Modeling Asset Allocation for Banks : A Goal Programming Approach

- *P K Viswanathan, G Balasubramanian*

In the fast changing regulatory and competitive market environment, commercial banks will have to maximize profits while simultaneously satisfying multiple goals, which are generally conflicting in nature. The bank management is faced with the crucial decision problem of "how to optimally deploy funds across different classes of assets of varying risks and return characteristics". This problem will have to be solved in such a way that not only the profit goals are attained but also regulatory and other constraints are satisfied. This would envisage obtaining the best possible solution involving multiple goals stated in the order of importance. Resources and priorities can change, and management would like to look at their impact on the decision alternatives. A Weighted Penalty Cost Approach [WPCA] to a priority structure goal-programming model, apart from achieving the solution, performs with ease the sensitivity analysis in terms of changes in priorities and resources. This paper presents the conceptual framework of this model and then discusses its application in the context of asset allocation for banks.

Simultaneity between Bank Profitability and Regulatory Capital

- *M K Datar, Saumya Sankar Banerjee*

Basel II proposals have highlighted the need for higher regulatory capital for stability of the financial system. While injection of outside capital would be rare, generally in times of crisis, profits through plough back should be the regular sources of bank capital. Moreover, better capitalized banks should have better stable profits and cleaner portfolio if regulatory capital is to improve financial system. This paper attempts to study relationship between bank profitability and regulatory capital with the help of pooled cross section data drawn from major commercial banks in India in a simultaneous equation framework. Contrary to expectations that banks earning higher profits would also be better capitalized, our empirical results exhibit a mixed picture. The envisaged relationship was found to be true only for private and foreign banks.

The Effects of Perceived Interdependence Structure on Relationship Quality : A Study of the Indian Corporate Customer-Bank Relationship

- *Satyabhusan Dash, Ed Bruning, Kalyan Ku Guin*

Existing literature on channel management consistently argues that asymmetrical channel relationships, compared to those balanced in power, produces lower satisfaction, trust and commitment. This study examines the effect of perceived interdependence on relationship quality in a service industry, and business-to-business buyer-seller relationship. Results of the study reveal that high mutual and symmetric total interdependence is a critical factor for achieving strong relationship quality. As interdependence asymmetry increases relationship quality decreases more for relatively powerful customers than relatively dependent customers.

Brief Articles, Notes and Comments

A Note on Empirical Measurement of Sub-National Economic Globalization in India : Evidence from Karnataka State

- *M R Narayana*

This paper presents an economic analysis of measurement of economic globalization in terms of a modified degree of openness to trade at the State level in India. The analysis focuses on Karnataka State with special reference to building credible databases and offering special policy support for foreign trade by the State Government. The main results offer evidence for higher rate of economic globalization of the State as compared to all India level. These analyses and implications are of relevance and applicability for strengthening of promotional measures for foreign trade by the State Government as a strategy for enhancing the State's economic globalization. Karnataka's experiences are useful as benchmarks for comparative studies on empirical measurement of economic globalization among states in India and sub-national units elsewhere in other developing countries.

Book Review

Telegraphic Reviews