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NEED/IMPORTANCE OF THE STUDY

STATEMENT OF THE PROBLEM

OBJECTIVES

HYPOTHESIS (ES)

RESEARCH METHODOLOGY

RESULTS & DISCUSSION

FINDINGS

RECOMMENDATIONS/SUGGESTIONS

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APPENDIX/ANNEXURE

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- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.

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SYNTHETIC REVIEW: A REVIEW OF LITERATURE

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ABSTRACT
The objective of this paper is to deliver a synthetic review of the literature on stock index returns and volatility Patterns. Review of literature is base for identification of any research problem. Review of Literature is step by step elaboration of studies already done on any issue. Previous studies on any research topic guide authors to opt right issues for research. It gives direction to the author what type of study he/she should follow. He / She may able to identify the research gap where he has a chance to make further study. The literature review helps scholars to find and select appropriate research tools. In the thesis, literature review is needed to get clear picture of evidences in summarized form and invites scholars to go further for verification and amendments. Researcher draws conclusion on thorough study of literature. Polit and Hungler (2001) defined the term "Literature Review" as it is a process of searching for relevant literature and the critical reporting of the literature. Merton Miller (1991) has written in his book Financial Innovation And Market Volatility …. "By volatility public seems to mean days when large market movements, particularly down moves, occur. These precipitous market wide price drops cannot always be traced to a specific news event. Nor should this lack of smoking gun be seen as in any way anomalous in market for assets like common stock whose value depends on subjective judgement about cash flow and resale prices in highly uncertain future. The public takes a more deterministic view of stock prices; if the market crashes, there must be a specific reason." The issue of volatility is increasingly gaining importance in the current era among the financial practitioners, market participants, regulators and researchers.

KEYWORDS
synthetic review, stock index.

INTRODUCTION
Volatility is the basic measure of stock market risk. It can be used to measure the market risk of a single instrument or the entire portfolio of instruments. While volatility can be expressed in different ways, statistically, volatility of a random variable is its standard deviation. In day-to-day practice, volatility is calculated for all sorts of random financial variables such as stock returns, interest rates, the market value of a portfolio, etc. Stock return volatility measures the random variability of the stock returns. Simply put, stock return volatility is the variation of the stock returns in time. More specifically, stock volatility it is the standard deviation of daily stock returns around the mean value and the stock market volatility is the return volatility of the aggregate market portfolio. In the year 1987, stock market all over the world had fallen sharply; some fell to an extent of 40 percent. It is thought that when price swings reach extreme levels, the consequences may be extreme. Some consequences are, firstly it reduces the liquidity of the whole market, secondly investors need to keep cash equivalent investments in place of securities, thirdly it reduces investor confidence in stocks.

Till early eighties, it was assumed that the volatility of an asset is constant and estimation procedures were based on this assumption, even though some of the pioneering studies on property of stock market returns did not support this assumption.

LITERATURE REVIEW OF RELATED STUDIES
Edwards Frankin R (1988)[1] in their study on "Policies to curb stock market volatility" focused on providing an institutional and regulatory framework that facilitated the growth of efficient and liquid international capital markets, considering the global market. He emphasised on volatility which was counterproductive. He studied on volatility in U.S, Japan and U.K. and measured standard deviation of close to close daily percentage changes. He concluded with remark that stock market volatility is not a constructive approach to the future, the goal should be to provide an institutional and regulatory framework that facilitates the development of efficient and liquid capital market, curbing stock market volatility in New York with improvised regulations is both myopic and dangerous.

Baillie Richard T & DeGennaro Ramon P[2] **(1990)** in their paper on "Stock returns and volatility" they estimated a variety of models from daily and monthly portfolio return data, and concluded that there is week relationship between mean returns and standard deviation. They revealed investors should consider some other risk measures to be more important that the variance of portfolio returns.

Investors would not waste time researching if they believed that markets were efficient but, in fact, they presume that market are not efficient. **Kupiec Paul**[3] **(1991)** researched on Stock market volatility in OECD countries, their recent trends, consequences for the real economy and proposals for reform. The paper considered the macroeconomic consequences of excessive volatility and discussed some of the financial market reforms that have been proposed in the United States to attenuate stock price variability; including proposals that attempt to limit volatility by imposing temporary trading halts, limiting the legal leverage available to investors in financial assets, altering exchange trading practices to accommodate volume and raising the transactions costs of financial trading. Stock return volatility appears to have increased in many OECD countries over the past thirty years.

Cambell R. Harvey and Robert E. Whaley[4] **(1992)** in their study on "Market volatility prediction, efficiency of volatility prediction and efficiency of S&P 100 index option market" they expressed in their investigation that variation in the market volatility is influenced by expected asset returns. They rejected that volatility changes are unpredictable on a daily basis, based on daily out of sample volatility projections. Though it was difficult to isolate the source of the variation, volatility change predictions, economic profits, net of transaction cost would tend support the informational inefficiency explanation. The paper supports the notion that S & P 100 index option market is allocationally efficient.

Aggarwal Reena, Inclan Carla and Leal Ricardo[5] **(1995)** conducted investigation on "Volatility in emerging stock market". They studied the effect of global and local events like social, political or economic factors causing major shifts in emerging market's volatility. They included ten largest emerging markets in their scope: Asia, Latin America, Hong Kong, Singapore, Germany, Japan, U.K., and U.S., and even included Morgan Stanley World Index, the Far East Index, the Latin American Index and the Emerging Market Index. The study examined the return in the local currency and dollar-adjusted returns for period of 1985 to 1995 as during this period there was a significant jump in the volatility of several emerging markets.

Schwert G. William[6] **(1997)** in a study on "Stock market volatility - Ten years after the crash" where he compared volatility of returns of U.S. stock indexes at monthly, daily and intraday intervals and also showed volatility of stock index returns implied by traded option contract. He also compared volatility of U.S. stock

market returns with the volatility of stock market returns in the United Kingdom, Germany, Japan, Australia and Canada. The study concluded that volatility has been very low in the decade since 1987 crash.

Susmel Raul[7] (1999) in a study on "Switching volatility in international equity market" applied a switching ARCH model to weekly returns from international stock markets. It used an exponential SWARCH, or E-SWARCH, which provided a state-dependent description of the behaviour of the conditional variance. It was concluded that domestic volatility states tend to be independent of foreign volatility states, with some exceptions like Japan, U.K., U.S., and Canada.

Poterba James M. and Summers Lawrence H.[8] (2001) in their study, "The persistence of volatility and stock market fluctuations" investigated changing risk premium hypothesis with changing stock markets. For the period of 1928-84 the researcher analysed the time-series properties of stock market volatility using daily return data on Standard and Poor's Composite Stock Index. They concluded that stock volatility decays rapidly and so affects the return for short intervals only.

Karolyi G. Andrew[9] (2001) in his study on "Why Stock Return Volatility Really Matters" highlights the complexity of Investor relation (IR) which is wider than just overseeing the disclosure of financial statement or other corporate information to investors or analysts by means of press releases, conference calls or annual general meetings. The paper concluded that it is as important for the stockholders to obtain a fair price for their shares as it is that dividends, earnings and assets be conserved or increased and it is the responsibility of management, which relates to the obligation to prevent the stabilizing of either absurdly high or unduly low prices for their securities.

Bandivadekar Snehal & Ghosh Saurabh[10] (2003) conducted a research on "Derivatives and Volatility on Indian stock markets". They studied the impact of introduction of index futures on spot market volatility on both S&P CNX Nifty and BSE Sensex using ARCH/GARCH technique. After the introduction of index futures there was an increased impact of the recent news and even the uncertainty which originated from old news, thus the volatility in the spot market even declined. Understanding the fact that decrease in volatility was also impacted by market wide factors and not only derivative products, the researchers studied the declined volatility of BSE-100, BSE-200 and BSE-500 indices as there was no index futures introduced. They found that the volatility in both BSE Sensex and S&P CNX Nifty had declined in the period after introduction of index future.

Ravichandran K.[11] (2003) investigated the "Stock volatility and Technical performance of Tamil Nadu Newsprint and Paper Limited" he studied the trend of volatility of the stock for the last 3years and witnessed increase and decrease in the prices based on the industry fluctuations. He conducted various financial statement analysis like Technical analysis, Fundamental analysis, Dows theory, Ratio analysis and Efficient market hypothesis. As in the 2003 the company increased its capital and for last three years was distributing 27.5% of the Net Profit as dividend, thus there was a positive moment in the stock prices. Thus for the speculators and investors it was the time to buy the stock.

Srivastava Sandeep, Yadav Surendra S. and Jain P.K.[12] (2004) In their study on "Comparative analysis of volatility forecasting models in Indian stock market: An empirical study" developed a framework for volatility forecasting that comprises model, length of sample period, forecast horizon, return interval and weighting scheme among others, which concluded that Indian market is typical in certain respects and its volatility is higher than western counterparts. Firstly, it was found that the convention of employing equal sample period and forecast horizon is suitable practice. Secondly, implied volatility seems to be more suitable for generating very short-term volatility forecasts, like a day or a week. Thirdly, conditional volatility forecasts like EWMA and GARCH (1,1) appeared to have captured the volatility efficiently in medium term horizon, say for one- or two-year period.

Batra Amit[13] (2004) conducted research on "Stock return volatility pattern in India" which included the time varying pattern in India using monthly stock return and asymmetric GARCH methodology over the period 1979-2003. This analysis revealed that liberalization of the stock market or the FII entry in particular does not have any direct implications for the stock return volatility. The results of this analysis also showed that the stock market cycles have dampened in the recent past. Volatility had declined in the post liberalization phase for both the bull and bear phase of the stock market cycle.

Kaur Harvinder[14] (2004) in her study on "Time varying volatility in Indian stock market" concluded that volatility in the Indian stock market exhibits characteristics similar to those found earlier in many of the major developed and emerging stock markets. The paper empirically investigated the pattern of volatility in the Indian stock market during 1993-2003 in terms of its time varying nature, presence of certain characteristics such as volatility clustering, 'day-of-the week effect' and 'calendar month effect,' and whether there was existence of any 'spillover effect' between the domestic and the US stock markets. It contributed to the body of knowledge by providing a holistic treatment to the subject of stock market volatility in India and provided evidence on its main characteristic features with the help of econometric techniques and employing GARCH models. Investors aim at making more profitable and less risky investments. Therefore, they need to study and analyze stock market volatility, among many other factors, before making investment decisions. The empirical findings could thus be useful to investors as it provides evidence of time varying nature of stock market volatility in India.

Pandey Ajay[15] (2005) in his study titled "Volatility models and their performances in Indian capital markets" found that modelling and forecasting volatility of capital markets has been an important area of inquiry and research, in financial economics, with the recognition of time-varying volatility, volatility clustering, and asymmetric response of volatility to market movements. This stream of research has been aided by various conditional volatility (ARCH/GARCH type) models proposed to handle these empirical regularities. Nonetheless, researchers have found that forecasting volatility is difficult. He modelled the volatility of S&P CNX Nifty using different class of estimators and models. The results indicated that while conditional volatility models perform well in estimating volatility for the past in terms of bias, extreme value estimators based on observed trading range perform well on efficiency criteria.

Karmakar Madhusudan[16] (2005) in his investigation on "Modelling conditional volatility of the Indian stock markets" gave the importance of forecasting volatility in many asset-pricing and portfolio management problems. . The scope of the paper was to study the macro level of two major indices, namely S&P CNX Nifty and BSE Sensex. Furthermore, to study heteroscedastic in the Indian stock market at micro level, current share prices of 50 individual companies of S&P CNX Nifty was used. As there was a big shift due to liberalisation in 1991, conditional volatility of market return series from January 1991 to June 2003 depicts drastic change in the volatility over this period and share price cluster near liberalisation. It implied that GARCH model provides good forecasts of volatility which can then be used for a variety of purposes including portfolio allocation, performance measurement, option valuation, etc. Generally, volatility seems to be of a persistent nature. It was found after applying GARCH model that significant leverage effects were seen only in eight companies out of 50.

Avranov Doron, Chordia Tarun and Goyal Amit[17] (2006) in their study titled "The impact of trades on daily volatility" proposed a trading-based explanation for the asymmetric effect in daily volatility of individual stock returns. They concluded that volatility increases (decreases) following stock prices declines (increases). Further, it was demonstrated that there is no impact of leverage effect on the asymmetric volatility, additionally it was also demonstrated that asymmetric volatility for stocks with no leverage. They research observed that the existence of asymmetric volatility in high frequency data needs new explanation potentially based on trading activity.

Ahoniemi Katja[18] (2006) conducted a study on "Modeling and forecasting implied volatility- An econometric analysis of the VIX index". The objective of the study was to model and forecast implied volatility, with the ultimate aim of producing relevant information for option traders. Both good and bad returns of the S&P 500 index and foreign stock market returns, generated by the first differences of the MSCI EAFE index, are significant explanatory variables for the first differences of the VIX. The study concluded that there is certain degree of predictability in the direction of change of VIX index which the option traders can exploit for certain period of time. The Pesaran-Timmermann test makes sure that the best model has good forecast accuracy.

Koulakiotis Athanasios, Papasyriopoulos Nicholas and Molyneux Phil[19] (2006) in their research on "More evidence on the relationship between stock price returns and volatility: A note" examined the relationship between stock price returns and volatility for industrialized countries (Australia, Canada, France, Japan, US, UK, Germany and Italy). The research is done with the help of econometric models the GARCH-M and the E-GARCHM. Both GARCH-M and the E-GARCHM models were taken into account to study both to witness the symmetric and asymmetric impact of stock price volatility on the expected returns. As a result it was seen that GARCH-M model has modelling limitations and does not give conclusive results in comparison to the EGARCH-M model which gives more reliable results about the relationship between stock price returns and volatility. Moreover, the study of relationship between stock price returns and volatility was not significant.

N'dri, Leon Konan[20] (2007) in study titled "Stock market returns and volatility in the BRVM" studied the relationship between expected stock market returns and volatility in the regional stock market of the West African Economic and Monetary Union called the BRVM from 4 January 1999 to 29 July 2005. An EGARCH-in-Mean model assuming normally distributed and Student's t distribution for error terms was applied on weekly returns. This paper concluded that firstly investor

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is not rewarded for the risk taken in BRVM, secondly that risk and return trade-off changes in a predictable way over the business cycle and persistence may be used to predict future economic variables.

Pandian & Jeyanthi[21] **(2008)** in their study on "Stock volatility in Indian stock exchange" provided a detail analysis on stock returns and volatility of the Indian stock market, as it is an important issue for Indian investors, regulators, brokers, policy makers, dealers and researchers with the increase in the FIIs investment. The main focus of the paper was on two indices BSE Sensex and NSE Nifty from 1998 to 2008. The conclusion of the study was that the outlook for India is good. It was even stated that the bull phases volatility were lower than the bear phases, this was because during the bull phases returns were earned whereas losses were incurred during the bear phases.

Kumar Brajesh & Singh Priyanka[22] **(2008)** in their research on "Volatility modelling, seasonality and risk return market" this is an empirical study of volatility, risk premium and seasonality in risk-return relation of the Indian stock and commodity markets. In the paper Volatility clustering and asymmetric nature were examined for Indian stock and commodity markets. The work was carried on S&P CNX Nifty index for 18 years starting from January 1990 to December 2007. Gold prices from 22nd July 2005 to 20th February 2008 and Soybean from October 2004 – December 2007 were also considered. It was concluded that stock and commodity markets returns showed persistence, clustering and asymmetric properties.

Kumar Rakesh & Dhankar Raj S.[23] **(2009)** in their investigation on "Asymmetric Volatility and Cross Correlations in Stock Returns under Risk and Uncertainty Here the main aims to study the South Asian market as after liberalization. Markets studied by the researcher are Bombay stock exchange listed index BSE 100 for India, Colombo stock exchange listed Milanka Price Index for Sri Lanka, Karachi stock exchange listed KSE 100 for Pakistan, Dhaka stock exchange listed DSE-General Index for Bangladesh, and S & P Global 1200 to represent the global market. Cross-correlation in stock returns of South Asian stock markets, regional integration, and interdependence on global stock market was investigated. The study even analysed the significant aspects of investment policies when investment decisions are taken under risk and uncertainty. The tools applied to analyse cross-correlation was Ljung-Box and for studying conditional and asymmetric volatilities ARCH and GARCH econometric models were applied and Ljung-Box as a diagnostic testing of fitted models, and lastly correlation to examine the interdependency of these markets in terms of stock returns and expected volatility. The optimistic significant relationship between stock returns and unexpected volatility, though, concludes that investors realize extra risk premium for taking advantage of unexpected variations in stock returns.

Mishra P. K.[24] **(2009)** conducted study on "Capital market volatility - An Econometric Analysis". The purpose of the paper was to examine the volatility of Indian capital market amidst scepticism of recession. The paper drew heavily on ARCH class models from the literature of time series econometrics to study fat tails, volatility clustering, leverage effects and persistence of stock market volatility in India. The results provided evidence of time varying volatility; it's asymmetric and leverage effects.

Joshi Prashant[25] **(2010)** in his study on "Modelling volatility in emerging stock markets of India and China" took closing prices from 1st January 2005 to 12th May 2009 and detected non-linearity with the help of BDSL test. It was revealed that the volatility is more persistent in the Chinese stock market than the Indian stock market.

Venkatesh C. K. and Tyagi Madhu[26] **(2010)** in their research on "The use of fundamental and technical analysis by stock exchanges dealers: Indian evidence" concluded that the dilemma faced by the market participants in the secondary market so as to predict the movement of stock prices is well-managed using two approaches, Fundamental and Technical analysis. Due to high volatility in the stock markets, it is considered as a very rigorous job to predict the future movement of the stock prices. The paper tried to answer to the question as to which of the two tools should be used, fundamental or technical analysis.

Raunig Bukhard and Scharler Johan[27] **(2010)** in their investigation on "Stock market volatility and the business cycle" concluded that increased volatility would result in higher uncertainty about future economic conditions. The increase in uncertainty would lead to low consumption and investment spending and low demand as well. Empirical evidence suggested that this indirect channel through which Stock market developments feed back into the real economy is quantitatively important.

Mallikarjunappa T & Afsal E M[28] **(2010)** in their study "Price Discovery Process Volatility Spill-over in Spot & Futures Market: Evidences of Individual Stocks" concluded that Volatility spill-over from spot market to futures market is present in such a way that a decrease in spot volatility leads to a decrease in futures volatility. They also found that volatility shocks are asymmetric and persistent in both the markets.

Shobhana V. K. & Karpagavalli R.[29] **(2011)** in their study on "Volatility of Stock Return of the Select Banking Companies Listed at Bombay Stock Exchange" focused on two categories of stock returns shares (A Group) and non-specified (B Group) shares of the banking companies listed at BSE. Further simple average, standard deviation and beta were used for the analysis of data. It was examined the volatility of stock return of each of the select banks and that of the groups with the market return and the riskiness of the securities.

RESEARCH GAPS

There have been a lot of studies on stock and stock index returns & volatility across the world, especially in US and other developed countries, studying the various aspects of volatility and the factors affecting it, but only few such studies have been undertaken in India.

Moreover, a comparative study of stock returns & volatility in India and other countries has not been undertaken. As already mentioned the stock returns and volatility are very important from the perspectives of investors and the volatility in the stock markets has increased manifold in the past two decades, the study is very important and will help the investors have an insight into the stock prices and stock market behaviour.

The past studies have also been undertaken for different time periods but there have been no studies to study the stock returns & volatility for the period since 1997, i.e. the period when India had a radical policy change towards liberalization. The Indian economy has seen a significant transition and growth in the post-liberalisation era and FDI flows in the country have been phenomenal. The exchange rate has sharply depreciated. There is a significant impact of all these factors on the stock returns and volatility which needs to be studied.

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