

## ABSTRACT

Railways are considered as “the lifeline of the Indian economy” as it facilitates industrial and economic development. For many decades, railways have been barely covering its operating expenses and the sector remained under-invested hurting India’s manufacturing competitiveness. Development of railways is important for the long run development of the country as it is sustainable both from logistics and cost to the economy. However, at present the modal mix shows that railways are increasingly losing out to the road sector. With the upcoming Dedicated Freight Corridors the recent stance has changed in favour of the sector, but there is still a long way to go to reverse the trend. The paper is an attempt to understand the variables that affect the long run dynamics of this sector so that policy prescriptions are set in the correct perspective.

The paper examines the long run structural relationships of tonne-kilometer (TKM) and passenger-kilometer (PKM) for the freight and the passenger segments of railways with various economic variables in India. Empirical analysis using cointegration and vector error correction analysis has been conducted and the relationship shows that there seems to be a long run relationship in TKM and PKM with the select economic variables. The adjustment mechanism both the parameters is around 20-25%. The results also show that unlike our hypothesis, the industrial growth as captured by Index of Industrial Production does not granger causes our key parameter tonne-kilometer. The passenger-kilometer is however, determined by the gross domestic product and mineral oil price index.

*Keywords: Railways, Passenger-kilometers, Tonnes-kilometers, Cointegration, vector error correction, India*