

An Empirical Study of the effect of Macro- Economic Factors on the Stock Market : An Indian Perspective

SUCHISMITA SENGUPTA*

ALOY DUTTA**

AVIJAN DUTTA***

Abstract

The volatility and movement in stock markets reflect the direction of any economy. This study is an endeavor to evaluate the effect of macroeconomic determinants on the performance of the Indian Stock Market Index Nifty using monthly data over the period April 2006 to March 2016 (10 financial years) with twenty macroeconomic variables, namely, Bank Rate, Cash Reserve Ratio (CRR), Statutory Liquidity Ratio (SLR), Repo Rate, Call Money Rate, 91- Day Treasury Bill, Consumer Price Index (CPI), Wholesale Price Index (WPI), Foreign Institutional Investment (FII), Exchange Rate(USD-INR, EUR-INR, GBP-INR, JPY-INR), Gross Domestic Product at Market Price, Index of stock market as dependent variable. Initially, regression analysis has been performed taking CNX Nifty as dependent variable. Then, factor analysis has been applied and interestingly the behavior of the dependent variable i.e Nifty can be explained in a better way with the help of factors derived in this process.

I. Introduction

THE MACROECONOMIC VARIABLES, both real and financial, do have considerable influence, positive as well as negative, on the potential of the corporate sector of the economy. Consequently, the stock markets of the economy got affected by such influence. The movement of stock prices, apart from the firms' fundamentals, also depends upon the level of development accomplished in the economy and its integration towards the world economy. Numerous domestic factors as well as international factors directly or indirectly affect the performance of the stock market. The relationship between macroeconomic variables and a developed stock market is well

* Principal and Professor, DSMS College of Tourism and Management, The Durgapur Society o Management Studies, Dr. Zakir Hussain Avenue, Bidhan Nagar, Durgapur, West Bengal 713206, INDIA

** Proprietor, Milon Library, 3/21, Nivedita Palace, Benchity, Durgapur, West Bengal 713213, INDIA

*** Professor, NIT Durgapur, The Department of Management Studies, Mahatma Gandhi Avenue, Durgapur, West Bengal 713209, INDIA

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Saurabh Agarwal is a Professor of Accounting and Finance at the Indian Institute of Finance, India. He holds a PhD from the University of Delhi, India and is a member of the Associated Chambers of Commerce & Industry of India (ASSOCHAM), Professor's Forum of India, as well as the Indian Econometric Association. Professor Agarwal has published articles on portfolio management in a number of journals.

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