



**भारतीय रिज़र्व बैंक**  
**RESERVE BANK OF INDIA**

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## Publication of RBI-Occasional Papers-Vol. 40, 2019

Today, the Reserve Bank of India releases [Volume 40, No.1 of its Occasional Papers](#), a research journal containing contributions from its staff. This issue contains four articles and three book reviews.

### Articles

#### 1. [Night-time Luminosity: Does it Brighten Understanding of Economic Activity in India?](#)

Anupam Prakash, Avdhesh Kumar Shukla, Chaitali Bhowmick and Robert Carl Michael Beyer explore the prospects of using night-time luminosity as a supplementary measure of economic activity in the Indian context. The authors document that night lights correlate strongly with gross domestic product (GDP) and other important macroeconomic indicators like industrial production and credit growth. Even after controlling for seasonal factors, the relationship of night lights with value-added in agriculture and private consumption expenditure is statistically significant. In addition, night-light data are strongly correlated with gross state domestic product (GSDP) in a statistically significant manner.

#### 2. [Spatial Inflation Dynamics in India: An Empirical Perspective](#)

Arvind Jha and Sarat Dhal provide empirical evidence on various demand, supply, policy and structural factors impinging on consumer price inflation for agricultural labourers and industrial workers across major Indian states. Their results show that inflation persistence, per capita income growth, agricultural production, oil prices, interest rates, state government expenditure and taxes, and structural factors such as power and water inputs have statistically significant effects on regional consumer price inflation.

#### 3. [Rural Wage Dynamics in India: What Role does Inflation Play?](#)

Sujata Kundu attempts to analyse the trends in rural wages in India during January 2001 to February 2019 with a view to identifying the key factors that could explain the recent slowdown in agricultural wage growth. The paper also assesses the risk of a wage-price spiral for the inflation trajectory. The results show that both agricultural and non-agricultural wages share a long run positive relationship with rural prices. For the period from November 2013 to February 2019, changes in rural prices had a positive and significant impact on changes in nominal agricultural wages, even after controlling for other determinants such as

non-agricultural wages, Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) wages, and rainfall deviations from normal. Nominal agricultural wages reveal stickiness and a significant positive influence of non-farm wages. This paper does not find any robust empirical evidence for a wage-price spiral in India during the period of study.

#### 4. [Using Rational Expectations to Predict Inflation](#)

Purnima Shaw examines the possibility of using inflation expectations of households for predicting observed inflation. She finds that inflation expectations of households relate to varying consumption baskets. This is often cited as a reason for expected inflation diverging from actual inflation, not only in India but also in other countries. Households' inflation expectations in India do not satisfy the statistical properties for rationality. Therefore, deriving from the literature, she aggregates inflation expectations to estimate the mean of an optimal distribution. As the estimates of the optimal distribution mean turns out to be rational, they could be useful to generate forecasts of headline inflation. Based on an out-of-sample performance analysis, the paper establishes that raw expectations of Indian households, when transformed into rational inflation expectations, contain forward-looking information comparable with those of professional forecasters. In addition, the width of the confidence band for transformed expectations is much narrower than those obtained from pure time series forecasts.

### Book Reviews

The issue of the Occasional Papers also contains three book reviews:

1. Himani Shekhar reviews the book, "[Taming the Tide of Capital Flows: A Policy Guide](#)" written by Atish R. Ghosh, Jonathan D. Ostry and Mahvash S. Qureshi. The book provides a comprehensive perspective on opportunities and challenges associated with capital flows. The book extensively deliberates upon policy measures intended to help emerging markets and developing economies (EMDEs) to contend with large and volatile capital flows in this age of financial globalisation.
2. Shobhit Goel reviews the book, "[Misbehaving: The Making of Behavioural Economics](#)" written by Richard H. Thaler. The book demonstrates the limitations of traditional economic models that assume completely rational but imaginary 'econs' and offers a new perspective on the way actual humans behave or rather 'misbehave'.
3. Ipsita Padhi reviews the book, "[The Third Pillar: How Markets and the State Leave the Community Behind](#)" written by Raghuram G. Rajan. The book sheds light on the often neglected third pillar of society – the community. The book offers broad solutions to rebalance the role of three 'pillars' of a society – state, markets and community.