



प्रेस प्रकाशनी PRESS RELEASE



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RESERVE BANK OF INDIA

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Reserve Bank of India releases Summer 2009 Issue of its Occasional Papers

The Reserve Bank of India today released the [Summer 2009 issue of its Reserve Bank of India Occasional Papers](#), which is a research journal of the Reserve Bank and contains contributions of the Bank's staff and reflects the views of the authors. It contains articles, special notes and book reviews on issues ranging from the relevance of interest rate risk of bonds, investigation of the inter-sectoral linkages, house price indices and lessons from the equity market, which are some of the important areas of policy concerns.

The first paper titled '[In Search of A Better Estimator of Interest Rate Risk of Bonds: Convexity Adjusted Exponential Duration Method](#)' by A. K. Srimany and Sneharthi Gayen have proposed a new method, using modified duration and convexity, to estimate the interest rate risk of bonds which can be considered as a conceptual improvement over the 'Exponential Duration' method. The paper has analytically and experimentally proved that this new method is far better than traditional method based on modified duration and also the 'Exponential Duration' method, at least for the international market covering bonds of major economies. However, a natural question will be the performance of this proposed method *vis-à-vis* the traditional method based on modified duration and convexity. Indication based on sample cases reveals that the performance of this proposed method is better than all the above methods.

The second paper in this section, titled '[An Empirical Investigation of the Inter-Sectoral Linkages in India](#)' by Gunjeet Kaur, Sanjib Bordoloi and Raj Rajesh has endeavored to examine and analyse inter-sectoral linkages in the Indian economy following both the I-O approach and using co-integration and state-space models. At the broad sectoral level, primary, secondary and tertiary (excluding community, social and personal services) sectors display strong long-run equilibrium relationship amongst each other. These sectors also display strong long-run equilibrium relationship with one another in a bivariate framework. At the sub-sectoral level, existence of long-term equilibrium was found between 'trade, hotels, transport and communication' and 'manufacturing' sectors. The sectors, which displayed long-run equilibrium relationships, were re-estimated through state space model using Kalman filter. This also corroborated that variation in one sector influenced the other sector's performance over time. In view of the prevailing sectoral inter-relationships, the paper explores policy options so that positive growth impulses developing among the sectors are fostered.

Under the section on Special Notes, a paper '[Hedonic Quality Adjustments for Real Estate Prices in India](#)' by Abhiman Das, Manjusha Senapati and Joice John argues that hedonic price index principle is a widely accepted method for quality adjustment. This paper attempts to construct hedonic price index by two different hedonic methods, viz., Time Dummy Method and Characteristics Price Index method, using survey data on rent and sale/resale prices of residential properties in Mumbai for the period January 2004 to November 2007. The results reveal that impact of quality adjustment is sizable and hedonic house price indices are much lower than traditional median weighted average price indices. The hedonic price indices are less as compared to other indices for the period under consideration. That is, price increase is subdued once the effect of quality attribute is controlled. This indicates that in order to assess the price movements of housing sector, effect of quality attributes must be considered.

The second paper in this section, titled '[Evolution of Global Private Equity Market: Lessons, Implications and Prospects for India](#)' by R. K. Jain and Indrani Manna argues that venture capital and private equity industry has emerged as a potential source of capital for the corporate sector. It has been facilitating the productive use of existing assets and resources, usually by identifying companies with untapped potential and reorganizing their operations in ways that increase their value. Given their rising prominence in the financial sector, there have been concerns about their regulation, of late. This paper takes stock of the evolution of private equity market in the world and analyses its prospects and implications for India.

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