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Contents

Research Papers

Research Note

Fiscal Consolidation and Some Key Issues : An Indian Sub-National Level Analysis

*Subrata Dutta**

Against the backdrop of enactment of fiscal responsibility legislation and subsequent economic slowdown, this study, focusing on the Indian sub-national level budgets, attempts to examine the effects of changes in government saving (in revenue account) on capital outlay and also the 'chain-effects' of fiscal consolidation on outstanding liabilities, interest payment, non-development consumption (revenue) expenditure and finally on development consumption (revenue) expenditure. Besides, the present study examines the trends of these variables for each individual state.

Keywords : State Finances, Fiscal Consolidation, Development Expenditure

Significance of Government Saving

To sustain growth, developing countries often face savings constraint (i.e., credit constraint) and foreign exchange constraint. These constraints can limit investments (Stiglitz *et al.*, 2006 : 54-55).[1] During the last two decades India has been able to accumulate substantial amount of foreign exchange reserves by liberalising its economy. But scholar like Patnaik (2004: 5565) cautions, reminding us about what happened in the east and south-east Asian countries, that most of it is short-term speculative capital inflow which should not be used for long-term investment, e.g., in infrastructure, since sudden exit/outflow of such capital, caused by some real reason or speculation, can create 'a massive liquidity crisis'. In this context, Chandrasekhar (2008) notes that "unlike China which earns a significant share of its reserves by exporting more than it imports, India either borrows or depends on foreign portfolio and direct investors to accumulate reserves. Its surplus foreign exchange is not earned, but reflects a liability"[2]. But, what happens when India really runs current account surplus? As *EPW* editorial (2005) has noted, in the first half of the last decade (2001-02 to 2003-04) India had had a current account surplus on its balance of payments (implying exports greater than imports) whereas it has simultaneously experienced capital exports (implying an investment of part of its reserves in foreign countries). This indicates unreliability of such surplus in open economy as far as domestic asset/infrastructure creation or domestic capital formation is concerned.

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Fiscal Policy in India : An Empirical Analysis of the Current Stance

Rajbhushan J. Nayak* & G.Bhalachandran

At the outset, the present study succinctly gives an overview of the economic issues addressed by fiscal policy. It surveys the impact of different instruments of fiscal policy in India while eliciting the behaviour of some of the components of receipts and expenditure of government operations during the period 1970-2010. It attempts to establish the causality relationship between government expenditure and revenue. This study brings out the influence of deficit and debt on the instruments of fiscal policies. The empirical analysis of the study focuses on eliciting the behaviour of receipts and expenditure in various ways with a view to understanding fiscal sector relationships. Needless to say that sustainable growth depends on the sound management of fiscal policy. On a wider front it turns out that the ability of the government to manage a sustainable policy for debt must be consistent with social spending and higher levels of revenue. This study makes it clear that fiscal adjustments should proceed always in a responsible and responsive manner so that fiscal policy contributes to growth and development of an economy positively with stability.

Keywords : Fiscal Policy, Fiscal Management, Fiscal Reforms, Fiscal Sustainability, Deficit Financing.

Introduction

India has shown a remarkable resilience as the world's largest democracy, despite several challenges she has been meeting with over the last six decades. India's institutions have functioned reasonably well, maintaining order and remained supportive to the path of economic development. While the economic reforms have received considerable attention since 1991-92, India's governance institutions have also begun to attract renewed scrutiny. The economic liberalization and market-oriented reforms are just one part of the reform agenda required for countries like India. Since the role of government has been minimized in certain economic activities, one can say that a conducive atmosphere is created to promote efficiency and growth in the country. But it is also critical to ignore the role of government in certain vital areas, like that of improving

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Evaluation of Corporate Credit Risk Using Efficiency as a Performance Indicator

*Swayam Prava Mishra**

The paper aims at evaluating the impact of a non-financial indicator in terms of technical efficiency on corporate health. The sample consists of manufacturing firms under BSE 200 for the year 2005 to 2009. The technical efficiency scores are obtained through data envelopment analysis technique. Both financial variables and efficiency measures are used in the logistic regression model to examine the role of efficiency. The findings of the study show that efficiency has explanatory power in predicting corporate health and, hence, is an essential indicator of corporate credit risk.

Keywords : Credit Risk, Data Envelopment Analysis, Logit Model.

Introduction

Despite the forces of globalisation and innovation, the importance of credit risk has not declined. Credit risk still is the most significant risk faced by the financial institutions. The earlier empirical research has emphasised the importance of financial measures in predicting the health of corporations. Though it has gained success in various degrees, the role of non-financial indicators remains largely uncharted. With a view that a combination of both financial as well as non-financial factors would enhance the predictive accuracy of distress, the non-financial measure in terms of efficiency is explored in this study.

That apart, India has a natural competitive advantage in terms of a strong and large resource base and abundant cheap labour. However, such an advantage is not enough owing to increased international trade and competition. Therefore, enhanced efficiency and productivity are essential to meet the emerging challenge of global trade. So also in this background, the efficiency of the Indian manufacturing firms need to be examined.

The efficiency of a firm refers to its ratio of weighted outputs to weighted inputs considering the performance of other firms. However, it is difficult to evaluate the efficiency of a firm from

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Empirical Analysis of Indian Depository Receipts

Manjinder Kaur & Sharanjit S. Dhillon***

The present paper analyzes the relationship of Indian Depository Receipts (DRs) with their underlying Indian equity shares and the causes behind existence of premium on DRs. For this, daily data of 14 Instanex companies of Indian Global Depository Receipts index from September 2001 to December 2010 has been considered. It has been analyzed that the underlying equity returns and returns on DRs move in the same direction. All the sectors have exhibited a decline in premium over the period of the study but this decline has almost been traced only after 2004. The trend analysis of DRs premium implies that two way fungibility has not opened up enough arbitrage opportunities so as to reduce the premium levels and realign DR prices with underlying equity prices. It has been further analyzed that DR prices move in tandem with home market returns. The present study found that coefficients of exchange rate return and return on sensex (home market return) are positive and significant but co-efficient of S&P 500 index (host market return) is insignificant. Thus Indian DRs are priced at premium in the host market due to positive expectations of foreign investors regarding exchange rate appreciation (rupee depreciation) and performance of home stock market. Hence, it can be concluded that it is the rupee depreciation in the past few years and booming Indian stock market performance (rising sensex) which is the main cause behind Indian DR premium.

Keywords : Depository Receipt Ratio, Sensex, S&P 500 Index, DR Premium, Illiquidity.

Introduction

As a part of financial reforms, in 1991 Indian corporate sector was allowed to tap international equity market through cross border listing. Global Depository Receipts (GDRs) and American Depository Receipts (ADRs) are the two equity instruments to raise capital in the form of euro issues from foreign country stock markets. Depository Receipts (DRs) are negotiable financial instruments representing ownership of equity shares in foreign companies. A DR is a dollar denominated equity instrument traded in a foreign stock exchange. A company must meet all the requirements of a foreign stock exchange and the domestic central bank in order to get its shares listed on these foreign stock exchanges.

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Market Reactions to Foreign Investments in Mergers and Acquisitions : An Empirical Study of Indian Corporates

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This paper investigates the short-term stock market reaction to the announcement of outward foreign direct investment related Mergers and Acquisitions (M&As) by Indian companies. A new trend in India evident since 2005 is the increasing number of Indian corporates becoming global players, acquiring companies through M&As in countries such as the USA, the UK, France, Germany and other parts of Europe. Prior research covering Indian cross M&As is limited to the service sector whereas the present study includes companies from seven sectors. The principal aim is to investigate the market reaction on the bidders' stock price and compare this to studies in mature markets relating to a similar time period. The second aim is to determine whether there are industry and locational effects relating to the target companies. An event study approach using both abnormal returns and price-pressure effect analyses is adopted and statistically significant results are obtained. The value and volume patterns surrounding the announcement of proposed M&As are examined conjointly and both affirm of an information effect with price and pressure effects. In general, it is found that the market reacted favourably to the announcements, in contrast to other studies using similar time periods, suggesting there may be some interesting behavioural contrasts between emerging market and mature market responses to such announcements.

Keywords : Foreign Direct Investment, Mergers and Acquisitions Market Model, Abnormal Returns, Cumulative Abnormal Returns

Introduction

This paper investigates the market reactions of Outward Foreign Direct Investment (OFDI) related Mergers and Acquisitions (M&As) announcements by Indian companies. An event study approach considering share price return reactions and a price-pressure testing of share trade volumes is used.

The Indian experience reflects a new wave of internationalisation from developing economies reflected in the growing outflows of FDI and surge in cross-border M&A activity. OFDI from the developing countries rose from $6 billion in 1989-1991 (2.7 per cent of global outward flows) to $253 billion for 2007

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Estimation of India's Consumption Function

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Consumer spending is an important factor that can stimulate the economic growth and development through the multiplier process. This study aims to estimate the pattern of consumption expenditure and tries to identify the consumption function for the Indian economy. The study intends to identify the determinants of consumption and to build an econometric model using the annual data from the RBI Handbook of Statistics on Indian Economy (2008-2009) for the time period 1970 to 2009. Following are the variables taken into consideration for empirical analysis—Private Final Consumption Expenditure, Personal Disposable Income (PDI), rate of interest and inflation. We have employed rigorous econometric techniques in analyzing the time series data so as to ensure the credibility and reliable economic relations. The results confirm PDI as the most significant factor. The calculated Marginal Propensity to Consume of 0.57 is in affirmation with the theoretical assumptions.

Keywords : Consumption, Personal Disposable Income, Inflation, Ordinary Least Squares, Marginal Propensity to Consume.

Introduction

The relation between aggregate consumption or aggregate savings and aggregate income, generally termed the consumption function, has occupied a major role in economic philosophy ever since Keynes made a keystone of his theoretical structure in *The General Theory of Employment, Interest and Money.* The role of consumption in the multiplier process has increased the scope and dynamics of the topic which led to further developments in this field by developing more realistic and logical consumption (Income) hypotheses. Consumption which was considered only as a function of income was later refined and redefined.

Consumption function indicates a functional relationship between consumption, income and other factors. It shows how consumption expenditure varies as there is change in the income and other factors such as age, social status, interest rates etc. Consumption refers to the amount spent on consumption at a given level of income. On the other hand, consumption function refers to actual consumption at various levels of income.

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Production Efficiencies of Micro, Small and Medium Enterprises in India : Empirical Evidences from Orissa State in India

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The present study attempted to analyze the impact of capital and labour on gross firm output in Micro, Small and Medium Enterprises (MSMEs). A cross-section sample size of 20 MSMEs were selected from Orissa state in India to understand firm efficiency in the perspective of labour and capital. The relationship of labour and capital with gross firm output was analyzed through linear production function model, Cobb-Douglas production model and surmounting logarithm production function model. Both labour and capital were found significant predictors of gross firm output in the selected MSMEs. Also MSMEs had registered decreased return to scale. The MSMEs in the service sector were likely to be labour-intensive to increase gross output, while capital is held as the stronger determinant of gross firm output in the manufacturing sector.

Keywords : Micro, Small and Medium Enterprises, Production Function Model, Frontier Production Function, Socio-economic Monopoly, Cobb-Douglas Production Function.

Introduction

According to Micro, Small and Medium Enterprise Development Act (2006), investment in plant, machinery and equipment (excluding land and building) are different for manufacturing and service enterprise. The investment ceiling for microenterprise is ₹25 lakhs for manufacturing firms and ₹10 lakhs for service firms. Similarly, for small firms, investment ceiling was fixed at ₹25 lakhs to ₹5 crores for manufacturing firms and ₹10 lakhs to ₹2 crores for service firms and for medium enterprises, investment ceiling was ₹5 crores to ₹10 crores for manufacturing firms and ₹2 crores to ₹5 crores for service firms.

The Micro, Small and Medium Enterprises (MSMEs) have greatly contributed to the economy of India. It was observed that the MSMEs engaged 45 per cent of total industrial employment in India and contributed 8 per cent of GDP in the year 2008. A significant share of MSMEs in the national export (40 per cent of national exports) is something which cannot be denied. The existence of MSMEs in both manufacturing and service sectors, helped in bringing healthy competition and provision of customized economic

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Wage-Productivity Relationship in the Manufacture of Leather and Leather Products in Tamil Nadu

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The present study attempts to analyze the problem at the regional level by concentrating on one particular state namely, Tamil Nadu. Further, there are few studies in the past that have attempted to analyze the productivity and wage relationship at individual industry level. A study of the individual industries at regional level was, therefore, attempted to have a better understanding of the problem, so as to delineate the area for remedial action. The reference period of the study was from 1979-80 to 2007-08. In order to clearly understand the links between wages and productivity in selected industries, this study had used a simple econometric analysis namely, step-wise regression model. The function showed that wage rate (Lnw) in the manufacture of leather and leather products was positively related to labour productivity (LnGVA/L). The increase in Gross Value Added (LnGVA) significantly reduced the real wage rate (Lnw). However, positive relationship was noted between capital intensity (LnFC/L) and real wage rate (Lnw) and the institutional factors measured in terms of trend variable (LnT) had a significant positive impact on real wage rate (Lnw).

Keywords : Gross Value Added, Net State Domestic Product, Consumer Price Index, Total Factor Productivity, Capital Intensity.

As the last century came to a close, leather and the leather industry has been around a long while—there are those who claim it as the second oldest profession in the world. Going back a few millennia, when our earliest ancestors decided that sitting on hard rock wasn't a soft option, they turned to other materials to create more comfortable seating as well as warmer bedding and some more acceptable form of clothing to go out and animal skins became the fabric of choice and, at some time or another, they discovered that various treatments applied to the raw hides and skins helped to stop the destruction, through bacterial action, of the by-product of their food supply.

The reputation of the leather industry across the centuries could be described as one of tolerated usefulness, with a wonderful end product. As the industry enters the 21st century, it is now

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