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Editorial

It is my great pleasure to release the April-June 2020 issue of PRAJNAN. I would like to thank you all for your continued support and guidance. This journal is a place for exchanging original research based results on banking and finance and other areas of Social & Management Sciences that have relevance in building a new body of knowledge and improvement in practice of banking operations. I request you to use this forum to discuss policy issues, research findings to relate banking and finance to broader national economic and social objectives. As you are aware, PRAJNAN-The Journal of Social and Management Sciences is a quarterly double blind refereed journal of social and management sciences with special reference to banking and finance. This journal is a place for exchanging original research based results on banking and finance and other areas of Social & Management Sciences that have relevance in building a new body of knowledge and improvement in practice of banking operations. Established in 1972, the journal focuses on publishing original research papers that have high academic and professional standards to the readers and our endeavor will continue. The rigorous double blind peer-review process and the thorough care taken in copyediting and production by our team ensure the journal's place as a premier venue for scholarly publishing in the area of banking and finance in India. The journal is indexed and abstracted in EBSCO, ProQuest and Indian Citation Index.

In this issue, we present four full research articles and one book review.

The first article "**Covid-19: Global Diagnosis and Future Policy Perspective**" is by Divy Rangan and Lekha Chakraborty. Coronavirus continues to spread its new clusters of infections across several cities globally and governments are trying to control the outbreak's effect on economies. In this paper, the authors highlight that Covid-19 is a medical contagion which has created a dual crisis: a public health crisis and a macroeconomic crisis due to economic disruption. This paper studies various fiscal and macroeconomic policy responses adopted by countries due to the pandemic and its effect on economic growth. The authors stress that globally, countries have resorted to macroeconomic policy packages for revival of economy. The authors find that policy makers have used a combination of fiscal and monetary policies in order to facilitate smooth functioning of the economy. It is not only the levels of deficits but also revamping the financial patterns of deficit which is crucial. The authors have cautioned that the sequential policy decisions of "life first and then livelihood" can be costly since it can lead to humanitarian crisis and starvation related deaths.

In the second paper, "**Testing the Presence and Efficacy of the Bank Lending Channel in India: The Role of Ownership, Economic Period and Size**", Sanjukta Sarkar have made a detailed analysis on how changes in policy rates affect the transmission of monetary policy through the bank lending channel in India. Using a panel data analysis, author examines the reaction of loan supply to changes in the weighted average call rate. This rate has been considered as an effective monetary policy instrument. The study finds that banks across all ownership types as well as sizes generally reduce their credit disbursement during a contractionary monetary

policy period. The author finds significant influence of WCR on bank lending. Moreover, loan supply is reduced during the crisis and post crisis periods.

In the third paper, "**Services Activity, Economic Growth and Regional Equality – Some Empirical Evidence on their Relationship**", K G Sahadevan addresses the debate on the direction and extent of association between growth and structural change in India. The paper uses Modified Lilien Index to measure the structural change using state level data and finds that it has moved along with output growth and contributed to its resilience. The author claims that structural change has led to economic growth of Indian states.

In the fourth paper, "**Rational Herding and Financial Fragility: Lessons for the Indian Banking System**", Malabika Pal has traced the literature to present a critical review about the financial and banking sector crises focusing on the herd behaviour. Both irrational and rational herding behaviour are analysed. The objective of categorization of the different types of herding was to identify the channels through which herding takes place. Although difficult to identify in empirical results, the author finds many interesting experimental studies that have been able to surmount the problem. Since interactive herding is predominant during crisis, that needs greater analysis. The author has attempted to relate it to Indian banking sector NPA crisis recently. The author warns that because of the complexity of the financial system, the future financial and the banking crises will become more devastating. In this paper clear linkages are established between general concepts surveyed and discussed and Indian banking system problem alluded to. The study has brought to the attention all available recent literature. It has established a clear linkages between general concepts surveyed and discussed and Indian banking system problem.

Santosh Kumar, Assistant Professor, Shri Ram College of Commerce has reviewed the book titled "*Good Economics for Hard Times*" authored by Abhijit V Banerjee and Esther Duflo; published by Juggernaut Books, New Delhi, India, 2019.

I look forward to your active participation and cooperation. We invite new submissions that include topics related to banking operations, Covid 19 pandemic crisis and impact on economy, risk management, innovation in technology, macroeconomic analysis, fiscal and monetary policy issues, financial inclusion and economic development for our forthcoming issues.

Dr Arindam Bandyopadhyay

(Editor, PRAJNAN Associate Professor & Associate Dean, Consultancy, NIBM)

COVID-19: Global Diagnosis and Future Policy Perspective

Divy Rangan
Lekha Chakraborty

We analysed the macroeconomic policy responses to COVID-19 pandemic and the impact of the pandemic on economic growth, and the level of consumption. The COVID-19 crisis is a dual crisis - public health crisis and a macroeconomic crisis. The policy responses to this crisis have been a 'life versus livelihood' sequencing and the findings are such that global cooperation, and domestic macroeconomic policies complementing with exit strategy to solve the economic disruptions in supply chains can be helpful.

Testing the Presence and Efficacy of the Bank Lending Channel in India: The Role of Ownership, Economic Period and Size

Sanjukta Sarkar

This paper attempts to investigate how changes in policy rates affect the transmission of monetary policy through the bank lending channel in India while also taking into consideration the roles played by differences in bank ownership, economic period and bank size. We specifically focus on the implementation of monetary policy through the use of the Weighted Average Call Rate (WCR) as a policy tool with frequent adjustments. Using an unbalanced panel dataset consisting of 701 observations for Indian scheduled commercial banks for the period 2000-2019, we examine the reaction of loan supply to changes in the WCR while taking into account controls such as liquidity, capitalization and size. We find that loan supply is adversely affected by a change in WCR and hence, we support the view that it is an effective monetary policy instrument. Secondly, we find that banks of all ownership types as well as sizes reduce loan supply during a contractionary policy period. Thirdly, loan supply is reduced during a rate cut in the crisis and post crisis periods. Therefore, our results support the existence of a bank lending channel in India through the use of WCR.

Services Activity, Economic Growth and Regional Equality – Some Empirical Evidence on their Relationship

K G Sahadevan

The debate on the direction and extent of association between growth and structural change has not yet concluded decisively. It is of greater relevance to countries like India, which seek to achieve inclusive growth while services sector continues to be the major engine of growth. The present paper intends to offer some insights, theoretical as well as empirical, into this debate in the Indian context. The evidence from state level data shows that structural change, as measured by NAV index and

Modified Lilien index, has not only moved along with output growth, but has also contributed to its resilience. This finding is further strengthened by the evidence of unidirectional Granger causality running from structural change to growth. In view of this, it is argued that higher growth the economy has been experiencing since mid-1980s might be attributed to structural change.

Rational Herding and Financial Fragility : Lessons for the Indian Banking System

Malabika Pal

One of the most pervasive of human desires is to imitate others. Although innumerable everyday situations exist, emulation is particularly prominent in the financial realm. As illustrated by Keynes in his famous "beauty contest" example where he drew an analogy between professional investment and those newspaper competitions in which each competitor has to pick, not those which he himself finds prettiest, but those which he thinks the other competitors would like. "Herd behaviour" specifically refers to the phenomenon of everyone doing what everyone else is doing, even though their private information would suggest otherwise. Resource constraints often make it rational to free-ride on the private information of others. A negative information externality arises because each person's decision becomes less responsive to his own information. Inefficient information aggregation would result in market failure. This paper analyses the theoretical justifications that have been given in the literature on herding. It highlights the more recent move in which herding has been seen as a rational response as opposed to the conventional thinking which took such behaviour as representing deviations from rationality. Important lessons emerge for the Indian banking system as we trace the theoretical literature on the issue and global experience of financial fragility and crises caused by herding.

Book Review

Good Economics for Hard Times

Abhijit V Banerjee
Esther Duflo

New Delhi, Juggernaut Books, 2019, 402 pp, Rs 699.00

Reviewed by **Dr Santosh Kumar**, Assistant Professor, Shri Ram College of Commerce, University of Delhi, Maurice Nagar, Delhi, India.