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Perspectives

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Dependence of Bhutanese Economy on India: Empirical Analysis of Inflation Dependency

Damber Singh Kharka

This research explores the relationship of Bhutanese economy with India, particularly the level of dependence of former with latter. In doing so it explores dependence of Bhutanese economy with Indian economy through the comparison of the movements of select macroeconomic variables particularly the Gross Domestic Product (GDP), Balance of Trade (BoT), budgetary grants inflow from India, exchange rate relation and dependence of Bhutanese inflation on Indian inflation. Paper analyses data using simple statistical tables and approaches to compare the movements in GDP, BOT and Indian budgetary support to Bhutan to see the magnitude of dependence.

As Bhutanese believe that a major chunk of inflation in Bhutan is a "borrowed inflation" due to heavy dependence on import from India, a regression analysis has been conducted to see if such a claim is true. Historical data suggest that Bhutan has been heavily dependent on India for most of its developmental activities and investment projects. It is observed that trade is too heavily concentrated with India (about 85% of total trade is with India). It has been found out that Bhutan's own macroeconomic policies are less effective in explaining domestic inflation. About 66% of the inflation in Bhutan is explained by the Indian inflation.

Keywords: *Bhutanese Economy, Indian Economy, GDP, BoT, Borrowed Inflation, Macroeconomic Policies, Domestic Inflation, Indian Inflation.*

1. Introduction

Economic dependence of a nation on another takes place when the depending nation's developmental activities rely heavily on the other for financial and technical support. Dependence takes place due to too much concentration with one nation on trade and commerce. Too much dependence of a nation on another on financial support, transport links, trade and commerce result into the dependence on movements of macro-economic variables, that is, when supporting nations' economic variables change, the dependent nation follow suit. Economic dependence or even close interdependence for that matter is viewed as the producer of both benefits and conflicts.

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Does Labour Productivity bear any Causal Linkage with Wage Rate? The Indian Experience

Amarjit Singh Sethi and **Supreet Kaur**

The present analytical study based on regular time series data (for the period 1960-61 to 2008-09) aims at examining growth performance and causal linkage among wage rate and labour productivity in major sectors of India. The study has made use of a variety of econometric computations, such as successive and exponential growth rates; ADF and PP tests of stationarity; Johensen-Juselius technique for cointegration; VAR based Granger causality tests; etc. As per the main findings from the study, output per worker has grown, in general, at a faster pace than wage rate, thereby pointing towards the prevalence of labour exploitation in India.

Tertiary-2 sector (comprising mainly of Banking & Insurance; Residential Buildings and Dwellings; Public Administration; and Other Services) was, however, the lone exception, wherein the growth rates' pattern was just the other way round. The analysis has provided an indication towards the presence of bi-directional causality between wage rate in primary sector and that in tertiary sector. Further, labour productivity in Tertiary-2 sector was detected to be Granger-caused by real wage rate in the short run. However, direction of causality was just the opposite in the long run. Thus as a secular policy measure, labour productivity needs to be enhanced (say, through provision of better health infrastructure, and increased skill formation activities via education and training programs), so as to ensure higher wage earnings of the work force.

Keywords: *Labour Productivity, Wage Rate, Growth Rate, Unit Root, Co-integration, Vector Autoregression, Granger's Causality.*

1. Introduction

In a labour-surplus economy like India, workforce is known to be one of the most significant factors of production. In fact, utilization of the other factors of production depends largely on proper utilization of time and energy of the labour input. Labour exchanges its manpower and, in return, receives wages in order to secure necessary means for subsistence. Wages are governed, among other factors, by volume of employment, government policies, quality, productivity of the labour force, *etc.* Similarly, labour productivity (which is nothing but 'output per unit of labour time expended')

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Does Population Growth Affect Economic Development? A Study of India

Komol Singha and **Md. Samsur Jaman**

The study of population and economic growth has been the subject of intense debate between the two major schools of thought. One relates to pessimistic opinion that population has a negative impact on economic growth while the other is convinced that the effect is positive. Connecting the two conflicting groups, a third school has emerged and argued that increase in population is neutral on economic growth. Still, the issue remains inconclusive till today. The paper centres on the Dalton's Optimum Population theory. It is the population limit that secures maximum real income per head.

With this understanding, the paper tries to analyse a causal relationship between the two variables – population growth and economic development. Using 51 years time series data on GDP and population growth of India, Johansen co-integration test has been employed to see whether the two series (population and GDP) were individually co-integrated or not. Finally, Granger causality test was done to identify their causal direction and found that population growth neither causes GDP growth nor vice versa in the country.

Keywords: *Co-integration, Granger Causality, GDP, Optimum Population.*

Introduction

Population related issues and policies have been the integral parts of cultural, social and economic development for long in this modern world. Similarly, the study of population and economic growth has been a subject of intense debate in economics for nearly two centuries between the two schools of thought, basically the *Malthusian* and the *Cornucopian* views (Birdsall, *et al*., 2001). The former school of thought believes that the population growth has negatively impacted economic growth, while the latter is convinced with the notion that population growth has positively impacted the economic development processes (Bloom, 2011; Boserup, 1981).

Connecting the two conflicting groups, another school (third group) has emerged and argued that the population growth is absolutely neutral on economic growth. It may not determine economic growth, but the former does not hamper the latter (Lindsay, 2005;

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International Migration and Macroeconomic Stabilization: Evidence from Bangladesh

Md Saiful Islam and **Shabbir Ahmed Imran**

International migration has engrossed the augmented attention of policy makers, social scientists and international agencies. However, the development potential of international migration is yet to be fully exploited due to several structural constraints within the economy. The present study aims at examining the impact of remittance as proxy of international migration on some selected macroeconomic variables. The study is based on a systematic analysis of available records, mainly time series data from World Bank and Bangladesh Bank. The paper examined the linkages among remittance, GDP per capita, foreign reserves, savings and foreign aid in Bangladesh within an econometric framework. Unit root test, Johansen cointegration test and Granger causality model were employed to accomplish the study. The study found bidirectional causality running between remittance and GDP per capita, remittance and foreign aid; and unidirectional causality from remittance to savings, and remittance to reserve. Thus, international migration had an overall positive impact on economy: it directly improved the savings situation, provided as an alternative source of development finance, and enhanced foreign reserves. The findings have important policy implications to augment international migration which will provide a vent for growing labor force and reduce the increasing unemployment rate, and also lead to long run economic development through enhanced remittance earning thereby help ensure macroeconomic stability.

Keywords: *International Migration, Remittance, Unemployment, Macroeconomic Stabilization, Economic Development.*

1. Introduction

Increasing population, unemployment and natural disasters have been much imperative issues for Bangladesh, and international migration provided a major source of human survival and growth over the years. With a population of 160 million, Bangladesh remained the world's the most densely populated country with huge unemployment. Yet the population of Bangladesh continued to increase resulting unemployment of labor forces and building pressure for international migration. Thus, the number of

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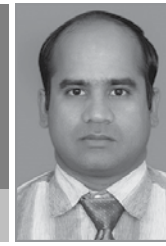
Sustainability of Persisting Current Account Deficits in India

N Kubendran



Following the Balance of Payments (BOP) crisis of 1991, India implemented a lot of reforms related to the external sector like move from inward strategy to openness through trade policy reforms, abolition of tariff wall and reduction in tariff rates, abolition of license raj for merchandise trade, open general licensing, and liberalized exchange rate management system (LERMS), etc. Objectives of such policies are to enhance the volume of trade, to import capital and technology without any restrictions, to control trade deficit and current account deficit and to increase the stock of foreign exchange reserves and keep Balance of Payments sustainable. After the implementation of liberalization measures in the external sector, India's trade volume has increased at a high growth rate but simultaneously the current account position has been worsening particularly since 2004-05.

This paper analyses the sustainability of India's current account and external sector position over the last two decades using Dr. Bimal Jalan's (Former RBI Governor) principle. Based on the empirical results, this study concludes that a worsening trend in merchandise trade and unfavorable pattern of traded commodities has led India's current account deficit to widen and it will not be sustainable, if the same trend continues. This study suggested that the Government of India needs to take appropriate measures like tariff wall for the import of gold, 100% removal of subsidies on petroleum products, peak rate of import tariff on unnecessary consumer goods to curb trade deficit and keep current account deficit under control and BOP sustainable.

Keywords: *Current Account Deficit, Trade Deficit, Foreign Exchange Reserves, External Sector Sustainability, Balance Of Payments, Inwardness and Openness.*

1. Introduction

In a developing economy, the role of external sector in the process of development has always been a matter of discussion. A factor that helps to determine the economic vibrance of a nation is its active participation in foreign trade and its Balance of Payments (BOP) position.

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The European Monetary Union and Strategic Approaches to Fiscal Policy

Alessandro Morselli

The following work evidences an economic and political interdependency of the countries in the European Monetary Union (EMU), which push the national governments to adopt, on an international level, strategic actions that are material in defining their policies in line with the policies and initiatives of the others. The relative efficiency of the budget strategies is shown by the two-countries model in this study. The policies of the national budget, adopted in the context of the EMU, risk having a limited efficiency to the difficulty encountered in forming cooperation agreements and to financial rigour imposed by the European Stability Pact. The study proves that cooperative solutions are superior to non-cooperative solutions and flexibility in budget policies used is needed in order to resist the shocks, from the origin of the shock to the relative significance of the externality. These notable factors may stimulate interest in solutions of a transnational description.

Keywords: *European Monetary Union, European Central Bank, Structural Interdependency, Budget Policy, Nash Equilibrium.*

1. Introduction

The national budget policies adopted in the context of the European Monetary Union (EMU), risk having limited effect, especially due to difficulties encountered in the creation of the cooperation agreements and due to the financial rigour imposed by the Stability Pact. These factors may enhance the interest in solutions of a transnational description.

The present analysis is done in the following sub-sections: Section 2 puts the model in the present context. Section 3 states the existing relationship between objectives and instruments. Section 4 analysis the impact of Non-cooperative strategies. Section 5 sees the impact of coordination in budget policies. Section 6 gives the conclusion.

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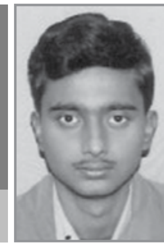
Impact of Globalization on Sustainable Development in the Indian Economy



Niladri Das

Globalization has triggered massive international debate on the impact of globalization in promoting sustained economic growth. The supporters of globalization theory argue that globalization improves living standards and reduces poverty through employment growth stimulated by increased trade and capital flows, sharing of ideas, and extension of democratic institutions.

However, the anti-globalisation lobby argue that the gap between rich and poor has tended to widen, creating wide-spread imbalances in the social system, especially in the emerging economies. Keeping in view these two severe contradictions, it may be useful to look at the relationship between globalisation and income inequality. This paper tries to identify the linkages among globalization and trade liberalization with economic growth and poverty reduction in Indian economy.

Keywords: *Globalization, Growth, Inequality, Poverty.*

1. Introduction

Globalization is an expansion, deepening and acceleration of interrelations in all aspects of modern human life. It embodies the idea of integration of countries into the world community and their general development (Zgurovsky, 2007). Globalization is the integration of economies and societies around the world as a result of flows of goods and services, capital, people and ideas. Globalization has been a powerful force for growth and poverty reduction in a diverse group of countries, including India. However, the critics of globalization points out many problems arising from the process of global integration. The critics of globalization argue that it has led to the concentration of wealth and power in the hands of a few groups of people.

Globalization has enabled the developed countries to take advantage of more powerful productive forces. As a result, in the beginning of 21st century the gap of the profits between the richest and the poorest among countries has increased to the ratio of 72:1

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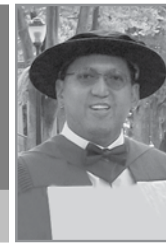
The Transaction Costs of Hepatitis Immunizations in Developing Countries

Roger Lee Mendoza



The fiscal capacity of a state depends on a variety of factors, including natural resource wealth, industrial development, fiscal governance, and personal / household incomes. Fiscal capacity offers a key indicator of the range of social programs and services that governments can offer their citizens.

In investigating why Hepatitis B immunizations in highly-endemic countries continue to achieve limited program success, we hypothesized that the primary obstacles lie beyond their fiscal capacity and basic resource constraints. Developing country experiences, exemplified by the Philippines and Senegal, point to other critical variables that account for low utilization rates, incomplete inoculations, high disease prevalence, and asymmetric beneficiary information. High transaction costs to program sponsors and beneficiaries alike draw attention to expenditures for meeting program implementation requirements beyond their capital and recurrent financial costs. These transaction costs should be efficiently contained prior to, or at least simultaneous with, institutional efforts to achieve international standards and benchmarks in Hepatitis B prevention and control. It is in this context that we explored the theoretical and practical implications of transaction costs for international economics and development.

Keywords: *Asymmetric information, disease management, fiscal capacity, health risks, merit goods, policy intervention, prevalence, transaction costs, utilization*

Introduction

The World Health Organization (WHO) has declared Hepatitis B (inflammation of the liver due to viral infection) as a global health problem. Considered as the most serious strain of viral hepatitis, over 2 billion people are infected by the Hepatitis B virus (HBV) (WHO, 1997; WHO, 2000). It is estimated that 350 million of them have chronic HBV infection, with a million people dying annually from HBV-related liver disease. Approximately 15% to 40% of those infected will eventually develop cirrhosis, liver failure or hepatocellularcarcinoma (Lok, 2002). Hepatitis B is the leading cause of liver cancer. It ranks as the 10^{th} leading cause of death worldwide, and is only second to tobacco among known human carcinogens (Teo and Lok, 2011).

Prevalence rates depend on the proportion of the national population who tests