INTRODUCTION

No economy can be viable without a well developed banking system. J.M.Keynes, in his famous book "The General Theory of Employment and Interest", mentioned that the history of money was the history of civilization. It can be added that the role of money would have been insignificant without the institution of banks. As time passed, money become more and more a debt instrument and thus became intimately connected with the banks. In a very simple terms, these financial institutions receive deposits from those who save and lend money to those who need it. Both these functions, with properly performed, lead to more productive use of national resources. Receiving deposits by financial institutions can mobilize monetary resources whereas distribution of these funds between different uses can help adding to the real capital of the nation. Furthermore, when financial institutions make advances, they add to effective purchasing power. As stated by Sayers, "This is because when a bank makes an advance, by allowing its customers to overdraw, the bank in effect exchanges its own promise to pay immediately against the customer's promise to pay off the advance later on". [1]

Through this exchange of promises between the finan-

Numbers in paranthesis indicate references.
cial institutions and the borrowers the aggregate liquidity increases in the economy.

Financial institutions also affect the aggregate demand in the economy through influencing sectoral demand functions like investment by manipulating interest rates, such a role in particular, gives banks strategic importance in affecting such key variables as national income and employment. Therefore, there is no doubt that more advanced and developed a country is the more advanced and sophisticated is its banking system.

The purpose of this research is to develop simple financial and growth models on Indian economy and to testify the different financial and growth aspects of the economy in view of these models. The financial institutions taken into account for financial model mainly comprises the Reserve Bank of India, the commercial banks, the indigenous banks and the joint stock banks, while the Reserve Bank of India performs the central banking functions, the indigenous bankers combine banking with trading, the joint stock banks, the commercial banks - specialize in internal financing of different sectors. Besides, the cooperative banks and land mortgage banks primarily meet the short-term and long-term financial needs of agriculture.

The development of the financial variables in this model will give an indication of the behaviour of the monetary and financial institutions and their consistancy with
the real side of economy mainly represented by GNP (Gross National Product) in aggregate and in per capita.

For this purpose, the values of the total assets of the financial institutions, their ratio to GNP and their distribution among various financial institutions is to be calculated to formulate a set of regression equations with a set of economic variables. Thus the proposed model (financial) gives an indication with some specifications, on the nature of size and quality of financial assets and their distribution among different types of financial institutions and their relations with the economic variables, and to find out the gaps, if any, in these relations for possibility of solving them to meet the predicted targets of the rates of growth and their accompanied economic variables in the development plan.

In the calculation of Gross National Product, either by expenditure approach or by income approach financial assets are not considered. Whereas, the financial institutions play vital roles in economy, e.g., in capital and economic growth, labour productivity, industrial section and national sector, long-term growth and in planning of manpower and education.

In this present study, it has been tried to establish the relationship between GNP and accumulation of financial institutions assets in view of most fundamental economic variables.
Thus the research consist of two parts, i.e., financial part and growth part of Indian economy. In financial part, the stress is given to develop such a type of financial model from which the near approaching relationship between different financial variables can be obtained to achieve the best possible solution for maximum Gross National Product. In the second part, the above relationship is viewed in respect of basic elements of any economy, i.e., manpower, productivity, capital and economic growth, development of dual economy and industrial and national sector.