A contrarian investor is one who goes against the convention and charts a path for herself. With this newsletter, ‘The Contrarian’ we oppose silence and believe in voicing our opinion even if it challenges established beliefs. This is an attempt to go contrary to the image of Economics being a ‘dismal science’ wherein we believe it is an endeavour necessary for any society that wants to grow. We acknowledge the efforts of the entire team, our professors and those who sent their entries for publishing. The response we received was overwhelming, hence we apologise for not being able to print all entries because of the space crunch. In the inaugural edition of ‘The Contrarian’, we bring to you a potpourri of articles, a concoction to please different palates. We hope that this newsletter inspires you in the same way it has inspired us.

Laxita Mithal and Srishti Singh
Editors-in-chief
At a time when the Indian economy had been rocked by a multitude of scams, the rupee was on a downward spiral and the current account deficit was as wide as the Grand Canyon; Raghuram Rajan, the rockstar economist, transformed into Arjuna, the warrior prince, with his eye on only one thing- recovery of the failing economy. In this article, we make an attempt to discern three arrows from the warrior’s quiver.

1. Monetary policy: Taming inflation
Under Dr. Rajan’s reins, consumer price inflation has dropped from 11% to 8%. His steadfast belief in keeping interest rates high despite immense opposition has been touted as the main reason behind this drop. With a view to achieve growth with low inflation, the measures adopted led to 5.7% growth in GDP in June, 2014 (growth in the past year had been below 5%) with a concomitant decrement in inflation levels, something nobody but him foresaw. In August, 2014, high repo rates were balanced by slashing of statutory liquidity ratio (SLR) by 50 basis points to increase lending by banks; in view of the growth target by RBI set at 6%. Raghuram Rajan, like the dragon warrior Po from Kung Fu Panda, has been practicing what a warrior is expected to do best- balance.

2. Financial Inclusion:
In his first speech after assuming office, he made it clear that financial inclusion was an important target to achieve. In a bid to realise this aim, he set up the Nachiket Mor Committee on financial inclusion. The recommendations of this report include setting up of bank accounts for every adult, increasing access to credit to low-income households by appointing formal lenders for them. At a speech delivered at SRCC, Dr. Mor also said that a proposal for banking services being provided by mobile service providers was also being considered, seeing their wide reach. Over the past year, these measures have come to fruition. The RBI has also encouraged branching out by banks, as long as they fulfilled certain conditions laid down by the central bank.
3. Strengthen the rupee by narrowing the current account deficit:

Before Raghuram Rajan assumed office, the rupee was in a free fall. He took the following measures to stabilise the rupee-high interest rates (bonds) brought foreign investors inflows into equities. Banks were offered dollar-rupee swaps on fresh three-year (or above) non-resident dollar deposits at the concessional rate of 3.5 percent against 6 percent market rate. Banks raising overseas loans have also got swaps at rates that are 1 percent below the current market swap rate.

Investopedia explains currency swap as an exchange of principal and interest in one currency for the same in another currency. However, there is a caveat, using swaps only postpones a crisis because at a later date as India too would be expected to do the same. Other measures include warning the government against consumption-led spending, also known as ‘distortionary’ spending. He has also recommended ‘rupee internationalisation’ to avoid importing in dollars, by pushing for trading in rupee. All these measures have brought the reserves to 317 billion dollars from an abysmally low level of 274 billion dollars.

During his days at IIM Ahmedabad, when asked about his career choice, Raghuram Rajan said that he wanted to be the Governor of RBI someday. On September 4, 2014 Dr. Rajan completed living his dream for a year. So, has his dream come true, translated into a dream run for the economy? Well, as the classical economists would say, we shall deduce that in the long run.

-Srishti Singh, Economics, II year

Sources:
http://www.chicagobooth.edu/faculty/directory/r/raghuram-g-rajan

FACT FILE : Raghuram Rajan

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| Alma Mater    | IIT Delhi (BTech)  
                | IIM Ahmedabad (MBA)  
                | MIT Sloan School of Management (PhD) |
| Current Occupation | Governor, RBI |
| Positions held in the past | Chief Economist, IMF  
                           | Chief Economic Adviser, Ministry of Finance  
                           | Distinguished Service Professor of Finance, Chicago Booth School of Business |

Raghuram Rajan- The Academic
- Thesis title: Essays on Banking
- Research Interests: banking, corporate finance, and economic development - role of finance
- Books authored:
  1. Saving Capitalism from the Capitalists with Luigi Zingales in 2003
  2. Fault Lines: How Hidden Fractures Still Threaten the World Economy
- Awards:
  1. Fischer Black Prize for the best finance researcher under the age of 40
  2. Global Indian of the year award from NASSCOM in 2011
  3. Infosys prize for the Economic Sciences in 2012

Source: Chicago Booth website
IN CONVERSATION WITH DR. BADAL MUKHERJI

Kuhu Mehrotra and Srishti Singh had the opportunity to interview the esteemed economist Dr. Badal Mukherji in the month of January. Dr. Mukherji is a guest professor of microeconomics at JNU. He has taught at TERI University and has been a visiting professor at Vanderbilt University USA, Sydney University Australia, University of Witwatersrand South Africa and Johns Hopkins University. He retired as director of Delhi School of Economics in 2005.

SRISHTI: Sir, much has been said about the Fed Reserve Tapering. Do you feel that anticipation of the effects of such moves makes the markets of emerging economies more volatile? Also, one of the panel discussions at the recently concluded WEF’14 talked about Global Economic Outlook’14. How well do you see the global economy performing this year?

DR. MUKHERJI: In the 90s when there was a crisis, we used to be happy that India was not affected. The point is, it was not a cause for happiness at all. It was a symptom of isolation. Now, with a nearly open economy anything that affects the rest of the world is likely to affect the Indian market. Something that affects the largest economy is expected to impact the smaller economies. At the same time the Government of India has not invested much in the bond market of the USA. When the US government needs money, it sells bonds. Government of India, unlike the Chinese, hasn’t been seriously involved. So the tapering in the US is perhaps going to go around us, but not hit us directly like a tidal wave. However, in the money markets of the world there was a huge impact. Why? It’s not clear - it is not entirely rational. In fact stock price movements are extremely hard to predict. The best model that can describe it is called the random walk model. It borders on the irrational. The FIIs are equally volatile entities, especially in the internet based interconnected international markets. They can come and go very fast. I wouldn’t be too concerned since what this does in Indian stock exchanges is that when the FII’s buy up a stack of shares, those holding those shares make capital gains while those who held the shares that the FII’s unloaded, make losses. This has no reflection on the productivity or economic activity of the country, certainly not in the long run, so I won’t be very worried.

Talking about the global economy, predicting it would fall in the realm of astrology! To give an example, today as we speak the winter Olympics are starting in Sochi, Russia. Now, if a bunch of maniacs manage to go and hijack the arena or do other insane things then there’ll be chaos, pandemonium. Sochi by itself is not a very influential place in Russia. However it is very close to major north-south petrol pipe lines, from Siberia to Ukraine. So if something were to happen there, then it’d affect others as well. Ukraine, also, is a very dicey place, as it turns out that a vast number of erstwhile Soviet atomic warheads are located there. If it is attacked, then the small country gains far more importance than its actual economic weight. If Ukraine becomes unstable, its effect on the international economy gets very difficult to predict. Similarly two years ago, a tsunami hit Japan and its economy was badly affected. Japanese turned around and said that we should take a look at the use of nuclear power. This affected France, which is again a heavily nuclear power dependent economy. These are big economies whose troubles were triggered by a natural disaster. So in an interconnected world it’s very difficult to predict or make a forecast.
KUHU: Sir, you just spoke about America. The USA, though an economic superpower is fast losing its stranglehold over the world economy. In recent times, China is emerging as a major player. How is the political ideology of communism prevalent in China a stimulus to its fast paced growth?

DR. MUKHERJI: It is not clear now whether the Chinese are communists at all. Times when General Mao led a long march and established a communist regime are long gone. What has happened in the last 30-40 years is a very strange Chinese cocktail governing the economy, not only because they have retained their political control but because they have been very quick to appreciate the value of the capitalist market economy. All these years China has been watching Japan. Don’t forget that China’s biggest enemy for centuries was Japan. And I have always held that one reason for Japan’s success in South East Asia was China becoming communist. Chinese are by far the most racially stereotyped lot and also the most competitive and enterprising. What the Chinese party managed to do was to unleash that force. However, don’t always look at the GDP alone. As the population there is so large that even with a small per capita income, the GDP becomes inflated and China comes at number 2. India is closing down at number 3. But still these are very poor countries. Yes, definitely they have grown rapidly and shown vast improvements. No questions about it. The progress is, in fact, phenomenal. Taking the case of India, with the other middle developing industries, the number of people being employed is enormous. These countries, as long as they are growing are not so heavily dependent on the rest of the world, which is a challenging statement if we see the size, population and capacity of our markets. This independence can go a very long way. That is what is happening in China and India. The biggest failure of the market is that the capitalist environment cannot exist by its own and has to be managed by the government. Inequalities again hamper the market structure. But, what we should be bothered about is poverty and not inequality per se.

SRISHTI: Sir, Given the fact that India is dependent on import of edible oil and hence loses precious foreign currency in their procurement, how do the government policies help in increasing the productivity of oil seeds and pulses? Also, how effective and well-defined are the price support operations of the Government of India for food grains, pulses and oil seeds?

Dr. Mukherji: Let’s think of Japan, it doesn’t produce a drop of oil, produces a third of its wheat plants. The Japanese basically told them ‘how about us selling you drinking water’? By doing this, they covered at least 30 to 40% of their expenditure. So our only solution is to develop markets that are needed in the rest of the world. We produce enough food grains but we don’t have petrol. We need to find out what we can sell in exchange. For example, IT services. We don’t need to worry if certain agricultural products are imported or there are certain periods when there is a shortfall. The price support operations are a highly sensitive issue. The government of India in 2002-03, had a buffer stock of 65 million tons of food grain which had the whole world worried. If you have this huge stock of food then give it for free to the poor, don’t try to subsidize, as this dual pricing is an inevitable source of management problems and corruption. There are people who can’t afford 2 square meals a day. At that kind of poverty, don’t try to mark prices. Such a system works for those who can go and participate in the market.
KUHU: Sir, you have taught at various institutions. Your studies took you from Calcutta University to MIT. Then your profession took you from John Hopkins University to Delhi School of Economics. What difference did you find in the teaching and learning process here, in India and in abroad. Also, since you are currently teaching at JNU, what difference do you find here and in DSE?

DR. MUKHERJI: Abroad, they have always been half a step ahead of us, if you talk in terms of technology. Even in 1966, when I went to MIT for my PH.D, the computers had come in and we did all our work on them. They were not socially available to all at that time. But other than that, what you actually need is a very committed, qualified teacher and some willing students. That is the essence of higher education. One problem, I would say here is the lack of good quality and well equipped libraries. Also, the admission process here is very imperfect. Some student who is being rejected by DSE is easily getting admission that too with full scholarship abroad, in one of the top universities. Combining all of this, it is very difficult for me to make distinction as a teacher. Because all that I was taught by my professors abroad, is automatically being learned by my students through me. I would definitely go by this, that all that is required is a good teacher, strong motivation and willing students.

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THERE’S SOMETHING ABOUT YELLEN

A merica. The land of dreams, irrational phobias and Kanye West. The country has been seeing a lot of change in the past decade (I say 2008 and raise you a Lehman Brothers), and the most significant change, contrary to popular belief, did not take place with the swearing in of its first African American president in 2009, rather it kick started with the first female Chair of the Federal Reserve, a Janet Louise Yellen. So why all this ruckus about a woman heading the Fed? Madam President hopeful Clinton is still at least 2 years away. But, here, the conspiracy theorists have it right….mostly. The Federal Reserve plays an extremely important role in calling the shots in the policy making of the biggest economy in the world. Skeptics, step aside please. If you need proof just look up the global market scrabble Ben Bernanke, Yellen’s predecessor caused last year by merely hinting at a possible change in the US fiscal prudence outlay. The Fed sneezed and the entire world caught a cold. Or as the adage goes in Hindi ‘Paisa bolta hai’.

Janet Yellen was born on 13th August, 1946, in Brooklyn, New York. She received her Bachelor’s degree in Economics from Brown University in 1967 and her PhD from Yale University in 1971 (her thesis was supervised by James Tobin and Joseph Stiglitz). Her husband happens to be Nobel prize winning economist George Akerlof and her son is a professor of Economics. Clearly, it’s something in the water. Her resume reads like a QS university ranking of the top institutes in the world. She was an
assistant professor at Harvard university from 1971-76 followed by a stint as a lecturer at the London School of Economics from 1978-80. From 1997-99 she was a part of Bill Clinton’s White House Council of Economic Advisors and also served in the Federal Reserve Board Of Governors. In 2004, Yellen became president and CEO of the Federal reserve bank of San Francisco and became vice chair of the Federal Reserve in 2010. Currently, she a Professor Emerita at the University of California’s extremely prestigious Haas School of Business where she’s been awarded the Outstanding Teaching award twice. Phew. If that list doesn’t have you binge eating on your couch, I’m assuming that Amartya Sen is currently reading this.

So what kind of economics does the second most powerful woman in the world (Forbes 2014) believe in? Yellen is a Keynesian adherent and is considered by many on Wall street to be a “dove”, i.e., she prioritizes unemployment over inflation. The withdrawal of fellow economist Larry Summers, who is notorious for being austere definitely set the equity markets soaring to a record high. However, this is a common misconception among the American people. Perhaps they are lulled to this false comfort by the grandmotherly ‘I bake cookies’ aura that she seems to give off. Or perhaps they despise Summers because he’s friends with too many bankers.

It would be extremely narrow minded, however, to compartmentalize Yellen’s 24 year career so easily. Case in point, when she was the head of Clinton’s Council of Economic advisors, she strongly advocated for a deregulation policy. Recently, in August when she spoke at the Annual Fed conference, there were strong indications of an interest rate hike in the near future to counteract an apparent future rise in inflation. Of course this tightened monetary policy will end up leading to serious chaos in the US job market which has only just began to right itself. The dove, it seems, has grown talons.

We can put aside the quibble about future policy changes for now. Yellen’s actual decisions about gradually winding down the USA’s fiscal easing program and putting off the interest rate hike have been well received till now. She’s been smart in letting her predecessor’s policy effects peter out before announcing any significant decisions of her own. The American growth story has somewhat reared its head up too, their economy grew at 4.2% of Q2 of 2014, exceeding expectations of 3.8%. Corporate profits as well as the profits of US banks were near record levels. Investment spending also rose by a much larger amount than was initially estimated. The prophets of the American doom can take a holiday. The national level of unemployment stood at 6.1% versus 7.3% last year.

Though a keystone of Yellen’s policy is long lasting job creation in the private sector, it’s still an area she needs to improve on. Employers added a total of only 142,000 jobs in the past month, a far lower number than predicted by analysts, however, profits per employee have risen considerably from recession levels.

To conclude, it’s far too early to make a report card on Janet Yellen’s performance as Chairman of the Fed till date. She still has a long way to go, and many naysayers to face. An upcoming challenge for her would be to face down the paranoiac who are predicting a massive hyperinflation for America, due to the massive liquidity easing followed by the Fed post 2008. They may be right and the inflation bomb might blow the American public’s income and life savings to smithereens. Or it might just be the usual American flair for drama. Yellen already has a contingency plan in place, evident from her speeches supporting both low inflation and low unemployment (a contradictory situation, think Phillips curve). Whatever the outcome of her term as Chairwoman might be, she’ll definitely go down in history for being the first woman to control the globe’s money.

-Gauri Gaur, Economics, III year
THE CONTROVERSIAL CURVE

As curious and unique as it sounds, the Laffer curve shows a conceptually relatable relationship between possible rates of taxation and the resultant government revenue. The curve humbly begins from 0, which means 0% tax rate. This means no revenue for the government. It ends at 100%, that interestingly also results in 0% revenue for the government (this happens due to disincentives against earnings and aversion to declare the correct taxable income).

Also popularly dubbed as the Khaldun-Laffer curve, it was a concept that raised a lot of intellectual curiosity. However, it was never given proper dynamics before Arthur Laffer used it to relate it with the US income tax system in the 1970s. The curve implies that there exists an optimum tax rate for every economy that lies between 0% and 100%. This will provide the government with maximum revenue. Any point lying before or after this rate will result in an inefficient taxation system.

Though this concept actually makes a lot of sense, it was met with huge criticism for the theory’s non-technical and rough draft (probably because Laffer sketched this graph on a napkin in an informal meeting with Ford; just probably!)

After carefully analyzing it was felt that even though the idea is more or less on the right track, its application is highly difficult. The calculation that determines the optimal tax rate is a rather complex one (and not to mention the conditions keep changing) and there is no way a government can rightly reach this coveted point without using hit and trial methods. The main controversy was never the theory but the question of where in the graph an economy stood (various economists had different views on this, no surprises there).

After Laffer’s theory gained momentum, it was said that Ronald Reagan’s 1981 economic plan that included cuts in marginal tax rates was based on this theory. Unfortunately, his motion did not result in the desired outcome and there was a reduction in revenue due to cuts in taxes. On the brighter side the reduction in revenue was much lesser than projected as due to the cuts people were motivated to earn more taxable income.

Finally, while it is difficult to conclude whether Arthur Laffer’s theory was well thought or not, it is definitely backed with reasoning. In its application the theory has been proven to be a tough nut to crack as economic policies contrary to popular beliefs are complex instruments with varying outcomes. Further, it is difficult for any economy to judge its position on the Laffer curve. On the whole, the theory gives insights into policy making but does not necessarily help in shaping up the policy in a real economy with diverse conditions.

-Anna Brittas, 1 year, Economics
The Role of Small and Medium Enterprises in Economic Development

One of the most daunting tasks for developing countries is to overcome the scourge of poverty and to achieve inclusive growth alongside their rapid economic growth. A common feature of the majority of people in these countries is that they have little or no direct asset other than their own labour and hence long term policies to overcome poverty require providing gainful employment to people. Creating gainful employment will require moving people from the traditional low productivity activities to more productive activities with higher returns to labour inputs. In this regard, a strategy that holds great promise is the strengthening of Small and Medium Sector Enterprises (SMEs).

From a policy perspective, there are several characteristics that make strengthening of SMEs a particularly potent policy alleviation strategy. The inherent advantage of these firms lies in entrepreneurial dynamism, internal flexibility and responsiveness to changing circumstances (Rothwell, 1989; Caloghirou et al., 2004). The informal nature of these enterprises with their simple management and organizational structures, and the absence of bureaucracy, as in the case of large firms, allows them to reorganize rapidly to take advantage of new opportunities. This allows them to adjust quickly to the external environment and keep abreast with fast changing market requirements thus making them more resilient to economic shocks when compared to the larger firms (Rothwell and Zegveld, 1982). A feature of SMEs that is often discussed in literature is their labour intensive production technique and higher employment generating capacity when compared to their larger counterparts. They generate more employment per unit of capital when compared to large firms (Mazumdar, 2003). This is particularly useful in the case of developing countries which have scarcity of capital but abundance of labour. Hence these enterprises are able to absorb the excess labour especially from the agricultural sector. Promotion of SMEs is a good strategy for developing countries making a transition from agricultural to industrial economies on another count; SMEs nurture entrepreneurial talent and act as a seed bed for some enterprises which have the potential of growing into large enterprises over time. Another advantage, when compared to larger enterprises, is that SMEs have a higher propensity to innovate because they are more flexible, dynamic and responsive to shifts in demand and changes in economic condition (North and Smallbone, 2000). Rothwell (1989) uses data compiled by the department of Science and Technology Policy Research (SPRU), University of Sussex, to show that the majority share of innovation in firms has shifted to small and medium sized units in the United Kingdom, over the period 1945-49 to 1980-83.

What further strengthens the innovation potential is their tendency to cluster geographically that leads to emergence of agglomeration economies, resulting in knowledge spill-overs though imitation and skill transfers that are facilitated by face-to-face contact between geographically proximate actors (Storper and Venables, 2004). Besides these features, SMEs in manufacturing and production usually use rudimentary technology and often have the ability to engage labour with different skill levels. This makes them especially accessible to the poor and low skilled labour.

SMEs have been the driving force behind the rapid development of several East Asian economies and had helped them to cope with the Asian financial crisis. They are considered the backbone of local economies in Europe and are accepted to be extremely important and prominent in most of the industrialized countries. They are important to economies for their role in creating employment, reducing poverty and increasing the welfare of the society. Hence active government support for SMEs is often prescribed as a development strategy in various policy documents (World Bank, 1997, 2002, 2004). Beck et al. (2005) provide the first cross country evidence for the link between SMEs, economic growth and poverty alleviation. The study finds that cross-country regressions of GDP per capita on the share of SMEs in manufacturing employment has shown a strong positive link over the 1990s, even after controlling for several country specific
characteristics that may explain the growth differentials. However, instrument variable regressions that control for reverse causation and simultaneity bias report an erosion in the significance of the relationship but fail to reject the impact of SMEs on per capita output in the economy. Sceptics of SMEs often argue that shifting the focus towards SMEs might lead to efficiency losses in the economy as these firms are too small to benefit from scale economies. This is a perfectly valid argument if we were comparing larger capital intensive firm with SMEs. But we can still argue for efficiency gains in the overall economy if the SMEs absorb surplus workers from agriculture. Another line of argument in favour of SMEs, with particular emphasis on India, is that the strong growth of the economy in the recent years can be primarily attributed to its services sector. But sustained growth might need a growth plan which has multiple growth engines rather than a single one. Strengthening and promoting SMEs might help in laying a strong base for our manufacture sector which needs to be another growth engine for our country.

Looking at all the arguments in favour of the SME sector gives us hope in it being a ladder not only for the poor but also a ladder for overall economic growth. With the change in regime at the center, there seems to be a renewed interest and effort in framing policies to promote SMEs. Only time will tell if these policies are implemented properly and more importantly whether they are effective. But these are still steps in the right direction are a welcome sign for the economy.

-Mr. Naveen Thomas
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Bibliography

THE ECONOMICS OF RAISING CHILDREN

To put it in a straight forward manner and perhaps a little cynically, in the past, children used to be regarded as an investment that provides their parents with means of subsistence in their old age. Although there were extra mouths to feed, within 10 years children were able to start working, either at home or in the fields. This would provide valuable income for the family. The cost of raising children was low, children required no schooling, no fancy X boxes, and they were an investment for a family. Having children had an economic incentive.
Also, children provided the best hope for old age insurance. In an era of no government pensions and limited social welfare, who would look after you in your old age? Hopefully, your children. But since death rates were quite high, children often had only a limited chance of reaching adult life and outliving their parents. Therefore parents felt it necessary to have several children to ensure there would be at least some children who would survive to look after them in their old age. This in part explains higher birthrates in developing countries.

However, in modern societies, the economics of bringing up children has completely changed. Today, children no longer represent investments; instead, they have become pets-objects of luxury consumption. Parents have to think hard and plan the life of their child in order to have financial stability in each of their lives. The cost of raising a child is thought to be around 45 lakhs and rising faster than house prices. From birth until the age of 25, the outgoing associated with each individual offspring will almost amount to enough to buy an average priced house outright! It has previously been thought that the primary school years and time spend at university are the most expensive periods, with rising cost of childcare and introduction of tuition fees. The high costs mean that usually both parents have to work in order to raise their children comfortably until they leave home.

However new research has found that even when they have left the nest, the costs do not necessarily end there. A survey recently found that grown- up offspring are still costing their parents, showing that just because they are supposed to be spending for themselves, it doesn’t mean the familial purse strings close! Parent’s largest expense is housing, which makes up roughly a third of expenditures, given that it cost more for a larger home in a town with good schools. Schooling is also getting expensive by the day .In terms of growth, the outlays for child care and education have climbed from just 1% of overall expenses to 10% in 2007 for middle income families. Considering extras like sports equipment, summer camps, vacations, latest video games, cell phones, Spanish and painting lessons and the biggest money sucker-College, raising a child is a heavy financial burden. But despite all this, the parent will always want the best for his child. There are also certain indirect costs involved when a parent leaves the workforce to care for a child. Studies have estimated that indirect costs, such as forgone earning, often times exceed direct costs especially one parent has to drop out of the workforce. Many parents forgo promotions to spend more time with their children. After all these, a parent is entitled to a stable life in his old age. But in the current scenario children will be unlikely to start working before 21. And when they do start working they are unlikely to give any money to their parents.

The current generation of young adults is facing increasing levels of debts as well as steep house prices, so they are increasingly turning to their parents for hand-outs to help with these financial drains. Most parents, who are retired or entering retirement, have just about saved enough to fund their retirement. Given the economics of having children it is hardly surprising that we are witnessing a decline in birth rates. This in itself could be a serious economic problem as many Western governments face a looming demographic time bomb-less workers to pay taxes, and more old people to receive pensions and health care treatment. Child rearing is fast becoming a sucker’s game. Though the psychic rewards remain, the economic returns to individual parents have largely disappeared, while the cost of parenthood is souring. The bottom line is clear: a child might well be a blessing, but is also a long term expense.

- Ms. Shreya Dhall, Associate Professor, ECONOMICS The Jesus and Mary College
WOMAN OF TODAY - A NEW DAWN OF LOVE

In this age of 21st century, it could be the golden age of today’s women. The freedom of woman could be the turning point in our society, for centuries men have ruled over women. God has created this duality but the ultimate aim is to be one. Women are now starting to be given an opportunity to compete with men shoulder to shoulder, the days of repression and slavery are blemishing slowly and steadily. That’s why earlier in history we don’t know how many Gautama Buddhas on the women’s side did not get the opportunity to blossom. We don’t know how many Albert Einsteins have simply been denied any possibility for growth. How many Meera Bai’s have we respected?

Women think from the heart and men think from the mind, but all this while our society has crippled the heart. Our mind has been trained from education that anything illogical is wrong, anything irrational is wrong but it’s quite the opposite. Do we find any logic in God or the higher consciousness we all seek to surrender? This could be the age of women- ‘The age of Love’. If we go back in time and see the history, isn’t it a very strange thing that even art forms like poetry, music, dance are dominated by men. The greatest dancers in the world have been men, not women. In fact, women should have been ahead of any male dancer. If you bar the whole of womankind from education, training, discipline, you are making the whole society and the whole world poor, unnecessarily poor. Man alone has been creating only wars. In thousand years, thousand of wars…Is life just to fight? Is life just to kill, massacre, rape? Our whole history is full of murder and we call these murderers our great men.”

It is a world which belongs to both men and women, together to make it a beautiful, serene and a divine place. Even Gandhiji, adopted the feminine approach of ‘non-violence’. We have so much to learn from women if only they could be given equal opportunity, education and equal status in society. Then we could have many women mystics, enlightened gurus, poets, painters and they will not only enhance the women part of world but the whole world. It is because of such roles that a woman looks at life from different perspectives whereas man looks at things in only one way. A woman is not only a woman but she is also a daughter, a sister, a wife, a mother, a lover… So as the great saints of history have adjudicated- ‘You educate one woman in your family and the whole family will become educated on its own’. Then the whole earth will be full of laughter. Instead of talks about war, instead of politicians giving speeches all around the world, instead of the sermons of our so-called priests, it will be far better that every man and every woman is able to see the hilarious side of life and to enjoy it. There will be love and laughter and non-violence all across so therefore, we will need neither any temples, priests nor any wars.

Man has to start understanding that a woman needs to be loved and there is no logic in love, no rationale behind it, no talks just silence. It is like going deeper and deeper into the meditation, the deeper one goes the more one understands the existence. And to exist we need woman at par with man. This could be the new dawn, a new era, a golden age of woman if only they would stop giving up there wants, satisfactions and purpose of life for the so-called family, husbands, fathers. If they love you they would understand you, otherwise it’s all a hypocrisy which has been going on for thousands of years and will continue to do so if the educated and independent woman of today don’t stand up for themselves. Stop depending on the circumstances and rise to the call of the greater existence- ‘the inner-conscience’. Don’t let the society, the customs, religions and regulations curb your freedom, independence and self-growth.

We will have a more beautiful world if all women are allowed to grow their talents, their genius. It is not a question at all… nobody is higher, nobody is lower. Women are women, men are men; they have differences, but differences don’t make anybody higher or lower. Their differences create their attraction. Life is to live it, rejoice it, and retain once freedom, independence and to be a part of the mystery called the life which includes both men and women as together-‘The One’.

- Gautam Kapil, Investment Banker
SUICIDE SURVIVORS ARE GLADLY RECEIVED BY SANCTIONS AND NOT HELP. WHY?

16 year old Meera popped 23 of her mother’s sleeping pills and went to her bed. Her father was diagnosed with cancer when she was merely two months old and they shifted their home frequently in search of correct treatment. His ultimate demise four years back, shook the entire family, especially Meera’s mother; the pills became a nightly ritual. One day, Meera heard her mother talking to an astrologer. He claimed that Meera was unlucky for her father from the moment that she was conceived. Eventually, Meera suffered from an acute depression and then came the day when she took a drastic step. Who should be held accountable for this suicide attempt?

Indian judicial system criminalises attempted suicide under Section 309 of Indian penal Code (IPC). Section 309 states that whoever attempts to commit suicide and does any act towards the commission of such offence, shall be punished with simple imprisonment for a term which may extend to one year or with fine, or with both. Next morning when Meera didn’t wake up, her mother forced her to vomit and her life was saved but would it be humane to criminalise her for a choice that was, driven, in part, by social and mental causes beyond her control?

Suicide has been a topic of philosophical debate for a very long time. Socrates, the Greek philosopher, was the first person to denounce suicide, as he believed that life is gifted by God and a man has no right to take away something that doesn’t belong to him. There were church-led condemnations of suicide and leaders of Jewish society denied burials in hallowed grounds to suicide victims. In 13th century, Aquinas was inspired by a want for intellectual understanding; he reviewed Christian theology, Summa Theologiae, in a systematic and comprehensive manner. In this work, Aquinas stated that suicide is an act against God. Admonitions by Aquinas led to civil and criminal law to discourage suicide. Social stigma against attempters, completers and survivors of suicide was prevalent during the Middle Ages. For instance, suicide victims were not given proper burials and their bodies were disgraced; their head would be placed on a pole on the outskirts of cities as a warning while their bodies were thrown outside the city gates for the carnivores to consume. While there was strong hatred towards suicides, later there were also some palpable reflections of changing views which can be seen in the works of Shakespeare. He brought to light the concepts of melancholy, pain of lost love and escape from disgrace in his literary depictions of suicides. Stabbing was the means used by seven characters. Four characters poisoned themselves. One character drowned and let itself die without trying to survive. Another character swallowed fire. Shakespeare tried to break the wall of stigma by reminding society that suicide is not avoidable in a sheer manner. In 1897, Emile Durkheim published Le Suicide, first case study of suicide. He argued that suicide was not just an individual choice but was driven by social causes no matter how hidden they may be. One of the reasons suicide is less stigmatized today is the understanding that outside pressures, or societal stressors, can contribute to suicidal behaviour.

Methods to denounce suicide have changed dramatically but the purpose is same: to discourage suicide. But is the law really effective? Suicide victims are meant to be treated with empathy and passion. It is important to understand the reasons and consequences that led them to take such extreme measure in the first place. Sanctions after a failed suicide attempt are like a double whammy for a survivor.

Meera’s attempt to kill herself was never reported to the police because her family feared the social criticism and criminal sanctions. Hence, she never went through the criminal due process which was made to curb suicides in India.

Six years after this incident, Meera’s mother collapsed in the living room. She was rushed to a
nearby hospital. She died because of two consecutive heart attacks. Loss of a loved one can invoke depression. Moreover, a person who has been exposed to suicidal behaviour is likely to attempt suicide again. What if she does? What if she succeeds this time? India would lose one more asset. When a person decides to take one’s life with their own hands, they don’t ponder over consequences in the future that they will have to face in case they survived. Hence, people attempt suicide, they die and law disappoints.

Hypothetically speaking, if India’s judicial system, in lieu punishing with imprisonment and fine had made counselling mandatory for victims and their families; there is a high probability that Meera’s mother would have reported her daughter’s first suicide attempt and the counselling received would have brought any such future attempts to a standstill. If there is any hope to save a loved one without endangering family’s reputation and financial condition, everyone shall be willing to take this one more step and report such suicide attempts.

Approximately 1,35,000 residents of India commits suicide every year. Said another way, Approximately 1,35,000 of the human capital of India is lost every day, because of suicides. Reforms in Section 309 of IPC may not halt suicides but can certainly reduce the probability of losing Meera and thousands of Indians like her.

It has been three years since the Supreme Court urged the parliamentarians to void the law, but unfortunately no action has been taken till date to decriminalise suicide attempts. How long does government want to wait before it takes action?

- Surbhi Sharma
INDIA’S STAND ON THE WTO TRADE FACILITATION AGREEMENT

FOR
India is home to 25% of the world’s hungry. 450 million citizens of India survive on less than $1.25 per day. Had India taken an erroneous stand, why would the foremost organization of the world, the UN, hail its decision of not signing the Trade Facilitation Agreement (TFA); and categorically state that every government’s priority is to first feed its poor and then aid certain other countries in creating jobs?
A clause in the TFA states that a country can provide only 10% of the total cost of production of agriculture as subsidies to its farmers and citizens. This clause was put into action keeping in mind the prices of 1980s. Today due to massive inflation, especially in India, 10% subsidies are next to nothing as the value of real subsidies is very small. Developed nations like the US are highly vexed with India for reneging on its promise. The US fails to understand that decisions like these are taken keeping in mind the voices of 450 million people that are 50% more than its entire population! More over it seems hardly fair that while the US provides $120 billion annually as farm subsidies, India cannot provide a tenth of that value to 60% of its population!
The enraged West exclaims that the Peace Clause provides India with an interim solution. This clause states that a solution for food security will be chalked out in 2017. Till then India and other developing countries shall not be penalized even if they do not adhere to the limit on subsidies mentioned by the TFA. The Peace Clause is replete with provisos. After 4 years,

AGAINST
The Trade Facilitation Agreement (TFA) is important for a number of reasons. Primarily because it is aimed at decreasing red tape and bureaucratic inefficiency across borders to promote free and fair trade across the globe. But it was also important because it was the first time in 20 years that the members of the WTO could arrive at a consensus on trade. The TFA was proof that the WTO could actually achieve its goal-liberalization of trade.

India’s decision to strangle the trade facilitation agreement in its infancy has increased the feeling amongst member countries that global trade reform is next to impossible. Such an atmosphere gives momentum to regional trade pacts and agreements that would leave world trade fragmented.

India itself is a huge exporter of agricultural and perishable goods. India was ranked 13 amongst the world’s largest exporters in 2013 and its exports formed 1.7% of world exports. Reduction in red tape and better infrastructure would boost exports and enable our farmers to get a higher price for their products. With all the rhetoric of Narendra Modi being pro business, India's decision to not sign up for the TFA has come as a huge disappointment.
India can be dragged onto the WTO floor for not respecting TFA guidelines. The Anti Circumvention Clause stipulates that countries shall ensure that stocks procured under such programmes do not distort trade. This would contradict India’s system of Minimum Support Price (MSP) and direct procurement, both of which are fountainheads of PDS and farming in India. Additionally the subsidies have to undergo international monitoring which bars the government from providing protein rich grains. Also, India feels that the developed countries are only providing lip service to its demand for stronger food security. Once the TFA has been signed, these countries will pay no heed to the issue. Despite commitment of transfer of technology to developing countries according to the Trade Related Aspects of Intellectual Property, developed nations stymied every attempt to do the same. This tells us that developed countries are opportunists and work only for their gains.

Whenever developing countries accede to agreements without complaint they are denounced as being craven and spineless. When they instead fight for their own interests they are termed as obstructionists. I guess this means that what TN Srinivasan stated was indeed correct;”The Developing World should stop accepting mere crumbs from the rich man’s table”.

Meher Anand, II year, Economics

India claims that its objection did not pertain to trade facilitation at all; it is perturbed about its food security programmes. However, India had got what it wanted during the Bali summit. A temporary arrangement was made regarding the food subsidy issue, and the WTO had agreed to work towards a permanent solution by the end of 2017. Therefore, this last moment sabotage of the agreement is unfair on India’s part.

India has only been supported by Venezuela, Cuba and Bolivia in its decision to veto the TFA. Least developed countries, especially those which benefit from the TFA in terms of availability of new markets and better infrastructure, will be left worse off due to India’s veto.

India must realize that this uncooperative attitude leads to stagnation and indecisiveness in organizations such as the WTO. If India needs its food subsidy demands approved then it should persuade the countries of the WTO instead of linking the Agreement of Agriculture and the Trade Facilitation Agreement. Grow up India before you feel the pinch of complete isolation!

- Avanija Rao, II year, Economics
ECONOMICS FOR FUN

ECONOMICS WORDSEARCH

Find the economics terms in puzzle below.

ALLOCATING
DEMAND
GOODS
NATURAL
PRIORITIZING
SCARCITY

CHOICE
ECONOMICAL
INCOME
NEEDS
PRODUCTS
SERVICE

COST
ECONOMY
MOST
OPPORTUNITY
RESOURCES
SUPPLY
WANTS
CLUES

ACROSS :-

1) Introduced the concept of permanent income hypothesis (8)
3) Value of gold is determined in ………………. (place) (6)
4) When Economic activity is on a decline (9)
6) At equilibrium demand equals ? (6)
9) On July 12 1982 , the ARDC was merged into (6)
11) Which organization publishes World Investment Report annually (6)
13) Richest country of the world as per the 2014 study (5)

DOWN :-

2) Effect that explains why deflation may actually lead to increase in GDP is …………… effect (5)
3) Alternative name for CPI: …………… index(9)
5) When there is single buyer in the market (7)
7) Difference between expenditure and revenue(7)
8) Headquarters of RBI located in(6)
10) Currency notes are printed in (5)
12) National Institute of Rural Development is located in (9)
14) Former name of RBI …………… bank of India(7)

- Kuhu Mehrotra, III year, Economics and
- Khushboo Hanjura, I year, Economics
  (Economics for Fun)
ISRAEL-PALESTINE CONFLICT AND RESOLUTION

Check posts are manned by men in uniforms armed with rifles. Hundreds die and are injured due to air strikes carried out by Israeli operated Boeing aircrafts. Toyota trucks equipped with machine guns patrol the streets day in and day out. While children are left blinded and maimed and hundreds are left homeless, the world continues to be a spectator to the conflict between Israel and Palestine.

This conflict dates back to the First World War. The Ottoman Turkish rulers who ruled over most of present day Iraq, Jordan, Israel and Palestine allied with the Central Powers (Germany, Austria-Hungary) to fight against Great Britain and France. Britain encouraged the Arabs and Jews in the Palestinian region to revolt against the Ottoman Empire, promising in exchange:

(a) Complete self-rule for Arabs
(b) An independent Jewish state in Palestine.

After defeating the Ottoman Empire in the First World War, France and Britain as agreed under the Sykes Picot Agreement, took control of the former Ottoman territories. France got Syria and Britain took control of present day Israel, Jordan, West bank and The Gaza Strip. Britain further split its mandate into two: giving the area to the east of the river Jordan to the Hashemite Arab dynasty and declaring the area to the west of the Jordan River as a Palestinian state. This Palestinian state according to the 1917 Balfour Agreement, was supposed to be under British control and home to the growing number of Jews who were entering this region to reclaim their “traditional religious homeland”. They were joining the tiny minority of Palestinian Jews (who already existed among larger groups of indigenous Arab people) as part of the Zionist movement. The Zionist movement itself was a result of European anti-Semitism.

The Zionist vision of “a land for a people, for a people without a land” seemed the only problem as the land they wished to make their own was already fully inhabited. With limited resources and absorptive capacity, the new Jewish population could thrive only by forcing out the current inhabitants. Wealthy Jews started to purchase and acquire land in the region of Palestine, thus increasing their control and influence. The Second World War further created a huge influx of Jews into this area leading to dislocation of the native Arab population.

In 1947 after the Second World War, the British decided to turn over Palestine to the UN. The UN passed Resolution 181 in which it suggested a partition - with 55% of the land given to Jews that constituted roughly 30% of the population in Palestine and the rest to the Arabs that constituted nearly 70% of the population. Moreover, the Jewish population at that time only owned 7% of the land in Palestine. The UN resolution seemed unfair to the Arabs and they thus rejected it vociferously. This was followed by violence in the area that resulted in the declaration of the Jewish state of Israel in 1948 (without specifications about its borders). This declaration resulted in the surrounding Arab states of Syria, Egypt, Jordan and Iraq (that wanted Palestine to remain an Arab state) to attack Israel. Israel fought back, emerged victorious and successfully managed to occupy nearly 78% of the Palestinian land. After the Six Day war of 1967, Israel occupied the West Bank and Gaza that came under Palestinian territory and started illegally settling there.

Since the war of 1967 there have been many attempts at reaching a peaceful agreement to end the conflict between the Israelis and Arabs. The Camp David Accords of 1978 overseen by the US were negotiations between Egypt’s President Sadat and Israel. They were aimed at setting up self governing bodies in Gaza and the West Bank. Though the Palestinians were not a party to the agreement, these negotiations were successful and peace lasted between Egypt and Israel until Sadat was assassinated.

The Madrid Conference co-sponsored by US and Soviet Union led to a peace treaty between Israel and Jordan in 1994. The Oslo Agreement of 1993 was the first direct agreement between Israel and Palestine but was only partially implemented due to opposition from both Jewish settlers and Arab rejectionist groups. The 2007 Annapolis conference also aimed at establishing peace between Israel and Palestine but came to an abrupt halt with Israel’s military offensive in Gaza in
2008. The Obama administration again tried to launch peace talks between Israel and Palestine in 2010 followed by talks in 2014 but these talks have produced little progress. Despite multiple rounds of negotiations and agreement deadlines Israel and Palestine continue to disagree. Failure in reaching any settlement has been a cause for cycles of strife, conflict, war and misery.

Over the years Israel continuously attempted to increase its economic and military might to maintain control over Palestinian territories. Israel started to discriminate against non Jews and excluded them from resources and infrastructure. Israel’s rise as a military superpower has been largely due to American economic and military aid. Israel in fact has been the largest annual recipient of direct U.S. economic and military assistance since 1976.\(^1\) It receives about $3 billion in direct foreign assistance each year, which is roughly one-fifth of America’s entire foreign aid budget. During Fiscal Year 2013, the U.S. provided Israel with at least $8.5 million per day in military aid.\(^2\) This is ironic given that Israel is now a wealthy industrial state with a per capita income roughly equal to South Korea or Spain.\(^3\) Washington also provides aid to Palestine, totaling on average $875 million annually in Obama’s first term. That’s a little more than a quarter of what Israel gets. Much of it goes to projects of dubious net value like the development of irrigation networks, while elsewhere in the West Bank the Israelis are destroying Palestinian cisterns and wells.\(^4\) The military aid that is provided by the US gives Israel the freedom to purchase 25% of its weapons and technology from Israeli domestic manufacturers, a freedom that other American aid receivers do not enjoy. This has helped Israel become the fourth largest weapon dealer on the planet. American support for Israel can probably be justified by the fact that they have similar culture and ideology. Both have strived to be “the land of milk and honey” mainly by driving out indigenous population and instead establishing their own. The US-Israeli cooperation has assisted US in intelligence gathering and has ironically helped bring the US and Arab countries closer, on the theory that the US could help negotiations with Israel. US technological cooperation with Israel has also contributed to the Silicon Valley. At Intel's research and development centers in Israel, engineers have designed many of the company's most successful microprocessors, accounting for some 40 percent of the firm's revenues in 2011.\(^5\)

The years of war, disagreement and colonization have produced a large number of both Arab and Jewish civilian casualties. Since the beginning of 2000 until the end of July 2007, at least 5,848 people have been killed either directly or as an indirect consequence of the Israeli-Palestinian conflict. Of those killed in the conflict, 4,228 have been Palestinians, 1,024 Israelis, and 63 foreign citizens. For every person killed, approximately seven were also injured.\(^6\)

With a large number of people across the world ignorant of the conflict and its repercussions and increase in the amount of aid being offered to Israel, there is nothing but increasing atrocity, pain and agony for the innocent civilians losing their lives in this conflict.

The only solution seems to be the establishment of two independent states of Israel and Palestine, with fair and equitable distribution of land according to property ownership and population with Jerusalem as the common capital for both countries. Unless the Arabs and Israelis negotiate and come to a peaceful agreement, innocent lives will be lost and enormous amounts of money will continue to be spent on arms and weapon technology.

-Avanija Rao, Economics

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THE CURIOUS CASE OF THE ARGENTINE DEBT

I know I’m quite late to this particular topic, but you can attribute that to speed reading a month’s pile of Economic Times in one day. A certain piece of international economic hullabaloo caught my attention. It was the recent ruling of a New York court that stated that Argentina had to pay $1.3bn to Aurelius Capital and NML Capital Ltd, and to a number of other investment funds. This case has been dissected by media all over the world and proclaimed as another case of ‘Capitalists Bad’, further stressing the need of economic independence from NATO as well as the USA, especially by credit strapped nations.

To provide a context to those readers beleaguered by my babbling-

In 2001, Argentina was on the verge of a severe economic crisis and had almost defaulted on its debt. I can only assume that American hedge funds espied an opportunity to make more profits (ah, capitalism!) and bought the bonds at a fraction of their original values. The problem lies in the fact that they are now demanding their repayments in full. Forbes’ Tim Wortsall feels that all the ruckus being raised is for nothing. He cites a neat little example found in most ‘Economics for Dummies’ books that end with how the refusal of the hedge funds to negotiate with the Argentinean government and accept a ‘haircut’ is completely valid, because, hey! It’s a ‘free market economy after all’!

But let’s be realistic here, have economics and politics ever been divorced from each other? If this were such a simple case of free market hijinks, I would not have been writing this article in the first place. What Mr Worstall fails to take into account is the precedent that such a ruling has established for the rest of the world. Due to an argument by NML Capital that stated that the Argentinean government was bound by a ‘pari passu’ (equal footing) clause in the original bondholder contractual agreement, President Cristina Fernandez de Kirchner might just end up footing a total bill of $25 bn.

In plain English, besides paying the aforementioned hedge funds, the entire amount of the original bond, Argentina will have to pay back in full even those creditors who had agreed to the restructuring in the first place. The US has practically given a go ahead to the First World to destroy any long standing debt waivers with developing countries. Am I the only one who smells a repeat of the 1990s conditional free market scenario here? I think not.

I could go on dear reader and terrify you with visions of an apocalyptic future wherein debt defaults by sovereign countries would be at the mercy of by greedy vulture funds ala Scrooge Mcrooge, thus eliminating any scope of democratic participation in the international financial system.

However, looking only at the present situation in Argentina, I can conclude with Daniel Ozarow and Cara Levey’s words – “This payment to global ‘vulture funds’ would supersede a sovereign state's right to protect its citizens from the resulting impoverishment and chaos that such multi-billion dollar financial obligations would surely generate.”

-Gauri Gaur, III year, Economics
FISCAL POLICIES-AN INSIGHT

Fiscal policies essentially come under macroeconomic theory and are considered one of the best tools to stabilize an economy as they prevent both inflationary as well as deflationary situations. An idea that was given life by John Maynard Keynes, fiscal policy was used to stimulate economic growth during the Great Depression. It was particularly used in the 50s and 60s to stabilize economic cycles.

In its most basic form, fiscal policies are the way by which the government manages its funds. Though this sounds easy, there is a lot that goes behind making the correct policy decision. Firstly, it is important to differentiate fiscal policy from monetary policy. While fiscal policy includes decisions regarding taxation and spending which are administered by an executive order, monetary policies focus on money supply that involves toying with interest and lending rates which is done mostly by a central bank.

Guessing the ulterior motive of fiscal policies is an easy game. Like most of the economic assumptions and tools, these too focus on achieving equilibrium (duh!). This point is the macroeconomic equilibrium, a rosy condition where the economy enjoys price stability, full employment and economic growth!

To start with, the government needs funds which it gets from taxation, borrowing from public/abroad, sale of fixed assets or seigniorage (the difference between the value of money and the cost to produce it). After collecting the required funds, the government needs to make decisions on where to spend them. This is where fiscal policies come into picture, i.e., by having a clue about what the economy needs, the policies aim to bring stability.

The different kinds of fiscal policy are:

1. **Expansionary Fiscal Policy**-
   If the economy is going through a recession or low economic activity, there is a need to boost aggregate demand. This is done by decreasing taxes and increasing public spending. The idea is to put more money into consumers' hands, so they spend more; this jumpstarts demand, which keeps businesses running and hopefully adds jobs.

2. **Contractionary Fiscal Policy**-
   If the government wants to stamp out inflation, it increases taxes and reduces spending. This is done because the impact of inflation is as bad as that of recession in the long run. To a large extent, monetary policies are used because a hike in taxes is largely undesirable to the people and would cause massive social outrage.

3. **Neutral Fiscal Policy**-
   This policy is usually applied when the economy is already in equilibrium. Government spending and tax policies are not changed drastically, i.e., the level of economic activity remains unchanged. The usage of fiscal policy does not come without criticisms. The benefits of stabilizing an economy by the means of fiscal policy is conditional in the sense that it won’t guarantee results under all circumstances. It largely depends on the state of an economy; a recession-hit economy where monetary policies have failed to control the situation can be resuscitated with the help of fiscal policies. But in many cases success is rare due to the following reasons;

   a) **Time Lag** - There is always a delay in the planning and implementation of various reforms which can cause major problems in dynamic economies.

   b) **Information Error** - The government works a lot on the basis of predictions and assumptions. Any mistake will lead to inflated results.

   c) **Inefficiency** - Government spending is often wasted on inefficient spending projects and is marred by bureaucracy and red-tapism.

If the situation is apt then fiscal policies can make situations better off. They were used well during the recession of 2008-2013, while in 70s and 80s monetary policies were adopted. To sum up, understanding this policy will give us a lot of insight into the working of an economy and knowledge about the usage of which policy at the correct time will lead to better results.

-Anna Brittas, I year, Economics
BRICS’ NEW DEVELOPMENT BANK- WILL IT PASS THE TEST?

On July 15th, 2014 at the BRICS Summit held in Brazil, the five member nations Brazil, Russia, India, China and Russia announced the creation of the New Development Bank. This bank, planned as their version of the IMF and the World Bank, is essentially borne out of the shared frustration of these countries to the US and the European Union’s control over the Bretton Wood institutions.

The Bretton Wood twins were made post-World War 2 to create a global economic order and to help emerging economies finance their development projects. But over the years though the emerging markets grew, their legislative powers within the IMF and the World Bank haven’t changed and can’t compare to the influence that the West sways over it. In addition to that, the tough conditions set by these institutions, especially the IMF, to give loans has scared off many emerging countries from seeking their assistance and actually proved to be counterproductive to the very purpose for which these institutions were set up. These factors lead to the birth of the idea of an alternate IMF.

Though the frustrations voiced by the BRICS countries against the US are divergent, they shared a common goal and that is to help the emerging economies fund infrastructure projects without having to face the stringent criteria set up by the IMF.

Along with the NDB, the BRICS nations also set up a Contingency Reserve Arrangement of $100 billion to help developing nations “ease short-term liquidity pressures, promote further BRICS cooperation, strengthen the global financial safety net and complement existing international arrangements.” This is also a valiant effort by China, which is expected to take over US as the next super power, to avoid the impression that China dominates the BRICS bank. The structure of the NDB is such that no one country can exert a greater power than the others. So even though the headquarters of the bank is in Shanghai, the first president will be from India, the first chairman of the board of governors will be from Russia and the first regional headquarters will be in South Africa. While the idea of NDB is valid and timely, considering the current functioning of IMF and World Bank, it also faces huge challenges in becoming an apt financial institution as it is perceived to be. The biggest challenge that stands in the way for this bank are the 5 member countries themselves: whether they can get past disagreements amongst themselves and whether China can balance its influence with the other members’ and resist from using its growing clout to impose its own will. Only time will tell if these key elements keep the NDB from becoming a non starter or go the IMF way or become an ideal financial institution which can help developing countries without hurting their sovereignty. Even assuming that NDB takes off after the starting troubles, the real test would be when the first economic crisis happens, either within BRICS or worldwide.

- Ann James, II year, Economics
MEDICAL TOURISM: ECONOMIC PROSPECTS AND PROBLEMS IN INDIA

Medical tourism, as the word suggests, is the travel of people from one country to another to obtain medical treatment from that country. Basically, people travel to developed countries to obtain the best treatment. But the current trend shows a totally opposite side to the traditional one. According to it, people from developed countries travel to the developing ones, the basic reason being cost consideration. Another reason could be that some treatments may not be legal in their home countries. From an economic point of view, medical tourism explains the concept of global interdependence and trade. For a developing country like India, an industry like that of medical tourism is a great opportunity. But it has its own problems too. Travel is a global concept. In the last few years, travel in tourism has been taken by storm due to its vulnerable nature. In such a situation, a concept like that of medical tourism is an attractive element for foreigners to visit a country like India due to its high end and cheap medical facilities juxtaposed with traditional Ayurveda and yoga. Economically speaking, medical tourism brings in foreign exchange, thus increasing our forex reserves. Foreigners invest in India rather than their home country, which is surely the icing on the cake. To make them more appealing, the prospects and achievements of medical tourism in India can be expressed in terms of figures. Major healthcare players such as Fortis and Apollo have reported 10% of their revenue coming from medical tourism. In 2008, the size of the industry was estimated to be Rs. 1500 crores and is expected to reach Rs. 9500 crores by 2015 with an annual growth rate of 30%! About 1.8 lakh foreigners visited India in the first eight and a half months of the current fiscal and their number is expected to increase by 20-25% in the coming years.

All economists dream of a perfect market with no hurdles, bumps or snags. But, these phenomena are inevitable when the players are humans. Medical tourism in India does have its own issues. This sector faces the problem of being highly troublesome in the fields of billing, proper management, etc. Also, presently, only a handful of doctors and hospitals are reaping the benefits. In conclusion, India is a country with a very high advantage in the medical tourism sector. The economic contribution through an organized medical tourism system would be able to generate billions of rupees of revenue in the future.

- Jenny Marria, 1 year, Economics
KEYNESIANS VS AUSTRIANS - CAUSES AND REMEDIES OF THE FINANCIAL CRISIS OF 2008

The financial crisis of 2008, rocked the markets and the economy of not just the United States but the rest of the world. Speculation is still going on about the causes and remedies of the crisis. In this essay I will be contrasting two theories- the Keynesian and Austrian theories on how they differ in their belief of the causes and remedies of the Financial Crisis of 2008.

According to Keynesians, reduction in Aggregate Demand was seen as one of the triggers of the crisis. It was caused by the income gap between the rich and the poor. The few individuals that held huge capital invested in markets worldwide. Due to financial catastrophes like the Asian Crisis, many countries restricted the inflow of money. All the hot money accumulated back in the US markets which contributed to the price bubble.

The military expansion in the United States also contributed towards the exorbitant debt. A large number of troops were deployed to Iraq, Afghanistan etc in various wars. Post 9/11 security became a major concern and tremendous military expansion was seen.

Credit Rating agencies, that rate entities on their likeliness to pay back loans, gave various banks AAA rating days before they went under due to the crisis. As an example, the famous bank Lehman Brothers had AAA rating one day before it filed for bankruptcy. Many say that the ratings agencies are funded by the very organizations they rate. Others say that these agencies are not permitted to keep low ratings, in order to keep the bosses happy. Furthermore many banks remove risks and shortcomings from their balance sheets. They forward fabricated information even when they do not have liquidity or capital.

According to Keynesian economists a way forward could be through an increase in public ownership over medical care, education and social security sectors. Due to excessive saving idle resources are accumulated. The private sector does not have the ability to create large demand or to absorb savings. Insufficient demand can be curbed through public expenditure. Public profits can be shared with private enterprises which can further invest in sectors mentioned above. The US military expenditure is close to $682 billion. This budget should be controlled. Bolder redistribution measures such as the distribution of coupons need to be established in order to augment household consumption.

We now move on to the Austrian school of thought. The Austrians believe that the difference in natural and market/neutral interest rates led to the crisis. Natural interest rate is established through borrowing and lending activities and it is formed independently. Market rate is determined by the monetary policy, set by the Central Bank. The Austrians believe the rates set by the central banks create a period of boom that culminates into bust. Some say that the rates decided by the central banks are misguided. These rates are determined utilizing The Taylor Rule which takes help from production and inflation. Austrians do not trust these to give correct estimates of interest rates.

Fannie Mae and Freddie Mac, the mortgage companies played a big role in the crisis. They created low down payment instruments to aid subprime borrowers in acquiring loans easily. Being under the umbrella of government privileges influenced them to make rash decisions. They were lenient in accepting mortgages from private players and thus were instrumental in the risky decisions of subprime borrowers.

Evidence has shown that the US Federal Reserve increased money supply and decreased inflation rates after 9/11. The reserve chief at the time, Alan Greenspan, found no fault in the Fed's role
and decisions. The Fed provided security to the investors by assuring them partial support in dire times. Hence these investors, stopped being pragmatic as they felt confident that there was no downside to the housing related instruments.

There are numerous remedies provided by these economists. Inflation data must be accurate in order to prevent the setting of low Federal Funds Rate. Low rates lead to excessive risk taking attitude in the market.

They propose a complete makeover of the monetary regime, such as by the abolition of central banks. These should be replaced by gold standard or free banking and currency competition. Austrian economists are severely against government intervention as they believe that political actors work for their own agendas and even the motivated ones are not sure about what steps to take. If political intervention is allowed, politicians pass various bills and laws which might not help in the recovery process but aids them in gaining popularity. As an example, the passage of Obamacare by Barack Obama as an election campaign promise. These laws, do not strengthen the already ailing economy in a big way.

- Meher Anand, II year, Economics

THE WHOLE DEBATE ABOUT RATE CUTS

As an Economist or Economics student in India, you cannot escape the debate regarding the decision of the RBI to cut interest rates when inflation is high and growth has slowed down. Before going into the nitty-gritties of this debate, let us first understand the basics.

Why are we bothered about interest rates? Well, firstly because they are the main driving force behind saving and borrowing that ultimately impact the overall investment and growth in the economy. Investment is what funds development and growth. So, if we cut interest rates, we encourage borrowing. If we hike interest rates, we curb borrowing. Now, no firm or business has enough funds alone to invest in projects. Even if they do, Mathematics will tell you it is always more profitable to leverage i.e. borrow and invest.

So, what is the debate?
The debate is that RBI for the past 3 years has been constantly keeping the interest rates high. As of today, the repo rate stands at 8%. Indian industry and many amongst the government are clamoring for a cut in interest rates but RBI has been stubborn over the past few months with its hawkish intent. In fact, many analysts believe that the poor monsoon this year will further force RBI to tighten the reins on the interest rates.

The main argument that RBI puts forward is that it is imperative to maintain the current high interest rates to control inflation or avoid hyperinflation which may occur as a consequence of rate cuts. For a layman, if RBI cuts interest rates banks will have more money to lend which means more money in the hands of the people. With increased disposable income, people demand more and with constant supply and increased demand, we have price rise which is nothing but inflation.

Fair enough. But we need to weigh the various pros and cons of changing interest rates and take into account the dynamics of Indian social and economic scenario before coming to any conclusion. India Inc. may have vested interests when it voices its approval for rate cuts. But I do agree that although such high interest rates may be required in the short run, if sustained for longer periods they can actually decelerate growth.

The main purpose of cutting interest rates is to bring down the cost of borrowing which leads to
increased liquidity in the economy and provides firms and individuals with more cash to invest. RBI at present is not doing that out right by cutting rates but it is in fact working towards providing liquidity in the economy and freeing up resources for banks to lend. In the latest quarterly policy announcement, RBI cut the SLR by half a percentage point to 22% of deposits effective August 9. Also, asset reconstruction companies have been permitted to buy bad loans from banks. This frees up funds locked in illiquid assets. The government’s fiscal policy is also aimed at increasing the disposable income. In the July 2014 budget, basic exemption limits have been increased and savings qualifying for tax reduction have also been increased. The main components of the CPI basket contributing to inflation are food and fuel which are impacted not only by high demands and shortages of supply in our country but also with supply side impediments. Housing, which accounts for around 41% of the CPI basket is another troublesome component. Rate cuts in this scenario will definitely impact the property prices and overall inflation estimates will go soaring high.

In the meantime India needs to get in place its highly inefficient supply side. Corruption, lack of infrastructure for storage and transformation, pilferage, hoarding, etc. need to be taken care of. Secondly, bureaucratic bottlenecks, policy paralysis, environmental hindrances, etc. need to be managed in order to push industrial growth. Manufacturing sector needs to be developed. Modi’s mantra “Make in India” has to be implemented. Not only will it create jobs, it will ease the pressure on our foreign exchange demand and ensure cheaper goods.

RBI is targeting 8 percent retail inflation by January 2015 and 6 percent by January 2016. If these targets are met, investors can indeed hope for rate cuts and RBI will certainly be able to loosen the reins. But for a growth-hungry government and struggling industries, waiting for the first rate cut from the RBI to bring down interest costs, these words may not give much reasons to rejoice. The chances of a rate cuts in the 30th September policy also seem remote. But with most market experts having positive sentiments about India’s growth possibilities in the long run and a “good-days ahead” (hopefully) tagline by the government along with abetting inflation figures (Wholesale Inflation dipped to a five month low of 5.19 per cent in July.), one can hope that the first rate cut may happen by Jan – Mar 2015.

-Sonakshi Garg, II year, Economics
UNDERSTANDING FINANCIAL MARKETS

What is a stock?
A Stock is a share in the ownership of the company. With ownership, one gets entitled to the company’s assets and profits. Yet, at the same time, you also bear the brunt of any losses. Stocks, equity and shares are synonymous to a large extent. There are mainly two types of stocks:

1) Common stock- common stock holders have voting rights in making decisions about the company.
2) Preferred stocks- preferred stock holders do not typically carry any voting rights but are entitled to receive the dividends first before other general shareholders.

Stock market
Stock market is a market in which investors purchase or sell shares of listed companies. It is also known as equity market, and it is through this market that companies get access to capital and investors get returns on their investments (or losses depending upon how well the company they invested in is performing). Earlier, every transaction was accompanied by the physical delivery of share certificates and transfer forms. But with the dematerialization, that is coming up of DEMAT accounts, the process has become less cumbersome and transactions are recorded electronically in the DEMAT account just like debits and credits in the bank statement.

Market index
A Market index represents the total value of all the shares and other tradable instruments in the market against a base value from a specific date. These indices help investors in tracking the changes and patterns in the market over the short term and long term and make investment decisions accordingly. They can also keep track of the market performance and compare it with the performance of their individual shares and their returns. Some of the famous stock markets and their market indices are given on the next page.

Other Instruments Traded in the Markets

Derivatives-are instruments which derive their value from the performance of underlying asset. Underlying assets may include stocks, bonds, commodities, foreign exchange, market index, etc. Derivatives are used to hedge risks, but, they can be used for speculative purposes which either can turn out to be extremely rewarding or devastating.

Hedging purpose- To hedge is to protect oneself from financial loss which may occur due to some unforeseen price change or adverse circumstances. If an importer and a bank enter into a futures contract, wherein they fix a foreign exchange rate for say, dollar against rupee at Rs. 60 for a$, for a future date. If at the specified date the market rate for dollar is Rs.61, then the buyer is at a profit, but if it is lower than Rs.60, then the buyer is at a loss and the bank makes a profit.

If the above contract is binding, then it is called a forward contract. If the above contract is not binding then it is called an option.

An Option is a contract which gives the owner of a derivative the right (but not the obligation) to buy or sell the underlying asset at a specified rate before the expiry date mentioned on the contract. So, extending the above example, if the buyer of dollars finds that the price at the specified date is higher than Rs.60, he will exercise the option. But if the price is less than Rs.60 he will not exercise the option but buy dollars from the market instead.

Commodities- a commodities market is a market for buying and selling raw and primary products like agricultural goods. Investors can either invest in commodities by entering into a futures contract. This means that if an individual enters into a commodities futures contract, he agrees to buy or sell a commodity at a specific date in the future at a specific price. The prices of commodities fluctuate daily. So if the price at the specified day is greater than the agreed upon price, the buyer of the futures contract makes a profit as he can buy the commodity at the lower contract price and sell it a higher price in the market. But, if the price goes down, the future seller makes a profit because he will buy the commodity at a lower price from the market and sell it to the future buyer at a higher price. An individual will be
required to physically deliver goods in case he defaults. **Bullion exchange** is a market in which investors can trade pure gold. Most of bullion market trading is based in London. Bullion by definition means gold that is 99.5% pure and is in the form of bars and ingots. This makes trading in bullion markets cumbersome. Investors can trade in gold and silver through other instruments also like futures, options, mutual funds etc, which are more appealing as trade is done electronically and actual exchange of a tangible object does not take place in these markets. **Mutual fund** is an investment vehicle that consists of a basket of stocks (which may be from various sectors) and is operated by an asset management and investment company. The company raises money from various investors and invests it into the group of stocks or debt.

**MAJOR STOCK INDICES (REGION-WISE)**

**NORTH AMERICA**

- Dow Jones Industrial Average- one of the oldest, most popular stock exchange. Consist of 30 largest and most influential US companies.
- S&P 500 – Standard and Poor’s 500 stock index. Consists of 500 most widely traded stocks in US
- NASDAQ Composite Index- Stands for National Association of Securities Dealers Automated Quotations.

**EUROPE**

- FTSE 100- also known as “footsie”, consists of 100 cos. listed on London Stock Index with highest market capitalization. FTSE stands for Financial Times Stock Exchange.
- EURO STOXX 50- is the stock index of Eurozone. It consists of Eurozone’s 50 largest and most liquid companies.
- CAC 40- It is the market index of French market. Consists of 40 large cap Cos.
- DAX- consists of 30 major German companies that are listed on the Frankfurt Stock Exchange.

**INDIA**

- NSE CNX Nifty- or Nifty 50 or CNX Nifty- is the stock index for National Stock Exchange and consists of 50 well diversified stocks from 23 sectors of the economy. CNX Nifty is managed and owned by India Index Services and Products Limited (IISL). CNX in the name stands for CRISIL NSE Index.
- S&P BSE SENSEX- Standard and Poor’s Bombay Stock Exchange Sensitive Index, aka SENSEX/BSE 30, monitors the movement of 30 component companies listed on the Bombay Stock Exchange.

Market instruments. Mutual fund investments are subject to market risks and do not promise assured returns. Some common examples of mutual funds are HDFC mutual fund, Reliance mutual fund and ICICI prudential Mutual Fund. Mutual funds run various schemes like equity funds, debt funds, balanced funds, liquid funds etc. Mutual funds are regulated by SEBI, that is the Securities and Exchange Board of India, which is the regulator of securities markets in India.

Through this section, we have understood some basics of financial markets. These are only baby steps into the world of investment and trading. As we read and garner more information on markets through various sources like newspapers, business magazines or business news channels and this column, our knowledge about their working and functioning will increase and we will one day be able to monetize that knowledge in the form of returns from these markets.

-Sonakshi Garg, II year, Economics

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WHY NATIONS FAIL: THE ORIGINS OF POWER, PROSPERITY AND POVERTY
By Daron Acemoglu and James A. Robinson

Why some nations fail and why some succeed is a question that has been a matter of serious debate for economists and people in general for centuries. Why is North Korea poorer than its southern counterpart or why is USA more prosperous than its neighbor Mexico are a couple of questions that Acemoglu and Robinson try to answer in this fascinating read. According to them, it is not climate, culture or geography but building up of institutions – political, legislative, financial and social institutions which played a pivotal role in evolving a country into a prosperous or poor one.

Developmental economist Daron Acemoglu from the MIT and political scientist James Robinson from Harvard University have applied insights from institutional economics, developmental economics and economic history to explain why nations develop differently. They argue that political institutions can be divided into two kinds – “extractive” institutions in which a “small” group of individuals do their best to exploit the rest of the population, and “inclusive” institutions in which “many” people are included in the process of governing hence the exploitation process is either subdued or absent. They argue that for any economic success political institutions must be sufficiently centralized to provide basic public services including justice, the enforcement of contracts, and education. Given that these functions are carried out, inclusive institutions enable innovative energies to emerge and lead to sustained growth. While success may be possible for a while under extractive institutions, continuing success is possible only under inclusive institutions.

The authors puts forth a very convincing argument using the data they collected over a period of 15 years from the Roman Empire, the Mayan city-states, medieval Venice, the Soviet Union, Latin America, England, Europe, the United States, and Africa to establish their ‘institution-based’ development theory. For example, let us look at the Koreas. The South has flourished under a government that was accountable to the masses and a society that rewarded innovation and created incentives that in turn encouraged participation in economic activities. On the other hand, North Korea has endured decades of political repression with no end in sight. This contrast in political institutions has translated in to their vastly different economic growth stories as well.

This book has also faced its fair share of criticisms from their fellow economists, like Jared Diamond who wrote that “In their narrow focus on inclusive institutions, however, the authors dismiss other factors. I mentioned earlier the effects of an area’s being landlocked or of environmental damage, factors that they don’t discuss. Even within the focus on institutions, the concentration specifically on inclusive institutions causes the authors to give inadequate accounts of the ways that natural resources can be a curse.” Development economist, Jeffrey Sachs also objected to the fact that factors like geography that can affect growth were ignored. This may also be one of those few books which became more famous after it received harsh criticism from Bill Gates.

The authors argue that China must eventually stop growing because institutions there are extractive. At the moment there is no way to tell if this is true, especially because we certainly cannot rule out that the Chinese institutions evolve into inclusive ones. By contrast to their view on China, Acemoglu and Robinson implicitly argue that the West will continue to grow because their institutions are inclusive. This is a bit ironic since at the moment the West are in crisis and China is not.

India, after independence has also had a thriving democracy. Economically, however, our great democracy has not resulted in a great economic institution. For decades India languished – held back not by bad political institutions, but rather by bad economic policies those same good and inclusive institutions kept generating.

Why Nations Fail is a lesson on economic history written by academics, not for other academics, but for the masses. Their thesis is written in such a manner that is both accessible and enriching and it’s a great read for anyone who’s remotely interested in understanding the enigma of why some nations are highly prosperous and some nations utterly poor.

- Ann James, II year, Economics

You can email your feedback and queries to eco.jmc.newsletter@gmail.com