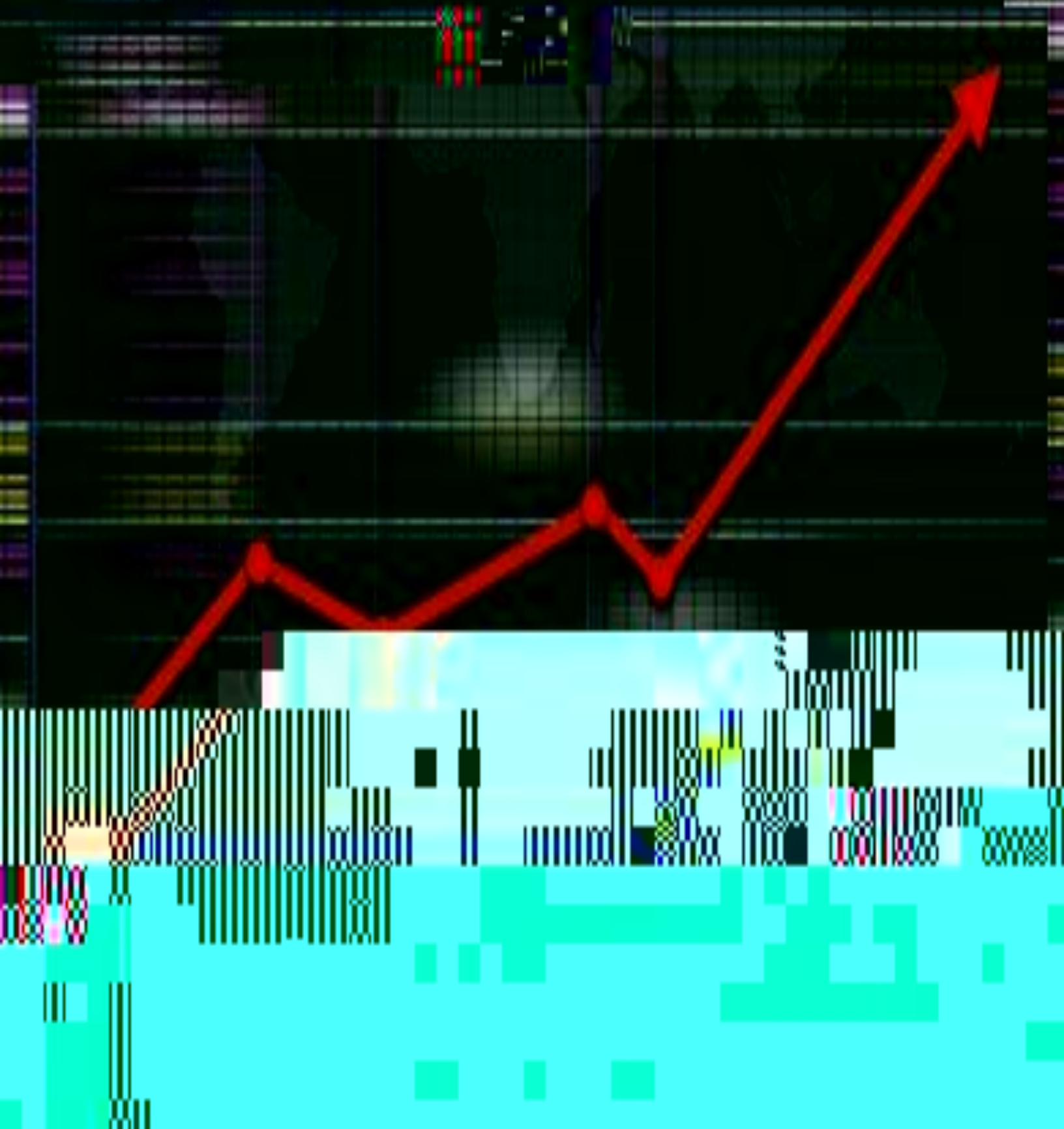


A Newsletter of Finance Lab

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Editorial



Corruption in corporate sectors and high public offices is a menace that negates the growth story of India. Lots of government Initiatives in India today is mired in controversy and allegation of corruption. Many laudable social projects launched by the government are alleged to have resulted in massive financial corruption. Experts believe that inefficient bureaucracy and rent seeking behavior of the government are the two root causes of corruption in India. Media is at times complimented for doing a commendable job in unearthing stories on corruption and making

livelihood of a large section of the population. However, the stories on corruption prove that the economic fruits of reforms have been enjoyed more than proportionately by a section of the population. Skeptics believe that common people have become stoic and do not react any more on such news. People may have resigned to the fact that corruption is inevitable. What about the stock market? Has the market reacted in similar ways? If one looks at the cases where market reaction was neutral on release of news on corruption (Table 4), one may tend to agree that stock market reflects the sentiment of the people.

Table 4: Cases of Neutral reaction of the market

Last Five Years	Number of news	Neutral Market reaction	Percentage
Market hours	286	73	26



Prof. Partha Ray

Partha Ray, Ph.D., is Professor, Economics, Indian Institute of Management Calcutta (IIM-C). Prior to joining IIM-C, Prof. Ray, a career central banker, was the adviser to Executive Director, International Monetary Fund, Washington D.C. during 2007-2011.

Scorecasting is a book that deals with the hidden influences behind how sports are played and games are won.⁴ Written jointly by a Chicago Finance Professor, Tobias Moskowitz and a renowned U.S sports journalist, Jon Wertheim and published in 2011, the book became a national bestseller in the U.S. It has delved into enormous cases of wins and losses of various games from baseball to soccer to basketball and tried to find out some statistical regularity. In doing so, they also arrived at the defective role that statistics could play in interpreting games and in a

summed up as follows:

Incentives are powerful motivators and predictors of how athletes, coaches, owners, and fans behave

Home Field Advantage

A key message from *Scorecasting* of the nature of the game the home team has a disproportionately larger chance of winning in home turf. Interestingly, the systemic study of many types of games by Moskowitz and Wertheim establishes the fact





Dr. Golaka C. Nath

Dr. Golaka C Nath is a Senior Vice President at the Clearing Corporation of India Ltd. (CCIL). He has over 21 years of experience in the banking and financial sector, having previously worked with the National Stock Exchange of India Ltd. and Vijaya Bank. In the past, he has worked on a World Bank Project on “Developing Bond Market in South Asia”. He has also provided secretarial service to the High Powered Committee on “Corporate Bonds and Securitization” appointed by the Ministry of Finance, Government of India.

The Financial Sector Legislative Reforms Com7iy2(i)-4s(i)-2(i)-(ioo)13()-2((r)-FS(m)LR(m)3(C))or ro5t is sii f-n-39(tin)



business environment rather than continuing with the current varying policies of depending on sectors and unnecessary complexity. It may be reasonable to have investment limits to vary by industry sector and conditions have been attached to individual licenses for reasons which many find inconsistent. arrangements would provide unified treatment of financial firms for prudential reasons. recommendations would create specialized administrative courts to review violations of financial regulations which is a very important step and provide a leg up to the financial markets.

The Committee tries to downsize the central bank and this may not be a good idea in the long run. The government. This may bring serious problems given the coalition structure of the Governments in recent years.

