Abstract

Present thesis contributes by offering an alternative framework to study the interrelationship between financial development and economic growth by considering the public and private sector investments in case of the emerging Indian economy. By considering the Indian economy at the overall national level (Chapter 2), at the sectoral level (Chapter 3) and at the inter-state level (Chapter 4), the thesis attempts at collecting additional evidence to re-examine whether the Schumpeterian view of 'growth following the financial development' or the Robinsonian view of 'financial development following growth' is actually operative in India.. In doing so, the thesis investigates how the 'finance-growth' relationship has actually evolved over the period of time – years prior to Nationalisation in 1969, between Nationalisation and Liberalisation in 1991 and post-Liberalisation years of 1991. Therefore, in Chapter 2 it uses the time-series methodology of cointegration, causality tests and vector error correction and studies the short-run dynamics of the in-between phases by considering the data on Indian economy from 1951 to 2017. It finds that for economic growth, 'nationalisation' emerged as a solution to pre-1969 poor performance of the banking sector. However, its restrictive approaches resulted into a less than desired performance and required another corrective measure – 'liberalisation'. It finds evidence to favour the Schumpeterian view at the overall national level. In Chapter 3, it intends at examining the post-nationalisation impact of the financial intermediation and public investment at the sectoral level of the Indian economy by studying data over the period of 1972 – 2018. By doing so, it attempts to identify the channels through which financial intermediation has operated in impacting the real sector growth at an aggregate level. For this purpose the usual time-series methodology of unit-root tests and structural vector autoregression (structural-VAR) have been utilised. It observes that in case of India, growth of the banking-finance, in the form of sectoral credit allocation provides a positive impact on real sector growth. The transmission initially begins in the form of credit

allocation to different sectors which increases the level of output and eventually gets culminated into the aggregate output of the economy. However, the impulse responses have identified that there is a 'less-than desired' impact of the banking credit allocation for industrial sector which is in accordance with the reality as well. The same technique also observes positive ramifications of banking credit on real growth in agricultural and service sectors. Such observations favour the Schumpeterian view at the sectoral growth level as well. Finally, in Chapter 4, the thesis examines the impact of financial development on the income inequality for 13 major states in India during the liberalisation and post-liberalisation years of 1990 – 2012. In an environment characterised with economic growth, level of government initiative and size and access to formal banking, it attempts to explore whether growth-promoting financial intermediation has actually helped in reducing income-inequality across the major states or not. Applying the usual panel-series techniques of panel unit-root tests, panel cointegration and panel vector error correction (Panel VECM), it observes that the overall impact of formal financial intermediation and development expenditure incurred by the respective state government are reducing the income inequality while the overall impact of state economic growth is aggravating the same. Besides, it also observes that at the state level, financial depth from formal financial intermediation helps explaining the development expenditure of the state governments. Thus, at the state-level, there exists evidence to favour the Robinsonian view of financial development follows growth..

Keywords : Economic Growth, Financial Institutions, Financial Development, Cointegration, Causality, Unit Root, VAR, VECM, Structural VAR, Impulse Response Function, Income-Inequality, Panel Unit Root, Panel Cointegration, Panel VECM, Granger Causality.

JEL Classification: C10, C30, E65, G18, G20, I30, O11, O20, O43, O50.