RBI Occasional Papers *
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The Reserve Bank of India Occasional Papers is a quarterly journal which contains contribution by the professional staff of the Bank on a wide range of topics such as agriculture, industry, banking, monetary policy, international trade and finance. The latest issue of 'Occasional Papers' is December 1998 and an abstract of each of the articles in this issue is given below :

Recent Divergence between Wholesale and Consumer Prices in India - A Statistical Exploration

G. P. Samanta and **Sharmishtha Mitra**

During the recent period, inflation rates based on the CPIIW have been much higher compared to those based on the WPI. On conceptual plane, though a certain degree of mismatch is unavoidable in the movements of two series, at the same time they are also expected to be linked by some stable relationship to ensure inter-linkages between two markets - the wholesale market and the retail market. Empirical results show that since May 1995, divergence between the CPIIW and WPI (after adjusting for increasing level/ trend) is widening - indicating a posssible distortion in their relationship. For a formal verification, we applied co-integration test (for long-term relationship) and Granger's causality test (for short-run relationship) for two different periods, viz., (i) April 1991 to April 1995 and (ii) May 1995 onwards. It is seen that while data support the existence of a stable long-run relationship (co-integration) between the CPIIW and WPI during April 1991 to April 1995, the relationship is distorted thereafter. Even the short-run relationship is disturbed since May 1995.

Integration of Financial Markets in India: An Empirical Evaluation

B. K. Bhoi and S. C. Dhal

This paper attempts to empirically evaluate the extent of integration of India's financial markets in the post-liberalisation period. The major findings of the paper are the following : a) although fully competitive environment is yet to emerge, several segments of the financial market have achieved operational efficiency; b) the 91-day Treasury Bill rate has the potential to emerge as a reference rate in the Indian context; (c) India's financial markets are getting increasingly integrated at the short-end of the market, such as, money market, credit market, Government securities market since April 1993. However, capital market is least integrated with the rest of the financial sector; d) there are early indications about integration of money market and forex market. However, integration of domestic and overseas financial markets is not robust.

Liquidity Effects on the Term Structure of Government Securities

Market in India

Himanshu Joshi

An empirical examination of the term structure of interest rates in the Indian economy suggests cointegration (or long run stable relationship) among interest rates but existence of multiple common trends. The absence of unique common trend implies that long run movements of any one interest rate are not dominated by the movements of other interest rates. The presence of cointegration, however, suggests a long run interlocking of interest rates across markets and a possibility of their common response to changes in expectations about future monetary policy and/or economic fundamentals. Finally, the results also suggest that structural policies pursued by the Central Bank could be of crucial importance in facilitating market integration.

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