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IMPACT OF RECESSION ON INDIAN ECONOMY

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ABSTRACT

Every economy faces ups and down at any time. It is totally a psychological phenomenon that the country's economy is not working well. Government has designed various types of policies to overcome this problem but still the problem of recession makes a great challenge against Indian economy. Indian economy is suffering from this problem till 2008 when global depression of USA hits the country. Production and productivity of various sectors of the economy has decreased due to the recession. The income of the people is not increasing which creates a demand gap thus it is very important to rise the income of the people to meet out the depression. Present study tries to find out the impact of recent recession on Indian economy. With the help of student's 't' test this affect has been traced out.

Keywords: *Recession, Indian Economy, Income, Saving, Psychological Phenomenon.*

Introduction

The ups and down in the economic activities of a country are very normal. But some time such fluctuations caused a great damage to the economic activities and its effects are everlasting and felt in long run.

Every economic is attacked by the business cycles whether it is capitalistic, socialistic or mixed. But the impact of business cycle is very strong on capital economy. In any capital economy business activities are guided by the profit motivation i.e. marginal efficiency of capital or the expected rate of return on new investment. It was Prof. Keynes who gave his theory on depression in any country is the lack of effective demand/ He gives his famous law of consumption in his book "General theory" in 1936 and advocates that when income rises consumption also rises but not in same proportion so a gape rises between the income and the consumption. It gives rise to lack of effective demand and leads to the unemployment in the economy which finally turns in the recession and in depression.

If we want to overcome this depression, then we have to fill this gape of income and consumption by increasing consumption or investment expenditure because effective demand depends on consumption and investment expenditure. But according to Keynes consist to analyze the impact of recession and depression in world economy with special reference to India.

Present study tries to find out the impact of recent recession on Indian economy.

Review of Literature

Sanjay Das, "Small Investor's Perceptions on Mutual Funds in Assam: An Empirical Analysis" Abhinav national monthly refereed journal of Research in commerce & management volume no.1, issue no.8 ISSN 2277-1166 11

The mutual fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost. The plethora of schemes provides variety of options to suit the individual objectives whatever their age, financial position, risk tolerance and return expectations. In the past few years, we had seen a dramatic growth of the Indian Mutual Fund industry with many private players bringing global expertise to the industry.

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Investment in mutual funds is affected by the perception of the investors. The objectives of the study are to identify the small investor's perceptions on mutual funds and to analyze the factors affecting small investors' perception towards mutual fund. The study aims at finding out the attitude of the small investors towards investment in mutual funds in Assam. By adopting convenience sampling, 250 respondents living in five different commercial towns of Assam were selected for this study. Simple statistical tools are used for analyzing the data whatsoever collected in this study. Small investors are now turning more to mutual funds because of safety, liquidity, capital gains and transparency. The present investigation outlined that mostly the small investors have positive approach towards investing in mutual funds.

It is concluded that the MFs business in Assam is still in as embryonic stage. So, concerted efforts are needed for its success. The success depends upon high returns, professional competence of Fund managers, a MF brings together a group of people and invests their money in stocks, bonds and other securities, it has so many advantages such as professional management, economics of scale. The MF should be easy to buy and sell through broker or directly in the market. It also has some draw backs such as low awareness, too many formalities, difficult to select. Finally, the MF should be great transparency, prudent accounting norms, less transaction cost, low management fees. It is very attractive between sub urban and rural areas; it has innovative schemes and efficient administrative system.

The present study analyses the MF investments in relation to investor's behavior. Investors' opinion and perception has been studied relating to various issues like type of MF scheme, main objective behind investing in MF scheme, level of satisfaction, role of financial advisors and brokers, investors' opinion relating to factors that attract them to invest in mutual funds, sources of information, deficiencies in the services provided by the mutual fund managers, challenges before the Indian mutual fund industry etc. This study is very important in order to judge the investors' behavior in a market like India, where the competition increases day by day due to the entry of large number of players with different financial strengths and strategies. The present investigation outlined that mostly the investors have positive approach towards investing in MFs. MFs have emerged as an important segment of financial markets and so far, have delivered value to the investors. The study reveals that the investor's perception is dependent on the demographic profile and assesses that the investor's age, marital status and occupation has direct impact on the investors' choice of investment. The study further reveals that female segment is not fully tapped and even there is low target on higher income group people.

Hence, fund managers should take steps to tap the female segment and higher income group segment to enhance more investment in MF Investment Avenue which would really help the industry to flourish. Further, the findings of the research were on the factors influencing investor's perception on public private MF's. It reveals that liquidity, flexibility, tax savings, service quality and transparency etc. are the factors which have a higher impact on perception of investors. These factors give them the required boosting in the investment process. Therefore, it becomes imperative on part of the fund managers to enhance these features for attracting more investors and also to retain the trust, the investors have in them.

Pallav Das "Global Recession - Impact of Global Meltdown on the Indian Economy" Abhinav national monthly refereed journal of research in commerce & management volume no.2, issue no.3 ISSN 2277-11668

India is much more integrated with the world Economy through both the Current and Capital Accounts. Financial market crisis that erupted in the United States in August 2007 has developed into the world largest shock since the Great economy as the financial turbulence has spread over to the real Economy. The Downturn that appears to have begun in the U.S.A in September 2008 has some negative impact on Indian Economy. The Recession generated the financial crisis in USA and other developed economies have adversely affected India's export of software and IT service. For fighting crisis Government of India responded through its monetary policy by pumping the liquidity into the system rather than using effective fiscal policy. i.e. Public expenditure and Investment to face the Recession. This has weakened the global over to the real economy. It has triggered a deceleration in the world economic growth which is expected to slide even further in the time ahead. There is an impending Danger of the rest of the world being dragged into a severe eco-slowdown that may eventually inch to words a synchronized global recession. India has been hit by the global meltdown; it is clearly due to India's rapid and growing integration into the global economy. The strategy to counter these effects of the global crisis on the Indian economy. The strategy to counter these effects of the global crisis on the Indian economy and prevent the latter from any further collapse would require an effective departure from the dominant economic philosophy of the neo-liberalism. The first such departure should be a return to Food first doctrine, not only to ensure food security of the large population but also due to the fact the food production will be more profitable given the current signs of a shrinking market for export oriented commercial crops. The other important initiatives that needs to be adopted is the building of institution based on the principle of cooperation that will provide an alternative frame work of livelihood generation in the rural economy as opposed to the dominant logic of markets under capitalism. Institutions like cooperative markets and credit cooperative can go a long way in addressing the lack of economically viable producer prices primary sector, such an alternative for economic activities in the primary sector. Such an alternative policy to tackle the consequences of the financial crisis will require effective Keynesian policies in the form of increased public expenditure at the rural and urban infrastructure. To sum up we can say that the global financial recession which started off as a sub-prime crisis of USA has brought all nations including India into its fold. The GDP growth rate which was around none percent over the last four year has slowed since the last quarter of 2008 owing to deceleration in employment export, import tax GDP ratio reduction in capital inflows and significant outflows due to economic slowdown. The demand for bank credit is also slackening despite comfortable liquidity in the system. Once calm and confidence are restored in the global markets, economic activity in India will recover sharply. Yet there will be a period of painful adjustment which is inevitable.

Rajesh Kumar, Nitin Goel “Factors Affecting Perception of Investors towards Mutual Funds” International Journal of Research and Development - A Management Review (IJRDMR), ISSN (Print): 2319–5479, Volume-3, Issue–4, 2014

As the concept of mutual fund is gaining more and more importance with a wide array of institutions vying to lure the investing public, a proper evaluation of performance of mutual funds, ability of the funds to diversify and time their investment is of practical importance for a valued judgment. Mutual Fund is one of the most preferred investment alternatives for the small investors as it offers an opportunity to invest in a diversified, professionally managed portfolio at a relatively low cost. The paradigm shift toward mutual funds assumed greater importance ever since the financial sector gained momentum under the globalized and liberalized environment. Each mutual fund has its own investment objective such as capital appreciation, high current income or money market income. A mutual fund generally states its own investment objectives and investors as a part of their own investment strategies choose the appropriate mutual fund for investment. The performance of the mutual fund’s products become more complex, in context of accommodating to both risk and return measurement while giving due importance to investment objectives.

Objectives of the Study

- To find out the impact of recession on the income of the people.
- To find out the determinants of recession in India.

Hypothesis

Following are the guided hypothesis of the study:

- There is no significant impact of recession on Indian economy.

Research Methodology

The main theme of the present research is economic recession which starts from U.S.A. therefore we have selected U.S.A. and its economy to analyze the impacts of the depression. This depression affects the whole world so we have selected India purposively for the analysis of the impacts of recession.

Present study is based on the experience of Rajasthan. We have randomly selected Jaipur district to find out the impact of the present recession on Rajasthan.

Collection of Data

Present study is based on primary data. The primary data related to the study has been collected through a specifically prepared schedule which was filled by researcher herself.

Selection of the Respondents

For micro analysis of the impacts of recession on Indian economy we have randomly select 20 respondents from various business organizations, companies and other sectors of the economy from Jaipur.

Analysis of the Data

The analysis of the collected data has been done with various statistical tools like average, percentage, regression etc. The hypothesis related to the study has been tested through t test.

Results and Discussion

Section: I

- **Regression Model**

Here we have made an attempt to analyze the casual relationship between the recession and its determinants. Following model equation has been framed here;

$$Y_i = \propto + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + U_i$$

Here;

Y_i = Recession in the economy
X_1 = Savings
X_2 = Investment
X_3 = Demand
X_4 = Profit expectation
X_5 = Income
X_6 = Government policies
U_i = Error term.

Following specification has been made here;

Y_i = Y is termed as the recession in the economy. It is assumed as a depended variable which is determined by other independent variables.

X_1 = X_1 is assumed as the savings of the people. Positive relationship has been assumed between the recession and savings. If the savings is high than investment will be low and it leads to the recession in the economy.

X_2 = X2 is termed as the investment in the economy. Negative relationship has been assumed between the investment and recession economy. High investment brings boom and inflation in the economy.

X_3 = X3 is termed as the demand in the economy. Higher demand brings high investment which throws away recession from the economy. So negative relationship has been assumed between recession and demand of the economy.

X_4 = Negative relationship has been assumed between the profit expectation and recession because high profit leads high investment in the economy.

X_5 = Negative relationship has been assumed between income and recession because high income leads prosperity in the economy.

X_6 = Negative relationship has been established between government policies (Monetary & Fiscal) and recession in the economy.

Following model has been estimated here;

Table 1: Regression Model

Variable	Expected Sign	β	t. value	F value	P Value	R^2	$\bar{R^2}$
X_1	+	.47	1.99*	8.68	0.0002	.776	.742
X_2	-	(-).68	(-)2.44*				
X_3	-	(-).21	(-).88				
X_4	-	(-).62	(-)2.26*				
X_5	-	(-).76	(-)3.84*				
X_6	-	(-).54	(-)3.84*				

Source: Computed

Our model is found to be best fitted. All the explanatory variables possessed the same sign as expected. The β value shows the coefficient which shows the percentage change in recession due to 1 percent change in explanatory variables. $X_{1,} X_2, X_3, X_4, and X_5$ are found to be significant at 5 percent level of significance. F Value is quite high which shows that the model is best to explain the variance independent variable.

The value of coefficient of determination and adjusted coefficient of determination is quite high. 77 percent variation of economic activities can be explained by the explanatory variables included in the model. The same results can be obtained with the help of p-Value which is less than the level of significance (0.05%)

- **Our Null Hypothesis is that**

H_0: Explanatory variables do not lead any significant impact on the dependent variable.

H_A: Explanatory variables led significant impact on the dependent variable.

Our null hypothesis is rejected as the p.value is less than the level of significance and it can be concluded that explanatory variables significantly affecting the dependent variable.

Section: II

- **Impact of recession on the level of income of respondents**

Here we have tried to analyze the impact of recession on the income of respondents with the help of 't' test. Following hypothesis has been framed here;

H_0: There is no significant impact of recession on the income of respondents

H_A: There is significant impact of recession on the income of respondents

Table 2: Impact of recession on income of the respondents

Respondents	Income (Per month)		Difference	S	T value	P. value
	Pre-recession	Post-recession				
I	50000	40000	10000	400.50	77.64	0.002
II	60000	50000	10000			
III	40000	35000	5000			
IV	50000	45000	5000			
V	55000	50000	5000			
VI	65000	55000	10000			
VII	70000	60000	10000			
VIII	10000	80000	20000			
IX	45000	35000	10000			
X	42000	40000	2000			
XI	40000	38000	2000			
XII	50000	42000	8000			
XIII	60000	58000	2000			
XIV	70000	65000	5000			
XV	80000	78000	2000			
XVI	70000	67000	3000			
XVII	75000	70000	5000			
XVIII	80000	70000	10000			
XIX	40000	30000	10000			
XX	45000	40000	5000			

Here the calculated value of't' is greater than the table value of't' at 19 degree of freedom which is 1.72. Since the calculated value is high than the table value so our null hypothesis is rejected at 5 percent level of significance and it can be concluded that recession led significance impact on the income of respondents. The same results can be contained by p.value which is less than the level of significance 0.002<0.005 so Our null hypothesis is rejected. Due to recession the income of the respondents has been reduced.

- **Impact of recession on the capacity of saving of the people**

Here we have tried to analyze the impact of recession on the saving capacity of people of India. Following hypothesis has been framed here;

H_0: There is no significant impact of recession on the savings of the people.

H_A: There is significant impact of recession on the savings of the people.

It has been shown in following table:

Table 3: Impact of Recession on Saving (Per Month)

S.No.	Income (Per month)			S	T value	P. value
	Before	After	Difference			
I	40	30	10	62.84	4.892	0.00162
II	30	20	10			
III	20	10	10			
IV	50	40	10			
V	40	30	10			
VI	30	20	10			
VII	50	20	30			
VIII	40	20	20			
IX	30	10	20			
X	40	15	25			
XI	30	20	10			
XII	60	40	20			
XIII	70	50	20			
XIV	50	30	20			
XV	40	30	10			
XVI	30	20	10			
XVII	20	10	10			
XVIII	30	15	15			
XIX	35	15	20			
XX	40	20	20			

Source: Field Survey

It can be increased from the analyze of the data that the calculated value of 't' test is 4.892 while the table value of 't' at 19 degree of freedom is 1.72. Since the calculated value is higher than the table value therefore our null hypothesis is rejected and it can be concluded that there is significant impact of recession on the saving capacity of the people. It has been reduced due to the recession in the economic activities. The same results can be obtained by the 'p' value which is less than the level of significance which is 0.05.

Policy Measures

- Government should design such monetary and fiscal policy which prevents the economy from business cycles so the depression cannot attack on the economy.
- There is a huge market in India so the government should provide infrastructural facilities so the demand can be increased and recession cannot lead impact on the economy.
- The government should try to increase the level of consumption demand in the economy so the investment attracts and the economy can grow at a fast pace.
- The credit facilities should be enriched in the country but there is a need of continuous watch over the credit expansion by the R.B.I.
- The environment of the country should be safe for the investment so the government should do work in this direction.
- There is a need of designing a new credit policy for the banks as well as non-banking financial corporations, so the credit extension should be controlled.
- Government investment should be increased on the public works which in turn will enhance the purchasing power of the people and prevent the economy from depression.
- Employment generating programmes for the rural poor people should be designed so the people get employed and create demand.

If these policy measures are follows by the policy makers than we can prevent the Indian economy from the depression and recession.

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