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   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

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- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

VOLATILITY OF INDIAN STOCK MARKET WITH REFERENCE TO CHANGE IN FII POLICY 2001

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ABSTRACT

The Foreign Institutional Investors (FIIs) have emerged as noteworthy players in the Indian stock market and their growing contribution adds as an important feature of the development of stock markets in India. FII is allowed to enter into our country only through stock exchanges either in the form of equity or debt. It makes an impact on the rise or fall of SENSEX, since FII is allowed to be purchased or sold daily. This paper attempts to study the impact of market openings to FIIs, on Indian stock market behavior. India announced its policy on 8th March 2001 for FII investments in equity and related instruments. Using stock market data related to Bombay Stock Exchange, for both before and after the FIIs policy announcement day. An empirical examination has been conducted to assess the impact of the market opening on the return and volatility of stock return. This Research paper is mainly divided into two parts. Firstly researcher has examined impact on stock prices & average return before and after event day. And secondly it's been examined change in volatility in the Indian stock market by comparing variances of return for the event period under study. We have tried to cover one year time period before and after the event day to understand the exact validity and reliability of the result. Moreover the sample size of our study is 500 days daily market return. However validity of results and empirical tests has been taken place by applying Wilcoxon-Mann -Whitney test, also called as the rank sum test. Finally results indicate that there are no significant changes in the Indian stock market average returns and volatility of stock prices returns after changes in percentage of investment from 24% to 49%.

KEYWORDS
Indian stock market, FII.

1. INTRODUCTION

Until 1980, there was a general reluctance towards foreign investment or private commercial flows as India's development strategy was focused on self-reliance and import substitution and current account deficits were financed largely through debt flows and official development assistance. Since 1990-91, the Government of India embarked on liberalization and economic reforms with a view of bringing about rapid and substantial economic growth and move towards globalization of the economy. As a part of the reform process, the government under its new industrial policy revamped its foreign investment policy recognizing the growing importance of Foreign direct investment as an instrument of technology transfer, augmentation of foreign exchange reserves and globalization of the India economy. The Government, for the first time, permitted portfolio investments from abroad by Foreign institutional investors in the Indian capital market. Foreign Institutional Investors means an institution established or incorporated outside India which proposes to make investment in India in securities.

Foreign institutional investors (FIIs) from September 14, 1992, with suitable restrictions, were permitted to invest in all securities traded on the primary and secondary markets, including shares, debentures and warrants issued by companies which were listed or were to be listed on the stock exchanges in India and in schemes floated by domestic mutual funds. Such inflows of investments from other countries is encouraged since it complements and stimulates domestic investments in capital-scarce economies of developing countries. The Government guidelines for FII of 1992 allowed, inter-alia, entities such as asset management companies, nominee companies and incorporated/institutional portfolio managers or their power of attorney holders (providing discretionary and non-discretionary portfolio management services) to be registered as Foreign Institutional Investors.

1.1 DEFINITION OF 'FOREIGN INSTITUTIONAL INVESTOR - FII'

An investor or investment fund that is from or registered in a country outside of the one in which it is currently investing. Institutional investors include hedge funds, insurance companies, pension funds and mutual funds.

1.2 MEANING: 'FOREIGN INSTITUTIONAL INVESTOR - FII'

The term is used most commonly in India to refer to outside companies investing in the financial markets of India. International institutional investors must register with the Securities and Exchange Board of India to participate in the market. One of the major market regulations pertaining to FIIs involves placing limits on FII ownership in Indian companies.

1.3 DIFFERENCE BETWEEN FII & FDI

FII: Foreign institutional investors mainly invest in stock and debenture i.e., Gilt edged securities.

Where as FDI : Foreign direct investors will invest mainly in capital goods products i.e., for example Machineries and other capital equipments in use of production of goods and services.

1.4 HEDGE FUNDS

A fund, usually used by wealthy individuals and institutions, which is allowed to use aggressive strategies that are unavailable to mutual funds, including selling short, leverage, program trading, swaps, arbitrage, and derivatives. Hedge funds are exempt from many of the rules and regulations governing other mutual funds, which allows them to accomplish aggressive investing goals. They are restricted by law to no more than 100 investors per fund, and as a result most hedge funds set extremely high minimum investment amounts, ranging anywhere from $250,000 to over $1 million. As with traditional mutual funds, investors in hedge funds pay a management fee; however, hedge funds also collect a percentage of the profits (usually 20%)

2. FIIS INVESTMENT IN INDIAN COMPANIES

FIIs can invest in the stocks and debentures of the Indian companies. In order to invest in the primary and secondary capital markets in India, they have to venture through the portfolio investment scheme (PIS). According to RBI regulations, the ceiling for overall investment for FIIs is 24% of the paid up capital of the Indian company. The limit is 20% of the paid up capital in the case of public sector banks. However, if the board and the general body approves and passes a special resolution, then the ceiling of 24% for FII investment can be raised up to sectoral cap for that particular segment. In fact, recently Sebi allowed FIIs to invest in unlisted exchanges as well, which means both BSE and NSE (the unlisted bourses) can now allot shares to FIIs also. There is a long list of entities that are eligible to get registered as FIIs such as pension funds, mutual funds, insurance companies, investment trusts, banks, university funds, endowments, foundations, sovereign wealth funds, hedge funds and charitable trusts. In fact, asset management companies, investment managers, advisors or institutional portfolio managers set up and/or owned by NRIs are also eligible to be registered as FIIs. The nodal point for FII registrations is SEBI and hence all FIIs must register themselves with SEBI and should also comply with the exchange control regulations of the central bank. Apart from being allowed to invest in securities in primary and secondary markets, FIIs can also invest in mutual funds, dated government securities, derivatives traded on a recognised stock exchange and commercial papers.

2.1 THE PARAMETERS ON WHICH SEBI DECIDES FII APPLICANTS' ELIGIBILITY

- Applicant's track record, professional competence, financial oundness, experience, general reputation of fairness and integrity. (The applicant should have been in existence for at least one year)
- Whether the applicant is registered with and regulated by an appropriate Foreign Regulatory Authority in the same capacity in which the application is filed with SEBI
- Whether the applicant is a fit & proper person.

2.2 PROCEDURIAL STEPS FOR REGISTRATION AS FOREIGN INSTITUTIONAL INVESTOR

"Form A" as prescribed in SEBI (FII) Regulations, 1995has to be filled while applying for FII registration. The primary required documents for registration are 1.Certified copy of relevant clauses (clauses permitting the stated activities) of Memorandum of Association, Article of Association or Article of Incorporation. 2.Audited financial statement and annual report for the last one year (period covered should not be less than twelve months . US $ 5,000 is the fee for registration as FII. For the mode of payment, Demand Draft in favour of "Securities and Exchange Board of India" payable at New York has to be given by FII to SEBI for its registration. SEBI generally takes seven working days in granting FII registration. However, in cases where the information furnished by the applicants is incomplete, seven days shall be counted from the days when all necessary information sought, reaches SEBI. The FII registration is valid for just five years after this it has again apply for renewal for its procedurial guidelines. The application for renewal should be submitted three months before expiry of the FII registration.

2.3 INVESTMENTS BY FIIS

There are generally two ways to invest for FIIs.

• **Equity investment**

100% investments could be in equity related instruments or up to 30% could be invested in debt instruments i.e.70 (Equity Instruments): 30 (Debt Instruments)

• **100% Debt**

100% investment has to be made in debt securities only

2.4 REGULATION RELATING TO FII OPERATION

• Investment by FIIs is regulated under SEBI (FII) Regulations, 1995 and Regulation5(2) of FEMA Notification No.20 dated May 3, 2000. SEBI acts as the nodal point in the entire process of FII registration.

• FIIs are required to apply to SEBI in a common application form in duplicate. A copy of the application form is sent by SEBI to RBI along with their 'No Objection' so as to enable RBI to grant necessary permission under FEMA.

• RBI approval under FEMA enables a FII to buy/sell securities on stock exchanges and open foreign currency and Indian Rupee accounts with a designated bank branch.

• FIIs are required to allocate their investment between equity and debt instruments in the ratio of 70:30. However, it is also possible for an FII to declare itself a 100% debt FII in which case it can make its entire investment in debt instruments.

• All FIIs and their sub-accounts taken together cannot acquire more than 24% of the paid up capital of an Indian Company. Indian Companies can raise the above mentioned 24% ceiling to the Sectoral Cap / Statutory Ceiling as applicable by passing a resolution by its Board of Directors followed by passing a Special Resolution to that effect by its General Body. Further, in 2008 amendments were made to attract more foreign investors to register with SEBI, these amendments are:

- ✓ The definition of "broad based fund" under the regulations was substantially widened allowing several more sub accounts and FIIs to register with SEBI.
- ✓ Several new categories of registration viz. sovereign wealth funds, foreign individual, foreign corporate etc. were introduced.
- ✓ Registration once granted to foreign investors was made permanent without a need to apply for renewal from time to time thereby substantially reducing the administrative burden.
- ✓ Also the application fee for foreign investors applying for registration has recently been reduced by 50% for FIIs and sub accounts. Also, institutional investors including FIIs and their sub-accounts have been allowed to undertake short-selling, lending and borrowing of Indian securities from February 1, 2008.

3. FIIS IMPORTANCE FOR INDIAN MARKETS

FIIs are among the major sources of liquidity for the Indian markets. If FIIs are investing huge amounts in the Indian stock exchanges then it reflects their high confidence and a healthy investor sentiment for our markets. But with the current global financial turmoil and a liquidity and credit freeze in the international markets, FIIs have become net sellers (on a day to day basis).

Foreign Institutional Investors (FIIs) have been playing a significant role in the Indian capital market and hence, in the process of capital formation and economic development of the country since the implementation of New Economic Reforms in 1991. FII flows are considered to increase the domestic investment without increase in foreign debt. FII flows can raise stock prices, lower cost of equity and stimulate investment by Indian firms and lead to improvements in securities market design and corporate governance. Thus, FIIs increase the depth and breadth of the market; expand securities business, and their policy of focusing on fundamentals of the shares cause efficient pricing of shares. However, market pundits often attribute fall of the stock market to the flow of funds by FIIs. FIIs exacerbate small economic problems in a country by making large and concerted withdrawals.

The positive impacts of FIIs have made the Indian capital market more attractive to FIIs and Indian capital market has witnessed a Bull Run till mid-2008, which was driven by increased buying by the FIIs. FIIs investment in emerging economies in general and India in particular; one view is that FIIs are believed to improve market efficiency and helps in lowering the cost of capital the other view holds FIIs responsible for increasing the volatility in stock markets.

FIIs contribute to the foreign exchange inflow as the funds from multilateral finance institutions and FDI (Foreign direct investment) are insufficient. Following are the some advantages of FIIs.

• It lowers cost of capital, access to cheap global credit.

• It supplements domestic savings and investments.

• It leads to higher asset prices in the Indian market.

• And has also led to considerable amount of reforms in capital market and financial sector

3.1 Current Scenario of FII

- Foreign investors see huge long term growth possibilities that India presents according to Ernt & Young's 2011 Indian Attractiveness Survey.

- FII bought a record of Rs 110 bn. Worth of shares in FY 2011. Of these, Rs 61 bn. Were through primary sources and Rs 48.8 bn. From BSE and the NSE. These invetors had stepped up holdings by 170 basis points to 20.4 %.
- 21 institutions registered as FIIs with SEBI in FY2012 till September, enhancing the presence of registered FIIs to 1743. Also the number of registered sub-accounts has increased by 342, taking the counts to 6,028 in September 2011. Both the figures are all time highs.
- FIIs have increased their stake in ten out of 100 companies in quarter ended September 2011. (Data from BSE)
- India's foreign exchange reserves marked a new high at US$ 319 billion as on July 29 2011, as per data by the RBI.
- Government of India has reduced the residual maturity limit and the lock-in-period for investment in infrastructure bonds. As on current policy, FIIs are allowed to invest up-to US$ 25 bn. Long-term infrastructure bonds that have a minimum residual maturity of five years and a lock-in period of at least three years.
- FIIs have infused a net amount of about Rs 44,000 crore so far in the entire Indian stock market and more than half of this inflow has gone to the Sensex companies.
- The limit in government bonds has been increased by $ 5 billion to $ 20 billion in June 2012.
- RBI enlarged the basket of investors including sovereign wealth funds (SWFs), multilateral agencies, endowment funds, insurance funds, pension funds and foreign central banks; to invest in government bonds for entire limit of $ 20 billion.
- A doorway was opened last year to directly invest in India's secondary markets, equity and listed corporate debt and through mutual funds.
- Foreign institutional investors (FIIs) have invested $1.46 billion in India's equity markets. After three consecutive months of selling, in the first 17 days of July 2012 alone, FIIs have invested around Rs 8,092 crore (as on July 17) in Indian stocks.

4. REVIEW OF RELATED LITERATURE

Vikram K. Joshi and Miss Richa saxena(2011), presented a paper on " Analytical Study of Impact of FII on Indian Stock Market with Special Reference to BSE SENSEX". The objective of this paper is to find out the existence of relationship between SENSEX and FII and to analyze the significance of variation between SENSEX and FII. To achieve the above objective last quarter data has been collected for the year 2010-2011. Separate data for each month from January 2011 to March 2011 was collected and analytical study has been done. Daily data has been collected from BSE SENSEX regarding closing SENSEX, Equity net investment, Debt net investment, Total investment and Total Turnover. To achieve the objective hypothesis has been framed and separately for each month statistical methods has been used which includes Regression analysis, Standard error, t statistics and F statistics with 5% degree of freedom. The results for each month is different for FII Turnover, for the first month for both the objective null hypothesis is rejected and alternative hypothesis is accepted, while for the second month for first objective null hypothesis is rejected and alternative is accepted, while for the second objective null hypothesis is accepted and alternative is rejected and for the last month the result is same as for the month of February 2011. The results for each month for FII Investments is different, it says that in the month of January 2011 null hypothesis is accepted will alternative is rejected for 1st objective while for 2nd objective null hypothesis is rejected and alternative is accepted, for February 2011 for 1st objective null hypothesis is rejected while alternative is accepted and for 2nd objective null hypothesis is accepted and alternative is rejected and for the month of March 2011, for both the objective null hypothesis is rejected and alternative hypothesis is accepted. Thus the comparative analysis concluded that on an overall basis, when the relationship between SENSEX vs. Total turnover & SENSEX vs.Net investment exists and it is significant, it produces a positive impact in the SENSEX as it starts moving up, but when the case is opposite, it tends to remain on a lower side. FII Investment when withdrawn up to a large extent causes the SENSEX to fall just as it happened in the case of January & February. But if a proper balance between FII inflow & outflow is there, it prevents the BSE SENSEX from falling as evident from the case of March 2011.

Anand Bansal (2009) presented a paper on " Foreign Institutional Investor's impact on Stock Prices in India". The objective of this paper is to study the impact of market opening to FIIs, on Indian Stock Market behavior. India announced its policy regarding the opening of stock market to FIIs for investment in equity and related instruments on 14th September 1992. Stock market data related to Bombay Stock Exchange, BSE SENSEX, for both before and after the FIIs policy announcement day has been collected which includes 330 days from 23rd January 1991 to 29th March 1994. To evaluate the impact of Indian Stock market opening to FIIs on stock prices, average return before and after the event day has been calculated for different sub sample days, it was examined that there exist no difference in Indian stock prices return before and after the entry of FIIs. To examine the change of volatility in the Indian stock prices variances of the returns of sub sample days before and after the event day has been compared by using standard deviation as the statistical tool which again conclude that there is no difference in stock prices volatility before and after the entry of FIIs. To check the significance of differences in the average market returns of the all sub sample before and after the event days, Wilcoxon-Mann- Whitney test/ U test has been used, which accepts null hypothesis that there is no difference in Indian stock prices return before and after the entry of FIIs. Even Levene test has been used here which used the average of the absolute deviations, instead of the mean square of deviations. By using this test it was found that the volatility has been changed significantly for different periods.

The outcome suggest that by the entry of FIIs in Indian market, the market volatility did not change for the immediate two months period, however after two months volatility reduced significantly, so the null hypothesis is accepted. An empirical examination has been conducted to assess the impact of the market opening on the returns and volatility of stock return. It has been seen that there is no significant changes in the Indian Stock Market average returns, volatility is significantly reduced after India unlocked its stock market to foreign investors.

Jatinder Loomba (2012), presented a paper on the topic " Do FIIs impact volatility of Indian Stock Market?"

The objective of the paper is to develop an understanding of the dynamics of the trading behavior of FIIs and effect on the Indian equity market. The study is conducted using daily data on BSE SENSEX and FII activity over a period of 10 years spanning from 1st Jan 2001 to 31st Dec 2011. 'Pearson correlation' was used, which concludes that there is statistically significant relation between BSE SENSEX absolute change and FII activity in Indian Capital Market, so null hypothesis is rejected. It provides the evidence of significant positive correlation between FII activity and effects on Indian Capital market, it also finds that the movements in the Indian Capital market are fairly explained by the FII net inflows.

5. DATA AND METHODOLOGY

Bombay Stock Exchange (BSE) is the only surviving oldest exchange in India. BSE is considered as the barometer of Indian economy. The data related to its prominent market index, SENSEX (consisting of 30 blue chip stocks) has been used in this paper to empirically compare the market behaviour before and after the Indian market opening day (the event day). Exclusively we study the change of market return and volatility after the entry of FIIs to Indian capital market. The 8th,March 2001 has been chosen as event day because there was a change in FII Policy investment limit from 24% to 49%. We used the market index data from 8th,March 2000 to 8th,March 2002. Our data set covers about two years period that included data of 250 trading days before the event day and 250 trading days after the event day.

Period before event date :	8th March 2000 to 8th March 2001 (Total 250 trading days)
Period after event date :	8th March 2001 to 8th March 2002 (Total 250 trading days)
Name of Stock Exchange :	Bombay Stock Exchange
Index used to calculate daily return and volatility :	BSE SENSEX
Frequency of data :	Daily

5.1 STOCK PRICES RETURN

To evaluate the impact of Indian stock market opening to FIIs on stock prices, average return before and after the event day has been calculated for different sub sample days. The return has been calculated by taking the difference in the natural logarithm of the closing index values for two consecutive trading periods. Symbolically, the rate of return has been calculated as follows:

$R_t = \log_e (p_t / p_{t-1}) * 100$

R_t stands for the rate of return for a given period t, where log e is the natural logarithm, p_t is the closing value of stock index (SENSEX in our case) on date *t* and p_{t-1} is the closing value of stock index . On the basis of daily return, average market return has been calculated for k trading days before and k days after the event day. If the average returns for k days before and k days after event days are represented by (r_{11}, r_{12}, ... r_{1k}) and (r_{21}, r_{22}, ... r_{2k}) respectively, we can test the null hypothesis of equal average return as:

Null Hypothesis : H_0 : $\mu_1 = \mu_2$

(There is no difference in Indian stock prices return before μ_1 and after μ_2 the FII Policy change)

5.2 STOCK PRICE VOLATILITY

The change of volatility in the Indian stock prices has been examined by comparing the variance of the returns of sub sample days before and after then event day. Standard deviation is the statistical tool used to measure the volatility in the returns of various markets. Thus, volatility can be calculated as:

$$S.D = \sqrt{\frac{1}{N-1}\ \sum(rt-r)^{-2}}$$

Here, n is the number of observations (no of trading days in a sub sample), *rt* is the daily rate of return in a sub sample, *r* is the average return in a sub sample. Let ▯▯denote the variance of both periods that is before and after event, then the hypotheses to be tested can be written as:

Null Hypothesis H_0 : $\sigma_1 = \sigma_2$

(There is no difference in stock prices volatility before σ_1 and after σ_2 the FII Policy change).

6. EMPIRICAL RESULTS

6.1 IMPACT OF FIIS INVESTMENT FLOWS ON STOCK PRICES RETURN

The calculated average returns for before and after sub samples are reported in table II. Wilcoxon-Mann-Whitney test, also called the rank sum test or U test, is the measure which has been used to check the significance of differences in the average market returns of the all sub sample with same – and + event days. Wilcoxon-Mann-Whitney test is used to test the null hypothesis that two sub samples are identically distributed or not. The Mann Whitney U statistic is defined as:

$$\mathrm{U} = n1 * n2 + \frac{n1(n1+1)}{2}\sum \mathrm{Ri}$$

(Here n1 and n2 are sample size and$\sum$ Ri is sum of ranks)

The mean of U statistic is: μ_u = (n1 * n2) / 2

Standard error (or standard deviation): sd = $\sqrt{n1.n2\frac{(n1+n2+1)}{12}}$

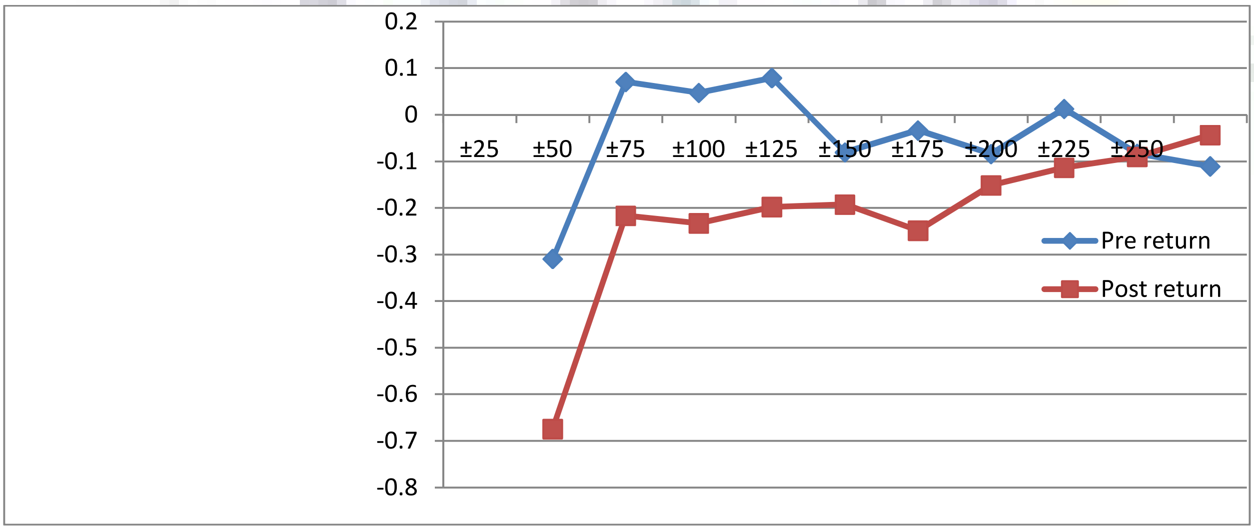
If the sample size is more than 8, with the given level of statistical significance, the test will report whether the calculated value of U test statistic falls within the acceptance region or not. The U test statistic can further be interpreted by using the Z statistic as Z is a standard normal deviate whose significance can be checked from tables of the normal distribution. If the calculated Z (ignoring signs) value does not equal or exceed the critical Z value of 1.96 (critical Z value for a two-tailed test at 5%), then it can be assumed that the null hypothesis is correct and there is no difference between two groups of sample. However if the Z value exceeds 1.96 then there is sufficient evidence to reject the null hypothesis and accept the alternative hypothesis.

TABLE 1 : TESTING THE AVERAGE RETURN CHANGE

Reference count	Pre return	Post return	Z score	Significance level
±25	-0.3091241	-0.6741375	-0.8634	0.5092
±50	0.07092091	-0.216561	-9.2550	0
±75	0.04730109	-0.2326706	-1.1858	0.234
±100	0.07914921	-0.1976729	-1.4318	0.1528
±125	-0.0804012	-0.1923865	-0.9052	0.3628
±150	-0.0332254	-0.2485363	-1.1767	0.2380
±175	-0.0838999	-0.151331	-0.4650	0.6384
±200	0.01293494	-0.1135139	-0.9635	0.3370
±225	-0.0832631	-0.0899957	-0.4056	0.6818
±250	-0.1105123	-0.0432573	-0.0552	0.9522

The daily mean return for the 25 days, prior to the entry of FIIs has been calculated at -0.3091241, while for the 25 days period following the event day is -0.6741375. Whereas the mean return for 50,75 and 100 days before is decreased from 0.07092901 to 0.04730109 and increase from 0.04730109 to 0.07914921 after 75 days, while mean return following the event day for 50, 75, and 100 days are decreased from -0.216561 to -0.1976729 after FIIs entry. While for days prior to event day for 125, 150, 175 are fluctuating from -0.0804012 to -0.0838999 and for days following to event day for 125, 150, 175 are again fluctuating from -0.1923865 to -0.151331. At last for the remaining 200, 225, and 250 days prior to event day is constantly declining while for days following event day for 200, 225, and 250 is increasing from -0.1135139 to -0.0422573. So in long run it gives positive average market return with the respect to change in percentage of investment from 24 to 49.

FIGURE 1: STOCK PRICES RETURN BEFORE AND AFTER THE FII POLICY CHANGE



Using the Mann-Whitney Test (Wilcoxon Rank Sum Test) and a significance level of α = 0.05 (5%), there is enough evidence to conclude that there is no significant difference in mean daily return before and after the announcement date for the entry of FIIs in Indian market. Evidence is strongly in the favor of null hypothesis as the two tail probability levels (0.5092, 0.2340, 0.1528, 0.3638 and so on) for all the sub sample is more than 0.05 and the values of Z (ignoring signs) are also less than 1.96 (tabulated values of Z at 5%). We have to accept our null hypothesis that is there is no difference in Indian stock prices return before (μ1) and after (μ2) the entry of FIIs.

6.2 IMPACT OF FIIS INVESTMENT FLOWS ON STOCK PRICE VOLATILITY

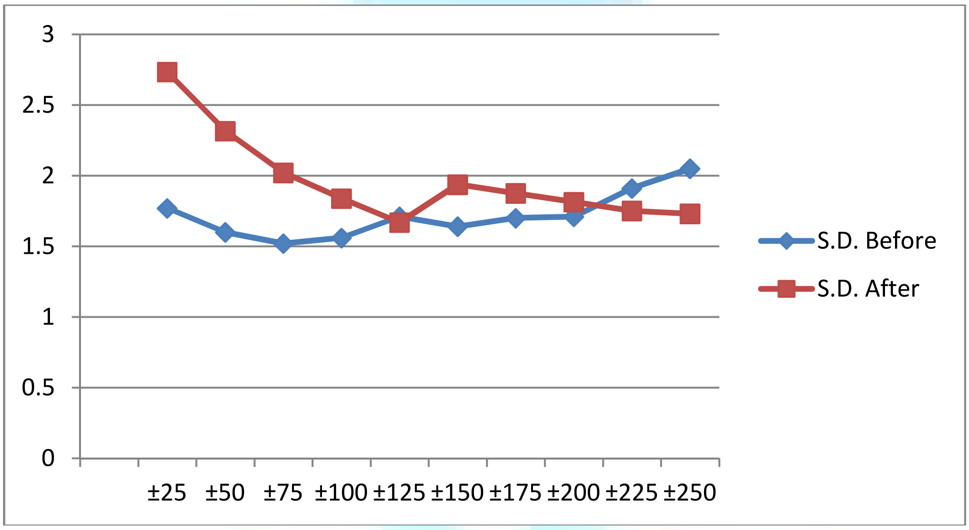
The change in stock prices volatility level has been studied by comparing the variance of returns, before and after the entry of FIIs. Our null hypothesis for testing is $\sigma_1 = \sigma_2$ and alternative hypothesis is $\sigma_1 \neq \sigma_2$, where σ_1 is the variance before the announcement, and σ_2 is the variance after the announcement of FIIs policy in India.

The Table 2 presents the standard deviation of stock market volatility for sub sample periods before and after the event day. The daily volatility for the first sub sample i.e. 25 days prior to the event day has been 1.7737, while for the 25 days after the entry of FIIs has been 2.7341. Similarly the subsequent values for 50 days and 75 days before and after are 1.5979, 2.3153 and 1.5214, 2.0210 respectively. As it can be seen from Table II, all sub sample standard deviations after the entry of FIIs have been greater than the corresponding counterparts before the entry of FIIs except for the 225 & 250 days before and after event day. So with this empirical and statistical null hypothesis $\sigma_1 = \sigma_2$ has been rejected & $\sigma_1 \neq \sigma_2$ alternative is accepted. (There is significant difference in stock prices volatility before σ_1 and after σ_2 the FII Policy change).

TABLE 2: TESTING THE MARKET VOLATILITY

Reference count	S.D. Before	S.D. After
±25	1.7737	2.7341
±50	1.5979	2.3153
±75	1.5214	2.0210
±100	1.5598	1.8385
±125	1.7094	1.6690
±150	1.6383	1.9374
±175	1.6975	1.8756
±200	1.7137	1.8132
±225	1.9123	1.7514
±250	2.0501	1.7311

FIGURE 2: STOCK PRICE VOLATILITY BEFORE AND AFTER EVENT DAY



7. CONCLUSION

Looking to the Globalization of Indian economy in the fast phase of growing world market as a developing nation efforts were put to understand the impact of Foreign institutional investors growing demand in Indian market for investment and its contrary effect on stock market daily return and volatility of stock market with reference to change in FII percentage investment from 24% to 49% . on the basis of the above empirical results and discussion researchers were come to the conclusion that average market return for policy period change in study declined reasonably and volatility has been reduced significantly after the entry of FII. As per the observation to important market highlighter like SENSEX, NIFTY, Market capitalization and Market turnover which is strongly correlated in India, but FII Investment and Market Volatility and Market return has been comparatively very low. Hence it can be said that volatility in Indian market is not due to FII investment flows but it is a result of many more other significant market related factors.

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