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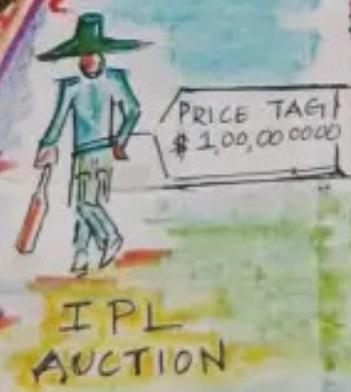


rapport 2011

-BRINGING AN EDGE TO ECONOMICS-



GOING GREEN FOR THE LOVE OF BUSINESS



RUCHIKA SHARMA

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Meeting the Millennium Development Goals

The Millennium Development Goals are drawn from the Millennium Declaration adopted by 189 nations at the UN Millennium Summit in September 2000. For the sake of convenience, these 8 goals have been broken down into 21 targets, which need to be fulfilled by the year 2015. Perhaps this is the best way to bring about development in today's world, where everything is based on data and figures, where even happiness is can be measured in quantifiable terms.

I give top priority to the youth of our country, as I believe that we are the ones who can ultimately bring about much needed changes in society, economy and politics and all spheres of public life. Of course this is not to say that the older generation has lost its significance and is dispensable. The requirement is for the youth to act on the wisdom of our predecessors and strive for a just and fair society. The fulfillment of the MDGs depends on the dynamic, sensitive and innovative group of young people, who are willing to look beyond personal self interest and shoulder the responsibility of bringing their country at par with the world standards.

I have been reading the Mahabharata lately and find myself deeply influenced by it. All of us would agree that the problems faced by our society are the problems of us human beings. I have come to realize, that most of these problems arise out of moral failures in our part. An epic, like the Mahabharata, which is inherently obsessed with morality or *dharma*, makes me ponder over our actions in everyday life.

The first MDG (*see index at the end*) is to “eradicate extreme poverty and hunger”. To overcome this particular problem, it is important that we understand why it exists in the first place. The bureaucracy, which is the main executive body of our country, needs lessons in morality. Our politicians, those directly and indirectly elected representatives of our people, need some social and moral accountability, and all of us, as the citizens of our magnificent motherland, need to reawaken our innate sense of duty and humanity. The Government has many schemes running at present, to combat various evils existing on our road to development. The National Rural Employment Guarantee Scheme (NREGS), Swarnajayanti Gram Swarajgar Yojana (SGSY) and Targeted Public Distribution Systems (TPDS) are all in place, *officially*. These are our government's answer to extreme poverty and hunger. But, they are not reaping the benefits they were expected to. Why? Because, a policy change does not signify a change in people's mindsets. So, civil servants continue to fill their coffers with the public money, politicians continue to act like goons and the judiciary continues to turn a blind eye to people's sufferings. All our institutions are run by morally blinded, Duryodhana-like individuals, who believe that anything goes in this world, in order to meet ones personal selfish wants.

“Universal Primary Education”, the second Goal is to ensure that all boys and girls complete a full course on primary schooling. This Goal is inseparably connected to Goal number 3, so I shall discuss them together. Goal number 2 talks of securing primary education to all boys and girls. So, the fulfillment of this goal leads to the fulfillment of the third Goal of “promoting gender equality and empowering women”. If little girls receive good education, they grow up to

become responsible and educated women, who are aware of their rights and are not afraid to voice their opinions. With the empowerment of women comes the “improvement of maternal health” which is the fifth MDG.

The Parliament has recently passed the ‘Right of Children to Free and Compulsory Education Bill, 2009’. This seems to be an important achievement towards the fulfillment of the second MDG. Poor folks do not send their kids to school for various reasons. They might not have enough money to do so, or they might consider their many children as extra hands of earning money. In this scenario, we have no option but to go back to our first Goal about removal of poverty and hunger. If poverty is diminished to a considerable extent, all other Goals fall into place automatically. It would be appropriate to draw comparisons here with the ‘Hierarchy of Needs’ given by the psychologist, Abraham Maslow (1987), which says that a person’s Physiological Needs like hunger, thirst etc. are primary for the fulfillment of all other needs like Safety Needs, Cognitive Needs etc. Thus, each successive Goal carries an answer to the fulfillment of the next Goal.

The proper implementation of the Healthcare measures introduced by the Health Ministry holds the key to the achievement of the fourth, fifth and sixth Goals. As women become educated, assertive and financially independent, they become actively involved in the family planning process. “Child mortality” goes down when there is proper family welfare programs in place and contentious individuals take it upon themselves to bring about a revolution in the healthcare process. Child mortality specially can only be considerably reduced if the issue of maternal health is resolved satisfactorily. In the fulfillment of the sixth MDG, “combating HIV/AIDS, malaria and other diseases”, the involvement of various social groups and NGOs would ensure speedy progress. These institutions do exist even today, and some of them are doing exemplary work in these fields, but there is huge scope for more services that can be provided by the youth, who are willing to explore the limits of altruism in their nature.

The seventh and the penultimate Goal of “ensuring environmental sustainability” is quite a tricky one to resolve. For me, the solution does not lie in negotiations with the US on the amount of carbon emissions that India is permitted. Of course, we should all strive to cut down on the amount of pollution on our personal levels. But that is easier said than done. Economic growth and environmental sustainability seem to be at loggerheads with each other. Global warming results in the ever rising Delhi temperatures, making us switch on our air conditioners to have some respite from the heat. These ACs in turn excrete harmful greenhouse gasses and chlorofluorocarbons (CFCs) which lead to global warming and ozone layer depletion. What is most needed, right now, is investment in Research & Development to find out alternative means of energy production and consumption. Also, a moral stand needs to be taken by all of us, to try and conserve what is ours, our mother Earth.

The final and eighth Goal to me seems to be easiest one so far. If a country’s domestic scenario is peaceful and content, it does not take much to establish one’s worth at a global platform. Already, due to globalization, there is sufficient awareness amongst all about the conditions of human life in all parts of the globe. More than on a diplomatic level, between the governments of all countries, such “global partnerships” need to be forged between citizens of

the world on a more personal level. This involves something more than sympathy; it is empathy-identifying with other's sorrows and joys.

I am going to conclude with this last Millennium Development Goal, by saying that all of us need to think a little more about others; in fact we need to think of everyone a little less as 'others'. All creatures are God's creation and have one soul. Lord Indra, the king of all Gods in heaven, according to Hindu mythology, told Yudhishtira, the eldest Pandava in Mahabharata, "O great king, you weep with all creatures". I believe, all of us need to try and adopt a little of what Yudhishtira practiced. We need to feel the sufferings and joys of every creature on the planet, only then can an individual work for the eradication of grief and propagation of happiness and peace.

INDEX- List of the Millennium Development goals

- Goal 1: Eradicate extreme poverty and hunger
- Goal 2: Achieve universal primary education
- Goal 3: Promote gender equality and empower women
- Goal 4: Reduce Child Mortality Rate
- Goal 5: Improve maternal health
- Goal 6: Combat HIV/AIDS, malaria, and other diseases
- Goal 7: Ensure environmental sustainability
- Goal 8: Develop a global partnership for development

Debosweta Banik (3rd Year)

India, superpower by 2020?

With the current geopolitics being highly unpolar and treading on thin ice, the countries which strike right will dominate the global arena in the coming years. It goes without saying that the countries which are currently looked up to as potential successors of U.S.A and other European countries in global economic and political supremacy are the BRMIC (Brazil, Russia, Mexico, India and China)

All these countries have different reasons to feature in this exclusive list, The Latin American countries for their rich resources of raw material and high investment conducive environment; China has already proven its potential by its rapid capture of global markets and the will to fully exploit its human resources through a staunch Communist stance.

Now the question is how well India does justify its position here and thus, will it be able to maintain it and rise up to the expectations of being a superpower within the near future. India has of course come a long way since its independence and there the bandwagon stops.

Since the past two decades, India has been enjoying the status of imperialism in the info-tech sector, being one of the major markets for IT industry. Then as a developing country it has mass potential in terms of an emerging market for investment, a pool of young educated and internationally competent professionals. We have all the tools, but the mechanism is not in place.

India's middle class is very ideally attached onto this Utopic idea of Superpowerhood, but only thinking about it will not make it happen. We have some major constraints that pull us back and have made us one fourth the size of our giant neighbours economy in terms of GDP over these two decades. So what are these problems?

The one and major is the pervasive poverty that impedes India's progress in every sector, every way. We have not been able to absolutely tackle the problem in spite of it being a major highlight in every five year plan conceived since independence. What has been happening all these years is creation of a widening gap between the rural and the urban and middle-class. And with poverty, needless to say, attach all these problems of malnutrition, illiteracy and lack of basic facilities in the lives of the impoverished. We face major internal security threats with Naxals and citizens in complete agitation with the country. Food security is another major issue at hand where on the one hand we see our food grains go waste due to lack of storage and at the same time face hunger and malnutrition problems. Our growth today, does not overshadow or in any way minimize the pertinence of these problems.

Another major factor which affects a country's growth is of course its system of governance. India has been this fairly hyped largest democracy in the world, but its effectiveness is getting less credible as you speak. What we need are radical moves and radical changes and a stronger government hand in policy implementation. The country almost need the rule of the stick to inculcate what we direly lack in all spheres of life: discipline. The Indian system of governance has always been about the petty politics of retention of power and patronage.

We have to bring ourselves to terms with reality and hence predict our country's fate. Without structural changes in economy, we cannot expect it to race ahead of its time. Research, innovation, risk taking policy and absolute implementation is the need of the hour. Capacity building and decreasing our dependence on other economies is another requirement. We still are major importers of our Arms and ammunition which means dependency, as opposed to China which is now among the five major exporters of the same.

The ambitions for this sub-continent are not Utopic, but will be if we don't find the right way to realize them. With the passing of the nuclear liability bill, we are at a position to exploit our nuclear capabilities. The recent global economic recession and how our country was relatively less affected and also was one of the first to recover, shows the existence of a stable and growing economy. The output is expected to increase by 10% in the next few years. So the cynics won't be here to stay long, but in order to make our presence assertive globally, we need to employ a focused approach in achieving our goals. With global and regional competition from

China, it sure seems a Herculean task, but so has every major achievement been, and we all know this one will have more rewarding results than we could ever fathom, after all super powerdom is one ring that will rule them all.

Aditi Kumar (2nd Year)

Climate change is really about equity and sharing economic growth between nations and between people

We must first acknowledge the prisoner's dilemma's situation that arises when the question comes of economic growth between the developed and the developing nations. I take the liberty of using a mathematical tool in this essay, which is a game theory. For both developed and developing nations have a choice between low emissions as well as high emissions. For a developed country, which is already in a high emission stage, will choose high emissions since there is a need to maintain the growth in midst of the competition with other emerging countries. On the developing country's end, growth is a necessity to plunge the poverty stricken population out of their low standard of living. Growth attained by higher emissions is just more conveniently available so they choose high emissions. Therefore both players end up in a sub optimal condition (which economists call as Nash equilibrium) where both emit high emissions and the concerned environmentalists count days till earth is no longer a place to live.

What is interesting in this condition is that just like any game theory problem, the optimal condition is low emissions by both nations, which occurs due to collusion or cooperation. But this situation doesn't arise because we consider developed and developing countries as two different players, competing against one another.

So all the above analysis boils down to the fact that to achieve an optimal level, both developed and developing nations must make a choice to bring down emissions. And to achieve this level, both developed and developing countries must collude. This brings us down to the agenda of equity.

Equity implies equal responsibility towards a common cause. It does not matter how rich or poor a country is, the responsibility towards our own planet falls on everyone's shoulder. The developing nations are still not contributing to the carbon emissions as much as the developed states. But it should not imply the fact that we should increase our emissions just for development. The belief that development can only occur with more pollution, or damage to environment is very misleading. For the developing nations, it is relatively easier to switch to infrastructure that is more environment friendly.

Which brings us to the role of developed nations. Bearing the equal responsibility in mind, it becomes their duty to assist and help the developing nations in achieving economic growth. Hence climate change is really about equity, and sharing economic growth. It is not the case that

developed nations absolutely can not bring down their emissions. It is just a tough decision to take. But it is this decision that has to be made by the individuals as well as the nation together. Growth in infrastructure can be achieved by cleaner technologies.

“Even though Climate change is a serious problem that deserves attention; society’s immediate behavior has an extremely low probability of leading to catastrophic consequences. The science and economics of climate change is quite clear that emissions over the next few decades will lead to only mild consequences.”

The above statement by the economist Robert Mendelsohn emphasizes the fact that emissions don’t have immediate consequences, and hence the economic growth policies adopted to cure this situation should see the picture of the longer run.

In this longer run, that is, the future, the issue of Climate change can only be tackled by making compromises and sharing economic growth. For the bigger picture of the choices we make today, most certainly affect our future. Resources are running out and development is accelerating. If this keeps on, then one day we will face a full stop. Also when that full stop arises, if every developmental process relies only on non renewable resources then many nations will cease to survive. Making our growth based renewable resources not only tackles our problem of scarcity but also of reducing pollution. Of course this shift will take time, and therefore starting from now, choices need to be made towards cleaner technologies. The developed nations that can already afford them must help in transferring it to those nations that require development. Or rather these developing nations don’t make the same mistakes as the developed nations did.

Climate Change affects everyone. It has been seen to bring more catastrophes to tropical or Mediterranean nations that are developing. And even though nations like India act as carbon sinks to all the carbon put in the atmosphere by developed nations, it constantly faces droughts, or excessive rain or rising sea levels. Hence it becomes a duty of the developed nations to help all such nations to battle out global warming without hindering economic growth.

Shambhavi Sharan(3rd Year)

Deforestation

Since the beginning of human civilization man has destroyed forests for its own needs, the main being need for agricultural land. This trend has continued into the 21st century, the only difference being that this act of deforestation is now trying to be controlled as its consequences are dire.

In most rich countries pressure on forests has eased however, in the poor and developing countries-which contain most of the tropical forest- this is not the case, as the

demand for land is increasing as the population of these countries is rising. For example in Congo, country with the most rainforests after B Brazil, deforestation is mainly due to small holders whose number has now almost doubled. Thus, there is ever rising demand for food and biofuels as population is rising.

Clearing forests is definitely enriching those who are doing it but impoverishing the planet in the long run. As we can see, lowering the green cover has brought about major changes in the world climate, all of which are for the worst. Rainforests play the most important part in maintaining the water cycle. Also, forests contain almost twice the amount of carbon dioxide than that in the atmosphere, plant matter and the soil they cover, so destroying them means that there is a lot of emission of carbon dioxide, which leads to the greenhouse effect, that is increase in world temperatures. Forests also contain around 80% of terrestrial biodiversity, so deforestation leads to a loss in rich biodiversity. Trees also help in the prevention of various natural disasters like landslides and floods, as their roots bind the soil together.

Economic development causes both deforestation and slows it. Initially, when the economy is expanding people destroy forests for a living but as they prosper they think about the welfare of the future generations and the government too begins to pass laws, enforcing the conservation of the environment. Unfortunately, this transition between clearing forests and protecting them is really slow.

During the last few decades, the forest crisis has led to the rise of many regional, national and international preservation initiatives. For example the Chipko Movement, which started in 1974 in Uttarakhand, India, was a major social- ecological movement in which people hugged so that the trees could not be felled. Another example is of the Bolsa Floresta in Brazil in which traditional communities are rewarded for their commitment to stop deforestation. There have been many other such movements world over to protect the Earth's green cover. However, it is believed that these movements were too focused on the immediate cause of deforestation and neglected the underlying causes, some of which are related to major international economic phenomena such as macro economic strategies which provide a strong incentive for short term profit making instead of long term sustainability.

The main international effort to speed up the transition between clearing of forests and protecting them is the idea of Reducing Emission from Deforestation and Forest Degradation or more commonly known as REDD. REDD is a set of steps designed to use financial incentives in order to reduce greenhouse gas emissions from forest degradation. Its basic concept is that it pays people in developing countries to leave trees standing. In the Copenhagen Summit of 2009 rich countries like Norway, America and Britain promised \$4.5 billion as a starter to this idea. The main difficulty of the REDD projects is that it requires an efficient government, which is missing in most of the tropical countries. However, with proper monitoring and verification that the money goes to those people who deserve it the REDD may work. As put by an environmentalist economist "forests and other ecosystems provide valuable service; and if they are to be conserved, people must pay for them."

Pallavi Doshi (1st Year)

My vision of a world class city

My vision of world class city would include a lot of socio-economic, political, and environmental factors. My vision is an ordinary one with a sound infrastructure, adequate water supply, enough electricity production to meet majority of the demands, employment for all. However progressing to such an extent is worthwhile only if the development is sustainable else the beauty will be short lived. I would, like to define my vision as a long term vision, say 50 years hence. Also I assume my city to have an average population size (not too small and not too large) and an industry based economy.

Starting with the base of the economy, my “world class city” would have a network of extensive roadways both intercity as well as intra-city that would encourage trade and commerce in favor of our economic development. Considering the high level of expenses, I would prefer this development to occur on sharing basis. Contracts for the highways or high traffic roads (with a higher profit incentive) can be given to the private firms whereas development of intra-city roads (with low expected profit) should be taken up by the govt. This would preserve the incentive to quality roads.

Considering an average population size, good roads would lead to high traffic which poses a problem for the ecosystem. Hence it would be beneficial to work on the public transport system. A good and reliable public transport system will not only help reduce the road traffic but also reduce fuel consumption, leading to less pollution and helping in striking a balance with the environment. Green projects such metro would be extended. This will be accompanied with increased CNG bus and mini bus services that'll make metro more approachable. The development of these projects would also lead to generation of employment in the economy and lead to higher GDP growth.

Another important factor would be the “school and hospital infrastructure”. According to my vision, a city must have at least one school (public or private) in every district with all the proper teaching tools and quality teaching standards. My World Class City will not only have hospitals in every 2-3 km radius but will also have all the equipments and qualified Doctors and staff.

Now a city cannot be complete without “power”. Power needed for the running of various industries, for various offices, and power as a fundamental right to its citizens for comfortable living. In my view the high demand for energy in association with sustainable development can only be met by Nuclear power. It is the sector with highest efficiency (output to input ratio) and minimum pollution levels. Even the nuclear waste can be safely disposed and recycled (or will be 50 years hence!!!). Though it has a high fixed cost but its variable cost is lower than or

comparable to the rest of the sources. Therefore my world class city will have sufficient “green” energy consumption.

Another important aspect of a dream city without which the above sectors or normal daily life cannot progress, is water. As per my vision I see potable water reaching all the households, offices, schools, etc and clean water reaching all the factories. Not just this, my city would have clean water resources. Now however fancy it sounds, this is not at all impossible. In fact this brings me to the next aspect of my city: the waste management sector.

I propose my city to have a separate Waste Management Ministry under the constitution. Waste management is totally a technology driven sector, which means – “it’ll progress when technology advances”. Making it a separate segment under the ministry will not only divert more attention towards it but also encourage research and development by allocating adequate funds. Having proper Treatment Technology, will help in the conservation of water, by increasing the scope of recycling of water. Not only this, it will also take care of the nuclear waste and other wastes from various industries leaked out into the air, water and land. With proper policies such as, a complete ‘NO’ to untreated sewage disposal, strict laws to back them up, clean environment along with a sustainable growth will be a part of my dream city.

In the end, all these steps taken would be futile if not accountable and not maintained. In fact my vision does not end just here, it would go on to have an organized real-estate, green roads, awareness among the masses, poverty alleviation, educated masses and so on. Corruption is also an important deciding factor. All the capital and resources are no good if not put to use efficiently, which is only possible through targeted policies, which are enforced through law. Hence institutions like “the legal system”, “the political system” need to represent a “benevolent social planner”. And inefficiencies such as corruption, terrorism, etc, need to be eliminated.

Poonam Maithani(3rd Year)

Does the Dragon Really rule the Roost?

In august 2010, all national dailies literally shouted about a development which sent jitters across almost all the developing and developed nations in the world (particularly India).

“China overtakes Japan in the list of the topmost economies worldwide, expected to catch up with uncle Sam’s economy in the coming years”

The only spot where India appeared in this whole equation was the subject of the newly intensified threat that India faced from China in matters of territorial politics or influence over other South Asian countries. But is the dragon really that powerful that it can keep growing infinitely without any stumbling blocks in its way?

A lot has been written about the subject by authors who have far greater expertise in such matters than me and therefore, it would be no less than a cliché to put forth a chart describing the growth(or should I say boom) of the Chinese economy. Of course China had a 6.1% growth rate in the 1st quarter of 2009, it managed to cope really well with the global financial crisis, with its excellent foreign exchange reserves (over \$2 trillion) acting as tool for balancing the gradually drooping western economies. Its domestic savings rate of over 50% has elevated it to the much desired rank of the ' manufacturing Mecca'. True, India has not been able to have a spectacular growth rate vis-à-vis China but the fact that we tend to overlook is that China was ahead of India by 25 years in revamping its economy. A member of the commerce ministry of the republic of China, Yao Jin remarked at the news of the Chinese economy growing leaps and bounds by saying that 'China remains a developing country. The quality of China's economic development still needs to be raised.' As a matter of fact, the truth lies within the modest comment. Although, the Chinese economy has a balance of payments surplus, which as it has been already mentioned, it took advantage of during the global economic meltdown, it still ceases to have 40 million people below the poverty line underlining the fact that China's economy depends on Exports, unlike India, where the economy is dependent upon on domestic consumption. It's rapidly ageing population and the undemocratically enforced Child policy eliminates a huge portion of its possible demographic dividend as well. This again, is unlike India, which has a younger workforce, more of an asset than a liability. In a recent report it has been highlighted that imports in India have surged, putting a negative impact on its superbly influential foreign exchange reserve. That, of course does not imply that trade with China makes a mammoth sized impact on the exporting nations. GDP as the exports are hardly more than 5% of this nation's aggregate output.

What gives China the 'power of enormous financial reserves' is its exports and what actually has led to the demand for Chinese goods, is its policy of Currency devaluation. Naturally, this is unethical in the foreign exchange market and the dragon can't continue with it for too long. At the same time, the onset of property boom has put the government in a fix i.e. to appease the rich and the elite or be generous and philanthropic towards a massive population of it's not so well off citizens. Large scale underemployment in both rural and urban areas, rapid deterioration of the environment due to a huge expansion in infrastructure, Jintao's focus on the remote, backward areas rather than the comparatively advanced ones has stirred a social unrest. These issues, in addition to the large scale liberalization of thoughts and values have paved the way for democracy and are a potential source of the breakdown of the communist regime, whose strict and efficient governance keeps the capital safe and the investors interested. Scarcity of an English speaking workforce as well as government's failure to curb piracy has kept the information sector, particularly the software moguls out of China for quite a while and the saying goes, 'one's loss is another's gain', such companies absolutely fawn over India.

Furthermore, China's state directed capitalism, where in the prices of certain key commodities, especially industrial raw materials and major industrial products are determined by the state, has made the entrepreneurs state patronizing and this very idea limits the scope for a free process of globalization.

The point is that although China has suffered from fewer setbacks than any other economy recently and that development in China faces a fewer bottlenecks, but that does not make China the most spectacular economy or the global power structure. Like every other economy, it has many problems making its road to development (which is already well structured and well controlled) very restricted and narrow (thanks to the rampant censorship laws). Unobtrusively, it is not the boss out there, as many have pointed it out to be and even if it attains those heights, it won't stay there for long.

Bhavyaa Sharma (1st Year)

Currency Wars

While all developed nations are fighting this monster recession to get their economies back on track, a recent competition has started engulfing all the leading economies and hence threatening others: the competition of becoming "weak".

The stage is set and the war has been wedged, primarily by China. China which has always been accused of keeping its currency at artificially low levels, has always maintained the lack of any sort of intervention from its side, to influence its currency price, to gain the comparative advantage. It is under the vigilance of world fraternity. US specifically has never tried to put pressure on China to mind its action and stop manipulating its currency price to gain that comparative advantage by catering to cheaper exports. But it has been unable to put any sort of sanctions against china due to its heavy dependence on it for its FDI and capital investment.

Now, in its attempt to lower deficit, the enduring US currency recently saw depreciation which is causing uproar from other economies and quite ironically even China.

Explaining the dynamics of the war Charles Wallace reported that the Fed chairman, Ben Bernanke had forced the Chinese government to revalue its currency. Last fall, he launched a rigorous "Federal bond buying program", which lead to an outflow of money from US to China. China in return had to buy US dollars from the banks and exporters, and print Yuan for financing these purchases, leading to huge inflation in China, in November 2009. As a result the Chinese currency has appreciated at an annual rate of 12% (inclusive of Inflation) since July 2009.

According to experts, this new 'fad' of weakening currencies to artificially low levels is harmful for the world economy as a whole. Perhaps these countries can take a lesson or two from Germany, which in spite of having the same currency (Euro, as of other European countries) has seen a boom in its exports resulting in huge trade surpluses.

Vinita Negi (3rd Year)

Micro Can be Crazy!

What happens when you have all the perfect information needed to make an economic decision and a very valid economic theory resting at the back your head? Can it only be applied in the exam hall to a certain Charlie Ambrose' (character created by Varian- an economist) budget/profit maximization/cost minimization and benefit function, and then feel a sense of glory after you terminate application, solving his problem?

Have you ever applied a microeconomic theory to your little world of constrained expenditure?

This stage in college life, when 95% of us are chronically broke, made me think about my expenditure on a commodity I use more often than a toothbrush! A pen!

My thinking went on to a micro-edly micro level when I was fighting against my conscience about what stationery to buy at a shop when I am broke (like I always am), and this article was born.

At a time, when there were just three Rs.10 notes in the wallet, anybody would have opted for a single digit costing pen but -'pilot', I said. It may sound absurd to you now, but here are the statistics:

Rs.30- a one time investment lasting as long as 6 months (for a minimum) before my capital wears out.

Rs.10- on its refill ink bottle (a minimum of 3 months)

My costs per month will be = fixed costs per month + variable costs per month.

$$=Rs. (30/6) + (10/3)$$

$$= Rs.8.33$$

The single digit cost pen costing Rs.3/pen lasts a week.

My per month costs will be =Rs.3 X 4

$$=Rs.12$$

Now the former is not only better than the latter in terms of costs but benefits also. The former is more comfortable and gives a higher benefit (higher reputation- that chic is expensive!) through a better handwriting. For the latter, you pay more to get a lower benefit.

The usual benefit function, measured against the expenditure, should be an upward sloping curve but when we choose the latter option, it becomes somewhat distorted and violates the economic law.

In the end, I would like to mention two things:

1. The above article is purely based on a self experimenting sample test.
2. You can analyze your expenditure through the micro-eye and try benefitting in the long run. All you need is right information and an applicable economic theory.

P.S. I hope the CEO of the formers company reads this article and rewards me for the advertisement I gave him!

‘ Use a Pilot pen to repair your benefit graph! ’

Sruti Gudavalli (2nd Year)

Portfolio Diversification

My dear friend was recently gifted a 1TB external hard drive costing about Rs 6000 by her brother on Raksha Bandhan and I, on the other hand, have lost all my memory storage devices and considering my not-so-tech savvy family I am unlikely to get anything more than a 4GB pen drive + another 4GB one, picked up from my sister's drawer without her knowledge + 4GB on my mobile = 12GB.

However since I have stored my data in 3 different locations (similar to investing in 3 different types of stocks) and she has stored her entire data at a single location (similar to investing your entire wealth in a single stock), my portfolio is more diversified. Hence, even though her total wealth (measured in terms of total data storage) is much larger than mine, I am no worse off than her.

If anything happens to that 1TB external hard disk i.e. if it gets drenched or if it is stolen, she loses all her stuff -movies, music, pictures etc. On the other hand, if I loose one of my pen drives, I still have some of wealth left (read: data, movies, playlists etc).

Hence however much she boasts about it, we needn't be envious of her 1 TB drive as it is a particularly risky asset.

Deepna Khanna (3rd Year)

SATTA-HI-SATTA: - Deconstructing the Gamble

Legalized Betting will not only curb match-fixing but would bring in tax revenues for the government.

Money- making is nothing new to cricket. In fact anything that includes cricket has money tagging along it. What better example than the IPL? And what else tags along the popular sport like cricket in India is the thriving business of betting and match-fixing. Not long ago were three Pakistani cricketers banned for match fixing? Is there any way to fix this or not??

The answer is Yes – legalize gambling in India for cricket. Legalizing betting would help the Government to keep track of the transfer of funds and even use the revenue generated for public welfare.

The biggest reason why this should be done is minimizing betting doesn't prevent it happening! What banning anything achieves is only driving that activity underground and hence in the playground of criminal elements. Betting thus has become a lucrative option for criminal elements, where money can flow between gambling, drug mafia and even terrorism. Legalizing betting and other forms of gambling would not only bring all this activity out in the open and minimize, if not eliminate, the underworld role, it would also mean that the government shall be able to raise substantive tax revenue from it. It would mean turning Black money into white. It would also mean, bringing back the money now going into countries where Gambling is legal.

A good model for us to follow is of Britain; the world's most liberalized market and the smallest black market for betting. There an independent body, The Gambling Commission, regulates Britain's thriving industry including bingo, casinos, lottery; scratch cards and of course, sports. The UK earned Rs. 10,000 crore in tax revenues from the gambling sector. The size of this sector is roughly equivalent to 1% of the GDP in most European Union member states . For india, that means a revenue of Rs. 62000 crore. This being more than the Rs.7,594 crore tax collected under the amnesty voluntary disclosure of income scheme in 1997-98.(Inclusive of adjustment for inflation). Also legalizing betting shall have a reduced incentive for match – fixing too.

Legalising will have to be supplemented by sufficient Regulation. This is exactly what the UK for instance does through the Gambling Commission mentioned earlier. Hence, it makes sense to take gambling out of the illegal rooks and crannies in the underground but, make it a legitimate, regulated tax paying Business.

Ruchika Sharma (IIInd Year)

Microfinance: Dynamics Of Microfinance In India: The Road Towards Rural Development?

Financial inclusion has been a very acute and pervasive problem among rural Indians. Their financial activities are limited to post office savings and borrowing from moneylenders, but not anymore, we have a new saviour, a real one this time, in the form of Microfinance. The success stories are unlimited and it actually is quite astonishing how such a simple concept of social responsibility, joint liability and micro credit had the potential to transform the face of Rural finance.

At the very outset of this article, let me introduce to you the very basic concept of Microfinance. As the term itself suggests, Micro pertains to small, and finance pertains to money. Therefore financial activities involving small amounts of money, in very basic terms is Microfinance.

Microfinance in its concept as we know today was conceived in rural Bangladesh, which has now gone on to become a dynamic force of financial services for the poor in the country, especially women, leading to their financial independence.

There are two models in which Microfinancial services are disbursed.

- **The SHG-Bank linkage model** – Under this, a group of 10 to 25 people (comprising of women or senior citizens, depending on the type of SHG) pool in their small savings to form mobile credit. This, they lend to each other on priority basis with group responsibility in loan repayment. Once the group establishes its discipline in lending and repayment, it can get credit from established banks for a fixed time period, which they repay, responsible as a group.
- **The Microfinance Institution-Bank Linkage model-** In this, the group directly takes loans under the joint liability method (the whole group is responsible for loan repayment) from the MFIs which in turn are funded by banks.

The motherland for Indian Microfinance is Andhra Pradesh, mainly because of the state government's critical efforts in the late 1980s in building SHG-bank linkage models with loans from NABARD (National Bank of Agriculture and Rural Development) which built up a strong Micro-finance portfolio.

Today, Micro-finance Institutions, which maybe banks, NGOs etc, are catching up as big players in this Industry. And from here starts the critical analysis, the have and have not's of this very lucrative and tremendously potential concept.

The whole concept of financial inclusion encompasses the need for Micro-finance. The rural poor up to a decade had zero access to normal banking services and were intermittently excluded from the same, thus they were dependent for credit on moneylenders.

Today with SHGs and MFIs, the face of money lending is slowly changing.

The loan outstanding , according to the latest estimate by Microfinance Institutions Network (MFIN), the organization of 40 MFIs, is about Rs 30,000 crore with about 3 crore poor banking on MFIs for their financial needs. While the four southern states of AP, Tamil Nadu, Karnataka and Kerala account for a chunk of this borrowing, West Bengal and Orissa too have rural poor relying on MFIs.

Besides, the sector is also on an uptick in UP and Haryana.

We have to clearly understand that the sheer fact that micro-finance has succeeded with repayment rates up to 98% reported all across the country, is because of the small credit disbursed to a huge customer pool. The mere volume of transactions is the winner in this game.

Now, as expected micro-financial activities are not synonymous with profit, but of late many MFIs have come into existence and are making profits more than the banks which lend them credit, which is highly puzzling.

Also, many of these institutions, especially in AP, including India's largest registered microfinance Institution-SKS, have been blamed for discreetly charging interest rates as high as 25-26% and coercive loan collection methods.

They claim to charge a flat 10% interest rate on the credit balance, but instead even after the principal amount is repayed, the interest is charged on the original amount borrowed, which cumulatively adds up to 25-26% rate of interest.

Moreover the recent suicides committed by women and men unable to repay outstanding loans from MFIs, the number 54 up till now, has raised serious questions on the functioning of these MFIs, clearly violating the grounds of ethics and morality on which the whole concept was founded.

In purview of all this, the Andhra Pradesh government recently launched an ordinance, which through its legal regulations regarding financial activities has immediately put all repayment to MFIs on hold. This step has pushed the whole micro-finance sector into an unidentified, uncertain limbo.

The question is not whether Microfinance is viable or not. It has been tried and tested and has proven its potential as the most cost effective developmental tool. It is its effective long term sustenance that is questioned.

Till now, the government with its varied schemes, programs has invariably enjoyed the rural support in its initiatives. Now, they have an option, equally beneficial and viable, in the form of MFIs. The fact that more and more poor have been associating themselves with these institutions shows that how the rural India is gradually learning to make choices once he is offered any. As I said, huge demand for rural credit, makes the rural population a potential

market for these allied financial activities, and the government and the private players seem to be fighting for it.

Of course, MFIs have their own shortcomings. Competing MFIs tend to target the same set of people, leading to multiple lending and hence repayment defaults.

Thus, what we need is a cohesive effort to sustain microfinance in its essence, that is reaping benefits from it in the form of rural financial inclusion along with regulated but viable micro-finance institution whether profit or non profit. If this current micro-financial crisis that the country is facing is not handled tactfully by the government, which it has failed to do, by far, then probably we can lose hope to imagine, think and dream of what could've been. We can just hope that we overcome this glitch soon and set motion again to something that can not only improve rural finance but also act a source of mobilizing credit for social investment.

Aditi Kumar (2nd Year)

Back To Business?

'Greed is good'. Recall something? Try this-Greed, for lack of a better word, is Good. Greed is right. Greed works. Greed clarifies, cuts through and captures the essence of the evolutionary spirit. Greed, in all of its forms – greed for life, for money, Knowledge has marked the upward surge of mankind.

These are the famous lines of the epic Gordon Gekko from the 1983 – The Wall Street . Gordon Gekko was that powerful character who exemplified the thinking of Wall Streeters and went on to become a rage. I wouldn't credit myself with a eureka moment, but watching Wall Street: Money Never Sleeps(All for Shia LeBouf)as to write this article. The research that- tedious, yes-but the interesting revelation was that the wall street today has shrugged off all it's lessons from the 2008 crisis and moved towards it's old ways

Back to Basics – what where the activities that thrived relentlessly at the Wall Street to have let the 1987 'Black Monday' stock market crash? Those were numerous cases of stock manipulation, insider trading, stock parking and other ways of earning illicit profits, carried out by the notorious faces of greed. These included Michael Milken (The Junk Bond King) and Ivan Boesky (Arbitrageur) among the first to be caught and jailed. John Merewether and Jeffrey Skilling weren't far behind. More recently was Lloyd Blankfein, who has been at the helm of Goldman Sachs since 2006. The India, Harshad Mehta too made a mark by looting banks of Rs. 4000 crores by rigging the stock market.

Now, guess who's back? The news has it that the Wall Street is 'alive' to these activities again and has learnt nothing from the subprime crash. The question that lurks is that has the US

government done nothing. Definitely, the US government is determined to change forever how the Wall Street functions through a restriction on proprietary trading by banks, curbs on Executive Compensation and brings over the counter derivatives into exchange. But the disappointing and the appalling part is that the Wall Street isn't stopped by these steps. It is again well on its way to create the next bubble. So to say "greed" has returned to Wall Street.

A full fledged spiral of liquidity leverage and excessive risk-taking has taken hold on the Street. (Insiders say at least one bubble- and possibly two or three- are building up)

The new excess is taking place in the Government Bonds market. The irony is that the bubble formation is being encouraged by the US government only. The Federal Reserve has kept interest rates in the range of 0 to 0.25% with the hope that it would encourage plans to lend to people and business. That has not happened because the economy is in dumps. However, the investment banks have readily queued up to borrow from the Fed. They put this money which currently gives a yield of about 2.6%. Thus, what the banks are doing is that they are borrowing from the government and lending it back to them buying bonds while the tax payer who is suffering from the lack of credit, effectively pays 2.6% to the rich banks.

Coming to Pension Funds, in the US the Pension Funds have a compulsion to earn a minimum rate of return because they promise to pay a certain level of pension to the elderly. But with the current slump situation and low interest rate, these banks are going to alternatives like hedge funds. A lot of US money is being sent abroad to carry trade, buying of bonds and currency in higher yielding economies.

The low interest rates too are acting as a catalyst of a new bubble. The whole cycle started again. Arbitrage too is proving harmful because one, it is highly leveraged. Second, the repo facility attached to government bonds is in turn leveraged too. The arbitrage works only as long as inflation remains extremely low. If inflation were to rise, the gap will quickly close and the entire brotherhood of the financial world will come to the market at once to sell. That will crash the bond market.

Also, last year in August US companies announced Mergers and Acquisitions (M&A) worth more than \$175 billion, a sharp rise from \$13 billion in the same month of 2009. Hostile bids and leveraged buyouts are all the rage again. Hedge funds too are becoming popular. There are various other companies that are raising money through initial public offerings. Neither the companies nor the investors are bothered that cash already in the system is lying uninvested.

The insiders of Wall Street already agree that many of these bets could fail miserably but nobody wants to stop the action for now. Danger looming?

Ruchika Sharma (2nd Year)

The Incentive Problem of perks in public sector

One thing that differentiates public sector from private sector is the incentive. While private sector thrives on profit maximization and competition, firms run by state or in collaboration with the state run short of it. According to normative economics, it is clear that for any economy to work efficiently, it is very important that there is perfect competition and that producers are profit maximizers while consumers are rational and utility maximizing. In absence of any of these, resources are not efficiently allocated.

The economies where major industries are controlled or run by state suffer from a huge incentive problem. For instance, when a firm is owned by an individual, he would try to increase his profits as much as he can and hence, would try to cut the costs; thereby leading to efficient use of limited and scarce of resources. However the situation becomes a lot different in case of public sector. The managers and administrative staff don't reap the benefits of increased profits of the firm hence they don't have any incentive to cut costs. This leads not only to reduced efficiency but also higher costs.

One way to tackle this problem is to give perks to the workers and staff whenever the firm does well. Again , this solution has drawbacks. Perks lead to increased costs which have to be accounted for when calculating the firm's profits. The idea behind giving perks is to encourage people to work hard and increase productivity. For example, Ford's 1 \$ bonus for assembly line workers in 1900s became a rage at that time and led to great improvements.

Perks are a good way of solving incentive problem in public sector despite the fact that they increase costs of production. Therefore while deciding whether to give perks to workers, it has to be analyzed that whether increase in profits outweigh the increase in costs. And most importantly, vigilance is required to see that they are not misused and perks are proportionate to person's performance.

Divya Singh & Sruti Guddavalli (2nd Year)

Economics of Corruption

As we are nearing the end of 2010, there is no doubt that 2010 has been crowned as the 'Year of scams'. 2010 has seen some of the worst moments for India. IPL controversy, CWG, Adarsh Flats controversy, LIC Loans scam and then the Radia Tapes; all of these have helped India to sink in transparency. But the question is, were these scams really surprising? Or was it all just expected for a country like India?

Well, Wikileaks has brought some serious information out and one of it is the level of corruption that has engulfed Russia. One of the cables talks about the 'three-tier' system in Russia where at every level, 'bad' is so intricately mixed with 'good' that it is hard to separate the two. There are even questions challenging the existence of democracy in Russia. Some say that it is Vladimir Putin who is enjoying supremacy and not the real president Dmitry Medvedev. The reason why I am citing the example of Russia is that both the countries are alike in many ways and share same set of problems. Both Russia and India are democracies and trying to achieve stable economic growth. And both face the corruption as its biggest enemy.

The Wikileaks points out that corruption is so much built into the structure of Russia that there are very few chances of its removal. Is the same true for India? The history of India since independence brings out a gloomy picture. The fact is that corruption is not new for India. Recent events have just shown its existence at the top though it has always been present starting from the grass root level. Since an Indian child is born, he is shown that bribery is the best way to get work done. He grows up seeing how money got him driver's license, how donation got him into good school/college; how money helped him buy votes in university elections; so by the time he reaches the top, accepting or giving bribe doesn't bother him much. He doesn't understand why bribing in crores to get loans is wrong when giving bribe of 500 rupees is okay. The saddest part is that we all encourage corruption at the lower level and condemn at the higher level.

Now let's see why corruption thrives, or in other words; what forces drive corruption to persist and grow.

Incentive: Bribing gets your work done at any level, so why not do it? For instance, you want to get a birth certificate but you don't want to stand in line. A dealer can do that for you in return for reasonable amount so why won't you accept that offer?

Opportunity costs: Take the above example. If you try to get the birth certificate legal way, you would have to waste your entire day at the MCD office. You would lose your one day's work. Now you would wonder (like an economist would do) 'Is it worth the pain? The opportunity cost of my time is certainly greater than the dealer's time'. And so you would hire the dealer.

Uncertainty and risk: Where there is uncertainty, there is risk and where there is risk, there is a solution-information. Continuing the above example, there is a good amount of risk that even after sacrificing your entire day at MCD's office; your work may not be done. The dealer in that case, provides you with information and hence minimizes risk at an affordable price.

Cost Minimization: Well, this is something that goes for everybody. Take a firm for example. It wants to start a plant in some area A. Now it would definitely require a lot of work like getting court's approval, environment clearance etc. Whereas bribing the required officer would save both money and time.

No barriers: All of the above reasons would fail if there is strictness or strong legal action against bribery/corruption. You know that no one would catch you or take you to jail or fine you if you get driver's license the illegal way.

And finally, who's watching the watchmen? Even the police are corrupt. The Allahbad High Court Judges have confirmed the reality of common Hindi movie dialogue that money can buy everything in India!

I would like to conclude by adding that corruption is like a virus that has affected every level in India. It is heartening to see that when India is trying to fight poverty, high unemployment, illiteracy, malnutrition, there is an added problem: corruption. Not surprisingly, its solution lies in stricter action, greater vigilance and greater sense of morality among citizens.

Divya Singh (2nd Year)

The most Important Challenge Facing Asia Over this Decade

Many young Asians have known only two kinds of economic growth- fast and faster. But what about the problems that cannot be resolved by growth alone? There are many key challenges to Asia's continued competitiveness and developing which need to be tackled and the most important one is the problem of huge inequalities in wealth distribution which must be addressed if Asia is to continue to develop.

The fact that most of the region's economies will continue to develop in the coming decades has no doubt. But how these benefits will be divided is not certain. The policymakers are impoverished Asians and thus, inclusive development must be offered. To all Asians.

It has been reported that 8 Indian states account for more poor people than in the 26 poorest African countries. Although India is going through a spectacular economic surge, this performance is nowhere to be seen in the measures of per capita income. Basically, the rich are getting richer and the poor poorer. Most importantly, the poor are trapped in an inescapable spiral which makes them deprived of credit, education or business opportunities. There is a strong correlation between higher socioeconomic inequality and the shorter life expectancy, higher morbidity, mortality, emotional depression and prison population. Also, this leads to certain demographic pressures, as rising poverty means more people. Without access to family planning which can be seen in the case of India with its rising population.

To address this problem of inequality, the government should have a mindset to offer equality of opportunities to the defined people. This will not eradicate poverty but will be an important step towards preventing it from growing further, without compromising the market forces that have driven Asia's economic growth. One of the prime areas for the funds to be directed in rural development. It is said that more than 50% of India resides in villages. Thus, we are required to take growth to the rural areas as well, instead of luring rural migrants to the cities. Sound rural development policies will enable families and communities to stay together and reduce migratory pressures on urban areas. This can be done through building up of infrastructure in rural areas and diverting funds to increase agricultural growth. In this respect tourism sector has to be given special attention in rural areas because India's culture resides in its villages. Also, the indigenous industries like handicrafts, pottery, etc should be given a reviving boos to increase rural employment and thus income growth in villages. The government, through advertising, should encourage cooperative initiatives among the villagers. This will lead to an exclusive and holistic development of not only the village community but the environment. Apart from the other measures, a less straightforward and even lesser obvious measure in this situation could be abolition caste quota in educational institutions. This policy was adopted to bring about equality and equal opportunities for the deprived, however, its effect has been paradoxical. A remedy for this paradox can be introducing quota on economic grounds (based on financial conditions) and not on caste, which has started in some schools.

The surplus decaying in the store houses should be distinguished in affixed quota to starving people it might be argued that dissuade people from working. But this kind of free release of food grains to reduce surplus will only be for a span one year or so, that too with quota. It will serve the dual purpose of good utilization of grains and saving the starving people because the interest of such poor lot of people are being lost in the wake of free market.

Although people belonging to the upper strata may find it hard to believe this stark reality and find it easy to forget about the problems faced by the rural poor, but it is very important for these economies to understand the needs of this population are required to be met urgently and this is very essential for a continued development of the region.

Priyamvada Jha (2nd Year)

Fiscal stimulus: a boon or a bane?

In the face of current global crisis, many economies have injected huge amounts of fiscal stimulus in order to revive aggregate demand and thus, growth. An economic stimulus is an effort by the government to pump money into an ailing economy, whether through spending, tax cuts or interest rate reductions. A stimulus is meant to put a floor under a recession and pave the way for a return to growth.

There is a need of a well-executed policy mix of both monetary and fiscal measures to prevent the economy from further weakening and a downward debt-deflation spiral. The extraordinary policy intervention since the crisis has all but eliminated the risk of a second Great Depression, laying the foundation for recovery. It is important to answer the following questions-when and why a fiscal stimulus package? What constitutes a well executed fiscal stimulus? What are its costs?

Governments and central banks responded to financial sector difficulties by introducing substantive and innovative measures to deal with liquidity and solvency problems. Also, central banks reduced interest rates to unprecedented levels to underpin aggregate demand, and used nonconventional measures like quantitative easing and qualitative or credit easing. In spite of these efforts, credit remained tight and aggregate demand in many countries weakened rapidly. There were negative spill-overs from the weakening economies to those that had appeared more robust, and increased concern that the global economy might be moving into a period of deep and prolonged recession.

Governments around the world therefore went beyond monetary policy measures by introducing large stimulative fiscal packages (*see table 1). In this context, questions were raised about the effectiveness of temporary fiscal policy actions in lessening the depth and duration of the slowdown, and about the potential long-run negative effects on the economy of the debt accumulation and its effectiveness in boosting employment and demand.

In summary, the fiscal stimulus has not been a total failure and has definitely avoided a second Great Depression, although with potential costs. The costs include potential long run costs of fiscal deficit, high unemployment and inflation. Its failure lies in the poor design and execution by the governments. A well-executed, well-targeted, timely and temporary stimulus package along with a credible medium term fiscal framework and an accommodative monetary policy adjusted to the country specific economic conditions should act as a panacea to a global economic crisis. Maintaining sufficient fiscal space to make deposit guarantees credible is of paramount importance in all countries irrespective of the size of their debt overhangs with little room for policy manoeuvres. High government debt displaces private investment. Now is the time for a gradual shift back toward private investment, because when consumers believe fiscal spending is not sustainable, public spending becomes less effective. Along with these,

policymakers also need to focus on financial sector repair and reform, withdrawal of stimulus and rebalancing of global demand.

Latika Sharma (3rd Year)

Failed Economics

One evening I was driving to my village, a small hamlet in the North of Rajasthan, I saw a few people sitting on the road just outside the village with heaps of books scattered all around busy discussing something. They aroused my curiosity as they did not look like the regular villagers. To my utter surprise, these people introduced themselves as major economists. There was grave disappointment and lines of worry as they explained with much sadness that their theories had failed in the village. Leaving them busy with deliberations, I promised them to undertake a survey to find out the causes of failure of their widely, approved economic theories in that small village of mine.

My village consists of about 55 households of which 30 belong to the land holding class and rest to the labour class. The total agricultural land of the village is around 560 acres. The canal irrigates only 60% of this land and 40% is kept fallow because the underground water is unfit for this purpose. The Green Revolution brought new machinery, seeds and introduced the use of fertilizers and pesticides. To remove capital deficit, loans were given by banks and financial institutions. Productivity increased and major problems of food scarcity were solved. The results, however, were not as they had been anticipated.

A single household on an average cannot hold more than 11.2 acres of irrigated land. In the village there are about 21 tractors, all purchased with bank loans. On an average one tractor is used for ploughing 16 acres of land, much less than the norms. For 16 acres one tractor runs only for not more than 3 hours. After sowing, the chemicals are used to remove weeds and the harvest is collected with machinery. The activities of land households and labor class revolve around these 3 hours of field with tractors. The real capacity lies wasted as the inputs combined are in a greater proportion than the output, leading to negative returns.

An air view of the village economy presents a fully employed set-up in which each and every individual is contributing to agricultural process. A reality check, however, paints a picture of disguised employment, where a population of about 300, on average, is engaged only on 1.344 acres of productive land, a figure definitely below capability.

Everyday 7-8 man hours of each adult are available and that time has increased consumer needs in shape of cars, motorcycles, jeeps, etc. In this small hamlet there are 17 cars, 33 motorcycles and almost every family has a television and a mobile phone. Even crop loans are used for

paying consumer goods. With availability of unproductive leisure time hunger for consumer goods increases further.

Village economy happens to be a very narrow economy where most of the activities just revolve around agriculture and that too on lines that have been followed down the generations. The produce is sold to pay part of loans and further loans are then taken up. Psychologically farmers are not willing to diversify their crop rotations and nor are they willing to utilize available time for axillary activities to supplement their income.

Digging in to the causes of failure of economic phenomena, the highlighted reason seems to be a disinterested approach towards learning and change. There is only one primary school and higher education is limited to class 8th or class 10th. The technological boost has proved more to be a source of entertainment than a gateway to prosperity. The capital (machinery) overtook the work in the fields increasing the number of free man hours. Sources of distractions such as television, mobile phones, gossip, or any other non-productive activities are undertaken in those free man hours. The problem of economy is not lack of facilities but lack of will to reach out to those facilities in a productive way.

Welfare theories, government intervention policies, no-tax rules, subsidy grants have failed because they have yielded a race of lavish consumers who do not contribute proportionately to the real agricultural process. The technological advancements have formed a comfort zone in which the village society has receded.

Equipped with this survey, I came to the economists and explained that the real reason for the lack of awareness about basic financial management especially utilization of leisure time was due to lack of education. With inflow of knowledge they would understand their true economic potential. Further, I assured the dignitaries that their next visit would definitely witness changes and will acknowledge that their economic theories have not failed totally.

Gaganjayot Kaur Narwal(1st Year)

Of Inflation, GDP and Government

Inflation can make the government and it can break it too. Inflation can be good, it can be bad. In other words, inflation is like our next door neighbor who gets polite sometimes and irritates other times. The importance of this phenomenon can be judged by the fact that it is one of the most used words in print and electronic media.

Now what is inflation? Well for non economists, it is like the greatest evil on the planet. It eats your salaries, cuts your spending, decreases your savings, and makes you redo your budget every month. It is even greater peril for the government who can ignore it, but can't do away with it. Inflation has been portrayed as the villain whose job is just to make peoples' lives even more miserable. Yet, only an economist student can tell the true nature of inflation. And here comes the surprise, inflation is not always a villain!

Inflation is inevitable when the economy is expanding. And it increases by faster amounts as the economy approaches full capacity. Gross Domestic Product(GDP) measures the output in an economy. And as GDP pushes up, peoples' incomes increase, thereby increasing aggregate demand and hence prices push up. So if an economy is trying to expand, inflation would come along. Yet, it must not be too large; otherwise the benefits of increased production would be marred by reduced purchasing capacity due to inflation.

In an economy like India, government plays a very important role in deciding the fate of the economy. It can stimulate the economy in many ways. What is happening in India is a result of increased production. On one hand, while GDP is looking healthy at 8.5%, inflation reached as high as 11.6% in June 2010.

It becomes very important for the government to look at the effects of inflation before making any decision about the GDP growth. There exists a strong relationship between the government, GDP and inflation.

Even though prices have shot up in India, there is still a positive side to it, increased growth.

Divya Singh (2nd Year)

Employment in a Service Oriented India

Through this article, it has been my endeavor to present a holistic approach to the concept of employment, in India, particularly in the service sector. It is a well established fact that employment is extremely important and necessary for every country, both developing as well as developed.

Every country wants its people to achieve gainful employment. This gainful employment leads to income generation and production of goods and services which further helps in boosting the GDP level and growth rate of the economy.

On the other hand (at the microeconomic level) individuals want jobs which suit their skills and fulfill their expectations. It is extremely important that a worker's skills match with his/her job's attributes and requirements.

Most of the countries address the problem of employment, however the real problem lies, in achieving gainful employment.

For example: a 12th pass student can easily start earning by being employed as a woodcutter, gardener or a cleaner. However in these jobs, neither his knowledge nor his skills is being fully utilized. Thus he is not gainfully employed.

Seeking gainful employment is like marrying your skills to the job's requirements and attributes.

Gainful employment is employment that is suited to ability and potentiality of the one employed. Example: working at McDonalds is considered to be employment where as working at a sales job with a high commission is considered to be gainful employment. One of the main challenges that India faces is to make its people **employable rather than just eligible for acquiring a job.**

Let us look at this issue, solely from the Indian perspective; ever since her birth in 1947, as an independent state, India has undergone various crests and troughs at the employment front. India has always been an agrarian economy, with majority of its people dependent on the primary sector comprising of agriculture, forestry, fishing, poultry, mining, etc. However, with time several changes have taken place in structure of employment.

One of the major changes took place in 1991 after the introduction of the NEW ECONOMIC POLICY (NEP). The NEP comprising of liberalization, privatization and globalization popularly known as the LPG, led to a major shift of the workforce from the agricultural to the manufacturing and the service sector. The NEP had a revolutionary impact on the structure of employment. It was the beginning of a new era which exists, till date.

India has more often been regarded as an agrarian economy, however by late eighties and early Nineties, the service sector has also been a major driving force in India's economic development.

The increase in the service sector, in terms of, share of employment and contribution to GDP can be explained by the increase in demand of service goods. This increase in demand has a direct relation with the growth of the Indian economy. It is believed that, services, in a developing country like India, have a potential demand. There is more scope of increase in demand of the service goods i.e. if my income increases I may not increase my consumption of rice but I may increase my consumption of health, insurance and banking facilities. I may not start wearing more clothes but I may increase my visits to a doctor for regular health check-up or I may even increase my consumption of entertainment services. An increase in the tertiary sector, services like health, education, communication indicate a better quality of life and a higher standard of living.

Thus as our economy is growing, several economists suggest that our thrust should be on the tertiary sector. However then, the evergreen debate of equity versus efficiency comes into the picture, which remains unresolved.

In spite of the various arguments put forward in favour of equitable development of all sectors, one cannot deny the dependence of the manufacturing and the agriculture sector on the service sector. The service sector plays an instrumental role in enhancing the productivity of these other two sectors. For example: a growing agriculture sector would require better irrigation facilities, high yielding variety of seeds, better quality of manure ,fertilizers, better storage facilities, advanced farming tools, transportation services, micro-credit financing programmes etc. Similarly an expanding manufacturing sector requires more sophisticated machinery, transportation services, banking facilities etc. The service sector has a crucial role to play in a country like India which is still on the path of development.

The dominant role of services is clearly evident in India, but because of the large productivity differential across the sectors, it also had the largest reallocation gains (ie.. transition from agriculture to service sector)

Another peculiar feature of the service sector is that it demands 'reasonable' level of education and skill from its workers (however the term reasonable is subjective and depends on the type of service the worker is providing). The service sector has the most productive set of labour ,however this productivity is not solely because of the labour ,it is also because of the nature of the job and the value of the good being produced. **'A worker's value is measured by the market value of the good produced by him.'**

In such a service sector centric employment scenario, skill development is extremely crucial to convert qualified people to employable workers. India is on the path of attaining the status of a knowledge economy. In the global knowledge economy of the twenty –first century, India's developmental policy challenges will require it to use knowledge more effectively to raise the productivity of agriculture, industry, and services and reduce poverty. Although knowledge has always been at the core of every country's developmental process, increased speed in creation and dissemination of knowledge is making it even more important in development strategy.

Four pillars of the knowledge economy:

- An economic and institutional regime that provides incentives for the efficient creation, dissemination and use of existing knowledge.
- An educated and skilled population that can create and use knowledge
- An efficient innovation system of firms, research centers, universities, consultants, and other organizations
- Dynamic information infrastructure that can facilitate the effective communication, dissemination, and processing of information.

However in my opinion, **education** is the most important and the most crucial of all the four pillars.

- It is essential to create “knowledge workers” and “knowledge technologists” who are flexible, analytical and can be the driving force for innovation and growth.
- However, education is most time consuming to change because there is very limited potential for “leapfrogging” educational levels.
- Education is a key component for developing other pillars like IT and Research and Development.

Thus, there is a dire need to focus on skill development, development of a full-fledged knowledge economy in this era of service centric employment and thus a service centric economic development.

The service sector has shown tremendous potential ever since its birth in nineties, and that is the reason for our increased dependence on this sector, however it is essential to realize its potential to the greatest extent effectively. Some **recommendations** in this direction are:

- Better quality of education for all and more importantly focus on transition to work roles. Our weakest link, is skill development and youth employment. Thus we need to increase investments in these sectors.
- Formal mechanisms must be developed that provide opportunities to acquire skills for which there is an established demand.
- Promote self-employment and entrepreneurship through livelihood schemes
- Concerted efforts to improve youth employment.

Keeping these factors in mind, India will indeed be able to drive uphill on the growth trajectory, with the help of its economy’s accelerator i.e. the service sector.

Abhilasha Sahay (2nd year)

Turmoil In Egypt

As Egypt stands on the brink of transition from President Hosni’s 30 year old unquestioned rule to democracy, the entire world economy is going through a crisis.

Anarchy in Egypt would mean trouble in the Arab world and its impact will be felt in more than one way across the globe. Even though Egypt isn’t a big oil exporter, but oil flows through Egypt which is home to Suez Canal, the shortest link between the east and the west due to its extremely unique geographical location which is one of the world’s most critical navigation

channels and the Suez Mediterranean pipeline. Both of these are the 'world oil transit checkpoints'- places that are a 'critical part of global energy security'. About 7.5% of the global sea trade is conducted through the Suez Canal.

The canal is still open but there is no loading and unloading of cargo at the ports since workers are staying away because of the crisis. If the Suez Canal shuts down, more than 2.5 million barrels of oil which is more than 2 percent of the global production, that passes through the canal each day will have to pass through the Cape of good hope adding another 6000 miles to the journey causing tons of time and money.

Due to the Egypt crisis, prices of oil have shot up by about \$2 per barrel and by the end of the trading session, oil prices are about 4% higher, at a bit over \$89 a barrel.

Price of oil is not the only concern. The biggest fear is that there could be instability, political problems or unrest within Saudi Arabia. That in turn could slow down the economic growth in US and contribute to the already high inflation in the developing world.

More broadly, the situation in Egypt is a reminder of just how uncertain the world is. It's the kind of unpredictable fat tail event that makes investors worry and that worry itself could have a very bad effect on the stock markets across the globe.

Nikita Khanna(1st Year)

Kall Keynes for Krisis

The recent crisis has animated the imaginations of mainly those who are now left with the daunting task of having to redeem their country's economy and for the rest it was just a refresher course in Keynesian economics as we all candidly discussed it during our coffee breaks, spare periods, lunches, dinners etc; after all there were not many job losses in India or any violent out break that could have entered the living rooms of the Indian middle class city dweller (for the village dweller, it just did not exist).

One had witnessed the revival of faith in the Keynesian theories as a knee jerk reaction to the sudden bankruptcies of American banking and insurance giants; but now we see that the world policy makers, in peril, are chiefly resorting to stimulus packages (or bail-outs or whatever they have chosen to call it) to either save those firms in distress or bail the economy out; restructuring of the economy, changing a few rules, introducing certain norms and so on are nowhere to be seen.

Keynes chiefly advocated interventionist government policy, by which government would use fiscal and monetary measures to mitigate the adverse effects of business cycles. But is that what was resorted to? I think not. A series of major bail-outs and nationalizing of 2-3 institutions which were the key players of the US sub prime mortgage market does not quite vouch for a change in economic policy of a country.

What the recession ultimately succeeded in doing was defeating the faith one had in the dream of global free market capitalism. It is being argued that the current US stimulus package is too small as it does not take into account Keynes's insight on the importance of confidence and expectations in determining the future behaviour of businessmen and other economic agents but is largely trying to save a few CEOs.

So why is India called the relatively safe country?

It is largely because in India one has policies that are aimed at protecting the interest of its citizen. In China one can open up a firm, employ people and if situation requires, they can lay-off as many as they like but Indian policies will not let that happen so setting up a firm here is relatively tougher and the process, more detailed. Like the IRDA requires that 85% of any insurance firms' reserves to be invested in government securities thereby protecting the common man's money. But in an America insurance firms are free of such norms and therefore greedy motives cause them to run into trouble and also risk the country's economy.

So rather than dailing K for crisis, one sees prudence in restructuring the economy and making it, if not insulated then at least, well prepared.

Abhaya Acharya(3rd Year)

It's a flat flat world, or is it?

The title has been taken from the book "The world is flat" written by Thomas Freidman. The title is a metaphor used to explain the fact that the world today is a level playing field in terms of commerce where every competitor has an equal opportunity.

However to me, the world isn't flat: Neither in the scientific nor in the economic sense. The geography of this earth pretty much describes the geography of the political and economic arena. I may start from my home with an idea that transcends and transforms into several patterns reaching out to far off places which eventually brings me back to the place I started.

To explain my idea, let me start by the geography of the earth. The land surface is never even. There are the mountains that reach high in the sky, plateaus grew but flattened out and the plains. All these landforms have various rivers flowing across them that eventually join the sea.

In the olden (golden) times, sailors traveled across these vast expanses of the sea in search of new lands and resources. My purpose of explaining such geography is that this very nature of our world can be translated in different kinds of people that determine economic systems. The mountains thus refer to the developed nations, plateaus may be thought of as developing nations and the plains as underdeveloped economies. We can think of the water flowing across the various land forms as capital and finance that has become highly mobile. So what

globalization ultimately does is, it facilitates the water (capital) to flow across all these land forms (economies).

It is agreeable that globalization tries to provide equal opportunities for development in various economies and therefore flattens out the differences. But just as a developing nation can acquire facilities or technologies from developed nations, the same way the developed nations can use facilities such as cheaper labor from the labor abundant poorer economies. So it is not the case that only developing nations are growing, the developed nations still maintain their power. Thus there will always be the mountains and always be the plains.

A flatter world imagines itself where every aspect of economies would be identical. But the very fact that economy comprises of individuals, and every economy has its own different characteristics, they can never reach a stage where variables, such as growth per capita can be identical.

So the world has a coarse surface, not flat. But more than that, the world is round (even in the economic sense). Trade across nations is a process that moves in circles. In the global meltdown for example, the loss of credit in one country caused the capital moving that was once flowing into India to not only stop, but the water reversed its currents. So it was one recession that caused the sailor, who travelled across nations in search of profitable domains to come back to his own country to pay back the expenses that were caused in this journey. (Had the world not been globalised, the sailor could have easily absconded and his fellow mates back home would never realize where he went)

Therefore, it's a coarse round world. And it need not be a bad thing. Globalization in fact enhances diversity, and diversity causes trade. Trade aspires to make every one better off. So relative growth need not matter as much as absolute should.

Shambhavi Sharan (3rd Year)