ABSTRACT

The study pertains to India, which is one of the fast growing markets in the world. India is an appropriate case for conducting such a study, as portfolio investment has become the dominant path of foreign investment in the Indian economy. India liberalized its financial market and allowed FIIs to participate in their domestic markets in 1992. The opening up of the market resulted in a number of positive effects. First, the stock exchanges had to improve the quality of their trading and settlement procedures in line with the best practices of the world. Second, the transparency and information flows improved on account of the entry of FIIs in India. However, people are also sensing negative effects in the form of potential destabilization because of the bulk buying and selling activity of FIIs.

The Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) are two leading stock exchanges of India. The foreign institutional investors are investing in these markets. So both of these markets have been taken to study the determinants of the foreign institutional investment in India. The National Stock Exchange was launched in 1992 and FIIs were also permitted to invest in Indian market in September 1992. Because of this the reference period for the study to investigate the impact of FIIs on stock market in India has been taken from January 1986 to December 2007. However, due to its non-existence the data on NSE prior to 1994 was not available. Hence, it was not appropriate to take National Stock Exchange data to ensure the impact of foreign institutional investors on stock market return and volatility. Therefore, to determine the impact of FIIs on Indian stock market (i.e. on return and volatility) Bombay Stock Exchange has been considered. The time period of the study varies with the various objectives of the study.