OKONOMOS *The Business and Economics Forum*

The Forum of Aspiring Business Leaders

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"In the Long run we are all dead" —John Maynard Keynes

Kya aapke Desh Mein Koyla Hai hhhhhhai?

"Kya aapke Desh Mein Koyla hai?"

Hai!!! Azmaye " Aam Admi" Bharat .

-Coalgate

Well this was intended as a dark humour.. Now we have moved on to laughing about such great scams that the UPA has brought in the few years of their reign. Are you already bored that I'll be speaking about another scam, yet another one!! Well , yes I will , and believe me I'm bored too, more than that ashamed at what a joke we have become to the world. We surpass the benchmarks everytime. Keep setting higher visions of looting our country to the hilt.. and move beyond.. till we drain Mother India out of its wealth. I understand the apprehensions as to why am I becoming so emotional about the recent shocking news of the "Coalgate" Scam 2012. To clear the air, most of us won't bother too much, but this is for those who care, for those few who vote responsibly. Here are some facts to set a backdrop to the scam:

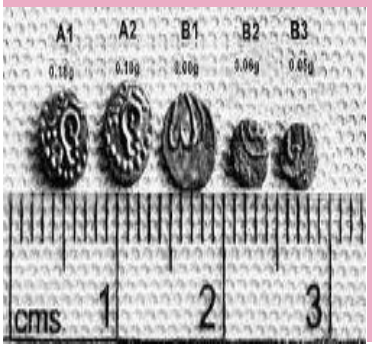
In 1973, the Indira Gandhi government nationalized coking and non-coking coal mines in the country. In 1976, government introduced two exceptions to this policy; Captive mining by private companies engaged in production of iron and steel and Sub-lease of coal mining to private parties in isolated pockets not amenable to economic development and not requiring rail transport.

On June 6, 1993, India opened coal sector to boost its power generation. Subsequently, in 1996, coal mining was allowed for cement producers.

According to a report published in *Times Of India*, 155 coal blocks were allocated to about 100 public and private companies, including some electricity boards such as NTPC Limited, Jindal Steel and Power, Bhushan Power & Steel Ltd, Jayaswal Neco, Aditya Birla Group, Essar Group, Adani Group, Arcelor Mittal, India and Lanco Group. The CAG report on

coal block allocations states that nearly 150 coalfields were allotted to private and state-run firms without transparency and objectivity between 2005 and 2009. The Prime Minister, had then held direct charge of the coal ministry, responsible for what has been estimated as a notional loss of Rs 1.86 lakh crores by the CAG in coal block allocations. (continued on page 2)

Interesting Facts



- **More money is spent on arms in the world than on education, health, or any other form of development.**
- **Half the population of the world earns only 5% of the world's total wealth.**
- **Over the last 40 Years Food Production increased faster than population.**
- **The world's smallest coin weighed only .002 grams and was from Nepal.**

Power Sector and India

– Sugandh Jindal

The Indian Power Industry is one of the largest and most important industries in India as it fulfills the energy requirements of various other industries. It is one of the most critical components of infrastructure as well. The country's growth rate is directly affected by the availability of power in the country. Nearly 60 crore Indians do not have access to electricity. The present power deficit is 12% leading to huge debt with state electricity board. The condition might worsen in the coming years considering the huge demand of power from India's rising population and rapid industrialization and urbanization. Hence, we can see importance of this sector. At present India is a power-deficient country. The demand for power is huge which has created a supply demand gap. The demand for power in India is expected to double by 2030 and that "the challenge of the availability of domestic coal and expensive LNG (liquefied natural gas) imports only add to the cost of power generation. In India, Around 83% of thermal power is generated using coal as a raw material. These coal mines are nationalized and the right to their use is granted through administrative fiat. Allocation is done by inviting applications through open advertisements. These applications are then assessed on various parameters such as the techno economic feasibility and status of preparedness to set up the end use project. Unfortunately this decision-making is prone to corruption, rent-seeking, and inefficiency. (Also read *kya aapke desh mein koyla hai*). There is also lack of transmission infrastructure. Transmission capacity in India lags behind the generation capacity. Huge investments are required in Transmission and Distribution if India's power sector is to meet the rising power demand. As far as Indian power sector is concerned, there is a huge opportunities available in this sector. Thus more and more FDI inflow in the Power Sector should be encouraged. FDI will help India in fulfilling its huge investment need. Also FDI also brings in advanced technology making the sector more efficient. Secondly as the thermal power generation segment facing the issue of shortages of coal (major raw material), other power generation sources like nuclear, hydro and renewable energy sources should be looked upon. Using renewable sources to generate electricity has several advantages like a perennial energy source, potential for lower reliance on imported fossil fuels and lower CO2 emissions. Thirdly the government needs to play an important role like investing in infrastructural improvements and in schemes like Rajeev Gandhi Rural Electrification Program. Power is a business with a terrific future. Having adequate power will ensure the growth story of India.

Kya aapke Desh Mein Koyla hai?

(From first page)

"By gifting these mines at such a lower than market price cost, without auction, has cost dear to India and its exchequer"

On 31 May 2012, Central Vigilance Commission based on a complaint of Bharatiya Janata Party Member of Parliament Prakash Javadekar directed a CBI enquiry.

In a few news reports it has been mentioned that the auditor looks set to cite total lack of transparency in the recommendations made by the screening committee for allocation of coal blocks worth thousands of crores. In its presentation to the PAC, the auditor is planning to show how the committee failed to make any comparative evaluation of the applicants, thus establishing that the allocations were influenced by extraneous considerations.

The eligibility of applicants was not examined either, sources said. A test check on companies which got mines showed there was little to distinguish these from those who failed to pass muster with the screening committee.

BJP is demanding a resignation of the PM on the basis of accountability and the UPA has also geared up and have started the aggressive war stating that they do not require to play the defensive game. BJP have been harping on the fact that the UPA Government has had one after another scam to portray its righteous governance. While the Government talks about the zero-loss theory.

Zero-loss theory: UPA proposes that out of all the mines in question not all have been operational. Therefore since the mines have not started its production , there hasn't yet been any losses. But what the Govt. fails to remember is that there is a huge opportunity cost to the Government of India. The opportunity that the Government of India could have exploited now rests in the private hands. So, even without actual mining starting, the Government of India has lost control over the mines. The right to mine now belongs to private parties. The Government has already suffered the opportunity cost and the valuations of these 142 people have sky rocketed.

By gifting these mines at such a lower than market price cost, without auction, has cost dear to India and its exchequer. Every Indian Citizen is losing out on benefits that could have been provided if the price was clearly set and executed along with the market forces and not by being corrupt and causing losses.

- Margaret Lawrence

The Libor Scandal

LIBOR- LONDON INTERBANK OFFERED RATE

"Libor" is the London Inter Bank Offered Rate, which is produced daily for the British Bankers' Association. It is the average interest rate estimated by leading banks in London that they would be charged if borrowing from other banks. Banks are asked to provide estimates of borrowing costs for 15 different maturities ranging from overnight to one year in ten different currencies, so Libor is not one interest rate, but 150. Because not all of the banks deal in all maturity-currency combinations, somewhere between 6 and 18 banks are polled. The highest and lowest estimates are thrown out and the remainder—about half–are averaged to yield Libor. Libor plays a vital role in the world financial system because it serves as a benchmark for some $800 trillion in transactions–everything ranging from complex derivatives to simple home mortgages.

Because so much money is riding on Libor, traders have an incentive to pressure their banks into altering submission estimates to improve their profitability.

LIBOR SCANDAL

In June 2012,multiple criminal settlements by Barclays bank revealed significant fraud and collusion by member banks connected to the rate submissions leading to Libor scandal.

The LIBOR scandal should remind us once again that people — namely investment bankers, traders and brokers — sometimes make bad decisions when their principal objective is to produce immediate profits.

Trillions of dollars in financial assets around the world are determined by investment bankers' perceptions of where the market is headed. LIBOR is a key measure of those perceptions, and we have every right to know if those same bankers rigged that measure at the expense of other investors. At the same time, it's puzzling to see policymakers and citizens so shocked to learn that a few bankers in London could affect government balance sheets in the United States so dramatically. The LIBOR scandal is principally about greed, but it also has helped to show just how much events we do not control — what accountants call "contingent liabilities" — are a part of public finance.

The LIBOR scandal should remind us once again that people — namely investment bankers, traders and brokers — sometimes make bad decisions when their principal objective is to produce immediate profits…
….The problem with Libor as currently constructed is that the incentive for banks to cheat is enormous. The same can be said for virtually any aspect of finance that involves bankers monitoring their own behaviour.

HOW DOES IT MATTER TO US?

If the interest rate we pay on our mortgage, home equity loan, or credit card balance is tied to Libor and it may well be then we should be concerned that the rate is set fairly. I think that we are likely to see a great deal of litigation in the coming months and years as firms and individuals argue that the interest rates they have been paying were fraudulently set. More generally, when market participants lose confidence in something as basic as the interest rate, the market will cease to function.

REGULATIONS IN PLACE?

There are no specific government regulations governing Libor or Libor submissions. The British Bankers' Association is not an official government agency and merely gathers and publishes the data. And, of course, since Libor is supposed to represent banks' best estimate, in the absence of incriminating e-mails as surfaced in the case of Barclays—it is difficult to prove fraud.

Nonetheless, the scandal suggests that the regulators have not been paying much attention. A number of traders interviewed since the scandal broke said that they had long been suspicious of how Libor was set. Writing in the Financial Times recently, former J.P Morgan trader Douglas Keenan wrote that in 1991 he complained to the London International Financial Futures and Options Exchange alleging fraud in the construction of Libor. Colleagues at J.P. Morgan found his complaints naïve to the point of being humorous and the exchange ignored them.

Barclays has so far been fined about $450 million by US and UK authorities, but, of course, those penalties were imposed after the fact.

FUTURE STEPS

The problem with Libor as currently constructed is that the incentive for banks to cheat is enormous. The same can be said for virtually any aspect of finance that involves bankers monitoring their own behaviour.

In theory, the government could require that banks report each and every transaction to regulators, who could then publish an average cost of funds index. This would be both cumbersome and unlikely to generate the new benchmark in a timely manner. Further, this method would be vulnerable to the same type of cheating that has plagued Libor.

Instead of asking bankers for their best–or worst–estimates, the world's leading benchmark interest rate ought to be based on a market-determined figure. A market-determined figure will better reflect the availability and price of funds than the estimates of a dozen or so people who may have a financial interest in fiddling with the outcome to help their bottom line.

- Mansi Singhal

Institute of Management Technology

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NEWS HEADLINES

Raghuram Rajan takes over as new chief economic advisor.

Rural spending has finally outpaced urban consumption, for the first time in
nearly 25 years-CRISIL.

First quarter GDP growth at decade low of 5.5 % .

Raghuram Rajan

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You can also write your own blogs related to economics and business...

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Now you can also be a part of Team– Okonomos

We are inviting articles for the next issue of Okonomist. So if you think you have it in you, write and send us your articles before 25th of September at *okonomos.imtn@gmail.com.* Do not forget to send your photograph along with it, we've got a place for it.

QUIZ TIME-

- **At what time is the libor rate printed daily?**
- **Who is the new minister of power?**
- **Which 3 states were held responsible for excess power overdraw?**
- **What is the current response of the PM to the Coal scandal?**
- **How much of the power generation is done through coal?**

Do you find any Economics concept difficult to understand?

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