

## **Table of Contents**

<b>Abbreviation</b>	<b>x</b>
<b>Acknowledgments</b>	<b>xii</b>
<b>Chapter 1: Background, Issues, and Objectives</b>	<b>1</b>
1.1 Introduction	1
1.2 Theoretical debate: role of capital inflows	6
1.3. Perceived benefits of capital flows	9
1.3.1 Capital control measure and its implications for India	12
1.4 Capital Inflows into India	16
1.4.1 Trends in FDI and FPI flows to India	18
1.5 Rationale for capital flows through available studies	20
1.6 Effects of Capital Flows on monetary aggregates and policy	20
1.6.1 Capital Flows and Exchange Rate	21
1.6.2 Capital Flows and Reserve Accumulation	22
1.6.3 Capital Flows and money supply	23
1.7 Foreign capital inflow and growth rate	23
1.8 Objectives of the study	24
1.9 Nature and sources of data	26
1.10 Limitations of the study	32
1.11 Organization of thesis	33
<b>Chapter-2: A study of significant macroeconomic variables of the Indian economy</b>	<b>35</b>
2.1 Introduction	35
2.2 Analytical perspective	36
2.2.1 Correlation and Cross-correlation analysis	40
2.3 Output and Prices indicators	41
2.3.1 Gross Domestic Product (GDP)	41
2.3.1.1 Performance of India's GDP in the last two decades	42
2.3.2 Inflation	48
2.3.2.1 Inflation indices used for analysis	49
2.3.3.2 Inflation measured through quarterly WPI series	50

2.4 Money and Banking sector Indicators	52
2.4.1 Call Money Rate	52
2.4.1.1 Analysis of call money rate for India	53
2.4.2 Money Supply (M3)	55
2.4.2.1 Economic theory of money supply	57
2.4.2.2 Money Supply in India	59
2.5 External Sector Indicators	61
2.5.1 Foreign Exchange Reserve	61
2.5.2 Trend of Foreign exchange reserves in India	64
2.6 Exchange rate	66
2.6.1 Exchange rate policy in India	66
2.6.2 Exchange rate trends over the last two decades	68
2.6.3 Determinants of exchange rate	70
2.7 Exports, Imports and Balance of payments	71
2.7.1 Export	73
2.7.2 Import	77
2.8 Foreign Investment (FDI and FII)	79
2.9 Correlation and Cross-correlation analysis	83
<b>Chapter 3: Investigating causality between foreign inflows and macroeconomic indicators for the Indian economy</b>	<b>85</b>
3.1 Introduction	85
3.2 Test for seasonal unit roots in the data series	88
3.3 The causality test methodology	90
3.4 Empirical findings	91
3.4.1 Causality between foreign inflows and whole price index	95
3.4.2 Causality between foreign inflows and money supply	96
3.4.3 Causality between foreign inflows and import	97
3.4.4. Causality between foreign inflows and GDP	98
3.4.5. Causality between foreign inflows and foreign exchange reserves	99
3.4.6 Causality between foreign inflows and exchange rate	100
3.4.7 Causality between foreign inflows and export	101

3.4.8 Causality between foreign inflows and interest rate	102
3.5 Conclusion	103
<b>Chapter 4: Capital Flows and their Macroeconomic implications</b>	<b>104</b>
4.1 Introduction	104
4.2 Methodology of the study	105
4.2.1 Unit root analysis	108
4.2.1.1 ADF test	110
4.2.1.2 KPSS test	112
4.2.1.3 Phillips and Perron (PP) test	112
4.2.2 Johansen cointegration test	112
4.2.3 Vector Error Correction Model (VECM)	114
4.3. Results	116
4.3.1 Augmented Dickey-Fuller (ADF) test	117
4.3.2 KPSS test	118
4.3.3 Phillip Perron test	119
4.3.4 Cointegration test result	120
4.3.5 VECM model result	123
4.4 Conclusion	125
<b>Chapter 5: Summary and Conclusions</b>	<b>127</b>
5.1 Introduction	127
5.1.1 Implication of liberalization	129
5.2 Major findings	130
5.2.1 India's macroeconomic indicators over the last two decades	130
5.2.2 Causality between capital flows and major macroeconomic indicators	131
5.2.3 Macroeconomic implications of capital inflows for India	132
5.3 Policy recommendations: monetary policy for an open economy	135
<b>Bibliography</b>	<b>140</b>