

VAR ANALYSIS ON FII'S PORTFOLIO DECISIONS - CAUSE EFFECT ANALYSIS IN INDIAN CONTEXT

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ABSTRACT

Year 1990 has brought a great revolution in Indian Financial Market so called legend year of the history invited foreign investors and welcomed their investment in Indian market. This study is an attempt to identify factors influencing foreign institutional investors to invest in Indian market. In order to achieve this objective, this study has been conducted to identify short term/long term causality relationship running from the independent factors (P/E, P/B, and Dividend yield) to FIIs. This has been explained with the help of unrestricted VAR model and direction of causality is defined by Granger Causality Model. Result shows that above listed factors jointly attract FIIs to invest in Indian companies, but P/B is most prominent factor among all. Daily data frequency from 1st January 2002 to 29th December 2006 has been used.

KEYWORDS: Institutional Investors, Price to Book Ratio (P/B), Price to Earnings Ratio (P/E), Dividend Yield, Unrestricted VAR Model, Granger Causality Test