TITLE: DIVERGENCE BETWEEN EQUILIBRIUM AND ACTUAL PRICES OF ELECTRICITY IN INDIAN ECONOMY

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ABSTRACT:

Electricity is the lifeline of modern economies. It constitutes a part of basic infrastructure. Electricity is in fact, an ubiquitous intermediate input of all production sectors. Modern living, from necessity to luxuries depends greatly upon electricity. It promotes growth both via accelerator and multiplier. It is this vital role of electricity in production, consumption and in quality of life that electricity is considered to be an index of the stage development of a country. Higher the demand for electricity, greater is development stage; and higher is quality of life. Electricity is one of the most important source of energy and energy security. Energy pricing falls in the category of fix prices. All fix prices are cost determined and they change in response to long run permanent change in cost. But electricity price is fixed by executive fiats and remains more inflexible than other fixed prices. In many cases government subsidizes. The paper seeks to determint this aspect of electricity prices in India. Input output model is as follows:- $P = V(I - A)^{-1}$ $P = (W L + rK) (I-A)^{-1}$ Where P = Equilibrium price vector; $(I-A)^{-1}$ = Leontief-Inverse; W = Uniform wage rate; I = Vector of labour coefficients; K = Vector of capital stock; and R = Uniform interest rate. All the variables are measured per unit of final demand. Divergence between actual and equilibrium prices is given by $D=P - P'$ Where p' is the vector of actual prices. The model shall be empirically worked out to input output tables of 93-94, 98-99, 2003-2004.