



MADRAS SCHOOL OF ECONOMICS

First Seminar Series Retreat

August 21 – 22, 2010

**Venue: MGM Beach Resort
ECR, Muttukadu, Chennai 603 112**

DETERMINANTS OF PARTICIPATION IN HIGHER EDUCATION AND CHOICE OF DISCIPLINES: EVIDENCE FROM URBAN AND RURAL INDIAN YOUTH

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Abstract

The primary focus of this paper is to examine the role played by economic, social and demographic characteristics in determining the likelihood of participation in higher education for both rural and urban youth in India. Using data from the national sample survey we examine how household's demand for higher education is governed by its social composition, gender related aspects, economic background and cost of acquisition of education. We also estimate significance of these factors in explaining choice of different stream of studies for e.g. Arts, Commerce, Science, and Technical Education. Youth belonging to schedule caste and schedule tribe background has significantly lower odds of going to a higher educational institution compared to other social groups in rural area. The gender impact in terms of higher education participation is more pronounced for the highest income/ expenditure quartile for both urban and rural region. Rising cost of higher education exerts a significant detrimental impact on the odds of participation in higher education. Analysis of choice of individual discipline of higher education reveals that female youth have significantly higher odds of attending a higher education institution for Arts/Humanities course in urban India as compared to her male counterpart. However, for every other stream i.e. Science, Commerce, Medicine, Engineering and other Professional courses there is a strong gender bias against female even after controlling for social and economic background of the household.

Keyword: *Higher Education participation, Gender Disparity, Wealth Effect, Cost of education, India*

JEL Code: *I21, I23, I28, O15*

TAX-EXPENDITURE NEXUS FOR SUBNATIONAL GOVERNMENTS: A POLITICAL ECONOMY APPROACH

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Abstract

In this study, we explore the tax-expenditure nexus in a federal economy with interregional grants. Here, public goods are federally funded but locally produced (with costly local revenues), and have interjurisdictional spillover effects. The direction and magnitude of fund flow, which ultimately determine the local provision of public goods, are influenced by the re-election probability of the parties in power at the federal and provincial levels. We endogenise the choice of optimising variable (tax or expenditure) and show that, in presence of politics, the choice may bear a one-to-one relationship with the political identity of the province. Preliminary version. Please do not quote

Keywords: *Federalism, Party Politics, Revenue-Spending nexus*

JEL Code: *H7;H3*

WHAT DO WE KNOW ABOUT THE BIOLOGICAL STANDARD OF LIVING IN INDIA?

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Abstract

There is an increasing use of non-monetary measures of human welfare among which biological aspects like stature or height is one. Heights reflect a long term measure of well-being and this study discusses some findings for India using the data from National Family Health Survey-3 and several reports of National Nutrition Monitoring Bureau.

The study shows that on average men and women in rural India are shorter than their urban counterparts, 'wealthier' sections of the population are far taller than those in the bottom quintile of NFHS wealth index and that teenage childbirth reduces the final height attained by women. Education acts as a dampener in terms of postponing the age at first child birth and also the impact of wealth differences thereby having a positive impact in improving heights. Interesting deviations are in terms of the socio-economic status in that Muslims are taller than Hindus and so are the tribes when compared to the castes, however limited nature of information in the dataset provides very little scope to assess the reasons.

The northern states of Jammu and Kashmir, Punjab, Haryana and Rajasthan have a clear height advantage but the southern states are catching up more so in Kerala followed by Tamil Nadu. Unlike in several parts of the developed world, it is observed that in India stature correlates only in a limited manner with other indicators of well-being thereby suggesting for a multi-dimensional approach to measuring welfare.

ON THE POLITICAL ECONOMY OF FISCAL IMBALANCE IN INDIA

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Abstract

There are two motivations why governments may use fiscal stimuli, often financed by additional borrowing, to expand their activities above the trend levels. The first is to play a countercyclical role to minimise the impact or volatility of cyclical phases of growth, particularly in a downturn. The second motive derives from using government's expansionary intervention for a political motive. The first is a response to economic cycles and the second to political cycles driven by the timing of elections. It is argued in this paper that the political cycle motive has been the dominant motive in explaining the evolution of fiscal imbalance in India. It is possible to study the evolution of fiscal imbalance in India in distinct phases. The first phase may be considered up to 1976-77, i.e. up to the fifth general election when election year fiscal and primary deficits were on average more than one percentage points higher than the non-election years. In this period, there were also many years when the elections coincided with the economic downturns. This cyclical movement of primary deficit led to increase in the debt-GDP ratio giving rise to higher interest payments to GDP ratio. Slowly, the cyclical nature of fiscal imbalance got converted into structural imbalance as higher and higher borrowing was needed to maintain primary expenditures relative to GDP.

The second phase may be considered as lasting up to 2003-04 after which fiscal responsibility legislations were brought in, in view of the structural nature of fiscal imbalance to reduce the imbalances to within sustainable limits. The conversion of primary deficits into debt is dependent on accumulated primary deficit between any two periods and the impact of weighted excess of growth over interest rate in that period. In the second phase, considerable imbalance in terms of primary deficit was converted into debt.

With a view to bringing debt within sustainable levels, exogenous controls like the fiscal responsibility legislations were introduced as part of overall fiscal reforms. While there was some initial success emanating from the fiscal responsibility legislations, the 2008-10 period, when the economic downturn coincided with a general election, witnessed considerable fiscal slippage. Governments, particularly the central government, found an alibi in the global slowdown but had actually resorted to excessive spending in anticipation of the general elections. This has again led to the weakening of the reform process to keep the debt-GDP ratio within sustainable limits. Thirteenth Finance Commission has examined the issues afresh. In ensuring long term fiscal discipline, their recommendations however fall short, at least in two critical respects: first, they may have pro-cyclical bias and secondly, they put borrowing at both central and state levels endogenous to centre's decisions, which is often weakly motivated to pursue fiscal discipline.

THE CHALLENGE OF CLIMATE CHANGE ADAPTATION: CONCEPTUALIZATION AND COST ESTIMATES

K.S. Kavi Kumar
Professor

Abstract

The findings of the Fourth Assessment Report of the IPCC have strongly emphasized the need for consideration of adaptation to the adverse impacts of climate change as a priority area for local, national and international policy. While the origins of discussion on adaptation can be traced back to the climate change impact assessment studies in early 1990s, it is relatively less understood and less researched compared to its policy counterpart, viz. mitigation. This paper attempts to suggest ways in which research could advance the adaptation agenda. For this purpose the paper flags five critical issues related to adaptation research: (a) Mitigation and Adaptation Inter-linkages; (b) Typology of Adaptations; (c) Cost of Adaptation – Global and National Estimates; (d) Adaptation Instruments; and (e) Mainstreaming Adaptation Policy through Integration with other Policies. The paper argues that these issues, if addressed effectively, would lead to better understanding of the adaptation and facilitate effective implementation of adaptation policies.

Key Words: *Climate Change; Adaptation; Adaptation Cost; Adaptation Policy*

JEL Classification: *Q54, Q58*

FACTORS INFLUENCING ABNORMAL RETURNS AROUND BONUS AND RIGHTS ISSUE ANNOUNCEMENT

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and

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Abstract

This study examines various factors influencing abnormal returns around bonus and rights issue announcements. The results of the study indicate that market condition and industry have significant influence on abnormal returns and the bonus ratio does not have any significant effect on abnormal returns. However, for rights issue announcement, issue size and market condition is significantly influencing abnormal returns. The firm size, operating leverage, debt equity ratio, volatility of stock returns are the other firm related factors influencing stock returns around bonus issue announcement. But for rights issue, only firm size is the significant firm related factor influencing abnormal returns. Overall, this study highlights that firm related, issue related and market related factors have an influence on the firms' abnormal returns around bonus and rights issue announcements.

Key Words: *Bonus Issue, Rights Issue, Cross Sectional Regression; Market Size; Volatility of stock returns*

JEL Classification: *G14; G32*

MEASURING LABOUR MARKET INSECURITY IN RURAL INDIA: EVIDENCE FROM NATIONAL SAMPLE SURVEY DATA

Brinda Viswanathan, Associate Professor
and
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Abstract

Despite debates on jobless growth in India over the past decade and the setting up of task forces to address employment insecurity, there has been no systematic attempt to develop a multi-dimensional measure of labour market insecurity. This study attempts to fill that gap using the National Sample Survey data for the year 2004-2005 for rural India to construct a composite index using principal components analysis. The study uses information on key dimensions of labour market insecurity, including labour force status, labour time utilization, and behavioural response to labour market risks. The research question addressed is to find out how the labour market insecure differ in their socioeconomic household and individual characteristics from the labour market secure. The main result that stands out is that when the composite labour market insecurity index developed in this study is used, women are found to be much more livelihood insecure than men. The result is important because earlier studies have focused mainly on the low labor force participation rates of women but have overlooked the issue of severity of labour market insecurity among rural women. Another important result of this study is that self-employed own account workers and unpaid family labour engaged in agriculture are relatively more livelihood insecure. The findings of the study have implications for interventions aimed at alleviating labour market insecurity.

REGIONAL GROWTH CONVERGENCE IN INDIA: A PANEL DATA APPROACH

K.R. Shanmugam
Professor

Abstract

Growth matters as it paves way for a better standard of life. However, the true success of growth depends on whether it is inclusive and helps to bring equitable society. Although India has achieved acceleration in growth after reforms, the growth is not inclusive. There are indications of poverty reduction and improvement in many indices of quality of life in the post reform period. There are also evidences for widening regional disparities in income and other social development indices. Given the heterogeneity of the Indian States on one hand and the policy objective of a balanced regional development, it is useful to enquire whether the poor-off states are catching up with the better-off states.

This study is an attempt to analyze the convergence among the Indian States during 1999-00 and 2008-09. For this purpose, it employs the panel data model of convergence, which has its formal theoretical foundations in the neo-classical Solow-Swan-Ramsey model of growth and empirical foundations from Barro and Sala-i-Martin (1991).

Specifically, it employs the following the conditional convergence model for panel data:

$$1/T \ln (y_{i,t}/y_{i,t-1}) = \gamma_1 + \gamma_2 \ln y_{i,t-1} + \gamma_3 X_{it} + \lambda_i + \mu_t + \varepsilon_{i,t}$$

The left hand side of the equation is the annualized growth rate of real per capita output (income) of the i th region in t th period. T is the time length. The initial level of income is given by $y_{i,t-1}$ and X_i is a vector of other determinants of growth. λ_i region specific effect which captures impact of unobserved heterogeneity in the model and μ_t will capture the time specific impacts.

The results of the study provide a strong evidence for conditional convergence in per capita income. They also imply that (i) different

states do not converge to a single steady state income rather each of them converges to its own steady state income and (ii) the speed of convergence (the rate at which the economy converges towards its steady state income) is -0.313.

EMPIRICAL RELATIONSHIP BETWEEN DIVIDEND AND INVESTMENT: EVIDENCE FROM AN EMERGING ECONOMY, INDIA

Saumitra N. Bhaduri
Professor

Abstract

The paper studies the determinants of two important decisions for the Indian firms, dividend and investment. In contrast to the Modigliani and Miller (1961) model, in which period-by-period dividend decision is separable from its investment decision, the paper finds evidence that Indian firms adjust their investment decision to accommodate dividends. Most interestingly, the paper does not find any evidence that firms adjust dividends to accommodate investment, contradicting Myers' pecking order model (1984). As often observed in the literature, the results presented in the paper are also consistent with Lintner (1956) model which predicts that dividends move consistently towards target payouts. However, in contrast to Lintner's single factor (i.e., earnings) target payout model, we find evidence in favour of multiple factors such as agency conflict, asymmetry of information, growth factors to influence the optimal dividend decision.

HUMAN CAPITAL, LABOUR PRODUCTIVITY AND EMPLOYMENT

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Abstract

This paper analyses the importance of human capital in determining the inter-state differences in labour productivity and its growth in India. The paper also examines the impact of human capital differences on the growth of employment for a cross section of Indian states for the period 2003-2007. It argues that the current technology is human capital and knowledge intensive and cannot be used in the absence of skill development. Due to the presence of skill bias in the new technology persons with less education would become victims. The panel model results of Generalised Least Squares using cross section weights show that after controlling for other determinants, variables representing human capital emerge significant determinants of productivity. Furthermore, higher enrolments in high schools not only contribute to higher labour productivity but also to higher growth in productivity. In addition, states that have higher high school enrolment rates have been enjoying higher growth rates of employment. On the whole the results presented show strong skill bias in productivity and employment growths across states.

ARSENIC CONTAMINATION IN WATER: MITIGATION AND POLICY OPTIONS

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Abstract

Risk of arsenic contamination in water supplies continues to increase in many countries, especially in developing nations. Its sources and effects are multiple and diffused in nature and it requires detailed assessment and policy. This paper discusses the global extent of the problem, its sources and effects and explores different policy options. Sources and pathways of interaction require comprehensive assessment and policy. Innovation in low cost technologies offers possibilities for reducing abatement cost and for economic efficiency. To reduce arsenic in water resources, incentive policies such as taxing and subsidizing can be used to reduce arsenic levels in point sources through creation of appropriate incentives. The paper also identifies opportunities for enhancing self-protection efforts through education and information sharing. Under a self-protection policy, though the damages decline to a greater extent, there is a possibility of an increase in arsenic emission. Finally, a combination of policies are proposed that involve low cost technology, education and awareness to mitigate the damage from arsenic contamination at a watershed scale. It is also necessary to enforce these policies through appropriate institutional changes that involve coordination and cooperative efforts to mitigate arsenic contamination.

Keywords: *Arsenic; Education policy; Incentives; Self-protection; Taxing and subsidizing policy; Technology; Water*

BASEL I AND BASEL II COMPLIANCE IN INDIA: ISSUES FOR BANKS

Sreejata Banerjee

Abstract

Basel Accord initiated the world economies towards risk based banking regulation. We analyze the modalities of Basel-I standards, its shortcomings, and the raise to the Basel-II. Basel-I was criticized for its risk insensitivity and simplicity, which encouraged the banks to shift their risky assets to off balance sheet accounts. Basel-II was introduced in 2005. Basel II with three pillars of regulatory capital, supervisory review and market discipline is a major augmentation in the quality of banking regulation. The fulcrum of the Basel II is the Internal Rating Based approach IRB. Despite greater sophistication Basel II has its drawback of embedded procyclic bias. Jackson (2003) suggests that banks can be offered incentives to choose stable ratings so as to prevent procyclicality. Most research in Basel is Micro level and research on banks' Basel-I and Basel-II compliance is scarce. In this paper determinant of Capital Risk Adequacy Ratio (CRAR) in Indian public, private and foreign banks are examined in three different phases, through a panel data cross section framework. Capital to Risk Weighted Assets or the Net Non Performing assets are found to be significant factors in determining the CRAR.

Keywords: *Basel-I, Basel-II, Procyclicality, Risk weighted assets, Non-performing assets*

JEL Code: *G21*

VALUING THE ENVIRONMENT IN DEVELOPING COUNTRIES:

MODELING THE IMPACT OF DISTRUST IN PUBLIC AUTHORITIES' ABILITY TO DELIVER ON THE CITIZENS' WILLINGNESS TO PAY FOR IMPROVED ENVIRONMENTAL QUALITY

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Abstract:

Stated preference methods (SPM) like the contingent valuation method (CVM) and the choice experiment method (CEM), have been applied in developed countries to estimate these countries' citizens' willingness to pay (WTP) for environmental conservation and sustainable management of natural resources. There is however a need to investigate further how SPM can be implemented effectively in developing country contexts to be able to capture and model developing country citizens' valuation of environmental conservation or sustainable natural resources management. In this study we investigate whether citizens of West Bengal municipalities located along the banks of the river Ganga are willing to pay higher municipality taxes for an intervention, namely an improvement in the capacity and technology of a sewage treatment plant (STP) by CEM. Our findings reveal that even though almost all (98%) of the randomly selected 150 local citizens stated that they cared about the quality of the water in particular, and the ecological status of the Ganga in general; a great majority (90%) protested the intervention, by not choosing the improved water quality scenario in at least one of the eight hypothetical markets they were asked to participate. At least 92% of them stated that they do not believe the additional taxes they would pay for the provision of this intervention would be used for this purpose due to the inefficacy of the local authorities. Our preliminary results reveal that the nested model explains the data better than the conditional logit model. Citizens from households with higher income levels; larger households and households with heads that have university degree or

above, are more likely to participate in the STP improvement intervention. Households are willing to pay on average Rs 86 additional monthly taxes to improve the quality of the water treated and Rs 5.5 to increase the quantity of treated water. Citizens however are not willing to pay rather they are willing to accept compensation, for improvements in the Wonderland park around the current STP, which is mainly used for recreational activities.

Keywords: *choice experiment method, nested logit model, River Ganga, sewage treatment plant water quality, water quantity*

JEL Codes: *C25, C83, C87, Q5, Q53*