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CONTENTS

Sr. No.	TITLE & NAME OF THE AUTHOR (S)	Page No.
1.	ROLE OF REAL ESTATE (REGULATION AND DEVELOPMENT) ACT 2016 IN PROMOTION OF GROWTH OF REAL ESTATE SECTOR <i>Dr. N. VISALAKSHI & Dr. K. KANAKA RAJU</i>	1
2.	CHALLENGES AND PROBLEMS FACED BY WOMEN ENTREPRENEURS IN INDIA – AN ANALYSIS <i>Dr. V. BALACHANDRAN & A. PANJAVARNAM</i>	7
3.	THE CHANGING LANDSCAPE OF MULTILATERAL TRADING SYSTEMS <i>Dr. M B MOHANDAS</i>	11
4.	PRESENTEEISM AND ITS RELATIONSHIP TO LABOR PRODUCTIVITY WITHIN MALIAN FIRM SEGMA <i>Dr. TIEDIAN FANE, Dr. SALIMOU KEITA & Dr. ALIOU BAMAMOU MAIGA</i>	15
5.	HUMAN RESOURCES EXPENSES AND ITS EFFECT ON FINANCIAL PERFORMANCE OF INDIAN CORPORATE GIANTS: AN EMPIRICAL STUDY <i>ARINDAM SAHA</i>	21
6.	IMPACT OF CROSS-BORDER FACTORS ON INDIAN STOCK MARKET – WITH SPECIAL REFERENCE TO EXCHANGE RATE <i>K.NATARAJAN & Dr. L. GANESAMOORTHY</i>	24
7.	IMPACT OF ECONOMIC RECESSION ON THE GROWTH OF SMALL AND MEDIUM SCALE ENTERPRISES IN NIGERIA <i>Dr. JOSEPH EDEWO AGBADUDU & MONEY UDIH</i>	26
8.	IMPACT OF WAREHOUSE SECTOR IN AGRICULTURE DEVELOPMENT - A STUDY IN WARANGAL RURAL AND URBAN DISTRICTS IN TELANGANA STATE <i>Dr. T. SESHIAIAH</i>	30
9.	CUSTOMER SATISFACTION ON SERVICES OF THE AGRANI BANK LTD DISTRICT COUNCIL BRANCH, FARIDPUR <i>MAHBUBA SULTANA & HUMIRA YEASMIN</i>	34
10.	THE IMPACT OF FOREIGN DIRECT INVESTMENT INFLOWS IN BALANCE OF PAYMENT <i>RENJU JOSEPH</i>	52
	REQUEST FOR FEEDBACK & DISCLAIMER	54

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IMPACT OF CROSS-BORDER FACTORS ON INDIAN STOCK MARKET – WITH SPECIAL REFERENCE TO EXCHANGE RATE

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ABSTRACT

The present study analysed causal relationship between exchange rate and Indian stock market. The study collected daily data of exchange rate and the indices of BSE500 and NSE500 for 14 years from 1.1.2002 to 31.12.2016. The researchers applied descriptive statistics and Granger causality test as statistical tools. The study evidenced that the fluctuation in exchange rate do not have granger cause on the movement of Indian stock market in terms of BSE500, but it has granger cause on NSE500. Surprisingly, the movements of Indian stock market have granger cause on the fluctuation of exchange rate both in terms of BSE500 and NSE500.

KEYWORDS

stock market, index, causal relationship, impact and exchange rate.

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INTRODUCTION

Gold is the common commodity which is accepted in all countries for international trade. Currency of a particular country is accepted with in the country only. In case of international trade exports accept either gold or US\$ as common exchange. On daily basis exchange rate of US\$ has been determined against currency of almost all the countries. The exchange rate is fluctuating daily. Fluctuation in exchange rate of US\$ against Indian currency (Rupee) affects the businesses of the country to some extent. Foreign investors are investing their money in Indian stock market to larger extend during recent decades. They bring considerable amount of foreign exchanges in to the country. At the same time, if they sale more in the share market due to not favourable market conditions, they take back foreign currencies to their own countries. Hence fluctuation in exchange rate of Indian rupee against US\$ may affect share market in India. Few previous studies have identified results in favour and against the hypothesis during different period of time using yearly, monthly and very few used daily data. The current research has analysed the impact of exchange rate of Indian stock market in terms of the broad based indices of BSE500 and NSE500 using Granger causality test.

REVIEW OF LITERATURE

Manish Kumar (2014) in his study found that stock prices, exchange rate and oil prices were not co-integrated. Oil price and exchange rate had a positive and statistically significant effect on Indian stock market. Samveg Patel (2012) in his study evidenced that the international factor, exchange rate had significant information to forecast the market. He also evidenced that gold price, and oil price also were major determinants of Indian stock market. Divyang Patel and Nikitakagalwala (2013) in their research found that there was no relationship among exchange rate with Nifty and Sensex and the exchange rate had low significant impact in Nifty and Sensex. Taraknath Sahu et al (2014) in their study found that long-run co- integration relationship was found between Crude oil and exchange rate; the study also found that Crude oil and exchange rate did not affect Indian stock market significantly.

OBJECTIVE OF THE STUDY

To study the causal relationship between exchange rate and Indian stock market.

METHODOLOGY

For the purpose of the study the researchers collected daily data of the variables exchange rate, the indices of BSE500 and NSE500 for the period of 14 years from 2002 to 2016. A total number of 3740 daily observations are used for analysis. The data of BSE500 was collected from official website of BSE (www.bseindia.com) and the data of NSE500 was collected from official website of NSE (www.nseindia.com). The data of silver price was collected from the financial website of www.investment.com. The study has employed descriptive statistics, Kurtosis and Skewness test and Jarque-Bera to test normality. Granger casualty test has been applied for the study. It examines causal relationship between two time series data. In this study, the test has been applied to know causal relationship between Indian stock market and exchange rate.

RESULTS AND DISCUSSION

Table 1 describes the variables selected for analysis. It brings the results of mean, median, minimum and maximum values during the period, standard deviation, Skewness, Kurtosis, Jarque-Bera test and its P- value for the variables BSE 500, NSE 500 and exchange rate of Indian rupee against US\$.

TABLE 1: DESCRIPTIVE STATISTICS

Statistics	BSE500	NSE500	Exchange Rate
Mean	5889.91	3712.44	50.57
Median	6386.89	3970.55	47.31
Maximum	12074.35	9436.95	68.81
Minimum	1002.93	671.55	39.08
Std. Dev.	3069.01	1919.75	8.15
Skewness	0.09	0.13	0.83
Kurtosis	2.08	2.14	2.38
Jarque-Bera	137.54	126.36	492.80
Probability	0.00	0.00	0.00
Observations	3740	3740	3740

Source: Computed from Secondary Data

It is known from table 1 that the mean value of exchange rate is Rs.50.57 against US\$ during the period of study. The minimum, maximum values and standard deviation exchange rate are Rs.68.81, Rs.39.08 and Rs.8.15, they show moderate level of deviation in exchange rate from mean value. The calculated value of exchange rate is 0.83 and it is 0.09 and 0.13 for BSE500 and NSE500 respectively. These positive results show that these variables are positively skewed. In other words, there is more positively for positive return on these variables than negative returns. The calculated value of kurtosis of exchange rate is 2.38, it shows normal distribution of data, but is less than 3, hence it is less peaked than normal distribution of exchange rate. The calculated value of Jarque-Bera test for exchange rate is 492.80, it is statistically significant at percent level. Hence the data of exchange rate is normally distributed.

Table 2 brings out the results of Granger Causality test between exchange rate and Indian stock market in terms of BSE500 and NSE500. It also shows the null hypotheses framed and their significance.

TABLE 2: GRANGER CAUSALITY BETWEEN EXCHANGE RATE AND INDIAN STOCK MARKET

BSE500				
Null Hypothesis	Observations	F-Statistic	Prob	H ₀
Exchange Rate does not Granger Cause BSE500	3738	1.4261	0.2404	Accepted
BSE500 does not Granger Cause Exchange Rate		11.6595	0.0000	Rejected
NSE500				
Null Hypothesis	Observations	F-Statistic	Prob	H ₀
Exchange Rate does not Granger Cause NSE500	3738	6.9879	0.0009	Rejected
NSE500 does not Granger Cause Exchange Rate		5.9081	0.0027	Rejected

Source: Computed from Secondary Data

Table 2 shows that the exchange rate does not have granger cause on the movement of BSE500, since the F-Statistics under Granger causality test (1.4261) is significant and the null hypothesis is accepted. The movement of BSE500 has granger cause on exchange rate during the study period, since the calculated value of F-Statistics (11.6595) is significant at 1 percent level and the null hypothesis is rejected. It is also evidenced from the table that exchange rate has granger cause on NSE500, because the calculated value of F-statistics is significant at 1 percent level. Similarly NSE500 also has granger cause on exchange rate, because the calculated value of F-Statistics in this case also significant at 1 percent level, hence the null hypothesis is rejected.

CONCLUSION

The study tests causal relationship between exchange rate and Indian stock market. The study used daily data for 14 years and applied Granger causality test. The study evidenced that the fluctuation in exchange rate do not have granger cause on the movement of Indian stock market in terms of BSE500, but it has granger cause on NSE500. Surprisingly, the movements of Indian stock market have granger cause on the fluctuation of exchange rate both in terms of BSE500 and NSE500.

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