ABSTRACT

"*When the US sneezes, the rest of the world catches cold*".

Throughout history any slowdown in the US economy used to have an indirect adverse effect on almost all the other economies across the globe. However, post the 2008 financial crisis, although international trade collapsed sharply, it was quick to bounce back strongly as it was led by trade among emerging economies. This led to the emergence of the theory of Decoupling Hypothesis - the belief that emerging market economies like India and China have reduced external vulnerabilities and have become more resilient to global shocks, thus 'decoupling' from advanced economies. The study tests the validity of the Decoupling Hypothesis for the Indian Economy over a span of twenty-five years. It takes monthly time-series data of Index of Industrial Production from 1991 to 2014 to compare the business cycle correlation of India with that of Advanced Economies, and with USA in particular. The results show that for the given sample, the Decoupling Hypothesis does hold for India. Finally, an attempt has been made to explore the possible reasons behind the shrinking dependency of the Indian economy with that of the advanced economies, and the study ends by giving policy implications of these results.

Keywords : Business Cycle Synchronization, Decoupling Hypothesis, Correlation Analysis.