

ECONOMETRIC STUDY OF DEMAND FOR FINANCIAL ASSETS BY INDIVIDUALS' SECTOR IN INDIA, 1948-58

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Introduction

IN the theory of consumer behaviour it is a familiar proposition that demand for a good is a function of its own price and prices of substitute goods and income. A similar analysis can be extended to demand for financial assets in individuals' portfolios, given the expectations about future movements of prices of financial assets. The demand for a particular type of assets may be stated as a function of its own price and prices of substitute assets and savings. Savings is that part of the income which is left over after consumption. It is that part of income which is disposable for investment and, as such, savings is directly relevant from the point of view of investment. The yield is inversely related to the price of financial assets. The lower the price, the higher the yield and *vice versa*.

Suppose X_1, X_2, \dots, X_n represents investment by individuals in financial assets 1, 2, ..., n.

Let the price of the assets 1, 2, ..., n, be P_1, P_2, \dots, P_n .

Let S represent savings. Then the equilibrium demand function for the i -th financial assets can be represented by

$$X_i = f_i (P_1 \dots P_n, S) \quad i = 1, \dots, n.$$

As the holders of these assets are interested in maximizing the returns from them, a rise in the price of the i -th asset, i.e., a fall in the yield of the i -th asset, other things being the same, should decrease investment in the i -th asset.

$$\frac{\partial X_i}{\partial P_i} < 0 \quad i = 1, 2, \dots, n.$$

Similarly, a rise in the price of the j -th asset, i.e., a decrease in the yield of the j -th asset, other things remaining the same should lead to an increase in investment on the i -th asset, i.e.,

$$\frac{\partial X_i}{\partial P_j} > 0 \quad i \neq j = 1, 2, \dots, n.$$

In a similar way, the prices remaining the same, an increase in savings is likely to lead to an increase in the investment in all the assets, i.e.,

$$\frac{\partial X_i}{\partial S} > 0 \quad i = 1, 2, \dots, n.$$

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