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GOKHALE INSTITUTE OF POLITICS AND ECONOMICS

November 2016

INTERVIEW WITH DR. USHA THORAT

Manan, Gokhale's annual fest, marked its fourth year as an inter-collegiate fest, inviting Dr. Usha Thorat, former deputy governor of the RBI as its keynote speaker to expatiate on the topic 'Monetary policy, monetary policy committee and the independence of the Central bank'.

ESTABLISHMENT OF THE RBI:

Dr. Thorat began her speech by explaining the rationale behind the requirement of the central bank in a country which is the underlying idea that the right to issue currency and create credit must be segregated from the government in a sovereign country. RBI was set up in March 1934 as a private shareholders' bank but only got nationalized in 1949. It worked under the Government to recommend monetary and exchange rate policies and steps were taken to curb its actions.

ROLE OF THE CENTRAL BANK:

The basic function of any central bank is to conduct monetary policy to the advantage of the country which could be in terms of unemployment, growth, price stability, financial stability, credit creation, exchange rate stability or even financial inclusion, depending on the targets a country chooses. Ever since February 2015, the preeminent target chosen by the RBI has been inflation targeting which is intended at $4 \pm 2\%$. RBI also serves functions like debt management, regulation and supervision of banks and development functions.

INDEPENDENCE OF THE CENTRAL BANK:

The question often raised is not only how independent the RBI is from the government in its actions but also how independent it is to take objective decisions from the viewpoint of the market. Mrs. Thorat refers to four issues in this regard:

Monetary policy independence and central bank independence: central bank independence implies the independence of the central bank as a supervisor and regulator of the banks whereas monetary policy independence is confined to the monetary policy.

Secondly goal independence and instruments independence have to be addressed. There might be multiple goals that a country adopts. However the number of instruments that the central bank has at its command to achieve those targets defines its independence.

Thirdly, when there is independence, there has to be accountability. That is, to what extent are the central bank's reasons behind its decisions transparent.

Fourth question is related to the number of instruments and the number of goals and how many objectives can the central bank achieve with just a single instrument?

PRE-LIBERALIZATION POSITION OF INDIA:

Pre-liberalization, the government of India was facing a large fiscal deficit which was being funded by the Reserve Bank of India. RBI had only three instruments at its disposal which were the basic CRR, SLR and incremental CRR which comprised of around 67% of the total deposits. Private sector credit was totally crowded out because of high interest rates. This stopped only when the entire system of automatic monetization of government's deficit stopped. This phasing out (between 1994-1997) gave RBI the independence to follow monetary policy and moved India's economy towards a market determined interest rates economy. Gradually SLR and CRR are reduced to their current rates.

MONETARY COMMITTEE POLICY:

February 2015 agreement has adopted price stability as the predominant objective. Since then the government has appointed the monetary policy committee which exercises the exclusive authority to set the interest rates. The main objective to form this committee was to broad base decision making.

RELATIONSHIP BETWEEN THE CENTRAL BANK AND THE RBI:

After 1991, all the reform measures by the government and RBI policies were in perfect sync. However Mr. Jalan's time saw a huge conflict between the government and the RBI in their views and actions. According to him both must keep their differences behind closed doors invariably be united against the exogenous forces and insisted that the RBI must prevail when it comes to monetary policy.

WHAT LIES AHEAD?

Mrs. Thorat remarked that the RBI is worried about the impact of its policies on the

market. According to her, the RBI must be able to ascertain its independence to take the requisite policies to bring back financial stability. Also, countries like USA whose policies create ripple effects in the entire economy must not be unmindful of their monetary policies.

The lecture was followed by a brief question-answer session:

Q: Do you think that international rating agencies have been unfair to developing countries like us?

A: International rating agencies have a standard model. However, rating is, many times, not in accordance with the valuations and most often the agencies have got many things wrong. With a high debt to GDP ratio and fiscal deficit and low convertibility, there is a bias and the rating tends to be lower.

Q: Does Central bank have instruments within the country, given the current rate of globalization, to tackle a crisis similar to the 2008 financial crisis.

A: Our openness index was pretty high in 2008 even though we are definitely much more integrated now. Post crisis, most countries have adopted macro prudential policies which includes limit on leverage. Under Basel III, there is a better measure of risk-weight based adequacy requirements. Secondly there are counter cyclical credit buffers. Thirdly, India still has fairly strict rules for lending against real estate and lending against capital markets. Lastly we have strict prohibition regarding leveraging by-outs. Today what threatens Indian economy most is the level of NPA's.

Q: Why has India kept the inflation target so high in comparison to the rest of the countries which have a narrower limit?

A: Best answer is given in the Urjit Patel Committee report. India is a country highly impacted by monsoon and other factors which would make it impractical to narrow down the limit. Adopting the inflation targeting is a very crucial decision and constraining this limit further will not be feasible given the volatility in our country.

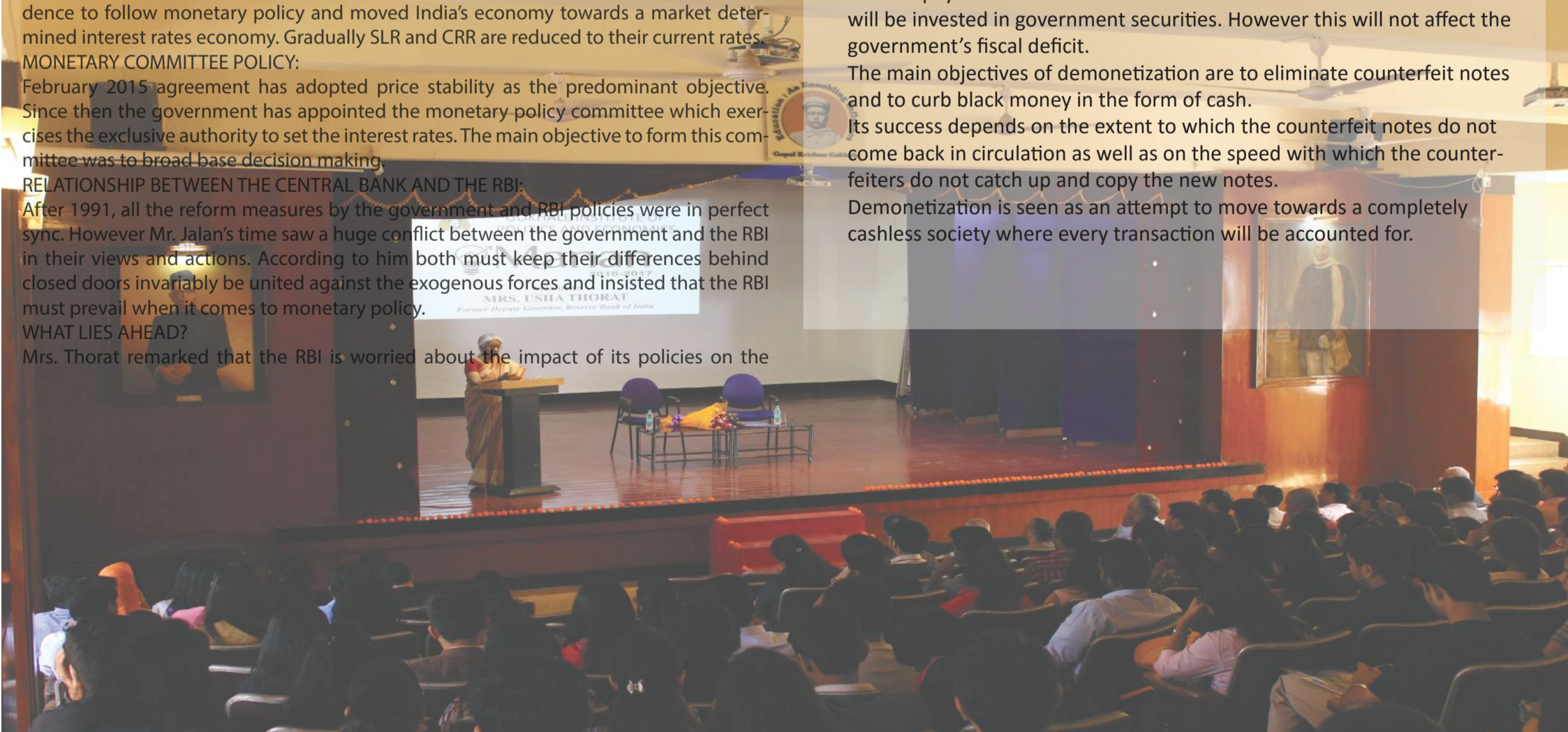
Q: What are the objectives of demonetization and how effective will it? Also will the fiscal deficit go down?

A: Demonetization is the withdrawal of the legal tender character of the notes. So that means that it can no longer be used for the settlement of a debt. Accordingly, there will be a reduction of the notes in the circulation and an increase in the banks' balances with the reserve bank which is not interest payable. So the banks will withdraw the excess reserves which will be invested in government securities. However this will not affect the government's fiscal deficit.

The main objectives of demonetization are to eliminate counterfeit notes and to curb black money in the form of cash.

Its success depends on the extent to which the counterfeit notes do not come back in circulation as well as on the speed with which the counterfeiters do not catch up and copy the new notes.

Demonetization is seen as an attempt to move towards a completely cashless society where every transaction will be accounted for.



GAME OF THE GOVERNERS

Gokhale Institute of Politics & Economics, Pune which is celebrating its annual economics festival, MANAN on 12th and 13th November, 2016, started off on a great note with its unique and intriguing event 'Game of the Governors'. This event required the young economists to imagine themselves in the shoes of the RBI governor, and were tested on their basic macroeconomics and knowledge of monetary policy.



The event, comprising of 3 rounds, saw a great turnout. It started off with the prelims, where each team was given a set of 30 questions which they were required to solve in 25 minutes. The participants were probed on their understanding of the role of RBI governor, his contribution to the economy, and how the policies of the Central Bank affect the economic variables of the country. This round had a negative marking and thus, proved to be a little tricky.

Next came the round which tested how much of the economic concepts could the participants apply to the Real-World problems. It was judged by Mr. Ashish Kulkarni, visiting faculty at the Gokhale Institute of Politics & Economics, and saw the competition narrowing down to the 6 best teams which had qualified the first round. Each team was allotted a topic by a random picking up of a chit and was given 10 minutes to read about their topic, which included the Balance of Payment crisis, the infamous sub-prime crisis and the most recent Euro-zone crisis. The contestants had to analyse the impact of these events on the Indian economy and were given the freedom to use internet to look up on these events, although, only for 10 minutes. After which they were given a sheet, listing the steps already taken by the Governor. The players have to adjudge the efficacy of these measures and if required, add some of their own. The answers were to be presented, for which they were allowed to use Word or PowerPoint.

The three best teams, which were able to impress the judge finally entered the third round, which was further divided into two sub rounds, where first all three teams were given the economic conditions of a hypothetical economy, like fiscal deficit, unemployment rate, etc. and also a table, which further provided information regarding potential GDP, inflation rate, targeted inflation rate and equilibrium rate of interest. The participants were asked whether they would cut the rates or increase it, if they were the governor of the Central bank, and were asked to justify their answers. In the second part to this round, several real World complexities were added to the earlier situation and then the participants were asked if they still stood by their answer.

The event culminated with a rapid succession of final presentations, filled with in-depth analysis and, interpretations which coincided at some points and diverged on other. The judge took no time in deciding the winner and felicitated Harsh Doshi and Krishna Prashanth, who won the first prize. The runner ups were Puja Parmar and Pramod Dudhe.

-Krutika Kasal

M.Sc. Financial Economics 2015-17

One Size Fits All

Manan's second day witnessed a unique event, 'One Size Fits All?'. The aim of the event was to gauge whether the 'one size fits all' approach works in the policy making world. Participants were provided with a pair of countries and a policy pertaining to a country. The participants had to check whether the said country's policy 'fits' into the other country. The 'policy fitting' game saw great participation.

Twenty teams of two members each tried their luck at the prelims of the event. Of these, six teams qualified for the finale. The teams were provided an hour and a half to prepare their case.

The honourable judges for the event were Dr. Amita Yadwadkar and H.N Panda. Dr. Amita is a GIPE alumna and is a lecturer in Savitribai Phule Pune University. Ma'am has worked H.N Panda is the General Manager & Academic Coordinator at the College of Agricultural Banking.

Each team had to answer the question 'Is the policy a good fit for the country?'. Post their presentation, each team was given a 'shock question' followed by a judges' question and answer round.

The insights and presentations of the teams was a delight to watch and learn from. The teams tackled the questions well and seemed to thoroughly enjoy the event.

The event was a great success and Hafsa Sayeed and Dhawal Prabhu were adjudged as the best team. Their country pair was Australia and Nigeria. The team had to check whether Australia's AIDS policy 'fits' well into Nigeria. The team did a stellar job in presenting their case. Gurpreet Pannu and Tanushka Gandhi were declared the runners up for the event. The organizers of the event thanked the judges and that marked the end of Manan 2016-2017.



-Sejal Maheshwari

M.Sc. Economics 2016-18



DR Gadgil Memorial Paper Presentation

The second day of Manan kicked off with its flagship event - DR Gadgil Memorial Paper Presentation. The event was aimed at encouraging critical thinking, refining analytical ability, and honing documentation and presentation skills, in turn developing research abilities amongst students. The participants presented on a wide array of topics, including the challenges to raise farmers' incomes, unconventional monetary policy, Brexit et al.

The selection process started back in September. Close to 30 abstracts were sent in, and out of them only six teams made it to the final round of presentation. The presentations were followed by a question - answer round.

The papers were evaluated by Dr. Shiva Reddy, Dr. KS Hari and Dr Amrinder Sahu.

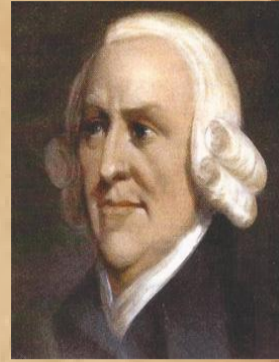
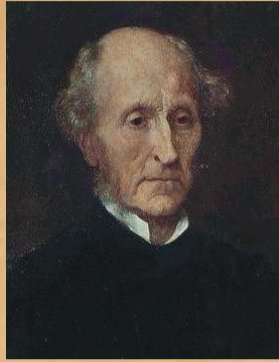
The participating teams brought in different perspectives and discussed interesting aspects about their topics. The teams also demonstrated astute thinking through their innovative ideas. The presentations were enlightening through and through.

The event was a great success and Shubham Gupta and Samiksha emerged as winners. They presented on Unconventional Monetary Policy. The team comprising of Shivam Sisodia, Ashish Khobragade and Jeswin Paul were declared first runners up and Pradnyee Kandak was the second runner up.

-Yashika Joshi

M.Sc. Economics 2016-18

Worshipping False Gods- The Smiths, The Ricardos And The Says



Almost all economics textbooks start by paying great tribute to the classical economists-mainly Adam Smith, David Ricardo and Jean-Baptiste Say. Adam Smith being the attraction among them all is also called 'the father of modern economics'. The other classical economists like John Stuart Mill and Thomas Malthus, unfortunately, did not get their deserved credit from the world. On the other hand, British Historian and Philosopher James Mill, who influenced his son John Stuart Mill and many other economists who later postulated various laws, is not even considered an economist. The tribute paid to Smith, Ricardo and Say is not an issue, but the false credit given to them for some of their theories.

Adam Smith being recognised and rewarded for his collective work, mainly *The Wealth of Nations*-the first celebrated document in economics, is fair enough. However, I am perturbed when the same legend is considered as the father of modern economics. Firstly, the Scottish economist worked in a theoretical world which is different from modern economics. For Smith, political economy as economics was then called, was essentially an amoral science. And, all he was dealing in his book *Wealth of Nations* was factors that cause growth and accumulation of surplus. Political economy dealt with accumulation, distribution and valuation of surplus. On the contrary, there is no surplus in modern economics, which majorly deals with efficient allocation of resources to satisfy individual wants i.e. the problem of constrained optimisation.

The concept of a rational, atomistic and selfish agent simply does not exist in the Smith-ian economy. He does not take a position of methodological individual and instead uses social classes as his unit of analysis.

So much that he does not refer to individuals as selfish for maximising their benefits. Further, he puts it in a decent manner that people prefer more over less and try to better their lot.

Smith's main argument in the *Wealth of Nations* was his analysis of the division of labour which leads to specialization and then turns into surplus. This surplus is thus reinvested in the production by the producers. Even this proposition runs contrary to the modern theory where the economy cannot handle increase in returns to scale as it leads to a problem of multiple equilibriums. The problem is done away by assuming that the technology gives constant returns to scale- an essential requirement of a well behaved production function to ensure a smooth supply curve.

The Scottish economist has been a great icon for economics but there are attempts recorded in the history of economic thought which explain the limitations provided by Smith.

Papers published by Terry Peach in *Economic Journal* (1984), "David Ricardo's early treatment of Profitability: A new Interpretation", by Paul Ong in *History of Political Economy* (1983), "Ricardo's invariable measure of value and Sraffa's 'Standard Commodity'", by Collard in Leon Walras and the Cambridge Caricature and by Ferguson and Hooks in *The Wicksell effects in Wicksell and Modern Capital Theory* in 1970's reflect the so called Cambridge controversies in capital theory that raged in the 1960's and 70's. This created a backwash - a re-examination of the writings of David Ricardo. Piero Sraffa, a leading figure in the Cambridge controversies was also a modern editor of *The complete works and Correspondence of David Ricardo*. He also read Ricardo in the light of his own ideas and regarded him as the forerunner of Sraffian economics. The issue

was with the so called Corn model in Ricardo's early writings in which he was said to have analysed the theory of profit without the aid of any theory of value. Similarly, Ong compared Ricardo's exposition of the requirements of an invariable measure of value to Sraffa's Production of commodities by means of commodities and found that they were not equivalent. This troubled Ricardo all his life. A large number of pages of Sraffa's book are devoted to it.

Talking about Ricardo's famous theory of comparative advantage, William Thwait's essay on James Mill puts forward one of the greatest surprise stories in history of economic thought. Ricardo's discovery of the law of comparative advantage was one of the three to four greatest breakthroughs in economics ever. However, Thwait demonstrated more or less conclusively, that the breakthrough was due to James Mill and not Ricardo. The famous pages in Ricardo's *Principles* explaining the law in terms of famous Portuguese wine and English cloth were almost certainly written by the elder Mill.

Baumol's article on Say's law is another tribute to James Mill. As it was James Mill and not Jean-Baptiste Say behind the law which later came to be known as Say's law of markets. The infinite gradation of meanings is beautifully displayed in Baumol's elegant essay published in *Economica* in 1977 titled *Say's Eight Laws, Or What Say And Mill May Really Have Meant*".

- Raj Kamble

M. Sc. International Business and Finance
2016-18

A LOST SPRING

(For those 10,000s of people in Kashmir, who left
their homes and never returned)

Away, as the last remnants wail
of memories
of a past sail...

The smell of smoke through the smell of rain

Like a delve through our pain
as it transpires transfigures transcends
into the simmering bends
of our left over
As it hovers
Over the dead scales
Of past recalls
Of past wails...
Remedies as they seek orders

in a clash of senses and inside borders
reeling below musky tones
through scrounged violated zones.

The color of smoke
As it fills the eyes

A hazy brown surmise
Of a distant day dream
Beneath autumnal skies
Of some beloved disguise

A memory, a memento that it forges
Unto symmetrical pages
Of repetitive cyclical tales
of a loss that unleashes, and fails as,
Your dusky patterns a retinue chirp follow
through eyes dead and a heart hollow...

-Hafsa Sayeed

M.Sc Economics 2015-17)

ONE IN A BILLION?

The festive season kicks in. The last quarter (October-December) usually generates a major chunk of sales for both online and offline retailers due to the festive season. The e-commerce giants, Flipkart, Snapdeal and Amazon-India roll up their sleeves to strike the iron while it's hot.

The Big Billion Day (BBD) sale by Flipkart enters its third year. Flipkart's first Big Billion Day, held on a single day in October 2014, fetched it \$100 million (about Rs 650 crore) but was marred by substandard handling of an unanticipated large volume of orders. The company began preparing early for its next flagship sales event, which brought it \$300 million over three days in October last year. This year, the BBD was held from 2nd to 6th October. Flipkart has an eight year advantage in India over Amazon.

Started in 1999 in the United States, Amazon started off its operations in India three years ago. Amazon is clearly here to stay. Amazon has announced new fulfilment centres in the country. It also announced the launch of its globally popular Amazon Prime membership program in India in over 100 cities of the country. Through this programme customers will be able to get unlimited free one-day and two-day delivery on lakhs of eligible products from Amazon India. A deep pocketed and established e-commerce firm, such as Amazon, endeavours to topple Flipkart from its position. According to Forrester's Consumer Technographics Asia-Pacific Online Benchmark Survey, 2016, Amazon surpassed Flipkart as the preferred online retail destination for consumers in India's metropolitan areas. Amazon has beaten Flipkart to become the most downloaded app on Google and Apple app stores in the first quarter of this year.

Flipkart has responded aggressively too. Earlier in the year, it acquired Myntra in order to signal its presence in fashion (especially women's fashion) which is a top category on e-commerce platforms in terms of transaction volume and growth, and also one of the most competitive due to presence of lots of brands and manufacturers. The acquisition of fashion platforms is a move for Flipkart to not only further penetrate into the red-hot category,

but also maintain its leadership position in the market and keep Amazon at bay.

Snapdeal ranks third in the e-commerce industry. Each year, Snapdeal launches a campaign prior to the festive season to make its presence felt in the market. Snapdeal invests heavily on marketing and advertising. Last year, the firm hired Bollywood actor Amir Khan for their campaign, 'Dil Ki Deal', the year before last, their campaign 'Bachateyrah!' signalled deep discounts. This year, the company has revamped their logo and have come up with a tag line that says, 'Unbox Zindagi'. Snapdeal hopes to connect with the consumers and is now vying to associate products with happiness, hence the tagline. They do not want to be merely associated with discounted products. The logo is gradually making its mark. The effect of the campaign on sales will be experienced a little later.

The tussle between Amazon India and Flipkart will continue for a few years. Many small players will fade away or get acquired (for instance Myntra), many of the niche players (Flipkart and Amazon) will continue to grow.

The challenge that Snapdeal and Flipkart face is that each firm needs to invest in brand loyalty. Through 2014 and 2015, the aforementioned firms have been big advertisers on TV and in print. Despite that, none has managed to build brand loyalty. They have used their capital, including venture capital, to fund discounts to such an extent that many shoppers have been conditioned to expect significant discounts, sometimes in excess of 50%. For consumers, there is no clear distinction among Flipkart, Amazon and Snapdeal- all they want are discounts. The brand, and brand loyalty challenge remain. This is where Amazon has an edge. Flipkart and Snapdeal will need to take certain lessons from Amazon if they need to survive in the market; especially focusing on brand and customer loyalty.

Currently, the war is between Flipkart and Amazon. In the words of Binny Bansal, CEO of Flipkart, "It is still the first day of the first test match in a five-test series."

-Sejal Maheshwari

M.Sc. Economics 2016-18

A NIGHT IN SEARCH

AUGUST 2013

Some say that prostitution is the oldest business of civilizations. While this statement can be refuted and the moral considerations of the same contested, the current situation of prostitution cannot be denied. I would like to pen down my experience, which was triggered by curiosity and steered me through the dark lanes of a restricted space.

It is about the night when I went out to the streets that were much talked about and least visited openly, especially by teenagers. It was an August night. I had just got a confirmation for admission from Fergusson College, Pune. I chose to accommodate myself in a not so desired, though clean and cheap locality of Narayan Peth. Narayan Peth lies in the vicinity of Budhawar Peth, the red light area of Pune – A red lights that signifies restriction for some, and danger and immorality for others.

It was only a month after my college had begun when I had had this less than a half an hour adventure. Since a bicycle is the best means to tour a city, I would usually saddle upon my Hero Nitro to explore the city. One of the nights, I started at around 1 am to explore the whereabouts of the 'red' place. I pedaled following the boards that directed me to Budhawar Peth through the closed shutters of the legal markets. Five minutes into my ride, I encountered what for my age group then would be called 'danger'. I didn't expect it to show up so soon.

While I was still looking for Direction Boards, I suddenly found women standing out of the small doors, looking expectantly and calling out to the men who passed by. These men would respond to the stares and comments. The women were draped in various colours of Sarees. The sarees had uninviting shiny and bright embroidery on them and were worn loosely on the bare bodies. Faces that smiled with sad and weary eyes were puffed with talcum powder in the cruelest form. I could see such faces all around on the street. The lips were coloured heavily using, perhaps, the cheapest lipstick brand available. The reddened cheeks had no sign of blush but the desperation to attract the richest customer on the street. The imitation jewellery attempted to hide the identity of the women. It wasn't the saree or jewellery that was on exhibition but the bare skins that the owner revealed after getting a meager sum ranging from Rupees 20 to 200.

During my junior college days in nagpur, I had heard about Ganga Jamuna in Itwari. But I never visited it because it was too far from my stay at Laxminagar, the colony where outsider's entry was restricted after 9 pm. Also, nobody had described me before how the area looked or how the women in these unfortunate illegal markets are packed and advertised. Because of which, the sudden revelation of human bodies for sale was too much to take for a teenager like me. I was completely stunned and scared. Without daring to throw even a second glance on that decade old, badly kept Wadas and their tenants, I tried to get out of it as soon as possible. Keeping an eye open, I focused only on the street ahead, to steer my way out through the lanes that sung unromantic drama of love played over and over again. It is a story of every night, under the lights of the small room which never changed its color. Such is the stage of the unprotected and continually harassing workplaces of the oldest businesswomen, who own no capital but only their labor to employ.

-Ashish Khobragade

M.Sx. Economics 2016-18

On 13th of this month clothes collection drive activity of **SOCIOCLUB happened which received great response by students at the institute. Team donated 297 clothes to Goodwill India trust where they will be donating it to unprivileged community. They hope to conduct more social activities**



THE MARKET FOR ATTENDANCE

Economics is always around us, but we as students of economics, always try to find it in newspapers and journals. It is not a problem as such, but sometimes this conceals naked problems that stare at us directly. Had they been visible, engineering some innovative solutions would have been a possibility, honing at least our economic acumen, if not entirely feasible.

One such problem is of mandatory attendance, which I am sure cripples students all over the country, of every cast and creed (read streams). Students in most colleges and universities are mandated to attend a minimum percentage of classes, failing which will debar them from writing exams. These students are like stray cows - once a house (lecture) has denied them food (quality teaching), they don't approach it again. But the consequence of such self selection is not pretty, to say the least, for lecturers who face the risk of 'uninspiring' empty chairs. Hence, mandatory attendance.

Exhibiting the characteristics of negative externality, compulsory attendance can be modelled as fallout of empty classes. Ronald Coase, in his seminal paper *The Problem of Social Costs*, provides a remarkable free market approach to solve this conundrum. There are externalities, and there are costs, so how about we create a market for attendance where externalities are traded! It can work as follows: if agents are present with opposite but complementary goals, i.e., some students who would be short on attendance in some subjects, and others who would have more than the required mandatory attendance in those respective subjects, then if property rights are clearly defined and there are no transaction costs (no heavy handedness by college bullies!), Coase theorem guarantees that in case of trade of attendance rights (assuming no cross subject trade), the college as a whole would reach the most efficient solution. The mechanism

works as follows- some students sell attendance rights, some buy them, but a student would never sell attendance rights below the required mark (say 75%). On the assumption that students are stray cows (they only skip bad lectures), it will ensure at least 75% attendance for all the students and the audience for good lectures would still be unaffected.

Obviously, when there is trade, there is a price to pay. Everybody wants to free ride, but nobody wishes to sponsor this ride, that is, attendance would be charged for. An efficient market with fully rational agents would then compare the costs of buying attendance rights against the cost of getting debarred. The latter cost has no marginal element, i.e. it is a onetime lump sum cost and therefore one would assume that as the semester approaches its close, the per unit cost of attendance (also its average cost) would increase till it equalises the debar cost, above which no person is willing to pay. It is not hard to expect that a typical attendance market would be alive only at the end of the semesters - those with extra attendance would try to extract as much benefit as possible from other agents. In other words, they will try to maximise their surplus. More so, if the student community is closely knit, and each student knows every other student personally, then a supplier can act as a first degree price discriminator and extract maximum benefit from each of its trade partner.

The setting smells of a typical classical market where the leader with market power exploits the sap out of those having none of it. But this has a silver lining - or more than just a lining - for the administrators. Since students are assumed to be rational agents, they will expect the prices of attendance rights to skyrocket at the semester end. They will have two options- to attend the classes and accumulate extra attendance, to be able to trade

later and earn some extra bucks or avoid the exploitation later on, or, to skip classes and shell out heavy prices for the attendance rights later on. One can see that the first option looks more attractive, and it is, which will ensure 75% attendance for most students around when $\frac{3}{4}$ th of the semester ends. The average attendance will always range between 75%-100% for a class.

Now, one would argue that the same result was achievable under mandatory attendance regime as well, and that's true, but here is the deal - either you can go on compelling students to attend bad lectures and waste their time, try to satisfy the egos of lecturers with forcefully filled classes in which students are not necessarily studying, even though the teachers are teaching, or you give students a choice and let them hold responsibility for their deeds so that you can at least claim later on, "we did what we could"!

Either way, the message is clear- administration will always have its way. Democracy is overrated!

-Shubham Gupta
M.Sc. Economics 2015-17

TO BE OR NOT TO BE

When approaching exams increase the tension,
To study or to copy, that's the question.
The ruining Indo Pak relation,
With whom should Kashmir be, that's the question.
Different communities asking for reservation,
Who will help the meritorious, that's the question.
Women fearing to live in this nation,
Who will protect them, that's the question.
Bringing Swatchch Bharat Abhiyan into action,
Who will clean the mentality of people, that's the question.
Black money hoarding and corruption,
When will India get rid of these menaces, that's the question.
On twitter every action has an equal and opposite reaction,
Is this the correct way to use freedom of expression, that's the question.
Ever exploding India's population,
Will the millenials transform it to asset, that's the question.
Ruling party and opposition's sweet -sour equation,
Will the nation's interest supersede self interest, that's the question.
After reading this if you think we are in doomed situation,
Will you try to make it better or shrug off your shoulder, that's the question.
Let us ignite the spark of inspiration,
So that India's future doesn't remain in question!!!

Puja Parmar,
M.Sc Economics (2016-18)

WHAT AFTER RS. 1000 NOTES DISAPPEAR INTO THIN AIR?

The Government of India and the RBI announced a series of measures late in the evening of 8th November, 2016 to curb counterfeit currency of denominations Rs. 500 and Rs. 1000. Subsequently, it also announced the issue of new currency notes of Rs. 500 and Rs. 2000. A detailed FAQ sheet was released by the RBI on its website over how the forfeiture of the old notes will take place.

With this move the government has taken India Inc. a step closer towards, noble goals of eliminating counterfeit currency and Black money. However, taking an extreme position by rendering the legal tender status of two major denomination null and void, while issuing a higher currency denomination seems illogical. Despite the fact that temporary inconvenience will be caused to citizens, everything else remaining constant, it will only take a maximum of two years for things to get back to square one. Once the black money is unearthed and brought back to the system, keeping it in, is going to be a challenging task, but a paramount job for the policy makers.

Banks are incentivised to expand their ATM infrastructure. Doing so, you are only encouraging people to withdraw money and spend in cash, which is again difficult to trace. The new guidelines that put tighter restrictions on withdrawal of money via ATMs and cheques, and the gradual loosening of the same, is an obvious disincentive to cash use. If cash use is literally to be reduced, there has to be a greater incentive to use your debit/credit cards everywhere. For example, kirana stores should be equipped with PoS machines. The Government needs to be proactive and promote the use of online payments in small shops. An equal amount of incentive to online transactions along with disincentives to cash transactions will only balance the see-saw.

Undoubtedly, black money is an evil to any devel-

oping economy, and so is counterfeit currency. Again, the move by the Government largely fails to block these practices in the long run. Let's admit it, converting money to black is not a big deal, and so is not converting it back. Tax evasion has long gripped the country. And the real stacks of black money are actually sitting in offshore accounts, which this move completely ignores. Once the new currency notes are full-fledgedly out in circulation, people are going to do their thing and hoard money as usual. In a year, or two

If cash use is literally to be reduced, there has to be a greater incentive to use your debit/credit cards everywhere. For example, kirana stores should be equipped with PoS machines. The Government needs to be proactive and promote the use of online payments in small shops. An equal amount of incentive to online transactions along with disincentives to cash transactions will only balance the see-saw.

at most, this process will start. The same goes for counterfeiting notes. It is a piece of paper with some security features. If the bad notes have been invisible to the naked eye for so long, they will remain to be so even with the new ones. It should be kept in mind that the agencies which carry out the counterfeiting process are career counterfeiters. They are masters at reverse engineering and nothing is stopping them to get hold of the new notes. The only way to get rid of the counterfeit

notes is to identify and crack down hard at these centres where printing of such notes take place and burn them. Such illicit businesses should be attacked by the Government and shut down. This will promise some amount of long term relief from counterfeit notes.

What is done is done. We will all have to go through the ordeal of standing in long queues at banks and do with low amounts of cash for at least the next two weeks. While the black money stashed offshore stays there, the Government should quickly roll out a series of reforms that will help further this initiative. Alongside giving incentives to online and PoS transactions, it should also make compulsory provisioning for online/cheque transactions where most cash transactions take place. Many sectors completely fall outside the purview of banks, for example, imitation jewellery, printing and stationary. Many such other sectors where online transactions have not seen the light of the day should be gradually brought under the same conditions as other industries are operating in. Rural areas where agricultural income is not taxed at all is another area where black money is stashed. A complete shift to online transactions at urban centres is possible and government should start to move towards it, for a commencement to actually curb black money

-Harsh Doshi

M.Sc. Economics 2016-17

Universal Basic Income

India has an estimated 350 poverty alleviation or welfare schemes, covering almost every need under the roof. But, even after decades of sustained growth, this seemingly holistic welfare architecture has failed to achieve its goal. It remains impossible to deny that these schemes are riddled with problems, and the benefits do not entirely percolate to the poor. The problems range from difficulty in identifying a beneficiary, mis-targeting, leakages and corruption in the delivery system to distortion in resource allocation. Besides, these schemes eat up a lot of time available to policymakers, and are very costly to administer.

The cash strapped Indian Government is currently struggling to meet its fiscal deficit target of 3.5%. One of the things still putting excessive pressure on Government budget is believed to be the massive amount (close to 9% of GDP) that is doled out in subsidies. Thus, not only there is a dire need for controlling non-merit subsidies (those received by relatively well-off beneficiaries), and generate fiscal savings, but also finding out an effective way to pull a majority of the population - lying below and around the BPL - above the poverty line.

Almost 30% of the entire population is living

below the poverty line according to official estimates. Along with a need for deep fiscal adjustment, those in academia are keenly exploring other avenues to fight poverty. One such alternative is the concept of Universal Basic Income (UBI). It essentially entails providing every adult with an unconditional cash grant, irrespective of any other earnings. This idea is gaining popularity in developed countries, as it fills in the requirement of having a safety net for workers, amidst growing concern about automation (technology) usurping many manual and non-manual jobs in the near future. Switzerland recently held a referendum on the proposal to guarantee every adult and long term resident 2500 Swiss Francs per month as UBI. While the referendum was rejected - with three-fourth of the population voting against it, this is now being carried out as a pilot experiment in Finland, and Ontario (Canada).

It holds paramount importance for developing countries like India. With a low poverty threshold, a cash grant equalling the official estimate of poverty will not put excessive pressure on the fiscal budget. This also goes a long way in ameliorating poverty, provided that the poorly structured subsidies are wound up or cashed out. It

empowers the recipients with the choice of using this money as per their discretion, taking this decision away from a grandstanding government. A UBI is supposed to act as a complement to work, and experimental evidence wards off the possibility of the money being blown up in alcohol, or it being a substitute to work.

But, with concerns over inadequate banking network and cash transfers eroding purchasing power overtime due to inflation, or UBI ultimately causing inflationary pressure, this would require more brainstorming to fix a couple of design bugs. Additionally, with only 1% of the population paying taxes, the efficacy of raising taxes to fund this programme remains limited. Besides, political support for doing away with subsidies also remains under question.

UBI should not be considered a magic potion to alleviate poverty in the long run, without strengthening existing physical and social infrastructure - so that everyone could be a part of the growth process.

If you are interested in public policy, these are surely exciting times!

-Yashica Joshi

MSc Economics 2016-18

An Ode to thy Frail Vigor!

The World collapsed upon thy Mighty and the Greatness. The chanting halted, the rooting halted and silence swept among the masses. Thy God fell! Why the sudden convulsions! Does it call upon an omen! Does it conjure more infirmity and hardship! Thy Master's Protégé stood with words of arousal and praise counted short. The masses stood forth with hands out to invigorate thy Lord's heart, thy God, thy Harbinger of Liberation. Arms of His still far from reaching were left still in His tremors and fits of shaking. He who shook the status-quo between the aristocracy and the legion commanders, the leader of the masses, lay foaming and in convulsions among the masses, defeated in the victory. Victory at the behest of his seasoned warriors and defeated at the hand of thy earthly shortcoming. The celebration of liberation on the homecoming of thy Saturn on the days of Saturnalia cut short as thy march of splendor and grandiose to the senate became a rush to the quarters of thy Olympus.

His heart built strong as the breath of mortality was not an agreed allowance, but forced upon as he was torn out from the womb of thy bearer. Evidence of none before in history hitherto thy Lordship, have undergone such desperate method for survival at birth and preserved his life henceforth, nearly equated as a successful metaphysical experiment for those ages. As a newborn, he contested to breathe in the festering society, of noble descent and only a name nobler to hail bequeathed neither the riches nor the influence of equivalence. Teens of thy Kingship spent as captive in the dark waters of Cecilia, grew up with a self-assessed, twisted balance of vengeance and indulgence, which consequently also by the masses. Thy Victor, thy Architect of the First Triumvirate, risen from ranks not worthy of thy name, a master Strategist and an Inciter of the compelled. His architecture supported by the pillars of might and riches cemented with the warmth of relations both filial and friendship, thy dearest Pompey and thy dearest Crassus. Treading softly over their reciprocated feelings in the circles of Rome where his ancestors used to strut past in pride galore.

His brilliance as military commander on the lands across The Alps against the Gauls and Germans, outwitting and slaughtering down massive legions, taming the untameable, annexing uncomprehended territories, even beyond the English channel, the first ever Roman General to do so. His wish was to near the equal military genius of that of Alexander's, to restore the lost family pride and inscribe the family name forever in golden letters in leaves of Ages that would be carried on without the need of any future worthiness to stand for such multitude. His delineated path at sudden was cut short, the pillars of thy Triumvirate reached its end days of agreed service as Crassus died in battlefield of West Asia and Pompey lost Julia, whose charm, both an influence to aid and to distract her beloved from the success and rising unchallenged popularity of the new Might of Rome.

Broken arrow which pierces deep, the feeling of betrayal that was infused in the Veteran by the zealots of aristocracy and nepotism, poisoned in emotion with the demise of his beloved and his newborn, was reciprocated in equivalence, as a

second such proposal of strategic contract, with sister of his beloved, was turned down by his lordship, Rome's greatest, feats of whom also stood unmatched, the whip of Rome, Pompey. Without supplies and support from Rome, the defiant of all odds, thy Magnificent, was left with options in binary, either to rule over Gaul and forsake Rome completely or return to face Pompey and be the architect of one of the bloodiest civil war in history where he will either lose all he had achieved or gain all that he had dreamt for. Never had thy Excellency backed out of high improbabilities and high-stakes more so he is invigorated when the stakes were higher and in this scenario it could have never been higher. The uncontrollable rush of uncertainty within his veins made Him the fiercest of them all generals. Never He fought to win, but fought to live to see the crimson twilight at daybreak, complementing his wrath on those who stood against, slaughtered beyond recognition, a blitzkrieg, a force infuriated among his men on seeing their Commander on feet, shoulder to shoulder, in arms, tearing apart any impossibility any doubts from the hearts of his own men as his sword sheathed in bodies of enemies indifferent. The valor and brilliance inspiring theoretically impossible outcomes and crushing defeat on those who stand against. Might, gathered from Roman territories of near and far, as men from nigh and far joined on to respond to the call of thy Uncrowned Emperor. Pompey shook at such outright defiance to Rome by its own subjects, fled and left his ancestral heritage and rest of family at the hands of a man with whom he has hit the nadir of any ever humanly relate. With the biggest ever battalion that by all his resources given and by his allies support he could muster, he managed to stagger up an army that could, in theory, demolish as that of Lord Elect's legions eight times over. A final showdown at the land of Heroes, who proved mightier than Gods was about to recur, thou Divine King in making, stood forgotten herald of triumphs and laurels of near divine equate; All transcended and waited for the highest spiller of Roman blood! The war without a doubt balanced in favor of thy Veteran, in lands familiar and which has been intricately mastered and trenched deep in preparation, for the forthcoming vendetta, the wrath of betrayal, the Devourer of legions that oppose, for thy Caesar!

The curtains raised on the shores of Greece, on the fields of Pharsalus. As dry basins ran red, luncheon of the foxen piled up, dread filled hearts of lands far, the act of the century unfurled that had no equal till people chronicled God in human form. His Divinity then kept in equivalence to warriors whose legions survived such brutal onslaught. Rome's last hope for the provision of the franchise, headed the resistance, a massive legion, well kept, well provided, rested and lead by the undefeated veteran himself, General Pompeius Magnus. Crossing the Adriatic, with men outnumbered in territories unfamiliar, just with an edge of having a disciplined and seasoned army rather than chaotic legions of new recruits and mass patronage of the Romans, with an optimism of winning against all odds under the commandeering of thee General. After half a decade of Rome being torn apart, final-

ly, the fruits of triumph reaped for the One who had the odds never in favor, Pompey had lost and sought refuge in Egypt, where he was then eventually beheaded.

The day of His advent of Rome! With speeches planned, addressals practiced and gestures perfected for advocating of totalitarianism, by talking about ending daily suffering and pointing out the flaws of being a Republic to infuriate the masses, to facilitate a minimal resistance while taking control of the senate and abolishing all posts held by its members. But as he recovered some consciousness while being carried away from the crowds in his chariot, he muttered few audible words that hinted at the conspiracy of few Senators to poison him. The news, more engulfing and rapid in its spread, was far worse than the century's worst inferno. Houses and markets were set alight; riots spread uncontrolled, call for their Emperor's coronation, which now to the masses was nothing more than a ritual and was of no significance, started gaining momentum and vigor and became more of an unnegotiable demand.

In alleys dark and soulless, few members of the last symbol of Democracy defied to follow suit to public demand, these members of Senate, the ones who burn from inside, from the sweltering of their own blood nobler, position and influence all lost to the mercy of thy Emperor. Without the support of the masses or any army at its command, the situation of these few Senators at such exigency became the reason of more desperation and insecurity. Their resolve was clear and bold – deletion of thee legend and any reminiscence of thy General, the Savior and Liberator of the subjects of Rome, Gaius Julius Caesar from their minds. Thus the fruit that reaped at Pompey's fall also carried the seeds that called upon deception and defiance at Caesar's own backyard, Rome, also at the time of his presence. 23 envious teeth of powerlust incised deep, one on every part of body skin, hacked by nobles! Mercy was hard to come by, even from the hands of his political protégé, who born and grew up among the masses and whose sense of honor was revered by all, but was also one of the most easily influenced and gullible in relate to the flexible definition of honor, Marcus Junius Brutus. The entire act of blood and gore was carried out on the day that Caesar had predecided to propose his name at the Senate as the Supreme Leader of Roman territories near and far. If faced with opposition on that day as a safeguard he had come prepared for a forced military takeover of the Senate. Thus was that fateful day, the Ides of March! The day from which hence thy Legendary became thy Legend!

-Vaidik Chakravorty
M.sc Eco (15-17)

ECONOMIQUE

OLIVER HART & BENGT HOLSTROM

Many contractual relationships in a society include those between shareholders and top executive management, an insurance company and car owners, or a public authority and its suppliers. Such relationships typically entail conflicts of interest, hence for a Pareto optimal outcome, contracts must be properly designed to ensure that the parties take mutually beneficial decisions.

This year's Nobel laureates - Oliver Hart, a British economist at Harvard University, and Bengt Holmström, a Finnish economist at MIT - have developed, and won the Nobel Prize for contract theory, a comprehensive framework for analysing many diverse issues in contractual design, like performance-based pay for top executives, co-pays in insurance, and the privatisation of public-sector activities. Their work focuses on the necessity of trade-offs in setting contract terms. This prize is yet another in a series of recent prizes which explores the unavoidable imperfections in many critical markets

Bengt Robert Holmström is the Paul A. Samuelson Professor of Economics at Massachusetts Institute of Technology, where he was head of the Economics Department from 2003-2006. He holds a joint appointment with MIT's Sloan School of Management. He is an elected fellow of the American Academy of Arts and Sciences, the Econometric Society and the American Finance Association, and an elected foreign member of the Royal Swedish Academy of Sciences and the Finnish Academy of Sciences and Letters. He is also a research associate of the National Bureau of Economic Research (corporate finance). In 2011 he served as President of the Econometric Society. Holmström is a microeconomic theorist, best known for his research on the theory of contracting and incentives especially as applied to the theory of the firm, to corporate governance and to liquidity problems in financial crises. In the late 1970s, Bengt Holmström demonstrated how a principal (e.g., a company's shareholders) should design an optimal contract for an agent (the company's CEO), whose action is partly unobserved by the principal. Holmström's informativeness principle stated precisely how this contract should link the agent's pay to performance-relevant information. Using the basic principal-agent model, he showed how the optimal contract carefully weighs risks against incentives. In two landmark papers written in 1979 and 1991, Holmstrom provided the principles that can help companies draw up contracts to ensure that managers do not sacrifice the long-term health of the firm in pursuit of bonuses linked to short-term performance. He received his doctoral degree from Stanford University in 1978. Before joining MIT in 1994, he was the Edwin J.

Beinecke Professor of Management at Yale University's School of Management (1983-94) and associate professor at the Kellogg Graduate School of Management at Northwestern University (1979-82). This was precisely the problem in Wall Street before the 2008 financial crisis — investment bankers took excess risks to earn their annual bonuses while those very risky bets almost destroyed the financial system.

In the mid-1980s, Oliver Hart made fundamental contributions to a new branch of contract theory that deals with the important case of incomplete contracts. Because it is impossible for a contract to specify every nuance, this branch of the theory spells out optimal allocations of control rights—particularly, which party to the contract should be entitled to make decisions in which circumstances. Hart has similarly written seminal papers on using contract theory in mergers, acquisitions, corporate ownership and vertical integration. His research throws light on new theoretical tools for studying questions such as which kinds of companies should merge, the proper mix of debt and equity financing, and when institutions such as schools or prisons ought to be privately or publicly owned. Hart earned his Bachelor's in Arts in Mathematics at King's College, Cambridge, in 1969, his Master's degree being in Economics at the University of Warwick in 1972, and Ph.D in Economics at Princeton University in 1974. He was a fellow at Churchill College, Cambridge, and then a professor at the London School of Economics. He returned to the U.S in 1984, where he taught at the Massachusetts Institute of Technology and, since 1993, he has been at the Harvard University. He became the first Andrew E. Furer Professor of Economics in 1997 and was chairman of the Harvard economics department from 2000 to 2003.

The fact that the 2016 Nobel Prize in economics has gone to two giants of contract theory tells us something else as well. The use of contract theory in public policy is something that the Indian government needs to learn, be it the design of telecom auctions or the public distribution system.

-Sejal maheshwari
M.Sc Economics 2016-18

BEFUDDLED

-Sreeja Sen



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