

ECONOMIC INDICATORS AND INDIAN STOCK MARKET VOLATILITY: AN EMPIRICAL ANALYSIS

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ABSTRACT

Volatility in prices of stocks and other financial instruments is a common phenomenon of any stock market in the world and Indian stock market is no exception to this. Volatility is caused by various reasons, company performance, growth prospects, stability of payment of dividend to share holders are some of the internal factors to name. While, many external factors also cause the volatility of stock prices like Gross Domestic Product (GDP), inflation, interest rates, money supply, employment rate, fiscal deficit, key policy rates of central bank, currency value, exports and imports, Foreign Direct Investment (FDI) etc., are few of them.

The present study focuses on the relationship between some major economic indicators like value of Indian rupee, crude oil price, key interest rates of Reserve Bank of India (RBI) and volatility of Indian stock market. Some monetary tools of RBI like Bank Rate, Repo and Reverse repo rates, Statutory Reserve Ratio (SLR), Cash Reserve Ratio (CRR) etc., have been considered at one hand and NSE Nifty 50 stock prices have been taken on the other hand to identify the relationship. Analytical measures of central tendency, dispersion, correlation and regression are applied to arrive at relationship between key economic indicators and Nifty 50 values. The empirical study has considered key economic indicators and Nifty 50 values for 12 years. The study explores that there has been a mixed result in terms of relationship between some economic indicators and stock market volatility. While some indicators have a strong positive correlation, while yet other indicators have a weak correlation or no correlation at all. The study concludes with some suggestions to the retail investors of Indian capital market to consider anticipated prices of crude oil from Organization of Petroleum Exporting Countries (OPEC), forecasted movements of Indian rupee (INR) versus other major currencies in the world.

KEYWORDS: GDP, FDI, Repo, Reverse Repo, CRR, SLR

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