

Profit Margin Performance and Market structure in Indian Manufacturing Industries

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Beginning with Joe S. Bain's (1951) study of the relation between profit rate and concentration in American manufacturing industries, there has been a fairly steady stream of studies investigating the relationship of the profitability aspect of market performance with different combinations of variables reflecting different aspects of market structure.¹ Probably with the only exception of Stigler (1963), all these studies have generally confirmed the hypothesis of a positive relation of profitability with structural variables measuring deviations from the competitive market model. If one can find some legitimate ground to ignore Stigler's findings, as Bain (1951, p. 451) or Weiss (1963, p.366) appear to have done, then the hypothesis can be expected to command a general acceptability, at least in the North American continent. However, in order to acquire a more general acceptability, it needs further empirical testing with data from other countries, particularly from the less developed economies. The purpose of this paper is to make a start in this direction on the basis of available data on Indian manufacturing industries. The first section discusses the hypotheses and variables included in the study. The second section presents the estimation of models and the major findings yielded by them. Data sources may be found in the Appendix.

1. HYPOTHESES AND VARIABLES

In the regression analysis attempted here, profit margin is the dependent performance variable, whereas the six explanatory variables include four structural variables - two reflecting to different aspects of the size distribution of firms and two pertaining to two different barriers to entry - and two other variables. A 4-digit industry is the relevant level of aggregation for all these variables.

(1) *Profit Margin (PM)* has been defined as the difference between average price and average cost of the products of an industry, expressed as a percentage of average cost. It has been estimated by subtracting from the value of total output of an industry the total value of all inputs used in the process of manufacture², and then expressing the