A Theoretical Model of 'Riskless Capitalism'

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Section 1

Certain Stylised Facts About the Indian Economy

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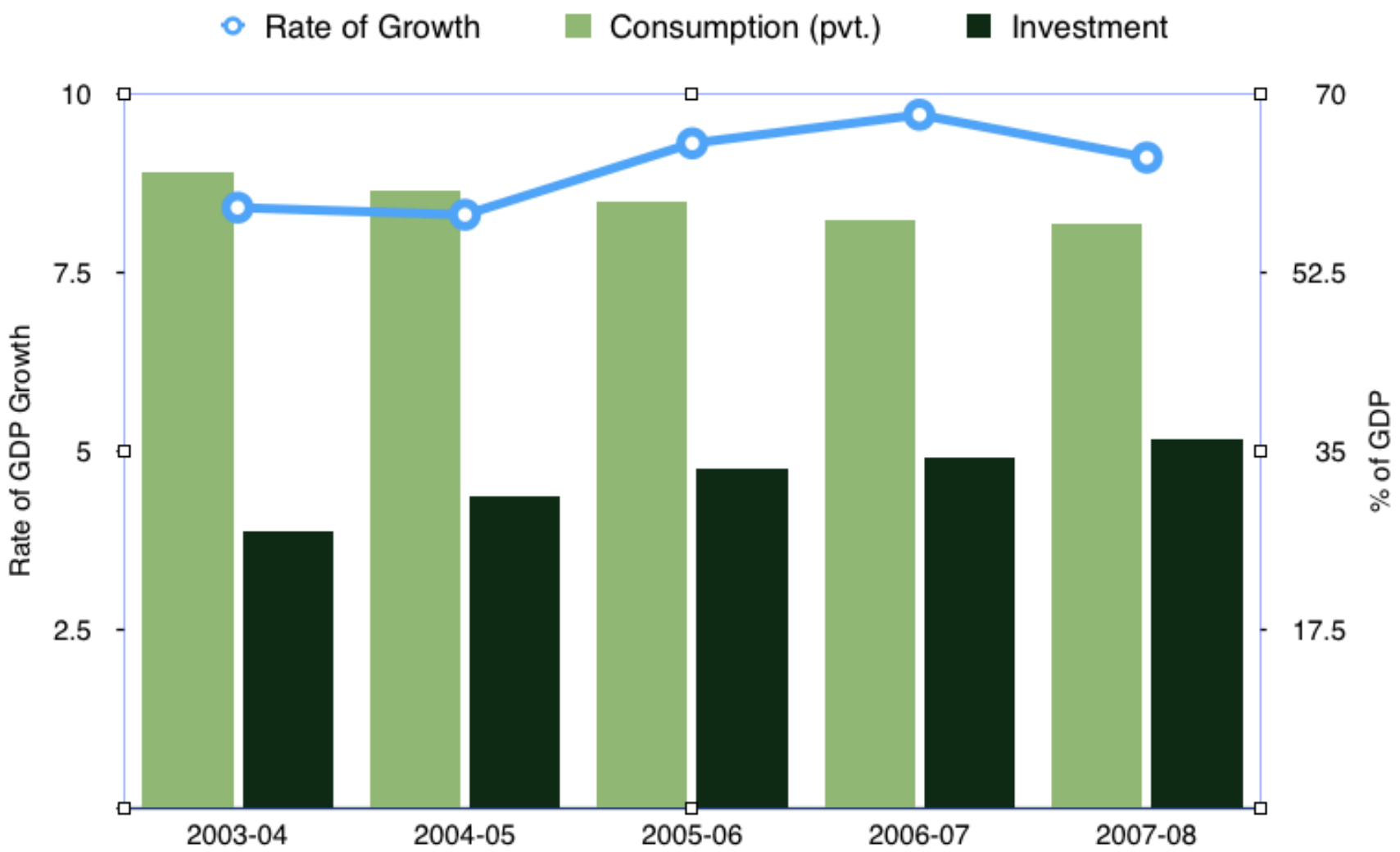
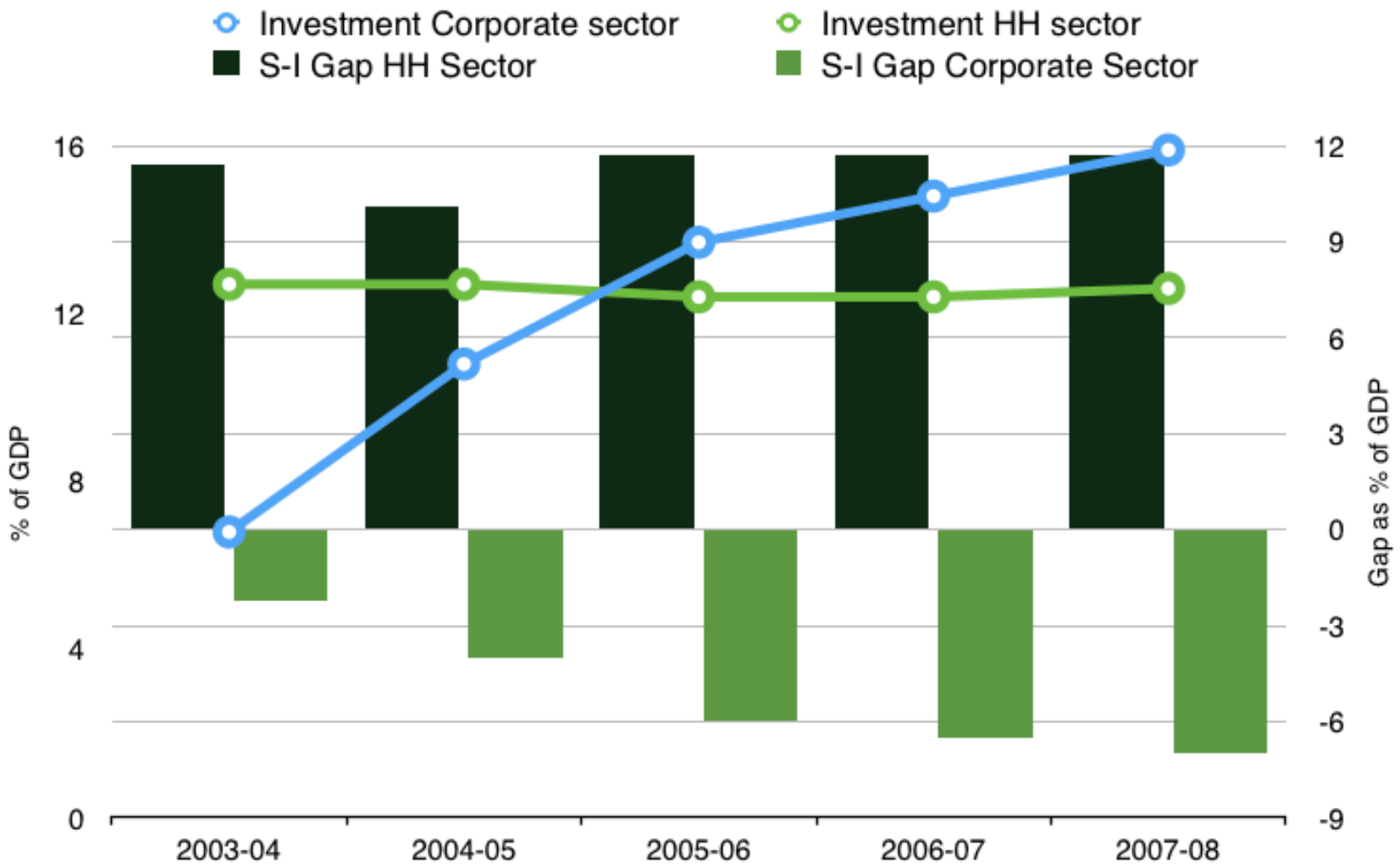
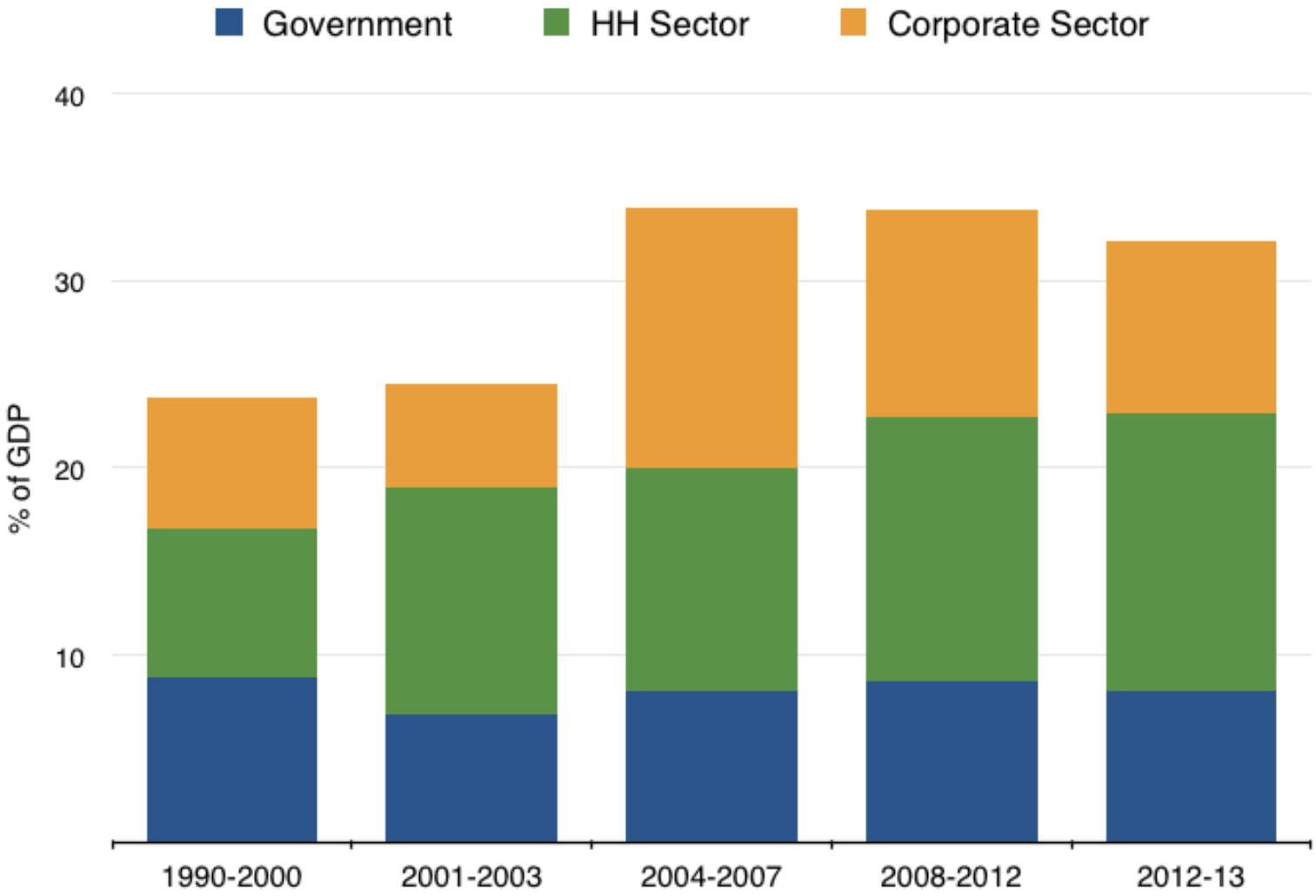
What Drove High Growth in the Last Decade?



Investment and S-I Gap of the HH and Corporate Sector



Composition of Investment during Growth and Recession



Section 2

A Macroeconomic Model

Basic Set-up: Capitalists' and Banks' Behaviour

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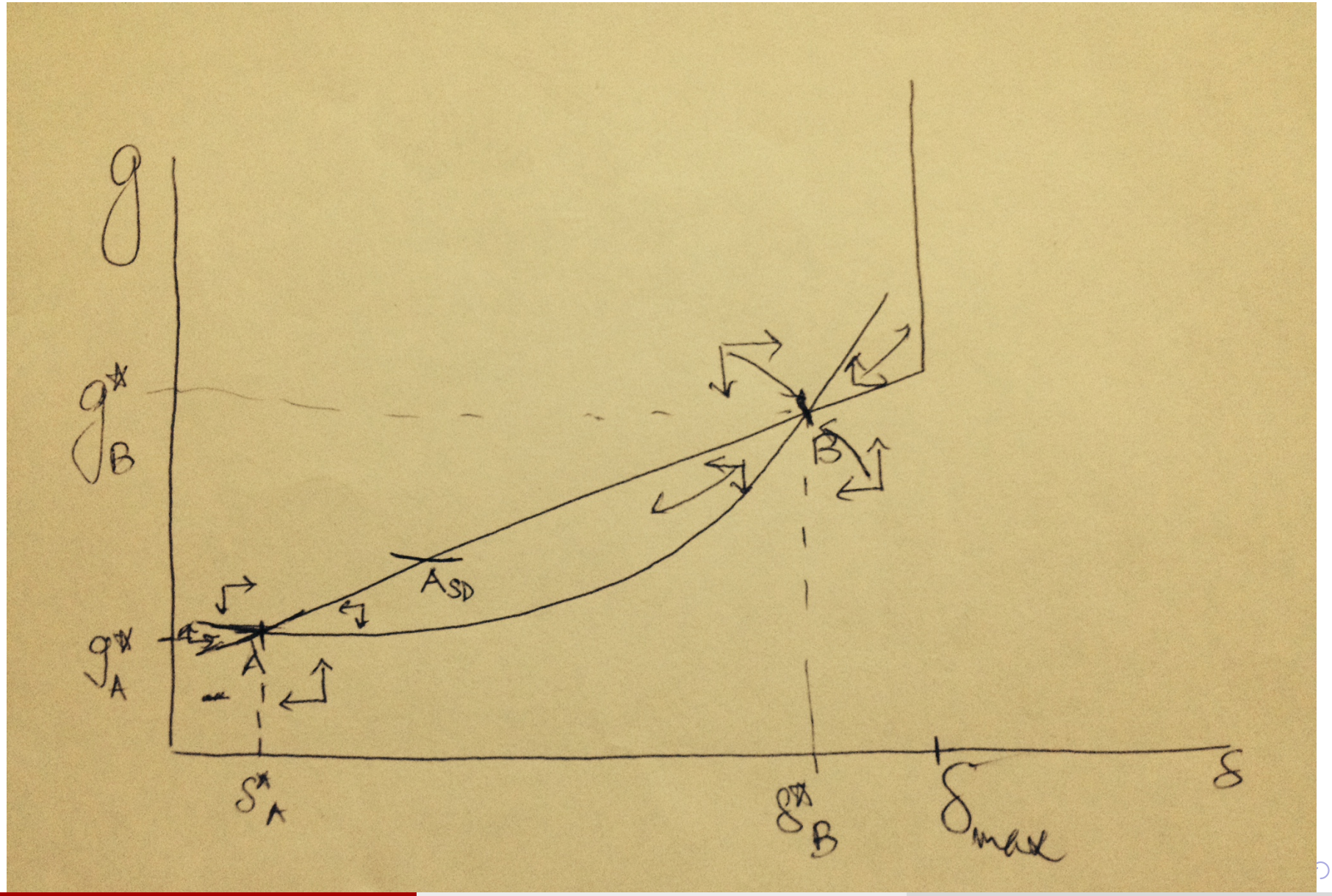
$$\dot{\delta} = \Theta(\delta^d - \delta) \quad \Theta > 0 \tag{2}$$

A Graphical Representation: Two Rates of Growth



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- Even the RBI governor, Mr. Rajan had to admit "Promoters have a class of super equity which retains all the upside in good times and very little of the downside in bad times, while creditors, typically public sector banks...get none of the fat returns in good times while absorbing much of the losses in bad times".

NL: high but unstable growth with high leverage ratio

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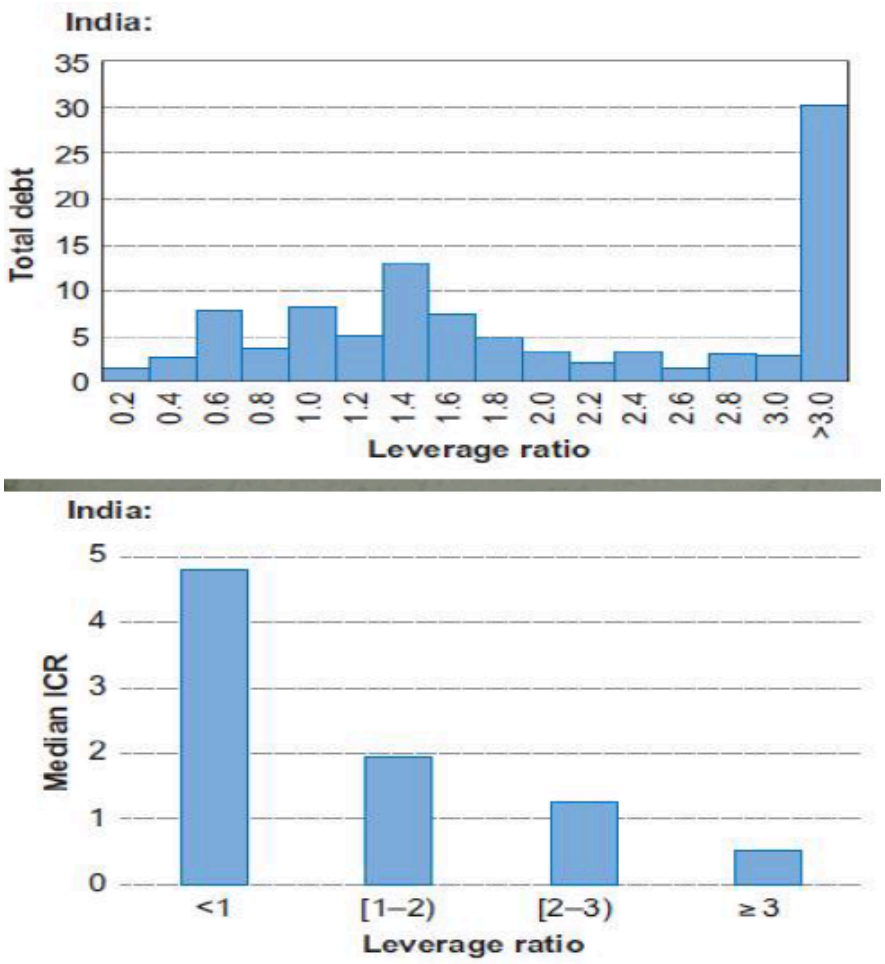
- Having tied its hand by FRBM, the State can do precious little of moving the economy away from A except attempting an expansionary monetary policy. And even that might be limited given the central bank's ill formulated inflation targetting.

Section 3

Highly Leveraged Corporate Sector and PSB's exposure

Interest Coverage Ratios for the Indian Corporate Sector



Source: IMF Corporate Vulnerability Report, April 2014

Gross NPA ratios for Banks