Agriculture is a competitive sector and prices of agricultural commodities are determined in competitive circumstances. Therefore, they are flexible (in the absence of government intervention). While prices of most other goods and services in the Wholesale Price Index (WPI), for example manufacture prices are sticky as they have some sort of monopoly power (Robertson & Orden, 1990 and Barnett, et. al, 1983). Hence in case of monetary expansion agricultural prices will increase and has real effect on the farmer's income, well being and living standard (Saghaian et.al, 2002). Agriculture prices are important for maintaining agricultural growth, farmers’ living standard and investment decisions (Kargbo, 2005). Thus factors that influence the agricultural prices should have fundamental importance for a developing country like Pakistan.

The empirical studies that have been conducted for different regions or set of regions explain that there is ambiguity over the impact of monetary policy on agricultural prices in short run and long run. Lapp (1990) found that variation in the growth rate of money supply does not significantly influence food prices. But the latest studies on agricultural economics such as Saghaian et.al (2002), Peng et.al (2004), Asfaha & Jooste (2007), Ejaz et. al (2007) and Hye (2009) examined that monetary policy is now as important for agriculture as price support and sector specific microeconomics policies.

Siftain and Qayyum (2013) investigate the potential impact of monetary policy on food prices in case of Pakistan in long run and short run by employing Johansen cointegration technique and vector error correction model, respectively. Monthly time series data from July 1991 to September 2012 on five variables; Money Supply (M₂), Discount rate, Nominal Exchange Rate, Food Prices, and Manufacturing Goods Prices has been used. This study found that there is significant relationship between food prices and monetary variables (money supply, and discount rate) in the long run in case of Pakistan. The study also found that monetary policy don’t have any significant impact on food prices in short run rather this study found that seasonal variation are more responsible for short variations in the food prices.