

Effect of International Stock Markets and Exchange Rates Movement on Indian Stock Market

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Abstract

The study proposes to analyze co-movement and causal relationship between International Stock Market, Exchange Rates and Indian Stock Market using the Johansen Co-Integration Test and Granger Causality Test. Totally seven variables used in this study like BSE SENSEX, NYSE Composite, Nikkei 225, SSE Composite, USD, YEN and YUAN. The study period was from 1st April 2004 to 31st March 2014. The paper found that there is Co-movement and Casual relationship between International Stock Market, Exchange rates and Indian Stock Market. This paper suggested that investors should plan for long- run investment for future profits. Global investors should know the movements of Indian stock market for good profit because it has unidirectional casual relationship with international markets during the study period.

I. Introduction

THE INDIAN EQUITY Market is the fastest and the oldest stock market in Asia. The most important function of Indian equity market is to raise finance for companies and also to increase liquidity by trading their shares and raising equity prices. The price of equity and other assets helps in economic activity. The equity market attracts new capital transfer real assets in financial assets determine prices which balance demand and supply for providing investment in both short and long term. The main role of Indian equity market is to increase profitability for enterprises. In the developing countries like India and other countries, stock exchanges play a cardinal role in promoting the level of capital formation through effective mobilization of savings and ensuring investment safety. The Indian Equity Market is more popularly known as the Indian stock market. The Indian equity market is the ninth biggest market in the world at 1.6 trillion market capitalization.

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- Investors in NYSE Composite and SSE Composite indices should learn about the movement/fluctuations of Indian Stock Market for good profit as BSE SENSEX exhibits unidirectional causal relationship with NYSE Composite and SSE Composite during the study period.
- International Stock investors in NYSE Composite, SSE Composite, BSE SENSEX and NIKKEI 225 should plan for long run for future profit because these four sample indices recorded long run relationship between each other.

5.2.2. To the Policy Makers

- Policy makers could improve the rules and regulations for exchange market for investors to invest in Indian market and earn more profit.
- Policy makers should provide all information to normal investors to improve the awareness of investors and to increase investment in India. Its helps the economic growth.

VI. Conclusion

The present study found the Effects of International Stock Markets, Exchange Rates on Indian Stock Market. NYSE Composite from United States, NIKKEI 225 from Japan and SSE Composite from China used International Stock Markets. This study taken USD, YEN and YUAN compared with INR. The Indian Stock Market was represented by BSE SENSEX returns in this study. During the study period was taken from 1st April 2004 to 31st March 2014. The study analyzed the long-run and causal relationships during the study period. The Augmented Dickey Fuller test exposed that the variables were stationary at 1 percent level, 5 percent and 10 percent level. Co-integration test indicated long-run relationship between the variables of equity markets and exchange rates. The overall results of Granger Causality Test recorded uni-directional relationship between International and Indian Stock Markets and also bidirectional relationship between Indian Stock Market and exchange rates. However, the research concludes that the International Stock Market and exchange rates fluctuations did affect the Indian Stock Market. Therefore, investors should carefully invest money in Indian Stock Market as well as International Markets. Investors can invest the money in various portfolios. It gives better returns and its helps to increasing profitability and also helps to local country as well as global economic growth.

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