ANALYSIS ON INDIAN REAL GROWTH RATE USING MARKOV SWITCHING MODEL

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ABSTRACT

This study aims to identify the patterns of Real GDP growth of India using a regime-switching model approach proposed by Hamilton (1989) in his paper " *A New Approach to the Economic Analysis of Non-stationary Time Series and the Business Cycle"*. This study categorizes the Real GDP growth into two phases, namely, a phase of low growth (periods of contraction) and a phase of High growth (periods of expansion) and calculates the probabilities of switching or staying in a particular phase/regime. It also estimates the expected duration of staying in a particular regime. The results indicate that the expected duration of staying in the high growth regime is higher than the expected duration of staying in the low growth regime. Further, the growth rate of a particular period is dependent on the growth rates of the previous periods. A high growth stimulates further growth and can push an economy towards a higher level of standards of living in the economy.