

Determinants of Long-Term Interest Rates in India during 1970s to 1990s

- *L M Bhole & Pradyumna Dash*

This paper examines, through the regression analysis, the role of internal as well as external factors in the process of determination of both long-term nominal and real interest rates in India during 1970 to 1985 and 1986 to 2000 in the context of the opening of our economy since 1985. It was found that the growth rate of GNP, fiscal deficit to GNP ratio, and world interest rate have had positive effect on long-term interest rates during the pre-reform period, whereas only the fiscal deficit to GNP ratio and expected inflation appear as significant determinants of interest rates during the post-reform period. Surprisingly, the factors like growth rate of money supply, growth rate of GNP, and world interest rates are shown to have played little role in the process of interest rate determination during the post-reform period. Our findings also suggest that there has been a structural break for the nominal interest rates but not for the real interest rates during 1970-2000.

Purchasing Power Parity : Panel Evidence from Thirty-One Developing Countries

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The paper investigates the empirical validity of the Purchasing Power Parity (PPP) theory in a sample of thirty-one developing countries, using quarterly real exchange rate data from the period 1973 to 1999. Results from panel unit root tests [Levin and Lin (1992) and Im, Pesaran and Shin (1997)] indicate confirmation of mean reversion of real exchange rates. However, PPP is rejected for most of the individual countries in the panel even when a more powerful modification of the standard unit root tests [Ng and Perron (2001)] is used. Pooling of real exchange rate data is found to give support, to the proposition that real exchange rates are mean reverting, confirming the validity of the PPP theory. JEL Classification : C33; F31; F41

Brief Articles, Notes and Comments

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- *R Rani Geetha Priyadarshini & R Venkatapathy*

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