ABSTRACT

The objective of the thesis is to examine the nature and significance of finance constraints in so far as they affect consumption and investment behavior of households and firms respectively in the Indian context. The thesis consists primarily of five related exercises that examine the empirical significance of credit market imperfections by testing for the effect of financial constraints or factors on consumption and inventory investment behavior of households and firms respectively, both at micro and macro level, in the Indian context.

Chapter 2 examines the importance of liquidity constraints in so far as they affect household consumption / savings behavior. Using household level longitudinal panel data, this exercise finds that consumption of constrained households is excessively sensitive to changes in income than that of the unconstrained. It also finds that consumption responds asymmetrically to positive and negative changes in income, indicating the significance of liquidity constraints.

Chapter 3 examines the dynamic interrelationships in aggregate time series of private consumption, income and wealth and finds that consumption responds asymmetrically to changes in income and wealth.

Chapter 4 analyses the time series patterns in a set of macro economic variables with a view to identify the phases of business cycles in the Indian context.

Chapter 5 examines the empirical significance of finance constraints in so far as they affect firms' inventory investment behavior. Using firm level longitudinal panel data, this exercise finds that inventory investment of constrained firms is more sensitive to changes in their cash flows than that of unconstrained firms, and these cross-sectional differences are more pronounced during the low growth phases in economic activity and credit than otherwise.

Chapter 6 presents some empirical evidence indicating the importance of changes in inventory holdings in determining the fluctuations in economic activity at the aggregate and industry level, and the effect of 'financial factors' on inventory investment and output.