

Abstract

This thesis studies the behaviour of savings in financial assets in the Indian household sector at disaggregated level. The thesis mainly attempts to find the substitutability relationship between financial assets using parametric and nonparametric techniques, and hence tries to establish a structure of savings that is consistent with economic theory. Data reveal that a substantial part of the increase in household financial savings is due to increased household holding of currency and bank deposits. Among financial assets, bank deposits are found to have larger income elasticity of savings than contractual savings. The demand system analyses using translog and Fourier functions as flexible functional forms to find a consistent structure of financial savings. Contractual savings are found to be weakly separable from the rest of the assets, and they are close substitutes to each other while they are low substitutes or complementary to the rest of the assets. Further nonparametric tests show consistent results with the parametric ones as far as the weak separability of the contractual savings is concerned. Once this structure of financial savings is established, a Divisia index is constructed as a measure of aggregate financial savings, as it is considered to respond to the financial innovations and is more likely to dominate the simple sum index. The constructed Divisia index departs from the simple sum over time and the departure is statistically significant, especially during the period 1992-99. Emphasising the importance of understanding the financial structure of savings in the household sector, this thesis further investigates the development level of India vis-a-vis other fast growing and financially reformed countries during this period in four measures (and hence in their aggregate) of financial sector development. Though there is a general rise in all the trends of financial indicators, the behaviour of liquid liabilities and private credit is disturbing. But unlike other developing countries that have undertaken financial reforms, India tends to show consistent performance across all financial measures.