1. DEVELOPMENT OF FINANCIAL MODEL AND APPLICATION TO INDIAN ECONOMY

1.1 - OBJECTIVE OF THE MODEL

The objective of this model is to examine empirically the relationship between the real and the financial sides of the Indian economy in its long-term economic growth. In a basic context of mutual interdependence between various relevant variables, the model could prove beneficial in two respects:

1. It examines the kind and degree of effectiveness of long-term economic variables to the financial institution; and,

2. it results financial institutions structure to the process of long-term economic transformation in view of manpower, capital growth, labour productivity, etc.

Government of India decided in favour of nationalization and on 19 July 1969 fourteen major banks with deposits of Rs.500 million or more were nationalized. Therefore, the proposed model is assigned to cover the period from 1950 to 1970 and 1970 to 1980. During this period Indian economy was subjected to structural changes among which, 1971-20-points economic program, business slumps in 1975-77, etc., were some of the most important factors. Therefore, the procedure that followed in formulation of such a model is the main
objective of the study.

As James Tobin has indicated: "The key questions are the linkages of financial variables to real investment and to other spending on goods and services. This is at the same time the area of greatest practical importance for monetary policy, the area of greatest ignorance, and the focus of an increasing amount of empirical research." [2]