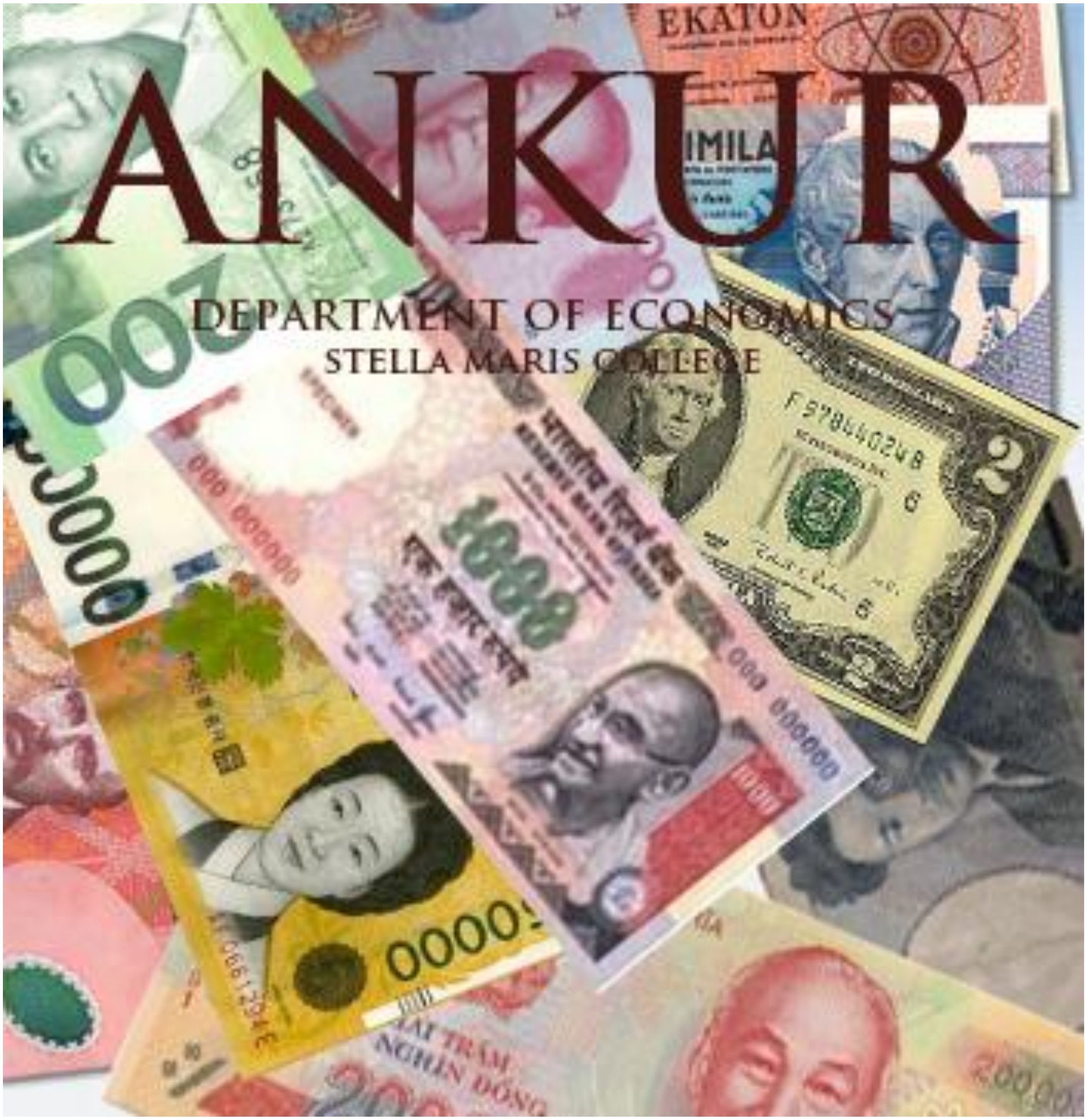

2012-2013

Editorial

True wealth is the knowledge that is accumulated. This is enriched throughout by the knowledge that is shared. "In vain have you acquired knowledge if you have not imparted it to others" - Deuteronomy Rabbah

Radical are the changes that a growing bud undergoes. This budding season of ANKUR 2012 - 2013 provides wonderful insights into economics related to the National and International levels.

This year's ANKUR is the combined effort of The Editorial Team and the contributors from current students and students of yesteryears. Is has indeed been a fantastic experience for the editorial team in putting these articles and papers together!

Beyond doubt ANKUR has provided us with a forum, where a variety of economic facts and nuances of the application of what is taught and studied in the classroom is understood and deciphered in real life.

This issue covers a wide assortment of topics related to economics, its relevance, its history, and current economic happenings.

"A ship cannot sail without a Compass" - Thanks to the Guiding light of editorial team and all the others who have pitched in, in some way or the other to make this issue of ANKUR a grand success. Thank you one and all!

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TABLE OF CONTENTS **Page No.**

1. MILLENNIUM DEVELOPMENT GOALS - EXPECTATIONS VS REALITIES: CASE OF DEVELOPING COUNTRIES

In developing countries like India, economic growth alone cannot be a goal of development planning. According to Dr. Amartya Sen, growth is only a means to an end and not an end itself. Although India's GNP per capita(Rs. 3,250) is more than Bangladesh's(Rs. 1,550) the former lags behind in terms of human development. Life expectancy in Bangladesh is 66.9 years while in India it is 64.4 years. Mean years of schooling in Bangladesh is 4.8 years whereas in India it is 4.4 years. This reveals that India has to lay due emphasis on the enhancement of human capital in its macroeconomic policy. The eight millennium development goals that are mainly associated with human development have to be achieved by 2015. According to the 'Millennium Development Goals' Report, 2012, the number of individuals living on less than $1.25 a day has reduced from over 2 billion in 1990 to less than 1.4 billion. However global poverty reduction need not hold good for individual countries. For instance in India, the measurement of the poverty line is skewed. As per the planning commission, a person is not considered 'poor' if his/her daily consumption expenditure is above Rs. 28.35(urban areas) or Rs. 22.42(rural areas). Thus a considerable percentage of the population will forgo social security benefits, as, with inflationary pressures the consumption expenditure will also increase at an increasing rate. Hence to claim that the 'all-India poverty ratio' has declined from 37.2% in 2004-05 to 29.8% in 2009-10 would be misleading. In case of China, the revised poverty line defines an individual earning an annual net income less than 2300 yuan as poor. In other words, if a person earns less than 1.80 USD per day, he/she is considered poor. This upward revision has increased the proportion of population(128 million people) to be eligible for government's anti-poverty subsidies. Hence, in terms of increase in the quality of human capital, China is better off. The millennium development goals project an economically sound development path, but the reality has something else to offer. The main reason for gap between the expectation and the reality is the inappropriate frame work of macroeconomic policies. In India, the current 'Social Economic and Caste Census' model is adopted to identify eligible beneficiaries from rural households for food and other benefits. Ranking of deprivation indicators forms the basis of the survey. The approach is one-sided as there are only seven deprivation indicators. These indicators do not cover all forms of deprivation. Hence a household which is poor, but does not fulfil the deprivation criteria will escape the social security net. Hence there will be more people deprived of food. This becomes a barrier to achieving the foremost millennium development goal related to poverty and hunger. Thus, in the real sense the goals can be achieved with better measures relating to indicators of poverty, proper selection of below poverty line families etc.

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2. CURRENCY RATE COOPERATION IN ASIA

At the first glance, the international market for currencies comes across as stable. However, a closer examination brings to light the high volatility and even vulnerability of the market in the times to come. A primary reason behind this is the lack of a currency anchor or what is better known as a reserve currency. A currency anchor is a reliable and trustworthy currency on which most other countries depend during times of instability. This currency even when fluctuating, shows gradual and minor increments or fall. It is believed that this currency's value is mostly correct.

The U.S Dollar for years had been the world's currency anchor. It is well known that when the value of a currency is to be known it is seen vis-a-vis the U.S. Dollar. As we know, for greater part the economy of US was the strongest and most dynamic and buoyant in the world. This is what lent the US Dollar its credibility. However, this is not the case anymore. With the growing and almost permanent deficit of size 5-7% of GDP has the investors around the world doubting the US economy. The investors believe that the real estate market is in for a slump and will pull the entire US economy along with it resulting in a dramatic fall from the constant growth of 3%.

If not the US Dollar then what other alternative are there? The Japanese Yen may be a likely candidate but then again the Japanese financial markets and the economy have not yet reached the size and intensity to provide a secure anchor.

The Euro is only just emerging from its initial hiccups. It has been around for almost 11 years. The Euro thus comes across as an attractive alternative. However, some believe that it is still unproven to a certain extent. The European Central Bank may have gained itself a respectable reputation nevertheless, it takes a lot more to challenge the so far unparalleled image of the Federal Reserve System. Further, there are reservations about the Euro because of the problems faced by the member countries such a Greece and Spain. Not all countries therefore would want to put their faith in this one currency.

This then creates trouble for the small currencies which are dependent on a reserve currency. These currencies cannot endure the shocks in the financial system and are the worst affected. This forms the basis of the argument that the Asian currencies other than the Yen, need to cooperate to not be as exposed to financial crises as they are currently. This requires the introduction of currency rate cooperation among the Asian countries, if not all, at least those in the South East Asia region.

In this regard, the EU sets a good example for Asia. Should Asia want, it can take several lessons on currency cooperation from them. These include,

- A definite political will to persevere in this direction. It must be noted that currency cooperation would not evolve by itself; it requires well defined political will and decisions which would then lead to economic advantages.
- The road is not going to be without hurdles. Even the EU had to resort to floating rates in 1993 before they were stabilized again.
- Currency cooperation comes at a cost. The members must be required to bear with it in times of financial crises to deliver the message to the market that there a driven political will.
- It is important to have a certain degree of convergence when it comes to economic policies. They need not be analogous but must show convergence.

To sum up, the Europeans didn't get the Euro up and working in a day. It took a strong, steady and one step at a time approach to build the currency. No matter what course Asia takes whether to move towards currency cooperation or not, these are some lessons that are advisable to have in mind.

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3. FDI IN RETAIL: A CONSUMER PERSPECTIVE

When considering the impact of FDI in retail on consumers, we first need to understand the nature of Indian retail. Like in most other aspects of the Indian economy, there exists dualism in Indian retail too. While 85% of the retail is from Kirana stores, only 15% comes from what we call modern retailing which has seen a considerable increase with the increased per capita income and growth of the country.

The consumer isn't exactly harmed, neither does a consumer suffer any monetary loss because of FDI, however, to understand its impact, we need to see how the Indian consumer is not really benefitted by it either. This article puts forth arguments which help comprehend this 'no-gain' scenario of the FDI.

With FDI in retail and the opening of multi-brand stores, it is believed that there will be more variety of products (mostly imported) for the consumer to choose from. Since these multi brand stores deal in large volumes, they only buy from manufacturers who can supply that large a volume. In the case of fast moving consumer goods, a small producer has little or no power over the market and as it is often seen, they producers enter and exit the market very quickly or get wiped out. From this, we can conclude that in the case of a multi brand retail store, these smaller producers will get wiped out. One may ask, how this affects a consumer, to put it simply, a consumer now necessarily will have to buy a product available on the shelves of these stores which would be either an imported good or a product of a large firm. For instance, a consumer would have to choose between Rin, Tide, Surf Excel and the like, whereas he/she may actually want or prefer using 'Naulakha'[1].

On similar lines consider this. These multi brand stores buy huge volumes from producers and thereby restrict them from selling to smaller retailers/ wholesalers. This then wipes out all the small retail stores and Kirana stores, leaving behind only the multi-brand store which now charges a price it sees fit or the maximum retail price, whereas, the consumer could actually buy at a price less than the maximum retail price from his/her known Kirana store. Yet again, the consumer loses out.

In addition to this, multi-brand retail brings with it the possibility of genetically modified food. The Indian Supreme Court has not yet given its consent to genetically modified food. At a multi-brand store, an average consumer does not really stop to check if he/she is picking up genetically modified food and as we are aware of the lackadaisical nature of the authorities this may actually go on. Now again, is the consumer benefitted? On another note, these multi-brand stores do not provide the facilities and services as the Kirana stores. These small retail stores offer the facility of home delivery. While the multi brand stores do not work on credit, these stores offer the facility of credit too.

From above, we can conclude that though the consumer is not the most disadvantaged entity of the supply chain, FDI in retail and multi-brand retailing does not necessarily bring a lot of gain (as portrayed by the government) to the consumer.

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[1] Naulakha is product of Dharm Chand Mal group which produces detergent and soaps. These goods are marketed in the north Indian states of New-Delhi, Uttaranchal, Uttar-Pradesh and Rajasthan.

4. IS THE ASSUMPTION OF RATIONALITY, REALLY RATIONAL?

Ask any economics student, graduate or professor and they will all tell you one thing – one of the very basic assumptions of economics is that human beings are rational or at least look to maximize their rationality. But is this assumption in itself rational? Are human beings really rational in their thoughts and actions? Is this perhaps the reason why so much of our data and predictions are skewed?

The assumption of rationality is essentially a micro concept, applicable to individuals and individual units. Let us take a simple example – a businessman is selling a particular product 'A'. His product is doing reasonably well and providing him with sufficient returns. But he wants his product to sell quicker, so he decides to marginally lower the price of his product 'A'. Going by the basic Law of Demand, his sales should obviously increase because 'when price falls, demand increases'. But how will a consumer think? – A consumer may feel that this indicates a fall in the quality of the product. A consumer may also think that the producer is trying to sell his product off quickly to pave way for another improved version of the product; or perhaps another product altogether. While most consumers will accrue to the law of the downward sloping demand curve, there will always be that certain percentage that will not. Economists will always argue saying that the Law of Demand holds good only in the presence of 'ceterus paribus' i.e. when all other factors such as income, prices of substitutes/complements, tastes and preferences of the consumers etc., all remain constant. But can this ever happen? After all, every factor or variable influencing the buying capacity of an individual seems to exert its dynamism during every second of the day.

So let us remove the assumption of ceterus paribus and allow all the factors to move around freely. We assume that another businessman enters the scene. He sells a product 'B', which is a substitute (not a perfect substitute, but a substitute) for product 'A'. For various reasons (change in income, change in tastes and preferences etc.), the demand for his product 'B' shifts upwards and consequently the equilibrium price moves up as well. The businessman can perhaps assume that his consumers will continue to buy his higher-priced product due to brand-loyalty and the high level of quality he manages to provide. Yet all consumers will probably not succumb to this thinking. For a consumer that falls into the high-income category, he is likely to continue with the same product since money isn't an issue for him. This is his rational way of thinking. On the other hand, a consumer falling into a lower-income category may revert to the cheaper product 'A' (since they are both substitutes), even if A provides a comparatively substandard quality. This is the poor man's rational way of thinking. So rationality is prone to subjectivity. But even if we take subjectivity into account, there can be a converse response from both consumers – what if the rich consumer decides to be stingy? What if the poor consumer lacks awareness of what is available and chooses to stick with the currently more expensive product 'B'?

I came across a Canadian blog recently, inspired by 'The Price is Too Damn High, Canadian Edition', that put forth another perspective on rationality. This blog post doesn't necessarily justify the rationality assumption, but rather tries to explain why it is so popular. There are precisely two reasons why rationality has gained fans in economic modelling: firstly, it works most of the time. Secondly, it creates models which are falsifiable. But how are they falsifiable? The blog has presented an example – If there are 5 products A, B, C, D and E and we take into account whatever we know about consumer preferences, costs, and benefits, we predicted that a rational consumer will choose product A. But for some reason only 80% of the consumers choose product A, and the remaining 20% choose product B. This could occur because there is a possibility of a 'factor X' that is a hidden cost to choosing A. So when this X factor is not in play, we can expect to see consumers choosing A to a higher degree than B, and when the X factor is actually present, the vice versa can happen. Hence, the economic model is falsifiable. Now if I were to scrutinize this point of view, the following thoughts pop into my head – if economic modelling works 'most' of the time, what happens to those instances where it doesn't? And even if models pave way for falsifiability, we still can't be assured of the degree to which consumers may lean towards the other direction.

The idea here isn't to refute any microeconomic theories. The idea is to question whether economists can afford to be erroneous by assuming that individuals look to maximize their rationality. And even if there is room for margin of error at a micro level, what happens at the macro level when a compendium of aggregates and factors are taken into account? At the macro level, predictions are always forecast regarding GDP growth, inflation rate, output, employment rate etc. This is where the idea of 'rational expectations' come into play. We assume that people will make present rational choices based on future assumptions. Economists predict various macroeconomic variables on the conjecture that producers, consumers, entrepreneurs etc. will all act in a rational manner and observe an approach in line with what is to come in the future.

Yet, our predictions almost always seem to be far from the mark. Between 2004 and 2008, India experienced what most people refer to as a 'sweet period'. Our growth rate coasted close to 9%. However post-2008, the world witnessed a global economic meltdown. Though India was able to weather the storm better than a number of developed countries, GDP growth dipped well below the target of 9% chalked out by the Eleventh Five Year Plan. Perhaps taking into account the impact of often unexpected exogenous factors could have possibly given a more realistic target. The pressing problem of inflation in India is another example. For months economists have been predicting that inflation will ease, yet the RBI has been staunch on continuously increasing the repo rate. Now we're stuck with both high inflation and high interest rates. So maybe tampering with the repo rate isn't a solution to fixing inflation. Economists could have looked into other causes of inflation – rise in crude oil prices and the consequent rise in diesel, making transport of perishable items more expensive. This may have contributed towards food inflation, which was cited as one of the biggest causes of overall inflation. Yet the thinking has been rather one-tracked, which brings us back to the point that a change or deflection in every small factor from the norm, can bring about the most unanticipated outcomes. This could be why our macroeconomic predictions are often heavily skewed. We cannot afford to stay oblivious to the vast array of possible deviations from rational expectations.

There are so many more facets of the macroeconomic arena that can be analysed and scrutinized – the depreciating rupee, crude oil prices, the lacklustre performance of the aviation sector etc., the forecasts of which have all been subjected to ridicule. But there was one particular statement that I read recently in the paper that really caught my attention. Beni Verma, the Union Steel Minister has claimed that inflation is good for the economy and in particular the farmers, since they receive higher prices for their produce. Yet most of Congress as well as the Opposition seem unified on the fact that inflation is detrimental to the economy and the common man. So who is rational here? Whose word should we take? Should we always believe in what the majority says?

In essence yes, rationality is a very abstract concept. However as we have seen, it is a concept that exists at all levels; be it micro-economic modelling, macroeconomic forecasts or even day–to-day opinions. So how the term is used and interpreted is very important. On a personal note, I feel that the idea of rationality is truly rational only when we remember that it is not only a very subjective concept, but a concept where irrationality is inevitable. Perhaps if we can formulate a way to account for the element of irrationality right from the root level, then the all-pervasive idea of rationality will pave way for more accurate macro-level predictions and forecasts.

So is the assumption of rationality, really rational? Well, if we were all really rational then that question wouldn't exist in the first place!

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5. WILL GOLD IN INDIA LOSE ITS SHEEN?

India's love affair with gold can be dated right back to the epics of Mahabharata and Ramayana when gold was idolized by the gods and kings, and was the epitome of wealth and stature. This idea seems to have carried down all through history. In India, gold has almost become a necessity, let alone a status symbol. People invest in gold to get their daughters married off, regardless of their financial background. Gold often gets passed down through generations of women who wear this precious metal almost right from the time they are born. Gold is also associated with the Hindu goddess 'Lakshmi' who represents wealth and prosperity. In addition to all this, the advent of 'Akshaya Tritiya' seems to have coerced people into buying large amounts of gold on this supposedly auspicious day.

Apart from the rich culture, gold seems to have associated with it; India's obsession with the yellow metal has several economic reasons as well. Indians seem to look at gold as a form of savings, rather than investment though national accounts fail to acknowledge this fact. As a result, gold is getting hoarded and left sitting in lockers instead of being used for productive purposes in the economy. People aren't interested in investing in stocks or mutual funds; they would much rather invest in a metal that would not deteriorate and can be easily liquidated in times of dire need. From an investor's point of view, gold can never be an idle or unproductive asset provided its value continues to appreciate. Rich or poor, investing in gold seems to be the most risk-free asset that can help one cope during periods of heavy inflation. In fact, 60% of India's gold demand comes from rural areas. Farmers invest in gold after their harvest in order to meet expenses during the next farming season. As *60 Minutes* correspondent Byron Pitts puts it – 'In India, gold is financial security that is also a fashion statement.'

However, this obsession with gold seems to be taking its toll on the Indian economy. India is one of the countries that produces the least amount of gold, yet has the highest demand for it. Thus India relies heavily on gold imports – 1,079 tonnes of it during 2011-12. Gold imports increased from around $40.5 billion in 2010-11 to around $56.2 billion in 2011-12, with most of this coming from Switzerland, the UAE, South Africa and Australia. As a result, India's current account deficit stood at 4.2% of GDP, with 60 percent comprising of 'net' gold imports. According to the Bureau of Economic Analysis, current account basically measures trade, as well as international income, direct transfers of capital and investment income made on assets. A current account deficit signals that a country is importing more goods, services and capital than it is exporting. And thanks to heavy gold imports, India's current account deficit is well over the sustainable level, which usually falls under 3%. If this deficit continues to rise, it will make India vulnerable to the external sector and in the long-run, foreign investors may begin to question whether economic growth can provide adequate returns on investment.

Thus, the Finance Minister P. Chidambaram has stepped in with a plan to try and narrow the current account deficit. He feels that the only way reduce the deficit is to bring down the demand for gold by making gold imports more expensive. He has proposed that customs duties be raised from 2% to 4% on gold coins whose purity exceed 99.5% and from 5% to 10% for non-standard gold. These hikes are in addition to the ones already implemented in the 2012 budget. But whether making imports more expensive will actually bring down the demand for gold is certainly questionable. Gold seems to have fairly inelastic demand in India. In fact between 2002 and 2011 as gold prices soared, consumption soared along with it. Another worry is the creation of a black market for gold if customs duties on imports are pegged too high. People will begin smuggling gold through the borders of Pakistan and Nepal and contribute further to the already infamous Indian parallel market.

Chidambaram isn't the first Finance Minister to express serious concern over India's excessively high demand for gold; generations of Finance Ministers have tried to implement various schemes in order to bring down the demand. Some of these suggestions include financial institutions selling products as proxy for gold, encouraging households to deposit family jewels in fixed deposits schemes, that will earn them interest, and a pay-back in the form of gold bars years later, and a pension scheme which guarantees a fixed amount to a person for the rest of his/ her life against gold that is surrendered to the bank. Yet each of these suggestions seems fundamentally flawed. First, if banks start selling gold-link financial products then banks will begin to hold gold instead of individuals. This scenario will not help increase the productivity of gold. Second, there are a very few fund managers that would be willing to offer fixed pension schemes. And lastly, it is very difficult to get Indians to surrender gold, whatever the reward may be.

The proposal to bring down India's demand for gold has naturally sparked debate all across the country. The government strongly believes that gold is an unproductive asset. Considering international prices of gold are currently so high, the government feels that money from foreign exchange reserves could have instead been spent on importing assets that would have been of more value to the economy. Mangalore-based economist Jayadev Moleyar says, "Most gold is in the form of ornaments with the private people in households or are piled in bank lockers for most of the time. Gold doesn't have economic value; it only has emotional value. And considering the heavy pressure its puts on imports, it is an investment better avoided." Other experts also feel that gold needs to be circulated productively in the economy and not hoarded, particularly in a country where poverty levels are high and infrastructure is low.

Another set of experts and the general public however, hit back at the government's views. Some experts say that though gold was used primarily for jewelry purposes earlier, the trend is now slowly shifting towards investment. People are investing in gold keeping in mind long-term benefits. Gold is almost the only accessible investment option for the rural poor. The public has further defended their demand for gold saying that the Reserve Bank of India holds gold as reserve for more or less the same reason – financial security. In fact states such as Utah in the United States have passed laws to make gold legal tender. People have started blaming poor governance for the widening trade deficit, and not the demand for gold. Also, in a country where gold holds such a high level of significance during a wedding, it is near impossible to do away with it.

On a personal note, the demand for gold in India is unlikely to go down anytime soon, considering its almost sacrosanct nature. The mindset of Indians that has been cultivated over so many centuries is difficult to change within a matter of just a few months. The government and the people however, should try and find middle ground and reach an understanding. The government needs to understand that for individuals, gold is the most reliable and risk-free asset, as has been proven time and again through numerous financial crises. For many of the rural poor, holding gold is almost a means of survival. Though national accounts look at gold only as either consumption or investment, the government must understand the value gold savings hold for an individual.

At the same time, individuals must realize the detrimental effects excessive hoarding may have on the economy. As they say, 'too much of a good thing is bad.' While gold is necessary for financial stability and weddings, large amounts of it left idle in lockers will negatively impact macroeconomic factors. Considering around 50% of our population is below the age of 25, there is a good chance that a large section of this population will get married in the next couple of decades. This part of the youth should take it upon themselves to cut down on lavish weddings and only spend wherever necessary. While increasing the price of imports may have negligible instant effects on the demand for gold, other measures combined with this may be able to slowly bring down demand over a period of time. But the government needs to provide an alternative to the people; something as reliable as gold, it they manage to put gold back into the financial intermediary system. There is also the chance that things may get corrected indigenously. The use of gold for investment purposes is increasing, while the consumption trend seems to be falling. If this pattern continues, investors will try and look for the next best valuable asset. Madhusudan Daga, a well-known gold analyst claims that silver seems to have more bullish prospects than gold. If people slowly switch over to other assets, gold demand may automatically fall.

So will gold in India lose its sheen? - A few carats here and there perhaps, but nothing more; at least not anytime soon.

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6. OUTRAGEOUSLY OUTSOURCED

The outsourcing trend is an inevitable part of the package deal called 'neo-liberalism'. When a production unit is overburdened with a gamut of exhaustive tasks, it has to source out some of its less important work to another unit which is well-trained and specialized in a specific domain of work/activity. With the expanding size of the production units and companies, the need to outsource is pressing. BPOs are significantly on the rise. Outsourcing brings in and directs large streams of revenue to the service sector that contributes for about 57% of our Gross Domestic Product. The growth obsessed economy owes to outsourcing, for it has been a major driver of growth. It has found itself hailed as the best thing to happen for the business elite and financial institutions that derive massive benefits from it. But what good has it done to the millions pushed to the margin? I don't think we'd get an encouraging picture in this regard. Well, let's take a couple of examples. Firstly the most ambitious project yet, the UID (Unique Identification) itself is a standing proof of this postulate. What is the intention of this project? It has twin-objectives.

1) It aims at bringing every resident of India within the inclusivity net, the most-underprivileged in particular.
2) Ensuring the social and economic security of the individual, by guaranteeing him of his entitlements.

The task of collecting the biometric data has been outsourced to private agencies, which have further outsourced the task to sub-contractors. The private data of the individual which must be with the database of the government is up for grabs in the streets. Anyone can have access to it. What's the point in collecting the data? The privacy and security of the individual is at stake. National security just becomes prey to tech-armed voyeurs who we have in no few numbers in our country. Magical Outsourcing!

Secondly, the MGNREGS, another flagship programme of the UPA, promises to tackle the unemployment in rural areas. It has been beneficial, providing a life-jacket to the people in rural areas albeit with more loopholes than a tea sieve. But there is possibility of the idea turning to be a disaster. The labourers in the NREGS are vulnerable to being privately sourced to the big farmers in the villages. Strictly speaking they are prone to becoming bonded labourers. This could if not monitored closely turn into another scam.

Thirdly, the creation of storage spaces for food grains has been outsourced by the government to the private parties, who charge exorbitant rents for storing grains. For years, nothing has been done to expand storage space for food grains. The new idea, instead, is to hire privately-owned space. Farmers are often at the mercy of private dealers while making their periodic purchases. Most farmers can't afford the huge prices. They borrow from money lenders and then get caught in the debt trap. The worst part is that these private parties even get agricultural credit and subsidies, because they offer space for food grain storage. Benefits sure reach the people intended.

Last year, MNS chief Raj Thackeray threatened to brand every settler from Bihar as an ‘infiltrator’ in his inflammatory speech following the Azad Maidan riots. This forced the Chief Minister of Bihar to question the Maharashtra incumbency, if the Government and the police have outsourced the task of governing the state to Raj Thackeray. We have arrived at a point where, there is even a prospect of the government being outsourced. I’m not denouncing the practice of outsourcing, but the jobs that are to be outsourced must be well-assessed before they are handed over to others. When high-profile outsourcing jobs take a hit, the state will come running to salvage them. Funds will be pumped into it and every possible recovery mechanism will be employed. But, what sort of action will the government take if there are irregularities in the outsourcing jobs that matter to the oppressed and the downtrodden section of the economy? Well apathy comes in no small measure from the "babus" in the centre and state. Sadly the apathy has not given rise to any action and as things stand as long as the "voice" of the country is the middle class and the "power" in the country rests with the elite , livelihoods will be "Outrageously Outsourced".

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7. ELINOR OSTROM
THE ONLY WOMAN NOBEL LAUREATE IN ECONOMICS

This is a tribute to Elinor Ostrom the only women Noble laureate in Economics who died in June 2012. Early exploration of environmental problems often cast them in terms of the inescapable tragedy of the commons. The “tragedy” refers to the subtle challenge associated with a fundamental disconnect between what is good for the individual and what is good for the group. The tragedy is a sad irony: in trying to serve their own self-interests, individuals end up hurting themselves—and the public good—in the long run. Elinor Ostrom, who died June 12, 2012, at the age of 78, challenged the assumption that communities were incapable of developing their own strategies to avoid tragic outcomes. When Elinor Ostrom won the Nobel Prize in 2009, the Swedish Royal Academy of Sciences made the following statement “she has challenged the conventional wisdom that common property is poorly managed and should be either regulated by central authorities or privatized. Based on numerous studies of user-managed fish stocks, pastures, woods, lakes, and groundwater basins, Ostrom concluded that the outcomes are, more often than not, better than predicted by standard theories.”

She was born and brought up in Los Angeles and graduated with a degree in political science. She married Vincent Ostrom who was a fellow political scientist. later both of them started teaching in Indiana University and served there for more than thirty years as professors .through extensive fieldwork in many regions of the world, including Nepal, India, Mexico, Uganda, California, and Indiana, Ostrom began to uncover a robust pattern: self-organizing solutions to commons problems are not only possible, but in fact occur quite often. Rather than relying on formal government mechanisms or infrastructure, communities rely on a combination of informal norms, trust, and a small set of formal rules that the users themselves construct, monitor, and enforce using graduated sanctions. Ostrom's work developing a theoretical framework to study this effect earned her the coveted noble prize. Ostrom forged important linkages between the social and natural sciences. These linkages and the interdisciplinary methodology she helped develop to explore them are among her most important contributions—contributions that biologists would do well to learn from.

Having started her career by focusing on groundwater resources in the Los Angeles basin, then studying neighborhood policing in Indianapolis, Elinor turned her attention to how the overexploitation of unowned or commonly owned resources could be averted by collective action by local users. Elinor Ostrom carried out her most important work in the 1960s and 1970s when the so-called "Tragedy of the Commons" was exercising economic minds. The phrase, coined by the ecologist Garrett Hardin, describes a situation in which individuals, acting rationally in their own self-interest, deplete a shared limited resource — fishermen overfishing a lake, for example.

As Hardin saw it, there were essentially only two ways to address the problem: either the government has to step in and regulate the commons, or resources have to be divided up between the people who use them and privatized. The "Tragedy of the Commons" has thus been used to justify creeping government intervention in many different aspects of resource allocation. Hardin argued that everyone would want a share in the common resource, which would rapidly become overgrazed. But Elinor Ostrom knew from her own experience that the "tragedy" described by Hardin did not always happen in practice. She was, moreover, convinced that the solutions proposed by Hardin could be counterproductive. In fact, she argued that communities themselves had developed out of the need to come together to work out how to avoid over-exploitation of Common resources and ensure fairness.

Elinor Ostrom was sharply critical of the "top-down" approach to such issues as climate change. Although she acknowledged that there was a role for international agreement, she felt that directing the question of climate change primarily at governments missed the point that actions that reduce greenhouse gas emissions must be taken by individuals and communities too. Nothing much, as she observed, had changed since the Rio Summit of 1992: "The world has not been able to protect its global commons and the situation has deteriorated."

With her husband, Vincent Ostrom, she developed the concept of "polycentrism", which vests more authority over regulating the use of common resources to individuals, communities, local authorities, and local NGOs. Local small-scale solutions, such as better loft insulation or the installation of solar panels could cumulatively make a tremendous difference, she argued, while big changes invariably lead to destabilization and chaos. “What we have ignored is what citizens can do and the importance of real involvement of the people versus just having somebody in Washington make a rule,” she explained.

Over her career, Ostrom was a tireless advocate of interdisciplinary research and, with her husband Vincent Ostrom, founded the Workshop in Political Theory and Policy Analysis at Indiana University. Ostrom was willing to attack problems with a wide range of methods from a variety disciplines and embrace emerging, challenging concepts from other disciplines, such as complex adaptive systems, to study the questions that interested her.

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8. WILL GREATER GLOBAL INTERDEPENDENCE BETWEEN 1ST AND 3RD WORLD NATIONS HELP OR HINDER DEVELOPMENT PROSPECTS?

We live in an era of stark contrasts. The global economy produces wealth on a previously unimaginable scale-gross world product has grown by more than 40 percent since 1980. Yet the absolute number of people in poverty continues to rise, and the chasm between rich and poor is widening in many countries. Medical science has conquered diseases that plagued humanity for millennia, yet millions die each year because they lack basic sanitation, nutrition and health care. Our capacity to shape the environment to meet human needs has brought comfort and convenience to many, as well as unforeseen side effects, climate change, species loss, soil erosion, water shortages- that may threaten the planet’s ability to sustain life itself. Global interdependence can have both positive as well as negative impact. Global interdependence means mutual dependence at a global level.

Interdependence Presents Opportunities to Raise Living Standards

In a globalized economy, capital moves more freely among nations. This quickening flow of resources offers an extraordinary opportunity to improve human well-being, especially in the impoverished countries of the developing world. Many believe that markets, not governments, will hasten development and raise the quality of life worldwide. Ideas also move more freely in an interdependent world. Global trade has been accompanied by a parallel expansion of communication. Today people throughout the world are linked by a dense network of fiber-optic cables and are bathed in the common glow of an increasingly global popular culture. The worldwide commerce in ideas offers the potential to improve the quality of political and economic life by universalizing higher standards for human rights, democracy, and environmental protection.

Interdependence Calls for International Problem Solving

Interdependence also means that what appear to be local problems can have international causes and effects. For example, the proximate causes of Mexico's 1994 crisis were local, but its underlying causes were, in a sense, a global a result of Mexico's foreign debt and disadvantaged position in the world economy. In an interdependent world, environmental degradation, diseases, terrorism and organized crime do not respect national borders. So, to solve local problems, it is often necessary to think and act globally. To prevent climate changes that threaten agriculture and ecosystems worldwide, environmentalists must influence patterns of energy use and transportation in the industrialized world. For American's, prosperity and quality of life are increasingly entwined with conditions in other countries. Global interdependence has 2 aspects. First, it results from the trade and financial relations of countries and the impact of the performance of the developed countries on the potential for growth and development in the developing countries. Second, it results from the impact of macroeconomic, trade and financial policies in the major economies on economic performance and policy requirements in other countries.

Cultures blend in a global age

Changes in technology have made it possible for people to share their cultures with one another. Television is one of the main forces in this trend. It provides a window on the world through news broadcasts. Movies and radio also have had an impact in bringing the world's people together. As a result of these mass media, the world's popular culture now includes elements from many different cultures. Some se this growing international culture as a problem. They worry that their own culture will be drowned in a sea of influences from other lands. Despite difficulties it is clear that the people are more dependent on one another. All through human history, people have faced many challenges to their survival. The cross pollination of cultures can also bring an end to age old practices of oppression and discrimination. The censure of the global community helped bring down apartheid in South Africa.

Conclusion

National interests are increasingly bound up with international concerns, and cooperation among nations is necessary to advance human well being in an interdependent world.

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9. OIL SUBSIDIES – BOON OR BANE?

Existing in an age of rapid technological advancement, mankind's dependence on modern comforts has become inevitable. While people are constantly trying to improve their quality of life, there occur many crossroads where only one choice can be pursued at the cost of giving up another. And the world today has made one such choice – to use very scarce fuel resources to satisfy needs of the present generations; giving little importance to their judicious utilization.

It is a well known fact that fuel resources such as petrol and diesel are exhaustible and will soon run out in the next few decades. Yet, governments of most developing countries have chosen to allow for import of these resources to facilitate the process of economic development. This has been made possible by the provision of large amounts of subsidies that to oil producing and marketing corporations.

India has historically subsidized fuel prices to prevent the economy from the shocks of price volatility in the international market. On a more ambitious note, the government did not want to deprive its citizens of access to fuel. Or perhaps, the real motive was to sustain its recognition as a strong contender in the development process at the international level, when pitted against its close counterparts.

The price of petrol has risen from INE 33.45 per liter in 2002 to 78.57 a liter in 2012. In a span of a decade, there has been a more than double increase. While this has far-reaching consequences, it is important to analyse the reasons that may have contributed to this phenomenon.

Until 2010, the Government of India controlled the prices of petrol under a system called 'Administered Pricing Mechanism (APM). In June 2010, the government deregulated the price of petrol. In India, petroleum is one of the most subsidized sectors. The government provides fiscal subsidies as well as cash assistance to Oil Marketing Companies (OMCs).

The dynamics of petrol pricing mechanism in India has many loopholes that have added burden to the consumers. Firstly, the price of petrol is determined by that set by oil companies in

Singapore. Adding charges of freight to that price, the rupee-dollar exchange rate is applied to arrive at the price to be sold in Indian market. But the startling fact is that India does not import any petrol from Singapore! Secondly, the price of petrol has no relevance to its cost. Thirdly, the fluctuations in day-to-day or hour-to-hour currency exchange rate in the international market have a huge impact on the nature of returns of OMCs.

It is interesting to note that Indian imports only crude oil and not petrol or diesel itself. Ideally, petrol ought to be priced based on the cost of import of import of crude oil, cost of refining into petrol and additional transport and marketing costs. Another point of curious interest is that most upward revisions of oil prices in India have coincided with downward price spiral in the international markets!

The flawed pricing mechanism has adverse impacts on the OMCs. They are as follows.

1) There is no scope for competitive pricing in the existing framework. Any increase or decrease of petrol prices has to be uniform across all 3 market players – IOC, BPCL, HPCL.
2) There has been steady growth in ‘under-recoveries’ - the difference between cost price of petrol and regulated price at which it is sold, after accounting for subsidy provided by the government. The total size of the under-recoveries in 2011 was INR 78,190 crores – a mammoth 1.07% of our GDP!
3) There is increasing debt burden as most of the under-recoveries are overcome by borrowings. This reduces scope for process development or expansion in the future.
4) Declining government revenues has caused the government to reduce subsidies and cash transfers, thereby increasing the losses faced by OMCs.

The government is faced with an outstanding subsidy bill of Rs 8,00,000 crore to OMCs over the next 5 years. The government has undertaken a slew of measures to curb consumption in order to reduce this figure. In this context, the debate about need and nature of government subsidies has created a storm. About half of the price paid by consumers per unit of petrol goes to the government in the form of taxes. Some economists believe that if this amount was kept to the minimum, the volume demanded would increase and result in greater sales. This would reduce the dependence of OMCs on subsidies. But the most logical solution seems to be to realign the pricing process in line with that of the international market. This would eliminate the impact of foreign exchange market fluctuations on profits of OMCs.

But a more appropriate questions would be – are fuel subsidies helping the citizens of India at large?

To answer that question, let me consider the following aspect of the impact of fuel subsidies.

1) It has resulted in mounting fiscal deficit. The subsidies and government share of under-recoveries has been denting the treasury. It will be sensible to continue providing such

subsidies only if revenues generated by the oil industry in the form of tax surpasses this amount.

2) The total amount of subsidies provided to the oil industry is much more than that spent by the government on the social sector – to improve health and education. What must be considered here is the opportunity cost of improving living conditions of the people.
3) While more than a quarter of Indian population lives below the poverty line with no access to fuel or electricity, a massive amount of money is spent to appease the needs of a relatively small section of the society – the upper middle and high class that own automobiles and use electricity to a large extent.
4) There is a growing threat of reduced interest in investment in cleaner energy sources. Subsidized fuels can increase consumption that has immense detrimental impact on the environment.

The decisions related to pricing and subsidies of the oil industry have close political ties. It has been observed that during the NDA regime, there were small rises in petrol prices over a large span of time. In the UPA regime, however, the jumps have been sudden and massive, burning a big hole in the pocket of consumers! Successive mismanagement of this sector and absence of reforms have resulted in disadvantaging the people.

The only way ahead is a three-pronged approach.

1) Change in price mechanism to allow domestic prices to be in sync with that of the international markets
2) Abolition of government price control
3) Systematic dismantling of government subsidy programs

The positive impact of such an action plan is wide in scope. It would make more public funds available for development purpose. It will make OMCs more competitive and efficient and enhance their capacity to grow and expand. Over all, the entire economy is put on a path of steady energy-driven progress steered towards the right direction.

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10.DIAMONDS ARE A GIRL'S BEST FRIEND – A CASE STUDY ON THE DIAMOND CUTTING INDUSTRY IN SURAT, INDIA

Introduction:

The Diamond Cutting capital of the world has always been Antwerp, Belgium. The colonial invaders had taken back with them several Indian labourers from Gujarat, and enhanced their art of diamond cutting. Over a period of time, these labourers became traders, and businessmen. Realizing that India was an emerging market, with low costs and high demand, many Indian businessmen started returning to India, armed with their expertise and market knowledge. And the real twist in the success story of Surat actually came in the 1970's when the Indian diamond dealers started importing low-quality gemstones, and exporting them to the U.S. after turning them into dazzling pieces with their unmatched skill. The primary reason the industry started flourishing, and still does till date, is because of a paradigm shift in the industry. The firms moved from polishing and cutting small industrial diamonds, onto the bigger, rough stones, which are used for jewelry, and bring in more revenue.
The city of Surat contributes to more than 80% of the Indian annual export amounting to Rs. 70,000 crore. Every 9 out of 10 diamonds seen in the plush stores in the big cities all over the world is cut and polished in India and 75% of all these diamonds owe their sheen to the Surat Diamond industry. Over 1.5 Million people are engaged in the diamond jewellery industry of Surat.

With respect to the case study, I decided to study the Asian Star Ltd. Asian Star Company was registered as a partnership firm in by the Shah family and Kothari family. The Promoters of the Company are the partners of the erstwhile firm, Asian Star Company and hail from North Gujarat. The company has processing facilities at Thala, Mandvi and Surat, which are all located in the district of Surat. These headquarters have been taken on a leave and license basis from associate firms/group companies. The Company's main activities are importing rough diamonds, cutting and polishing them and exporting of cut and polished diamonds. The Company is carrying out its processing activities from its facilities Mandvi and Gopipura in Surat & Thala (Chikhli) in Gujarat. It also gets work done on a job work basis from Contractors in Mumbai and Surat.

Methodology and findings:

Value chain of the Gems and Jewellery sector:

- Mining Processing Fabrication

The Diamond Cutting Industry is a small-scale industry in the context of the Indian Economy. Thus, this study is done keeping in mind the characteristics and features of a Small Scale Industry. The above figure demonstrates the value addition process of a diamond from extraction to selling it in the store. The diamond cutting industry is part of the Processing and Fabrication category.

The information for this study has been collected over a period of 45 days, through websites, newspaper articles, case studies, and AGM reports.

The findings of this study are concurrent with the features of a small scale industry. The following are some aspects covered in the study:

- The professional relationship shred between labour and management
- The labour intensive method of production
- Growth and trends for the industry
- Government support for the industry
- Its positive impact on the economy as a whole

Conclusion:

Despite competitive pricing by the Chinese diamond cutting industry, and reduced American demand, the Indian Diamond Cutting industry based in Surat is still the world leader in cut and polished stones. Although the threat looms large for mechanization and lower cost of production to cause China to overtake India, it will be decades before that can happen. Because the advantage India has over China is the rich tradition, history and culture, which heavily influence this industry and the way it works.

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11. RAPING THE ECONOMY…

If it were only in our country,

The lush green meadows or the sands sultry,

Yet being victims of exploitation every time,

Leave aside external wars, even internally, parties fighting for a dime.

With fights for want of a separate state,

Instead of love, people sharing hate,

With hopes in the economy of a higher growth rate,

But held back by obstacles of the growing corruption rate.

People suddenly, at once unite and raise their voice,

In issues, fighting for justice and to the govt. no choice,

But the spirits reach the peak and fade away,

Seems like the law of diminishing marginal utility paves way.

Like a pendulum, oscillating is the FDI,

If India gets a share or aims for the whole pie,

For the govt. takes ages to decide,

With way lot of scams under its sleeves, to hide.

With the economy transforming like loose sand,

That is fast slipping away from the ‘invisible hand’,

With the currency at its lows and the budget on its way,

With airlines in a mess and hope with a ray,

Finally, with a new economic thought,

The bureaucratic trap which has the economy caught,

There’s more to it than we see, a mirage, insignificant or mighty,

Because change is the only constant in reality.

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12.WHY STUDY ECONOMICS?

Economics may seem like a useless subject to study. ‘Why do we need a bunch of people to sit and tell us what to do, when we can decide for ourselves based on experience and intuition’ - this is a question that perhaps wanders in a non-economist head.

Let me tell you why.

In fact, let’s try to define economics first. Again, to a lay person, the word economics means the following – Demand, Supply, Money, Boring history of how and how much the country has developed.

Well, in a way, the above is true (don’t judge yet..) but that comes nowhere close to why economics came about in the first place or what exactly it stands for. In a nutshell, economics is a subject that reasons everything out, or to be more politically correct, it attempts to reason everything out. Let’s get to the ‘attempts’ bit a little later.

Let me try to explain the concept of economics through a simple example.

Let’s take an activity, something that doesn’t have much significance. Say, person X goes to the store to buy a packet of chips. This doesn’t involve much thinking, X takes some cash with him, knowing the price of the chips and goes to the market to buy it. End of story.

Or is it?

If you are not the run of the mill kind, the first question you should be asking is – why did person X need to buy chips? It could be for various reasons, he was hungry, he was bored, he wanted to try out the new bike he bought – it could be so many things. Now how does this matter?

It does - For a person producing chips, because he needs to know why people want to buy it. Though it is something edible, chips is not consumed to satisfy hunger alone.

So the chips producing person looks at the kind of market he is catering to and he produces it accordingly. Now based on so many people like person X who want something like chips, the chips maker needs to decide how much he needs to produce. For that he requires people to help him out in the process of production. So he employs people based on the number of packets he wishes to produce to meet the needs of the chips eaters. Now where does he find such people?

Either they come to him in need of a job or he looks for them, keeping a few things in mind, and in places he knows where he'll find them. Then he pays them for the work they do with the money he invests in his business and later on with what he earns from his returns. The worker gives this money to his family and his family in turn saves it, invests it or spends it.

An interesting twist to the story would be, what if the family member wanted to spend money on the same chips? What if that family member himself was person X?
If you're confused, calm down. This is not the end of the story.

What if person X went to the store, saw there was no chips and decided to buy nuts instead?

This is what economics is all about, not how the chips factory runs or why the boy goes to the market, but about the way things work. Everything in the world is interrelated; every small action has a major consequence, without you realizing it. Thus, this makes the world a mystery, a very confusing place. Economics gives clarity to everything by explaining what happens and how it can make things easy for you to understand. It could be put this way too, it has made things so easy to get, that we all follow a system of functioning without an iota of doubt. Only crazy people unnecessarily delve too deep into things, thus all economists are quite eccentric. It cultivates this sense of deep understanding that can be used in any field, any place and at any point of time in your life.

Coming back to the example, the process of the subject starts with questioning and in order to look for an answer it bases itself on certain assumptions because in order to find an answer to an unanswered question you need to give structure to your thoughts. To maintain this structure a study needs assumptions, otherwise there wouldn't be a point in me telling you the chips story. Which is why, economics 'attempt' to reason everything out. It is an effort that has been taken by thinkers to make the world a more orderly place to live in. It opens areas for discussion, for example it would have been someone's idea to decide that people need to be paid for their work. An economist's work doesn't stop there. In fact, it begins there. It is his job to creatively use the idea, combine his analytical ability and solve the problem. Each person will have different solutions to it, what is followed is what is generally accepted by all. This is why economic theories are open to criticisms. Economics teaches you how to analyze by being creative.

Look around you. Think of the world you are living in, analyze the way things function, at an individual level, national level and international level. You will realize that it takes a lot of effort to build this structure. This is possible only through proper study of ideas, which is what economics actually is. Sadly, this structure is invisible and therefore cannot be visible to the naked eye. That’s why people don’t realize the value of this subject. Once you do that, you’ll figure that in a way, the world was built by economists too.

So the question is not ‘why study economics’, it’s why not!

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13. FEDERALISM AND ECONOMICS

Configuration of the United States of America can be traced down to Benjamin Franklin’s proposal of an inter-colonial collaboration to help solve mutual local problems themselves; this took shape in the Articles of Confederation, which served as the first constitution to the thirteen founding states who ratified it in 1777. Drafted by the Continental Congress it comprised of several gaps, for instance, the federal government had neither had an executive or judicial branch nor any taxing authority. Thus, it wouldn’t come of any surprise that United States was effectively bankrupt, defaulting on most of its debt incurred during the Revolutionary War and was unable to meet its defence expenditures. To add to this they had no banking system, regularly functioning securities markets, or national currency.

On March 4, 1789, the Articles were replaced with the U.S. Constitution, providing for a much stronger national government with a chief executive (the president), courts, and taxing powers. Subsequently Alexander Hamilton was confirmed the first secretary of Treasury and began to propose a series of institutional innovations based on the secretary’s study of British and Dutch financial institutions. The first blueprints was delivered in the form of the Report on Public Credit to Congress in January 1790 which included the establishment of the Bank of the United States, the mint, securities markets and the assumption of state debts by the federal government. A The lines that divide power between the national government and the states have always been blurry, and in practice the balance of powers between the two levels of government is constantly in flux. At the same time, certain periods of federalism can be identified, and are often associated with certain metaphors:

- **Dual federalism**, also known as "layer cake federalism" involves clearly enumerated powers between the national and state governments where the Federal role is limited to the "enumerated" powers prescribed in Constitution. Each sphere is mutually equal, exclusive, limiting upon the other, and each entity is supreme within its own sphere. This relationship predominated from the 1790s to 1930.

- **Cooperative federalism**, also known as "marble cake federalism," Federal powers expanded to deal with the aftermath of Great Depression, it involved the national and state governments sharing functions and collaborating on major national priorities. This relationship predominated between 1930 and 1960. President Roosevelt's federally supported New Deal programs concerning social security, job welfare, infrastructure development, etc. helmed this period.

- **Creative federalism**, also known as "picket fence federalism," predominated during the period of 1960 to 1980. This relationship was characterized by overloaded cooperation and crosscutting regulations. Federal role expanded to deal directly with local governments through provision of categorical grants (grants-in-aid) bypassing the states e.g. Lyndon Johnson's Great Society programs

- **New federalism**, "pineapple upside down cake" (frosting on the top) wherein federal government deals directly with local governments, but state and local governments have greater degree of discretion and increased difficulty of states to fulfill their new mandates (Competitive federalism). Federal decision on policies curtailed by converting categorical grants to block grants (general, fairly open-ended grants) where states and local governments have more discretionary power to use the funds. This period began in 1981 and continues to the present. President Obama's Race To The Top grant (RTTT) for education is an example of this, to attain which states need to compete with each other.

USA and India:

Among the largest democratic countries in the world, both United States and India are based on federalism in their political structure. Whereby both countries attained dominion status in which a number of smaller states had got affiliated forming a union with a strong central government that came to be called as Federal Government in the US and Central Government in India, thus becoming Federal Republiccs

Similarities:

Written constitution: Both US and India have a written constitution based on which the federal political structure has been set up and both federal governments are functioning. Both constitutions have provisions for amending the constitution to meet the growing socio, political and economic needs and demands of their respective countries.

Bill of Rights and Fundamental Rights: The US constitution has ensured the fundamental rights of its citizens, e.g. right to equality, freedom, right against exploitation, etc. through ‘The Bill of Rights’ through first ten amendments. The Indian constitution has guaranteed the fundamental rights of the people through articles 14 to 34 in Part III.

Supremacy of the Federal or Union Government: Both countries have federal governments at the centre in which various states have acceded to. In US 50 states have joined the federal government and in India, 29 states and 8 Union territories have acceded to it. Both in US and India, the law enacted by the Federal or Union Government will have overriding effect over the law enacted by the states on the same subject. Thus, Federal or Union Government is supreme in the present federal structure.

Division of Labor and Separation of Powers: Adhering to Montesquieu's theory of division of labour and separation of powers, both have three basic divisions -executive governs the country, the legislature enacts laws and the judiciary administers justice with clear cut ‘Separation of Powers’. President of US is the chief executive head of US, whereas the Union cabinet headed by the Prime Minister is the real chief executive body in India. Both US and India have a bicameral legislature. US legislature has an upper and lower house known as the House of Senate and the House of Representatives respectively and the Indian Parliament has Lok Sabha and Rajya Sabha as its Lower and Upper house respectively. Both have the Supreme Court or the Federal Court as the apex court and a number of other courts in various states to administer original and appellate jurisdictions.

Powers of Checks and Balances: Though there exists a clear cut division of labour in order to prevent unwieldy growth of any one of these three divisions. Each division of power is somehow or other checked and controlled by other divisions of power. Just as there is the union, concurrent and the state lists specifying the legislative powers in India, there are the granted, concurrent and reserved powers respectively in the US.

Differences:

Type of federalism: The Indian federation is an example of 'Indestructible Union with Destructible states.' It means that the Union shall remain intact but the physical existence of states or units can be modified. Accordingly, Article 3 provides that the Parliament may by law form new states by separating or uniting the territory of existing states, increase or diminish the area of any state, and alter the name and boundary of any state. On the other hand, the American federalism is characterized as 'Indestructible Union of Indestructible States'. Countries like USA are supposed to be examples of “coming together” federalism while India is supposed to be an example of “holding together” federalism.

Constitutional amendments: The constitution of US is very brief and rigid running into only a few pages, whereas the constitution of India is very voluminous containing as many as XXII parts, 395 articles and ten schedules. Since the US constitution is very rigid, the provisions meant for amending the constitution are also very rigid and more formal. The last amendment carried out in the US constitution was in the year 1992. The Indian constitution, which came into force in the year 1950, has however been amended 94 times so far.

Imbalance: Unlike the federations of United States in India, the vertical imbalance (between the centre and states) is more acute as the taxation powers of the Union are overwhelming compared to those of States. However, USA is more prone to horizontal imbalance (among different states) given its federal setup.

Constitutions: Though there is a Federal Constitution in the United States, all states have their own constitutions to regulate their own governance. India- all the states affiliated with the Indian Union owe their allegiance only to the Indian constitution and do not have their own constitution; however, each state is empowered to enact its own laws.

Parliamentary Representation: In US the states or units have equal representation of two members in the second House of Parliament. But, in India, the representation of states depends on their population. The state of Uttar Pradesh has 31 seats, whereas many states like Nagaland, Manipur, Tripura etc. have only one seat in the Council of States.

Citizenship: Unlike the American federation, the Indian Constitution provides for a single citizenship. For instance, Arnold Schwarzenegger, former governor of California (USA), an Austrian by birth held dual citizenship in both the nations whereas Sonia Gandhi, President of the Indian National Congress, had to give up her Italian citizenship to attain a conditional Indian citizenship

Political Set-up: In the US, the President is the head of the state and so his government is invariably mentioned as the Presidential form of government; In India, the President is only a nominal head whereas the Prime Minister and his cabinet is the defacto or popular sovereign in whom the real power exists (Parliamentary form of Government). US follows a bi-party system, where the President holds power for a period of 4 years, for at most 2 terms. However, India has a multi-party system, Prime Minister holds power for 5 years as long as his political party enjoys majority in the Lok Sabha, and there are no restriction on tenure (e.g. Nehru was the PM for 17 years).

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10/UECA/058
III BA

14.CHANGE IN INDIA

India, the seventh largest country in the world with over 1.2 billion people, stands as the second most populous country. But what makes India stand out the most is its secularity and culture.

For a country that fought for its freedom a little over 60 years ago, it has accomplished a great deal.

In order for India to fully develop, empowerment of women, reduction of corruption and upliftment of the poor are a few basic changes that need to be made.

More than 75% of the people in India live in poverty. Poverty is due to high levels of illiteracy, the two co-relating factors fall into a vicious circle and those who fall in it never come out. In India the only state that has managed to have a 100% literacy rate is Kerala, thus enjoying a life expectancy rate of 72 years and a sex ratio of more females than males.

But sadly, Kerala is only one of 28 states, most of which suffer a very visible imbalance.

Women are treated as a second fiddle to men in India. It seems unrealistic that after so much of development we still live in a '*purdah economy*.' Being a free country women still look for freedom. Women in India are finally pushing their way into walks of life that were once a man's domain. Women are exploited in every aspect with growing recognition and a change is yet unseen. Women need to be educated in order for families to be educated. Women need to be respected, as every man has a woman in his life, either as a mother, a sister, a daughter, a wife or a friend. And education is the first step to improvement.

Finally we look at corruption, a vast field by itself. Corruption which was once only a small phenomenon has now turned into an epidemic. Corruption has infiltrated all the sectors- the small and large. A true Indian knows, nothing ever gets done within India without the help of corruption, so how does one stop it. It's time for the youth to step it up and abolish the flaws in order to help make a better India.

As Gandhi once said, "You must be the change you want to see in the world."

Kavya Joseph
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15. FDI IN THE INDIAN RETAIL SECTOR

Foreign Direct Investment - FDI is a topic that has been generating much debate in the present day Indian society with many opposing it while others support it. At times, the debate has sparked outlandish claims and counterclaims. In this article of mine, I shall attempt to make a case for allowing and encouraging FDI in India. Many people feel that once foreign MNCs like Costco, Target, Walmart etc enter into the Indian retail sector Kirana stores, local petty shops, mom-and-pop stores and road side vendors will be driven out of business, thus all those involved being rendered unemployed.

In my view the above argument used to oppose FDI in the Indian retail sector does not hold water. The current retail sector in India is one of the biggest in the world and is dominated by small enterprises offering items of limited choice often of mediocre or even lesser quality. The price structure is also not necessarily the best as this is dependent on the upstream distribution network which is, controlled by middle men of questionable integrity and is subject to an opaque pricing structure and inefficient delivery system. As an example, consider the sourcing, distribution and delivery of edible goods from the producers to the final consumers. Currently the cold chain system required for hygienic and safe storage and transport is practically nonexistent, thus resulting in major wastages at each point in the distribution system. The excuse given in not setting up the necessary infrastructure is that it is too expensive. Also the attitude of the largely uneducated middle men is an order hindrance.

Further the ability to move large volumes from place to place requires the already demonstrated capabilities of the established foreign MNCs in the area of logistics. By efficient sourcing and distribution of products and services in a standardized format with a transparent pricing mechanism will be possible only with the entrance of large established players, especially through FDI in retail.

Secondly, FDI is itself an employment generator. The stores themselves will provide ample opportunities for employment at various levels, depending on the skills and/or education. Additionally these new stores can be encouraged to source some of their products and/or services from local small scale players, whose livelihood can thus be protected. With the entry of established players in the retail sector, one can expect more transparency in the accounting methods employed, thus considerably reducing the well known tax evasion techniques now predominant in this sector

To conclude, I believe allowing FDI in the retail sector in India will result in an increased choice of products and/or services to the Indian consumers at a more favorable price and the same will be available in a world class standardized settings. The employment opportunities will increase and more revenue will flow into the National Exchequer which can be used for the benefit of our country.

Sharanya Epur
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16. A STEP FOR THE FUTURE

The Public Distribution System (PDS) was started in India as early as the 1930s, as a prominent food security system. It is a system of managing scarcity and for the distribution of food grains at subsidised prices to the lower sections of society.

However, economists and models adopted in other countries are of the view that there is now a need for cash transfers rather than distributing benefits such as food and fuel in kind. It is argued that cash transfers will be less exposed to corruption and discrimination. In the past, this choice was never adopted as majority of India's poor did not possess suitable identification or bank accounts.

This is being overcome by the Unique Identity (UID) project, launched and executed by Nandan Nilekani, a former IT tycoon. The aim of this project is to get all Indians biometrically identified which will then serve as a single source of identity verification and a system for cash transfers.

With these major hurdles being overcome, the Manmohan Singh government now has to devise ways to transfer cash to people as a means of welfare; which will not only recast the foundation for welfare schemes in India, but also may make people more socially useful. This may include features such as building a strong government medical and education system. It would encourage people to opt for educating their children over adding them to the already unemployed workforce.

This scheme too has its share of criticisms, the most challenging of which is the point that the beneficiaries may use the additional income for alternative purposes other than food and fuel. However, studies have shown that people tend to benefit more from the cash transfers as they have access to a higher quality of food. This also includes the possibility that the distribution centres will not fall prey to the practices of adulteration due to the competition posed by other dealers.

This system will help to curtail corruption which is extensive in this sector and at the same time help the Government in maintaining its stronghold over the vote banks, with the elections due in 2014.

Anjali Adlakha
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17. TASMAC, A REAL PROFIT TO TN?

TASMAC is the liquor shops opened by the government of Tamil Nadu which sells Indian made Foreign Liquor at cheaper rates to the public. There are a lot of problems to the society because of the TASMAC shops. The TASMAC shops have no restrictions with their working hours and are located near bus stops, schools, parks, hospitals, etc. It is a matter of safety to people if it is open throughout the day in such public places. It is also a negative externality to the society and the economy.

TASMAC shops was first started by the former chief minister but now it is expanded and promoted by the present government as it yields more profit to the state. Since liquor is sold at low prices the quality is a real question and it is the poor who consumes more. The TASMAC shops may contribute more to the state income but it is only in the short run, but in the long run it will affect the health of the labourers which has an impact on their efficiency, which in fact will bring down the productivity and low productivity will lead to a reduced production in almost all sectors in the state. This will also affect the poor families because they will have to spend most of their income on the health as liquor affects the health.

TASMAC is a real threat to the society. It is located in inappropriate places. It is prone to many road accidents, disputes, insecurity to people around and it also increases the violence against women. The government should restrict the working hours and the amount of quantity sold in order to increase the efficiency of the labourers. The government should take steps to reduce the number of TASMAC in order to reduce the consumption of the alcohol.

Nivetha Srinivasan
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18. AMARTYA SEN'S ECONOMICS

Amartya Sen is the first Indian to be awarded with Nobel Prize in Economics. He was honoured in 1998 for his contributions to welfare Economics.
Welfare Economics is that branch of Economics which uses micro-economic techniques to evaluate economic well-being, especially relative to competitive general equilibrium with an economy as to economic efficiency and the resulting income distribution associated within. It analyses social welfare in terms of economic activities of the individuals composing the society considered.

Amartya Sen, in his work, has covered almost all of Welfare Economics. He indicated how improper distribution of income takes place and how it impacts the poor of the country and how, even though it is an indicator of economic development, doesn't really have a positive impact on the poor, which should be the target of any developing country.
He did a special study on famines. He said how lack in purchasing power is the actual cause of famines which ends up in the distribution of food articles even to the rich people. He asked the government to focus on the purchasing power of the poor.
He also mentioned that Globalization shouldn't prevail in a developing country because it tends to focus more on other issues than on its essential concerns like education.

The major contribution of Sen to Welfare Economics is the Poverty Index in which he uses the Gini's coefficient -
P=H [I + (1-I) G] where,
G: Gini's coefficient
I: A measure of the distribution of income for people Below Poverty Line
H: Share of population
P: Poverty

Overall, Amartya Sen's contribution to Economics is huge. He has changed the definition of Welfare Economics. For him, welfare is the contentedness that people of the country have. We, as Indians, and as Economists are proud of him.
His books, 'The Argumentative Indians', 'Development as Freedom' and 'Rationality and Freedom' and 'Identity and Violence' give a unique and different perspective of various issues.

Ritika Sahay
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19.ECONOMIC GROWTH IN INDIA

Indian economy is said to grow at a slow pace of 6.1% this year even as exports and capital investments are increasing compared to 2012 according to the United Nations. The UN has trimmed its growth forecast from 7.2 % as estimated in June 2012. However, the forecast of growth this year is 6.1% which is much better than the expansion of 5.5% seen in the last year.

GDP growth in India will accelerate to 6.1% in 2013 and 6.5% in 2014 respectively due to stronger growth of the exports and capital investments. Investment demand is expected to respond to a more accommodative monetary policy stance and get slightly improved.

UN ESCAP (ECONOMIC AND SOCIAL COMISSION FOR ASIA AND THE PACIFIC) said that India has huge growth potential in the long term. India and China are playing a major role in the growth of the economy. The slowdown in growth to 5.5% last year reflected weaker consumption and investment demand as a result of persistent inflation, high nominal interest rates, large fiscal deficits and political gridlock.

These factors would likely continue to impact economic growth in the next two years even as a moderate recovery is expected. According to the UN, India's annual growth declined from over 9% in 2010 to about 5.5% last year, the slowest pace in ten years. Regarding measures to curtail inflation in the country, Nagesh Kumar said monetary tightening would not be the right tool. He also expressed optimism that the Reserve Bank of India would ease its policy. Wholesale price inflation (WPI) touched a three year low of 7.18 % in December but retail inflation continued to remain in double digit at 10.56%.

Further WPI inflation was much above the central banks comfort level of 4-5%. The inflation has not declined to the expected levels despite tight monetary stance pursued by the RBI to check price rise. The economic growth in south Asia fell to its lowest in 10 years in 2012.

After growing by 5.8% in 2011, South Asia's gross domestic product expanded only by 4.4% in 2012. Going forward, economic growth in the region is projected to accelerate to 5% in 2013 and 5.7% in 2014 led by a gradual recovery in India. Indian economy accounts for almost three quarter of south Asia's overall GDP.

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20. POPULATION IN INDIA

Based on World Fact book, the population of India has grown for over one billion and despite they have the highest crop yields in the world, most of their people still experienced food shortages. The volume of rice and wheat they produced is not sufficient to sustain the food requirements of their population. As a result of this dilemma, significant numbers of Indian population were not able to meet even their basic biological needs as they continue to increase uncontrollably. Based on recent researches, many of their population particularly the children below five years old are malnourished and most of them have no access to clean and drinkable water (Bhat, "Overpopulation in India"). Overall, significant population of India is below poverty line and their condition continues to worsen. This paper aims to explore on the issue of overpopulation in India including food shortages.

Generally, the ratio between the population of India and their food production has been the main problem. Each year, their growth population is tremendously increasing and their government has no clear solution so far on how to resolve the dilemma. Right now, Indian government is pointing on some contributory factors such as their depleting environment.

For the previous decades, Indian government even imposed some coercive measures such as by forcing vasectomies to their male population and encouraging women to use injection birth control. However, all these measures seem not effective knowing the fact that high birth rates are prevalent because most families wanted to ensure they can create a labor pool in their family. For some, they don't intentionally adopt birth control because it is against their religious belief (Gaia, "Population Dynamic of India"). Indeed, most people interpreted these coercive measures as draconian laws with the main purpose of just achieving results even to the point that human rights and usefulness are compromised. This time, it is the primary role of government to educate people about birth control and assist their population to appreciate other methods being offered to people. It is necessary for every citizen to be involved in pursuing the promise of change and not just to stay being a source of problem. Right now, the government needs to provide financial support for the people considering that millions of their population are eager to follow birth controls but don't have enough money to buy contraceptives. On the other hand, significant numbers of their people don't have knowledge about the methods in controlling birth so it is difficult to count their participation. For the current strategy of their government, they want to ensure participation of people in solving the problems in their nation. Some of their states including Karnataka, Kerala, and Tamil Nadu already expound most of their media campaigns instilling to people the benefits of having a small family. It is part of their main objectives to improve problems in food supply and lower the population to a more manageable status.

Currently, one of the serious problems in India is their capabilities to produce sufficient food. Their population is continuously increasing and their food requirement steadily elevating to the point that the entire nation even outstripped the supply. India is next to China in terms of population and experts foresee that in the near future they will be the largest population in the world. So far, India is importing some of their food supply; however, they believed that these initiatives are just temporary since no country can continually supply food for their more than a billion populations This time, some resist with the idea that there is a population explosion in India. In addressing the population issue of India, education and economy of their nation play a significant role since based on statistics their urban poor constitute mostly to overpopulation. It is among the urban poor where larger families can be found, whereas the number of children outweighs the sources of family income resulting for most minors being forced to work at earlier age.

On the other hand, some families dwell on their old principles that it would be better for them to have many children since they consider their children as source of family security especially in later years. In the culture of Indians, female children are still less desirable in a family whereas even sending them in good school has no benefit. Most families consider their female children as burden while their male children as with greater importance. Throughout the years, India is seeking for support coming from well-educated individuals claiming that these people could further enhance their economic growth, productivity, and better manage the ongoing dilemma in their place. Overall, India needs to give greater emphasis on the supply of food while thinking for the most appropriate methods on how to lower the population. Despite all the pressures, India should not compromise the rights of their people and give focus on how they could further improve the environment.

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21.DISADVANTAGES OF FDI

Let me start off with a very interesting coincidence. The very same day, Dr. Manmohan Singh opened India wide for FDI and assured us that there will be more job opportunities, there was an article in Atlantic cities, a web based magazine, which talked about how Walmart displaces nearby small businesses. Also, we are very familiar with the recent uproar in the USA against Walmart. If we pause a moment to think, we will understand the folly behind FDI.

The USA, largest economy in the world, is facing the problem of lack of employment opportunities. It would not take a person with extraordinary thinking to figure out how this would impact India, a developing economy.

The Economic Development Quarterly study found the closure rate around Walmart location at 35-60 per cent. Walmart radiated closure of 20 per cent of drug stores every mile from its stores; and 15 per cent home furnishing, 18 per cent hardware and 25 per cent toy stores.

The next question is logically- how then did the government of India promise us that the small shops would not be affected? On job creation, a latest report (January 2010) titled ‘Walmart’s Economic Footprint’ prepared for the New York City Public Advocate says that Walmart kills three local jobs for every two it creates.

It is imperative once again to remember that this is the state of a developed economy. It will be needless to imagine the effects on India. So, the popular argument of job creation is a lie.

The next popular argument is that of fair prices for the farmers. Again, I would like to consider USA as an example and point out how that is a lie too. More often than not, Walmart buys its produce from the farmers in a futures market. This is a market where the commodity prices are decided before the harvest. The farmers also give in to this, as they are afraid to take the risk of loss.

If the farmers do get fair prices, why would the US, with two per cent farming population, grant annual farming subsidies of $20 billion? Does it not prove how much FDI is affecting a mere 2% farming population? Imagine India, a country where almost more than half of the population id dependent on farming as their only source of livelihood.

Another major threat to the Indian shops would be Chinese competition. If cheap Chinese goods are allowed to enter India, then the local market will collapse. The local players will definitely loose against the cheap goods imported from China.

FDI will lead to exploitation of natural resources in India. Weak environmental laws handicap most developing countries like India. These loopholes will be advantageous to the various foreign players who will gain maximum benefits.

Also, the benefits of from superior technological innovations by the foreign players will not be passed on to India. Why? The answer is, it will erode their competitive advantage. After all, they are here with an aim to make money and not develop or equip the host country.

Once the initial investment starts to turn profitable, the capital returns will be routed back to their home country.

Thus, FDI is like this leech, which will feed on India but will never help in its progress as an economy.

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22.GEARS AND LEVERS OF THE ECONOMY

Growth and development are the two terms much associated with the word ‘Economy’. It is very important for any economy to reach the portals of success through growth and development. But this quantitative and qualitative progress is made possible only with the help of two amenities- Health and Education.

Health, according to WHO, is a state of complete physical, mental and social wellbeing and not merely the absence of disease and infirmity. It’s well said that ‘Health is wealth’. Health is very important as it enables people to live their life happily. A wealthy person without good health is never a happy person. Health is not only concerned with mere existence but with the quality of existence. Mere survival is not that triggers off the development process but an efficient living. A healthy person when equipped with skills can do wonders. Health is one of the major requirements for people to take up some kind of activity in their life. And those healthy activities that they take up will definitely lead the economy to success. Every plan laid down has targets to reduce Infant Mortality Rate (IMR), Maternal Mortality Rate (MMR), etc… We have also been able to achieve few targets. Some of the schemes implemented are –The National Rural Health Mission (NRHM), Janani Suraksha Yojana, Pradhan Manthri Swasthya Suraksha Yojana (PMSSY), National Aids Control Programme, etc.

Education is central to one’s ability to respond to the opportunities that develop. This basically enables people to have bright future thereby contributing to the development of the economy. Government should adopt the three pronged attack to boost the level and reach of education among our public. Firstly, planning and strategizing What to do, How to do and When to do? Secondly, effective implementation of the plans and thirdly, evaluating the effectiveness and efficiency of the same. We have been quite successful in schools, colleges, etc. but not of the top quality. It may be due to the lack of infrastructural facilities, insufficient well-qualified staff etc. Along with education, skills can also be imparted, enabling them to take up productive activities soon after their schooling. This boosts their working experience too.

The problem that India faces right now is of the brain-drain. This needs to be checked by providing the qualified with attractive salary or benefit packages. Some policy implementations towards the sphere of education are-free and compulsory education till 14 years of age, Sarva Shiksha Abhiyan, Mid-Day Meal Scheme, The Kasturba Gandhi Balika Vidyalaya etc…

When there is a healthy and skilled population, there will be the innovation of jobs rather than only creation of jobs. In spite of this, there is massive unemployment that hinders our growth. This can be tackled through the effective implementation of employment programmes - NREGA, IRDP, encouraging Small Scale Industries, adopting labour- intensive technology wherever possible, etc.

The government spending on these amenities must not be seen as expenditure but as a quality investment. It is for the good of the individual in the short run but also for the economy in the long run. Our policy makers with continuous and constant efforts are trying their level best to put India on the road to success through faster, inclusive growth and development process.

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23.KNOW A LAUREATE – LEONTIEF

Wassily Wassilyovich Leontief was a Russian-American economist. He was born on 5th August 1905 in Munich, Germany to Wassily.W.Leontief, a professor of Economics and Slata Leontief. He spent his childhood and youth in St.Petersburg (Leningrad). He got into University of Leningrad at 15, studied Philosophy, Sociology and Economics and was awarded Learned Economist Degree at 19 in 1925. He further studied in University of Berlin and earned Ph.D. in Economics in 1928, for his paper on ‘Circular Flows in Economics.’

Leontief started his professional journey as a staff in Institute of World Economics at the Kiel. He served there from 1927-1930, during which he engaged himself in the research activities relating to the derivation of Statistical Demand and Supply Curves. In 1931, he moved to the US to work in National Bureau of Economic Research. 1932 was the year in which Leontief joined the Department of Economics at Harvard University. Later in 1946, he became a professor at the same and developed his ‘Input-Output’ Theory. According to his theory, an input into a particular sector produced an output that might be input for another sector. The ‘Input-Output’ table allows one to estimate the change in demand for input in a sector depending on the change in final product of another sector.

In the same year (1932) he married Estelle Marks, a poet. They were blessed with Svetlana Leontief Alpers in 1936. She is an art historian, artist and a critic. Leontief had launched The Harvard Economic Research Project in 1948 and held the position of its director till 1973. From 1965, he was also the Chairman of Harvard Society of Fellows. In 1973, Leontief was awarded with Nobel Prize for the ‘Input-Output Theory of Capital’. He was also known for the use of computers at a time when most studies relied on theoretical suppositions.

After 44 years of service in Harvard University, he joined New York University. Here, he founded and directed the Institute for Economic Analysis. Leontief had presented various papers throughout his service at various institutes. Few of his publications are - Structure of American Economy (1919-29, 1941); Input-Output Economics (1966); Essays in Economics (1966); Future of World Economics (1977) etc. Leontief was honored with various awards for his tremendous contributions to the field of Economics. Few of the recognitions are- Nobel Prize in Economic Sciences, 1973; Award of excellence, the International Centre, New York; Harry Edmonds Award for lifetime achievement, International House, New York, 1995… Honored with Doctor Honoris Causa by –University of Brussels, 1962; University of Louvain, 1971; University of Paris, 1972; University of Pennsylvania, 1976.

Leontief took his last breath on February 5, 1999 in New York. He was 93 years old when he rested in eternal peace. In his honour, The Global Development and Environment Institute at Tufts University awards 'The Leontief Prize' in Economics every year.

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24.WOMEN AND ECONOMY

Empowerment means moving from a position of enforced powerlessness to one of power. Women are still considered to be the passive recipients of the government beneficiaries and not active paricipants in the development process. This very wrong notion has led to the deprovement of women as a whole eventhough some women have been able to acheive a respectable positions in the society.

Women must be empowered socially,economically and politically. Socially, making them the decision makers and economically, making women productive agents by giving them education, skill and work opportunities. Politically, exposing them to legal and human rights and also giving them opportunities to enter the main stream politics.

Government of India, had declared the year 2001 as the year of Women's Empowerment. Major issues such as adverse child sex ratio, high infant mortality rate, maternal mortality rate, gender gaps in literacy etc... are being addressed.Some initiatives are Swayam Siddha,Nutrition Programme for Adolscent Girls, Dowry Prohibition Act,Immoral Traffic Pevention Act, National Commission for Women, Integrated Women's Empowerment programme through SHG's.

These policies have been implemented but the supervision and follow-up has not been done. This again rises doubts on the effectiveness and efficiency of these schemes. The crimes against women like rape, molestation, harrassement have been on a rise since the last decade. The shocking reports have made a mark on every women's heart.The recent atrocities against women shows us that the basic moral and value education needs to be imparted to the elderly as well as the budding generation.

In a country where goddesses are being worshipped, such indecent behaviour against women brings shame on the country's rich culture and heritage.Only solution is the active participation of both public and government authorities hand in hand.If the legislations are amended and enforced strictly, some kind of breakthrough in the attitude towards women will definitely give power courage to the womenfolk to dream, work and fullfill their desires.

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25.INFLATION: A ROAD BLOCK IN THE INDIAN GROWTH STORY?

Being a person living away from my family, I have to take care of all my financial matters on my own. This includes everything from payment of hostel rent to purchase of movie tickets. It doesn't take me the perspective of a student of economics to realize that my expenditures have been increasing continually over the past year. Every month, I find myself spending a little more money than I did in the previous month, whether it is for food or for transport. However, the above mentioned perspective does come into use when I consider the implications of this gradual increase. On one hand, I know that the economy is experiencing high rates of inflation, and increase in my expenditure is a natural consequence of this. On the other hand, it makes me wonder, are prices going to climb upwards forever?

Let's be clear with one fact. Inflation is not a bad thing. Most economists favour a low and steady rate of inflation because it boosts production and keeps the economy going. It is only when inflation rates are too high that they become a major concern. For example, from 2000 to 2007, the average Consumer Price Index (CPI) inflation rate in India ranged between 3% -6%, whereas it rose sharply to 8.32% in 2008, following the global recession. This was a result of the economic stimulus packages implemented by the govt. and the Reserve Bank of India (RBI) in order to reduce the liquidity stress and to ensure the normal functioning of the domestic money and credit markets. The inflation rate reached a peak of 12.11% in 2010, following which it declined to 8.87% in 2011. This decline was caused by the tight monetary policy stance of the RBI during 2011. It is obvious now that monetary policy is the primary tool for controlling inflation. Since inflation occurs when the growth in money supply is greater than the rate of economic growth, the central bank manages inflation by reducing money supply when it is high and expanding the same when it is low. This is achieved through instruments such as the repo rate and the cash reserve ratio.

At present, WPI inflation rules high at 7.24% (November 2012), continuing to be a major concern for the RBI, which persists with the strict monetary stance. This policy of the central bank may seem good and well to the common man, whose primary concern is the inflow and outflow of money through his wallet. But once we take a look at the big picture, another concern comes into view; namely, economic growth.

Economic growth is defined as the increase in the amount of goods and services produced over a period of time. It is of utmost importance in the sense that it is the ultimate aim which all economic activities strive to achieve. We know that India is one of the fastest growing economies in the world. It has recorded a growth of over 200 times in per capita income in a period from 1947 to 2011, and the highest growth rates were recorded in the mid-2000s. However, the growth rate of the Gross Domestic Product (GDP) has been declining steadily over the past few years. The real GDP growth came down from 10.09% in 2010 to 6.84% in 2011. The growth rate for the fiscal year 2012-13 is estimated to be 5.8% by the RBI. Both economic policy planners and stakeholders such as industrialists have not hesitated to blame high interest rates of the Reserve bank for causing declined growth. And this is where the growth-inflation dynamics comes in.

In order to stimulate growth, it is essential to expand the money supply through reduced interest rates, which will lead to increased investments. But as already mentioned, an excessive increase in money supply will inevitably lead to higher rates of inflation. Hence in short, a trade-off exists between growth and inflation, i.e. one can be attained only at the expense of the other. As far as the common man is concerned, it is a matter of paying higher prices today in order to earn a higher income tomorrow, assuming that the benefits of economic growth at the macro level will trickle down to him. But when it comes to the RBI, it is a dilemma of choosing between price stability and economic growth. The eminent American economist Joseph Stiglitz was recently quoted as saying, '8 per cent inflation is normal in a developing country…. In a trade-off between growth and moderate inflation, I would plump for growth.' It seems that the patrons of the Indian economy are echoing similar words over and over again. But the Reserve bank has not paid any heed to their wishes until date, and has kept the key rates unchanged in the latest monetary policy review. Although the CRR cut by 25 basis points in the mid-quarter monetary policy review released Rs. 17500 crore into the banking system, it is negligible compared to the growth motivating measures undertaken by the govt. Lately, such as liberalisation of foreign direct investment in retail, insurance and pension funds, bold reduction of the petroleum subsidy and a decision to reduce the fiscal deficit. So as of now, the RBI refuses to budge even under government pressure, and the Finance minister seems to be on a mission to single-handedly raise the growth rate.

Now the question is , which is the correct policy? High growth or low inflation? In order to find an answer to this, we have to take into account the various factors which affect and are affected by the above mentioned variables, apart from money supply. For instance, we have to consider the demand side and supply side factors when it comes to managing inflation. Since the demand side comprises mainly of consumption expenditure, the interest rate hikes implemented by the Reserve bank can be successful in controlling inflation only if they result in reduced consumption. This does not always happen due to two reasons:

1) Hikes in repo rate and reverse repo rates result in corresponding changes in the lending rates of commercial banks only after a time lag.
2) A rise in interest rate will not reduce the demand for income-inelastic goods like food and fuel.

Inflation can also occur due to shortage in the supply of essential commodities. For instance, there has been a major decrease in food crop acreage. This has naturally led to lower agricultural produce, which in turn results not only in higher prices of food grains, but also of fodder for livestock, meat, milk and eggs. Capacity constraints in the form of lack of storage facilities have also led to high inflation.

Apart from the burden that high inflation poses on the common man, it also affects the value of the rupee adversely. An increase in the domestic price levels leads to increase in imports resulting in devaluation of the domestic currency and reduction of foreign exchange reserves. This is what is currently happening in India, with the current account having a regular deficit since mid-2005, a fall in forex reserves by 7% from its peak at $320 billion in October 2011, and a fall in the value of rupee to its lifetime low of 57.3 against the dollar. Moreover, the depletion of forex reserves has limited the central bank's capability to intervene in the foreign exchange market to control the rupee volatility.

Between January 2010 and October 2011, the Reserve Bank cumulatively raised the cash reserve ratio by 100 basis points and the policy rate (repo rate) 13 times by 375 basis points. Despite those hikes, and elevated rates till now, the Wholesale Price Index (WPI) inflation is still above the medium term inflation target of 4-5 per cent. Hence, it is to be seriously doubted whether hikes in the key policy rates have any significant effects on inflation. It looks like the RBI is fighting a losing battle here.

During the same period, growth slumped from 8-9 per cent to 5-6 per cent. Though the slowdown has been blamed on high rates of interests, there are other aspects which also need to be considered. If we take a look at the past decade, for a period of 5 years or more after 2002-03, GDP growth was in the 8-9 per cent range, savings and investment rates were high, and foreign exchange reserves were rising. Foreign investment inflows rose from around $6-8 billion at the turn of the last century to $62 billion in 2007-08. This not only gave the government a considerable degree of flexibility in its spending, but also infused liquidity into the system and supported a substantial expansion in retail credit. The resulting credit-financed consumption and investment helped expand demand and drive growth. As a result, the reduction and even reversal in capital inflows into the country due to both domestic and global uncertainty at present is putting pressure on the government to reduce its fiscal deficit and the level of public debt. The liquidity crunch is reducing the volume of credit and hence the volume of debt-financed investment and consumption. This has inevitably resulted in the slowdown of growth.

Apart from this, elements such as poor infrastructure, high costs of undertaking business, slower approvals and rampant corruption also add to the woes of the Indian corporate sector. India ranks at the bottom among the countries in Asia when it comes to facilitating the setting up of a business. Further, the Incremental Capital Output Ratio (ICOR) increased from 4.2% in the tenth 5-year plan to 5.1% in the eleventh plan, showing the inefficiency of production in India. The productivity of the manufacturing sector is hampered by the poor availability and high cost of labour (in comparison to productivity). The growth of the agriculture and allied sectors is shackled by the vagaries of monsoon, low productivity and restrictive policies. Finally, the service sector is constrained by the slowdown in US and UK and the relative scarcity of skilled labour. The sum of all this reduces India's attractiveness as a preferred destination of investment, despite the advantages of the large domestic market.

Therefore, it is obvious that high interest rates are not the only factors that are hampering growth. Consequently, reducing interest rates is not the most suitable way to stimulate growth. In fact, an analysis of RBI showed that there is not much correlation between low interest rate and investment. The reduction in interest rates may help rate sensitive sectors such as automobile and housing. However, in the long run, there is no alternative to improving the quality of regulation and basic infrastructural facilities, ranging from railways to roads, ports and power, in order to improve India's comparative cost advantage. The govt. needs to find innovative ways to drive investment into infrastructure without raising the fiscal deficit, along with improving domestic demand. This includes diversion of public expenditure from subsidies to investment. In the medium term, mitigating regulatory and policy uncertainty and ensuring price stability would make a bigger difference to growth than big ticket reforms.

To conclude, the RBI is being sensible by holding on to its anti-inflationary stance, as the woes of the common man should also be deliberated on while formulating the monetary policy. Although growth is essential for the country, it is the welfare of the society which should be given the highest priority.

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26. INDIAN CAPITAL GOODS INDUSTRY vs. CHINA

The capital goods industry can be considered as the ‘mother’ of all manufacturing industry and is of strategic importance to national security and economic independence. It is in the interest of User Sectors that the capital goods industry be strengthened since it is well established that the presence of a strong domestic industry increases competition and helps in reducing the capital cost of projects, most importantly, in terms of economical maintenance of plant and machinery. Imported plants come at lower cost but the foreign suppliers make up for that in their high priced spares and maintenance contracts.

However, Indian capital goods industry is facing severe competition from Chinese companies over the last few years. In the case of machine tools, imports account for about two-thirds of the domestic requirements and is increasing further. The
import of power-generation equipment from China at much lower cost is also making the domestic industry uncompetitive.

The major factors responsible for increasing Chinese competitiveness are:
• Artificially depreciated Chinese currency
• Tax advantages and Government subsidies given by the Government
• Much lower interest rates
• Simpler labour laws
• Better infrastructure leading to lower cost of power, transportation, and cluster approach helping specialization of labour and engineering skills

This is further complicated by the absence of level playing field for Indian manufacturers:
• All domestic manufacturers of capital goods are rendered uncompetitive due to additional burden of sales tax, entry tax, octroi, VAT and other local duties and levies.
• For specified projects (Oil and Gas, mega nuclear/ hydel power, fertilizer, refinery and so on) zero/ 5 per cent customs duty applies on capital goods.

While it may be preferable from user industry point of view to allow the import of capital goods at lower costs in order to improve their competitiveness, this will result in over reliance of Indian industry on other countries for key strategic inputs, exposing itself to vagaries to the policies of these countries. Also, this does not help in building technological depth of the Indian industry and manufacturing ecosystem.

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27.POVERTY IN INDIA

Poverty is the state of one who lacks a certain amount of material possession or money. Absolute poverty or destitution refers to the deprivation of basic human needs, which commonly includes food, water, sanitation, clothing, shelter, health care and education. Relative poverty is defined as the economic inequality in the location or society in which people live. The poor are exposed to greater personal and environmental health risks, are less well nourished, have less information and are less able to access health care; they thus have a higher risk of illness and disability. Conversely, illness can reduce household savings, lower learning ability, reduce productivity, and lead to a diminished quality of life, thereby perpetuating or even increasing poverty.

Poverty is often defined in absolute terms of low income – less than US$2 a day, for example. But in reality, the consequences of poverty exist on a relative scale. The poorest of the poor, around the world, have the worst health. Within countries, the evidence shows that in general the lower an individual's socioeconomic position the worse their health. There is a social gradient in health that runs from top to bottom of the socioeconomic spectrum. This is a global phenomenon, seen in low, middle and high income countries.

Today, poverty is one of the biggest problems of India. The main causes of poverty in India are:

- **Rapidly Rising Population:**

  The population during the last 45 years has increased at the rate of 2.2% per annum. On an average, 17 million people are added every year to its population which raises the demand for consumption goods considerably.

- **Low Productivity in Agriculture:**

The level of productivity in agriculture is low due to subdivided and fragmented holdings, lack of capital, use of traditional methods of cultivation, illiteracy etc. This is the main cause of poverty in the country.

- **Under Utilized Resources:**

The existence of under employment and disguised unemployment of human resources and under utilization of resources has resulted in low production in agricultural sector. This brought a down fall in their standard of living.

- **Low Rate of Economic Development:**

The rate of economic development in India has been below the required level. Therefore, there persists a gap between level of availability and requirements of goods and services. The net result is poverty.

- **Price Rise:**

The continuous and steep price rise has added to the miseries of poor. It has benefited a few people in the society and the persons in lower income group find it difficult to get their minimum needs.

- **Unemployment:**

The continuously expanding army of unemployed is another cause of poverty. The job seeker is increasing in number at a higher rate than the expansion in employment opportunities.

- **Shortage of Capital and Able Entrepreneurship:**

Capital and able entrepreneurship have important role in accelerating the growth. But these are in short supply making it difficult to increase production significantly.

- **Social Factors:**

The social set up is still backward and is not conducive to faster development. Laws of inheritance, caste system, traditions and customs are putting hindrances in the way of faster development and have aggravate" the problem of poverty.

- **Political Factors:**

The British started lopsided development in India and reduced Indian economy to a colonial state. They exploited the natural resources to suit their interests and weaken the industrial base of Indian economy.

In independent India, the development plans have been guided by political interests. Hence, the planning was a failure to tackle the problems of poverty and unemployment.

The following measures can be taken for the eradication of poverty. 1) Control of Population Growth: 2) Higher Economic Growth and 3) Income Redistribution:

1) <u>Control of Population Growth:</u>

Any number of employment programmes cannot provide work for all if our population grows at an alarming rate of 1.9% per year. Six Million persons are added to the labour force every year. The family planning programme has not been very effective in rural areas for reasons unavoidable. Growth of national income is approximately 3.7% per year. Per capital income grows around 1% per year unless population growth is reduced to around 1%, we cannot make any significant dent on poverty. Hence population growth is to be controlled lock stock and barrel. Immediate check on rapid growth of population is absolutely essential for economic progress in India. Economic planning without family planning will not bear fruit. If man does not check population, population growth will check man's progress. If population is not checked, our progress would be like writing on sand with waves of population growth washing away all that we have written.

2) <u>Higher Economic Growth:</u>

Higher economic growth is a necessary condition for poverty alleviation. Population growth remaining constant, higher economic growth will lead to higher per capita income. This will lead to higher standard of living. Hence production has to be increased and economic growth has to be maximized. Adam Smith pointed out the importance of productivity as the key element of economic growth. Hence the pace of economic development must be speeded up. Higher rate of growth necessarily involves fuller and more productive employment of the working force. Hence employment creation is one aspect of the antipoverty policy.

3) <u>Income Redistribution:</u>

Increase in national income cannot merely alleviate poverty. The gap between the rich and the poor has widened despite fifty years of planning. The fruits of economic development have reached nearly 20% of our people. The rich have become richer and the poor have become poorer: According to the world Bank, the total 20% of the households share 50% of the national income in India whereas the bottom 20% share only 7% of the national income, This implies heavy concentration of income in the hands of a microscopic minority. The glaring inequality must be reduced if poverty is to be removed. All possible steps should be taken to see that inequality is kept to the minimum. Inequalities are ethically undesirable, morally ignoble socially undependable, economically wasteful, unjust and inefficient and politically explosive. A two pronged attack on inequality is indispensable i.e. leveling down the economic position of the rich and leveling up the economic position of the poor. This will pave the way for removal of poverty.

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28.FDI IN RETAIL DOES NOT MEAN SELLING OUT THE COUNTRY TO FOREIGN COMPANIES

FDI will make a nation of sales boys and sales girls. This reflects one of the many viewpoints thrown in the recent string of Parliamentary Debates. The matter of FDI (foreign direct investment) in retail is best understood in terms of economics, although the FDI policy is a matter of politics. When one is talking about anything that has to do with economics, it is helpful to use a bit of common sense and to stick to the basics.

FDI in multi-brand retail is being opposed by some, including the BJP. The question of whether FDI in retail is good or not is being hotly debated. To the extent that the debate is related to the economics of retail and foreign investment in it, the debate is pointless because it takes only a few minutes to get to the heart of the matter

Consider these facts.

- Retailing is an essential service in any large modern economy (or any economy that has hopes of being modern). Organised retail is a necessity only for developed economies because it is the bridge between the production of a large number of goods and a large number of people with specific preferences and varied choices. For poor underdeveloped economies, informal retail suffices given that very few goods are produced and people have little choice.
- Organised retail is a good thing in any sufficiently large economy. In the absence of organised retail, a good deal of labour is involved in low productivity retailing of small amounts of goods.
- Organised retail requires investment, in terms of capital and human resources. This is an obvious fact but is often overlooked. Even if desired, organised retail will not happen if required human resources are missing.
- Foreign investment augments domestic investments and is good for the economy. If domestic investable resources fall short of what’s necessary, it is a good idea to attract foreign investment. One large poor economy (which we need not name) did very well

over the last few decades by attracting hundreds of billions of dollars in foreign investment.
- India's domestic resources are insufficient for creating an efficient retail sector.

Therefore inflow of foreign investments in retail is good for India.

But what about the millions of small store keepers? It is true to say that some of those stores will no longer be viable. Some — not all. In the words of KapilSibal -"Many said KFC will drive the dhabas out of the market. Dhabas have driven out KFC.Don't underestimate Indian brands." Some of the people currently in the unorganised retail sector will find employment in the organised retail sector. Consequently, fewer people will be needed for the same volume of retail — which is another way of saying that there will be labour efficiency gains. Increased efficiency also means higher wages in the retail sector. That is good news. But wait, there's more.

A growing economy implies that the retail sector will also grow. Given sufficient growth in the economy — which follows naturally under easily obtainable conditions – employment in retailing will grow even with increased efficiency in retail.

It is a mistake to consider the economy a static game. Economies are dynamic structures. An example of the dynamic nature of the economy is the telecom sector. At one time, it was feared by some that increasing the efficiency of the sector will lead to unemployment among the telecom labour force. As it turned out, those fears were unfounded since the growth in the economy, and therefore growth of the sector, saw an increase in employment together with higher wages. Not just that, it also led to cost decreases which are reflected in the low prices of telecom services we all enjoy.

The cost of retail is a wedge between the consumer and producer prices. Reducing the size of the wedge is good for everyone with the possible exception of those who gain from the inefficiencies of the current system. The losers will have to find alternative ways of making a living. But that is another story.

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29.HUNGRY INDIA

India is named as the world's hunger capital. One third of the world's hungry live in India. As poverty is almost considered synonymous with hunger, a large part of the government's efforts to reduce poverty is based on the idea that the poor need healthy food first. But to cater to the needs of such a large amount of people, nearly the fourth of India's population is next to impossible and quite possibly a nightmare. Even if it's not been a huge success, the government still persists as it believes that the poor are caught up in a nutrition based poverty trap.

This kind of a poverty trap concept is relatively new. When a person is not in a position to get enough food to satisfy the basic energy needs of his body and gets only enough food to survive, then he is able to earn only a small income which would be equal to the money he spent to originally get the small amount of food. Therefore, he is caught in a vicious circle and can never build his strength with extra food so as to earn more and keep getting more food.

But research carried out by experts revealed astonishing facts. If the poor people get an increase in income, then one would logically assume that they would spend the extra money on more foods, but surprisingly their calorie intake didn't increase as they spent what extra money they got on expensive calories instead of a large amount of cheap calories. Therefore, even if the poor's purchasing power increases, their calorie intake doesn't increase. But this fact is not consistent with our idea of nutrition based poverty trap.

So, many learned economists set forth to find reasons for this puzzling behavior by the people. One reason might be that getting more calories doesn't actually contribute to productivity so the people are not interested in buying more food. Or perhaps they are really less hungry and hence they eat fewer calories which could be because of the improving living conditions of the people in terms of health, water and sanitation. Another reason could be that less amount of physical work is present in their lives due to the efficiency of transportation and water facilities. Therefore if the people were not starving it is quite logical to assume that they would move towards a new, more expensive diet.

A study was conducted to find out why they ate so little even if the subsidies increased. The main reason why people are encouraged to eat more is that it leads to higher productivity which results in more earnings. But when all workers are paid the same wage to everyone and the employers does not consider the difference between a well nourished worker and a worker who is under nourished, the poor people don't have much incentive to increase their food intake as they all get the same amount of income anyway.

The study also revealed a rather curious aspect of the poor people's behavior: the less money they have, the less inclined they are to spend it on nutritious food, instead preferring more taste food which doesn't contribute much to their health. The thing is, when the people are unemployed or have mindless grunt jobs, they want their food at least to be exciting, and it is a common opinion that wholesome food is dull and tasteless.

One of the other main reasons why they spend so little on food is that, other expenses command their purchasing power, like weddings, dowries, and festivals. Even funerals nowadays require a lot of expenditure as the people even if they have less money don't mind sacrificing other commodities (food mostly) as they feel obligated to honor the dead. After conducting an elaborate funeral that the society demands, the family is more or less broke especially if an earning member of the family had died. This causes depression among the adults, decrease in productive and school drop outs.

There are also other things the poor people like to spend their money on, like entertainment. For instance even if a person only gets enough income to barely survive on a meagre supply of food for him and his family, he would still save money to buy a television set. In their defence, work is available only for a certain amount of days per year. They get bored for the remaining days and hence the purchase of a television set helps alleviate boredom. From their point of view this is not an impulsive purchase. They plan for this and save money over the years for this.

People in general poor or not, require a certain comfort in their lives to make it worth living and hence the poor people consider certain things that are more important than food. This can also partly explain the reduced expenditure on food with an increase in income. Cell phones like televisions are another such commodities that the poor deem necessary to their lives these days.

In conclusion, the theory of the nutrition based poverty trap may not necessarily work on adults but that does not mean that nutrition is not one of the major problems. As seen from the above research studies, more amounts of cheap food grains is not the solution as people don’t really buy “dull wholesome food” just because the prices have gone down. They prefer tastier food grains which are comparatively more expensive. More money also doesn’t help as they don’t increase their food expenditure with the extra money due to other social expenditures of the people.

Therefore, instead of focusing on the adults, the government should take steps in the nourishment of pregnant women and children. Certain types of food, rich in micro nutrients can help the women to give birth to healthy nourished children which can contribute a great deal in their earning success in the future. De-worming of children must also be accorded top priority. Also as people like tastier food than the normally available bland cheap grains, the government should focus on developing food that people would actually like to eat and also be high in nutrition.

More quantity of food is not the solution. The food policy must be amended to actually get people to eat the food that are both nutritious and what they like, instead of shoving unwanted cheap food grains at poor people who are not that much interested in them.

It is time that the government identifies the real problems and comes up with solutions accordingly.

Poverty is almost synonymous with hunger. Even the UN associated these two factors together as their first Millennium Development Goal is “to reduce poverty and hunger”.

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30.ECONOMIC GLOBALIZATION

Economic globalization refers to increasing economic interdependence of and national economies across the world through a rapid increase in cross-border movement of goods, service, technology and capital. Whereas globalization is centred on the rapid development of science and technology, and increasing cross-border division of labour, economic globalization is propelled by the rapid growing significance of information in all types of productive activities and the advance of science and technologies. Depending on the paradigm, economic globalization can be viewed as either a positive or a negative phenomenon. Economic globalization comprises the globalization of production, markets, competition, technology, and corporations and industries. While economic globalization has been occurring for the last several hundred years (since the emergence of trans-national trade), it has begun to occur at an increased rate over the last 20–30 years under the framework of General Agreement on Tariffs and Trade and World Trade Organization which made countries to gradually cut down trade barriers and open up their current accounts and capital accounts. This recent boom has been largely accounted by developed economies integrating with less developed economies, by means of foreign direct investment, the reduction of trade barriers, and in many cases cross border immigration. It can be argued that economic globalization may or may not be an irreversible trend. There are several significant effects of economic globalization. There is statistical evidence for positive financial effects as well as proposals that there is a power imbalance between developing and developed countries in the global economy. Furthermore, economic globalization has an impact on world cultures.

This concept of economic globalization has several advantages which highlight the role of developed economies in developing economies. The advantages are:

1) Some of the various other policies and movement of capitals offer access to the foreign investments to many countries like the United States of America.

2) The worldwide commercial market becomes so flexible due to the advent of Globalization, that transactions of the international companies are not restricted to geographical borders of the countries.

3) Globalization enhances the flow of capital, permitting the investors to invest on the untapped resources of the developing countries.

4) Globalization of the mass media has reduced the global space substantially, keeping the people informed about all latest international happenings through different television channels.

5) Improvement in global communication networks leads to easy flow of important information not only to individuals but at company levels as well.

6) The democratic thoughts are rapidly spread among countries across the world, owing to Globalization.

7) Globalization stresses on increasing mutual dependence among all the nation-states across the world.

8) Globalization lessens the possibilities of warfare among developed countries to considerable extents.

9) The developed countries display a tendency for working towards protecting their surrounding environments to large extents.

10) Globalization enhances free international trades among countries across the world.

11) The total output levels of a country increase when productions become competition-oriented. This means that to compete with the existing world market, the products must be of best qualities and they also improve the lifestyle of the overall population.

12) Cheap imports and extensive competition on international level keep a check on the prices leading to lower inflation rates, which occasionally interrupt the economic growth and development of a nation.

13) Economic Globalization ushers in the concept of Open Economy, where there is an extensive promotion of technological growth and inventions. This requires new topics and concepts to be imported from abroad.

14) Employments in the export-oriented industries generally pay its employees approximately 15% more than the import-oriented jobs in a country.

15) One of the positive effects of Globalization is the smooth and speedy transportation of people and commodities to different corners of the world. Globalization reduces cultural blockages and differences among nations, by encouraging fellow-feeling and mutual compassion.

All the above concepts and points highlight several policies and strategies which can be adopted by developed economies for developing economies. These varied strategies can be summarized under the following broad categories:

•Financial aid, in the form of direct money, loan guarantees, food coupons, military aid. The aid can also be targeted to a specific purpose, say, relief from natural disasters, military protection from threats; operating capital for business development, etc. One such instance in this regard includes the borrowings made by India from the rest of the world to cope up with her huge fiscal deficit.

•Trade is another way to help the less developed nations. By increasing trade with the less developed nations; the wealthy nations can help the less developed countries (LDC's) to slow robust growth and development. The most common case study under this would be that of the world economy drastically enhancing and increasing trade activities with China and India due to which the national income of these nations has increased manifold. However, it is necessary to ensure that wealth generated from trade activities is funded in the right areas in the right manner.

•Other kinds of assistance from foreign nations may include outsourcing technological facilities and other tertiary sector activities like transportations, communications, banking, insurance, etc.

•Social issues like health and poverty can also be taken into consideration. The developed nations can provide food resources; build sources for proper drinking water, fuel supplies, setting up hospitals, providing decent sanitation facilities, imparting education to the people, employment opportunities by the MNCs, etc.

•Investments in the form of foreign direct investment (FDI) and foreign institutional investments (FII) are made easier.

•Improved attitude and behaviour towards judicious usage of resources keeping in mind social responsibility and sustainable development along with a better attitude towards environmental issues.

•Finally, Globalization can help in opening up of economies and removal of several barriers and restrictions, whereby economies can interact and share their cultures and traditions and trade practises.

All such measures and many more can be undertaken to push the global economy forward and bring about immense improvements in the world economy as a whole.

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31.FUEL SUBSIDIES

At Rs 68,481 crore, fuel subsidy was the biggest expenditure in Indian government's balance sheet last year. By late July this year, Reuters reported, the government had already spent most of the Rs 43,580 crore allocated for fuel subsidies in 2012-13. Diesel accounts for 59 per cent of the estimated Rs. 160,000 crore fuel subsidy bill in 2012-13. The state owned OMCs (Oil Marketing Companies) sell diesel at a loss of about Rs. 9.60 per litre owing to subsidy. Now, the Government has allowed state fuel retailers to raise prices by up to 0.50 rupees, or 1 US cent, a litre each month to gradually align them with market rates, and has also freed up the price of gas oil sold to bulk consumers. This is a dual price mechanism in which the retail consumer will be paying 50 paisa more per litre, but for bulk consumers the hike is more than Rs.10 per litre.

Why is removing subsidies good?

Fuel subsidies add to the fiscal deficit, which in turn causes inflation. Reducing fuel subsidies would improve India's fiscal balance and create fiscal space for increased investment in infrastructure and other development activities. Phasing out the current diesel subsidies will expose the Indian economy to oil price fluctuations in the world market to a greater extent.

Environmental damage caused by the steady rise in the sale of diesel vehicles due to price differential between diesel and petrol can also be reversed over time.

It would also remove current market distortions (such as the growing number of private vehicles being manufactured to run on diesel) and incentivize energy efficiency and clean energy solutions, thereby reducing pollution levels. Removing fuel subsidies entirely would also remove opportunities for corruption and selling fuel on the black market.

Regular price hikes will narrow the gap between diesel and gasoline, whose prices were freed up in 2010, and deter consumers from using it as an alternative to the fuel oil, sold at market rates and sometimes costlier than subsidized diesel.

Why hasn't it been done yet?

Governments give subsidies as part of a political bargain — they are "a visible way to deliver benefits in exchange for political support".

Since they are a symbol of populist action by successive political leaders, these subsidies, once started, get permanently locked- in.

Even if subsidies may free up resources for development, people have little confidence that this will happen given high levels of corruption in the government.

There is a valid concern that raising diesel prices will have a significant impact on inflation and cascading effects throughout the economy, as well as sensitive sectors such as transport, agriculture and fisheries.

The positive impact on the economy is, an increase in prices will reduce the purchasing power of people and thus reduce flow of money in the economy. Since people paying higher prices will have lesser money left to spend, this will soften the pressure in the market on other prices. So inflation on other prices will be reducing though diesel prices increase. However, it will make a serious impact on prices of food products since their transportation is completely dependent on diesel-run vehicles. Eventually there will be a chain reaction as truckers increase their charges and wholesalers and retailers pass it on to the customer. The diesel price hike puts an additional burden on the cash-strapped Indian Railways also.

Due to these concerns, the government has been hesitant to raise diesel prices.

To manage the impacts of diesel price reform:

One must investigate

- ❖ The impacts and potential mitigation measures for key groups affected by diesel price increases
- ❖ How subsidy savings could be redirected to them within the administrative system.
- ❖ Ways of compensating poor members of the population for the indirect effects of price increases must be investigated.

In the long run, structural mechanisms can be prepared to reduce subsidy reform impacts, like energy-saving options and retraining the labour force that will be most affected by the reform (for example, freight transporters, farmers and fishermen).

Options to improve diesel price regulation:

- ❖ Removing political influence from the application of the formula;
- ❖ To consider whether the current trade policy price should be replaced by export parity price within the formula;
- ❖ To discuss at the provincial level whether their *ad valorem* tax rates should be reduced or their spending increased in response to increased revenues as prices are reformed;
- ❖ To consider whether the fiscal treatment of oil companies should be revised as prices are reformed.

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32. WHAT IF THERE WAS NO ECONOMY? - A TOTALLY FLAWED AND HYPOTHETICAL DISCUSSION ON AN IMPOSSIBLE TOPIC.

Before you start reading, a warning – this topic may cause dizziness and insanity. The author requests the reader to be ready to expect the most illogical reasoning.

What if there was no money and no economy?

Would all be self sufficient? If everyone was a monopolist and a monopsonist who catered only to their own needs? There would be no communication amongst people, because there would be no need for them to talk to each other.

Economics deals with transactions; give and take. If there were no transactions there would be no economy! Going deeper into the topic, if there was no economy, it would be each to his own – literally, there would be no borders. No country, no unity, absolutely nothing! The only thing that binds each country together is the economy – the currency.

If there was no economy, would it be possible to think beyond geographical borders? Everyone could do as they please. There would be no collective learning, since everybody is concerned only about themselves, and if there was collective learning, then it would mean someone gains a service from another person – which again is a feature of an economy.

Would there be any need for wars? If everyone could satisfy themselves, then there is essentially no need for it.

World economy – a collective economy that represented all economies. This exists in theory, but s it really possible? If a non-economy were each one for his own, an economy at a national level would be each nation for its own. But we know that both these assumptions do not exist. Would it mean that a world economy means each world for its own? After the world economy is established, would a point in time come when the world is not self-sufficient? Imagine - with a world economy there will not be any problems on financing huge machines because the world is a single entity. That means, we would be rice cultivation in the moon? Then the moon will have an economy too.

In conclusion, given the nature of humans an economy has to exist. No economy is like perfect competition and a perfect society is ultimately non-existent.

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33.TOP EIGHT REASONS TO STUDY ECONOMICS

1. You can talk about money without ever having to make any!

2. Mick Jagger and Arnold Schwarzenegger both studied economics and look how they turned out.

3. When you are in the unemployment line, at least you will know why you are there.

4. If you rearrange the letters in "ECONOMICS", you get "COMIC NOSE".

5. Although ethics teaches that virtue is its own reward, in economics we get taught that reward is its own virtue.

6. When you get drunk, you can tell everyone that you are just researching the law of diminishing marginal utility.

7. You can't be wrong; only subject to an unexpected asymmetric shock.

8. An economist is an expert who will know tomorrow why the things he predicted yesterday didn't happen today.

Source- www.economicshelp.org

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34. UNDERSTANDING INFLATION

Inflation is one topic of discussion that ceaselessly keeps millions of people across the globe preoccupied, happily or otherwise. Our fathers tell us, that when everything we want becomes expensive, it’s because of inflation. Our neighbours tell us, that when we have too much money with us to spend, inflation is at work. The newspapers tell us, that when the society does not have enough goods to supply to its buyers, inflation is to be blamed. A high rate of inflation is considered a plague for an economy but neither is zero inflation a boon.

So what exactly is inflation and why are we suddenly so obsessed with it?

Truth is, we don't know.

Global recession, price fluctuations, supply shortage, magnified hoarding, 'increase of opportunity cost of cash balances' are a few of the complicated phrases thrown across every time inflation is being discussed. Question is, how much of it do we truly understand? Today, we as citizens of a world so twisted and volatile, have failed in taking in what is truly necessary and understand it all, without complicating matters and confusing ourselves. For example, hundreds of people in Germany were said to have suffered from 'Zero Stroke' soon after the World War I, a disorder supposedly caused due to the inability of people to comprehend the causes and effects of hyperinflation. Hence, much like our nations parliamentary sessions, inflation has left us astonished and amazed. So after much 'research', this much was understood, that inflation is something that no economy can live without, yet it isn't truly desired. It's something that cannot be successfully tackled and neither do we want to fully abolish it. It's a phenomenon that enhances the growth of a nation and it is this phenomenon that contributes to its doom. It's a cycle that starts off with advancement and gain and then leads to downfall and havoc when all control is lost. So basically, inflation is what keeps the economy running at the best as well as the worst of times.

But then again, we can never be too sure.

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35.NATURAL ECONOMICS

As students we have always thought of economics as a subject to score good marks in. We have studied about various branches of economics, its uncountable theories and other aspects, but we have never given a thought as to how this subject originated.

When we study about the history of the economic thought we learn that the present day's economics has evolved through the different beliefs and theories of different thinkers across many fields that led to political economics which eventually evolved as economics from the ancient world to the present day. The origins of economics date back to the times of Chanakya who wrote the famous Arthashastra and Xenophon's Oeconomicus. In that period of time this subject was not a discipline on its own but was considered as a part of Philosophy. Slowly times changed and famous people like Aristotle, Thomas Mun, John Locke, Adam Smith, etc. made Economics as a separate field of study.

We all have been studying the history of this world since the sixth grade. We have studied about the origin of the earth, the big bang theory; the origin of all forms of life and of course the origin of man. If we look back and as students of economics think over and analyse what we have been studying for all these years we will realise that the birth of economics had taken place way before the first Homo sapiens learnt about agriculture.

We learnt how to save, not from the banks, but nature taught it to us. From squirrels to tiny birds, every organism saves food before autumn as there is scarcity of food during the hard seasons. We were taught the lessons of scarcity by nature. If we study about the lion pride we would know that the alpha lion actually uses a lot of politics to maintain his position and politics comes only with economics; example, the alpha lion looks for the waterhole for his whole pride to survive on. Not only this, he has to make sure that every lion has an equal share of the place and everyone lives together, he works like the government for the pride. We also learn to make collective decisions from animals. Collective decisions have always played a major role in human societies, in conferences, meetings, to take economic decisions, etc. Animals such as ants, bees, birds and dolphins are good examples of social animals that make collective decisions within their groups. Animals that live in groups make two types of decisions: consensus decisions as in which the group makes a single selective choice as in ants on where to settle, and combined decisions like in bees about the allocation of jobs. Research shows that that they even make investments as, when their home is facing a threat of any kind, they already have another place to go to.

Economics is there all around us, we only have to observe carefully. That is why even economics is natural and like any other field of study has a rich history. So next time we open our textbooks we will feel great to study the subject which is the reason for the existence of peace and prosperity in the world as it is not just about demand and supply and poverty but also about decision making and choice and also allocation of resources without which nothing can prosper.

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36.FDI AND RECENT REFORMS IN INDIA

The Government of India had introduced a series of reforms in November 2012 amidst wide criticisms. Long term pending reforms paved the way for major reforms in various sectors. Major among them are FDI in retail, insurance, pension funds and mutual funds.

Here I would like to discuss the policy of India's FDI from planning period to the current scenario and its pros and cons.

In India's case, 1950-1967 is regarded as the phase of cautious welcome of FDI, second five year plan was based on import substitution. During the second phase 1968-1980 there was restriction and light regulation of FDI. Then FDI was restricted in core and priority sectors. Third phase 1980-1990 was a phase of gradual liberalization. Since 1990's there was severe BOP crisis and foreign exchange crisis. There was an effort to liberalise the economy by Rao Government. It was followed by a phase of progressive liberalization. In 1995 WTO's GAT included both wholesale and retail services. FDI in cash and carry with 100% rights was allowed under the government approval routes in 1997. Further FDI in cash and carry was brought under the automatic route in 2006. Later up to 51% investment was permitted in single brand retail and 100% was permitted in the multi brand retail. The Indian Government removed the 51% cap on FDI into single brand retail outlets in December 2011, and opened the market for investors by permitting 100% foreign investment in this area. FDI in single brand retail is nothing but FDI under single brand name – where as in multi brand retail it is the selling of multiple brands under one roof. In January 2012, India approved reforms for single brand stores welcoming anyone in the world to innovate in Indian retail market with 100% ownership, but imposed the requirement that the single brand retailer source 30 % goods from India. On 14 September 2012, the Government of India announced the opening of FDI in multi brand retail. The decision was welcomed by economists and the market however; there was protest from the political scenario. Further on, 20 September 2012 Government of India brought the reforms under law.

FDI in retail-benefits

FDI has the following potentials. Inflow of increased foreign capital will arrest depreciation of rupee. It will benefit the economy in the form of employment generation. India needs badly to sustain the growth rate which is necessary for faster and inclusive growth. It could reduce the number of intermediaries between farmers and consumers and it will benefit both. It will open international market to small producers. It will strengthen the backend infrastructure. It will strengthen the supply chain infrastructure. It will result in increased level of investment, up-gradation of technology, employment generation, agro processing, marketing, logistic management, textile and apparel construction. It adds more to government revenue and results in export competitiveness. Further, retailing constitutes 14 to 15% of GDP.

Though FDI in retail creates confidence among investors about India's growth story it is subjected to criticisms. It will threaten the livelihood of small retailers, smaller ones can't withstand competition, smaller retailers fragmented to have bargaining power, profits in domestic industries will fall, contribution of foreign firms to public revenue is less and in a country like India this leads to more inequality in income distribution and wealth. Rich will become richer, and poor will remain poor.

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37.THE POLITICS OF FAMINES

Famines have often been discussed as disasters that can be manmade and can be effectively prevented through policy responses. Amartya Sen's hypothesis that a democratic system with free press and vigorous opposition can prevent famines is a much debated topic in academic circles. This essay examines Sen's argument from the framework of exit and voice options as developed by Albert Hirschman. The central argument is that the accountability, feedback and monitoring mechanisms through the exercise of exit and voice in a democracy help to improve the government's responsiveness during famines. The breakdown of these mechanisms make famines occur even in democracies when the affected group has very little political and economic influence, and hence cannot exercise either exit or voice options.

Sen has consistently argued in support of the "protective role of democracy" (Sen, 1999, p. 182). According to him, a democratic system provides political incentives for the rulers to prevent famines in order to avoid adverse political consequences (Ibid.). A free press and a vigorous political opposition together work as "the best early - warning system for a country threatened by famines" (Ibid., p. 181).

Several authors have critically examined Sen's democracy hypothesis from the point of view of politicization of famines in democracies. Some of them have provided further revised answers such as anti-famine political contracts (de Waal, 2006), share of the affected population (Plumper and Neumayer, 2009) and limitations of the democracy hypothesis (Rubin, 2009). However these explanations do not look at the mechanism through which citizens can politicize famines and make their governments accountable and respond with effective policies. This essay looks at the political process of famine prevention from the angle of accountability mechanisms available to citizens in a democracy.

The essay is organised as follows. First, Hirschman's framework of exit and voice is used to explain famine prevention in democracies with free press and political opposition. Next, the breakdown of exit and voice is used to explain famine occurrence in democracies. The case of Bihar famine of 1966-67 is used to demonstrate this.

Exit and Voice in Democracies

Albert Hirschman in his famous book, *Exit, Voice and Loyalty: Responses to Decline in Firms, Organizations and States* (1970), introduced the concepts of exit and voice as mechanisms of recuperation in firms and organizations. When there is a decline in the quality of a particular product, consumers could either choose to exercise the exit option (by stop buying the product and choosing its competitor) or the voice option (by staying with the product and trying to change the state of affairs). In this way, exit and voice become "the endogenous forces of recovery" for a declining firm (Hirschman, 1970, p. 15). Apart from firms catering products to consumers, Hirschman's analysis is also applicable to "organizations (such as voluntary organizations, trade unions or political parties) that provide services to their members without direct monetary counterpart" (Ibid., p. 3). In this sense, the above framework becomes an effective mechanism through which citizens can prevent decline in government performance in a democracy. Though Hirschman applied his concepts to discuss citizens' "voting with their feet", a democracy with its free press and active opposition can also be seen in the context of a liberal political market.

In a liberal democracy, there exists a political market with competing political parties that vie for votes from citizens. Regular elections provide citizens the exit option if they feel that the particular political party they voted to power doesn't keep up its promises. The free press, a vigilant political opposition and the freedom of speech, expression and association together provide citizens the option of voice allowing them to take action and demand good governance. Such mechanisms of accountability and feedback become extremely crucial during famines when effective government action can prevent human suffering.

In a nondemocratic system, because the rulers are not voted to power through elections, citizens do not enjoy an exit option. With a state-controlled press, no political opposition and limited rights to form associations and interest groups the citizens do not have any means to voice their disapproval. Hence applying Hirschman's framework, the absence of democracy can be seen as a situation of monopoly "where the consumers would learn to live with inevitable imperfection" (Hirschman, 1970, p. 27). This is in congruence with Sen's democracy hypothesis.

The Soviet famine of 1932-34 that affected rural parts like Ukraine is relevant here. The famine is seen as a direct result of collectivization in agriculture and forced food procurement during the government's first five year plan (Dalrymple, 1964, p. 250). The estimates of excess deaths range from five million (Ibid.) to around 13 million (Livi-Bacci, 1993, p. 751). The government tried to hide the famine from the outside world by controlling foreign press correspondents, denying them permission to travel outside Moscow (Dalrymple, 1964, p. 279). With a single party authoritarian system under Stalin, the citizens were unable to exercise exit option and were denied voice by a state-controlled national and international press and by restrictions on political freedoms and collective action in the pre-Gorbachev era (Gibson, 1993, p. 938). The same can be said true for the Chinese famine of 1958-61. There are parallels between the Chinese and the Soviet famines. Both famines were entirely manmade, were the result of disastrous failures in economic and social planning (Livi-Bacci, 1993) and could have been prevented if the citizens had some means to make their governments accountable. Thus accountability and feedback mechanisms such as exit and voice, further support Sen's theory that democracies with free press and active opposition can effectively prevent famines.

Failure of Exit and Voice in Democracies

It is a widely accepted fact that famines affect only specific sections of the population. "It is rare to find a famine that affected more than 5 or 10 percent of the population" (Sen, 1999, p. 168). Hence famine prevention, even in democracies, has to be studied with due regard to the dynamic power relations between the government and various groups (ethnic, urban-rural etc.).

Sen claims that "the alienation of the rulers from the ruled"- "the social or political distance between 'us' and 'them'" is important in understanding famine prevention. He ascribes this to be the reason for the famines in present day Sub Saharan Africa and "in Ireland and India under foreign domination in the last century" (Ibid., pp. 170-175). Yet Sen neglects to mention that the same is true for any democratic country as well. Rubin (2009, pp. 710-711) finds that famines have occurred in democracies and in those cases "some of the political dynamics ran counter to" Sen's democracy hypothesis.

It can be argued that it is the breakdown of accountability, feedback and monitoring mechanisms that make famines occur even in democracies particularly when the affected group has very little political and economic influence, and hence cannot exercise either exit or voice options. Hence the ability of the constituency affected to exercise exit and voice becomes the determining factor in government response, thus explaining the "other factors" including lobbying and pork barrel politics cited by Rubin (2009, p. 713).

The inaccessibility of exit and voice options can help explain why minority groups are likely to be most vulnerable during famines. In Hirschman's analysis of the firm in a market, "the more massive the exit, the greater the losses" and the management does not react "for a small drop in revenue" (Hirschman, 1970, pp. 23-24). Applying the same logic to a democratic system, because of the small size of their groups, minority sections find exit option to be ineffective. Consequently, the government's political survival is not threatened by these groups (which are not large "vote-banks").

Hirschman considers voice to be a residual of exit, meaning voice becomes the only way in which "dissatisfied customers or members can react whenever the exit option is unavailable" and "the effectiveness of voice will increase with its volume" (Hirschman, 1970, pp. 31-33). In the political dynamics of a democracy in which different groups influence the government policies and decisions, the minority groups, due to the simple fact that they are minorities, will be at a disadvantage during famines.

The Bihar famine of 1966-67, in independent India, can be used to illustrate this point. The famine occurred in the run-up to the 1967 national elections and was a result of natural misfortunes that reduced food production in the state of Bihar. Due to the famine, in the affected districts mortality rate peaked in 1967 (Rubin, 2009, p. 703) and the infant mortality rate rose sharply (Dyson & Maharatna (1992) cited in (Plumper & Neumayer, 2009, p. 52). The central government, initially reluctant to accept the existence of a famine, later responded by allocating US food aid to the state despite increased food availability in other states (Brass, 1986, p. 249). This lack of government responsiveness can be interpreted to be politically rational resulting from a breakdown of accountability and feedback mechanisms. The famine-affected population in Bihar were a minority and therefore exit option was ineffective for them. Though Brass (1986) mentions an active press, Besley and Burgess (2000), who studied the role of media in Indian famine relief policies during 1958-1992, find that newspaper circulation levels were "low in backward states such as Bihar..." (2000, p. 11). Bihar's literacy rate was a mere 21.75% in 1961 and 23.35% in 1971 compared to the national average of 28.30% and 34.45%.[2] All this may have contributed to a lack of political voice for the affected people. The failure of exit and voice for the people of Bihar explains the claim by Rubin (2009, p. 705) and Plumper and Neumayer (2009, p. 52) about the central government's reluctance to redistribute resources from the majority to the victims in order to avoid political setbacks.

The famine in democratic Sudan in the late 1980s can also be seen as a result of the failure of the affected constituency, the Dinkas of Southern Sudan, to exercise influence on the government. The exit option was largely ineffective as the government's political survival did not depend on these people, as "the South simply had no political clout in the North" (Plumper & Neumayer, 2009, p. 52). The urban bias in the media (Ibid.) and the rural status (de Waal, 2006) of the famine-affected populations might have worsened their ability to voice their concerns. The breakdown of exit and voice- of accountability systems – could help explain the government's use of famine as a weapon against the Dinkas, as found by Keen (1994).

This way of analysing famine prevention based on the exercise of accountability, feedback and monitoring mechanisms by citizens and groups using exit and voice options help us in explaining government action or inaction in democracies.

Conclusion

This essay examined Sen's democracy hypothesis from the framework of exit and voice options as developed by Albert Hirschman. A democracy with a free press and political opposition can

[2] Census of India 1961 and 1971. Source: Office of the Registrar General and Census Commissioner, India.

effectively prevent famines because of the accountability, feedback and monitoring mechanisms put in place through the exercise of exit and voice by citizens. The breakdown of these mechanisms make famines occur even in democracies particularly when the affected group has very little political and economic influence, and hence cannot exercise either exit or voice options. The cases of Bihar and Sudanese famines were used to illustrate this point. Hence it can be concluded that strategies aimed at improving food availability may not be effective in preventing famines as emphasis should be on redistributing resources which requires government action. Hence the checks and balances provided by a democratic system and a free press are instrumental in famine prevention. Future research should focus on the political dynamics within countries identifying groups that are vulnerable to famine and arming them with some means of collective action to enforce good governance.

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38. HOW EFFECTIVE IS THE USE OF ICT IN IMPROVING THE QUALITY OF EDUCATION IN RURAL AREAS?[3]

Introduction

The use of Information and Communications Technology (ICT) as a means of delivering and providing education is now being increasingly used in developing countries. This follows the success of using ICT in developed countries during the late 80s and 90s (Infodev). The various forms of ICT used in education include computers, radio and television (Trucano, 2005)[4]. Many countries now believe that use of ICT is a must if they are to achieve the Education for all (EFA) and the Millennium Development goal of Universal Primary Enrolment (Infodev). This is believed to be particularly relevant in rural and remote areas where there is poor infrastructure (IICD, 2007). However, there is little agreement on the effectiveness of ICT in actually impacting learning outcomes of children in rural areas[5]. The cost-effectiveness of this policy is also questionable.

This essay will argue that while ICT usage as a policy in rural areas can have positive externalities, it is not a one-stop solution. This essay will further argue that even within the realm of ICT, use of radio as pedagogy is more effective then computers in impacting learning outcomes in rural areas due to certain institutional factors. In order to illustrate this, comparative analysis methodology is used to contrast the effectiveness of the One Laptop Per Child (OLPC) policy with popular radio education and Interactive Radio Instruction (IRI).

Theory – Important factors

The concept of using ICT in basic education can be seen as a sub-text of the theory on distance education. Distance education initially, was heavily promoted in the field of higher education, particularly popularized by the existence of several open universities across countries, for e.g. the British Open University (Holmberg, 1994). Distance learning, was a way in which the best education could be provided to those who could not afford to attend classes physically. The most attractive feature of this concept was the convenience that it offered to students from rural areas in particular. This is because this convenience gives students a way around potentially high

[3] 'Written for summative purposes at London School of Economics and Political Science.

[4] 'Information and communication technology, or ICT, is defined as the combination of informatics technology with other, related technologies, specifically communication technology'. (UNESCO 2002: 13).

opportunity costs of attending school (Holmberg, 1994; Grace and Kenny, 2003). Closely linked to this, is the idea of digital utopianism. Digital utopianism refers to the phenomenon where the belief that technology can solve major development problems today. Negroponte, the man behind the OLPC, was a major proponent of this school of thought and believed that this program would enable students attains better educational attainments despite infrastructural shortcomings and poor quality of teaching (Ames and Wang, 2010). However, it would be a mistake to assume that distance education at its best, is a one way interaction. Distance education, is a step above distance study because it allows for two way interactions (Holmberg, 1994). The wrong assumption regarding the implementation of distance education and incorporating of ICT in the schooling curriculum can have negative effects. This can be seen in the manner in which ICT programmes are implemented in rural areas, for e.g. distribution of free laptops without investing in teacher training. As Sen (1999) said, investing in a product that does not help to enhance the capabilities and freedoms of people is often not fruitful. The role played by the teachers in increasing the impact on learning outcomes is extremely crucial and needs to be emphasized (Hawkins, 2002). This is, in fact even more important with the integration of ICT within education because the teachers are the first support system in ensuring that the children know how to use the technology. This is illustrated in Peru where even in the years where ICT was implemented, only 7% of students in rural areas were able to perform to the level expected of their grade in mathematics. This could arguably be attributed to the fact that only 30% of teachers in Peru hold official positions and only 7% of teachers received training when OLPC was introduced (Ames and Warschauer, 2010 ; IEG, 2011).

The rational behind introducing ICT in education, especially in rural areas can also be justified by using it as a means to bridge the digital divide. Initially the term digital divide was used to represent the gap in access to ICT, particularly internet, between developed and developing countries (Lyut, 2004). Several countries feared that ICT could be used as a means of exclusion and an alternate subtle form of colonialism. An e.g., of this is the establishment of English as the official language of the cyber world (Hall, 2012). However, this has now reversed with several developing countries whose economic growth can largely be attributed to the growth of their knowledge economies (World Bank, 2005). The worry now is that with the large inequalities within nations and investing in ICT in education is now touted as a way of getting through these gaps. Proponents hail this move as one that would help bridge the information gap, and through this access to new information, children in rural areas would no longer lag behind their counterparts in urban areas. This would enable these children to be job-ready in the future (Hakkareinen et al., 2000 cited in Mfum-Mensah, 2003). The role played by information sharing on economic growth has also been established by the endogenous growth theory and the establishment of community library and networks can be a means of exploiting this link (Romer, 1990).

Closely related to this is the constructionist learning school who believe that providing children with technology will push them to figure out ways to teach themselves (Ames and Warschauer, 2010). Nevertheless, it is important to remember that while the establishment of networks and information sharing can enhance students' interest in the subjects, it is debatable on whether it would have the same impact on learning outcomes, especially in the primary school level in rural areas. While ICT literacy arguably has a positive relationship with future growth potential, teaching students or expecting them to internalize learning without prior familiarity seems illogical (Ames and Warschauer, 2010). The order of priorities also needs to be established. Given that several students in rural areas lack basic literacy and numeracy skills, would students be able to utilize the power of exposure to information fruitfully, especially when it is given in form that is alien to them (GMR, 2006)?

Infrastructural shortcomings in rural areas are also a big concern. 100% rural electrification has still not been achieved in many countries (Leary and Berge, 2007). The lack of bandwidth facility, properly maintained rooms for community net centres and ease of accessibility for people are other kinds of infrastructural concerns that need to be dealt with. An example of this is the impact of the OLPC policy in Peru where in 2007, 290,000 laptops were ordered but this was gradually phased out to a school rather than on individual basis because problems with electricity made it impossible for students to charge their laptops. On the other hand the Uruguayan government first put in the necessary physical capital in place before implementing the OLPC policy. Uruguay remains one of few countries to maintain the policy nation wide, proving that preconditions need to be full-filled first (Hourcade, Beitler, Cormenzana and Flores, 2008; Ames and Warschauer, 2010). Infrastructural shortcomings could be overcome by the choice of technology used in education. Radios here are particularly useful since they do not demand too much physical infrastructure. Electricity usage can be reduced by using radios for mass and community purposes and not for individual students' needs.

Sustainability of ICT projects also depend on the impact they can create. In cases where the project is frequently discontinued, impact on learning outcomes will be negative. How technology is used in the learning process is also extremely important. Hawkins (2002) highlights that the local communities can be used as a support system by incentivizing them to help maintain community infrastructure. This can be helpful especially in the case of radio and television centres. However, creation of incentives for parents involves convincing them that these will help their children study well. Often, children tend to use the technology as entertainment and when they reach the 'ceiling in learning', they stop using it (Ames and Warschauer, 2010). While contrasting this with the different approaches of applying ICT in schools, using the transformative and infusion approaches, where the methods used are 'Learner-Centred Learning and Critical-Thinking and Informed Decision Making techniques' respectively is suitable (UNESCO, 2002).

Through this discussion, the key factors that emerge are use of the right kind of distance learning systems, role and quality of teachers in rural areas, having infrastructure in place, extent of ICT literacy among children and pedagogy of delivering ICT that is context specific.

Computers vs. Radios

Due to institutional and structural factors, within the broad field of ICT in education, use of radio, particularly, Interactive Radio Instruction (IRI) has greater impact on student outcomes than the use of computers in rural areas. There is, however a distinction made between teaching computer literacy and teaching students and expecting them to learn through using computers and this essays argues against the extensive use of the 2nd category. The two main reasons identified for the same are cost and background of students.

1. Cost

The OLPC project initially attempted to produce laptops which were estimated to be $100 per student. As the program expanded, however, simply because the policy lacked sustainability, it never ended being as cost-effective (Ames and Warschauer, 2010). Proponents argue that fixed costs in producing low-cost computers and technology have steadily reduced over the years and that expenditure figures are exaggerated (Grace and Kenny, 2003). Some have hailed the creation of the new tablets called Aakash in India costing only £30 per student as one that will impact rural development significantly (The Guardian, 2011). However, early reports already indicate that structural and governance issues have limited the spread of the tablets (The Times of India, 2012). Many governments also fail to consider the costs associated with maintenance of the individual laptops. While donors are willing to sponsor the initial costs, they often do not pay for maintenance. Hence, if the use of OLPC and other computer based learning programmes are to be sustained, it is highly questionable whether they can be done without cost-sharing which students in rural areas cannot afford to do so (Hawkins 2002; Ames and Warschauer, 2010). If these programmes are to impact learning outcomes, they also need to be localized which tends to be expensive (Paterson, 2007). Rwanda was the poorest country to implement OLPC but with their per child cost being $181 and with this being a 3rd of the country's average per capita income, it was no surprise that the impact has not met expectations (Time, 2010; Ames and Warschauer, 2010). Studies have also shown that private individuals prefer to invest in projects that give quick returns, such as de-worming pills and investing in ICT requires long term commitment (Ames and Warschauer, 2010).

On the other hand, IRI and other radio broadcasting programmes are far more cost-effective and directly impact student performances. In a cross-country analysis, Adkins (1999 cited in Grace and Kenny, 2003) found that the returns in investing on IRI outshined the returns to investing in a textbook by 70%. By the early 1990s, countries such as the Dominican Republic and Honduras had extensively used the IRI mechanism and had positive impacts with the per-capita cost in Honduras being less than $1(Bosch, 1997). IRI has the advantage that the methodology is mass broadcasting, hence can make use of economies of scale. While localizing IRI programmes requires a lot of research, cost of doing so is lower than that of computers and their benefits are also higher for rural students who can truly gain from ICT in this form (Bosch, 1997). There are some who believe that IRI is more expensive than other types of radio education (Perraton and Creed, 2000). However the benefits of teaching through IRI are that it ensures that students are mobilized and not just passive. Given the scare resources and that technology already is pit against the other T's- Textbooks, teachers and time, it is essential to use the most tested method that gives positive results (Paterson, 2007).

2. **Background of students**

While the idea behind use of ICT is meant to reduce the inequalities, empirical evidence suggests otherwise. Even in developed countries, impact of individual computer based learning has been highly dependant on the students' prior background. Vigdor and Ladd (2010) showed that students from privileged background gained more from the introduction of ICT. This shows that in rural areas, where students come from largely poor and non-influential backgrounds, distribution of individual laptops may not result in desired results. Computers therefore seemingly help only the elite and broaden regional inequalities (Grace and Kenny, 2003; Mfum-Mensah, 2003). Use of IRI negates this difficulty because they can easily be made context-specific. IRI has also been used in non-formal education and therefore also directly affect the lives of students involved. RADECO, a form of IRI in the Dominican Republic, targets disadvantaged youth who after being educated using IRI were able to match their counterparts in formal schools (Bosch, 1997). This form of ICT also lends it self-well to decentralized systems of education since it enables communities to directly hold the government as well as schools accountable if families are made aware of the use of this technology. Community centres can also use IRIs and other radio broadcasting techniques as a means of remedial education, adult literacy training and most importantly as a mechanism of closing urban-rural gaps (ibid). As discussed above, role of teachers is very important for the successful implementation of ICT programmes. IRI therefore can also be used as a means of teacher training, especially in rural areas where there are is a real of good teachers (Leary and Berge 2007). In fact, this could be a means by which knowledge can be passed on to students to further impact their learning outcomes.

Conclusion and Policy Implications

It is clear that the incorporation of ICT in education, while not a panacea for development, it can have positive effects. However, implementation of ICT in education in rural areas needs to be part of a much larger education reform in order to affect the quality of learning outcomes. While ICT can facilitate this process, it cannot compensate for the vacuum created by the lack of other important factors. The implementation needs to be context specific and sensitive to the needs of the students and in the rural context, use of radio to aid teaching is more cost-effective and has greater impacts on learning outcomes than use of computers. Radio education should therefore be pursued both in the realm of formal and non-formal education to close equity gaps between rural and urban areas and to ensure good quality of education in rural areas.

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39. WHAT HAPPENED TO THE ECONOMICS PROFESSION?

It's hard to believe now, but not long ago economists were congratulating themselves over the success of their field. Those successes — or so they believed — were both theoretical and practical, leading to a golden era for the profession. On the theoretical side, they thought that they had resolved their internal disputes. Thus, in a 2008 paper titled "The State of Macro" (that is, macroeconomics, the study of big-picture issues like recessions), Olivier Blanchard of M.I.T., now the chief economist at the International Monetary Fund, declared that "the state of macro is good." The battles of yesteryear, he said, were over, and there had been a "broad convergence of vision." And in the real world, economists believed they had things under control: the "central problem of depression-prevention has been solved," declared Robert Lucas of the University of Chicago in his 2003 presidential address to the American Economic Association. In 2004, Ben Bernanke, a former Princeton professor who is now the chairman of the Federal Reserve Board, celebrated the Great Moderation in economic performance over the previous two decades, which he attributed in part to improved economic policy making
Last year everything came apart..

Few economists saw our current crisis coming, but this predictive failure was the least of the field's problems. More important was the profession's blindness to the very possibility of catastrophic failures in a market economy. During the golden years, financial economists came to believe that markets were inherently stable — indeed, that stocks and other assets were always priced just right. There was nothing in the prevailing models suggesting the possibility of the kind of collapse that happened last year. Meanwhile, macroeconomists were divided in their views. But the main division was between those who insisted that free-market economies never go astray and those who believed that economies may stray now and then but that any major deviations from the path of prosperity could and would be corrected by the all-powerful Fed. Neither side was prepared to cope with an economy that went off the rails despite the Fed's best efforts.

And in the wake of the crisis, the fault lines in the economics profession have yawned wider than ever. Lucas says the Obama administration's stimulus plans are "schlock economics," and his Chicago colleague John Cochrane says they're based on discredited "fairy tales." In response, Brad DeLong of the University of California, Berkeley, writes of the "intellectual collapse" of the Chicago School, and I myself have written that comments from Chicago economists are the product of a Dark Age of macroeconomics in which hard-won knowledge has been forgotten.

What happened to the economics profession? And where does it go from here?

As I see it, the economics profession went astray because economists, as a group, mistook beauty, clad in impressive-looking mathematics, for truth. Until the Great Depression, most economists clung to a vision of capitalism as a perfect or nearly perfect system. That vision wasn't sustainable in the face of mass unemployment, but as memories of the Depression faded, economists fell back in love with the old, idealized vision of an economy in which rational individuals interact in perfect markets, this time gussied up with fancy equations. The renewed romance with the idealized market was, to be sure, partly a response to shifting political winds, partly a response to financial incentives. But while sabbaticals at the Hoover Institution and job opportunities on Wall Street are nothing to sneeze at, the central cause of the profession's failure was the desire for an all-encompassing, intellectually elegant approach that also gave economists a chance to show off their mathematical prowess.

Unfortunately, this romanticized and sanitized vision of the economy led most economists to ignore all the things that can go wrong. They turned a blind eye to the limitations of human rationality that often lead to bubbles and busts; to the problems of institutions that run amok; to the imperfections of markets — especially financial markets — that can cause the economy's operating system to undergo sudden, unpredictable crashes; and to the dangers created when regulators don't believe in regulation.

It's much harder to say where the economics profession goes from here. But what's almost certain is that economists will have to learn to live with messiness. That is, they will have to acknowledge the importance of irrational and often unpredictable behavior, face up to the often idiosyncratic imperfections of markets and accept that an elegant economic "theory of everything" is a long way off. In practical terms, this will translate into more cautious policy advice — and a reduced willingness to dismantle economic safeguards in the faith that markets will solve all problems.

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40.INTRAPRENEURSHIP: TOWARDS SUCCESS AND GROWTH

Introduction

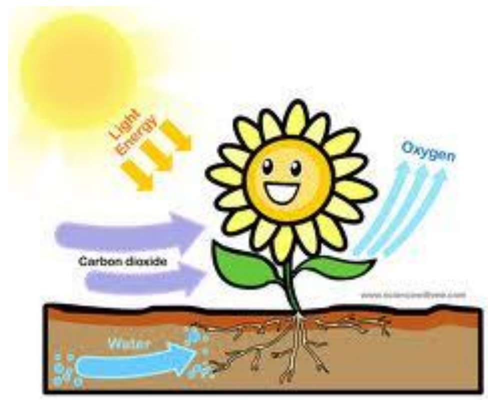
In recent decades, organizations have realized the pressing need for finding different ways to combat the stiff competition that they face with the continuous technological advancements. The changing business scenarios emphasize need for increasing of innovations and the environment that would facilitate innovations. One way to accomplish this will be through encouraging intrapreneurship. The concept of the intrapreneurship was introduced in the late 1970s by Gifford and Elizabeth Pinchot. They define intrapreneurs as "dreamers who do", those who take hands-on responsibility for creating innovation of any kind within an organization. An innovation can be with a new venture, new business, product/services or processes.

Need for Intrapreneurs in the Present Business Scenario

In the ever evolving business world intrapreneurship has its own advantages. Besides, capability building, employee retention, and strategic renewal its major advantage lies in continuous learning and experimenting. A successful example of intrapreneurship is KONE's transformation of the elevator business through its new machine-room-less elevator concept, named KONE MonoSpace, introduced in 1996. This has been considered one of the most significant innovations in the elevator industry and quickly became the industry standard. Most of the social media majors like Google, Yahoo, MySpace, YouTube, LinkedIn, eBay, develop their intrapreneurial capabilities and have been successful with this initiative. Despite the obvious advantages, only around 5% of intrapreneurial activities transform to new substantial business options.

All intrapreneurial activities are with twofold objectives: cost reduction and improved customer focus. Intrapreneurs harness technology, authority and power to find ways to improve efficiency and effectiveness of existing products and processes. Another trigger for intrapreneurs could be the desire to provide more value to the customers through intense customer focus. Intrapreneurs help companies increase performance and renew the organizational structures and strategies for the purpose of better adapting to environmental demands. They may enhance the features of their products and also seek to reduce the inconvenience to their customers.

An Intrapreneurial Ecosystem



The intrapreneurial ecosystem can be illustrated with the metaphor of a seed. Not all seeds that are sowed germinate and grow into plants or trees. Just like every seed needs soil, water, sun light and fertilizers to help its growth every intrapreneurs needs the support from both internal and external factors. If ideas can be seen as intrapreneurial an act, which gives the whole organization a new drive, then there is a need for handling them efficiently and effectively. Besides, to ensure continuity of the process the harvest needs to be reaped carefully.

Successful implementation of intrapreneurial initiatives demands both dynamic internal and external environment. An intrapreneur by nature needs to be creative, daring, aggressive, and have passion and enthusiasm. Approximately an individual thinks 60,000 thoughts a day. At least 90% of them are the same, day after day. If somebody from the outside or a colleague shares examples of new ideas, technologies or products that stirs ideas in an entirely novel way. This implies that intrapreneurs have to both collaborate and co-create. They can benefit from using the resources of the organization that which had not been utilized in an appropriate manner. Intrapreneurship is challenging, fulfilling, personally and professionally rewarding, and is urgently required by corporations—both big and small—and the world over to thrive meaningfully in today's uncertain times.

Apart from the individual's interest, the top management has a significant role in creating an atmosphere wherein employees are encouraged to experiment. Employees have to be stimulated to think differently for new ways and be encouraged to discuss and collaborate with others to experiment the novel ideas. At the organizational level, intrapreneurship is characterized by risk taking, innovation, and proactive-ness and they are largely influenced by the management support, organizational culture and structure, and the resource availability.

Intrapreneurship is not simply a matter of revitalizing business processes, but revitalizing jobs as well. If employees have the freedom, fuel and facilitation to develop their ideas, the organization will gain a competitive, intrapreneurial edge whilst preventing the turnover of valuable, skilled staff. It is the best way to strengthen capability within the firm and within the network within which it operates. It is a tool that can be best opted for transformation and renewal of existing business practices. Besides, the organizations also need the capacity and capability to manage the transformations that are demanded by the changing external environment.

To conclude, just as the intrapreneurship has advantages for the business systems, it does increase the value of the employees within the organization too. Enhanced performance of the employee is the most important consequence of intrapreneurship and usually denotes performance in terms of growth and profitability. Sustained efforts at encouraging innovations and intrapreneurs keeps them motivated and opens avenues for new creations. This energizes and revitalizes the organization and helps them move towards becoming world-class.

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41.THE GOLD BUG

As we welcome another new year, it’s a good time to take a slightly longer term view of events for our dear country. While economically India may have moved haltingly in the right direction, partly helped by the TINA factor for global investors, there is one variable that has the potential to challenge the optimism about 2013 and that’s gold.

Gold or yellow metal as it is called has retained its allure for millenniums, from caveman who used this shining thing to barter in distress to the modern society and looking to pass inheritance across generations, especially Indians. Along the way it has made or broken many empires around the world and has caused many a central banks lose sleep.

The contention for Central Bankers, then as is now, is that gold is a dead asset, how much ever attractive it may be for a woman. Once people use their currency to buy gold the currency vanishes out from circulation, unlike an investment in bonds, shares or bank deposits. Gold in the vault also earns no interest, it just lies there. This causes the natural process of creation of paper money or velocity of circulation to stop and in the worst case is capable of bringing the huge economy to a grinding halt.

In a world of globalization free markets and import parity prices across a range of goods and services this is essentially creating a barrier to free trade. However whether the duty goes up from 4% to 8% may mean little in the long run when the gold prices swing. Will we ask gold owners to voluntarily give up their gold holdings to the government .The only recorded time in history when this was done was by the Roosevelt government in USA who announced this at the height of the Great Depression in 1933.

The yellow metal is now ringing alarm bells almost on a daily basis with the policy makers trying to convince or coerce the population of the county the futility of buying gold. Hence everything from widening current account deficit to contracting saving rate to sticky inflation is being blamed on the rising gold demand. May be the rising gold demand in India is actually not an expression of lack of faith in the currency or to fight effects of inflation in eroding wealth /purchasing power, unlike the developed countries where the biggest hedge fund s hold more gold than many nations' reserve of gold. In India it may just be an indication of the rising prosperity of the middle class. In this case policy would need to be incentivizing the gold buyers. Gold should be allowed to be bartered for goods and services in exchange between countries to make it foreign currency neutral. More gold banks should be opened allowing gold loans and safe deposit of gold with banks in lieu of cash for the same value.

At its vey core this crisis is due to deep ideological confusion on two diametrically opposite world views: free market pricing where market works out the equilibrium versus putting constraints to achieve certain pricing /demand outcomes, which is essentially hallmark of command based economy. India has faced enough issues of mis- incentivizing consumption in oil through false signals. Hopefully history doesn't repeat itself in gold, in a different way. Else the Gold Bug can bite hard!!!

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41. HASSLES IN PUBLIC TRANSPORT AND ITS ECONOMIC EFFECTS

The increasing traffic congestion especially in metropolitan cities today has put many lives at risk and strain. The existing transportation facilities available in the country are highly inadequate to meet the demands of the multiplying urban population. This is evident from the dangerously overcrowded buses and trains, which we witness every day. We observe passengers hanging out from the footboard especially during the peak hours of the day. The growth in the number of passengers has outpaced the increase in the number public buses. The Metropolitan Transport Corporation (Chennai) Ltd., for instance had 3084 buses in its fleet during 2007 – 08 which increased to 3497 in 2011 – 12. At the same time the number of passengers travelling by public bus in Chennai increased from 40.84 lakh to 54.01 lakh per day during the same period. It could be observed that while the growth in the number of vehicles has been around 13%, the growth in the number of passengers per day has been at around 32% in the aforesaid period. This clearly reveals the gap between the supply and demand.

The risks of travelling in an overcrowded bus are innumerable. The passengers travelling on the footboard dare a risky journey. A recent article published in "The Deccan Herald", highlights the number of cases of accidents due to footboard travelling recorded by Bangalore Traffic Police which were 49 in 2009, 76 in 2010 and 83 in 2011. Though these numbers are comparatively lower than 564 cases recorded in 2007 the trend persists. Also in a congested bus, where it is even difficult for one to take out their own wallet to buy a ticket, the pickpockets complete their task conveniently. The crowd in the bus ultimately forces drivers and conductors to deliberately skip some of the stops which again put the passengers through a lot of hassle. The school children carrying their daily load of books on their backs are exhausted by the time they board and depart the bus. Women often face inconvenience in such congested vehicles.

The inadequacy of the public transport system has forced many people to go in for private vehicles as they consider it the best alternative. This has driven up the sales of private vehicles. The range of private vehicles include two-wheelers, cars, and autos, call taxis and mini vans. As per the records of the Society of Indian Automobile Manufacturers the domestic sales of two-wheelers has increased from 7,449,278 in 2007-08 to 11,790,305 in 2010-11. This is about 60% increase in the sales. It is also said that India has a unique vehicle mix with a very high proportion (76%) of two wheelers. While this is with respect to two wheelers the car sales have gone up from 1,203,733 to 1,982,702 during the same period, which is about 65% increase.

The disruptions caused by the increasing number of vehicles on land and its consequences are diverse. The congestion on roads makes the vehicles almost crawl through the roads. According to the national crime records bureau the number of deaths in road accidents have increased from 114,590 in 2007 to 136,834 in 2011. The environmental impact of pollution caused by the emissions from these vehicles and the resulting health hazards are multiple. The emissions from vehicles may lead to respiratory and digestive disorders and even skin problems.

The World Health Organization has estimated that about 65% of the air pollution deaths occur in Asia and close to quarter of this in India. Vehicles are the major source of NO_x and CO emissions. These chemicals cause respiratory diseases and affect the cardio-vascular system and the brain. Vehicle congestion also affects the health by means of the stress and strain imposed on the people. Presence of dense smog in many parts of the National Capital Region, reducing visibility is an indicator of the high levels of pollution in the city. Hours of time wasted due to slow movement of the traffic cause restlessness and anxiety which in turn affects the physical and mental health.

The increasing number of vehicles has its impact not only on the health of the population but also on the wealth of the economy. The crude oil consumption in India was about 112.56 million tonnes in 2002-03, and has gone up to 206.15 million tonnes in 2010-11. It can thus be observed that the consumption of crude oil has increased by 83%. However the crude oil production in India has not increased at the same rate. The crude oil production has marginally increased by 14%. As a result, India has to depend heavily upon imports of crude oil. The quantity of crude oil imported has increased from 81.99 million tonnes to 163.59 million tonnes while the value of crude oil imports have gone up from Rs.850.42 billion to Rs.5,117.21 billion. The total budget subsidy of the Government of India has shot up from Rs.6, 408 crore in 2003-04 to Rs.20, 415 crore in 2010-11, which is more than 200% increase. Since the proportion of oil imports to total imports is greater than 25%, a major cause for the increasing fiscal deficit and external debt could be attributed to the high levels oil imports.

One of the best ways to overcome the prevailing crisis is by improvements in the public transportation system especially in the developing urban areas and metropolitan cities. Since public transportation is a cheap means of transport, improvement in the facilities would motivate the people to make efficient use of the same. Further, institutions such as schools, colleges and organizations which employ large number of employees could provide transportation or private bus facilities to its people. This would prevent overcrowding in public transport and would also ensure safety of students and workers. BPOs and firms with efficient technologies could innovate ways to provide their employees the option to work from home, which would help save time and money by reducing the frequency of travelling.

Last but not least as responsible citizens simple practices observed strictly can make a gigantic difference. The way we drive and care for our vehicles will help economize fuel consumption and reduce pollution emissions to a great extent.

Driving as little as possible could reduce the harmful environmental impact of transportation needs. Carpooling, mass transit, biking, and walking are ways to limit the number of miles we drive. Choosing a place to live that reduces the need to drive is another way. Driving moderately and avoiding high-speed driving and switching off the engine when one has to wait for a while, can reduce both fuel use and pollutant emissions.

Simple vehicle maintenance, such as regular oil changes, air-filter changes, and spark plug replacements, can lengthen the life of your car as well as improve fuel economy and minimize emissions.

Keeping tyres appropriately inflated saves fuel by reducing the amount of drag a car's engine must overcome. During warm periods with strong sunlight, parking in the shade keeps a car cooler and can minimize the evaporation of fuel.

Developed countries like Singapore, which measure only 43 km EAST-to-SOUTH and 23 km NORTH-to-SOUTH, have a very effective and efficient public transport system. The Singapore government has made it very difficult to own a private car by imposing huge taxes and congestion charges. At the same time, the Public Transport System has been developed in such a way that it creates no need to use a car. This is a robust way to put down the environmental pollution caused by increasing number of cars and other private vehicles. If this system works for Singapore, it could very well work for a developing country like India. Well-developed infrastructure, planned roads and a healthy public transport system can reduce the amount of pollution and our contribution to the global warming. This in turn would reduce the amount of oil imports and will have a better knock-on effect on country's economy – a dual benefit. Let us hope…

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42. OF CHERRIES AND LEMONS!

Do you know why the Members of the International Health Economics Association named their annual award for outstanding published work in health economics after Kenneth J Arrow? Well this was because of the importance they laid on his classic article in the field of Health Economics viz. *Uncertainty and the Welfare Economics of Medical Care* (American Economic Review, 1963). His work to integrate uncertainty into economic models led to the publication of his 1963 paper on the economics of health care. In it he clearly highlighted that the key element in insurance markets was the difference between the buyers and sellers of insurance. The very fact that people have health insurance causes them to spend much more on health care than they would have done if they did not have such insurance.[i]

Though the Nobel Prize he was awarded in 1972 was because he totally revolutionized the way economists think about general equilibrium and social choice, yet his work with respect to Health Economics is a real treasure to the worlds of Health and Economics. His investigations into the concept of *asymmetric information* are indeed extremely interesting. In many transactions one party normally the seller has much more information about the product being sold than the other party. This enables the one who has more information to cheat the one with less. In fact this feature has led to the development of market structures which have included warranties and third party authentications. Such elements enable the markets with *non perfect information* to actually function. In this context Arrow investigated the issue of medical care in his paper published in 1963. Later other economists also investigated other markets with asymmetric information like in the case of second hand assets. In economics asymmetric information examines the study of decision making when one party knows more than the other with respect to the product in the market. In Classical and Neo classical economics the assumption is that knowledge is perfect. This however is not so in real life – in fact it is about what we do know that makes the difference and locates the other on a higher pedestal! This lack of knowledge causes imbalance in power transactions which can cause market failure in its extreme form.

This then takes us to the work of another economist who investigated the fall out of what we do not know. In other words into the concept of asymmetric knowledge, which is one party knowing more than the other. George Akerlof in his paper entitled *The Market for Lemons: Quality Uncertainty and the Market Mechanism*, 1970 discusses about information asymmetry which occurs between buyers and sellers in a market. The term ***Lemon*** is a slang used by Americans for cars that are found to be flawed only after they have been bought. George Alkerlof, Michael Spence and Joseph Stiglitz jointly received the Nobel Prize in 2001 for their work on asymmetric information. Alkerlof's work[ii] uses the market for second hand cars as an example for the quality of uncertainty. His work concludes that the owners of good cars will not place their cars on the used car market, in other words the bad drives out the good in the market! A used car is one in which the possession is transferred from one to another person after the car has been used and hence the machine would have worn out. There are good cars or ***Cherries*** and defective cars or Lemons mainly because a car can be affected by various non measurable hence non traceable variables such as the driving styles of different owners/drivers, the quality of maintenance and the accident history. This lack of knowledge also arises because there are numerous hidden elements in a car that cannot be visible for inspection before the purchase of the same, to assess the extent of wear and tear. This implies that if an owner has used her/his car in a non abusive manner and has maintained it well then it would be impossible for her/him to bargain for a higher price for such difference in the quality of the maintenance of the vehicle will be hidden. In short it is difficult to decipher the cherries form the lemons and hence the lemons drives out the cherries as the owners of the well maintained cars will not place their used cars in the second hand market as they will only get an average price and will never be able to get the cost of maintaining the car well back while selling it in the second had market. The withdrawal of good used cars will hence reduce the quality of second hand cars. Hence in markets with asymmetric information a modified analogy from Gresham's law can be drawn viz. bad driving out the good, except in the case of what Thomas Gresham (1519 – 1579)[iii] stated which applied to exchange rates.

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[1] Arrow, K.J, "Uncertainty and the Welfare Economics of Medical Care", *The American Economic Review*, Vol.LIII, No. 5, December 1963

[1] Akerlof, George A. (1970). "The Market for 'Lemons': Quality Uncertainty and the Market Mechanism". *Quarterly Journal of Economics*

[1] However, the law had been stated forty years earlier by Nicolaus Copernicus (1473 – 1543). Hence in Poland this law is called the Copernicus – Gresham Law.

43. WOMEN AND WORK

The size and quality of the labour force in a country is a crucial factor in the growth process. The labour force does not normally include old people above the age of 60 and children below the age of 15. Work force refers to the economically active population participating in different economic activities for earning money. The unemployed are included in the labour force, but not in the work force. The workforce participation rate is defined as the percentage of total workers to the total population.

In developed countries, the work participation rate often ranges between 45 to 50 percent; while in India it has been around 33 percent. Out of the total population of 1025 million, 402.5 million persons were workers; of these, 275.5 million were males and 127 million were females. In relative terms, the share of males in total workforce was 68.4 percent and that of females was 31.6 percent (Census: 2001). The WFPR for women shows a declining trend - from 28.5 percent in 1987 to 25.9 percent in 1999.

The NSSO survey of 2009 -10 reveals disturbing trends. Applying the participation rates of NSSO survey to interpolated population figures from the census, we see that total female employment actually declined at an annual rate of 1.72 percent between 2004-05 and 2009-10, while male employment showed a slight increase at the rate of 1.72 percent. This is disturbing because already women's work participation rates are quite low.

What is significant is that rural rates are nearly three times the urban rates. Again, the long term trend appears to be one of decline, even though India is a rapidly growing economy. A startling exception seems to be the year 2004-05 which showed increasing FWP whereas 2009-10 exhibited a reversion to the longer term trend of gradual decline. The 2000's were years of rapid GDP growth – the number of women increased by 86.5 million but only 7.5 percent were gainfully employed.

A word of caution is called for at this juncture. Female WPR calculated by statisticians may not reveal the actual productive contribution of women. In India, all women work, some merely at household drudgery, but a sizeable number are engaged in agricultural activities. Thanks to the custom of early marriage, most of the females of working age are primarily wives and whether they work in the fields or not, certainly work at home.

Moreover, the scale of non-market activities undertaken by women is very large, making the reckoning of women's work difficult. In fact, the 1881 census report stated "the occupation of females is a difficult subject to deal with".

The importance of women's work receives a step motherly treatment simply because much of this work is invisible in terms of market criteria. It does not fall in with the general perception of what constitutes work. Over time, this perception may change. A change in the definition of 'work' or the questions asked by the enumerators can also lead to changes in the WFPR of women.

The process of informalisation leads to the exploitation of the cheap female labour available. The sluggish growth in the organized sector has led to the emergence of the informal sector where women are largely concentrated and engaged in petty commodity production and trade. The largest increase in urban regular employment of women was in the form of domestic service – as maids, cooks and cleaners, which can hardly be described as desirable or lucrative. This exceeds the increase in export-oriented sectors such as garments, leather and IT enabled activities.

In rural areas, women are stuck in low-end, back-breaking tedious agricultural activities. The continuing agrarian crisis will jeopardize even these low paying jobs.

The vast majority of women work not out of choice but because they have to survive. In addition to the long hours of work they put in, they also bear the burden of all other domestic chores, child rearing and cultural and social obligations. Since most of these activities are not subject to explicit market relations, there is a tendency to ignore them. Even women themselves do not recognize much of their work as economic activity.

Officially generated data are only rough indicators of the contributions made by women. Social scientists regard WFPR for women as a proxy indicator of women's overall status in society.

The conclusion that we can draw is that economic growth has not generated a process of employment diversification or higher rates of employment for women.

What is the resolution? A welcome trend is the big increase in the number of women in education especially in the age group 15-19 years both in rural and urban areas. This augurs well for the future.

Increasing the volume of explicit female employment will definitely help. But caution should be exercised here, because this may lead to a double burden on women whose household obligations have still to be fulfilled. Sharing of tasks within the household and arrangements for child case like crèches will definitely help in easing the burden of "working women".

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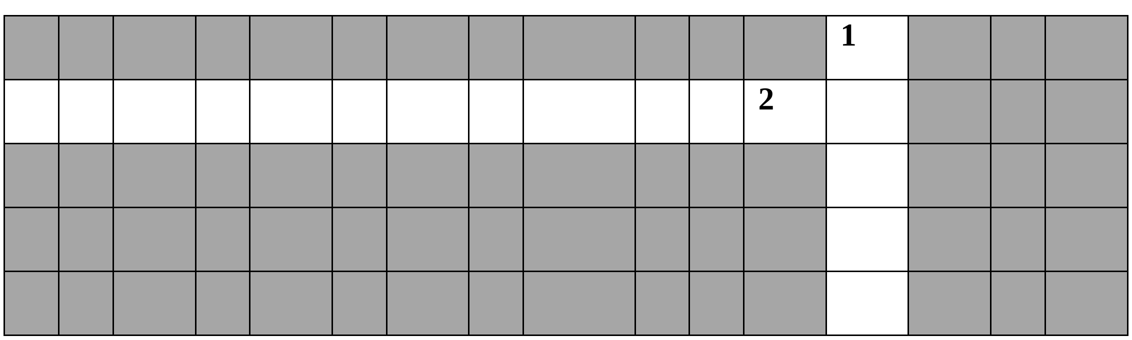
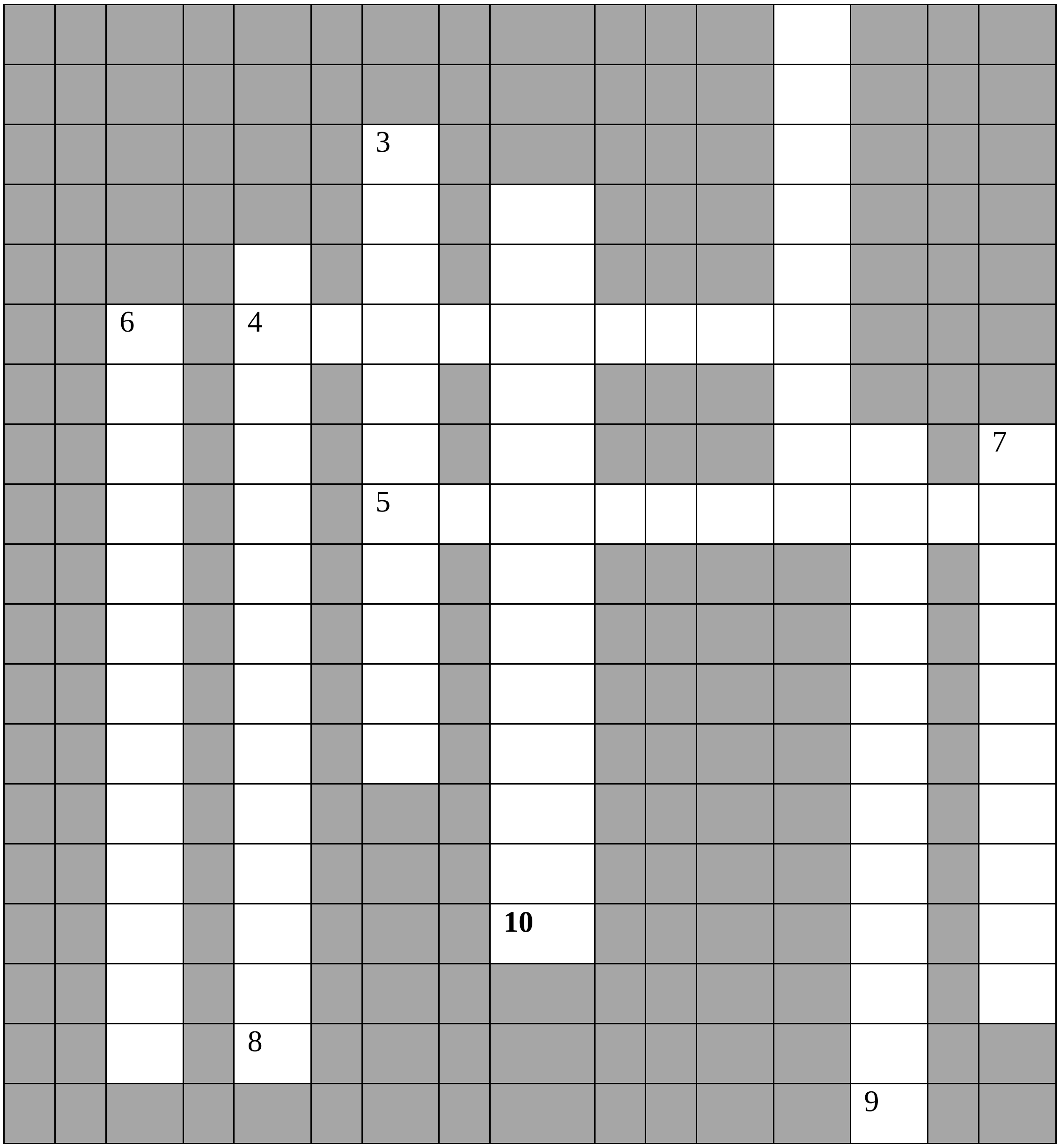
44. Who is up for a little Cross word





Who is up for a little crossword?

Find out the names of the famous economists with the clues given below.

1-D0WN

He was a British Economist.

He wrote the book, Principle of Economics.

2-ACROSS

He was a British Political Economist.

He gave the famous theory of Rent.

3-DOWN

He is an American Economist.

He won a Nobel Price for the discovery of Transaction costs and Property Rights.

4-ACROSS

He was a Scottish Economist.

He brought out the concept, The Invisible Hand.

5-ACROSS

He is an Indian Economist

He won a Nobel Prize for his contribution to Welfare Economics.

6-DOWN

He is an American Economist.

He won a Nobel Prize for the analysis of market with asymmetric information.

7-DOWN

He was an American Economist

He gave the General theory of Employment, Interest and Money.

8-UP

He was an American Economist.

He won a Nobel Prize for his achievements in the fields of consumption analysis and monetary history theory.

9-UP

He was an American Economist.

He did a research on the Quantity theory of money and developed the theory of capital and interest rates.

10-UP

He was an American Economist.

He was the first American to win the Nobel Prize in Economic Sciences.

Prathema

11/UECA/011

44. ECONOMICS JOKES

- ☺ Heard at the Wharton School.

Man walking along a road in the countryside comes across a shepherd and a huge flock of sheep. Tells the shepherd, "I will bet you $100 against one of your sheep that I can tell you the exact number in this flock." The shepherd thinks it over; it's a big flock so he takes the bet. "973," says the man. The shepherd is astonished, because that is exactly right. Says "OK, I'm a man of my word, take an animal." Man picks one up and begins to walk away.

"Wait," cries the shepherd, "Let me have a chance to get even. Double or nothing that I can guess your exact occupation." Man says sure. "You are an economist for a government think tank," says the shepherd. "Amazing!" responds the man, "You are exactly right! But tell me, how did you deduce that?"

"Well," says the shepherd, "put down my dog and I will tell you."

- ☺ A mathematician, an accountant and an economist apply for the same job.

The interviewer calls in the mathematician and asks "What do two plus two equal?" The mathematician replies "Four." The interviewer asks "Four, exactly?" The mathematician looks at the interviewer incredulously and says "Yes, four, exactly."

Then the interviewer calls in the accountant and asks the same question "What do two plus two equal?" The accountant says "On average, four - give or take ten percent, but on average, four."

Then the interviewer calls in the economist and poses the same question "What do two plus two equal?" The economist gets up, locks the door, closes the shade, sits down next to the interviewer and says, "What do you want it to equal"?

- ☺ Three econometricians went out hunting, and came across a large deer. The first econometrician fired, but missed, by a meter to the left. The second econometrician fired, but also missed, by a meter to the right. The third econometrician didn't fire, but shouted in triumph, "We got it! We got it!"

- ☺ A mathematician, a theoretical economist, and an econometrician are asked to find a black cat (who doesn't really exist) in a closed room with the lights off. The mathematician gets crazy trying to find a black cat that doesn't exist inside the darkened room and ends up in a psychiatric hospital. The theoretical economist is unable to catch the black cat that doesn't exist inside the darkened room, but exits the room proudly proclaiming that he can construct a model to describe all his movements with extreme accuracy. The econometrician walks securely into the darkened room, spends one hour looking for the black cat that doesn't exist and shouts from inside the room that he has caught it by the neck."

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45.JOKE CORNER

1. The First Law of Economists: For every economist, there exists an equal and opposite economist.
The Second Law of Economists: They're both wrong.

2. Q: How many conservative economists does it take to change a light bulb?
A1: None. The darkness will cause the light bulb to change by itself.
A2: None. If it really needed changing, market forces would have caused it to happen.
A3: None. If the government would just leave it alone, it would screw itself in.
A4. None. "There is no need to change the light bulb. All the conditions for illumination are in place.
A5. None, because, look! It's getting brighter! It's definitely getting brighter!!!

3. SOCIALISM: You have two cows. The state takes one and gives it to someone else.
COMMUNISM: You have two cows. The State takes both of them and gives you the milk.
FASCISM: You have two cows. The State takes both of them and sells you the milk.
MILITARY DICTATORSHIP: You have two cows. The State takes both of them and shoots you.
BUREAUCRACY: You have two cows. The state takes both of them, accidentally kills one and spills the milk in the sewer.
CAPITALISM: You have two cows. You sell one and buy a bull.
PURE DEMOCRACY: You have two cows. Your neighbors decide who gets the milk.
REPRESENTATIVE DEMOCRACY: You have two cows. Your neighbors pick someone to decide who gets the milk.
AMERICAN DEMOCRACY: The government promises to give you two cows if you vote for it. After the election, the president is impeached for speculating in cow futures. The press dubs the affair "Cow gate".
ANARCHY: You have two cows. Either you sell the milk at a fair price or your neighbors kill you and take the cows.

4. Who’s an economist?

An economist is someone who doesn't know what he's talking about - and make you feel it's your fault!

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