India's Financial Markets and Institutions Ed. by L. C. Gupta (Society For Capital Market, New Delhi)

Economic reform in any country is a hotly debated issue, and the debaters usually include people from all parts of the spectrum : from the rapid optimist to the cynical and the pragmatist. The book under review, is a collection of thoughts that, similarly, reflect a range of feelings. Indeed, the hallmark of this book is these feelings, and the underlying sets of beliefs that these feelings reflect; analysis comes at a premium. But the book serves the important purpose of highlighting the shortcomings of the Indian financial market, and can therefore serve as a good introduction to this market, for the uninitiated.

The single most important feature of this book, one that helps it carve a niche in the debate about the state of India's financial market, is its relentless focus on the debt market. Usually, discussions about the Indian financial market are limited to the equity market, and movement of share prices and stock indices in the secondary market for equities capture the imagination of the analysts and the people at large. However, as pointed out by a number of contributors to this edited volume, a liquid debt market is essential for the evolution of a financial market. First, a liquid debt market is a pre-requisite for the development of a benchmark yield curve that is the basis for a host of activities including pricing of long term credit commitments and financial derivatives, and asset-liability management using techniques like duration analysis. Second, in the absence of a liquid market for long term bonds, it becomes virtually impossible to raise long term funds for development of key economic inputs like infrastructure.

The papers included in the volume highlight a number of problems associated with the Indian bond market. The problems include the absence of price information in the secondary market, the absence of significant arbitrage activities owing to lack of active asset-liability management on the part of financial institutions, and the impact of private placements on both market depth and credit risk. The papers on financial derivatives, whose pricing is linked to the interest rate expectations reflected by the debt market, stress the need for introduction of financial instruments like strips that will help develop the debt market, and the those like forward rate agreements that will enable the investors to hedge against a variety of risks. However, with the exception of the paper on equity derivatives, the papers largely state facts, or act as expressions of belief. It is not obvious, for example, as to how asset-backed securities, a highly sophisticated financial instrument, can be introduced in India in the absence of a well-developed debt market and well behaved yield curves. Similarly, the readers would find it difficult to comprehend the extent of price imperfection in the bond market, and the nature of risks associated with running an option book or writing options, perhaps the most complicated of financial derivatives.

The book also includes a section on financial institutions, and the papers in this section address one specific issue; the role of development financial institutions in the evolving financial order, and the case in favour of an universal banking system, if any. The papers included in this section too shy away from detailed empirical analysis, but they are distinctly a cut above the other papers in terms of analysis or cohesion of thought. The issues that they raise are not necessarily unique to these papers : level playing field between DFIs and banks in terms of deposit base and regulations, preparation needed by banks to enter into the market for project financing or long term credit, and the efficacy of having high cash reserve ratio and statutory liquidity ratio, to name a few. But, by and large, the discussions do not act merely as statements of belief, but probe the issues and the possible paths of evolution of the DFIs in some detail. They also draw the attention of the readers to the fact that universal banking is not only about consolidating long term and short term lending under the same roof, but that it also involves underwriting of securities and insurance, thereby making the issue of universal banking more complex than a bank-versus-DFI debate.

An important strength of the book is its readability, and this is likely to endear it to those who would like to get an introduction to the evolutionary issues associated with the Indian financial markets. And, as mentioned before, to that extent the book will serve an important purpose. However, the need of the hour is perhaps not general discussion of issues, but a quantification of the magnitude of the problems. Indeed, the avoidance of empirical analysis remains a lacuna in the discussion about Indian financial markets, one that this book had the potential to fill, but one that it has chosen to put on the backburner.

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Business Research Methods by Donald R. Cooper and Pamela S. Schindler (Tata McGraw-Hill, 1999. Rs. 210/-)

The sixth edition of "Business Research Methods" by Donald R Cooper and Pamela S. Schindler is impressive in its totality and exhaustiveness. This edition is well structured, contemporary and an ideal reference for budding researchers in the field of management studies.