

Effect of information technology on business efficiency

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Modern economic development cannot be explained satisfactorily in terms of labour and capital alone. The modern economists emphasize the catalytic role that technological changes play in the growth of an economy. The technological changes bring about an increase in per capita income, either by reducing the amount of inputs per unit of output or by yielding more output for a given amount of input. Technological changes in an economy therefore refer to changes in the input-output relations of production activities. Consequently as an economy moves from lower to higher stages of development, there occurs a shift from simpler to more modern and complicated techniques of production. In the last decade, almost all the sectors have gone in for a massive investment in information technology. Worldwide the contribution of information technology to the efficiency of a system is being questioned. At the theoretical and empirical plane, it has been debated under the well known issue, the "Baumol Paradox". In developed countries many studies have been done but still the paradox is unsettled. In this context, the objective of the paper is to analyze the relation of information technology and business efficiency in banking sector of India.

The paper develops the hypothesis on the basis of a detailed review of theory and empirics on the issue. The paper uses the panel data drawn from Reserve Bank of India database and for analysis it uses different statistical and econometric techniques. The broad conclusion of the paper is that effect of information technology on business efficiency is not evenly distributed among all the banks; there are wide spatial and temporal variations.

Key words: Efficiency, Information Technology, Baumol Paradox, productivity paradox

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