ISSN 0004-4555

The Asian Economic Review

Journal of the Indian Institute of Economics

Volume 56 | March 2014 | No.1

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ABSTRACTS

Energy Saving via FDI : An Indirect Way to Reduce Energy Prices

Syed Zia Abbas Rizvi, Syed Kamran Abbas Naqvi, Tehseen Iqbal and Mohammad Nishat*

Abstract

Energy saving is one of the strategies to reduce the gap between demand for and supply of energy. The literature argued that foreign direct investment (FDI) can reduce energy intensity via technological transfer. This study empirically investigates the impact of foreign direct investment (FDI) on energy intensity. The hypothesis would be tested for seventeen (17) high, middle and low income countries by using thirty three years data from 1980 to 2012. First of all, order of the integration has been identified by applying tests of unit root given by Im-Pesaran-Shin (IPS). Then, Pedroni's test of cointegration is applied to examine the long run relationship among variables. For the estimation of coefficients, seemingly unrelated regression (SUR) test is applied. We found that foreign direct investment didn't save energy via technology transfer. However, foreign direct investment affects the energy intensity negatively and hence saves energy via technology transfer when it is used as an interactive term with capital labor ratio. This implies that foreign direct investment is fruitful if it goes to industrial sector which probably works with capital intensive instead of working with labor intensive technique.

An Empirical Study on Seasonality and January Anomaly: Evidence from Bombay Stock Exchange of India

Sunita Mehla * and S. K. Goyal **

Abstract

The efficiency or inefficiency of securities market has generated a lot of controversy in finance and economics discussions. The existence of calendar anomalies is a contradiction to the weak form of the Efficient Market Hypothesis (EMH). The present study is an attempt to study whether India, offers evidences for month of the year anomaly in the returns and volatility of Indian stock market by considering open values of monthly prices of three selected indices of Bombay Stock Exchange (BSE) i.e. BSE-30, BSE- 100 and BSE-200 covering a period from January 1996 to March 2012. The data is analyzed by using GARCH (1,1) model on returns and conditional variance (volatility) by introducing intercept in the dummy variables. The analytical results of the study indicate that the Bombay Stock Exchange in India has strong evidence for presence of January effect and month of the year effect in returns of BSE-30 and BSE-200 indices as well as in conditional variance equations of BSE-30 and BSE-100 indices. The average returns in January are found to be positive and significantly much higher as compared to other months. Moreover, the January month is least volatile. Thus, the study provides evidence that the market was not able to price the risk appropriately as higher returns were possible by taking less risk and this indicates market inefficiency. Therefore, the Indian stock market offers opportunity to investors to take advantage of it appropriately.

An Overview of Software Industry in India: Protagonist in the Growth Story but Worries Ahead

Bimal Kishore Sahoo* and D. K. Nauriyal**

Abstract

This papers deals with the rapid progression of the software industry and its increasing role in the services sector in India. It discusses the industry in the global context while critically examining its achievements and challenges that it faces. Contribution of this sector to employment is seriously limited as compared to value addition. The study observes that off-shore business has gained ascendency. An overwhelming majority of the Indian firms, except for few large companies, are found to be operating at the lower end of the value chain by carrying out low-level design, coding and maintenance. Besides, software exports have also been found poorly diversified with respect to destinations, products and level of skills. The rising costs on account of increasing training requirements and fast attrition have also become major worries of this industry.

Are Emerging BRIC Stock Markets the Next Developed Markets?

Krishna Reddy Chittedi *

Abstract

Although emerging stock markets have become more like developed country markets in keyways, substantial differences remain. One important difference is that developing economy stock markets generally lack breadth, though the value of turnover increased substantially in each of the four (the BRIC countries) emerging stock markets from 1991 to 2010. In addition many developing country stock markets remain more volatile than their more developed counter parts. Finally, BRIC Stock markets must be regulated to ensure that they do not become a source of instability or short-termism in the economy.

Do M&A Announcements Create Shareholders Wealth? Evidence from an Emerging Economy

Smita Kashiramka* and N.V.Muralidhar Rao**

Abstract

The paper analyzes the impact of Merger and Acquisition(M&A) announcements on the wealth of acquiring and target firm shareholders in the Indian IT&ITeS sector over a period of three years from 2005 to 2007that together witnessed the largest number of deal announcements between 1999 to 2009. Standard event study methodology was used to estimate the abnormal returns assuming that the semi-strong form of Efficient Market Hypothesis (EMH) holds true for the Indian capital market. The results indicate that acquisition announcements generate wealth gains for both acquiring and target firm shareholders whereas as merger announcements generate wealth losses for the acquiring firms. The existence of significant abnormal returns also reject the assumption of semi-strong form of EMH for Indian markets. Results further indicate that the overall movement in the market does effect the magnitude of gains of acquiring and target firms.

A Comparative Analysis of Effect of Corporate Income Tax Reforms on Corporate Income Tax Revenue in Pre and Post Liberalization Era

Dr. Promila Bhardwaj* and Prof Karam Pal Narwal**

Abstract

The paper analyses the effect of corporate income tax reforms on corporate income tax revenue both in pre and post reform periods. The present paper uses the Enter method of Multiple Linear Regressions, t-test, ANOVA for analysis and covers a time-period of forty years i.e. started from 1971 to 2010 for study. The paper found that Δ NOA, Δ COCPA, Δ COCPR, Δ Tax-GDP and Δ TB - all these reform variables has their effect on corporate income tax revenue in pre reform era but Δ COCPA, Δ Tax-GDP and Δ TB loses their significant effect on tax revenue in post reform era. It is also observed in the present paper that as the State introduces cost inflation index for indexation of corporate asset in 1981 that's why Δ CII has not shown the strong effect on revenue before 1991 but after 1991 it became the main effective reform factor for corporate income tax revenue. Δ ETR i.e. effective tax rates do not have any impressive shot on corporate tax revenue in both periods in the present paper model results. On the other hand, rest of the reform variables expose noteworthy effect on corporate income tax revenue. The paper observed that because Δ ETR is not an effective factor from the point of corporate tax revenue so if the State provides more deductions and exemptions to enterprises then it may help in rising more corporate income tax revenue.

An Empirical Analysis of Imports of Iran: A Gregory- Hansen Method of Cointegration

Amin Sadeghi* and G . Ramakrishna**

Abstract

Since the advent of the floating exchange rates during the early 1970s, and the trade liberalization during 1990s, there has been an extensive debate about the impact of exchange rates and other macro variables on imports and exports of a country. Iran has been facing depreciation in its exchange rate coupled with volatility, and declining economic growth due to its structural problems and the exogenous factors such as stringent economic sanctions in recent times. This paper investigates the impact of some of these variables such as exchange rate, world GDP, domestic GDP and the rate of Inflation on imports of Iran using the Gregory-Hansen cointegration method. The structural break is estimated using residual based method to test the null hypothesis of no cointegration against the alternative of cointegration with a structural break. The empirical analysis indicates that there exists a long run relationship between imports and these variables as they are cointegrated and there is a structural break during the year 1995. In view of these findings some policy suggestions have been made.

Monetary Policy Shocks and Exchange Rate Volatility in Nigeria †

B. W. Adeoye* and M.O. Saibu**

Abstract

This paper analysed the effects of monetary policy shocks using changes in various monetary policy instruments on exchange rate volatility in Nigeria. This paper investigates the relationship between exchange rate volatility and monetary policy shocks in Nigeria. The paper applies the classical ordinary least square to examine the short-run monetary policy determinants of exchange rate volatility in Nigeria. Also, the error correction mechanism model was estimated after establishing the long-run interaction among set of incorporated variables using the Engle-Granger approach. The results from the paper show that both real and nominal exchange rates in Nigeria have been unstable during the period under review. In short, the variation in the monetary policy variable explains the movement/behaviour of exchange rate through a self correcting mechanism process with little or no intervention from the monetary authority (CBN).

In addition, the results from the causality tests between the exchange rate volatility and monetary policy variables showed that there is a causal link between the past values of monetary policy variables and the exchange rate. This is obvious in the case of the past value of the interest rates. Such that, a change in the level of previous values of monetary policy variables causes exchange rate volatility. Finally, the paper reiterated and concluded that inflation rate, reserves, interest rate and money supply depreciate and cause volatility in nominal exchange rate which further reinforce other findings that monetary policy is crucial to exchangerate management in Nigeria.

Financial Development and Economic Growth: India's Experience

Bishal Chettri* and G. Raghavender Raju**

Abstract

The nexus between financial development and economic growth in India is examined using quarterly data for the period 1996QI-2011Q4. GDP is used as an indicator of economic growth and financial development is measured by Aggregate Deposits and Market Capitalisation. Gross Fixed Capital Formation is also taken into the model to identify the relative significance of the physical investment. The existence of a long run relationship is confirmed by the cointegration test. With the dynamic relationship among the variables being captured by the VAR method, Impulse Response Function and Variance Decomposition, the results from OLS estimation and Granger causality test lends support to the supply leading development.

On Dynamic Relationship among Oil prices, Exchange Rate and Stock Prices in India

Vanita Tripathi* and Ms. Namita Narang**

Abstract

This paper examines the long run and short run dynamics among oil prices, exchange rates and stock prices in India (one of the fastest growing emerging markets in the world) over the most recent 15 year period 1997-2011. Using Johansen's Co integration test we find the existence of long run equilibrium relationship among oil market, foreign exchange market and stock market in India. The short term dynamics among the three markets are analyzed using Vector Auto regression (unrestricted as well as VECM), VAR causality/ Block Exogeneity Wald test and Impulse response analysis. We find unidirectional causality from stock market to oil market. An impulse originating in foreign exchange market results in a profound drop in stock as well as oil prices and is statistically significant for about three weeks in oil market and two weeks in stock market. The domino effect of up-waves in stock market is positive for oil market and remains statistically significant for few weeks, while being of opposite tendency in foreign exchange market. The optimism of oil market bulls up stock market in India while creating bearish trends in foreign exchange market. An assessment of impulse response graphs in pre crisis, during crisis and post crisis period exhibits that the riposte of all the variables to a shock generating from within stays for a relatively longer period during crisis as compared to pre and post crisis period. These results have wider implications for market integration, policy makers and investors at large. Since these markets are integrated rather than segmented, from the perspective of investments, risk reduction cannot be achieved in the long run by holding assets from these markets in the same portfolio. However diversification opportunities are not ruled out in the short run. Stock market turns out to be the leader in all the three markets especially after the recent financial crisis. Rapidly rising stock prices in India signal the expectation of higher economic growth ahead. If the stock prices get trapped in a bubble, however, oil prices will overshoot in relation to economic fundamentals.