FINANCE AND INVESTMENT CELL,
SHRI RAM COLLEGE OF COMMERCE

VITTA

2017-18


FIC

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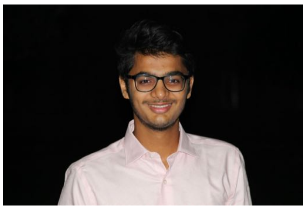
TESTIMONIALS BY THE CABINET

SHUBHAM AGGARWAL
PRESIDENT

FIC was a buzz word in SRCC for the year 2017-18 and I was fortunate enough to be at the helm of affairs along with 17 undoubtedly brilliant peers who made steering the ship across the finish line extremely easy though eventful. The kind of support and enthusiasm we got from our First Year's Team throughout the year was overwhelming. From having countless sessions on the global underpinnings related (and sometimes unrelated) to our domain, to visiting the RBI and to organise one of the most successful EPISTEMEs ever, the complete year was like a film having one best shot after another. I was inspired by a lot of people in our team of 100+ people and shall forever cherish every learning in the process, as it came by. I hope that the FIC team 2018-19 is successful in keeping up the motto of Financing knowledge now, without Investing anything for the future.

AADITYA MULANI
VICE PRESIDENT



Of all the memories made during the two years of college, FIC is a part of the most. I was thrilled when I was given the opportunity to be a part of it for the term of 2017-18 and it is one the best things that has happened to me. Being a part of the society isn't about hosting an enormous fest at all, it is more about learning new things, making new friends, experiencing different situations and what not. It is very hard to put it into words what it feels like to have an amazing lot, working with you for various different tasks and pulling off a very successful year. I wish all the people working for the year 2018-19 all the luck and hope that all their efforts render fruitful results.

AKSHAY MENON
SECRETARY

In a college such as ours, it's often easy to get lost in the dizzying clutter of academics, societies, socialising and deciding where you could make productive use of your very limited time. FIC for me was where academics, society work, and socializing intersected. Some of the best bits of what I know came from FIC, most of my time in my second year went into FIC, and some of the best friends that I have in college were people that I met at FIC. Indeed, FIC has given most of us more than we could ever give back, though we did try our best to maintain some kind of parity. Hopefully, that's a trend that never ends.

PRASHASTI ROHATGI
SECRETARY

When I look back at the last two years spent at college, being a part of FIC, was something that stood out. Whether it was informative sessions on finance or forming wonderful bonds with co-members, it has been a great experience. I can affirmatively say that FIC is a society every first year has a lot to learn from!

ISHLEEN KAUR
JOINT SECRETARY

The two years I worked with FIC helped me broaden my horizon and understanding of the financial world. I could gain perspective of concepts, which were completely out of my comfort zone. Inclusion of activities ranging from research sessions for knowledge enrichment, fundraising to organisation of events made the whole experience an extremely memorable one. It has groomed me as a person, where first year was about getting to know the practicality of the things we have learnt in the past, working in a team and taking initiative, while second year was all about spearheading a talented bunch of juniors, handling stress situations and assuming responsibilities.

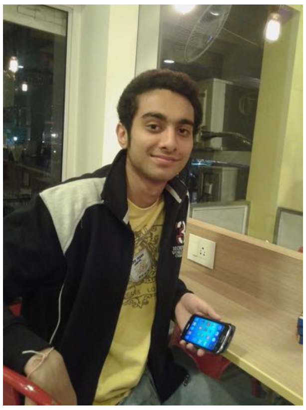
SHIVANI KANOJIA
RESEARCH HEAD

FIC has been an integral part of my second year in college. From holding some serious research sessions to organizing absolutely crazy fests, from recruiting great juniors to throwing farewell parties, and from teaching juniors to also end up learning from them, it was, hands down, an amazing journey all together. This society gave me a platform to broaden my knowledge and skillset, to network with great minds, to bring creativity to the fore and finally to be able develop and keep up a team spirit till the very end. I am glad to have been part of this beautiful family, which gave me a chance to not only guide my juniors within the purview of the cell but also mentor them on the larger aspects of career and life. I hope that my little contribution has been able to bring about some positive change in them, in whichever way it may be.

R. ADITHYA
RESEARCH HEAD

In my two years in FIC, I noticed that the most effective way to learn was to surround yourself by like-minded people, who could come at a concept or a problem at a completely different angle than yourself. Every edition of Vitta exemplifies this, including this one, as the Cell has provided an amazing platform for discussing and crystallizing ideas, and enriching minds along the way. I have faith that the the current cabinet will continue the good work of their predecessors, and will go on to set ever higher standards

RISHI SARDANA
EDITOR-IN-CHIEF



The two years I spent at FIC have been one of the most wholesome, fulfilling aspects of my college life. If not for the opportunities this cell gave me, I probably wouldn't have developed the understanding, confidence and critical thinking skills that I acquired. Whether it was digging deep to understand the nuances of a topic, or leading a team for a large scale event, I was given every possible platform to grow, learn and stretch my limits. FIC provided me with everything that I could possibly ask for from college : amazing memories, lifetime friendships, and knowledge that no classroom lecture could have possibly given me.

AJAY PARMAR
CHIEF COORDINATOR

2 years - it's been a wonderful journey with the Cell. It has given me memories to cherish for the coming years. It was always a great time working with a team which was always ready to give it's 100% . I consider myself lucky to have been a part of the cell for so long.

SHRESHT BIYALA
FEST COORDINATOR

FIC has helped me gain those things which no book can offer. Knowledge about the world of finance through it’s interactive sessions, a great bunch of friends whom I can always look up to and skills which help you to give your best when things are not going your way. Being a part of this society for 2 years has helped me be more inquisitive, given me a lot of memories which I will cherish forever and definitely made me a more responsible person. It has been a great experience of learning and imparting knowledge these two years. I hope that FIC continues it’s legacy for many more years.

SOMYA AGRAWAL
SPONSORSHIP AND ORGANIZING HEAD

FIC – the only society which helps to develop perspective and in depth understanding of concepts and affairs around the world covering almost everything from finance and geopolitics to economics. My time in FIC for two years has been most enriching and cherishing. Being in the society not only provided me a forum to discuss and understand the finance world but also provided me hands on experience in organizing fests and raising sponsorship. On the personal front it helped me store some of the happiest college memories and acquainted me with the best minds in college.

SALONI CHOWDHARY
PUBLIC RELATIONS HEAD

My 2 year long journey with FIC has been highly enriching and has moulded me as a person. Being surrounded by well-rounded people, constantly brainstorming and discussing issues pertinent to our environment really does bring out the best in oneself. This society thus serves as the ideal nurturing ground for anyone and everyone who wishes to foster a deeper understand of the past and present issues plaguing our society along with forecasting what might be in the future.

TESTIMONIALS BY THE MEMBERS

As a society which is not solely fest-oriented, FIC has been one of the most enriching and memorable experiences for me so far. Coupled with amazing rigour and enthusiasm, the society has never failed to serve as a great platform for sharing valuable knowledge on almost everything under the sun.
- MANNAT LUTHRA

I had joined FIC to gain more knowledge about Finance. This Society has given me a lot more than that. The research sessions, ideation of events for Episteme, organising Episteme have given me some of my best memories in the college. We hope to continue this legacy this year too and to make it a memorable experience for the incoming batch.
- SANAT GOEL

If I were to look back at my first year in SRCC, the majority of what I see is FIC. From abundant, relevant knowledge to lifelong friends and memories, the cell makes a significant value addition in students' lives. Having been blessed with impeccable seniors, we hope to match up to their standards and set the bar even higher in the upcoming year. **- SUHANI SINGHAL**

Being a member of FIC was a great learning experience for me. FIC couples learning with fun which makes it different from other societies. An year at FIC gave me a lot of memories which I will cherish lifelong. **- JASKARAN SINGH**

With the best seniors and the best team, my experience in FIC as a first year has been truly amazing. From the research sessions to the numerous events conducted throughout the year, this society has definitely taught me a lot. It has instilled in me, an intellectual curiosity and willingness to learn. **- RUBINA BOPARAI**

Being a part of FIC in the first year was one of the best things in the college. It helped me gain financial knowledge through research sessions, instilled in me a sense of team work and was a great platform for learning new things. FIC gave me a complete different experience as compared to any other society in the college. **- KUNAL JHAMB**

FIC gave me the very first opportunity in college to handle something entirely on my own. This is the place where I actually developed from a student who was fresh out of school into an SRite executing things responsibly. Hoping to learn much, much more in the second year! **- HARSIMAR KAUR**

My experience in FIC has been wonderful. Not only did it help me grasp knowledge related to finance, but also taught me what hard work is. It brought me close to a lot of people and I'm glad I got an opportunity to become a part of this society.
- SARGAM GUPTA

My experience at FIC has been nothing short of adventurous. From being blank in research sessions to penning research articles, the journey has taught me a lot. I hope to make my second year at FIC as enriching as the first one, if not more.
- AISHWARYA BAGRI

As part of the research team, not only did I gain knowledge about financial concepts that I was completely unaware of previously, but I also got to meet the most dedicated and hardworking people, who are not afraid of sharing their knowledge with others. This is the society to be in if you're interested in finance! **- GHAZAL ABDULLAH**

FIC really gave me a sense of belongingness in my first year of college. I met many new and interesting people and learnt a lot of new things. The seniors really motivated me to work hard and give a 100% to everything I did. The FIC fest was also one of the highlights of my first year in college.
- NEEL MATHUR

For me FIC is not just a society but a platform where I can explore my full potential. The massive scope of the society not restricted to just Finance and Investment is what makes this society somewhat special for me. Had it not been for this society I would never have realised the importance of learning what's going on around the world.
- ADITYA JAIN

FIC is a society where no topic is out of scope, where no news is too small and where no one is unwelcome. It was a great learning experience for me! **- AYUSHI SRIVASTAVA**

"In order to succeed, your desire for success should be greater than your fear of failure."
FIC gave me the opportunity to perform and I have worked with full dedication and hardwork. The society has a positive environment and gives the motivation to work more effectively and efficiently.
- MRIDUL PANWAR

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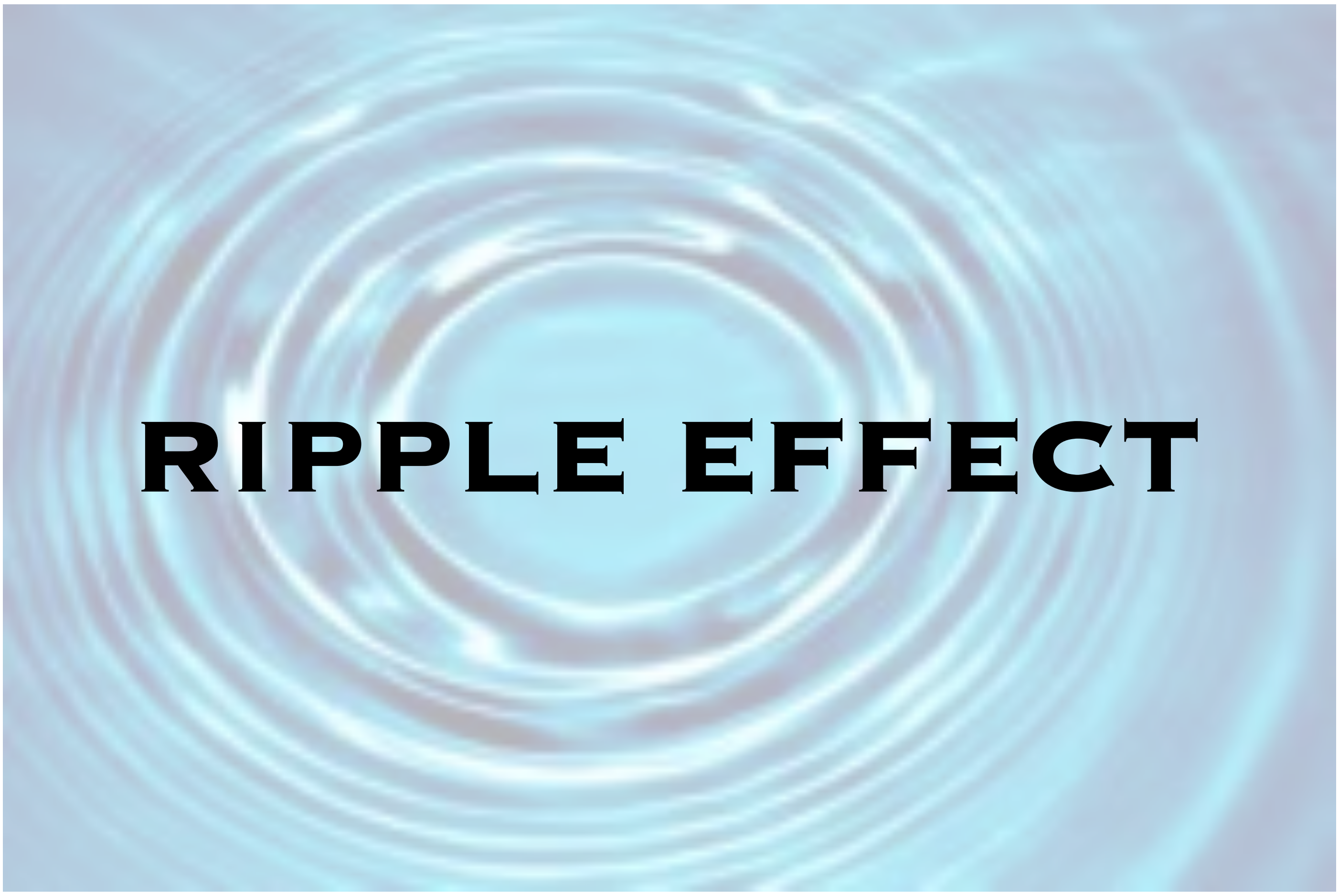


Everything we do, even the slightest thing we do, can have a ripple effect and repercussions that emanate. If you throw a pebble into the water on one side of the ocean, it can create a tidal wave on the other side.

Victor Webster

WHAT IF DONALD TRUMP WAS NOT ELECTED AS THE PRESIDENT OF USA IN 2016...

By Kunal Jhamb

After months of heated debates, interviews and media commentary, on November 8th, 2016 Donald J. Trump was elected as the president of the United States. He won 306 electoral colleges for the Republicans even after getting 47% of the votes as compared to Hillary Clinton's 48%. Some of the reasons which I think led to Trump's victory were the Gender Inequality, The White Wave, and The Comey factor. Though the gender equality has improved in America over the years, the idea of a woman as the President of their country is still revolting to many. The idea of race was also underestimated in the US elections of 2016. There was indeed a silent majority of angry, committed white working-class voters along with dispossessed college-educated whites. Moreover, the FBI director's decision to revive Clinton's email probe killed the Democrat's momentum and derailed the plans of finishing the campaign with a more uplifting message.

It's been one and a half year now and Trump has taken many decisions. One such decision is reducing the tax rate for individuals as well as for the corporates. The corporate tax cuts will boost the returns from US investments increasing the investor confidence and the stock prices. It is said that this will boost the earnings by 10%. Trump's "Put America First" program seeks to protect American workers and industries and at the same time, he has decided to expel undocumented immigrants more aggressively. He has also called for a review of H1B visa program guidelines. There were a number of withdrawals by America from international treaties and pacts such as Paris Climate deal and Iran Nuclear deal. Trans-Pacific Partnership Deal was also abandoned.

But if Hillary was the president there would have been no tax cut. She would have refused to take a tough stand against North Korea and Kim Jong Un,

and might not be able to strike a meeting with Kim Jong. Jerusalem would not have been recognized as Israel's capital. China would continue to manipulate trade and currency and expand its influence more. But she would have remained in the nuclear deal with Iran and in the Paris Climate Change Accord and the best thing I think would be no more policy by tweet!

But, all of this is speculation, Clinton did not win. Trump did.

WHAT IF INDIA HAD NOT INITIATED ECONOMIC LIBERALIZATION IN 1991...

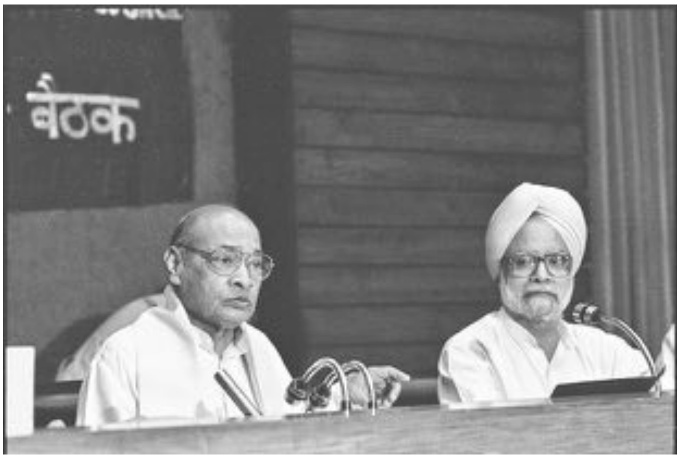
By Suhani Singhal

Economic liberalization was initiated in India in 1991 by PV Narsimha Rao and Manmohan Singh. Since 1985, the government was facing a Balance of Payment problem which took the face of a crisis in 1990 as India was close to bankruptcy. This crisis turned out to be a turning point for the economy as along with political turmoils and fiscal profligacy, this catalysed a series of multiple reforms which have transformed the economy of our country.
But the point of wonder arises when a thought is given to the economic and social status of our country if these reforms had not been initiated in 1991.

The pre-1991 era was that of the License Raj. A few more years of the License Raj would have crippled our country's manufacturing sector and expanded the gap between the rich and poor. A breeding ground for corruption, this would have further spoiled the social situation of India.

The poor fiscal condition of our country in 1991 which actually propelled the reforms would either have worsened or put India at the mercy of other nations from which the country would have sought debt. An obvious outcome would have been many more years of slow GDP growth. Had FDI and FPI not flowed into our country, implications would have ranged from insufficient credit to the government to a worsening of the aforementioned fiscal deficit. All public services would have come to a halt.

A major outcome of the liberalization process was a shift towards the service sector. An absence of these would have led to many more years of over-dependence of our economy on agriculture. Though agricultural developments might have been initiated, it would have placed our country on a



backseat in terms of the service sector and manufacturing sector growth.

However, the liberalization process was inevitable. Had it not been initiated in 1991, it would have been given a kick-start somewhere in the early 2000s. However, this delay would have cost India more than a decade of development. The absence would have led to lesser varieties of goods and services, decreased competitive strength and a compromised quality of the existing products. This would have meant a loss of interest of consumers and a loss in efficiency of producers.

Another aspect is that during the US Recession of 2008, India wouldn't have been impacted much had the economy not been integrated to the global economy. However, it is difficult to say that India wouldn't have been a globalized nation even by 2008, if not in 1991.

Conclusively, the 1991 reforms had more benefits than costs. Dr. Manmohan Singh in his 1991 budget speech quoted, "No power on Earth can stop an idea whose time has come." 1991, therefore, deserves a special status in the economic timeline of India.

WHAT IF THE GOLD STANDARD WAS NEVER ABOLISHED...

By Rubina Boparai

The era of the gold standard was the time when paper money was backed by gold. In the early 20th century, most of the world's key economies were on the gold standard. A country on the gold standard cannot increase the amount of money in circulation without increasing its gold reserves. Moreover, the global gold supply grows slowly and being on the gold standard would theoretically hold government overspending and keep inflation in check.

The story of why that era came to an end includes a nervous breakdown and global panic. Countries abandoned the gold standard in th4e 1930s because democratically-elected politicians found themselves unable to impose the kind of austerity required to maintain their gold reserves. It's no coincidence that the sooner a country abandoned the gold standard, the sooner it began recovering.

To imagine a world where countries still relied upon the gold standard would be disastrous. Countries would be heavily dependent on upon their supply of gold and the supply of money would be vulnerable to the ups and downs of gold production. Countries without any gold would be at a great competitive disadvantage. The central banks would no longer have the ability to increase the money supply by lowering rates during the recession. Let us not forget that the gold standard had caused many financial waves of panic, bank failures, and had prolonged the Great Depression. Furthermore, the world would have witnessed frequent bouts of deflation and economic contractions whenever the economic growth outpaced the growth of money supply.

The gold standard guaranteed price stability in the long run but in the short run, prices changed violently. Frequent fluctuations would not have provided the price stability necessary for a healthy economy. Also, a fixed money supply would have limited economic growth as emerging businesses suffered from lack of funds. The world economy wouldn't have achieved the kind of growth we see today if currencies were still pegged to the value of gold.

ECONOMIC PREDICTIONS

The most reliable way to forecast the future is to try to understand the present.

John Naisbitt

✦ PROTECTIONISM AND ITS IMPACT ON GLOBAL TRADE (By Aditya Jain)

Protectionism refers to any policy which disincentivises imports into a country which could be either high tariffs or quotas on trade. Both these steps dicourage imports and encourage domestic production. Thus, protectionism is considered an effective tool for import substitution and thus, increasing manufacturing domestically. When a country carries out a policy of protectionism, it hurts its trading partners because now they have to pay a higher price for exporting their products. Sometimes it takes a negative form where the trading partner of the protectionist country also increases the tariffs. In such a scenario the policy takes the form of a **Trade War**.

This topic has come to light recently with the Donald Trump regime imposing a 10% tariff on aluminium and 25% on all steel imports. The event was done in the light of Trump accusing China of stealing the intellectual property of companies conducting business in China. The administration has made a point clear to the world that it is going to shift to a major manufacturing hub rather than an importing center.

The larger question that arises is the Trade War there to stay? Past clearly tells us one thing: Trade War is beneficial for no party. Just like Trade makes everyone better off, trade wars do the exact opposite as every party starts operating on a costlier and less efficient method of production. Trade wars are regarded as a catalyst for the Global Depression in 1929-30, and some amount of research does prove the fact.

Trade restrictions in the modern day are difficult to sustain as every part of the world is very well connected. Though the US has a very large leverage when it comes to trading, it is well known to the western nation that no country is solely dependant on it. Other countries have already started opposing the practices by China and European Union imposing tariffs harmful for the US in retaliation, many countries have also stopped trading with the country like Canada which has refused exports for lobsters as it is in the middle of a new trade with the European Union. This also comes at a time when US opted out of Trans-Pacific Partnership (TPP) with a dozen Pacific nations and the Trade and Investment Partnership (TTIP) with the EU is at a halt. This would make it difficult to trade with these nations as they would provide each other better trading conditions. It seems that the Trump administration has made the policy keeping in mind his election mandate of being tough with major trading partners such as Mexico and China without thinking about the possible repercussions.

He needs to realise that the current economic scenario is different from that of 1930 where the interests of the employees and the businesses were complementary. Today's age is of multinational corporations which provide employment to a large number of people, imposing tariffs on the companies would lead to a conflict of interest between higher business profit or more employment. Furthermore, protectionism will not entirely bring jobs in the US as jobs like assembling are low paid works and would be shifted from China to some other low wage country. I think it would not take much time for the Trump Administration to realise the repercussions of its decision with opposition both in the domestic and the international area. The US would soon realise that it is not free of the ill-effects of trade wars and the world would shift back to the efficient liberalisation policy.

✦ DATA STEALING AND ITS IMPACTS (By Kunal Jhamb)

I think we came across a point where we became insensitive about the news of Data Breach. Since then and now, companies have announced that their data has been stolen, followed by the extent of the damage. A data breach occurs when an unauthorised person successfully accesses a data source and excerpts sensitive data. This can be done either physically by accessing a computer or bypassing the network security secretly. One of the major causes of the data breach is internal data breach when an authorised one helps out the unauthorised one. It not only affects the organisation's data but personal information of the users is also stolen.

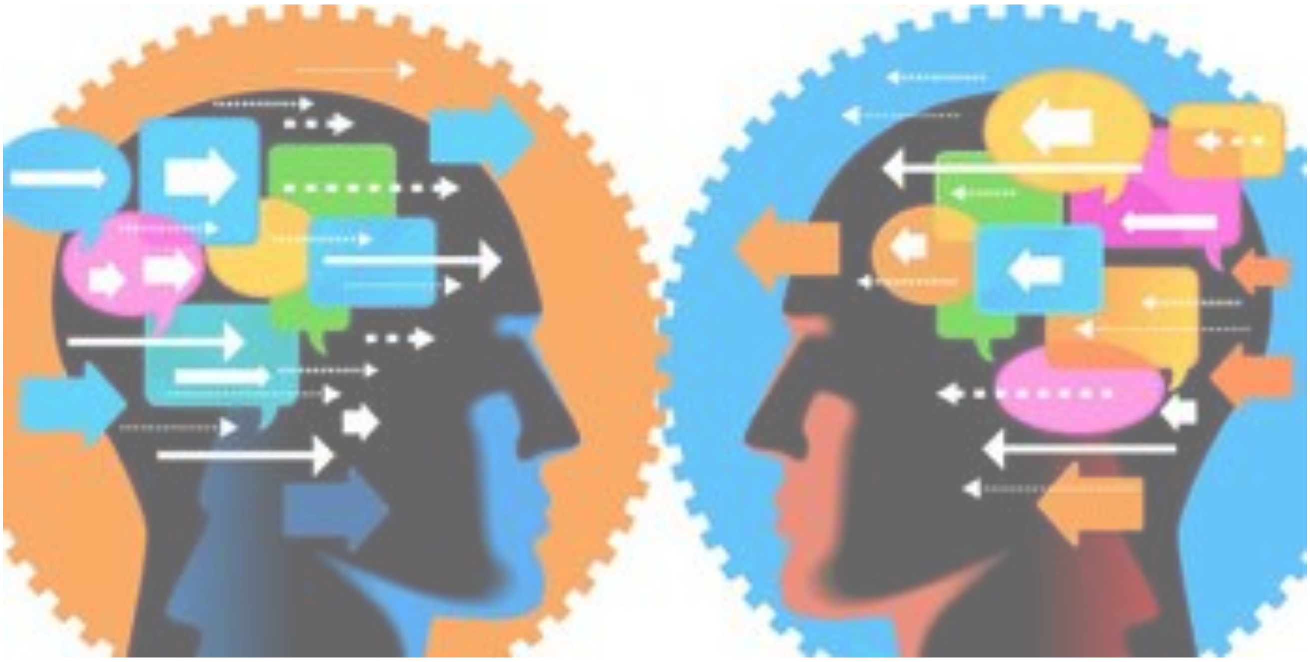
Regulators charge a hefty fine for a data breach and this is often referred to as one of the biggest costs of a data breach. For example – In US if there is a "willful neglect" of HIPPA data, it can lead to a fine of approximately $1.5 million for one violation, though in India this type of huge fine is still not present. The next biggest threat from data steal is that company might lose its stock value and not be able to regain it later. Ransomware demands are also made after the data breach. One of the famous examples of ransomware demands was WannaCry ransomware attack in May 2017. The businesses might also lose their customers once the data breach is reported. The recent case of Cambridge Analytica shows us how the data can be manipulated to win elections. Cambridge Analytica has inappropriately used Facebook profiles to get an advantage in the US general elections. They used to monitor a person's tastes and preferences, his/her likings etc. and then accordingly manipulated the data in their favour.

A recent study by IBM on the cost of data breach showed that the global average cost of a data breach has reduced by 10% in 2017 as compared to 2016 but the average size of data breaches has increased by 1.8% in 2017 as compared to 2016. IBM has also made a data breach calculator where you can calculate the average cost of the data breach by factoring in variables like location, industry, third-party involvement and many more. The size of breach plays a very important role in determining the cost of data breach.

To reduce the chances of data breach the businesses should use encryption technology which can protect both the data at rest and the data in transit. The next thing is to make the employees and other related parties aware of the data breach and cyber security. Moreover, initiating formation of an incident response team to tackle the data breach can also be a good solution.

But remember how you react has a big impact!

THE JOHARI WINDOW



IF YOU CAN'T EXPLAIN IT SIMPLY, YOU DON'T UNDERSTAND IT WELL ENOUGH.

ALBERT EINSTEIN

ROBINHOOD INDEX (BY RUBINA BOPARAI)

How many days could the government keep running if the richest person of each country was paying for it? The 2018 Robin Hood Index was created to delve into this subject.

49 countries with various political regimes and expenditure types and the richest individuals of each of these nations were taken. Their net worth as of end-December 2017 was compared to the daily cost of running each government.

The index compares the net worth of each country's wealthiest person to his/her government's spending. If, hypothetically, each government were to run out of resources imminently and the assets of the richest citizen were liquidated and donated to the government, the index estimates how long can this "funding" prevent the respective government from shutting down offices and agencies. The Bloomberg Billionaires Index and the International Monetary Fund's estimates of government spending were the building blocks of this index.

Cyprus's richest man, John Fredriksen, could keep his government running for 441 days, the index's highest. With projected 2018 expenditures of $23.6 million, a small population and therefore smaller costs on social security and welfare, advantageous tax policies and an economy centered around tourism and services, Cyprus would benefit the longest from Fredriksen's $10 billion fortune.

In comparison, the most expensive governments to run are Japan, Poland, the US and China, where Jack Ma, the world's 16th richest person with $47.8 billion, could save the Communist Party for only four days. Jeff Bezos wouldn't fare much better, even with $99 billion. With the highest government spending on the Robin Hood Index, the world's richest man would only help the US government for five days, as much as Hugh Grosvenor in the UK and Dieter Schwarz in Germany.

One can see from the Robin Hood Index that most Western nations could not hold the fort very long, even with the help of the wealthiest citizens. Considering the vast size of the Indian economy, Mr. Mukesh Ambani running the country for 20 days reflects his massive wealth. Hong Kong's Li Ka-shing ($34.7 billion), Malaysia's Robert Kuok ($19.6 billion), and Nigeria's Aliko Dangote ($12.2 billion) follow with capabilities of 191, 95, and 94 days respectively mainly due to a low government expenditure as a share of total GDP.

VIX
(BY SUHANI SINGHAL)

Published by the Chicago Board Options Exchange, the Volatility Index is commonly known as the VIX. It is a measure of expected volatility and the sentiments in the market and is like a market index for futures and options. It is an expectation of volatility but not the actual volatility. We can say that,
S&P 500 : stocks :: VIX : futures and options.
It gauges the fear and greed of investors and moves up when stock prices are falling and there is a sentiment of fear in the economy. It witnesses a decline when the stock prices are rising. It is like an indicator to traders implying when they should buy or sell options.

HISTORY
Introduced in 1993, the VIX was a weighted measure of the 'implied volatility" of eight S&P 100 at-the-money put and call options. However in 2004, it expanded to use options based the S&P 500.

VIX VALUES
VIX>30 => large amount of volatility due to uncertainty
VIX<20 => complacent times in the market

VIX CHARACTERISTICS
- Ranges between 10 and 50.
- It moves opposite to the underlying S&P 500 index.

VIX CALCULATION
The VIX is the square root of the risk-neutral expectation of the S&P 500 variance over the next 30 calendar days and is quoted as an annualized standard deviation.

EXPLANATION
The VIX isn't defined as a percentage, but it should be understood as one. A VIX of 22 means that there is an implied volatility of 22%. This means that the index has a probability of 68% (calculated by statistical and quantitative methods) of trading within a range 22% higher or lower than its current level, over the next time period.

TRADING
VIX is not an asset. However, it can be traded in the form of VIX derivatives, that is, instruments which derive their value from that of the VIX. The properties of VIX can be capitalized if VIX futures and options are used for speculation and hedge funds.

INDIA VIX
In India, National Stock Exchange of India Ltd. has constructed a volatility index called India VIX. India VIX indicates the investor's perception of the market's volatility in the near term. A high India VIX value would suggest that the market expects significant changes in the Nifty, while a low India VIX value would suggest that the market expects minimal change.

CREDIT RATING AGENCIES

(BY AISHWARYA BAGRI AND SARGAM GUPTA)

A credit rating agency is an **independent private agency** that rates debt instruments and the debtors on the basis of their ability to return the principal amount of the loan along with the interest on it within a stipulated period.

Agencies inform the financial markets about the **credit worthiness** of different **countries, businesses and securities.**

However, ratings are **not a guarantee** given by the agency.

GLOBAL BIG 3

- Standard and Poors
- Moody : Control 80% of the market
- Fitch : Controls 15% of the market

INDIA'S TOP

- Credit Rating Information Services of India Ltd. (CRISIL) : Majority shareholder of CRISIL – Standard and Poor's
- Credit Analysis and Research Limited (CARE)
- Investment Information and Credit

WHOM AND WHAT DO THEY RATE + FACTORS

Businesses

- Asset part of Balance Sheet
- Credit History

Securities

- Credit Quality
- Operational Risk
- Payment Structure
- Regulatory Risk

Countries

- Government Debt
- Economic Growth
- Debt Maturity
- Political Stability

STRADDLE
(by Kunal Jhamb)

Strike price is the price at which a derivative contract can be exercised

Put options are contracts giving the owner the right, but not the obligation, to sell a specified amount of an underlying security at a specified price within a specified time frame.

Call options are an agreement that give the option buyer the right, but not the obligation, to buy a stock, bond, commodity or other instrument at a specified price within a specific time period. The stock, bond, or commodity is called the underlying asset.

Straddle

Straddle - A straddle is an options strategy in which the investor holds a position in both a call and put with the same strike price and expiration date, paying both premiums.

A straddle strategy involves the following:

1) Either buying or selling of call/put options,

2) The options should have the same underlying asset,

3) They should be traded at the same strike price,

4) And they must have same expiry date/expiration

Benefit

This strategy allows the investor to make a profit regardless of whether the price of the security goes up or down, assuming the change in the underlying stock price is significant enough to move past the strike prices and offset the cost of the premiums.

ECONOMIC CONSPIRACIES

(BY GHAZAL ABDULLAH, SUHANI SINGHAL AND NEEL MATHUR)

Illuminati And Financial crises

Illuminati is a mysterious group that is believed by many conspiracy theorists to be seeking 'New World Order'. Would the financial collapse be a part of the Illuminati agenda? Although the financial crisis offers us many opportunities for new choices, it is always good to see if the power elite benefit from this crash and even fulfill a part of their primary objective: a single world government. According to theorists, a financial collapse is just the first step to achieve their ultimate goal, as the Illuminati strongly believe in controlling people by managing financial channels worldwide, while ensuring high overall panic. Those who believe in the group's existence believe the Illuminists want to play god with your money and decide who lives and dies in the business world. They believe Illuminati will attempt to blame the resulting financial crises on the cutthroat competition and rampant cheating that goes on between the various national economies, but in reality, it is the Illuminati themselves who are the root cause behind all those shenanigans, which they continually wage in furtherance of their plans. People who've read about the history of the group know that in 1785, Karl Theodor, the Duke of Bavaria imposed a ban on secret societies, including the Illuminati. He instituted grave punishments for anyone who associated with them. Most of the group's secrets were disclosed and published, and, if you believe most historians, the Illuminati disappeared. From the moment of their disbanding, however, the myth has expanded. The Illuminati have never completely disappeared from popular culture —they have always been in the background.

2008 crisis- Obama elections

Ever since the first-black-president-to-be appeared on the national political stage, a cottage industry of conservative conspiracy theorists has churned out all sorts of bizarre, paranoid, and just plain racist conspiracies—some of which have made its way into the political mainstream.

According to a Daily Caller story, Obama's efforts to force banks to lend to African Americans in the mid-'90s led to the subprime mortgage crisis that killed the economy in 2008.

Another rumour was started by the inimitable Rush Limbaugh. He claimed, in the fall of 2008, that New York Senator Chuck Schumer started a run on IndyMac to create a financial crisis, allowing Barack Obama to be elected and him and his Democratic entourage to enact a plan to nationalise America's industries. The assertions that his actions were a cause of the financial crisis and that they were a part of an intentional plot are ludicrous. It took years of policy and regulatory failure by both parties and a credit bubble many years in the making to cause the crisis.

As the New York Times wrote the situation was, in fact, long fuelled by President Bush's economic policies. From his earliest days in office, Mr. Bush paired his belief that Americans do best when they own their own home with his conviction that markets do best when let alone.

Mr. Obama contends that the nightmare on Wall Street was caused by financial deregulation of the sort Mr. McCain has long championed. This is partly true. Lax oversight did indeed allow financial firms to borrow far more than was prudent to make bets that have now gone sour.

Although Obama has been a favourite among theorists, it is safe to say that the economic crisis certainly wasn't created within a five-month period, as conservatives have been claiming.

The Inside Job- 9/11 and insider trading

Even numerous years after the September 11 attacks on four buildings in the US by Al-Qaeda terrorists, conspiracy theories have not dwindled away. Amongst a dozen of famous theories, is the one on insider trading. Just before 9/11 attacks, extraordinarily large put options were placed on the stocks of United Airlines and American Airlines. The speculation says that the insiders knew in advance about the attacks and accordingly planned their trading strategies. Between September 6 and 7, the put to call ratio was unbelievably high, as recorded by the Chicago Board Options Exchange. On September 11 too, no other airlines had such a high put to call ratio. Though the 9/11 Commission reported this to be coincidental, conspiracy theorists do not buy the option of believing this to be consistent with the truth. Other observations like anomalous trading of insurances, specially travel insurances and Morgan Stanley's abnormal profits after the attack due to prior trading, which occupied more than twenty floors at the World Trade Center too pointed towards an advance knowledge of the attacks among the investors.

A justification to ignore this theory is that the trading was done by terrorists and their close confidantes. Even after such statements by official authorities, this theory refuses to die down. A report by The Telegraph claims that nearly one-third of the Americans believe 9/11 to be a Government's plan and implementation. The rumour that traders were tipped off about the tragedy prior to its occurrence says that this assisted them in cashing on the attacks. The Wall Street, which is said to operate on sentiments appears to have been absolutely "short" of sentiments by monetizing the adversity.

This theory has been examined quite exhaustively and there is significant conjecture till date. One of the investigations by the officials also claimed that the entire trading was done by a single US based businessman who had links with Laden. The basic idea of the commission seemed to be to frame the entire investigation as a series of misunderstandings. While the common belief is that these investigations were biased and criminal profiteering, as a matter of fact, did happen, this conspiracy still remains unanswered like many other questions of this world.

Bitcoin and the Next Financial Crisis

Since its inception in 2009 bitcoin has been an enigma to most people. People fear what they don't understand and so, Bitcoin has been linked with many conspiracy theories. One such theory is that Bitcoin could cause the next financial crisis. To understand why we need to know exactly what Bitcoin is. Bitcoin and other cryptocurrencies are not actual currencies, for currencies have no intrinsic value. They aren't assets as well, such as gold. What they are, are Derivatives - an artificial creation based on a series of promises that one person gives to another. Many economists have argued that the cryptocurrency market is a bubble - which is when an asset trades at a price that strongly exceeds the intrinsic value. Very little needs to happen before that bubble might burst, such as the introduction of more regulation or a hack of a major cryptocurrency exchange. Another scenario is Bitcoin could trigger a financial crisis if it becomes a systemic risk to the financial system. A growing range of financial institutions is expressing interest in cryptocurrencies, such as bitcoin and Ethereum. If these cryptocurrencies start to get linked with stock exchanges, they could not only threaten stability but also; the next crisis. However, many economists have agreed that Bitcoin is far from being a systemic risk to the financial system. There aren't enough people who hold them or institutions that own them, or enough credit or leverage used. Simply put they are too small and too detached from other financial markets. They don't pose a threat right now, but integration with more traditional financial markets is starting to happen, and if the bubble bursts, we could see a financial crisis worse than 2008.

Articles

The world at a glance

FARM LOAN WAIVERS

(by Sanat Goel)

Small and the marginal farmers often take loans from the organised or the unorganised sector to meet their requirements for agriculture. The farmers are able to pay off their debts in case of a good harvest. However, in case of crop failure due to any reason, these farmers are often unable to pay off their debts. In such a scenario, the central or the state government may announce a reduction or complete waiver of the loans of the farmers. The simplest way to understand this is that the farm loans will be transferred from the assets side of banks' balance sheets to the liabilities side of government's books as part of the waivers. One of the earliest instances of farm loan waiver was the Agricultural Debt Waiver and Debt Relief Scheme, announced by the UPA Government in 2008 for the small and the marginal farmers (less than 2 hectares of land ownership). The original plan called for a complete waiver of loans of 30 million small and marginal farmers (estimated at 500 billion rupees) and a one-time settlement for 10 million farmers (estimated at 100 billion rupees). At the time of implementation of the scheme, the actual amount dispersed rose by 20% to 716.8 billion rupees and the benefit was reaped by 43 million farmers nationally.

The farm loan waiver scheme is often cited as a political propaganda by all the parties but ironically every party announces and implements it. The UPA government faced severe criticism from the NDA Government in 2008 but the BJP Government itself announced farm loan waivers in the states of Uttar Pradesh and Maharashtra in the 2017 assembly elections. The political parties view these farmers as a vote bank and as a way of winning a majority in the elections. These farmers are the ones which decide the fortunes of these political parties. The Reserve Bank of India governor Urjit Patel has termed farm loan waivers as a 'moral hazard' time and again and sought consensus among all political parties in India to desist from announcing them.

So far, Andhra Pradesh (2014), Telangana (2014), Tamil Nadu (2016), Uttar Pradesh (2017), Punjab (2017), Karnataka (2017), Maharashtra (2017) and Rajasthan (2018) have announced farm loan waivers for their farmers. The Andhra Pradesh Government has waived off loans worth Rs 7,720 crores so far and plans to waive off loans worth Rs 12,000 crore in four installments whereas they had promised to waive off loans of all the farmers in the state (which were estimated to be around Rs 87,500 Crores). Such a thing is not possible for them as they had a very high fiscal deficit before the first waiver itself. If implemented, this would further push their economy into trouble. The Tamil Nadu Government had planned to waive off loans worth Rs 5,780 crores which were taken by the small and marginal farmers. However, after protests by the farmers lasting a month, the Madras High Court and later the Supreme Court instructed the state to waive off loans for the farmers having big landholdings too.

In the first phase, The UP Government has waived off loans totalling Rs 7,371 crores out of the proposed scheme of waiving off loans worth Rs 36,359 crores. This amounts to 2.6% of the State GDP. These are estimated to be one-fourth of the farm debt of the state of UP. The interest payment obligations of the state are already very high and if the government is successful in the waiver of only a quarter of the loans, then the interest payment burden will rise by 8%, as compared to the 2016-17 levels. Punjab's planned farm loan waivers of Rs. 10,000 crores are equivalent to one-seventh of the total farm debt in the state. Maximum waiver for loans in Punjab would be Rs. 2 lakhs and the amount will be transferred directly to the bank accounts of the farmers in a phased manner. Maharashtra Government became the latest one to help the farmers when it released Rs 4,000 crore out of the planned Rs 34,000 crore for the farmers on 18 October 2017. The farmers would get benefits of up to Rs. 1.5 lakhs.

This scheme might not appear to leave any drastic impact on the economy but that's not true. The fiscal burden of the country increases as the money is transferred from the taxpayer to the farmer (borrower). According to an RBI paper, farm loan waivers amounting to Rs 88,000 crore likely to be released in 2017-18 by seven states, including Uttar Pradesh and Maharashtra, may push inflation on a permanent basis by 0.2 percent. Moreover, the amount to be released is equivalent to 0.5% of the GDP of our country (0.5% is a large percentage for an economy like India). Banks tend to gain in the short run as the Non-Performing Assets fall for a short time period before rising again. Also, the loan books of the bank become lighter. The Central Government does not provide any assistance to the state for waiving off the loans. However, very low-interest rates are being charged by the banks (short-term crop loans are available at an interest rate of 4% and interest is charged at 2% for the farmers whose crops have been affected by calamities). According to a Bank of America Merrill Lynch Report, about Rs. 2,57,000 crore of farmers' loans will be waived off leading up to the 2019 General Elections in the country and this will amount to 2 percent of GDP of the country.

Agriculture in India has been plagued by many problems. The size of landholdings has decreased, the prices of inputs have risen, the output has fallen due to poor agricultural practices and the monsoon has been very irregular. The prices received by the farmers are not remunerative and the middlemen often add to their misery. Most of these farmers use the harvest for paying off their debts and the rest of it for their subsistence. Many of the farmers are already leaving farming for other unskilled work due to lack of adequate incomes. In case of crop failures, it becomes very important for the government to provide monetary support and assistance to these farmers. Farm loan waivers can be seen only as a temporary and short-term solution. In the long run, the government needs to focus on reducing costs, increasing profitability, linking the farmers directly to the markets by reducing the role of the middlemen and bringing more and more farmers into the organized banking sector so that they pay lesser interests and escape the exploitation at the hands of private money lenders.

However, on the flip side of the coin, a farm loan waiver is often seen as a burden for the Centre and the state. All those farmers who can pay off their loans stop paying when the waiver is announced or

anticipated. State Bank of India's Chairman Arundhati Bhattacharya has always maintained that support to farmers should not be at the cost of credit discipline. The banks may face great losses due to this and they may grow wary of lending to the farmers in the future, which goes against the government's efforts of bringing farmers into the organised banking sector. Also, the government spends a high percentage of their GDP on the waivers which could have been used for other developmental expenditure. Credit discipline and repayment culture is completely disturbed. Moreover, most of the small and marginal farmers still depend on private moneylenders for meeting their requirements. So, the benefit of these waivers often does not reach all the small and marginal farmers and the wealthy and large-scale farmers benefit from this. According to a survey by Centre for Environment and Food Security, 23% of the beneficiaries under loan waiver in 2008 were wealthy farmers.

As per my opinion, this policy can never be successful and should not be implemented. These schemes still continue to exist due to the selfish motives of the political parties. Instead of these techniques, the political parties should have schemes which increase employment and cause welfare for the poor in their election propaganda. A large amount of money is spent on this non-developmental expenditure. If this money is spent for developmental expenditure, then employment level in the economy can be increased which will eventually lead to an increase in the income. If the political parties want to genuinely help the farmers, then they should help them by providing techniques to increase productivity and by reducing the role of middlemen and private money lenders.

JOBLESS GROWTH- THE DEVIL WITH THE HALO

(by Aishwarya Bagri and Suhani Singhal)

According to the Census 2011; the average growth rate of the economy was 7.7 percent per annum when it was only 1.8 percent for employment. This is an indicator that our country is facing a situation of "Jobless Growth". The basic factor that tantamounts to such a situation is the excess of labour along with an inclination to adopt newer technologies. This supports the statement that economic growth is necessary but not a sufficient condition to create economic opportunities.

What led to jobless growth?

PREMATURE DEINDUSTRIALIZATION – When an economy is booming and its workforce rapidly multiplying, the manufacturing sector comes to the rescue as the "labour absorber". However, the late industrializers of the 20th century have skipped the manufacturing phase and jumped directly from agriculture to the service sector, a trend consistent with the drop in the employment and output in the manufacturing sector. The service sector-led growth contributed greatly to soaring GDP levels, but it still employs less than 30% of the total Indian population. The source of most employment for Indian people still lies in the agriculture sector, which employs almost 45% of the Indian population (with a 15% contribution to GDP).

SKILLED OVER UNSKILLED - India's comparative advantage lay in its abundance of low-skilled labour. But the kind of employment that the Government promoted even in the manufacturing sector through its policy was formal and organized and demanding a high level of skills, similar to that in the service sector.

This point is further reiterated in a report by Raghuram Rajan which points out that "India's emphasis on tertiary education, combined with a variety of policy distortions, may have channeled the manufacturing sector into more skill-intensive industries." For example, the report showcases that India spent 86% of per capita GDP on each student in tertiary education in 2000 while it spent 14% of per capita GDP per student in primary education. Such a policy mix had repercussions on India's manufacturing growth. Others like China, Malaysia, Indonesia and Thailand were also able to engender a reasonable degree of industrialization. Meanwhile, India's share of manufacturing remained broadly unchanged, even after 20 years of reforms in the early 1990s.

Along with this, the issue of skill instability also hampers the increase in employability. According to a World Economic Forum report, rapid changes in skills requirements shall lead to skill instability in over 40% of top skills required across all jobs in Turkey, China, India and Italy over the next five years. Thus, adaptation to the technical and skill requirements is the need of the hour.

INDIA'S BIAS TOWARDS CAPITAL INTENSIVE MANUFACTURING – An article in "The Wire" points out that the nature of Indian manufacturing since the early 2000's has been more towards capital-intensive methods, thus absorbing only the skilled workforce. This did not contribute to an increase in employment. MSME has a labour intensity, which is 4 times high, but its growth potential has been restrained due to poor investments, poor credit credibility and lack of aggregate demand for their products.

IMPACT OF TECHNOLOGY AND AUTOMATION – Data from the International Federation of Robotics show that since 2010, the usage of industrial robots accelerated considerably. Economists keep reassuring workers that new jobs would be created as old ones wiped off by automation and digitization. But what they don't talk about is the kind of jobs that will be created. Such new jobs will require skills and thus wouldn't be fruitful to the unskilled workers. Unless proper measures are taken, this would further work against our comparative advantage of the abundance of unskilled labour.

LABOUR LAWS – In India's case, the slow pace of labour reforms and the lax labour laws have constrained the development of jobs in India. This can be further explained by the following points –

Labour falls under the Concurrent List, which implies that both the Centre and the State can make laws on it and neither has been miserly about this. – each state ends up with around 200 labour laws.

The Trade Unions Act of 1926 requires firms with seven or more workers to form trade unions.

The Factories Act of 1948 mandates manufacturing units with 10 or more workers to have several working hour limits and workplace conditionalities that become stricter with more workers.

The most burdensome of all is the Industrial Disputes Act (IDA) of 1947, which covers all industrial disputes and makes it almost impossible for firms with 100 or more workers to fire anyone. Establishments require permission from the labour department to lay anyone off and such permissions are rarely given even if the firm is unprofitable. Therefore, firms with six or fewer employees have the most labour flexibility.

As an expansion of firms and manufacturing industries comes with high legislative costs in India, their growth is restricted. This is why 84% of manufacturing employment is contained in MSME enterprises in stark contrast with other developing countries.

What are the consequences of growth sans employment?

WEAKENING OF THE STRUCTURE OF THE ECONOMY: A direct and crucial impact is on the basic structure of the economy that is suffering from a disadvantage due to productivity gains. Productivity gains imply that the economy is able to generate more with a less amount of workforce. This can happen due to technological improvements or structural changes in the sense that relatively productive sectors expand their share in national employment at the expense of other sectors. Moreover, the increase in GDP is mainly led by the service sector. However, with the advent of Artificial Intelligence, there is a threat to the service sector and the existing jobs too, which will manifest itself by a breakdown in the economic system if the economy fails to adapt to the changes.

SOCIAL UNREST: The Jat Reservation Andolan in Haryana, Patidar unrest in Gujarat and the Maratha Reservation Campaign in Maharashtra are examples of the unrest caused in the country. The low opportunity cost of an unemployed person's time along with lack of alternative opportunities result in instability and hamper an environment of progress.

LOSS OF COMPARATIVE ADVANTAGE: Due to the shift in production patterns, India is slowly losing out on its comparative advantage in sectors like textile, clothing, agriculture etc. Countries like Bangladesh are becoming the hubs of textile inspite of India having a history of specialization in textiles. India lost 37 textile markets in the European Union to Pakistan over last two years.

SLOWING ECONOMIC ACTIVITY: A lack of jobs directly affects the aggregate demand in the country by dampening the purchasing power of the jobless workforce. This can have adverse impacts including a slowdown in the economic growth.

Strategies to Promote Growth with Employment:

ANALYSIS OF EMPLOYMENT ELASTICITY: Employment elasticity indicates the ability of an economy to generate employment opportunities for its population as a share of its growth. An RBI paper ("Estimating Employment Elasticity of Growth for the Indian Economy") recorded considerable variations in elasticities across sectors. It was noted to be 0.02 for agricultural employment, between 0.29-0.33 for manufacturing and 0.30 for services. Sectors like apparel, furniture, leather products, motor vehicles, rubber products and electrical equipment have been identified as being employment-intensive sectors. Thus there should be an increased focus on sectors like textile and agriculture whose employment elasticity is high. A slowdown in the manufacturing, mining and construction sectors post demonetization has accelerated joblessness in the economy.

ENHANCING THE ROLE OF MSMEs: A step in the favor of MSMEs can prevent migration of labour force from agriculture to non-agriculture sectors. Diversification of the export baskets as well as of the exports markets to increase the demand and better investment options can lead to the development of MSMEs which are highly labour intensive.

BETTER REGULATIONS: The level of regulations in the enterprises of the country needs to be determined in the sense that over-regulation often causes underemployment as the entrepreneurs tend to substitute labour by technology. On the other hand, under regulation is against the prevailing public interest as it magnifies the chances of fraud and chaos. Thus a proper level needs to be fixed along with smarter and better regulations.

BETTER EXPORT MODEL: Indian manufacturers mostly produce necessity goods whose demand does not rise in a large proportion with an increase in income. Thus to keep pace with the increased production due to better technology, foreign markets have to be tapped. For this, the quality and the pricing of goods has to be adequate as India faces major competition from China in this aspect, by increasing efficiency of labour and reducing costs.

REFORMATION OF LABOUR LAWS: India has failed to exploit its labour-abundance based comparative advantage to export labour-intensive products. Rajasthan has set an example for other states to follow through a recent state-level amendment which raises the threshold firm employment size for seeking permission for laying off workers from 100 to 300 workers under the Industrial Disputes Act. Encouraging states to make their own amendments (as labour issues fall in the concurrent list of the Constitution), an approach that was taken recently by the Centre, is a step in the right direction.

SKILL DEVELOPMENT: The Economic Survey 2014-15 stated that the present skilled workforce in India is only 2%. Thus the skill deficit created has to be resolved by tapping the right kind of skills, keeping in perspective the rapid pace at which the world and skill requirements are changing. Skilling must not only take place in highly employment elastic sectors but also in a way that addresses technological developments and complements technology instead of substituting it.

CONCLUSION

In the context of the present situation, it is highly indispensable to focus on the problem of employment sans growth and address it effectively. Steps have been taken but still, a lot needs to be done in the right direction. Technological advancements and adaptation cannot be ignored but there should be special emphasis on keeping pace with labour absorption and overall prosperity. Inclusive and sustainable growth is the objective and policy reforms need to be taken in that direction.

JAPAN IN ITS LOST THIRD DECADE

(by Tushar Singh)

The Economist in 2012 put out an article detailing how Japan, once much ahead of Western Europe and North America bar the USA in terms of wealth before the 1990s bubble crash was, in 2012, behind all of them despite the 2008 crisis which affected Europe and USA the most. Five years after Abenomics (which basically consists of Shinzo Abe's "three arrows" of monetary easing, fiscal stimulus and structural reforms), Japan still lags behind most of its European counterparts in terms of per capita GDP.

The 1990s in Japan was characterized by crashing property values, falling interest rates, rising unemployment, declining and stagnant GDP, and the worst demographic profile of any major economy. Japan's gradual slowdown began with a stock market and asset value crash. In the early 2000s, the term "lost decade "started to be used to refer to the Japanese economy. Moreover, Japan was affected by the recession in the West in the late 2000s, and its economic growth remained stagnant with a continuous deflationary pressure (To give you a hint: Only in 2010 did its economy regain a level of income last attained in 1995). Economists then extended the term to the "Lost score" or "Lost 20 years".

As Shinzo Abe begins his second term as PM, critics are debating whether Shinzo Abe, who came to power in 2012, has been able to avoid a third lost decade or not. There are a number of negative signs to believe the latter. Japan faces a problem of deflation and hence it is essential that we judge the health of an economy which has been plagued by stagnant prices and wages on a few spending related parameters.

The Bank of Japan left its key short-term interest rate unchanged at -0.1 percent at its October 2017 meeting. Policymakers trimmed inflation forecast to 0.8 percent for fiscal 2017 from 1.1 percent, against the targeted rate of 2%, as firms' wage and price-setting stance has remained cautious. Economist Paul Krugman has argued that Japan's lost decade is an example of a liquidity trap. Despite low (even negative) interest rates, consumer spending seems to never pick up. Since January 2016, Japan's household spending has contracted in all but three months. Consumer prices rose by only 0.7% in the year to September. It was the highest inflation rate since March 2015, mainly driven by a faster rise in the cost of food, well short of its 2% target. One thing to keep in mind while looking at Inflation and household spending figures is that they are being calculated on a very low base on account of negative growth over the past two decades. Therefore, these hardly positive figures are because of a low base which does not depict the real picture, which is even worse.

Another negative aspect of the Japanese economy is stagnant wages. Although base pay (excluding bonuses and overtime) has stopped falling in the past two years, it increased by only 0.2% in 2016. Wages for the permanent workers have remained stagnant primarily because of lack of bargaining power of the workers. These permanent workers are neither easily fired nor easily quit as it would reduce their status (blame it on the work culture in Japan) leading to a loss of bargaining power. Moreover, an inflation rate of close to 0 percent gives no strong reason to trade unions to bargain for higher wages. Moreover, increase in the number of women, elderly and foreigners in the workforce has increased labour supply further ensuring wages do not rise.

Adding on to the labour market problems is the work culture of Japan. Cases of "karoshi" - the Japanese term to describe death attributed to overwork, a phenomenon which started in the 1960s- keep coming up now and then. Nearly a quarter of Japanese companies have employees working more than 80 hours overtime a month, often unpaid, a recent survey found, and 12% have employees breaking the 100 hours a month mark.

The government has introduced schemes like Premium Fridays- encouraging firms to let their employees out early, at 3 pm, on the last Friday each month. However, a survey found only 4% of Tokyo workers utilized the provision of Premium Fridays in February, which hints that the problem is not of an ageing population dependent on few young workers who have to work longer, but about a work culture which has been created through the course of the hardworking decades post the Second World War. The fact that work is a social symbol is hurting Japan on both the wages and work culture fronts. Changing this social mindset will take more than a few legislations.

However, the good news is that the female labour force participation rate has increased to 50.4% (as of December 2016), compared to 47.8% when Abe took office in December 2012. Japan now hosts more than 1m foreign workers, up by almost 50% since 2012. Moreover, there has been a proposal to increase the upgrade the definition of ‘elderly' to 75 years of age from the current 65. Add on to it an unemployment rate of 2.8%. This means that Japan has been able to neutralize the effect of the world's fastest ageing population by adding on to its workforce. Even though this means stagnant wages in the short term, Japan is not compromising on its productivity. Moreover, as the labour market tightens in the medium term, an increase in wages should become imperative. After all, can wages (or prices) be stagnant for more than 30 years? As of November 2017, Japan had over 1.5 job openings for every applicant, which should have an inflationary effect.

Other good news includes that residential property prices have been rising since FY 2013. Japan has had a trade surplus bar just 4 months since 2012. The Yen is now about 30% cheaper in dollar terms than it was in November 2012, which has further helped boost exports, and the Nikkei 225 stock market index is up by more than 150%, symbolizing investor confidence. Even though debt, expressed as a percentage of GDP, is at approximately 240% which is the highest level of debt of any nation on earth, Japan owes most of it to the Central Bank or Domestic financial systems. To default would mean to default on itself. It would simply have to recapitalize the institutions. Also, given Japan is the largest international creditor, there is little doubt that Japan may default or investors may panic. Further good news is that IMF forecasts debt to remain stable at 232 % of GDP till 2022. Moreover, inflation meeting the 2% target will also help the government in paying some of its debt back more easily. As the Yen is cheapened, there are chances of inflation to push up due to increasing cost of imports. Depreciation coupled with an increase in oil prices due to production cuts by OPEC may also be a blessing in disguise for this deflated economy which imports oil.

Japan's economy has expanded for seven quarters in a row in the longest period of growth in more than a decade. Gross domestic product (GDP) grew at an annualized rate of 1.4% between July and September of 2017. The expansion of nominal GDP, which makes no adjustment for inflation, is even more striking. It was almost 11% higher in the third quarter of 2017 than it was five years earlier, the fastest pace of growth for over two decades. Japanese manufacturing purchasing managers index (PMI) has been above 50, i.e., manufacturing has expanded, throughout 2017. Corporate investment, which fell enormously (22% of GDP) during the 1990s, has grown by more than 18% in nominal terms over the past five years and by almost 15% at constant prices. Tax revenues are up by six percentage points of GDP since 2000. All this means that Japan may well be on a long-term recovery trajectory. The recovery was delayed by the 2008 crash but with no major economic meltdown in sight, and the global economy recovering as a whole, the outlook on Japan remains positive.

It is a tough task to balance a deflating and stagnating economy, with increased expenditure on healthcare due to an ageing population. And Shinzo Abe has done pretty well by bringing in positive growth and sentiment, along with stabilizing the debt. Only undone thing remains checking deflation- and his re-election gives him the mandate to take steps to do so.

Abe demanded a 3% pay rise to drive Japan's economy after his election win. If a law is made regarding the same (Abe has a two-thirds majority in Parliament) and if wages do pick up enough to spur inflation that means downward pressure on the yen. This will generate a virtuous cycle for the economy, exports will benefit, imports will become expensive, and inflation expectations will rise further. However, PM Abe should be careful not to raise the sales tax to pay off country's debt like he did in 2014 — from 5% to 8% — which throttled consumption and sent the country into a recession.

You almost feel sorry for Japan given its recovery after the Second World War and so many natural disasters. A few years ago it seemed Japan will never be able to come out of its spree of lost decades. Today, however, the sentiment is positive which has been boosted by Abe's re-election. Abe has promised to continue on a spending spree to boost inflation and exports. Japan, however, has to be careful of some of its neighbours in the event of something blowing up: Global economy does not have space for bleeding hearts.

THE BITCOIN BUZZ

(BY MANNAT LUTHRA)

W.H. Auden rightly quotes, “Fate succumbs many a species; one alone jeopardises itself.” The ‘Bitcoin Bubble’ proclaimed as the biggest financial bubble surpassing all brutal episodes the world’s economic history can possibly offer, has become the most heavily discussed topic in financial news the world over. What has led to the popularity of bitcoin amongst a number of other cryptocurrencies? Does bitcoin offer an investment solution that is bound to be profitable? Or is it solely a bubble that is eventually going to burst? Are all cryptocurrencies necessarily stimulating development in a real sense?

Bitcoin, one amongst thousands of cryptocurrencies, is a digital asset or online money invented by an anonymous individual or a group of persons under the name ‘Satoshi Nakamoto’ in 2008. It was released as an open-source software in 2009. One of the most fascinating facts about bitcoin is that it lacks the support of any central authority or a legal regulator. Consequently, no one can be condemned if things go wrong. All transactions between and among investors are recorded on a Blockchain, a public ledger that can be accessed by any party dealing in bitcoins. Meanwhile, the creation of a bitcoin, which comes into picture as a consequence of ‘Mining’, is not everyone’s cup of tea. For successful Mining of bitcoins, a group of transactions have to be repeatedly verified and collected in ‘blocks’, a time-consuming process that requires some inexplicably hard math using the hashing algorithm SHA-256. As a reward for the mining efforts, until July 2016, 12.5 bitcoins were added to the blockchain per block. The reward halves every four years and is scheduled to limit to 6.25 bitcoins in 2020 so that the ultimate supply of bitcoins is limited to 21 million. A monetary policy of this kind based on the concept of artificial scarcity by Satoshi Nakamoto, has aggravated the belief that the value of bitcoin is set to skyrocket with fixed supply and perpetual increase in demand with the advent of time.

A virtual currency that somehow fulfils the criteria of meeting the widely accepted definition and features of ‘Money’, bitcoin is a medium of exchange, a unit of account and a store of value. It does the best as a ‘Medium of Exchange’ due to its increasingly wide acceptance as a means of payment with the number of merchants accepting the cryptocurrency exceeding 100,000. However, at the same time, the extremely mind-boggling volatility that plagues the trustworthiness of this digital currency as an investment that multiplies money, questions its function and essence as a stable store of value. While the bulls and bears associated with other investments in the stock market can be more or less predicted through the prevailing situation, such as change of CEO, war, competition, changes in government regulations and the like, there is little knowledge as to what determines the actual value of a bitcoin other than the forces of market demand and supply. And an attempt at assessing the direction and magnitude of these forces with reasonable standards of accuracy beforehand is no less than a Herculean task. Another notable fact that intrigues one’s conscience is that bitcoin has so underlying rate of return. No interest, dividends, additional earnings except for the hope that the potential buyer would be paying more than what you paid to acquire the ownership rights over the same amount of bitcoins. Instead, a gain tax is imposed on the seller for each bitcoin transaction.

The biggest cryptocurrency in terms of market capitalisation at $300 billion, Bitcoin has managed to capture the mind, money and matter of discussion of a huge number of potential investors. Doesn't bitcoin become all the more alluring when one acknowledges the fact that a bitcoin bought in 2013 worth $600 now values somewhere between $14000-19000? However, a number of successful investors and businessmen would discourage you from entering this bubble owing to a variety of substantial, sensible and sustained reasons. Most of them claim that it was immensely profitable to invest in the cryptocurrency during the initial years of its invention. The market conditions today, however, raise skepticism over the promise of same profitability in the coming future. Moreover, the digital world cannot be trusted in terms of absolute security considering that it is still not free from the tentacles of hacking and bitcoin lacks any backup support. With insane fluctuations in the value of bitcoin ranging from 20-30% in a day, the digital currency is evidently a matter of short-term gambling rather than fruitful investing, giving impetus to speculative activities round the world. No wonder South Korea chose to 'regulate' it (banning bitcoin is virtually impossible since anyone with a working internet transaction and Bitcoin Wallet can engage in it.) And as disheartening as it might be, Warren Buffet, one of the wealthiest persons and successful investors in the world shared his views on bitcoin by stating, "Stay away from it. It's a mirage, basically." In other words, if you have money that you can afford to lose, you can choose bitcoin to play with those excess funds.

A fact that one often neglects when considering bitcoin's relevance and sustainability a few years hence relates to its energy consumption. According to a site Digiconomist, the bitcoin network is consuming power at an annual rate of 32TWh—about as much as Denmark. By the site's calculations, each bitcoin transaction consumes 250kWh, enough to power homes for nine days. At such growth rates, the bitcoin network will predictably consume as much electricity as the entire world consumes today, by early 2020. Naturally, this raises profound concerns over sustained development while taking the future generations into consideration. However, at this point, it is also imperative to note that bitcoin's energy consumption levels are directly related to its price. This means that the bitcoin network is expected to roughly double its electricity use if we expect the value of a bitcoin to rise to $25000. Also, if its value falls, miners will reduce their mining efforts which will limit energy consumption in the face of lower profitability. Nothing seems unattainable. Who thought in 2015 that a bitcoin worth $500 would rise to approximately $19000 two years later?

While bitcoin might not wholly project itself as a total environmental disaster, there are three ways to deal with the problem. One, as noted earlier, a steady decline in the value of bitcoin. Two, a sooner reduction than 4 years in the reward for mining bitcoins so that energy consumption levels witness a substantial decline sooner over the years. And three, searching for an alternative process in place of Mining that doesn't necessarily use excessive computer technology. Such a step might be possible only in the long run which means, we are only in a position to hope for the best and prepare for the worst as of now.

FRDI BILL 2017

(BY ADITYA JAIN)

Introduction

The Centre's proposed FRDI (Financial Resolution and Deposit Insurance) bill aims at systematic resolution of all financial firms- banks, insurance companies and financial intermediaries. The bill provides for the setting up of a Resolution Corporation which will monitor the firms, classify them based on their risk of failure and take corrective action in case of bank failure. It will also provide deposit insurance up to a certain limit in case of a bank failure. As such, the bill will work in tandem with the Insolvency and Bankruptcy Code.

It also provides for a provision of bail-in where the bank can use the unsecured creditors' money to cover for its inadequacies. It can do so by either by cancelling its liabilities or issuing securities in lieu of the money deposited. Since the depositors in the banking terminology are considered to be a financial firm's unsecured creditors, this provides a direct threat to the depositors by exposing them to the risk of losing their money.

Present System

The current system provides a deposit insurance upto a maximum amount of Rs.1 lakh in a situation of the insolvency of the bank. This puts the bigger depositor under risk.

However, in the 70 years of history of independent India, no public sector bank has gone robust. There are several cases of the shutdown of cooperative and private sector banks but the RBI has stepped in wherever possible, by merging it with some bigger bank. In 2014 public sector bank Canara Bank took over the assets of Amanath Cooperative Bank Limited, in this scheme all the depositors below Rs1 lakh were safe but those above it had to lose 18% of their money. Similarly, in 2004 when Global Trust Bank had to merge with the Oriental Bank due to forceful measures of the RBI, the shareholders took a hit as no share swap deal was provided for. Thus, both the cases are not perfect and lack uniformity.

So Why FRDI Bill?

The primary aim of this bill is to find and finalise a resolution plan that can get a troubled financial institution back on track. It also intends to find a quick solution to problems like failure of a financial institution so that there is least disruption to the system, economy and other stakeholders involved. The Resolution Corporation shall aim at improving and stabilising financial firms so that taxpayers do not lose in a bid to save solvency while also ensuring that the key operations do not suffer. A bank is considered to be an institution of trust and any activity such as that of liquidation will have a bearing on people's trust on the system.

Also, it is very important to understand that this is not a new reform proposed by the NDA Government or in the words of criticisers it is not another Narendra Modi stunt. This is a reform which was agreed upon by all the G20 nations including India in 2011 under the proposal called "Key Attributes of Effective Resolution Regimes for Financial Institutions". This proposal has a 'bail-in' to ensure that a country is not de-stabilised in the event of a huge default by a large bank. This board was set up post 2009 after the Global Financial Crisis where the US government used the option of 'bail-out' to protect the banks causing a large-scale system collapse. The world realised thereafter that such an option should never be exercised in case of bank failures as it has extensive and painful repercussions. Today the bail-in feature has widely become a popular measure among other countries including but not limited to the European Union.

History of Bail-Ins

India is not the first country to follow a bail-in approach. It has previously been followed in two countries, Denmark and Cyprus. Let us consider their cases one by one.

Taking the Cyprus example, in 2013 the eastern Mediterranean country saw the collapse of its banking system. Banks were shut overnight, people were unable to access their money while the government refused to step in and bail out. It became a testing ground for IMF bail-in policy and turned out to be a disaster or what could be called a legal theft. Depositors with over €100,000 in their bank accounts lost money through 37.5% converted into equity, 22.5% held in reserve against a possible future conversion and 30% was completely frozen. The depositors lost 60% of their amount.

Now, consider another case of Denmark. In response to its financial crisis in 2011, it came up with the scheme of five bank packages which included increasing the bank insurance along with a safety net. The bail-in when implemented closed down banks for a weekend and imposed losses on senior debt holders while keeping the ordinary customers safe. The Denmark case did not result into an unavoidable disaster because the entire process was carried out in an orderly manner.

In fact, such a scheme was advocated by the IMF itself which suggested that a country needs to have a clear and a coherent approach for bail-ins. It suggested "An appropriate balance between the rights of private stakeholders and the public policy interest in preserving financial stability. Debt restructuring ideally would not be subject to creditor consent, but a no creditor worse off test may be used to safeguard creditors."

India's Case

There are several key concerns that India has to address before resorting to the bail-in scheme. First, it needs to devise a legal system where the government is able to develop a mechanism so that the ordinary depositor does not lose money. Second, it needs to think about a clear and a cohesive framework. If bail-ins ever occur in future, it would increase the strength of the concerned financial firm and volatility of the banking system. Third, the government needs to develop trust among the depositors so that the scheme protects their money and banking system from any harms. At last count, the total gross NPA in the Indian Banking System totalled 9 lakh crores. And while the rate of growth in NPAs is showing signs of slowing down, the overall problem is still far from any sort of quick resolution.

The Lok Sabha had given its nod to the motion to formulate a Joint Committee on this Bill, and gave time up to the last day of the Monsoon Session 2018 for submitting its report. Currently, only deposits of up to 1 lakh are protected under the Deposit Insurance and Credit Guarantee Corporation Act that is sought to be repealed by the bill. This has emerged as a major bone of contention with the depositors. Though the Union Finance Minister, Arun Jaitley has clearly stated that the bill is fully meant to protect the interest of financial institutions and depositors, it should specify on how it intends to do so. Otherwise gaining trust would be a tedious task.

THE ROHINGYA CRISIS AND INDIA'S STAND

(by Ayushi Srivastava and Suhani Singhal)

While communal tensions in Myanmar are on the rise and the atrocities against the "boat people"- the Rohingyas, are increasing, another door has been slammed shut for these "stateless entities". As the crisis escalates, the Indian Government has declared that it would deport more than 40,000 Rohingyas living illegally from the country on security, economic and geopolitical grounds.

The Rohingya Crisis, like many of the problems in the world, is one of the gifts of the British colonisation. It was due to the British policy of favouring Rohingyas over the majority of the Burmese that fostered hatred towards the community. The hatred grew as most of the Rohingyas fought for the British against the independence of Myanmar. In 1982, when the Citizenship Law was passed, the Rohingyas were denied citizenship and were even not recognised as one of the 135 ethnicities of Myanmar. Due to this legislature, these people lost even the most basic of rights. There were restrictions on them travelling, marrying, having children and even repairing their houses of worship. 1n 2012, the violence against the Rohingyas increased to such a level that many of them were forced to leave the country and look for a more secure level as they received no protection from the government.

As of today, more than 78% households of Rohingya community live below the poverty line. The majority resides in Rakhine region, wherein satellite images show how some villages have been completely burned down. Since that region is rich in mineral reserves, it is also speculated that the military and average citizens attack Rohingyas in hopes of getting access to wealth. Targeted attacks have rendered more than 140,000 Rohingyas homeless in the past few months and violent assaults are on the rise.

The researchers at Queen Mary University of London released a report on the basis of the leaked government reports that indicate increase in "ghettoisation, sporadic massacres, and restrictions on movement" on Rohingya people and the researchers proposed that the government is in the final stages of an "organised genocide".They expected to find a refuge in other countries on humanitarian grounds. On one side, the Pope, the countries of China, USA, Germany and even Bangladesh are trying to contain the situation, on the other side, India is standing back.

India, Myanmar's biggest neighbour, was the ray of hope for the Rohingyas. They flocked to the country looking for a safe haven. Since India does not have any specific refugee plan, all those who could get into the country, stayed where they could find a means of livelihood. They mostly live in camps in the states of Assam, West Bengal, Jammu and Kashmir, Andhra Pradesh, Uttar Pradesh and Kerala, the majority of them being in Jammu. According to the Central Government, the number of Rohingyas living in India has multiplied by four times in the last two years.

The Ministry of Home Affairs has asked all the state governments and Union territory administrations to "sensitize law enforcement and intelligence agencies" to begin the process of "detection and deportation of such illegal immigrants from Rakhine state, also known as Rohingyas," and to do this "expeditiously." The Government of India is not only facing major threats to security but also a fear of spoil in relations with Myanmar, whose goodwill is of extreme importance to us. Also, India is not in a capacity to accommodate the large influx of Rohingyas because of plausible economic and diplomatic pressure. India's conspicuous silent stand and efforts to act invisible are making the apathy stand out.

This article aims to examine the reasons and the social, political and economic implications of deporting Rohingyas from two contrasting perspectives.

LIBERAL APPROACH

ECONOMIC: While people have a popular belief that allowing refugees into your country leads to a drain of country's resources and is hence, detrimental for a country's economic development, recent economic studies debunk this belief completely. A recent study by UC Davis shows that if refugees are given cash-aids then the economic benefits exceed the amount of funds given in aids as theses aids give a substantial boost to the economic development of the country. The UC Davis Study observed the impact three refugee camps in Rwanda had on the local and national economy. The study showed that in the two camps where the people were given cash aids, with an addition of one refugee there was an increase in the local annual real income by 63 and 96 per cent, for the average per-capita income of Rwandan households neighbouring the camps. This was because with the aid that the refugees were given they purchased local goods and services and hence were instrumental in increasing the demand and supply of products in the neighbouring region. If one looks beyond the local impact, he would notice the positive impact that this has nation-wide. The researchers in Rwanda noticed that when the refugees were allowed to interact with the economy there was a positive income spill over. Therefore, the archaic belief that the refugees are an impediment to the economic growth of a country seems ill- founded too. A new paper from National Bureau of Economic Research also shows that refugees bring economic benefit through taxes paid over time. The study showed that adults that arrived to the United States aged between 18 to 45 paid more in taxes within 20 years than they received in relocation expenses or other public assistances. There is a common notion that the arrival of refugees implies the fall in employment and wages of the current residents engaged in unskilled labour. This, too, has been proven false by recent a recent paper by Stephen Nickell of Oxford University and Jumana Saleheen of the Bank of England. It found that a ten- percentage-point rise in the share of migrants working in menial jobs, such as cleaning, depressed wages for such positions by just 2%. Even the unemployment can have positive impacts. Study by Mette Foged and Giovanni Peri of Denmark shows that the people who were in fact nudged out of a job, did not just sit back and crib. They often found a new job that involved lesser manual labour and higher pay by improving their skills when they were displaced.

LEGAL: The Indian Government denounces their responsibility of ensuring the safety of the Rohingyas by allowing them to stay in the country, stating that they are not a signatory to the 1951 Convention on refugees but India has ratified a number of United Nations and World Conventions on Human Rights, refugee issues and related matters like the Universal Declaration of Human Rights and Protection of All Persons Against Enforced Disappearances, Convention against Torture and Other Cruel and Inhuman or Degrading Treatment or Punishment. India has even accepted the Principle of Non-Refoulement as envisaged in the Bangkok Principles, 1966 and India would violate this international law by sending back the Rohingya Muslims to Myanmar where they face a serious threat of human rights violation. More importantly, Article 14 of the Indian Constitution provides for equality before the law & equal protection within the territory of India, not the citizens but anyone living in India, and prohibits discrimination on grounds of religion, race, caste, sex or place of birth, or any of them. Article 21 of the Indian Constitution categorically states "No person shall be deprived of his life or personal liberty except according to a procedure established by law." When one combines Article 14 and 21 with the fact that India is bound by the Principle of Refoulement, it becomes immensely clear that it is not only India's duty but also its responsibility to ensure that the Rohingya Muslims are not deported to a land where they face persecution.

POLITICAL AND GLOBAL: India stands alone in its decision of not rebuking the Burmese government for their lack of action in controlling this crisis. Even though many major world leaders and personalities have criticised their inaction, India has stood by Myanmar and shown their solidarity. One of the most important reasons for India's peculiar stand is the India's policy of appeasement for Myanmar. While China aims to woo Myanmar with monetary funds, India is endeavouring to do the same but with their diplomatic stance. It seems that in India's weighing balance, diplomatic ties weigh on the heavier side when compared to the basic acts of humanity. Though not the most crucial point in this situation, one most also consider India's wish to establish itself as a global leader in the world. India aims cement its position in the world as a super-power but it seems that the government thinks that the only way to do so is grow economically. They forget that America and Russia emerged as the world leaders after World War II after being on the right and the winning side of the war. Similarly, India too can distinguish itself by openly taking a stand against the violence against more than a million people and extending their benevolence and quashing their plan of deportation.

SOCIAL: It seems that India which has always helped and lent a helping hand to refugees is thinking of deporting the 40000 Rohingya Muslims based on their religious beliefs and ethnicity. The Indian Government has proposed to amend the Citizenship Act of 1955 to make the naturalisation of refugees in India easier. It would indeed benefit the Hindus, Jain, Christian, Sikhs and Buddhists from countries like Afghanistan, Bangladesh and Pakistan, where they are considered as minorities. But it does not aim to help the Muslims that being persecuted in their own countries like the Tamil Muslims in Sri Lanka and the Rohingyas in Muslims. India continually helps refugees(non-Muslims), through UNHCR, from Sri Lanka and Tibet by providing them all kinds of help even legal. But this kind of assistance is hardly seen in case of refugees from Myanmar, Palestine and Somalia. The most religiously diverse country has to be more tolerant and should aim to help people from any country whose basic rights are being violated, irrespective of their faith.

PROTECTIONIST APPROACH

ECONOMIC: In a country like India, which suffers from large levels of unemployment and underemployment, it is evident that the influx of refugees would lead to an economic pressure on the country's monetary and natural resources. The recent studies which show that refugee influx can be beneficial to the economy are based on the fact that labour integration has been smooth in those economies. However, the major barrier for labour integration in the Indian economy is the religious and demographic barriers the refugees will face. Germany stands a witness to the circumstance where the integration cost exceeds the increase in income levels during the Eurozone crisis. Thereby, this validates the ill economic impact refugee influx can have on India. The job market mismatch faced by the refugees will be extreme, as most of them would find a common labour market. According to a report by Carnegie Endowment for International Peace, the influx can lead to an excess supply of workers in a particular field, the correction of which would lie in the fall of wages or an increase in investment. A decline in wages would not be politically and economically healthy and simultaneously, new investments might take a long time to occur because of a fragile economic climate. As a result, the migrants will not be absorbed into the labour force and depend on the humanitarian aid. The dependence of refugees on aid provided by the public authorities will exert a fiscal pressure on the Government. All these factors confirm the stand that refugee influx is detrimental to the Indian economy. Refugees compete with the local citizens for scarce resources such as land, water, housing, food and medical services. Over time, their presence leads to more substantial demands on natural resources, education and health facilities, energy, transportation, social services and employment. They may cause inflationary pressures on prices and depress wages.

LEGAL: India is not a signatory to the United Nations Convention Relating to the Status of Refugees of 1951 or the 1967 Additional Protocol. The UNHCR facilitates long term visas for refugees based on international recommendations. A UNHRC decision to grant refugee status to someone in India is meaningless under Indian law, as the final discretion to grant Visas rests with the Centre. As a consequence of this, India is entitled to treat the refugees at par with the foreigners. Under the Foreigners Act, 1946, unless the refugees have the permission of the Government to reside in India, they may be " arrested, interned or deported" to their home country. The Constitutional Framework guarantees certain rights to refugees, irrespective of their nationality, however, there is no legal code that regulates or justifies their stay in India, unless permitted by the Court, which is done on a case-to-case basis. Thus, the Government of India is entitled to argue against the stay of over 40,000 Rohingyas in India on legal grounds, because it is not a party to the international conventions laid down by UN with regards to refugee status.

POLITICAL AND GLOBAL: Humanitarian arguments on the Indian Government's nefarious policies and programmes for a particular community are unfounded. India has been receiving refugees in the past from the Rakhine state and also made donations in 2012 for relief in the violence-hit state. India's present cautious stance to stay away from the crisis is that this is an internal affair of Myanmar and any such stand will break down ASEAN, the probable economic powerhouse of the future. This crisis has the potential to weaken the ASEAN as the scenario entails the silence of not only authorities from Myanmar but other countries as well. India has always shared strong geo- political relations with Myanmar and it is of extreme significance to uphold the same relations and unity in future for defence and diplomatic grounds. 1600 kms of boundary is shared by India and Myanmar, which is why it becomes of utmost importance to maintain strong ties with Myanmar. In 2015, following the attack of the Naga rebels, Indian forces were covertly granted permission by Myanmar government to carry out a raid. Moreover China has been appeasing Myanmar with money, India can do so by cultural diplomacy. The argument of weighing diplomacy over humanity is unfounded too because the lives of citizens of our own country depend on defence which in turn depends on the geo-political relations.

SOCIAL: A new insurgent group in Saudi Arabia has already been trained and provided weaponry by Rohingyas, causing military tensions. In some states of India, like Assam and Jammu and Kashmir, security is already a major concern and some parts of these states are inaccessible to the citizens of India too. In such sensitive conditions, refugee influx would only prove to be a threat to the security and a breeding ground for terrorist activities. The foundation of a stable, prosperous society is the presence of non-porous borders and no country can function smoothly if its developmental efforts are constantly thwarted by refugee influx. With the north-eastern states already facing the possibility of communal trouble.due to changing demographics, it is significant to check and restrict the refugee influx. Another threat is the militarization of the waterways, which are the primary routes of Rohingya refugees fleeing persecution. It is highly probable that the South Asian seas become a flashpoint of military forces leading to newer disputes in maritime boundaries.

FUEL-LING THE TESLA REVOLUTION

(by Arnab Dutta)

'The Government Pension Fund Global is saving for future generations in Norway. One day the oil will run out, but the return on the fund will continue to benefit the Norwegian population.' Norway, the country of mountains and fjords, and home to 5.2 million people features on top of the World Happiness Index and is looked upon by the world community with complete awe. They boast of a world-class education system, scenic beauty, robust economy and a trillion-dollar sovereign wealth fund, the largest in the world. The Norwegians hit gold in the late 1960s when oil wells were discovered in the North Sea, which continues to be the driving force behind the flourishing economy. Norway is home to one of the largest fossil fuel reserves in the world, and exports of the same account for almost 50% of the total exports of the country.

Yet what distinguishes Norway from several other nations gifted with rich natural resources is the astuteness and the discipline it has exercised in utilizing the natural resources, instead of squandering the nation's wealth. To mitigate the possibility of being a victim of the infamous 'Dutch disease' – it refers to the malaise associated with overdependence of the economy on the export of a single natural resource, which in turn reduces the cost competitiveness of the other export goods of the economy and leads to widespread unemployment - the Norwegian Government created the Government Pension Fund Global.

The fund took shape by funnelling the oil export revenue each year, which amassed into a trillion-dollar behemoth. It was set up to allow the government to distribute risk associated with volatile oil prices and the limited supply of the same. In the course of the first 50 years since extraction began, Norway used up half of its reserves. And if extraction continues at the same rate, reserves will exhaust by 2060. Hence the Norwegian government found it imperative to lay down the framework for developing a sustainable means of wealth generation for the future generations which isn't reliant on revenues arising from oil exports and prudent management of oil revenue.

According to the Norges Bank, the Norwegian Central Bank, the fund is invested globally in international equities, fixed income assets and real estate. The goal is to have well-diversified investments that distribute risk and generate the highest possible return. At present the fund has been invested in almost 9000 companies, spanning 77 countries. This piece will be used to bring out something paradoxical about Norway and its wealth fund.

The fund subscribes to high ethical standards in its investment practices. The fund refuses to invest in firms with products deemed unethical, such as tobacco or many sorts of weapons. It is also becoming more activist in the approach to its portfolio, divesting from those seen as grossly corrupt and flagging concerns over companies' misuse of water and energy, or any risk that they benefit from child labour. The fund has been instructed by parliament to help fight climate change. So, 1% of its portfolio is in firms deemed to be green. It has divested from heavy polluters, firms involved in deforestation and from coal companies.

And yet what is paradoxical is that the fund continues to invest in oil companies, namely the Royal Dutch Shell which is one of its largest holdings. The Norwegian Government seeks to reflect its values and ethos and their deep-rooted concern for environmental protection and climate change through their investment basket, yet one can't possibly overlook the fact that the means they use to take this moral high ground and come off as a progressive society stem from revenues earned out of oil trade. The same oil which will probably be used recklessly by industries without adhering to any environmental norms in some developing or underdeveloped nation. This would be analogous to a drug mafia, using his wealth arising out of drug smuggling and morbid violence to fulfil his debaucheries and simultaneously engage in charity to benefit the poor or a faithful and loyal husband running an escort service.

To put things in perspective, the fund is primarily created out of revenues stemming from fossil fuel exports to other nations. However, what is baffling is that a nation plush with oil reserves doesn't utilise the same for energy generation in its homeland. Almost all gas and oil produced on the Norwegian shelf is exported. Company and government revenues arising out of oil trade have gone a long way in creating the modern Norwegian society. And this seems extremely hypocritical and paradoxical on multiple levels. In Norway, 98 percent of the electricity production comes from renewable energy sources. Hydropower is the source of most of the production. Interestingly Norway also happens to be the country where the electric vehicle segment has the largest market share, which is pegged at approximately 29.1% of new car sales. It also has the highest market penetration per capita of electric vehicles in the country. Moreover, Norway has laid down the aim to sell only zero-emission cars by 2025.

According to an article on Forbes, even though the U.S. has the most Tesla superchargers worldwide at 380, according to the website supercharge.info, the story is different when it comes to charging points per inhabitant. In this case, the United States has 1.2 for every million people. Denmark is another Scandinavian nation experiencing strong Tesla sales and it boasts 1.7 per million inhabitants. Norway is way in front of the pack, however, with an impressive 6.3 operational Tesla superchargers for every million people. The means that Norway has utilised to achieve this commendable feat has been through offering myriad of incentives: Electric vehicle manufacturers are not required to pay sales tax, consumers are exempted from paying value-added tax and purchase tax, electric vehicles do not attract any registration fee or parking fee, and most importantly, electric car owners enjoy free charging from the state. Although the aggressive push of the state towards a cleaner society is praiseworthy, what is irksome is that the expenditure incurred on account of the sops given to incentivise potential electric vehicle owners is financed from the Government Pension Fund Global, which in turn is comprised of funds arising from oil trade. So, to make things more lucid, you have a nation which incentivises the use of electric cars in its homeland by utilising funds earned out of people purchasing petrol or diesel in some third world or developing nation.

This makes even more sense considering that the fact that according to the Norwegian Electric Vehicle Association about 72 percent of buyers are choosing an electric vehicle for economic reasons and only 26 percent for environmental ones. Hence, one could reasonably conclude that the progressive society which is being carved by the Norwegian government has been through economic cajoling with help of its coffers brimming with revenue from oil trade, rather than from an altruistic concern about the environment or society.

One is also drawn into asking the question whether this modus operandi of carving such a society by the state machinery sustainable in the long run, especially considering the fact the oil reserves will dry up in the next three decades, and thereby put an end to the gold rush that Norway has been accustomed to. Although the Norwegian economy has been a spectacle of prudence in the backdrop of several nations grappling with debt and struggling economies, it has several complexities to deal with. The inflows into the fund have grown slower due to sluggish oil prices and growing supply of shale oil by America. The public expenditure associated with coaxing people into using electric vehicles has also grabbed eyeballs and there are increasing calls for more austerity in this regard.

And yet, what significance does morality hold at the end of the day in today's 21st-century world.

NEGATIVE INTEREST RATES

(by Sanat Goel, Palkin Garg and Ria Gulati)

Usually, what happens is that people get interest from banks on their deposits, and have to pay interest on loans and borrowings. What comes to your mind when you read the term 'negative interest rate'? An upside down economy? Well, that's not entirely true. Negative interest rates mean that the repo rate is set by the central bank at levels below zero; the commercial banks have to pay regularly to park their funds with the central bank. This does not directly imply that the commercial banks would follow the same pattern with the public (if they would have done that, all depositors would withdraw all their money from the banks and banks won't be left with anything to lend). This essentially means that the commercial banks are willing to lend more, since keeping money with the central bank becomes costlier. So they reduce their lending rates substantially (shrinking their profit margins), to incentivise public to borrow. The primary implication of this move is that people borrow more and spend more, and divert their savings to consumption. NIRP (Negative Interest Rate Policy) is a highly unconventional monetary tool. This phenomenon is not a matter of choice, but rather a necessity in countries where it exists.

There are often times when central banks run out of policy options to stimulate the economy and turn to the desperate measure of negative interest rates. During harsh economic times, people and businesses have a tendency to hold on to their cash while they wait for the economy to pick up. This in turn further weakens the economy as the lack of spending implies lack of demand which leads to less production, lower labour requirement, job losses and lower earnings, thus reinforcing people's fears and giving them even more incentive to hoard. As spending slows, prices drop creating another incentive for people to wait as they wait for prices to fall further. This is known as the deflationary spiral. Negative interest rates are a drastic measure that the policymakers take to prevent an economy from falling into a deflationary spiral. By charging commercial banks to hold reserves at the central bank, policy makers hope to encourage banks to lend more which will bring more cash (liquidity) in the economy and revive the economy from deflation.

Historically, it had been believed that interest rates can't fall below 0%. If the interest rates fall even fractionally lower, all the people would withdraw their savings from the bank. However, banks do not pass on the costs incurred to the general public. Different economists from different time periods have come up with different ideas to encourage consumption (which is the main purpose of negative interest rates). In the 19th century, Silvio Gesell proposed a tax on holding cash. In 2009, Greg Mankiw suggested a lottery scheme for randomly picking serial numbers on bank notes and declaring them void, making it risky to hold on to cash. In 2014, Kenneth Rogoff explained that if we could just phase out cash altogether, there would be no alternative to paying a negative rate on bank deposits and bonds.

However, this policy is not free from risks. It can create a bubble where the cheap loans push up the demand, just like what happened in USA during the 2008 Financial Crisis. People may start withdrawing their money and start saving it in physical form in their homes. This may also lead to a huge increase in the demand for money if all the people start withdrawing their money. This leakage from the banking sector will lead to an increase in the interest rate. One way to prevent this can be setting limits for withdrawal. However, such a measure is difficult to implement and can lead to public dissatisfaction, similar to what happened during demonetization among the masses. There is a tendency amongst people to start looking for other instruments when the interest rates start falling. The demand for bonds, gold etc. will increase and consequently, so will their price.

The central bank of Japan (Bank of Japan) adopted the NIRP on January 29, 2016, when the rate was set at -0.1% for the first time. The move was aimed at encouraging borrowing, spending and lending (based on the Paradox of thrift and circular flow of income model); to avoid Yen's appreciation from its stable low level (to make exports competitive); and to make interest payments on national debt more affordable. But what has been observed is that the policy hasn't helped. Negative interest rates, though incentivise banks to withdraw reserve deposits, but they do not necessarily create more creditworthy borrowers or attractive business investments. They don't improve the capital stock or education and training for the workforce. NIRP could simply lead to even lower interest rates by putting pressure on banks (through reduced net interest margins) to contract their balance sheets still further. Despite lower borrowing cost, consumer demand remained weak. In the recent past, there has been some inflation, not owing to the negative rates, but because of tumbling of Yen by 10% post US Elections. This diminishes the effectiveness of Japan's monetary policy. The folly of relying on monetary policy alone has been criticised by many economists, and some have even called it a 'Negative rates, negative success' phenomenon. The economic performance has not measurably improved. So the NIRP cannot be claimed to be an effective tool in long run.

The European Central Bank (ECB) was among the world's first major central banks to adopt negative interest rates policy (NIRP). It pushed its deposit rate to -0.4 percent in April 2016 which means that all Euro banks have to pay 0.4% p.a. on their reserves held at ECB accounts. In other words, ECB was penalizing banks which parked their excess cash with the central bank with the motive of earning a decent interest. The idea was to discourage banks from stashing their excess cash in the central bank by charging them a modest rate for doing so. Since the banks would lose money rather than earn interest on their deposits, it was hoped they would be prompted to make more loans at lower rates to businesses and consumers. This would push banks' excess cash into the economy. It's an extreme execution of monetary policy, which includes changing interest rates, much like when central banks decrease the rates to stimulate economic activity. This move in turn, has far-reaching consequences. Euro banks seek to evade this "penalty rate," by buying government bonds which inevitably pushes bond prices up and lowers bond yields. Euro banks' businesses suffer as they not only have to face difficulties to remain profitable in an environment of extremely suppressed interest rates but also have to bear higher costs due to a negative ECB deposit rate. In addition to this, consumers withdraw their cash deposits leaving banks with a cash drain. Economists realized that continuing to rely on negative interest rates could be dangerous as the policy had only a modest positive impact on growth but caused a higher risk to the global financial system as well. This policy would encourage individuals and businesses to take some of their money out of banks and stash it in safes, or under mattresses which would not be good for the stability of European banks. It would be far better if European governments used fiscal policy to increase demand by investing in roads, bridges, railroads, ports and other infrastructure which would create jobs and stimulate economic activity, and would not cost much.

As per our opinion, India is not ready to implement this policy. India wants to increase the consumption but this is not the right way to go about it. As per a report by the State Bank, advances to public have declined by 1.9 % and the deposits have increased by 1.6 %. The banks are not willing to lend at high rates of interest, even if the borrowers are willing to pay the high interest. They would be willing to give even lesser credit in case of fall in interest rates. As on April 29, 2016, credit growth has declined to 9.2% as compared to 11.3% in mid-March and 10.3% during the same period in 2015. It needs to be highlighted here that the low credit growth rate has happened at a time when the central bank was continuously cutting interest rates. Moreover, if the lending increases, the chances of loan impairment also increase and banks are always wary about this. So, even if the Central bank is able to implement this policy, the commercial banks won't respond positively to this policy.

THE CHRONICLES OF JOHN LAW

(by Aarushi Sharma)

How can someone go from being a gambler, murderer, and jailbreaker to a highly revered man who found his place in the upper echelons of the French bureaucracy and yet again be forced to spend his life as a gambler and in poverty? Though history is replete with examples such, this article focuses on John Law, the torchbearer of the great Mississippi bubble in France!

The Walk to Success

When King Louis XIV died in 1715, he left France a great legacy of unpaid public debt. The Duke of Orleans sought the support of his friend John Law to revive the highly depressed French economy. John Law was born into a family of bankers and goldsmiths in Fife, Scotland. He had joined the family business and learnt banking from his father and went to London in pursuit of greater luxuries. However, he subsequently lost large sums in gambling, got into a duel, charged with murder and finally broke prison to travel to mainland Europe where he studied high finance.

He was a staunch proponent of the use of paper or fiat currency and opposed the use of gold or silver as a medium of exchange. Hence he was an early monetary and Keynesian style economist. In 1716, Law received the French government's permission to establish a national bank (in lieu of reviving the French economy) which took in deposits of gold and silver and gave paper money in return. Climbing higher on the ladder of success, John Law acquired a struggling trading company, the Mississippi trading company in 1717. The spell of success continued as he received the monopoly to trade with and develop France's North American colonies in the Mississippi valley. As Law's influence continued to rise, he was given the monopoly of all French trade outside Europe and also bought the right to mint new coinage and collect indirect taxes. Finally, in 1719, he began restructuring the country's public debt wherein the company's shares could be bought against state-issued public securities called billets d'état.

Law started an aggressive marketing campaign comprising of lies and half-truths such as claiming the Mississippi valley to be a treasure full of precious metals and rich beaver skin. Share prices of Law's company rose from 500 Livres in January 1719 to 10,000 Livres in December 1719. Speculation of treasure and the company's privileges led to rapidly increasing demand for the company's shares and paupers became millionaires (the word millionaire originated during this period).

The End Begins

Exploding demand for shares increased the demand for money and the bank did not restrain from issuing all the currency that the public demanded. Soon the bank's gold and silver reserves were outweighed by money supply in the country. The bubble popped when a few investors decided to take away their profits in the form of gold from the bank. He limited the value of payments made in gold and announced that the company's shares were overvalued and devalued shares along with the devaluation of bank notes. Numerous decrees were put in force, some of which gave the status of legal tender to the banknote and stripped gold and silver bullions of their legal status. Gold and silver bullions and possession of precious metal and ornaments were declared illegal. Even goldsmiths were restricted from carrying on their business freely. The company's shares fell in value from 10,000 livres to 1,000 livres by December 1720 due to devaluations and aggressive investor selling as the truth about the Mississippi valley being majorly a swampy land came out. Within no time, John Law was seen as a scandal and he fled for his life disguised as a woman and lost the dignity, money and fame he had earned so rapidly.

Why did Law fail?

The prime reason for his failure was his over-ambitiousness and impatience. He also failed to recognize the importance of public opinion and the difference between dictatorship and leadership. He used false propaganda to stimulate demand for shares of the Mississippi Company and forced measures such as decrees to declare bullion illegal and searching homes for any gold or silver, restricting people from wearing precious metals and stones and mandate to carry transactions in bank notes. Also, his attempt to set the prices of shares in (modern-day price-keeping operation) with the help of the national bank led him to lose control of money supply which eventually led to the chaos.

Contemporary Relevance

The Mississippi bubble is highly relevant with the People's Republic of China where the governance involves a mix of modern economy and ancient tyranny. Difference between obedience and confidence is not much recognized and the people's bank initiated a price keeping operation after the stock market bubble in China burst. After the 2015 stock market bubble burst in China, Beijing has also strengthened capital controls to prevent capital outflow just like Law devalued the currency to prevent capital flight. The Chinese central bank pumped money into the stock markets in any way

they could and even capped the large shareholders from selling their stocks. Therefore, money supply in China has grown at a faster rate as compared to the other countries. This has the potential to shatter the Chinese financial system just as it doomed Law's financial set up three centuries ago. Also, all countries involved in converting government debt to equity need to watch their steps as history shows that they are walking on slippery ground.

THE GROWTH OF PRIVATE TUITIONS INDUSTRY

(by Sanat Goel)

The Private Coaching Industry in India has grown at over 35 percent in the last two years. It is a $105 billion industry globally and a $40 billion industry in India. Apart from providing services for various subjects up to class 12th, these tuitions also focus on exams such as the IIM Common Admission Test, Management Aptitude Test, IIT Joint Entrance Examination, as well as international exams such as GMAT, GRE, IELTS and TOEFL. Earlier this trend was associated only to the big cities like Delhi, Chennai, Mumbai, Kolkata, Pune, Bangalore, Hyderabad and Chennai apart from the coaching hubs like Kota but now this has spread to the 2nd and 3rd tier cities in the last five years. Close to 87 percent of students studying in primary schools in India and 95 percent students studying in high schools in India enrol themselves for private tuitions as found out in a report by Asian Development Bank. The lack of resources is the primary reason why their counterparts don't get themselves enrolled.

The students are caught in a rat race. They are over competitive and feel that they should also go for tuitions if their friends are going for them. Also, parents are able to devote very less time to their children as they are becoming more and more entangled in their own work. According to a report by Associated Chambers of Commerce and Industry of India, 85% of working parents enrol their children in tuitions as they are sometimes away from their home for a whole day and they are not able to devote enough time for the studies of their children. Many students feel that they would disturb the entire class if they ask any doubt or they would get laughed at by their classmates or the teacher for asking a simple question. This discourages them from clearing their doubts in the classroom itself which increases the role played by these tuition centres. There used to be a time when students used to be happy with a first division (60%-70%) in the Class 10th and Class 12th results but unlike the earlier times these results play a vital role now in getting admission in the desired streams and desired institutions. The cut-offs for all the good colleges now touch 96 or 97 percent. Many of the colleges also have their entrance exams and these tuitions also prepare the students for them. There has been a shift to extracurricular activities in almost all the schools where the direct effect has been a neglect towards the studies and this is where the tuitions promise to provide a competitive or a distinct edge in the exams. Many of the teachers employed by the schools are often found to be incompetent to teach their subject. Parents want their children to achieve the best in their lives and they won't stop at anything, even if it means burdening their children and putting extra pressure on them. Teachers complain that they are unable to clear everything in the class as there is a pressure of completing the vast syllabus in a set number of lectures, which are usually inadequate. Many of the tuitions centres have entered into an alliance with various schools for Class 11th and 12th. Under these, the students don't need to go to school for their class 11th and 12th. They would be covering their entire course in the tuition centres. This is a win - win situation for the schools as they get a commission from the tuition centres along with the fees from the students.

According to a study by Asian Development Bank, this sector is growing at more than 35 percent annually. One thing which should be kept in mind is that it is a highly unorganised and unregulated sector as many unemployed people provide tuitions to sustain their family. So, the growth rate of 35 percent is only in the organised sector and we can't imagine the enormous growth in the unorganised sector. The fees can range somewhere between Rs 2,000 and Rs 4,000 a month for group coaching and it can reach Rs 1,500 an hour per subject for individual home tuitions. The fees for structured classroom programs for cracking competitive examinations like JEE, AIIMS MBBS can range from Rs. 1.2 lakh to Rs. 2.8 lakh for two years (since students typically start attending these institutes after X standard).Addressing a PAN IIT summit in New York, Infosys Technologies co-founder N.R. Narayana Murthy said the quality of students in IITs has deteriorated over the years because of the coaching class culture and its narrow focus. “They somehow get through the joint entrance examination. But their performance in IITs, at jobs, or when they come for higher education in institutes in the US, is not as good as it used to be,”. The capital involved in the business is moderate and there are no barriers for entry in the market. Due to this, there are a lot of competitors in the market. Switching power of the buyers is very restricted as a student might not float from one coaching centre to another (as they would have to forfeit the fees which they have already paid and most of the students can’t afford this). With increasing number of students in the city, the scope of the market in the future is immeasurable. All one needs are just 10 to 15 students to break-even and create good revenue. This has given rise to many tuition hubs across the country with Kota being the most prominent one.In Kota, there are over two dozen major coaching institutes and more than a hundred smaller ones. Every year close to 1.10 lakh students preparing for competitive exams enrol themselves in various institutes in Kota which is approximately 10% of the total number of students in India appearing for these exams. The annual coaching industry ‘turnover’ in Kota is estimated to be over Rs.1500 crore.

Institute	Year founded	No. of students
Bansal Classes	1983	17,000
Resonance Eduventures	2001	19,000
Career Point	1993	21,000
Vibrant Academy	2008	9,200
Allen career Institute	1988	30,000

This table shows the major coaching centres in Kota and the number of students in each institute.All the institutes conduct some entrance test to provide some fee concessions but the main purpose of these entrances is to segregate the students into different batches according to their capabilities. The elite batch would comprise of the top rank holders with the best faculty teaching them and a low student-teacher ratio. These are the batches which often produce the best results for their tuitions. Other batches exist only to earn money and not to impart anything much productive. In Kota, one would find hoardings of tuition centres everywhere in the city with each centre trying to show their superiority over the others. There have been numerous cases where students have been unable to cope up with the pressure and have committed suicides. With coaching, other allied sectors- schools, real estate, transport, catering, and stationery are also thriving in the city. The campuses of some of the big centres look life offices of some MNC which tells a lot about the turnover of these institutes.

This has become a business now instead of providing good quality services to the students. There are some tuition centres like Super 30 (founded by Mr. Anand Kumar) which provide free education to economically backward people for JEE Entrance exam. This country needs more people like Mr. Anand Kumar who is providing education not for his personal benefit or gain but for the sole purpose of passing on the knowledge that he possesses.The teachers are more concerned about their turnovers and profits instead of the well - being and the results of the students. Students are enrolled in these institutions at the time they should be playing and having fun. They often ruin their childhood for this. Students join these classes to get extra attention in their studies but most of these tuitions are also unable to provide that. Which teacher would after all deny to take in an additional student as long as he is getting his fees?

Book Reviews

Pax Indica – India and the World of 21st Century BY SHASHI THAROOR

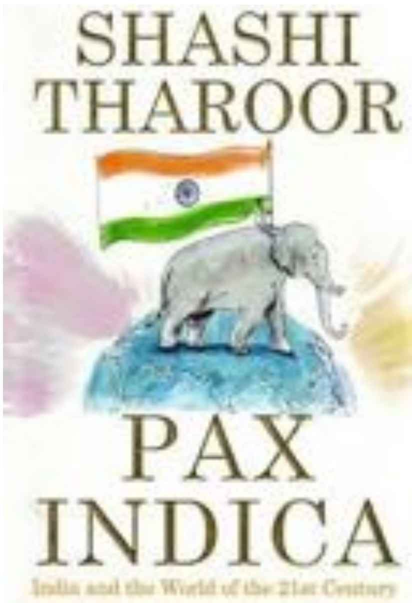
(Reviewed by Kunal Jhamb)

An author, politician, and former international civil servant, Shashi Tharoor straddles several worlds of experience. Currently a second-term Lok Sabha MP representing the Thiruvananthapuram constituency and Chairman of the Parliamentary Standing Committee on External Affairs, he has previously served as Minister of State for Human Resource Development and Minister of State for External Affairs in the Government of India. During his nearly three-decade long prior career at the United Nations, he served as a peacekeeper, refugee worker, and administrator at the highest levels, serving as Under-Secretary General during Kofi Annan's leadership of the organisation.

The book Pax Indica, unlike Pax Romana, Pax Britannica or Pax Americana is not a recreation about India ruling the world but is about India contributing to a cooperative world order. It essentially offers a narrative of India's international relations not just for scholars but is also an attempt to enable its crisp understanding for all those who are intrigued about India's foreign policy. It talks about India's national interests, and what any Indian at the grassroots expects out of India's foreign policy.

Pax Indica can be divided, physically and ideationally, into two halves — the first written by Shashi Tharoor, the politician, and the latter by Shashi Tharoor, the analyst. When Tharoor talks about India's relationship with other countries he aims to underline the fact that though non-alignment lies at the basis of India's foreign policy, India needs to think beyond non-alignment and about the present era of multi-alignment. Tharoor emphasises the need for India to play a constructive role in the international network of nations and strive for the creation of a multi-polar world.

One of my favourite chapters is on China where Tharoor says the normally complacent elephant (India) is naturally wary of the "hissing dragon" (China). He lists all the advantages that China has — "India's inefficient bureaucracy versus China's efficient one, India's tangles of red tape versus China's unfurled red carpet to foreign investors, India's contentious and fractious party politics versus China's smoothly functioning top-down communist hierarchy" — but then says, "India has become an outstanding example of the management of diversity through pluralistic democracy". Yet he maintains, "India is a complaining democracy, China is not a democracy". But as an Indian, I do not wish to pretend we can compete in the global growth stakes with China."



In short, there are several novel ideas brought out in the book which could help to find a more enabling environment for India. However, like any other non-theoretical volume on foreign policy, its shelf-life will undeniably be short, given the dynamic nature of international relations.

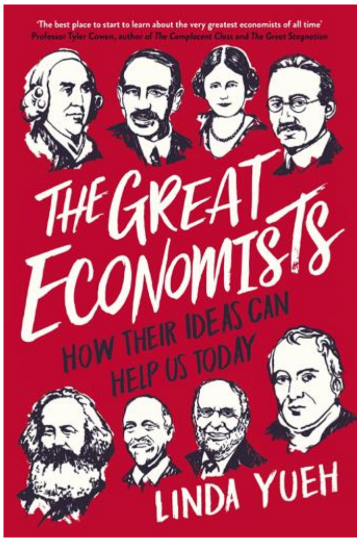
The Great Economists: How Their Ideas Can Help Us Today by Linda Yueh (Reviewed by Suhani Singhal)

Economics is essentially a subject about scarcity and people's inability to come to terms with enough of something. As saturation of wants never happens, Linda Yueh in this book about the greatest economists of all times tries to quench the readers' thirst for additional, simple and relevant knowledge. In a chronological order, she takes up the greatest economists since the times of Smith, and moves through a number of economists, finally ending the volume with Robert Solow.

This book presents an excessively excellent idea which most of the students struggling with theoretical aspects of Economics look forward to- the application of theory in the current global scenario. In a graceful and straightforward manner, the author deals with questions ranging from the use of Karl Marx's theory in predicting the future of Chinese Economy to the idea of globalisation and its perspective in handling Brexit and Trump. Such are the 12 issues that have been handled in this book by impossibly "interviewing" the 12 most brilliant economists of the world, from the beginning of the subject till today.

Written in an engaging form, this extraordinary book entails a similar fashion in every chapter. As an economist's life is presented in a short biographical manner describing his/her unconventional life, we are taken through the theories and ideas of this economist in a comprehensible manner. Moving ahead, a grappling issue is presented with the attempts that have been made to address it and what follows is something as impossible to believe as it is delightful to read- an interview with this economist of the past, who tries to solve the current issues with his theory. This enhances the appeal of the book, which is no less than an enlightening voice which leaves no stone unturned in explaining the very essence of the subject in a wholesome way.

The Great Economists encompass Adam Smith, David Ricardo, Karl Marx, Alfred Marshall, Irving Fisher, John Maynard Keynes, Joseph Schumpeter, Friedrich Hayek, Joan Robinson, Milton Friedman, Douglass North and Robert Solow.



The book is not only highly informative but also proves the importance of thought innovation and the values it possesses. Taking the readers on a journey of the "lives and thinking of the great", as mentioned by Raghuram Rajan, the ex-RBI governor, this book leaves an everlasting impact. To anyone interested in and intrigued by the economic problems faced by the world today, this books comes at the right time as it presents the most complex of ideas in an acute and accessible way. Updated with latest international comparisons and data, the book possesses high current value and acknowledging the must-read nature of the book, the opportunity cost of missing out on this is way too high.

Linda Yueh, a renowned economist is associated with the Oxford University, London Business School, London School of Economics, and the Peking University. She has written and edited quite a few books on the Chinese Economy, globalisation and also a macroeconomics textbook. Her original and unique approach is communicated in an exceptional manner which has been highly appreciated by famous personalities in the field of economics around the world.

In brief, the book emerges as a champion in contemporary times as it explores past, present, and future of the subject. An integral guide to learn about the influential and their influences, this book is a readers' delight.

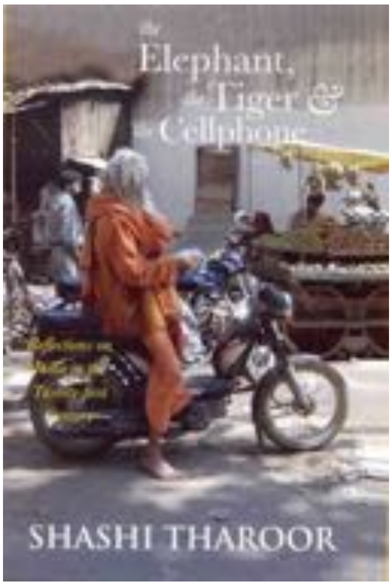
The Elephant, the Tiger, and the Cellphone: Reflections on India – The Emerging 21st-Century Power BY SHASHI THAROOR

(Reviewed by Sanat Goel)

Shashi Tharoor is a member of the Indian Parliament, a columnist, author, human rights activist, and a former UN envoy, serving as Under-Secretary-General during Kofi Annan's leadership of the organisation. He served in the UN for 29 years. His political journey in India began when he contested in the 2009 elections by joining the Congress party from Thiruvananthapuram in Kerala. He won the elections and went on to become Minister of State for External Affairs and Minister of State for Human Resource Development. At present, he is a Lok Sabha MP from Thiruvananthapuram and the Chairman of the Parliamentary Standing Committee on External Affairs.

The Elephant, the Tiger, and the Cellphone: Reflections on India – The Emerging 21st-Century Power is a collection of 69 essays authored by Shashi Tharoor, which have previously appeared in his own columns in various national and International newspapers. Although, these essays have been published before 2007 but a decade down the line these offer an altogether different perspective of what changes have happened around us. These essays have been divided into six different sections: the Transformation of India, Ideas of Indianness, India at Work & Play, Indians Who Helped My India, Experiences of India, and The A to Z of Being Indian.

He voices his opinion on the culture, history, achievements, and problems of our country, all in the context of the 21st century. The opinions are from the point of view of Shashi Tharoor, the diplomat and not Shashi Tharoor, the politician. He tries to tell us about the past of our country and what lies ahead in the future for us. He describes how our country has become a global leader in Science and Technology, how Indians represent a large portion of the workforce in Silicon Valley and how our country is on the way to become a global leader in services. Statistics are used to show the development which our country has made.

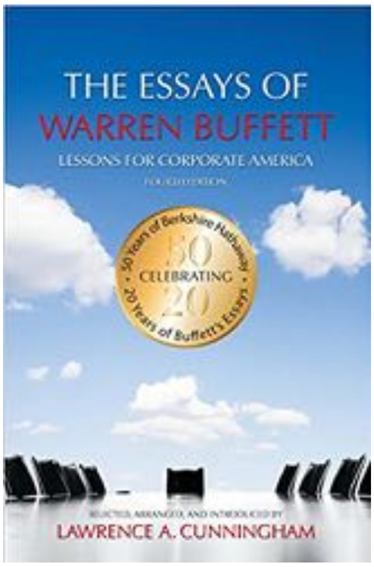


Another point which he tries to make through his book is that secularism in India does not signify the absence of religion but rather the acceptance and celebration of a diversity of religions existing in harmony together. He uses a lot of anecdotes to try and show India as it is- a mosaic of many cultures, religions, languages & practices. He compares India’s ‘thali’ to the American ‘melting pot’. He says “If America is a melting pot, then to me India is a thali – a selection of sumptuous dishes in different bowls. Each tastes different and does not necessarily mix with the next, but they belong together on the same plate, and they complement each other in making the meal a satisfying repast.”

Unlike many of his other books, this book tries to cover a vast array of topics with each essay being 5-6 pages long. Some essays can be skipped but overall this book is a good read for anyone wanting to know more not only about India's past but also about its growth in the world today.

The Essays of Warren Buffet: Lessons for Corporate America by Warren Buffet and Lawrence A. Cunningham (Reviewed by Mannat Luthra)

Warren Buffett, a name largely synonymous with unparalleled wisdom when it comes to market investing and business management, requires no elaborate introduction. An American business magnate, a philanthropist and the man behind the success story of Berkshire Hathaway, the businessman has a net worth of $84 billion and has selflessly donated more than 99% of his fortune to charity. Also known as the 'Oracle of Omaha', Warren Buffett is one of the most successful investors of all times with Berkshire Hathaway owning more than 60 companies at present.



'The Essays of Warren Buffett: Lessons for Corporate America' is an exquisite collection of Buffett's annual letters to the shareholders of Berkshire Hathaway from 1979 through 2006 which forms a limitless treasure of informal knowledge for anyone seeking the secret to a successful company inherently built with the purpose of serving all its stakeholders to the best of its potential. The letters together furnish an extraordinary set of some of the basic principles of sound business management in simple and plain words. Lawrence Cunningham organises the essays within seven sections between Buffett's prologue and epilogue and highlights the essential fact that no business ever touched the portals of incomparable success without a comprehensive knowledge of these priceless pieces of information.

Lawrence Cunningham incorporates Buffett's latest wisdom on topics such as the financial crisis, the housing bubble, Berkshire Hathaway's acquisition of Burlington Northern Santa Fe, corporate governance, the role of oversight in heavily regulated industries, today's best investing opportunities and the weaknesses of popular option valuation models among others. An imperative point that Buffett makes is that good investors should identify good businesses rather than focusing on the market, attempt to buy them at suitable prices, and hold them for the long term while investing in good relations between the managers and the investors. This is one of the most important ideas Warren Buffett and his business partner, Charlie Munger have personally incorporated in the management and decisions pertaining to Berkshire.

The essential grace with which precision has been effortlessly coupled with clarity of thought makes the book an intriguing read. Buffett has been brutally honest when it comes to disclosing important information and his opinions regarding the performance of the company with his shareholders. The fact that Buffett and Munger resonate with the role of the shareholders as the actual owners of the organisation and leave no stone unturned in ensuring that the shareholders know the company as well as they do, assists them in ensuring that the turnover rate of shareholders for Berkshire Hathaway is close to negligible. It simply reflects the amount of trust these owners place in the management of the company, something which has led Berkshire to greater heights of success in the business world.

All in all, the book is a worthwhile investment in terms of money and time. If you're someone who is fascinated by the practical applications of the many business and accounting principles, conventions and practices, 'Essays of Warren Buffet: Lessons for Corporate America' is certainly the right book for you.

INTERVIEW WITH MR. PARESH GUPTA

(Compiled by Aishwarya Bagri)

Mr. Paresh Gupta is a 4 times TEDx Speaker, the Founder and CEO of Global Centre for Entrepreneurship & Commerce (GCEC) and Brand ambassador of the Rajasthan Government youth activities. He is a mentor at Startup-O Singapore, Viridian Espark Singapore, Advisory Board Member at Headstart Network, Startup Mentor and an advisor at CIIE SRCC, IITs, IIMs, NMIMS, Enactus KMC and many other institutions.

An alumnus of Sri Ram College of Commerce, a first attempt Chartered Accountant and an MBA from London School of Business and Finance, Mr. Gupta is a trained financial modeler from Operis UK, rated amongst the top 20 credit research analysts team in Europe.

Q1. It's been almost 3.5 years since our Prime Minister launched the Make in India programme. The main aim of the policy was to promote design and manufacturing of goods of 25 sectors within India. Do you feel that Make in India has culminated itself into reality and has been successful at realizing its aim?

Answer: The Make in India campaign cannot culminate so quickly. For a systematic shift of workforce from agriculture to manufacturing, not only a policy shift would be required but also a significant change in public mindset and culture, removal of red-tapism and inflow of foreign funds. This is my view on the policy impact:

Misses: 1. There has been a global downturn in demand which has made it more difficult for industries to expand as fast.

2. We have not been able to come out of red-tapism and a series of legal regulations, some of which may have even outlived their utility.

3. Indian manufacturing labour wages remain fairly low and as such the migration of farmers to factories has not been happening as fast.

Hits: 1. Increase in FDI has been significant and funding coming into India through FDI route in various sectors including defence.

2. Industrial production has started to pick up in certain sectors like technology, automobile, Pharma, FMCG etc.

3. Gradually, small businesses have started adopting better working conditions for workers.

The final outcomes are yet to be seen over a period. We can't blame the policy which has positive initiatives however execution remains slow and sluggish. Startups and regulators both need to make efforts in the right direction to make it a success.

Q2. Are Indians lacking innovation in businesses? How do we change that? We ask this question to you citing the examples of Ola and Uber, Amazon and Flipkart, FoodPanda and Swiggy.

Answer: On the face of it "Yes," but behind the scenes the answer is "No". If the same Indians can innovate in other countries then there has to be some other reason which stops them from innovating in India. The biggest factor in my view is social security. Indian economy and social environment does not promote innovation. We do not get safety of food, shelter and clothing and as such the first task for any Indian is to secure basic necessities taking him/her away from innovation. The education system in India too doesn't include and encourage innovation. It focuses on teaching and not learning. Most startups find it easier to copy and see foreign funding and secure flow of funds rather than creating something totally new. However we should not be guided solely by the examples of Ola, Flipkart and Swiggy. They may not be the best examples anyway to represent the startup ecosystem on India anymore. There are massive innovations happening in India which are changing the way of life. I have personally met innovators who have designed drones to detect land mines to those designing hand-gesture based remote controls. The only challenge is that they do not produce instant revenues and still remain small they and go unnoticed.

The only way to change is by creating more visibility and promoting these innovators in the country. We as a society discourage new ideas, we are not as accepting as our western counterparts in accepting new business ideas and innovative products. So the bigger challenge lies in the social change of acceptance.

Q3. For very long, Indian startups specially e-commerce businesses have used cash-backs, discounts and similar margin-dwindling schemes. These have resulted in rising revenues along with rising losses. The result is a negative revision in valuations. How according to you can e-commerce companies and other startups change the scenario to rising revenues as well as profits, on the back of better margins?

Answer: The major feature of an Indian consumer is that he/she is heavily price driven. Indian market is highly price elastic and price often becomes the deciding factor when it comes to which product to buy or from which factor to buy. The brand loyalty is quite low. Most e-commerce sites also advertise and focus on beneficial tactics such as cash-backs and discounts. However, this can change as the disposable income of people starts to increase and people are shown the quality of products. The companies might want to show the consumer the value that they provide and the quality of products as their primary method of public relations before aggressively advertising discounts. There has to be shift in the mindset from price-oriented to value-oriented. This will enable the company to offer products without high discounts, improve their margins and make good the losses. I have personally met several startups which are still bootstrapped and working on quality products and doing very good without offering any of these discounts. A classic example is one of my mentored startup Hippo Cabs which is now one of the biggest intercity cab services which does not offer deep discounts and cash back but is still doing very good.

Q4. At a time when India is on the verge of an unemployment crisis, we need job makers rather than job seekers. Nevertheless, the fear of failure forbids many from taking the entrepreneurial path. How do we, as future members of the Indian labour market, combat this distress?

Answer: A significant proportion of Indian people come from a background without any access to basic infrastructure facilities and social security in the terms of food, shelter, clothing and even higher education. Such a background forces people to become job seekers to attain this level of security as a priority. For such people, failure is actually fatal as they do not have even a basic fall back position. This can't be changed from the surface but from the roots of social security. Role of education is critical but not the current education system which encourages rote learning. Education needs to foster innovation by way of encouraging ideas that actually solve the problems those students face themselves. It is equally important that parents are in the position to support their child financially. Equitable distribution of income and alleviation of minimum wages for below poverty line, poor, lower and lower middle classes is important to facilitate this. The change needs to be in the environment where failure is not the deciding factor between life and death for people.

Q5. If you were to name 5 hot startups to look our for in 2018, what would they be?

Answer: 1. Furtados School of Music (FSM) is a music education firm with a vision to provide accessible quality music education to all.

2. Hug Innovations is a wearable tech company developing IoT platforms that allows users to complete tasks including controlling apps, electronics, VR headsets, toys and home automation using just hand gestures

3. Velmenni Research and Development Pvt Ltd - working on technology called Light Fidelity (Li-Fi). This startup tech can power the Internet using light bulbs and is 100 times faster

4. Chai Point - India's biggest organised Tea retailer.

5. Zerodha - financial service company that provides equity investments, retail and institutional broking, commodities and currency trading, and mutual funds, all brokerage free.

EXCLUSIVE RESEARCH PIECES

Research is to see what everybody else has seen, and to think what nobody else has thought.

-Albert Szent-Gyorgyi

Contemporary feasibility of UBI in India

- By Rishi Sardana, Aaditya Mulani, Jotpreet Singh and Sonali Jawa

Abstract
This paper attempts to take a closer look at an extremely radical welfare ideology that has been floating around among policy makers, economists and entrepreneurs alike, namely: Universal Basic Income (thereafter referred to as UBI). It revolves around the concept of a regular guaranteed unconditional cash transfer to each and every citizen of the country, rich and poor alike, with no strings attached, and plug this into the current Indian socio-economic and political conditions. A careful analysis reveals that India is not quite ready to roll out a fully fledged UBI programme, and must focus on higher infrastructural, political and administrative stability among other things before going ahead with such a policy.

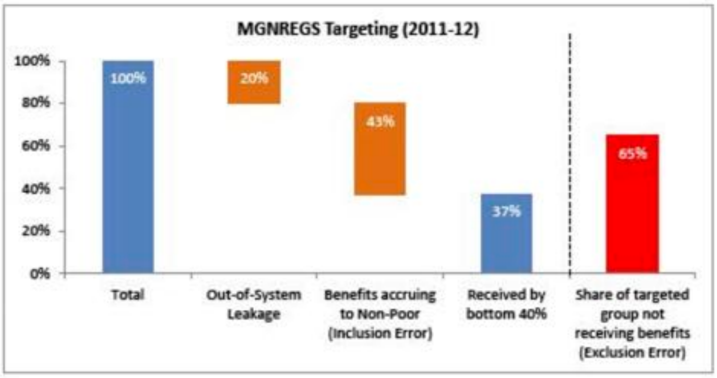
Literature Review
India is definitely no stranger to the concept of Universal Basic Income, and a lot of discussion, experimentation and empirical analysis has taken place regarding UBI in the Indian context. The planning commission dabbled with the idea in the 1960s, but very recently, Economists at the finance ministry published a highly elaborate chapter on UBI in the 2016-17 Economic Survey, titled "Universal Basic Income: A Conversation With and Within the Mahatma". It argued that UBI is "more feasible in a country like India, where it can be pegged at relatively low levels of income but still yield immense welfare gains". The Economic Survey doesn't explicitly advocate the immediate implementation of UBI in India but says that it merits serious discussion, and there is certainly a tone of enthusiasm on the chapter regarding UBI. Another notable body of work in this area in the Indian context was a paper based on a pilot study conducted in 8 villages in Madhya Pradesh (which have been elaborated in a section ahead) by Guy Standing in partnership with UNICEF. It was divided into two transfer programs called the MPUCT (Madhya Pradesh Unconditional Cash Transfer) and the TVUCT (Tribal Village Unconditional Cash Transfer) – where one tribal village in which everybody received the grants and one tribal village with no such transfers were compared. Both of these programs provided highly interesting insights in favor of a universal cash transfer, thereby setting the stage for a more informed debate in the future regarding its credibility. The experiments with UBI in countries such as Finland, Kenya and Alaska also provide rather valuable insights regarding its merit (though there is a huge difference in the general environment of each of these countries, so the inferences that can be made are somewhat limited). While extensive discourse is taking place, more experiments and simulations can hope to provide conclusive results.

Introduction
We are living an age where artificial intelligence is developing at a pace which is much faster than we could have possibly fathomed, and is slated to continue surprising us in the future. However, not all of these surprises will be pleasant.. In fact, there is an old adage that goes "Jobs are for machines, and life is for people". This turned out to be surprisingly ahead of its time, and perfectly describes the scenario we expect to see within the next couple of decades, if not earlier, i.e. automation completely taking over most forms of human work, with higher efficiency and lower cost. The idea of UBI may be a juicy topic for discussion at present, but the concept itself dates back to as far as the 1700s, when Thomas Paine suggested that the government ought to pay everyone 15 pounds per year, in exchange for a social consensus that private property rights be defended. (This is a bit of a paradoxical proposition though).Unsurprisingly, in recent times the idea of UBI has been triggered by a few Silicon Valley pundits, who foresaw the implications of the heavy distortions that AI would cause in the labor market,

and felt the need to address this with a level of radicalism that matches the magnitude of this unstoppable automation revolution. Ever since, it has been tried and tested in several countries. For instance, Iran took its Energy Subsidies and channeled it into a basic income of about 500 dollars per person per year. The Alaska Dividend/ Alaska permanent fund pays out about 1,000 dollars per person per year among Alaskan residents for a population of about 7 lakh people. We incidentally have our version of the Alaska dividend which is the Goa iron ore permanent fund, pushed by Supreme Court in 2014 directing that 10% of the sales of Iron ore should go into this fund as a permanent dividend fund for its people. While the idea might come across as a little too extravagant to actually work, the kind of support it has gathered from famous economists such as Pranab Bardhan , Debraj Ray (and even Keynes himself!) and entrepreneurs alike (Mark Zuckerberg, Elon Musk and Pierre Omidyar being the latest to join the bandwagon) is a testament to its legitimacy. This is further cemented by the fact that an entire chapter was dedicated to Universal Basic Income in the 2016-17 Indian Economic survey. Many even go as far as to claim that since technological revolution is something we cannot, and should not even try to stop with a Luddite movement, a Basic income scheme would be the only way out of this. Frankly, that proposition is hard to argue with.

India's current social security net vs. Universal Basic Income

In a country like India, however, the idea of Basic income pertains to more than just technological unemployment. With rampant inequality and poverty being a huge concern, top notch social security programs are our ticket to progress and must be given utmost priority. However as of now, our country is riddled with some inefficient and poorly targeted schemes and subsidies, which despite being principally well intentioned are a mere strain on our fiscal capacity. For instance, the widely celebrated LPG Subsidies are known to benefit the rich more than the poor. A recent study in Karnataka shows that more than two-thirds of ineligible individuals held a BPL card, while around one-sixth of eligible individuals did not have it. Even the highly celebrated MGNREGA and PDS schemes have major leakages, and do not reach the deserving poor as they are supposed to. Some estimates of economists at the National Institute of Public Finance and Policy suggest that the total amount of government subsidies (explicit plus implicit) that go to the better-off (also called "non-merit subsidies") amount to around 9% of the GDP. In short, the government has a hard time identifying who needs help, and even if they succeed on that front, they struggle to make sure that help reaches them.



(Graph: Even the celebrated MNREGA has extensive leakages , as a whopping 65% of the beneficiaries are getting left out of a well intended scheme)

This raises an interesting question: Wouldn't simply transferring 10,000 rupees to each and every bank account in the country solve that conundrum? Since it's universal, the government is able to get rid of its targeting handicap. Leakages would decrease, the poor would get empowered in terms of bargaining power, agency and self-employment opportunities, and poverty would be minimized in a stroke. Keynes's dream of a post capitalist Marxist Utopian Society, (as described in his essay 'Economic Possibilities for our grand-children") where labor is able to enjoy leisure time and the people enjoy the benefits of technological productivity, may even become a reality. Sounds like the ideal answer to India's problems, but unfortunately it isn't that simple at all.

The primary reason being, replacing everything in the safety net with an unconditional cash transfer would limit the scope of government assistance in damaging ways. Say for instance, we know the choice of neighborhood makes a difference to the development of poor children. Housing vouchers might lead them to move into a better one. A monthly check would probably not. Another classic example of the same phenomena is the fertilizer subsidy being provided to Indian farmers. There is no guarantee that a cash transfer will incentivize them to increase production once peak season is over, or in times of adverse weather conditions. A subsidy, on the other hand, is specifically intended towards that particular purpose. In developed societies , universal services like healthcare, education, nutrition, financial inclusion etc. are taken for granted as they are well established, but in India policy makers are still grappling to achieve basic welfare and necessary service, hence schemes like MGNREGA and Public Distribution System must be kept in place. Moreover, in a relatively unstable political environment such as India's, doing away with MNREGA, PDS and LPG Subsidies and other such schemes will amount to political suicide, inviting a harsh backlash from the opposition. India is, in any case, no stranger to radical policy measures as the past year suggests. Hence, in a developing country such as ours, the existing welfare programs, while not perfect and bulletproof, serve an indispensable purpose, and cannot simply be replaced with UBI unless and until we reach a certain level of upliftment and development. UBI must complement these schemes and not replace them, at least in today's day and age. This of course brings up an entirely new challenge: "With a sizeable portion of our budget earmarked for these existing social security schemes, do we have enough fiscal space for Universal Basic Income"?

UBI: Where does the funding come from?

This fundamental question lies at the heart of the debate regarding UBI, and it is important to address it in a careful manner. There are several possible ways to fund a UBI program, though each comes with a caveat of its own.

1. The first and most obvious method is progressive taxation (taxing the rich and redistributing the revenue) on the wealthy, and on corporations. However, looking at the economic implications of this very simplistically, a rise in taxes on corporations will drive up the prices of their goods and services, and eventually inflate away the effect of UBI, partially or completely, which will warrant a further increase in the level of Basic income, thereby creating some sort of an infinite cycle with no particular end (assuming taxes are the only means of raising the UBI revenue).

2. Another source of UBI revenue is printing of currency by the RBI, but that carries essentially the same implications as the aforementioned progressive taxation, i.e. it causes a corresponding increase in the price levels to cancel out the effect of the basic income. Hence, in the long run once inflation starts to kick in, this policy becomes redundant. The third, slightly more sophisticated mechanism to finance a UBI policy is budgetary redistribution, i.e. scrapping the existing inefficient social welfare schemes which reach the wrong beneficiaries, and setting aside all of those funds for a UBI. Of course, as we've discussed earlier, completely replacing targeted social welfare schemes with UBI is an idea only extremely developed countries can consider (though it still doesn't make it any less questionable), but not India. However, as cited earlier, the total amount of non merit government subsidies amount to 9% of gross domestic product. On top of that 9% in the form of regressive subsidies, there is a category of "revenues foregone" in the Central budget (mostly in the form of tax holidays and exemptions), largely for firms or companies. This comes to about 6% of GDP (no one has yet estimated the revenue foregone in the state budgets). There are data and interpretation problems

for the tax exemption figures; as they don't include necessary exemptions from customs duty for imports used in processing for re-exports. Yet, if even half of the 6% is added to the earlier 9% for the regressive subsidies, the total comes to about 12% of GDP, which could be used for UBI. As of now, this seems like the most viable source of funding, though the estimates regarding non merit subsidies differ among various sources. Perhaps some simple steps to boost tax revenue such as improvements in Property tax collections (which are very less at present), would make a huge difference, especially considering India has such alow Tax to GDP ratio. Needless to say, all of the above steps may trigger a wave political opposition, and hence must be considered carefully.

According to estimates, If UBI is given according to the Tendulkar Committee Minimum Wage,10-12% of the GDP will be spent. Marginally scaling down that amount is an option that may be considered. Perhaps this may be a contradiction to the "basic "element of Universal Basic Income, since an amount scaled down from the minimum wage would probably not be enough to support an individual's basic needs, but it is still a tangible step towards poverty alleviation and will certainly empower the poor to a certain extent. (More on this funding mechanism, also known as QUIT. below)The initial propositions of UBI were based on the vision of a Utopian dream of near infinite technological productivity completely eliminating any need for human effort, and earning us all the big bucks. According to this vision, machines will generate revenue and have only minimal maintenance cost (because the concept of wages won't exist) so these can be shared among the people. Once again, perhaps this is a fathomable scenario in developed economies, but India is still several decades away from that, and for now it is merely a pipe dream.

Cheaper Variants to Universal Basic Income

India is a highly populated country. Thus, in such a case, providing a basic level of income to a very large number of people may become a hindrance if such a practice is carried on for a long period of time. It would cause a serious drain of the financial resources of the country. Are there any tricks in the books of policy makers to work around that?

One possibility is the introduction of a sector specific basic income scheme, which would not be a "universal" income scheme, per se, but would definitely involve considerably lower fund requirements. However, one very obvious drawback to this idea is that it causes massive distortions of labor incentives across sectors. If such an income is provided to a particular sector, say agriculture, doing so might attract a lot of people to the sector which is being supported in particular. This would again lead to a spiral, where more people join the industry in a bid for basic income which increases the government's liability to support more people with such income schemes, and cause other industries to take a considerable hit. Not only is this a disaster from an economic standpoint, but it is also political suicide. Several hypersensitive questions such as "which sector" really have no right answer. Moreover, even if we manage to somehow miraculously answer the previous question, there are other issues to be addressed, such as whether **everyone** in that sector would avail those benefits, or only those below a certain threshold. In the latter case, which seems to make much more sense, our coveted "UBI" would essentially be reduced to another targeted social security scheme. And this targeted social security scheme would lead to an increase in the already existing non merit subsidies.

Another solution to providing UBI in a country like India could be having the scheme time bound. This can be done in order to use lesser resources and yet cover a large part of the population which may result in higher living standards. But a few inherent problems exist.

Firstly, such a scheme being time bound would only make the population more eager to look forward to such schemes being implemented in the future. It would make them expect such schemes or versions of it, which would again become a tool by the political parties to be used during elections.

Secondly, and more importantly, this will radically alter the trends that aggregate demand and inflation follow, and cause major hindrances to the governments sacred tool of inflation targeting , and the general expectations of the economy. Sudden and sharp price and demand fluctuations are not exactly symptoms of a healthy, well functioning economy, and should be sidestepped whenever possible.

So clearly, it isn't so simple to find the right tool without disturbing the balance of the economy and coming in the way of other, rather crucial and indispensable policy objectives. Jumping the gun with grossly oversimplified measures won't work, and something more sophisticated needs to be devised. However, economists aren't to be underestimated, and have done their fair share of research here to come up with some novel ideas. Let's take a brief look at some of them;

Several rather dynamic variants to UBI, which put relatively less pressure on the government treasury have been deliberated upon among economists , such as **QUIT** (Quasi universal Income top up, an idea of Jean Dreze, recently advocated by economist Surjit Bhalla) and **UBS** (Universal Basic Share, suggested by Debraj Ray).

Quasi Universal Income Top up (QUIT): This is nothing but an essentially watered down version of a fully-fledged basic income program. As the name suggests, it isn't completely universal (A 75% universitality rate is what's been proposed). The Economic Survey calculations showed that a 75% universality rate with an annual UBI of Rs.7,620 per year at 2016-17 prices costs approximately 5% of the GDP. It also isn't "basic" in nature, i.e. it doesn't completely ensure a basic minimum standard of living, and the slated amount to be distributed is below the Tendulkar Committee poverty line. This won't eradicate poverty in a stroke as UBI is supposed to, but it will certainly contribute to the same, while being less burdensome on the government budget.

Universal Basic Share (UBS): It is a rather clever idea proposed by noted economist Debraj Ray. The concept of this is to commit a fraction of the GDP instead of a fixed lump sum amount to be paid out. This has several benefits over the existing UBI model. First and foremost, it is country neutral, i.e. governments can start small, and as the country grows economically, the UBI is indexed accordingly and correspondingly grows along with it. Hence the government isn't unnecessarily stretching its limits and giving out more than it can afford. It can be compared to a system of proportional profit sharing, where the extent of profit (in this case, the GDP) earned governs what the beneficiaries are to receive. Moreover, since the percentage of UBI to be given out will be a fraction of the nominal GDP, it will automatically be inflation indexed to certain, albeit rather limited extent.

Is private ownership a hindrance to Basic Income?

As said, communism serves as a lubricant to UBI, since capitalism doesn't exactly go hand in hand with the concept. Thus, India being a free market economy has many more hurdles to cross than China. The current concept of Dibaoline sets a standard minimum amount that an individual is to earn per month and any deficiency that exists, the gap is bridged by the government by paying the difference amount.

It is quite in line with the concept of UBI, but it is not exactly the same as UBI requires payment to an individual unconditionally and it is not based on the fact whether he earns a minimum amount or not. The major problems faced by India, as discussed before, included the inflationary spiral if UBI was introduced. That wouldn't really be a problem for China owing to the state ownership of almost all assets. The state can tax these funds without having the fear of these firms rising their products' prices as a consequence which would nullify the main concern of UBI. In India, the government is incapable of controlling these prices and hence the inflationary pressure as a consequence.

Even though the inflationary pressure won't affect China, it has the same problems as India in terms of identifying the actual poor and framing socio economic policies which have a beneficial effect on them along with reducing non merit subsidies. Dibaoline will also completely disincentivise a person to work, considering he will be getting the same amount of revenue per month i.e. the fixed minimum standard. Also, if China plans to bring in UBI, it will have to incur an expenditure equaling to 6% of GDP (which comes to about 29.7% of India's GDP), making it very costly for them to implement the system.

But if we keep the implementation and execution aside, it can be clearly seen that it would be easier for China to enforce UBI than India. This is why a free market dynamic may prove to be a hindrance when it comes to UBI.

Conclusion

An extensive analysis of the costs and benefits of UBI, plugged into the Indian socio-economic and political conditions, indicates that the country is not quite as economically ready a politically robust as it should be to soak in such a radical change. At present, India may not have the capacity for financing a fully-fledged UBI scheme. At best, it can opt for a Quasi Universal Income Top-up or adopt the concept of Universal Basic Share. However given that in recent times India has committed to policy of fiscal prudence, it is best that we avoid this until we achieve fiscal stability. Small measures such as scrapping non-merit subsidies and unnecessary corporate tax exemptions, as well as improving property tax collections can go a long way. Even if India is able to procure the funds required to institute UBI, there are several logistical issues which need to be resolved. For instance, the rate of financial inclusion must be close to 100% in order to make these income transfers work effectively. The JAM trinity (Jan-Dhan, Aadhar, Mobile trinity) must be strengthened for the same to happen. While Jan-Dhan has certainly come a long way in spreading formal credit, it still has several imperfections, and needs to widen its reach a little further to facilitate the universality of unconditional cash transfers. At the end of the day, the intricacies of such a policy need to be examined through pilot programs before it is rolled out a larger scale.

The immediate implementation of UBI is still a long shot, but the time is certainly ripe for serious discussion, especially in the face of a technological revolution of epic proportions. We need to focus on how much the UBI should be and how to pay for it, not whether it's coming in the next decade. Given the onset of such a technological revolution, UBI seems like an effective solution.

For now, what can India do? It needs better infrastructure, more effective targeting, along with operational and administrative efficiency including tax collections. It needs to encourage formal banking through the trinity of Jan-Dhan, Adhaar and Mobile. These measures will not only help reduce costs but also spare resources for capital expenditure. The best way to pull people out of poverty is sustained growth. Permanent radical measures like Universal Basic Income, will be impossible to reverse in the future, and should hence be kept aside until the time comes for it to be deemed as a necessity. At present, the idea should be to save costs little by little with better targeting; perhaps even in preparation for the implementation of UBI several decades down the line. Such a development path aims at lifting people out of poverty in the long run instead of providing temporary relief

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Feasibility of a Sovereign Wealth Fund in India

- by Aishwarya Bagri, Siddharth Bapna, Sargam Gupta and Akshay Menon.

This article aims to critically analyze the possibility of a sovereign wealth fund in India by examining the various macro and micro indicators. An analysis of SWF's in other countries and their economic impact and the flip side of an Indian SWF will eventually frame the answer to the question- Is an SWF feasible in India?

1. Introduction

1.1 Sovereign Wealth Fund?

Let us go back to our initial English lessons when it was repeated time and time again by our teacher that to comprehend the meaning of a complicated word, it is always helpful if you break to the word into pieces, determine the meanings of the those words individually, club it together and voila, we get the definition we are looking for. Breaking Sovereign Wealth Fund, we get three individual words: Sovereign, Wealth and Fund. Now let us look at their individual meanings.

Sovereign means supreme ruler (a government);
Wealth means the abundance of valuable resource, an excess of assets over liabilities;
Fund is an accumulated sum of money raised or saved for a particular purpose (investment).

Putting it all together, it can be said that a Sovereign Wealth is a government controlled fund of accumulated resources used for a particular purpose, in most cases investment.

Investopedia describes a Sovereign Wealth Fund *as a pool of money derived from a country's reserves, set aside for investment purposes to benefit the country's economy and citizens. The funding for a sovereign wealth fund (SWF) comes from central bank reserves that accumulate as a result of budget and trade surpluses, and from revenue generated from the exports of natural resources.*

Quite similar to the definition we derived!

1.2 Origin

SWFs are known to have existed for over centuries but they have gained recognition since the coining of the particular term "Sovereign Wealth Fund" by Andrew Rozanov in an article titled "Who holds the Wealth of Nations?".
Texas was to first establish a scheme on the lines of SWF to fund public education, however, it was the Emirate of Kuwait under British control which established the first SWF in 1953, the Kuwait Investment Authority, with the objective of managing the excess oil reserves of the state and diversify the revenue stream to reduce overall dependence on oil. Today, the fund has a whopping $520 billion in assets under management (AUMs). Since then, the concept of a sovereign wealth fund has become very popular in the middle-east.

1.3 Santiago Principles

While studying about SWFs, Santiago Principles can't be excluded.Santiago Principles were earlier known as SWF: GAPP (Generally Accepted Principles and Practices)
Named after the capital and largest city in Chile, Santiago Principles are globally accepted 24 guidelines that assign the best practices for operations of Sovereign Wealth Funds.

The principles are globally maintained by the International Forum of Sovereign Wealth Funds (IFSWF), which constitutes 30 funds who collectively manage $5.5 trillion or 80% of SWF's AUMs. (As per 2016). Due to the growing power and global influence of SWFs, IMF recognized the SWFs as important participants in financial and monetary markets and felt the need to assign a universally accepted best practices guidelines. This led to the birth of International Working Group of Sovereign Wealth Fund, which along with IMF agreed on 24 best principles and guidelines for the operations of an SWF in its third meeting at Santiago, thus giving birth to the Santiago Principles.

Santiago Principles are aimed at achieving a stable global financial system while promoting the free flow of capital and investment and ensure that SWFs invest on the basis of economic and financial risk and return related considerations.

2. Economic Impact of Sovereign Wealth Funds

2.1. Objectives

Resources controlled by SWFs globally are immense. Total AUMs of SWFs as of February 2018 are $7.6 trillion. An interesting thing to note about this figure is that 56.10% of this figure, i.e. $4.2 trillion, relates to oil & gas. (Sovereign Wealth Fund Institute)

The above-mentioned figure explains the fact that a majority of SWFs are concentrated in the Arab World, countries rich in oil & gas. The basic motive behind the creation of an SWF was to manage the excess resources or budgetary of the governments. Kuwait Investment Authority, was formed for the purpose of managing the excess oil revenues and for diversifying the revenue streams. The fund has grown at an annual CAGR of 10%.

Similarly, most of the Arabian funds were formed to manage the excess oil revenues which the states were generating.

Countries with low or no international debt generally form an SWF. Here's an interesting thought: *the dividend received from investments can be used to pay off interest on international debt and also as payment towards the international debt, thereby reducing the need for employing new debt to service the existing debt.* The SWF and the return generated by it affects the fiscal and monetary policy of the government and the currency exchange rate. For instance, SWFs can prove to be an effective tool for managing the exchange rate. If used carefully, the surplus of the SWF can also be used to finance the deficit of the government budget. Therefore, a well-managed SWF can result in the low international debt for the country.

Sovereign Wealth Funds can also be used to protect a country during times of international crisis as was observed in the case of the recent Qatar Diplomatic Crisis.

2.2. Types

SWFs can be categorized into 5 types, based on IMF and the Santiago Principles taxonomy *(Al-Hassan, Papaioannou, Skancke, and Chih Sung):*

- Stabilisation Funds: used to stabilize government revenues. This becomes very important when the majority of government revenue streams from one particular commodity or industry, such as Oil & Gas. A fall in the price of such commodity or downfall in such industry could seriously damage the government revenue and harm the economic development of the country. Such countries tend to invest largely in a highly liquid portfolio of assets (and sometimes in instruments that are negatively correlated with the source of risk being addressed with the fund) by allocating over 80 percent of their assets to fixed income securities, with government securities consisting around 70 percent of total assets.
- Savings Funds: Intend to share wealth across generations by transforming non-renewable assets into diversified financial assets
- Development funds are established to allocate resources to priority socio-economic projects, usually infrastructure.
- Pension reserve funds are set up to meet identified outflows in the future with respect to pension-related contingent-type liabilities on the government's balance sheet.
- Reserve investment corporations intend to reduce the negative carry costs of holding reserves or to earn a higher return on ample reserves, while the assets in the funds are still counted as reserves

2.3. Qatar Investment Authority

In the world of Sovereign Wealth Funds, Qatar Investment Authority holds a very special position. It was formed in 2005 to strengthen Qatar's economy and diversify revenue streams. Today, QIA specializes in both foreign and domestic investments and manages around $335 billion. QIA invests in hotels, equities, oil, banks across the globe. It even has a stake in a football club!

Qatar Investment Authority invests primarily in foreign countries which implies less political intervention in the funds working, as the funds with higher political intervention tend to invest more in home countries. *(Bernstein, Lerner, and Schoar- Working paper)*

QIA follows an organizational structure similar to that of a multinational corporation. The fund generated a total return of 19.3% for the shareholders during the year 2013.

In July 2017, Qatar faced a diplomatic crisis. A majority of GCC countries led by Saudi Arabia cut all diplomatic ties with Qatar citing support for Muslim Brotherhood and other rebellious organization and meddling in the affairs of its neighbors. Support from the American President Trump further intensified the situation. Qatar was fully dependent on Saudi Arabia for its food supplies which could have crippled the state if not for Iran.

However, it was unanimously agreed that Qatar was financially secured. The reason was the $335 billion worth of Qatar Investment Authority. That amount was sufficient for Qatar to come out of the crisis till international organization forces the two parties to come to an agreement. (And they did, a 13 point resolution submitted by the Saudi-led coalition to Qatar, which was later trimmed down to 6).

Therefore, it can be said that a prudently managed Sovereign Wealth Fund can prove to be very beneficial for the country.

3. Problems in India.

3.1 Can an SWF solve it all?

According to the economist Avinash Persaud who is a non-executive director of Ellara Capital, "Sovereign Wealth funds are for countries that have a trade surplus and no domestic markets. India doesn't have a trade surplus but its domestic markets are deep. India doesn't need to have an SWF for oil."

The idea of a Indian Sovereign Fund has been going around since 2007 when China established its major sovereign fund, China Investment Incorporation (CIC), with a capital fund of $200 billion. The only logical and sensible reason to create an Indian SWF is for the management of India's foreign exchange reserves and our need to diversify away from the dollar. The main rationale behind establishing an SWF is not only to acquire strategic assets in other countries and secure a supply of natural resources but also to manage excessive foreign exchange reserves, the proceeds of privatization and fiscal surpluses. After the Indian government's thoughtful decision yet poorly implemented and badly administered demonetization on November 8, 2016, bank deposits swelled. Even though most of it were likely to be withdrawn, the deposit base of Indian banks expanded which further increased their ability to invest in long-term funds such as SWF.

When we talk about why an SWF is necessary in case of a country like India, we take into consideration the following points:

- An SWF offers strong growth such in the long-term investment horizon. The earnings will help diversify the revenue of Government of India and augment foreign exchange reserves.
- It will help in stabilizing the country's economy through diversification of investments. Also, acquiring stakes in foreign manufacturing companies would enable India in strengthening its relationship with other countries of the world which in turn will improve the country's manufacturing sector in line with India's "Make in India" thrust.
- It will assist in the management of Public Sector Undertakings. The Government of India holds stakes in such PSUs. By transferring the equity stakes in these companies to an SWF will help in streamlining the PSU management without any change in the revenues of the Government of India.
- An SWF may purchase stakes in foreign companies, especially crude oil and gold manufacturers. The declining trend in crude oil and gold prices have resulted in a decline in the importing bill of India from 2012 to 2017. Hence, it becomes necessary for a country like

India to acquire strategic stakes in such companies while the prices are low.

Despite several advantages of establishing an SWF, the necessary preconditions for the same are missing in India. It has been said that New Delhi instead of understanding the rationale behind such an establishment, is just following the "me-too" approach.

There are several reasons to support this particular statement. Unlike China and other East Asian countries which have established an SWF from their current account surpluses, India is a country that runs a perennial current account deficit which basically implies that raising money for a sovereign fund out of the budgetary allocation is extremely difficult. The external debt has been rising for the past few years as a result of higher borrowings by Indian companies and short-term credit facilities availed by Indian investors.

Moreover, there is no guarantee that the investment made by the Indian funds abroad will always be profitable, as happened during the global financial crisis when SWFs West Asia, China, Singapore, etc. suffered huge losses on their investments in western B\banks and private equity funds. In India, where the problems of hunger, poverty, and malnutrition have taken the country aback and slowed down its growth, it becomes more important to curb these problems which impact the nation on such a large scale rather than investing in assets abroad. One of the major concerns is how much risk a government-controlled fund will be willing to take in oil considering that it is a high-return-high-risk affair. Many chances taken by the smartest of oil companies have resulted in massive failures, sinking millions of dollars.

3.2 Recent News and Updates

- A combination of lower energy prices and increased domestic investments will curb the net transfer of funds to Qatar's sovereign wealth fund until 2022, according to the gas-rich country's latest forecast.
- China's sovereign wealth fund has sold its stake in Blackstone Group more than a decade after investing in the world's largest private equity firm.
- Asian Infrastructure Investment Bank is likely to invest around USD 200 million in India's first sovereign wealth fund NIIF, AIIB president Jin Liqun said.
- The Union government is holding discussions to set up a sovereign wealth fund that might be structured along the lines of funds set up by non-oil exporting nations such as Singapore, Vietnam, and Malaysia. Tentatively named 'Investment Management Company', the sovereign wealth fund may also become a holding company for assets in all public sector undertakings, including nationalized banks, government sources, on the conditions of anonymity, said.

4. How can an India implement an SWF?

Considering the cost-benefit analysis, the correct path would be to start an SWF with a small amount. This amount should also be strategically invested in such a manner that it balances risks. Also, the investments should be diversified in the beginning. After seeing the returns and stability in each of the investments over sometime, we can focus on specialization. India must learn from Singapore's SWF Temasek which has done well in developing a methodology for picking investment opportunities. India can also take lessons from its in-house achievements such as the NIIF, which was awarded the 'Most Innovative Structure" under the Finance category in the Asia Pacific Region, by the Financial Times (London).

5. Economic Impact of SWF in India

India's current account deficit is expected to be around 1.5% of GDP for the fiscal year 2017-18. This is a sharp rise with respect to the last fiscal year's deficit of 0.7% of GDP. This figure is important because most countries' having an SWF have a current account surplus instead of a deficit. Taking the example of our neighbour, China, currently has a current account surplus about 1.2% of GDP. This signifies that its export of goods and services are greater than its import, resulting in a surplus that can be invested abroad. In the case of India, we don't have enough to meet our expenditure on goods and services abroad, let alone some surplus to invest abroad. Furthermore, India has built its foreign reserves by taking borrowings from abroad. These borrowings represent a liability. We cannot use someone else's money to invest and reap benefits; that money is meant for repayment.

Many policy analysts suggest that an SWF investing in energy resources abroad will help India attain a level of energy security. But owning coal mines or oil rigs in Saudi Arabia doesn't imply that the Middle East country will allow us to set oil prices. This argument rubbishes the fallacy that owning energy sources abroad will help India in terms of energy security.

One must not ignore the risk factor associated with any investment. This may not be the right time for India to make investments abroad that will increase its exposure to global turmoil attributed to trade wars and geopolitical tensions.

While our current account deficit has risen, so have our foreign exchange reserves. As of 5th January 2018, the Reserve Bank of India was sitting on a massive reserve of $409.4 billion.

Let's look at this vast reserve from the point of view of a shareholder in a company. If the company has some amount of cash lying free, we would want it to invest that money to earn greater profits. The same logic may apply in the Indian scenario as well, if not for India's large external debt. As of September 2017, India's external debt stood at $496 billion. This implies that the major portion of India's forex reserve is filled by capital inflows; which means we owe a lot of money to other nations and these liabilities will be financed by our reserve. This reduces the amount left for investment using the sovereign wealth fund. Valuable investment can only take place through savings and not borrowings. Moreover, the Government of India will need to look for other modes of financing its SWF and take lessons for the newly- launched National Investment and Infrastructure Fund.

Though there are some disadvantages, the proposal of an SWF may not seem that irrational. The current account deficit is stabilizing if not reducing, thanks to the Indian Government's strong focus on fiscal consolidation.

Furthermore, an Indian SWF will have certain other economic benefits. It can be an additional source of revenue for the Government of India. Considering the low tax revenue in 2017-2018 and shocks due to GST implementation, a boost in other sources of revenue is needed. It will augment India's forex reserves as well. According to an article in the Business Line, had India invested Rs. 45 billion through an SWF in the S&P500 Index, the principal would have more than doubled due to currency and capital gains as well as dividend yield.

India can increase its capital inflows by taking more loans from abroad to finance viable projects (please mind the word viable). These loans will be against India's strategic stakes in entities abroad.

Increase in participation in corporations abroad will give India the opportunity to increase FDI by encouraging these companies to make business investments in India. This would help the Government solve the broader issues of unemployment and poor manufacturing as well as achieve policy goals like Make in India.

Being a socialist nation, the Government's foremost responsibility remains public welfare. Thus, the opportunity cost of an SWF will be an investment in domestic infrastructure, education, and healthcare. The infrastructure-related cost is already mitigated through the National Investment and Infrastructure Fund, which aims at developing India's infrastructure, by providing leverage to infrastructure financing companies. The Government can responsibly eradicate the costs relating to health and education, indirectly through foreign investment.

6. Conclusion

Given India's rising current account deficit, sovereign wealth fund as a policy might not fit into the Indian picture right now; although it might very much be relevant at a later time and date. Furthermore, India has to service a debt amounting to $500 billion. Considering the current global economic scenarios shifting in line with protectionism, India's priority should be to service its debt. A sovereign wealth fund is a very exciting economic mechanism, which if used correctly can lead to great economic benefits. However, with respect to the current state of affairs in India, the nation does not need an SWF. With that said, if the debt it has to service reduces in proportion to the total foreign reserves held by the country and so does the current account deficit, a correctly invested SWF may actually benefit India immensely.

Does financial innovation affect household's risk taking ability?

- by Sanat Goel, Aditya jain, Mannat Luthra, Ghazal Abdullah, Prashasti Rohatgi

Financial innovation has been imperative in the growth of capital markets. It is the act of creating and popularizing new financial instruments, technologies, institutions, and markets. In recent times, the greater degree of freedom, flexibility, and favorability have enabled formal financial markets to introduce new financial instruments and improve the existing ones together with the aid of technology that knows no bounds. They essentially assist in reallocating risk, increasing liquidity, reducing participation costs and sometimes even circumventing regulatory constraints.

In this paper, we analyze the investment pattern of Indian households in four financial instruments – mutual funds, bonds, equity and the recently introduced cryptocurrencies. In an attempt to investigate the investment behavior of Indian households in these financial instruments, we made use of empirical data and identified some probable causes that account for the obtained data. The capital asset pricing model (CAPM) and some graphs help us in interpreting the procured information in accordance with the prevalent finance models and theories.

The mutual funds industry has witnessed considerable growth due to factors such as rising household savings, comprehensive regulatory framework, favorable tax policies, and the introduction of investor education campaigns and the role of distributors. The safety of the principal guaranteed plus the interest earned makes it a preferred investment. It is a popular belief that mutual funds act as a safe retail product targeted towards small investors, salaried people who are interested in the benefits of stock market trading without bearing the same risk. We find that the return and experience of investing in mutual funds are average. Factors like age, IQ, educational qualification, level of income, previous experience as well as gender affect the decision of investing in mutual funds.

Innovative Financial Instruments (2013) pointed out that a variety of financial products like mutual funds, insurance, shares, debentures, derivative instruments, etc. are available in India. However, the reach of these products is very limited and the features of many of these products are very basic in nature. Further development and innovation in these products would be faster if they are accessed by all classes of investors in urban as well as rural areas. Foreign currency preference had a negative relation to other investment preferences, there was no relation between other investment alternatives. As expected, the choice of stock product was found to have a relation in repay criterion, risk criterion, advanced financial literacy, and gender. It was provided that stock instrument as an investment alternative is preferred by men more when compared to women. When financial literacy increases, individuals' return expectations, and risk demands increase and this causes the stock product preference to be more. On the other hand, a bond is a fixed income investment in which an investor lends money to an entity (corporate or governmental) which borrows the funds for a defined period of time at a variable or fixed interest rate. At present, the Indian Bond Market faces some inadequacies of these bonds where the majority of people are still very adamant in investing in low-risk areas. The main reasons for this might be drawbacks in the judicial system and institutional deficiencies.

Vishal Sood and Poorva Ranjan (2008) in their study "Financial innovation in India: An Empirical Study" analyzed the factors impacting financial innovations in India for the period 1999 - 2007 and found that the GDP, growth rate, and inflation rate have a positive impact in contributing to financial innovations in India.

At the same time, a prominent example of risky financial assets, investment tendency in equity has had its own share of ups and downs in the Indian market. Recent figures reveal a significant deviation of traditional Indian mentality in terms of decreasing investment in gold and real estate and parking of those funds in the formal financial market. Yet the prevailing reluctance to invest in relatively riskier financial assets like equity has hardly managed to escape the researchers' notice. One might blame high participation costs in the form of transaction and information costs, non-availability of sound financial advice and increasing preference for safety over overnight gains.

Mr. P. Aranganathan and Miss. T.Sarunya (2011) in their study "Recent Trends in Financial Innovation towards Nurturing the Growth of Capital Markets in Indian Corporate", the pace of capital and credit reforms is rapid and is transforming the scenario. The existence of a variety of financial innovations with different terms and conditions, now provide a wide choice of instruments to suit the investment portfolio needs. They have led the growth of the capital market and would continue to play their part, yet like other emerging market, the Indian market is also evolving and maturing.

Cryptocurrency, a recent addition to the financial markets, has come to limelight because the transactions cannot be traced with precise accuracy and is a completely decentralized system where the transactions take place through a wallet and the information regarding all the transactions is publicly available in the blockchain. The major demand and supply for bitcoin are mainly for speculative purposes. While the purchasing cost of bitcoins is so high that only a fraction of the elite group of society can choose to invest in them, the refusal of the Indian financial system to accept them as a legal financial instrument might also deter some from placing their funds in them.

Most of the research done on financial innovation has been done between 2000-2009, not many papers have gone into detail about the effect of these innovations on households and their reluctance to take risks. Considering the fact that India's overall investment has fallen due to a dip in overall household sector investment, it is important that they have information about financial instruments and the provisions regarding them. The decay in household investment, the largest driver of growth in the previous decade, needs to be addressed.

The Indian mutual fund industry took flight in 1963 with the formation of Unit Trust of India. It was a joint initiative by the Government of India and Reserve Bank of India. Since its inception, the industry has witnessed considerable growth due to various factors such as rising household savings, comprehensive regulatory framework, favourable tax policies, and introduction of investor education campaigns and the role of distributors. Investors usually rely on expert advice, ratings are given by CRISIL, ICRA etc., or analyse the past performance. According to a study held in Ernakulum and Trivandrum among 200 retail investors, they rely on brokers, financial consultants, financial institutions and even the internet and TV channels to gather information about the performance of mutual funds. The degree of mutual fund investment decision is related to the degree of Indian investors' perceptions about their: 1) investment expertise; 2) general knowledge about the economy and the concept of mutual funds; 3) consultation with investment advisors. Controlling for wealth, education, and profession, a study using a comprehensive dataset of Finnish males, found that intelligent consumers are more price-sensitive about mutual fund fees. The data used to draw this conclusion came from a test specifically designed to measure intellectual ability. Overwhelmed by recommendations, ratings, and information about Ex-post performance, some investors—plausibly those with less cognitive ability—may make mistakes, ignoring fees. High-IQ investors still prefer low-fee funds. While IQ influences the fees of the fund's investors when they lack a business degree, IQ has no effect on fees if one has a business degree. "What seems to be evident, is that some high-IQ consumers of fund services find less expensive workarounds for the services others pay dearly for, like the asset allocation of balanced funds and the handholding of retail distribution networks", the study states. Moreover, with regard to services, high IQ enhances the ability to evaluate the exchange of services for money and find the best bargain. It is believed that this IQ- related ability to evaluate economic exchange extends to other industries. Incorporating this feature into models of the consumption decision can only help economic thought rest on a more intelligent foundation (IQ and Mutual Fund Choice, Mark Grinblatt, Seppo Ikäheimo, Matti Keloharju, Samuli Knüpfer; 2014).

Age is an important factor while investing in different types of Mutual Funds. The results of a study that were held in Tamil Nadu among 300 retail investors reveal the following:

AGE GROUP	Percentage Of Investors
Below 40 Years Of Age	27.33%
40-55 Years	26.67%
55+ Years	46%

People more than 55 years of age have a lot of personal and family commitment. Hence they tend to save in Mutual Funds which attract high return with a low-risk category. This finding is supporting the previous studies that aged customer prefer to avoid risk but expect a high return by investing in Mutual Funds. The Mutual Fund organisations consider the finding and target the age group in future for promoting Mutual Funds. The study also revealed that men invested way more in respect to women. Educational qualification is an important criterion in deciding Mutual Funds investment.

EDUCATIONAL QUALIFICATION	PERCENTAGE
Graduation	21%
Post-Graduation	29%
Professional	20%
Up to Plus Two	14%
Others	16%

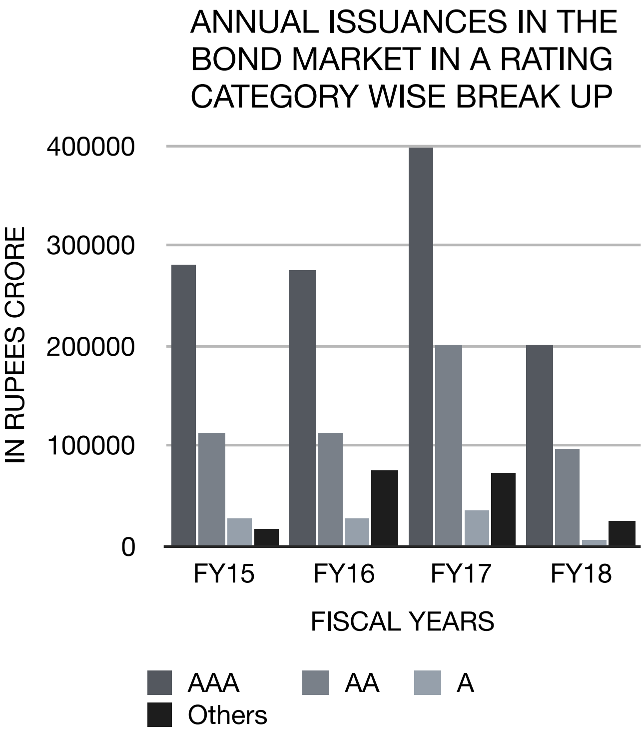
Well qualified people prefer Mutual Funds than other qualified people. It is observed that graduates, postgraduates, and professional qualified investors prefer Mutual Funds in larger proportion to others. Level of income of investors is significantly influencing in investment of Mutual Funds. The study explains that two third i.e. 66 percent of the investors belong to above Rs.400000 income group and one third i.e. 33 percent of the investors belong to below Rs. 400000 income group. The investors belong to Rs. 400000 to Rs. 600000 income group accounted for 31.33 percent (Mutual fund industry in India, Duraipandi, K; 2012).

Mutual funds have been gaining traction among investors as growth of household savings in such financial products registered a phenomenal increase of more than 400 per cent in 2016-17, according to the Economic Survey. Mutual funds witnessed an inflow of over Rs 2.53 lakh crore in April-October period of the current fiscal, which pushed the assets base to Rs 21.43 lakh crore at the end of October 31, 2017. There has been a 40% increase in investment in mutual funds by households in India. The increase in investment is mostly due to residents of B and C class cities, but does not mean that there risk taking ability has also risen to the same extent, as mutual funds are considered a safe investment.

Overall, the return and experience of investing in mutual funds are average. Factors like age, IQ, educational qualification, level of income, previous experience, gender as well as six of a family affects the decision of investing in mutual funds. Tax benefit, return potential, liquidity, low cost and transparency are the major factors that motivate a retail investor to invest in mutual fund.

A **bond** is a fixed income investment in which an investor loans money to an entity (typically corporate or governmental) which borrows the funds for a defined period of time at a variable or fixed interest rate. This is a very safe investment option and is thus, generally preferred by safe investors. However, there is another class of bonds which offer a very high return and are referred to as

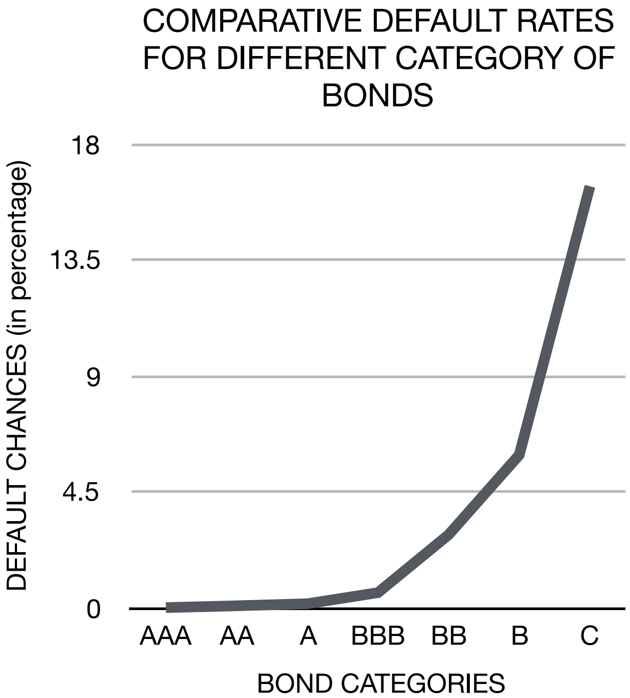
High Yield Bonds. They are very poorly rated by any rating agency and thus are deemed to be the riskiest. Due to this reason, they are referred to as junk bonds, they provide a high return due to their inability to provide protection against risk. In the discussion about bonds that follow we would primarily talk about junk bonds. There are also some studies made by Edward I. Altman regarding the assessment of the high yield bond market in his research paper "the high yield bond market: a decade of assessment, comparing 1990 with 2000" where he talks about why despite the high yield bonds being prone to default as they were in the 1990's, are still a very lucrative option. He advocated that the default problems were temporary and would surely invite more investment in the near future, where these instruments could turn out to be the major source of finance for the future companies.



The Indian market is still not equipped with high risk taking ability as shown clearly by the above graph. This is primarily due to three reasons: -

1. For one, given the judicial delays inherent in the Indian legal system, buyers of lower-rated bonds in India have no clear picture of how they will recover their monies in the event of default.
2. Two, the extremely conservative investment mandates of domestic institutions
3. Three, Indian banks and the Life Insurance Corporation of India (LIC) have such large assets at their disposal that they can easily dip their toes into lower-rated bonds without facing big risks to their portfolios.

There have to be steps from the government side for making these bonds lucrative for the general investor. Indian bonds have not well responded with the issue as the default rates significantly remain high, disincentivising enough for an investor to not invest in these. The following line graph shows a positive correlation between default rates and ratings of bonds.



Despite all these factors, the junk bond industry is growing at a very fast pace. Junk bonds have become a major attraction in the market in the last one year where investors are willing to invest in these bonds. According to Dealogic, a global statistics company the volume of trade of junk bonds in India has increased 15 times in the past four months as compared to what was the case at the similar time in the last year. Between January 1 and April 26 this year Indian companies rated below the investment grade, sold bonds worth \$2.982 billion compared with \$201.27 million in the same period last year. The essential question arises that why these junk bonds which provide a lower security are considered a lucrative option. The answer is simple it is due to the fact that these papers have by and large performed well in the secondary market which is providing a direct incentive for these companies to float in more of these in the market.

Apart from this, these bonds are very lucrative to the investor due to a variety of other reasons. These promise a very high level of current income due to the gains from their high yield, these are particularly useful at times of lower interest rate where investors are more interested in the bond yield. There is always a chance of the sudden enhancement of the capital appreciation of the company. These could be a result of positive events in the economy or the industry, these include rating upgrades, improved earnings reports, mergers or acquisitions, positive product developments or market-related events. Last but not the least, these provide a cushion to the investors as they are given priority over the shareholders at the time of liquidation of the company. Adding to the above, there are also other factors which make these favorable such as their short time duration which makes them better than liquidity, the portfolio risk diversification that could be taken by the investor.

The essential question now arises is that who invests in these bonds. They include individuals who invest either directly or through other agencies like pension funds, mutual funds etc. The individual investors invest in these securities in order to diversify his investment portfolio. The above two segments show that the expansion of the bond market resulting from both demand and supply side factors, pointing out a high potential growth in the Indian bond market.

Commonly perceived as the stock market, an **equity market** is a market in which shares are issued and traded through exchanges and which provides companies with access to capital and investors a sense of ownership in the company with the possibility of realizing gains based on the performance of the company. A prominent example of risky financial assets (due to volatility in equity returns), investment tendency in equity has had its own share of ups and downs in the Indian market. However, recent figures reveal a significant deviation of traditional Indian mentality in terms of decreasing investment in gold and real estate and parking of those funds in the formal financial market.

According to the Report of the Household Finance Committee (July 2017), a large fraction of the wealth of Indian households is in the form of physical assets. The average Indian household holds 84% of its wealth in real estate and other physical goods, 11% in gold and the residual 5% in financial assets. Only 65% of Indian households in which the household head is younger than 35 years of age hold any financial assets. This participation rate increases to 77% for more mature households, but remains well below the rate of financial asset market participation observed in developed countries, where close to all households own at least one bank account and use formal financial products as the preferred means of savings. The patterns in the assets of Indian households are also distinct across the wealth distribution. In terms of participation, only 55% of the poorest households hold any financial assets. This number rises to 90% for the richest population group but is still well below the fraction participating in developed countries. While the practice to bank the unbanked in India holds great promise, the immense popularity of physical assets in the Indian subcontinent is worth noting.

While participation costs, in the form of high transaction and information, costs further complicated by administrative burdens and cumbersome paperwork, associated with the formal financial markets might deter some from demanding risky assets, considerable study in the field by Breuer, Riesener and Salzmann (2011) and has also brought out another factor, that is, risk aversion. It is negatively related to the willingness of an individual to take financial risks. The level of optimism a person has is also directly related to his/her participation in the equity market. More social households who possess a great level of trust towards others are more likely to take risks by investing their funds in the equity market. Thus, the interplay of optimism and overconfidence causes individuals to overestimate their investing skills and knowledge, to underestimate risks and to exaggerate their ability to control events.

On the other hand, the lack of trust in financial institutions helps to explain the tendency of households to abstain from financial products and to invest in relatively authentic instruments such as gold and real estate instead since one can be assured of effectively utilizing these assets even if their value declines with the advent of time (Black, Rogers and Soultanaeva 2012). However, the same is not possible when it comes to equity since a stock market crash is bound to permanently make your investment near to worthless. It also helps to explain the continuing reliance of Indian households on traditional systems of provision of financial services and increased investment in other physical assets. Behavioral factors such as a lack of self-confidence when engaging with formal financial systems further intensify the situation. Moreover, the fact that there is no unified framework or guidelines for the provision of high quality and low-cost financial advice to Indian households aggravates the tendency to doubt one's ability to single-handedly confront the 'complicated' procedure.

In terms of both participation and wealth allocation, we observe substantial heterogeneity in the patterns of assets and liabilities in household balance sheets across Indian states. As an instance, Bihar has households with barely any financial assets, while cities/union territories such as Chandigarh have the highest levels of financial assets in the household balance sheet. Another important example is that in Tamil Nadu where households hold relatively large amounts of gold, followed closely by Andhra Pradesh. These high gold holdings in Southern Indian states suggest that strong cultural and traditional factors may also be at play in these cross-state patterns. As a matter of fact, small-town investors committed 55% of their funds to equity in 2015-16. This essentially reflects their risk-taking ability but the number of such investors is considerably low.

Quite remarkably, the picture is very different when we turn to the role of education. Higher education is unequivocally associated with a lower share of real estate, and higher shares of both pensions and financial wealth in the balance sheet. This observation suggests that general education (rather than specific financial education) has the potential to influence financial allocations, but may also be able to account for the fact that higher education is positively correlated with employment in the formal sector - with fewer opportunities for tax evasions and more availability of funds for exposure to formal financial markets.

A **cryptocurrenc**y is a digital asset designed to work as a medium of exchange that uses cryptography to secure its transactions, to control the creation of additional units, and to verify the transfer of assets. Cryptocurrencies use decentralized control as opposed to centralized electronic money and central banking systems. The decentralized control of each cryptocurrency works through a blockchain, which is a public transaction database, functioning as a distributed ledger. Cryptocurrency had come into the limelight because the transactions done through them cannot be traced. It is a completely decentralized system where the transactions take place through a wallet and the information regarding all the transactions is publically available in the blockchain.

The one other thing which differentiates it from the other currencies is the high volatility rate. Let's understand this by taking an example of bitcoin. Bitcoin is the least volatile cryptocurrency and Bitcoin weekly volatility reached up to 60% per annum during 2017. For comparison, the volatility of gold averages around 1.2%, while other major currencies average between 0.5% and 1.0%. Cryptocurrency has emerged as a new investment option in this economy where people are impatient and want to maximize their gains in the minimum time frame.

The supply of Bitcoin is limited i.e. only 21 million bitcoins can be mined. Bitcoin is accepted as a payment by very less number of people in this world. The major demand and supply for bitcoin are mainly for speculative purposes. Suppose Mr. X buys a bitcoin today because the price of bitcoin has been going up since the last few months. Many other buyers like Mr. X bought the bitcoin because of this reason. Now, there is a negative news regarding bitcoin in the market and there is a slight fall in the prices. Due to this slight fall, there will be panic in the market and many investors like Mr. X will start selling their investment in the market. This will cause a further fall in the price. The main reason for this investor sentiment is that there are no laws to govern bitcoin (or cryptocurrency in general) and no country promotes its usage. The value of bitcoin will stabilize only when it will be accepted as a mode of payment or when there will be a clarity on its usage and on holding it. This can be further confirmed by considering the following announcements:

The announcement that Bitcoin would be considered legal tender in Japan pushed the price of Bitcoin up by 2% in just 24 hours and increased the price globally by 160% for the next two months. China's decision to shut down several Bitcoin exchanges and ban initial coin offerings (a form of crowdfunding often paid for with cryptocurrencies) sent the price of Bitcoin plummeting by 29% in 24 hours. Bitcoin is like a small cap stock. If a high-value investor liquidates his position, then also the market is severely affected. According to crypto experts around the globe, you should only invest that amount which you can afford to lose.

The households want to stay away from the losses and also want to earn profits in a short duration of time. However, it is ironical that with more and more volatility in the prices, more and more people are attracted to it, regardless of the fact that investors such as Warren Buffett and Nobel laureate Robert Shiller have called it a bubble. One of the most striking features of this bubble is that majority of the investors don't understand much about the technology and are merely chasing the price rise. Another reason for this increased demand is that the supporters of virtual currencies are betting that they will ultimately be accepted as alternative currencies, making them immensely valuable, especially since the supply of the currency is limited by design.

The investors are ready to ignore the risks because the chance of earning returns of 1600% in one year (From January 2017 – December 2017) overshadow them. This can be understood by having a look at the trading volumes of bitcoin in the past two years. The trading volume of Bitcoin on 1st January 2016 was 3,62,78,900 USD and that on 1st January 2017 was 14,77,75,000 USD. This only increased four times in one year. This was because there were not many fluctuations in the price. The value gradually increased and people were ready to hold on to their investment. However, the trading volume increased 82 times from 1st January, 2017 to 1st January 2018 (increased from 14,77,75,000 USD to 12,13,63,00,000 USD). This was mainly due to the high volatility in the price levels in 2017. Due to this, small investors were attracted to this investment option and these investors used to sell their investment as soon as they earned a profit.

CAPITAL ASSET PRICING MODEL

The **capital asset pricing model** provides a formula that calculates the expected return on a security based on its level of risk. The formula for the capital asset pricing model is the risk-free rate plus beta times the difference of the return on the market and the risk-free rate. Beta is the standard CAPM measure of risk. A beta of less than 1 means that the security is theoretically less volatile than the market. A beta of greater than 1 indicates that the security's price is theoretically more volatile than the market.

CAPM is an idealized portrayal of how financial markets price securities and thereby determine expected returns on capital investments. The model provides a methodology for quantifying risk and translating that risk into estimates of expected return on equity.

$$\overline{r_a} = r_f + \beta_a(\overline{r_m} - r_f)$$

Where:

r_f = Risk free rate

β_a = Beta of the security

$\overline{r_m}$ = Expected market return

1. EQUITY

(a) TCS Expected rate= 16%

R_f= 8.1%

R_m= 30%

$E(R_i) = R_f + \beta(R_m - R_f)$

$0.16= 0.081+ \beta (0.3-0.081)$

$\Rightarrow 0.079= \beta (0.219)$

$\Rightarrow \beta= (0.079) \div (0.219)$

$\Rightarrow \beta= 0.361$

The value of beta is less than 1 meaning that the security is theoretically less volatile than the market.

(b) Sensex
Expected rate = 16%
R_f = 8.1%
R_m = 25%
0.16= 0.081+ β (0.25-0.081)
=> 0.079= β (0.169)
=> β = (0.079) ÷ (0.169)
=> β= 0.467
The value of beta is less than 1, meaning the security is theoretically less volatile than the market. It is, however, more volatile than high yield equity (a).
(c) FTC
Expected rate= 16%
R_f =8.1%
R_m =14.8%
0.16= 0.081+ β (0.148-0.081)
=> 0.079= β(0.067)
=> β= (0.079) ÷ (0.067)
=> β= 1.179
The beta is greater than 1 in FTC which means that the security is theoretically more volatile than the market. This indicates that there is a lot of variation in the returns of equity, and they cannot be considered a risk free investment. FTC is more volatile than the market, while TCS (which is a high yield bond) and the Sensex are relatively less volatile.
2. BONDS (HIGH YIELD GOVERNMENT BOND)
Expected return rate= 8%
R_f = 8.1%
R_m = 7.6%
0.08= 0.081+β(0.76-0.081)
=> 0.001= β (0.005)
=> β= (0.001) ÷(0.005)
=> β= 0.2
The beta for bonds is less than 1 which means that the security is theoretically less volatile than the market. Bonds are safe investments which can be seen by our calculations as well. They are less volatile as compared to mutual funds and equity as well.
3. **MUTUAL FUNDS- RELIANCE MF**
Expected return rate= 20%
R_f = 8.1%
R_m = 23.4%
0.2= 0.081+β (0.234-0.081)
=> 0.119= β (0.153)
=> β= (0.119) ÷ (0.153)
=> β= 0.777
According to our calculations using CAPM, we come to conclusions in line with the common belief and previous research: mutual funds and bonds are less volatile while equity is highly volatile. Due to lack of information on cryptocurrencies, we cannot use the CAPM model for it, but it is common knowledge that they are highly volatile, even more so than equity.

Through the CAPM model, we derive that although mutual funds are less volatile than the market, they are more volatile than bonds. Equity is the most volatile among the three securities for which we have calculated CAPM. Due to lack of information on cryptocurrencies, CAPM model cannot be used for it, but past records suggest a high rate of volatility, even more so than equity.
The return and experience of investing in mutual funds are average. Factors like age, IQ, educational qualification, level of income, previous experience, gender as well as six of family affects the decision of investing in mutual funds. Tax benefit, return potential, liquidity, low cost and transparency are the major factors that motivate a retail investor to invest in mutual fund. Meanwhile, the Indian Bond Market faces some inadequacies of these bonds where the majority of people are still very adamant in investing in low-risk areas. The main reasons for this might be drawbacks in the judicial system and institutional deficiencies.
High participation costs in the form of transaction and information costs, non-availability of sound financial advice and increasing preference for safety over overnight gains might deter a majority of people to invest in equity. At the same time, the purchasing cost of bitcoins is so high that only a fraction of the elite group of society can choose to invest in them and the refusal of the Indian financial system to accept them as a legal financial instrument might also stop some from placing their funds in them.

STRONG RUPEE VS. WEAK RUPEE

- by Suhani Singhal, Shivani Kanojia, Kunal Jhamb, Prabhmaan Thapar

MACROECONOMIC VARIABLES AFFECTED BY EXCHANGE RATE

1. INFLATION

• Devaluation of Rupee

Devaluation of rupee results in the fall in the value of rupee in terms of foreign currency, making exports competitive and imports more expensive. Generally, it leads to inflationary pressures in the country because of higher import prices and rising demand for exports. Devaluation of the Rupee causes two types of inflation; namely, Cost Push Inflation and Demand Pull Inflation.

Cost Push Inflation: If there is a devaluation, it causes an increase in the price of imported goods. Imports are a significant part of the Consumer Price Index; therefore, they contribute towards cost-push inflation. It is possible that retailers may not pass the price increases onto consumers but have lower profit margins, but if devaluation is sustained, prices go up. Hence, there is a direct relation between devaluation and inflation.

Demand Pull Inflation: Demand Pull Inflation is explained using Aggregate Demand (AD) approach. Devaluation Make exports cheaper as a result exports increase, and imports decrease. Therefore, AD increases which further leads to increase in inflation.

• Appreciation of Rupee

Appreciation of rupee results in the rise in the value of rupee in terms of foreign currency, making exports expensive and imports cheaper. Generally, it leads to deflationary pressures in the country because of higher export prices and rising demand for imports. On the cost side, if there is appreciation of rupee then it will make Indian exports more expensive. Therefore, a fall in Indian exports is expected. But, at the same time imports will become cheaper resulting in lower inflation in the domestic country. Since demand pull inflation is explained using Aggregate Demand (AD) approach, appreciation makes exports expensive as a result of which exports will decrease, and imports will increase. Therefore, AD will decrease which will further lead to decrease in inflation.

2. INTEREST RATE

According to Mundell-Fleming model, an exchange rate depreciation is followed by an increase in interest rate which curbs inflationary pressure, thereby helping to avoid many adverse economic consequences. The high interest rate policy is considered important for several reasons. Firstly, it provides the information to the market about the government's resolve not to allow sharp exchange rate movements that the market expects in the current state of the economy and thereby reduce the inflationary expectations. This prevents the vicious cycle of inflation and exchange rate depreciation. Secondly, it raises the attractiveness of domestic financial assets as a result of which capital inflow takes place and thereby limiting the exchange rate depreciation. Thirdly, it not only reduces the level of domestic aggregate demand but also improves the balance of payment position by reducing the level of imports.

There is a strong support for an increase in interest rates to stabilize the value of rupee during the downward pressure in India because the cost of doing so in terms of output loss, financial system fragility, decline in investment, etc may not outweigh the benefits of a more nominal appreciated exchange rate. In other words, declines in the value of the exchange rate themselves prompt monetary authorities to raise domestic interest rates.

3. CURRENT ACCOUNT DEFICIT

A balance of payment of any nation measures the transaction; only of economic nature of one nation with another. It measures the inflow and outflow of foreign exchange, in a situation when there is more of imports, which implies more outflow of foreign exchange, it leads to a situation of trade deficit. When the exports increase, there is an impetus of foreign exchange which leads to trade surplus. The fluctuation of a currency's exchange rate, creates a social and economic impact in terms of depreciation and appreciation of the currency, which indirectly affects the imports and exports.

However, for India since the system of foreign exchange determination is that of a flexible system with systematic intervention of the Central Government through the Reserve Bank of India to control the economic fluctuations, in order to create a stability in terms of:

1. Security to the FDI holders for more investment
2. Creating a market for home made goods in Rest of the world
3. Minimising the trade deficit by not permitting the exchange rate to plunge below a bare minimum.

Although, the rupee being stronger is an advantage for the Indian economy, the implications shall be devastating for the Indian Economy over a long run, since the rupee being strong implies appreciation of rupee with respect to foreign currencies, which then makes our commodities expensive, hence exports fall and conversely the imports rise because of other goods being systematically cheaper due to a depreciation in the value of foreign currencies. Not withstanding this fact, rupee being stronger help India to get a better bargaining power on a global level, however since this would not be complemented with a strong economic backing in the country, this shall have negative impacts and we could face a large recession due to insecurity of investments by the outside world, owing to a large trade deficit which would have accrued by then.

Largely, the Indian rupee can appreciate, however in a manner that the trade isn't affected, this could either be through creation of certain Free Trade Zones, such as with Thailand and Sri Lanka or opening of Special Economic Zones like the Chinese Economy which shall ensure a minimum FDI for a long term, which then can complement the Balance of Payments Surplus.

Concluding this, the rupee in its present state especially when we face a trade deficit of USD 16.3 Billion, can be attributed to largely falling Foreign Investments, because of which the stability of the rupee is uncertain, causing cyclic fluctuations and an environment which is not conducive to investments by the outside world.

4. FOREIGN INVESTMENT AND CAPITAL INFLOWS

Historically, India has followed very cautious and selective approach regarding foreign capital, but after economic reforms in 1991, it has liberalized the FDI Policy. Number of measures were undertaken to promote FDI , thus Government of India has been succeeded in attracting more FDI in India. According to UN report, India is the third most favored destination for investment after China and the US for major global companies.

Studies show that NKF (Net Capital Flows from abroad) has a positive impact on REER, which means that an increase in NKF will lead to the appreciation of REER and to a possible loss of competitiveness. The increase of terms of trade and productivity also leads to the appreciation of the REER, while the increase of openness and government consumption tends to depreciate REER.

Also, all capital flows except FDI have a significant positive impact on the REER. The fact that FDI has no significant impact on the REER confirms that while this type of flow might lead to REER appreciation in the short run when the economy receives the flows, its impact is diluted over time as part of the flows start to leave the country in the form of imports of machinery and other capital goods. Also, the increase in production induced by FDI can lead to downward pressure on prices and to REER depreciation.

The loss of competitiveness caused by an appreciated REER is one of the main negative consequences associated with capital inflows. **Real appreciation undermines competitiveness, widens the current account deficit, and increases vulnerability to a financial crisis**. Significant appreciation can lead to a sudden drying up of capital flows, causing an abrupt adjustment of the current account. Beyond its negative effect on investment, significant real appreciation could thus create major problems for macroeconomic management.

Developing countries use a variety of tools like exchange rate flexibility to dampen appreciation of their REER caused by capital inflows. However, the magnitude of capital inflows has not been very large in India so as to cause intensive macro and micro- management problems. Thus, the challenges faced by India, both in terms of impact upon important economic variables as well as macroeconomic management, have been far less.

CONCLUSION

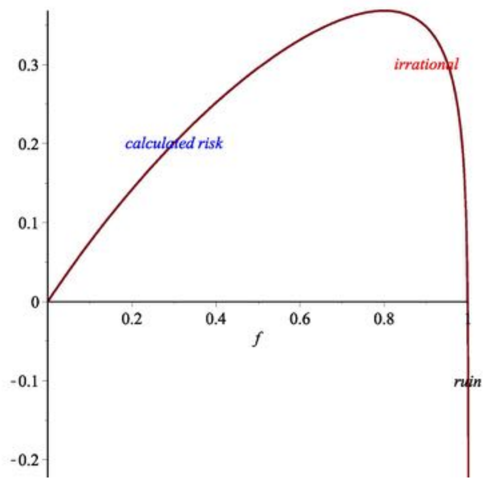
An appreciating rupee hurts the economy. This appreciation is fueled by strong foreign fund inflows, a weaker US dollar and favourable domestic factors. However, the recent trade war talks between China and USA have hurt the rupee as the currency weakened to its all-time low in the last weak of June, 2018. Reports suggest that this weakness is here to persist for a considerable amount of time. The rupee closed at 68.63 a dollar, about 0.29 per cent away from its record low closing of 68.83 a dollar reached on August 28, 2013. India, currently does not have much of an option but to depreciate to accommodate its exports at a time when China shows its intent to let its currency depreciate.

However, if we are to examine the feasibility of a strong rupee and that of a weak rupee, there are certain downsides of a strong rupee.UBS Securities India Pvt. Ltd's calculations show that every 1% appreciation in the rupee could lead to a 0.6% cut in Nifty earnings. A strong rupee is detrimental for the export oriented companies which could further be detrimental for employment. However, a weakened rupee decreases the bond yields considerably. Therefore the pros and cons have to be weighed from time to time and the rupee's value should be influenced by a mix of global as well as domestic factors, aligning the strength or weakness by the overall objectives of the economy.

Kelly Criterion
- by Tushar Singh, Ayushi Srivastava, Arnab Dutta and R.Adithya

Kelly Criterion was developed by John Kelly who worked in AT&T's Bell Laboratory. Initially conceived to solve AT&T's long-distance telephone signal noise problem, this system caught the attention of gamblers who saw its potential in the horse racing world to place bets. Even though it has faced strong criticism from a number of leading academics like Nobel Prize laureate Paul Samuelson, it has been used by successful investors like Warren Buffet and Bill Gross in investing as well.

To understand the essence of Kelly's formula, let us consider the question: Can one lose money in a game in which one has a favorable probability of winning? The answer is, absolutely yes. To see why, think of the simple game of tossing a biased coin: heads means that the player wins the bet, and tail that he loses. Even when the player has a 90% winning probability, if he bets all that he has every time, sooner or later he will inevitably encounter one game in which he loses and go bankrupt. This is a simplified example of *gambler's ruin*. Yet, since the odds are so much in favor of the player, it is unreasonable not to play. The reasonable middle ground between not playing and playing is to come up with an optimal bet size. Kelly's formula determines such an optimal size.
Sketching the log return per play in such a game as a function of the bet size (as a percentage *f* of the total wealth of the player), we get the picture in the adjoining figure.



The log return function is essentially what Kelly employed to solve for the unique optimal betting percentage. In our example, we can observe the theoretical optimal bet size to be 80%. In general, in such a coin-toss game, if the probability of winning and losing are p and $q=1-p$, respectively, then Kelly's formula tells us the theoretical optimal betting size should be $p-q$, or $2p-1$.

Kelly Criterion aims to answer how much you should bet on a particular gamble based on your probability and odds of success. It enables you to bet the optimum amount of funds so that you can grow them exponentially. A leading practitioner of Kelly's formula is Edward Thorpe, a mathematician and a legend in the blackjack world. He believes that **"if you bet half the Kelly amount, you get about three-quarters of the return with half the volatility. So it is much more comfortable to trade. I believe that betting half Kelly is psychologically much better."**

So what is Kelly's formula and how is it used?

$$\boxed{\text{Kelly }\% = W - [(1-W)/R]}$$

Where,
Kelly %= Proportion of your funds to bet on,
W= Winning probability (The probability that any given trade you make will return a positive amount.),
R= Win/loss ratio (The total positive trade amounts divided by the total negative trade amounts)
For example, consider you are betting on a coin to land on heads at 2.00. However, the coin is biased and has a 52% chance of ending up on heads. How much should you allocate to this bet?

In this case:
P= 0.52
Q = 1-0.52 = 0.48
B = 2-1 = 1.
This works out at: (0.52x1 – 0.48) / 1 = 0.04
Therefore, the Kelly Criterion would recommend you bet 4%. A positive percentage implies an edge in favour of your bankroll, so your funds grow exponentially.

Primarily, the Kelly formula can provide you with a range of upper and lower bounds to determine the size of our investment.

Applying it while investing:
Kelly's system can be put to use by following these simple steps:

1. Access your last 50-60 trades. You can do this by simply asking your broker, or by checking your recent tax returns (if you claimed all your trades). If you are a more advanced trader with a developed trading system, then you can simply backtest the system and take those results. The Kelly Criterion assumes, however, that you trade the same way you traded in the past.
2. Calculate "W", the winning probability. To do this, divide the number of trades that returned a positive amount by your total number of trades (positive and negative). This number is better as it gets closer to one. Any number above 0.50 is good.
3. Calculate "R," the win/loss ratio. Do this by dividing the average gain of the positive trades by the average loss of the negative trades. You should have a number greater than 1 if your average gains are greater than your average losses. A result less than one is manageable as long as the number of losing trades remains small.
4. Input these numbers into Kelly's equation: K% = W – [(1 – W) / R].
5. Record the Kelly percentage that the equation returns.

Interpreting the Results:
The percentage (a number less than one) that the equation produces represents the size of the positions you should be taking. For example, if the Kelly percentage is 0.05, then you should take a 5% position in each of the equities in your portfolio. This system, in essence, lets you know how much you should diversify.

The system does require some common sense, however. One rule to keep in mind, regardless of what the Kelly percentage may tell you, is to commit no more than 20-25% of your capital to one equity. Allocating any more than this is carries far more risk than most people should be taking.

No money management system is perfect. This system will help you to diversify your portfolio efficiently, but there are many things that it can't do. It cannot pick winning stocks for you, make sure you continue to trade consistently or predict sudden market crashes.

A message from

MANYA The Princeton Review

Globalization of Ideas and Knowledge

Students increasingly opting to choose study abroad in India are majorly the post-graduate students. As per the U.S. Council of Graduate Schools' new stats, the admission to Indian-post graduate students abroad is up to 25 percent as compared to the previous year, showing a 9 percent increase for all countries. However, these stats are only for U.S. a significant increase can also be seen in the students planning to study in countries such as Germany, Canada, Ireland and the U.K.

Why do students want to study abroad?

Today, the Indian students are aiming to be internationally competitive and carve a niche for themselves in the global market. When we look forward to the big names in the global market, we find a large number of Indians managing them. There are a number of Top notch Universities with limited electives where the majority of students are looking forward for admissions. One of the most important factors motivating the Indian students to plan study abroad is the international degree. A student having an international degree is valued more in the Indian job market than a person having a local degree. It is not only that the programmes and departments abroad are prestigious, however; they have better facilities, laboratories, and enhanced research technologies. Also, the top faculty members are often more accessible and it is easier to become affiliated with a laboratory or institute.

Opportunities for Banking and Finance in the Global Market

As per the global market situation, the demand for Finance and Banking job opportunities is at peak such as, in investment banking, forensic accounting, financial analysis, banking, mutual funds, etc. Investment banking job requires detailed research work prior to any investment. On the other hand, Forensic accounting which is a fast emerging sector involves legal investigation and analysis of financial documents of any firm or client, who is involved in a legal dispute. A forensic accountant is an experienced auditor, who acts as a watch-dog of accounts of a company, in order to keep a check on the frauds. Understanding of psychological theories, analytical/investigative skills is a must for the person.

Apart from the ones mentioned above other career opportunities in this industry can also be listed as follows.

· Commercial Banking

· Corporate Finance

· Financial Planning

· Hedge Funds

· Insurance

· Investment Banking

· Money Management

· Private Equity

· Real Estate and many more

Opportunities for Management Courses

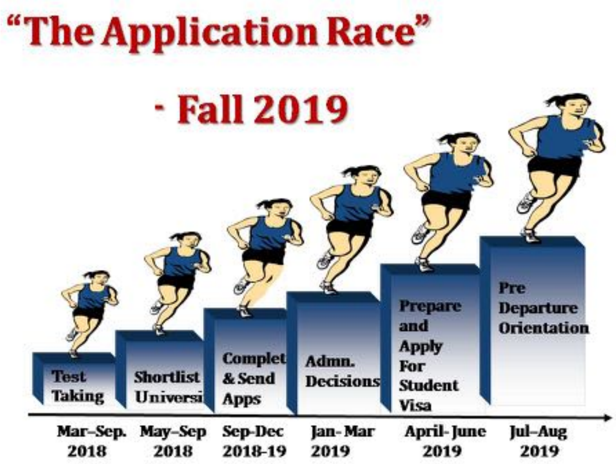
There are a wide array of opportunities available for students after their graduation and MBA, but if you are looking forward to top B Schools for MBA programme work experience is a must; so what opportunities are available for students who want to pursue their MBA just after their under graduation?

Deferred MBA: There are plenty of Universities such as Harvard, Stanford, Yale, ISB and many more who offer deferred MBA programme for students just after their graduation.

Masters in Management and related courses: These are usually one year programme which presently is offered in most of the reputed universities such as NYU Stern, Kellogg, Duke University, Michigan Ross and many others. MIM courses have the same reputation in the market as MBA.

Application Requirements

Academic Mark sheets, Transcripts issued by the college, 2-3 LOR, Statement of Purpose, Resume, Passport (First and Last page), GRE/GMAT Score Card (Official score should be done through ETS) IELTS/TOEFL Score Card, Financials (one-year Tuition + Living Expenses) Bank certificate, Loan Capability/sanction Certificate, Any scholarships/ grant letters and Affidavits of financial support.



Common mistakes students make while applying

 # 1 Poor Academics

The most important factor in gaining admission is a strong performance in a college preparatory curriculum (test scores and class rank are second and third). A related mistake is assuming that grade point average is more important than the difficulty of the classes selected.

#2 Pack Mentality

Don't apply only to those schools friends are attending. Work on setting the right criteria: major field of study, campus size/average class size, rural or urban setting, etc.

#3 Choosing One "Right" School

There is no such thing as one "right" school. With hundreds of universities to choose from, there are sure to be at least several that meet your needs.

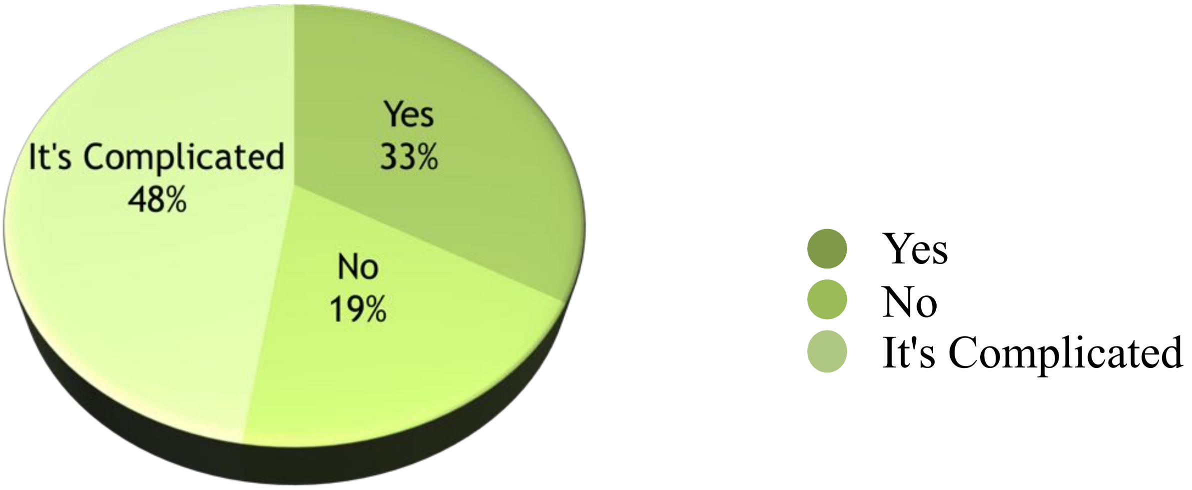
#4 Making Price a Priority

Don't make the mistake of thinking a public, or lower-tier school is all you can afford until you investigate all available financing. More than half of all college students receive some form of financial aid (scholarships, grants, loans, etc.) that can make a private school nearly as affordable as others.

OPINIONS

FIC, SRCC conducted a poll and generated the following results after responses were recorded from more than 240 students. Some distinguished opinions were also collected which have been presented here.

1. Has India shifted away from its path to fiscal consolidation after this year's revision in deficit announcements?



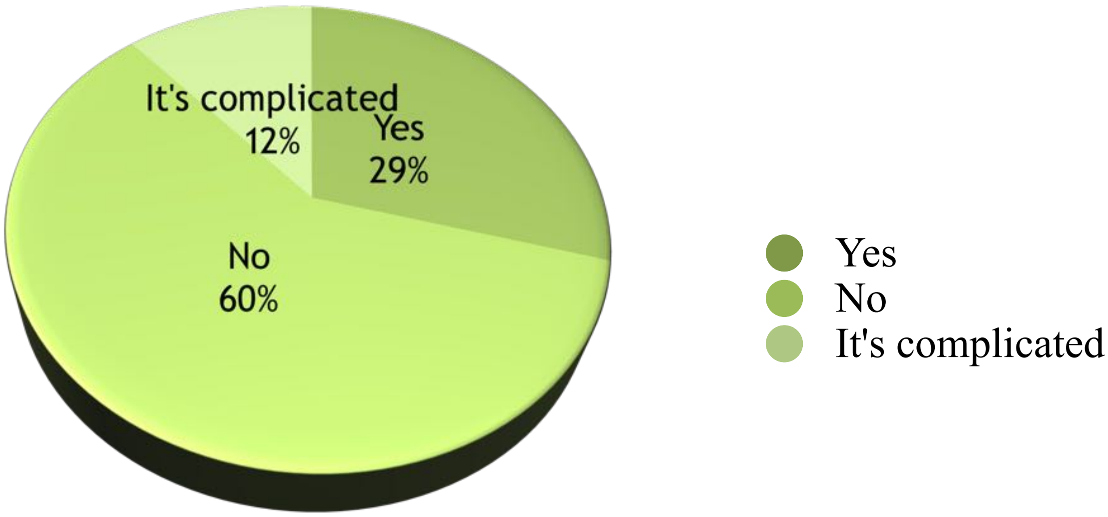
YES : The government had been controlling the fiscal deficit for the past 3-4 years, but since this is the election year and considering the budget spending, especially on the agriculture sector, the government will 100% deviate from its fiscal deficit target. Till now what happened was fiscal consolidation. Also the method of calculating the fiscal deficit in our country is not at par with IMF standards thereby creating a lot of problems. - **ROHIT MISHRA (MACROECONOMICS ENTHUSIAST)**

NO : I don't think it would be prudent to judge commitment towards fiscal consolidation purely on the basis of one budget in one year, especially considering the fact that it's an election year, which inevitably includes populist measures. As long as there is some sort of commitment towards capital building (which seems to be the case, as indicated by schemes like Bharatmala and the National Health Scheme) , and the government doesn't blow its money on short term gains, it is perfectly acceptable even if the fiscal deficit widens a tad. A higher future GDP arising out of the capacity building exercise would ease the pain a bit . So although fiscal consolidation may have taken a backseat , I don't think commitment towards it has wavered per se. - **RISHI SARDANA**

IT'S COMPLICATED : According to the FRBM Act which was announced somewhere in early 2000s, India has taken a tough stance on its fiscal deficit mainly so as to present itself as an investor-friendly destination and also to keep the domestic inflation in check. Fiscal Deficit was supposed to be 3.2% of GDP this year but it was revised to 3.5%. That is a slip of around the total cost of implementing MGNREGA scheme for a year. That means, it is not a huge shift. Fiscal consolidation is a process and should not be set in stone. We have to understand that Fiscal Consolidation is the means and control of Inflation is the end. So as long as the end is in sight, the means can be fluctuated keeping in mind the global underpinnings. Given

the fact that protectionism traits are taking over global trade, increased government spending only seems logical. The fact that we have yet again committed to the FRBM is a positive sign.
Otherwise, some commentators would also argue that with growth picking up post the DeMo and GST implementation, there was hardly any need for more room and this was done to pay heed to populism. This cannot be outrightly ruled out as it is an election year. To my mind, till the time inflation is under control and investors are not flying out due to reasons inherent to the Indian economy (they can do so transiently for global happenings), there is no fuss in India, the fastest developing large economy to run a mere 3.5% budget deficit. - **SHUBHAM AGGARWAL**

2. Should Facebook and other tech monopolies be regulated by the Congress ?



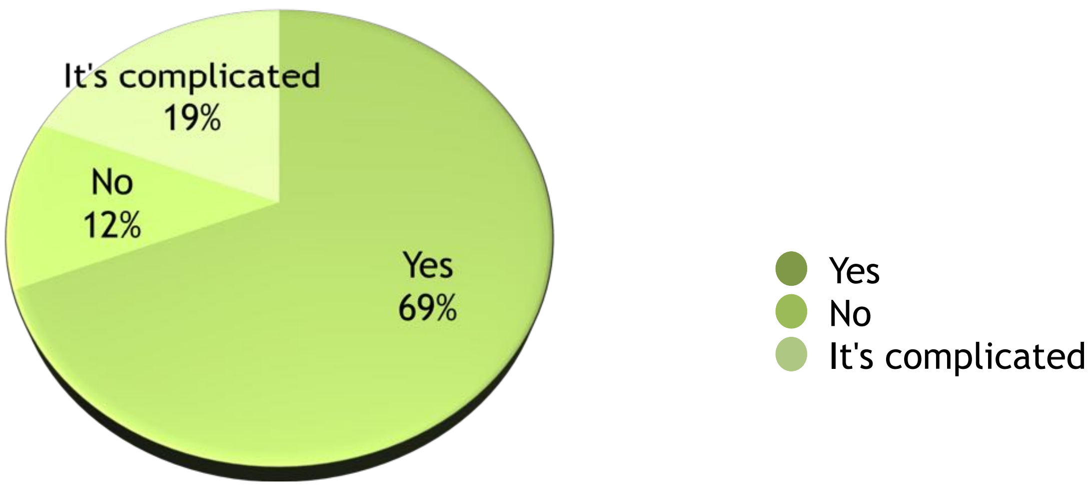
YES : Any decision taken by the individual which is influenced by some external factors, isn't a decision that he/she would have taken in their normal state of mind. As the dispute between Cambridge Analytica and Facebook unfolded, everyone came to know how Facebook uses the data provided to it by its users itself to generate revenues. They share this data with different firms against some consideration which in turn use it to manipulate customers by knowing their preferences, likes and dislikes. These social media sites are frequently used as marketing platforms for various products and services, to conduct polls, spread a message or news and many other things except for the fun of posting pictures and updates. Many consulting firms have taken advantage of this by having access to the private information of individual and using different mediums (like sponsored ads) to persuade them to do something. It has obviously given a boost to businesses because of increased consumers but when it comes to using the same to influence decisions such as whom to vote, it crosses a certain limit. It is this that the Congress needs to regulate. As Facebook has clearly mentioned its terms and conditions how its data would be shared, I think the regulations should be on restricting that scope by removing those aspects which would influence some major decisions which ought to be taken without any influence than asking them not to share any data at all - **AADITYA MULANI**

NO : Regulations redistribute costs of business to protect some incumbent firms by forcing the cost on (some) entrants. In other words, there are fewer new businesses and thus less competition. And thus, less chances of a better platform to enter the market. - **AJAY PARMAR**

IT'S COMPLICATED : Long story short: it's complicated.
The long story: At its basic core, the question of whether Facebook should be regulated by the US Congress, or indeed, by any body with judicial or quasi-judicial oversight, could be answered by examing an issue that might not seem explicit or even connected at first glance, but is totally concomitant with the question at hand: How far does the right to privacy extend?

If the right to privacy is a fundamental and absolute right, then really nobody can claim ownership of any data, except for you, or whoever the data originates from. Of course, exceptions can and must be made in instances of security threats and dangers to national sovereignty, but these issues apart, nobody can actually force you to hand over your data. Would the issue at hand, of whether certain firms used Facebook to mine information on voter preferences to give certain electoral candidates a leg up in the run to the election, constitute a national crisis? Depending on the answer to this question, certain key facets, or pseudo-exhaustive circumstances, wherein Facebook data could be used by investigative agencies under Congressional purview, could be further identified, and appropriate regulatory measures taken. This would probably need to be constitutionally enshrined, and judging from how divergent and polarised the US political landscape appears to be at the moment, Facebook can likely breathe easy, at least until a government with both the will to place regulations, and with enough seats in the legislative bodies (Congress, Senate), takes charge. 2020 maybe. - **AKSHAY MENON**

3. Exports, in the last few years, have been a big drag on the Indian Economy and show a lower growth number as compared to the global levels. With trade tensions between US and China, would a slowed global trade have a major impact on Indian growth ?



YES : Admist what has the highest probability of culminating into a trade war, the rise in tariffs on imports of steel, led to a retaliatory action by India. Assuming, this wouldn't lead to a decline in exports to the US would be overly-optimistic. The only reason one may think exports may not suffer a decline could be the depreciating rupee value to the dollar. **- PRASHASTI ROHATGI**

NO : As far as the US China trade war is concerned, there is uncertainty about how the negotiations will finally pan out, even though import duties have already been imposed by both the sides. Hence, forecasting the long term impact on India's growth basis the trade war is not possible. Also, protectionism as a headwind to the growth of developing economies is not a new phenomena, and probably just a new normal. In light of this, notwithstanding the fact that slower global trade affected its growth to some extent, India still managed to remain among the fastest growing economies. Now with the coming up of the trade war, India does have some skin in the game, since some raw material prices will rise (steel, aluminium), along with exports being impacted of course, as US imposes duties on India too. But India is up with its own retaliatory measures to counter the US moves, which will play its own role in hampering the US economy, the effect of which will be felt by the US sooner or later. Moreover, China is working towards establishing good trade and commercial relations with India to neutralise the affects of the trade war, India being the 3rd largest economy after China and the US. Since all stakeholders are cognizant of the fact that all lose in a trade war, its scope as a measure to benefit the US economy in the long term is low, implying that its potential to harm long term Indian growth is also low. As soon as the root cause of the trade war between US and China is addressed, the dust should settle gradually (and hopefully).

Moving ahead, there has been an impact on the rupee and the financial markets which could hamper Indian growth, but that is attributed to the US monetary and fiscal policies, along which came the trade war.

- SHIVANI KANOJIA

IT'S COMPLICATED : Since India is a part of the global system, even if tariffs are not being imposed on India directly, if the rest of the world including the US slows down, it will have an impact on India. But if the trade war is not very extensive and doesn't last too long, the uncertainty should be manageable.

- SHRESTH BIYALA

FIC TIMES

ALL ABOUT THE ANNUAL ACTIVITIES OF FIC

EPISTEME' 18- The Annual Fest

Episteme, the flagship annual fest of Finance and Investment Cell was held on the 15th and 16th of January, 2018. It witnessed a cumulative participation of over 2000 enthusiasts from across the country. The team organized 7 events as a part of the fest and extensive preparations were made to make the event a success.

Menace at Metropolis

A simulated stock market game which tested the negotiation and decision-making skills of participants through an open outcry. This event was highly appreciated by all the participants.

Altashfir

Altashfir was a one-of-its-kind event, which tested the financial acumen of the participants on the newly emerging market for crypto-currencies. The rounds of deliberation, conviction and investment widened everyone's domain.

Feudalism

A budget allocation game giving the participants a taste of life of medieval times as they stepped into the shoes of Greek warriors. This event was a survival race for the commercially fittest and saw immense excitement.

Zeus- The Sky Venture

In this sky simulation, the ultimate power belonged to the one who gained control of the air. Based on the idea of purchasing airports and airplanes through auctions, this event focused on minimizing the cost per passenger and thereby maximizing the player's profit.

Mad Men

The participants of this innovative extravaganza initially had to pitch their startup ideas and later on invest in other teams' ideas. This event was about exorbitant optimism with a tinge of realism.

Bet of Life

This was a fun event that required not only the ability to take correct decisions but also the conviction with which the participants were willing to bet on them. It was based on the idea of gaining out of other's losses and saw immense adrenaline rush in the crowd.

Startup Survival

After the preliminary round, selected teams had to face stress interviews conducted by different panels namely investors, management and public. As the teams stepped into the shoes of leaders defending their organizations, their ability to face pressure was tested.

EPISTEME- AN EXTRAVAGANZA

FINERGY 2017

FINERGY, held on 24th and 25th of October, 2017 entailed a variety of events ranging from ones themed around personal finance, mergers and acquisitions, case study competitions, fun events and a lot more. The two major events this year were "Stakeholders' Meet" and "Battle of Budgets"

Stakeholders' Meet

The Stakeholders' meet was a round table conference, on the topic- India's Energy Security and its Future. With an esteemed panel of chairs moderating the event, the candidates got insightful knowledge about the topic under discussion. The meet was held in the form of a conference.

Battle of Budgets

Battle of Budgets entailed management of personal finance by the participating teams. With multiple crises and an extreme wave of excitement amongst the participants, Battle of Budgets was a game of strategy and acumen.

The two-day extravaganza left the participants with great learning opportunities as well as experiences to cherish.

FINANCIAL DISTRICT

The Finance and Investment Cell, SRCC and the Finance and Investment Cell, Hindu College, came together for mutual knowledge-sharing opportunities and exposure to the real world by presenting the **first financial fest** of the year, Financial District between 17th and 19th of September, 2017.

The event conducted by FIC SRCC was called **"Casser Le Cas"**, a one of its kind case competition. An online preliminary round included aptitude based questions, opinionated questions along with a case study. The qualifying teams were then sent a case study to analyze and were required to present their solutions in the on-campus round.

The panel of judges included esteemed individuals from the finance field who gave detailed feedback to all the finalist teams.

VISIT TO THE RBI OFFICE, DELHI

Right from foreign exchange and the "problem of plenty" to the much talked about interest rate policy, Mr. Tarun Singh (Head of Department, Foreign Exchange Division), covered almost every objective of the RBI possible in the two hour-session held on the 5th of January, 2018 in Delhi office of Reserve Bank of India, organized by the FIC Cabinet.

The members of FIC became aware of the latent responsibilities and obligations of the central bank. The attendees were informed how the central bank's objective and mandate must be kept in mind while studying its policies.

Outside the RBI building in Delhi are two massive statues of Yaksh and Yakshu. The interesting history behind them was also discussed enforcing the RBI's contrasting features of accountability, responsibility and autonomy.

One thing that everyone took back was the reason behind the significance of these institutions. All in all, the session was a unique experience. Very few students get the kind of insight that FIC members did at the RBI office.

NEWSLETTER: FINANCIALLY YOURS

"An investment in knowledge gives the maximum returns." Keeping this precept in mind, FIC, SRCC came up with a unique initiative by presenting the monthly newsletter: **Financially Yours**. In an attempt to extend the reach of theoretical concepts beyond conventions, the newsletter witnessed the presence of many out-of-the-box ideas. The idea was not only to keep the readers aware of recent economic developments and finance-related news but also to invoke practicality, innovations and logical analyses in our approach towards finance and investment. It was this idea that made the newsletter highly appreciated amongst the readers and ensured an unparalleled reach.

RESEARCH SESSIONS

FIC places research as its top priority and remaining true to its motive, the previous session began with a Round Table Conference on "Advent of Artificial Intelligence", which saw the newly inducted members of FIC acting as the delegates of various institutions from government to MNCs.

Throughout the year, plenty of research sessions were conducted covering topics from different values of investing to contemporary topics like discussion on the Economic Survey 2017-18.

The members took up initiative of doing research on the topics of their choice and coming up with an article on the same, which were included in the publications of FIC like the monthly newsletter and the online blog.

THE FIC TEAM