BOOK REVIEW

Essays for Anjan Mukherji:
Dimensions of Economic Theory and Policy

Editors: K. Ghosh Dastidar, H. Mukhopadhyay, U. B. Sinha


Reviewed by

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Professor Anjan Mukherji taught economics at Centre for Economic Studies and Planning, Jawaharlal Nehru University, New Delhi for nearly four decades. He had been a legendary teacher and active researcher; inspired generations of students in further study and research of quantitative economics. The volume is a befitting tribute to him by three of his PhD students, who have coordinated with some of his well-known students, colleagues and friends, to collate twenty very high quality essays in different areas of economics, which were of special interest to Professor Mukherji himself. The book has been divided in three thematic parts. Part 1 contains essays on general equilibrium, macroeconomics and economic dynamics. Part 2 includes contributions in games and information. The essays on socio-economic problems of India have been included in Part 3 of the volume. The editors in a well-written introduction introduce the readers to the connection of Professor Mukherji’s work with each of the three themes dealt with in this volume.

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The volume starts with a forwarding note by Professor Lionel McKenzie, who had been the PhD supervisor of Professor Mukherji at Rochester University, USA. He acknowledges him as one of his best PhD students and outlines Professor Mukherji’s fundamental contribution in the global stability analysis of competitive equilibrium. A number of essays in Part 1 of the volume respectively by Subir K. Chakrabarti, Mukul Majumdar and Nigar Hashimzade, Swapan Dasgupta and Tapan Mitra, Kazumichi Iwasa and Kazuo Nishimura builds around this theme to explore the existence of the market equilibrium in different situations and to study the dynamics that lead to such equilibriums. The other essays in this part deal with various aspects of macro and endogenous growth models. In endogenous growth, the essay by Makoto Yano, Kenji Sato and Yuichi Furukawa studies chaotic dynamics and extends an earlier work by Anjan Mukherji and Tapan Mitra. While Dipankar Dasgupta in a very simple exposition presents a unified framework for studying the implication of ‘learning by doing’, Mausumi Das and Subrata Guha examine the impact of the quality of teachers on growth. Das and Guha also draw some important policy implications out of their study in terms of education policy and taxation policy of the government. The rest of the two essays in this Part are centered on pure Macroeconomics theme. The essay by Amitava Bose clarifies the importance ‘wealth effects’ in macroeconomics, which he explains as an analogue to the ‘income effect’ in static models in a dynamic set up. He discusses the role the ‘wealth effect’ plays in some well known debates in macroeconomics like the ‘Pigou Effect’ and ‘Patinkin Real Balance Effect’. In the last essay of this Part, Soumya Dutta analyses the effectiveness of Taylor – type monetary policy rule that targets only the degree of capacity utilization in an economy.

Part II of the book contains essays on Games and Information. The first three essays deal with informational asymmetry and incentive problems. In the first essay, Abhijit V. Banerjee and Sendhil Mullainathan theoretically argues that the efficiency wages given in the form of comfort goods like flats in company township and access to the cheap stores run by the company has greater impact on the employees’ productivity compared to the alternative mechanisms through which efficiency wages is given. This argument also explains why in many situations the companies prefer factory production to outsourcing. Illiquidity in the asset market is thought of one of the prime reasons behind a financial crisis. Sandeep Kapur in his essay explains the role uncertainty plays in explaining the illiquidity. He shows with examples that under certain conditions how finer resolution of uncertainty creates a preference for more liquid positions. In the last essay of this series Tridib Sharma and Richard Torres argue that even the existence of an owner of a team in the form of residual claimant may not solve the problem of coordination within a team through contracting. The authors show how the communication can achieve the coordination and can enhance the welfare of the firm, which cannot be achieved through contracts. The rest of the essays of this part are a mix of Law and Economics, Industrial Organization and Experimental Economics. The essay by Satish Jain and Rajendra Kundu...
investigates if distributive considerations can be brought in without affecting the efficiency of the negligence rule. They discover existence of certain distributive factors that have no effect on the efficient care levels chosen by the parties and therefore can be apportioned appropriately for ensuring distributive justice. There are two essays dealing with Industrial Organization. The first one is by Aditya Bhattacharjea. It discusses through a theoretical model the incentives of the members of a cartel to divide a national market in territories and shows how the model can explain some real life examples spanning over a century. The second essay is a joint work by two of the editors of the book, Krishnendu Ghosh Dastidar and Uday Bhanu Sinha. They present a theoretical model on mixed duopoly, a market where a private sector firm interacts with a public sector firm. They characterize the set of pure strategy Bertrand equilibrium with convex cost. They report that the set of equilibrium prices is identical to the case of a pure duopoly market set up, where both the firms are private. However the equilibrium set of prices expands in a market where two public sector firms play the price game with each other. The last essay of this part is an essay based on an experiment conducted over a ‘voluntary contribution to public goods’ game. Ananish Chaudhuri and Tirtha Paichayontvijit compare the outcome of the following three different treatments: (1) after each round of play the players receive a ‘cheap talk’ message exhorting him to contribute the entire token amount; (2) after each round the players can execute a costly punishment on his peers for contributing less; (3) no recommendation and no punishment. In treatment (3) according to theoretical prediction the players are expected to contribute less at the Nash equilibrium compared to the Pareto-optimum amounts. Interestingly Chaudhuri and Paichayontvijit observe that over the rounds of play, the Nash outcome of treatment (1) diverges away from the Pareto-optimum. However, the Nash outcome of treatment (2) converges to the Pareto optimum.

Part III of the book contains three essays on Socio-economic problems of India. First one by Ashish Arora and Surendrakumar Bagde empirically explores the role of human capital in the regional location of software industry in India. Most significantly they find that the states which allowed private engineering colleges to enter early enjoyed a head-start in the software industry and also, the size of the hardware industry in a state drives the export of software from the state. The second essay by Bruno Carrasco and Hiranya Mukhopadhyay explains the policy rate cuts in India following 2008 financial crisis did not lead to a rapid lowering of the banks’ lending rate because the history of tight monetary policy in the earlier regime played a major role in determining banks’ behavior. The last essay of the volume by Indraneel Dasgupta, Pushkar Maitra and Diganta Mukherjee looks into Indian marriage institution to find an explanation for the low observed rate of female education in India. They argue that since the parental control over the choice of wives explains why uneducated brides are demanded and the parents do not invest on daughters’ education, a way out of this ‘low level’ equilibrium is a change in the social norms. They suggest some policies which can help the change in the social norms.
The greatest credit of the present volume is to bring around so many well known scholars writing authoritatively on their own areas. Each of the essays is important in their contributions and must be useful either to the researchers, teachers and students interested in the respective areas of economics. However it appears that it is difficult for any one scholar to appreciate all the essays presented in the volume. But I do not really blame the editors for this problem. They have sincerely followed the trail of areas of interest of Professor Mukherji himself, and it is so diverse that they could not help the volume to be theme-specific. This, on the other hand, again shows the genius of a multifaceted talent like Professor Mukherji.