

MARCH 2019 VOL. 6

# ECOLLECTUAL

- ECONOMICS DEPARTMENT, LSR -

EXPLORE

# GROWTH

**GHOST CITIES, JOBS, FINANCE &  
STOCKS**

The various dimensions of  
economic growth.

# Planet Finance

- RASHI ANAND



Niall Campbell Ferguson, a British historian, in his famous book, *The Ascent of Money: A Financial History of the World*, talks about an imaginary planet, named 'Finance'.

"Planet Finance" is as he says, "where everyone is ten CDOs tall, and the transactions outnumber the people."

Ferguson underlines the emergence of this planet finance by quoting data on the percentage increase in the world's stock market, economic output and bonds.

In 2006, the measured economic output of the entire world was worth around \$48.6 trillion. The total market capitalization of the world's stock markets was \$50.6 trillion, 4% larger. The total value of domestic and international bonds was \$67.9 trillion, 40% larger.

## derivatives

a financial security with a value that is reliant upon, or derived from, an underlying asset or group of assets

## collateralized debt obligations (CDOs)

a structured financial product that pools together cash flow-generating assets and repackages this asset pool into discrete tranches that can be sold to investors

***“Planet Finance is beginning to dwarf Planet Earth. And Planet Finance seems to spin faster too.”***

As is obvious, it turns out that this planet finance seems to grow at a rapid pace than the planet earth, and therefore shadowing the latter.

"Planet Finance seemed to spin faster, too. Every day \$3.1 trillion changed hands on foreign-exchange markets. Every month \$5.8 trillion changed hands on global stock markets.

And all the time new financial life-forms were evolving. The total annual issuance of mortgage-backed securities, including fancy new *collateralized debt obligations* (CDOs), rose to more than \$1 trillion.

The volume of *derivatives*—contracts such as options and swaps—grew even faster, so that by the end of 2006 their notional value was just over \$400 trillion.

Before the 1980s, such things were virtually unknown. In the space of a few years their populations exploded.

On Planet Finance, the securities outnumbered the people; the transactions outnumbered the relationships."

Ferguson further traces the gradual formation the shadow banking system, with regard to an unprecedented increase in the number of financial institutions, hedge funds and investment.

Thus, this "self-destruction" of Planet Finance inexorably led to the infamous Financial Crisis of 2008.



# A Tale of Two Cities

- DISHA RAWAL

A photo essay on two dream cities, one from the east and one from the west.  
The shared desolation of Ordos, China and Detroit, USA



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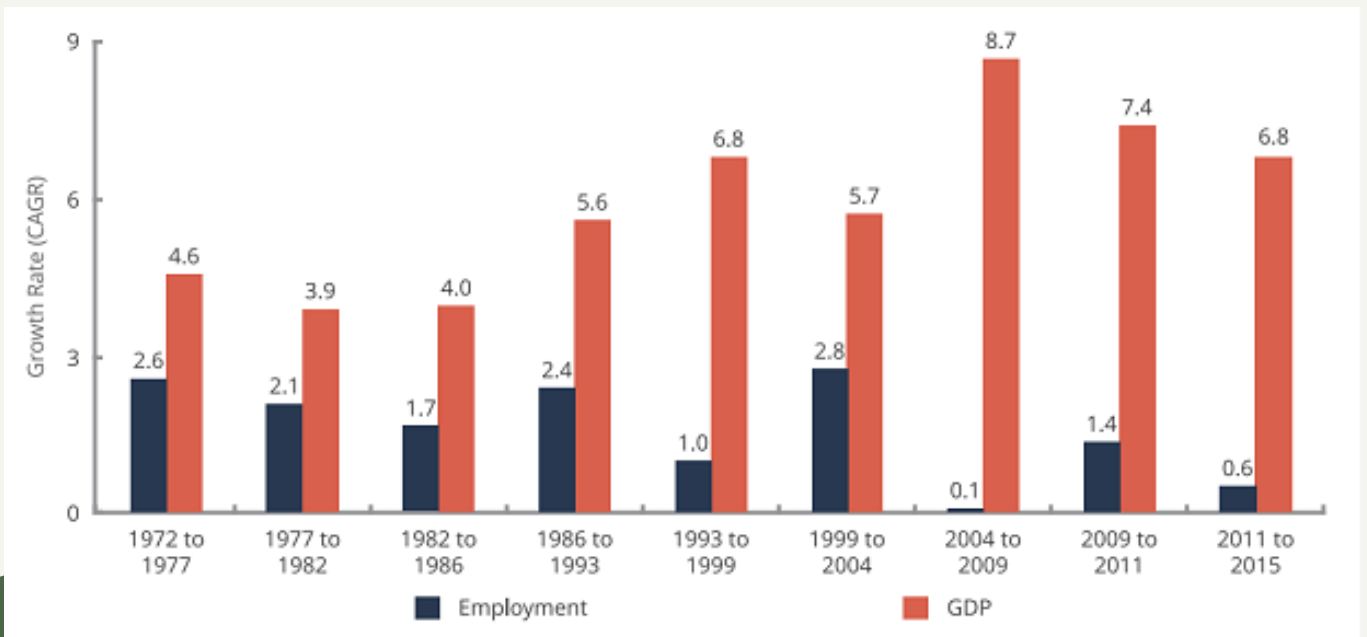
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# A Paradoxical Paradigm Of Growth

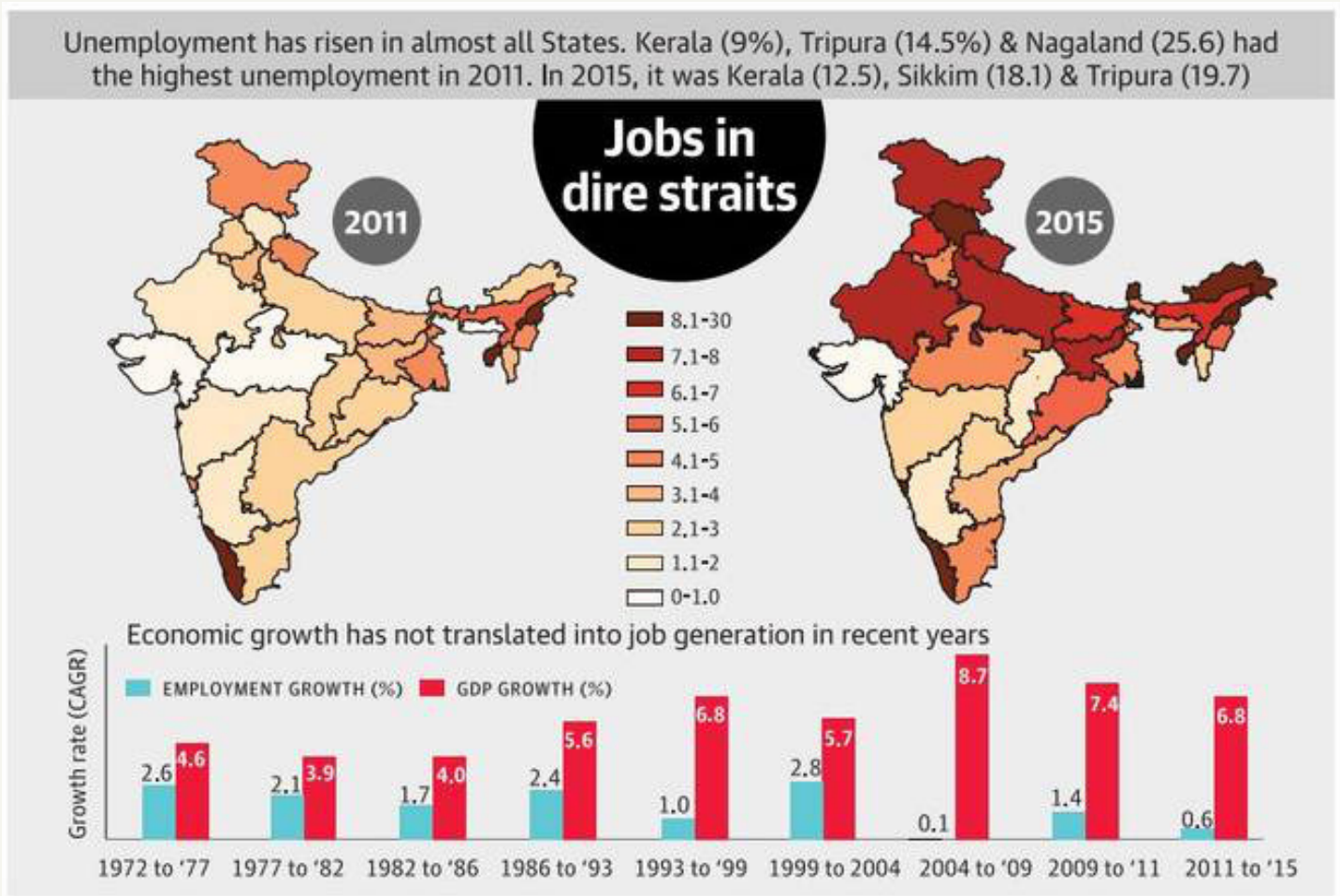
- TEJASVI DESHPANDE

On the grounds of our knowledge and research as future Economists, we have learned that economic growth is manifested in the level of increase in the GDP level which is a result of increased employment rates. The present political and economic powerplay in the Indian context is paradoxical to our understanding of economic growth rates persisting in India. The persisting paradox elucidates the inverse relationship between the economic

growth rate and the employment rate. With reference to a report based by Bangalore based Azim Premji University’s Centre for Sustainable Employment, the ratio of GDP growth rate to employment rates is less than 0.1%, that is a 10% increase in GDP cooccurs with a 1% increase in the rate of employments. Recorded data serves as a testimony to the fact that growth creates fewer jobs in India than it used to.



*A recent study published in ‘The Hindu’ explains this rising divergence between jobs and growth in India through a state wise analysis of unemployment rates in the nation. The graph contains the unemployment rates in Indian states in the years of 2011 and 2015.*



The major factors of this prevalent trend of jobless growth are represented by G-DAC – globalization, digitization, automation and consolidation. In layman’s language, jobs have shrunk due to structural changes like change in the nature of trade regimes and technological advancements from labor intensive to capital intensive. Information and Communication Technology (ICT) has played a vital role in shifting the societal status from an employment intensive one to a non- employment intensive one. These structural changes appear in the form of opportunities for some and complex choices for others.

The facet of our population possessing the skill set imperative for operations adapt to the changes in the society and are absorbed in this process of structural change while the rest – ones devoid of skill set necessary for functioning – are displaced.


In accordance with the problem of jobless growth, **the Indian economic crisis stems from the abysmally low quantity and quality of jobs.** Firstly, the number of jobs being created are insufficient vis a vis the number of people seeking employment.



Secondly, the kind of jobs that are created provide meager wages which are far below the per capita level of the country. Wages of a few jobs are low as the supply of the service outstrips its demand. For instance, the income earned by pakora sellers is low due to the high number of pakora sellers.

In order to rectify the crisis that plagues India, a series of reforms is required on part of the Centre, State and District authorities. Higher wages can be achieved through formalization of the economy. Greater number of jobs can be created by encouraging entrepreneurial activities and expansion of Micro Units Development and Refinance Agency Bank to inaccessible areas. Finally, developing a National Employment Policy (NEP) is critically significant for our nation to create a robust employment growth.

“ *In layman’s language, jobs have shrunk due to structural changes like change in the nature of trade regimes...* ”



*Growth creates fewer jobs in India than it used to.*

# Up to the Job?

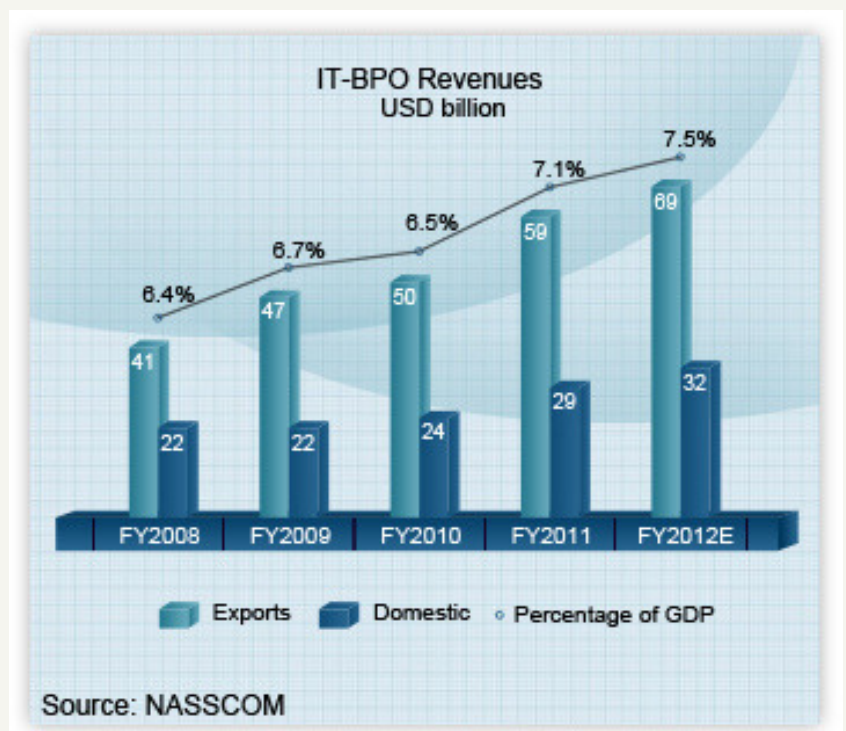
- MAITREYEE GUHA

It has been predicted by the World Economic Forum that the world shall soon face a crisis of skill. As technologies in the industrial and service sectors become more and more advanced, the demand for specialised and well-trained labour will rise astronomically. However, it seems unlikely that the present level of human resource development will be good enough to meet this demand.



© erhui1979, GettyImages

In India, the most significant example of this is the growth of the IT and Business Process Outsourcing (BPO) sectors. According to NASSCOM, the IT sector's contributions to the Gross Domestic Product of India have grown from 1.2% in 1998 to 7.5% in 2012. No wonder, therefore, that India's engineering and management institutes are bursting.





There is, however, a problem with their training. Not only is updated technical knowledge required, which many curricula do not offer, but other skills such as creativity and ethical judgement have become critical. This is notwithstanding the fact that a large portion of India's population has fragmented access to education in the first place.

## Solving the Skills Crisis

It is clear that the need of the hour is efficient, modern education, both at the school and university level, and committed vocational training programmes. But these will require enormous amounts of money, manpower and administrative capacity, the source of which can only be the government. This is also on the condition that the policies drafted can be implemented well. Other solutions in this regard have come from the private sector. Closing the Skills Gap 2020 was a project launched by the World Economic Forum in 2018, in collaboration with Tata Consultancy Services and a task force created by the Government of India.

***“ The youth of India must no longer ask if the work we get is good enough for us. We have to ask if we're good enough for the work.***

Under the project, businesses commit to upskilling their workforce internally. Vocational training with adult-oriented methods is the priority. So far, more than 6 million employees have received training across the world, under 33 committed organisations. It is hoped that once employers themselves chip in, it would set the precedent for the government and civil society to work more intensively towards bridging the skills gap through policy decisions and non-governmental organisations respectively.

However, one thing is for sure— the youth of India must no longer ask if the work we get is good enough for us. We have to ask if we're good enough for the work.

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# Gambler's Fallacies – and Instances when even the Stock Market played Itself

- AVANTIKA BUNGA

Casino economy refers to an economic environment which encourages large risks, in the quest for large profits. It involves making money- by chasing money. In this quest, there have been times when even stock market veterans were caught unawares.



## The Hathaway Effect

When Anne Hathaway makes headlines, the stock for Warren Buffett’s Berkshire-Hathaway goes up. How does that happen? Turns out, the automated, robotic traders aren’t able to differentiate between the two. and the algorithms assume all chatter on the internet about “Hathaway”, is about them, and they’re applying it to the stock market. (Of course, this isn’t necessarily bad news for the investor, Anne Hathaway still creates waves)

## Kylie Jenner – Budding Stock Market Influencer



A screenshot of a tweet from Kylie Jenner (@KylieJenner) dated February 21, 2018, at 1:50 PM. The tweet text reads: "sooo does anyone else not open Snapchat anymore? Or is it just me... ugh this is so sad." The tweet has 70,625 retweets and 362,602 likes. Below the text are several circular profile pictures of users who interacted with the tweet. The tweet is displayed on a white background with a blue border on the left side.

Source: Twitter

This single tweet resulted in this:



Source: Google Stocks

Kylie Jenner managed to cost Snapchat 1.3 billion in valuation losses! (Although, it still managed to salvage the mess, and ended the month on good enough numbers.)



## Fat Finger Error

Mizuho Securities Co. in December 2005 mistakenly offered to sell 610,000 shares of employment agency J-Com Co. for 1 yen each, instead of one share for 610,000 yen, something the firm blamed on a typing error. Problems with the Tokyo Stock Exchange's computer system prevented the brokerage from canceling the sell order. They lost 40.5 Billion due to this mistake!

They are not alone however, as it has happened to others too. A junior Deutsche Bank employee mistakenly sent \$6 billion to a hedge fund in 2015 after incorrectly entering the "gross figure" instead of net value. Deutsche Bank retrieved the funds the following day. (So they were luckier than Mizuho at least.)



## Pokémon Go!

Nintendo shares had skyrocketed since Pokémon Go's release (by over 200%), but they fell dramatically after investors realized that Nintendo doesn't actually make the game. Niantic did. Nintendo put out a statement pointing out that the impact of the successful stock activity will be "limited" as it only owns 32 percent of The Pokémon Company. That is when investors realized their misguided belief that Pokémon is wholly a Nintendo creation and that the company would benefit accordingly.

After their statement on 20th July 2018, the bubble burst. (*seen below*)



Source: Yahoo Finance

*So readers, sometimes even the most seasoned investors can make mistakes (or your algorithms can). This by no means is a complete list, there are more interesting stock market phenomena out there. This is the reality- sometimes even the best-laid plans can go awry. All part of the casino economy- there are winners, and losers.*

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