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Global Integration of Indian Stock Market

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Abstract

The present paper endeavors to empirically investigate the long run equilibrium relationship between the stock market of India, U.S., China, Singapore and Germany with special emphasis on evaluating the influence of U.S. based global financial crisis (2008) on this long run relationship. This exercise is based on the monthly closing data of the stock market indices for all the selected countries. Single equation Engle-Granger co-integration approach has been applied to examine one to one relationship of Indian stock market with the stock markets of other countries. The influence of U.S. financial crisis (2008) has been seen with the help of dummy variables. Apart from single equation analysis, another approach called multivariate approach given by Johansen and Juselius(1988,1991) is employed to study long run relationship among all the stock markets which suggests that co-movements of stock prices among the selected countries has increased after the 2008 financial crisis.

Introduction

AFTER GLOBALIZATION, FINANCIAL world has assumed new dimensions. It is reshaping itself. Financial liberalization and elimination of traditional barriers and advancement of technology are common features in various emerging and developed economies in whole of the world. In the present era, there is tendency towards cross border investment. Emerging equity markets are attracting the attention of global fund managers because these markets offer opportunities for portfolio diversification. International portfolio diversification enhances reward-to-volatility ratio. Cross-border investment allows the investors to have a large basket of foreign securities as part of their portfolio assets (Wong et.al, 2004).

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