

INDIAN STOCK MARKET AND MACROECONOMIC FACTORS IN CURRENT SCENARIO

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ABSTRACT

This paper is an attempt to understand the relationship between macroeconomic variables and Indian stock market. The multivariate stepwise regression analysis helps to understand the impact of macroeconomic factors on Indian stock market. Granger's causality test has been applied to analyze the dynamic causal relationship among the variables. The explained variables in the study includes average monthly closing price of BSE sensex and S&P CNX Nifty while the explanatory variables are Index of Industrial Production (IIP), Wholesale Price Index (WPI), Money Supply (M3), Interest Rates (IR), Trade Deficit (TD), Foreign Institutional Investment (FII), Exchange rate (ER), Crude Oil Price (CP) and Gold Price (GP). The data used in the study is in the monthly frequency and period of the study has been considered from January 2011 to December 2012. The empirical result of the study shows significant impact of macroeconomic variables on Indian stock market. The gold prices have its negative impact on the stock market. The gold has been used as best alternative for investment which hampers the stock prices of share market. The Indian Stock market improves with the increase in the inflow of foreign investment. Thus foreign investment as well as money supply exhibits its significant positive impact on the stock market. The exchange rate shows its adverse effect on the stock market during the study period. Granger causality test signifies that there exists unidirectional causal relationship from exchange rate to stock market. Thus, any movement in the value of exchange rate has influence on stock market. The causality is running from index to the variables in case of trade deficit and foreign institutional investors. There exists requirement for the initiative to be taken by government to reduce interest of investors in yellow metal and enhance the investment in share market through improving the confidence level investors in the Indian stock market.

KEYWORDS: Indian Stock Market, Sensex