**KEYWORDS:** spot price, future price, crude oil, asset prices, standard risk