

Distributional Effects and Consistency of Divisia Monetary Aggregates in the Indian Case

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This study investigates the significance of dispersion between the growth rate of some weakly separable monetary asset groups and that of their corresponding monetary aggregates, arising out of non-linearity in aggregation. As the aggregates are derived from the Divisia quantity index number the relevant dispersion measures used in the analysis are their second moments. The empirical evidence show that the commonly employed statistical tests - the Granger causality test and the information content test - in which both the aggregates and their corresponding dispersion measures appear as arguments, do not require the incorporation of the latter, implying that there is no distributional effect of component assets on the macro behaviour of the aggregates under consideration. Hence, this evidence is attributed to the fact that the Divisia index can track even a non-homogeneous aggregator function and remains appropriate even for changing taste and technology of consumer preference over time.

Introduction

In economics, the exact aggregates are derived from economic aggregator functions, which is typically either a utility function, a production function, a cost function or a distance function. The allocation of such exact aggregates over their components are accomplished in a second stage decision of economic agents, conditionally upon the prechosen aggregate. Hence, the exact aggregate behaves as if it is an elementary good regardless of the relative changes among the components of the aggregate i.e., the distribution of components within the exact aggregate has a bearing only on the relative proportion of components and contains no information about the macro behaviour of the aggregate.