Inflation Differential and Inflation Targeting in India

Anuradha Patnaik

The Reserve Bank of India (RBI) and the Central Government signed a Monetary Policy Framework Agreement, formally adopting a Flexible Inflation Target (FIT) as the policy tool. A peek into the inflation rates, prevailing at the state level, shows significant inflation differential between the inflation rates prevailing in the states of India and the inflation rate at the national level. This means that the national inflation target will have a different connotation for each state. Using the panel unit root test, the present paper attempts to empirically explore if the inflation differential among the states is due to convergence of prices and the subsequent inflation catch-up occurring at the state level. The results of empirical analysis clearly reveal the occurrence of convergence in prices among the states of India. Therefore, while setting the FIT, the RBI should factor in the dynamics in inflation resulting from convergence in price also.

Agrarian Crisis and Distress: A Wakeup Call

Rakesh Gupta

The agriculture sector, which sustains more than half the country, is no longer the first preference of rural households in India. It is heading towards a huge never-ending debt crisis. The plight of India's farmers has only become grimmer in the past decade. The lot of the embattled Indian farmer only keeps getting worse with the passage of time. Even as India celebrates the golden jubilee of the Green Revolution, NSSO Survey (Jan-Dec, 2013, 70th Round) has come out with data indicating that nearly 70 per cent of farmers subsist on economically unviable farm holdings of less than a hectare in size. Farmers' distress is particularly acute at present since 18 of the 29 states are facing drought in one part or the other for the second year in a row. Through analysis of the data on agricultural households and farmers' debts trend, an attempt has been made to point out urgent needs of the agriculture sector and possible solutions that may be relooked by the country's policy-makers with a holistic approach.

De-Congestion of Commercial Bank Branches in Rural and Semi-Urban India Through Alternate Channel Products

Rohit Parashar
Bibekananda Panda

The agenda of financial inclusion has challenged the existing banking network to lodge the growing needs of the customers at branches. Overcrowded banking halls and long queues throughout the banking hours are a common part of customers' experience in all rural (RU) and semi-urban (SU) branches of public sector banks (PSBs) in India. More choices and convenience can be offered to customers by allowing them to conduct basic transactions through alternate channels. The primary research undertaken with interviews of more than 200 RU/SU PSB customers and 80 RU/SU branch managers finds significant relationship between age, education and profession of the customers in adopting alternate channel products (ACPs). Feedback from branch managers indicates that illiteracy, safety concerns, lower adaptability and trust in new technology, lack of internet-enabled smart phones, weak connectivity, and incidences of fraud have constrained the acceptance of ACPs among RU/SU customers.

Impact of Buyback of Shares on Stock Prices and Financial Performance of Companies in India

Vandana Gupta

The objective of this paper is to examine if Indian companies undertake buyback for the purpose of information signaling. The author has used event study methodology to analyse the impact of buyback announcement on a dataset of 34 companies in India during 2010-14. The author has calculated the average abnormal stock returns (AAR) and cumulative abnormal returns (CAR) on the stock using BSE 500 as market index. The stock returns are calculated 20 days prior to and 20 days after the date of announcement and tested for signaling theory. Further, the author has evaluated the impact of buyback on financial indicators by examining the effect on EPS and ROE for the quarter and year immediately preceding and after the buyback, using t-test methodology. The empirical findings provide evidence that market reacts positively to the announcement as the AAR on the 1st day after announcement date is 1.5 per cent and CAR is 3.2 per cent.

The stock market reaction is positive for 20 firms wherein share price increased even up to the 20th day from the announcement date. For the financial performance indicators, while EPS increases significantly for the quarter after the buyback announcement, the ROE does not. However, when the annual figures for both the ratios are compared, there is a significant increase post buyback. The rationale is that the full impact of buyback is not

reflected in the immediate quarter following the announcement but after that. Thus, a strong case of signaling is reported which is evidenced by the fact that buyback has a significant and substantial effect on boosting up the share price for a firm.

Book Reviews

Leading Futures:
Global Perspectives on Educational Leadership

Alma Harris
Michelle S Jones

New Delhi, Sage Publications Pvt. Ltd., 2016, xxxii + 249 pp, Rs 750.

Reviewed by **Dr V S Kaveri**, former Professor, National Institute of Bank Management, Pune.

The Courage to Act:
A Memoir of a Crisis and its Aftermath

Ben S Bernanke

New York, W W Norton & Company, 2015, 624 pp., USD 18.63.

Reviewed by **Shri Harikumar S,** Research Scholar in the area of International Relations at School of Humanities and Social Sciences, Gautam Buddha University, Delhi.