CHAPTER II
LITERATURE REVIEW

2.1: INTRODUCTION

2.2: NATIONAL AND INTERNATIONAL REVIEWS
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This chapter reviews both conceptual and empirical underpinnings of this study. An effort is made to review the various studies undertaken so far at national and international level. Literature on the various studies on stock market performance is examined to give lessons to the current study. Conceptual review analyses the theoretical premises of this while empirical assess past numerical data researches for both developing and developed economies that are relevant to this study. There are various opinions reflecting wide views towards the impact of macroeconomic variables on stock market performance. The behavior of the stock market performances exhibit diverse responses to the various macroeconomic variables. Stock market is affected by many highly interrelated economic, social, political and these factors interact with each other in a very complicated manner.

Therefore, it is generally difficult to identify the effective factors on stock price index. Over the past few decades, the interaction of stock market and macroeconomic variables has been an interesting case study for the relationship between macroeconomic variables and stock market in both developed and developing countries. It is often argued that stock prices are determined by some of macroeconomic variables such as the interest rate, the exchange rate, the inflation rate, and money supply. Anecdotal evidence from the financial press indicates that investors generally believe that monetary policy and macroeconomic events have a large influence on the volatility of the stock price.

2.2: The various studies undertaken for review so far at national and international level are as follows.

Ando, A. and F. Modigliani (1963) the relationship between stock prices and real consumption expenditures, for instance, is based on the life cycle theory, developed by Ando and Modigliani (1963) which states that individuals base their consumption decision on their expected life time wealth. Part of their wealth may be held in the form of stocks linking stock price changes to changes in consumption
expenditure. Similarly, the relationship between stock prices and investment spending is based on the ‘q’ theory of James Tobin (1969), where q is the ratio of total market value of firms to the replacement cost of their existing capital stock at current prices.

Bosworth, B (1975) the theoretical basis to examine the link between stock prices and the real variables are well established and Bodie [1976] document a negative impact of inflation and money growth on equity values. David A. Dickey & Wayne A. Fuller [1979] let n observations Y₁, Y₂, …, Yₙ be generated by the model \( Y_t = pY_{t-1} + e_t \), where \( Y_0 \) is a fixed constant and \( \{e_t\}_{t=1}^{n} \) is a sequence of independent normal random variables with mean 0 and variance \( \sigma^2 \). Properties of the regression estimator of p are obtained under the assumption that \( p = \pm 1 \). Representations for the limit distributions of the estimator of p and of the regression t test are derived. The estimator of p and the regression t test furnish methods of testing the hypothesis that \( p = 1 \).

Dornbusch and Fischer (1980) suggest that changes in exchange rates affect the competitiveness of a firm as fluctuations in exchange rate affects the value of the earnings and cost of its funds as many companies borrow in foreign currencies to fund their operations and hence its stock price. Urich, T. and P. Wachtel (1981), Rogalski, J.R. and J.D. Vinso (1977) the money supply, for example M1, is also likely to influence share prices through at least three mechanisms: First, changes in the money supply may be related to unanticipated increases in inflation and future inflation uncertainty and hence negatively related to the share price; Second, changes in the money supply may positively influence the share price through its impact on economic activity; Finally, portfolio theory suggests a positive relationship, since it relates an increase in the money supply to a portfolio shift from non-interest bearing money to financial assets including equities.

David A. Dickey and Wayne A. Fuller [1981] the likelihood ratio test of the hypothesis that \((\alpha, \rho) = (0, 1)\) is investigated and a limit representation for the test statistic is presented. Percentage points for the limiting distribution and for finite sample distributions are estimated. The distribution of the least squares estimator of \(\alpha\) is also discussed. A similar investigation is conducted for the model containing a time trend. Eugene F. Fama [1981] attempts to explain these anomalous stock return-inflation relations. The data are consistent with the hypothesis that the negative...
relations between stock returns and inflation are proxying for positive relations between stock returns and real variables which are more fundamental determinants of equity values. The negative stock return-inflation relations are induced by negative relations between inflation and real activity which in turn are explained by a combination of money demand theory and the quantity theory of money. As predicted by the proxy effect hypothesis, the more anomalous of the stock return-inflation relations disappear when both real variables and measures of expected and unexpected inflation are used to explain stock returns. The first step in the development of this story is to document the negative relations between inflation and real activity. Controlling for the other arguments in the money demand function, especially the nominal money supply, a simple rational expectations.

Robert Geske and Richard Roll [1983] contrary to economic theory and common sense, stock returns are negatively related to both expected and unexpected inflation. They argue that this puzzling empirical phenomenon does not indicate causality. Instead, stock returns are negatively related to contemporaneous changes in expected inflation because they signal a chain of events which results in a higher rate of monetary expansion. Exogenous shocks in real output, signalled by the stock market, induce changes in tax revenue, in the deficit, in Treasury borrowing and in Federal Reserve “monetization” of the increased debt. Rational bond and stock market investors realize this will happen. They adjust prices (and interest rates) accordingly and without delay. Although expected inflation seems to have a negative effect on subsequent stock returns, this could be an empirical illusion, since a spurious causality is induced by a combination of: (a) a reversed adaptive inflation expectations model and (b) a reversed money growth/stock returns model. If the real interest rate is not a constant, using nominal interest proxies for expected inflation is dangerous, since small changes in real rates can cause large and opposite percentage changes in stock prices.

Pearce, D. K. and V. V. Roley (1983) document a negative impact of inflation and money growth on equity values. Robert S. Pindyck [1984] most explanations for the decline in share values over the past two decades have focused on the concurrent increase in inflation. They considers an alternative explanation: a substantial increase in the riskiness of capital investments. They show that the variance of firms' real gross
marginal return on capital has increased significantly, increasing the relative riskiness of investors' returns on equity, and that this can explain a large part of the market decline. We also assess the effects of increase in the mean and variance of the inflation rate, and a decline in firms expected return on capital.

Douglas K. Pearce and V. Vance Roley [1985] they examines the daily response of stock prices to announcements about the money supply, inflation, real economic activity, and the discount rate. Except for the discount rate, survey data on market participants' expectations of these announcements are used to identify the unexpected component of the announcements in order to test the efficient markets hypothesis that only the unexpected part of any announcement, the surprise, moves stock prices. The empirical results support this hypothesis and indicate further that surprises related to monetary policy significantly affect stock prices. There is only limited evidence of an impact from inflation surprises and no evidence of an impact from real activity surprises on the announcement days. There is also only weak evidence of stock price responses to surprises beyond the announcement day.

Nai-Fu Chen et al [1986] they tests whether innovations in macroeconomic variables are risks that are rewarded in the stock market. Financial theory suggests that the following macroeconomic variables should systematically affect stock market returns: the spread between long and short interest rates, expected and unexpected inflation, industrial production, and the spread between high and low grade bonds. We find that these sources of risk are significantly priced. Furthermore, neither the market portfolio nor aggregate consumption are priced separately. We also find that oil price risk is not separately rewarded in the stock market. Chen, Roll and Ross (1986) have argued that stock returns should be affected by any factor that influences future cash flows or the discount rate of those cash flows. In an empirical investigation they found that the yield spread between long and short term government bonds, expected inflation, unexpected inflation, nominal industrial production growth and the yield spread between corporate high and low grade bonds significantly explain stock market returns.

Robert F. Engle and C. W. J. Granger [1987] they presents a representation theorem based on Granger (1983) which connects the moving average, autoregressive, and error correction representations for co-integrated systems. A vector
autoregression in differenced variables is incompatible with these representations. Estimation of these models is discussed and a simple but asymptotically efficient two-step estimator is proposed. Testing for co-integration combines the problems of unit root tests and tests with parameters unidentified under the null. Seven statistics are formulated and analyzed. The critical values of these statistics are calculated based on a Monte Carlo simulation. Using these critical values, the power properties of the tests are examined and one test procedure is recommended for application. In a series of examples it is found that consumption and income are co-integrated, wages and prices are not, short and long interest rates are, and nominal GNP is co-integrated with M2, but not M1, M3, or aggregate liquid assets.

Engle and Granger (1987) and Granger (1986) suggest that the validity of long term equilibria between variables can be examined using cointegration techniques. Campbell and Shiller (1988) estimate the relationship between stock prices, earnings and expected dividends. They find that a long term moving average of earnings predicts dividends and the ratio of this earnings variable to current stock price is powerful in predicting stock returns over several years. They conclude that these facts make stock prices and returns much too volatile to accord with a simple present value model. C.W.J. Granger [1988] he considers three separate but related topics. (i) What is the relationship between causation and co-integration? If a pair of I(1) series are co-integration, there must be causation in at least one direction. An implication is that some tests of causation based on different series may have missed one source of causation. (ii) Is there a need for a definition of ‘instantaneous causation’ in a decision science? It is argued that no such definition is required. (iii) Can causality tests be used for policy evaluation? It is suggested that these tests are useful, but that they should be evaluated with care.

Gikas A. Hardouvelis [1988] he examines the post-October 1979 response of exchange rates and interest rates to the new information contained in the first announcement of fifteen US macroeconomic series. Markets respond primarily to monetary news, but also to news about the trade deficit, domestic inflation and variables that reflect the state of the business cycle. For all fifteen macroeconomic variables, an increase (decrease) in interest rates is accompanied by an appreciation.
(depreciation) of the dollar, which is consistent with models that stress price rigidity and absence of purchasing power parity.

Milton Friedman [1988] quarterly data for the period from 1961 to 1986 suggest that the real quantity of money (defined as M2) demanded relative to income is positively related to the deflated price of equities (Standard and Poor's composite) three quarters earlier and negatively related to the contemporaneous real stock price. The positive relation appears to reflect a wealth effect; the negative, a substitution effect. The wealth effect appears stronger than the substitution effect. The volume of transactions has an appreciable effect on M1 velocity but not on M2 velocity. Annual data for a century suggest that the apparent dominance of the wealth effect is the exception, not the rule.

Pierre Perron [1988] he presents a summary of recent work on a new methodology to test for the presence of a unit root in univariate time series models. The stochastic framework is quite general. While the Dickey-Fuller approach accounts for the autocorrelation of the first-differences of a series in a parametric fashion by estimating additional nuisance parameters, this new approach deals with this phenomenon in a nonparametric way. Laderman and Jeffrey M (1989) reports on developments pertaining to finance in the United States as of August 14, 1989. Performance of the stock market; Dow Jones industrial average; Corporate earnings for the second quarter of 1989; Decline of interest rates; Yield on government bonds; Key factors affecting the U.S. stock market in 1989.

Cutler et al [1989] (CPS) find that Industrial Production growth is significantly positively correlated with real stock returns over the period 1926-1986, but not in the 1946-85 sub-period. In Indian context. Ma and Kao (1990) find that a currency appreciation negatively affects the domestic stock market for an export-dominant country and positively affects the domestic stock market for an import-dominant country, which seems to be consistent with the goods market theory.

De Fina (1991) has also argued that rising inflation initially has a negative effect on corporate income due to immediate rising costs and slowly adjusting output prices, reducing profits and therefore the share price.
Søren Johansen [1991] he present the likelihood methods for the analysis of cointegration in VAR models with Gaussian errors, seasonal dummies, and constant terms. They discuss likelihood ratio tests of cointegration rank and find the asymptotic distribution of the test statistics. They characterize the maximum likelihood estimator of the cointegrating relations and formulate tests of structural hypotheses about these relations. It show that the asymptotic distribution of the maximum likelihood estimator is mixed Gaussian. Once a certain eigenvalue problem is solved and the eigenvectors and eigenvalues calculated, one can conduct inference on the cointegrating rank using some non standard distributions, and test hypotheses about cointegrating relations using the $\chi$ distribution.

Anand Bansal [1992] he studies 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. 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 returns and volatility of stock return. It found that while 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.

Ajayi, Richard A and Mougoue, Mbodja [1992] in this study they apply recent advances in time-series analysis to examine the intertemporal relation between stock indices and exchange rates for a sample of eight advanced economies. An error correction model (ECM) of the two variables is employed to simultaneously estimate the short-run and long-run dynamics of the variables. The ECM results reveal significant short-run and long-run feedback relations between the two financial markets. Specifically, the results show that an increase in aggregate domestic stock price has a negative short-run effect on domestic currency value. In the long run, however, increases in stock prices have a positive effect on domestic currency value. On the other hand, currency depreciation has a negative short-run and long-run effect on the stock market.

Bahmani and Sohrabian (1992) found a bi-directional causality between stock prices measured by the Standard & Poor's 500 index and the effective exchange rate.
of the dollar, at least in the short run. The co-integration analysis revealed no long run relationship between the two variables. Similarly, Steven J. Cochran & Robert H. Defina [1993] he examines the effects of inflation on real stock prices using an error-correction model of the S&P 500. Inflation is shown to have a negative and significant impact in a variety of model specifications. The study also investigates whether the observed negative relation arises because inflation proxies for more fundamental relations between stock prices and either future output, relative price uncertainty or inflation uncertainty. The evidence reveals that inflation does not merely proxy for those other factors and, thus, the proxy effect hypothesis in its various forms is rejected.

Ronald Bewley & David Orden [1994] they compare and contrasts a number of single-equation and systems estimators of long-run responses with application to a three-variable import demand model. Two variants of Box and Tiao's (1977) canonical estimator are developed and associated tests for the number of cointegrating vectors are introduced. A simulation study indicates that, while both Box-Tiao estimators have empirical distributions with fatter tails than the normal, there is evidence that the incidence of extreme values is even greater with Johansen's (1988) ML procedure.

Dornbusch and Park (1995) had said that FIIs are considered as positive feedback trader means they buy when the market increases and sell when the market falls. This is viewed as destabilizing because the sales will lead the stock market to fall further and their buys increase the stock market. Glasgall, William (1995) analyzes and comments on the performance of international stock markets. Factors affecting the decline of stock market prices are Inflation issues and Effect of bond competition on traders. Finally Remarks on price-earnings ratio of developing countries and its Effect of peso collapse in Mexico; Remarks by industry experts.

Mukherjee, T.K. and A. Naka (1995) many experts however believe that positive effects will outweigh the negative effects and stock prices will eventually rise due to growth of money supply. They argue that a change in the money supply provides information on money demand, which is caused by future output expectations. If the money supply increases, it means that money demand is
increasing, which, in effect, signals an increase in economic activity. Higher economic activity implies higher cash flows, which causes stock prices to rise.

Hiro Y. Toda and Taku Yamamoto [1995] they shows how we can estimate VAR's formulated in levels and test general restrictions on the parameter matrices even if the processes may be integrated or cointegrated of an arbitrary order. They can apply a usual lag selection procedure to a possibly integrated or cointegrated VAR since the standard asymptotic theory is valid (as far as the order of integration of the process does not exceed the true lag length of the model). Having determined a lag length \( k \), we then estimate a \((k + d_{\text{max}})\) th-order VAR where \( d_{\text{max}} \) is the maximal order of integration that we suspect might occur in the process. The coefficient matrices of the last \( d_{\text{max}} \) lagged vectors in the model are ignored (since these are regarded as zeros) and we can test linear or nonlinear restrictions on the first \( k \) coefficient matrices using the standard asymptotic theory.

Iqbal Mansur and Elyas Elyasiani [1995] they attempts to determine whether the level and volatility of interest rates affect the equity returns of commercial banks. Short-term, intermediate-term, and long-term interest rates are used. Volatility is defined as the conditional variance of respective interest rates and is generated by using the ARCH estimation procedure. Two sets of models are estimated. The basic models attempt to determine the effect of contemporaneous and lagged interest rate volatility on bank equity returns, while the extended models incorporate additional contemporaneous macroeconomic variables. Contemporaneous interest rate volatility has little explanatory power, while lagged volatilities do possess some explanatory power, with the lag length varying depending on the interest rate series used and the time period examined. The results from the extended model suggest that the long-term interest rate affects bank equity returns more adversely than the short-term or the intermediate-term interest rates. The findings establish the relevance of incorporating macroeconomic variables and their volatilities in models determining bank equity returns.

Abdalla and Murinde (1996) investigate interactions between exchange rates and stock prices in the emerging financial markets of India, Korea, Pakistan and the Philippines. The results of the granger causality tests results show uni-directional causality from exchange rates to stock prices in all the sample countries, except the
Philippines. Economist (1996) reports on the volatility of share prices in the American stock exchanges. Discussion of the stock prices of Dow Jones & Co.; Effect of heavy share trading and the economy; Viewpoint that the U.S. economy is the biggest factor affecting the stock market; Reasons for American stock market going out of control; Doubts on the outlook of corporate earnings.

Mun S. Ho and Bent E. Sørensen [1996] they examine the ability of the Johansen (1991) test to estimate the number of unit roots in high dimensional systems. They use data based Monte Carlo methods as a simple means of evaluating the validity of inference using asymptotic critical values. These simulations for a typical annual post WW2 dataset illustrate how the estimated number of unit roots change in a non-monotone fashion with the dimension of the system, and with the number of lags in the VAR representation. We find that over parametrization in high dimensions is as bad as under parametrization. The BIC outperforms the AIC in our setup.

Ajayi and Mougoue (1996) using daily data for eight countries, show significant interactions between foreign exchange and stock markets, Juan J. Dolado & Helmut Lutkepohl [1996] the Waldtests of restrictions on the coefficients of vector autoregressive (VAR) processes are known to have nonstandard asymptotic properties for 1(1) and cointegrated systems of variables. A simple device is proposed which guarantees that Waldtests have asymptotic X2-distributions under general conditions. If the true generation process is a VAR(p) it is proposed to fit a VAR(p+1) to the data and perform a Waldtest on the coefficients of the first p lags only. The power properties of the modified tests are studied both analytically and numerically by means of simple illustrative examples.

Issam S.A. Abdalla & Victor Murinde [1997] interactions are investigated between exchange rates and stock prices in the emerging financial markets of India, Korea, Pakistan and the Philippines. The motivation is to establish the causal linkages between leading prices in the foreign exchange market and the stockmarket; the linkages have implications for the ongoing attempts to develop stock markets in emerging economies simultaneously with a policy shift towards independently floating exchange rates. Some recent econometric techniques are applied to a bivariate vector autoregressive model using monthly observations on the IFC stockprice index and the real effective exchangerate over 1985:01–1994:07. The results show
unidirectional causality from exchange rates to stock prices in all the sample countries, except the Philippines. This finding has policy implications; it suggests that respective governments should be cautious in their implementation of exchange rate policies, given that such policies have ramifications on their stockmarkets.

Abdalla and Murinde (1997) document that a country’s monthly exchange rates tends to lead its stock prices but not the other way around. Doren D. Chadee and Don Crow [1997] this paper fills an important gap in the literature by focusing on the influence of changes of the exchange rate on Japanese foreign direct investment. A comprehensive simultaneous equation model of Japanese FDI is developed on a regional level to gauge the extent to which currency fluctuations affect Japanese FDI activities. The results suggest that the exchange rate is an effective mechanism through which to influence FDI. Thus, the exchange rate should not be overlooked by the World Trade Organisation in its efforts to further liberalise investment through the Multilateral Agreement on Investment.


Atsuyuki Naka et al (1998) in this paper we analyze relationships among selected macroeconomic variables and the Indian stock market. By employing a vector error correction model, we find that three long-term equilibrium relationships exist among these variables. Our results suggest that domestic inflation is the most severe deterrent to Indian stock market performance, and domestic output growth is its predominant driving force. After accounting for macro economic factors, the Indian market still appears to be drawn downward by a residual negative trend. it attribute to economic mismanagement, since the size of the downward pull mitigates after 1990, coinciding with the beginning of Indian economic reforms.

Radelet & Sachs (1998) this study concludes that FII do have any significant impact on the Indian Stock Market but there are other factors like government policies, budgets, bullion market, inflation, economical and political condition, etc. do also have an impact on the Indian stock market. There is a positive correlation
between stock indices and FIIs but FIIs didn’t have any significant impact on Indian Stock Market. Asiamoney (1999) reports on the equity market in India as of September 1999. Reasons for the bull run in the market. The factors affecting the stock market are Entry of foreign institutional investors. Chalapati Rao et al (1999) talks about the resemblance between the distribution of trading values at BSE and exposure of FII investments seem to suggest a strong positive relationship between the two and possible influence of FII investment pattern on trading at BSE. This goes to strengthen the general conclusion drawn on the basis of comparison of quarterly net FII investments and movement of the Bombay Stock Exchange Sensitive.

Pan, Fok & Lui (1999) used daily market data to study the causal relationship between stock prices and exchange rates and found that the exchange rates Granger-cause stock prices with less significant causal relations from stock prices to exchange rate. They also find that the causal relationship have been stronger after the Asian crisis. Pethe and Karnik (2000) using Indian data for April 1992 to December 1997, attempts to find the way in which stock price indices are affected by and affect other crucial macroeconomic variables in India. But this study runs causality tests in an error correction framework on non-cointegrated variables, which is inappropriate and not econometrically sound and correct. The study of course avers that in the absence of cointegration it is not legitimate to test for causality between a pair of variables and it does so in view of the importance attached to the relation between the state of economy and stock markets. The study reports weak causality running from IIP to share price index (Sensex and Nifty) but not the other way round. In other words, it holds the view that the state of economy affects stock prices.

Boardman et al (2000) shareholders in many share issued privatizations (SIPs) have enjoyed substantial increases in the value of their investments. They examines the factors that influence the long-run stock price performance of an international sample of SIPs, focusing on three-year buy and hold returns. After controlling for market-wide changes in stock prices, one finds that the relative size of the company has a negative effect on stock price performance, retained government ownership has a positive effect, the presence of a golden share has a negative effect, initial under pricing has a positive effect, and the timing of the privatization has no effect. Performance also depends on the industry and home country.
Chowhan et al. (2000) have tried to fetch reasons for turbulence in stock market in the short run in India taking into account SENSEX as the main index. They have tried to find that how SENSEX which stood at 2761 on 21st of October 1998 rose to 6000 in February 2000, i.e., 117% increment in just 15 months, which is not at all strongly supported by fundamental economic factors in these years as Indian economy grew by just 5.9% in 1999-2000. As per the results of this paper, even long run economic factors don’t support such a spike in stock prices. Such a trend was noted not just in Indian stock markets but word wide. Mermigas, Diane (2000) reports on the stock market performance of media and telecommunications companies in the United States as of October 23, 2000. Decline in prices of stocks. The factors affecting the companies stock market performance were the Implications of the companies’ digital and interactive media operations.

Ramin Cooper Maysami and Tiong Sim Koh [2000] he examines the long-term equilibrium relationships between the Singapore stock index and selected macroeconomic variables, as well as among stock indices of Singapore, Japan, and the United States. Upon testing appropriate vector error-correction models, we detected that changes in two measures of real economic activities, industrial production and trade, are not integrated of the same order as changes in Singapore's stock market levels. However, changes in Singapore's stock market levels do form a cointegrating relationship with changes in price levels, money supply, short- and long-term interest rates and exchange rates. While changes in interest and exchange rates contribute significantly to the cointegrating relationship, those in price levels and money supply do not. This suggests that the Singapore stock market is interest and exchanges rate sensitive. Additionally, the article concludes that the Singapore stock market is significantly and positively cointegrated with stock markets of Japan and the United States.

C. Barry White (2000) he determined the earnings multiple of the U.S. stock market (proxied by the S&P 500 Index) that can be justified by economic fundamentals at any given time. When price to earnings or earnings to price was used as the dependent variable, several regression models were found to be significant. The final E/P model had eight significant variables and explained more than 88 percent of P/E variation. This model indicates that today's multiples of 30 to 35 are not justified
by current or expected economic conditions. Maysami and Koh (2000) document significant contribution of interest rate and exchange rate in the long-run relationship between Singapore’s stock prices and various macroeconomic variables.

Chen, Roll and Ross (1986), Maysami and Koh (2000) and Mukherjee and Naka (1995) make use of industrial production in this regard. Unanticipated inflation may directly influence real stock prices (negatively) through unexpected changes in the price level. Inflation uncertainty may also affect the discount rate thus reducing the present value of future corporate cash flows. Basabi Bhattacharya and Jaydeep Mukherjee [2001] they investigated the nature of the causal relationship between stock prices and macroeconomic aggregates in the foreign sector in India. By applying the techniques of unit–root tests, cointegration and the long–run Granger non–causality test recently proposed by Toda and Yamamoto (1995), we test the causal relationships between the BSE Sensitive Index and the three macroeconomic variables, viz., exchange rate, foreign exchange reserves and value of trade balance using monthly data for the period 1990-91 to 2000-01. The results suggest that there is no causal linkage between stock prices and the three variables under consideration.

Brinda Balachander et al (2001) objective is to compare and contrast India’s GDP and Market Capitalization of BSE and NSE. Compare and contrast Equity market and Derivatives market turnover. Analysis of GDP vs. Market Capitalization of BSE and NSE from the graph we can see that the GDP and the market capitalization of NSE and BSE are positively correlated. We can see from the graph that for the year 2002-2003 the GDP growth rate declined to 4.3% and so did the market capitalization of NSE and BSE.

Mansor H. Ibrahim and Wan Sulaiman Wan Yusoff (2001) the paper analyzes dynamic interactions among three macroeconomic variables (real output, price level, and money supply), exchange rate, and equity prices for the Malaysian case using time series techniques of cointegration and vector autoregression. In the analysis, we rely on variance decompositions and impulse-response functions to gauge the strength of the interactions among the variables. The Malaysian stock prices seem to be driven more by changes in domestic factors, particularly money supply. Specifically, we note that money supply exerts a positive effect on the stock prices in the short run. However, money supply and stock prices are negatively associated in the long run.
We also observe the negative effects of depreciation shocks on stock prices. Other selected notable results are: the stock prices contain valuable information for future variations in macroeconomic variables especially the price level; currency depreciation is both contractionary and inflationary; the Malaysian monetary authorities seem to focus mainly on stabilizing the exchange rate; and the money supply seems to be pro-cyclical and inflationary. One important policy implication is that the monetary authorities should be very cautious in implementing exchange rate and monetary policies as they may have adverse repercussions on the Malaysian financial market.

Kumar (2001) investigated the effects of FII inflows on the Indian stock market represented by the Sensex using monthly data from January 1993 to December 1997 inferred that FII investments are more driven by Fundamentals and they do not respond to short-term changes or technical position of the market. In testing whether Net FII Investment (NFI) has any impact on Sensex, a regression of NFI was estimated on lagged values of the first difference of NFI, first difference of Sensex and one lagged value of the error correction term (the residual obtained by estimating the regression between NFI and Sensex). The study concluded that Sensex causes NFI. Similarly, regression with Sensex as dependent variable showed that one month lag of NFI is significant, meaning that there is causality from FII to Sensex.

Mukherjee and Naka (1995), Cheung and Ng (1998), Nasseh and Strauss (2000), McMillan (2001), Chaudhuri and Smiles (2004), Nasseh and Strauss (2000) find a significant long-run relationship between stock prices and domestic and international economic activity in France, Germany, Italy, Netherlands, Switzerland and the U.K. In particular they find large positive coefficients for industrial production and the consumer price index, and smaller but nevertheless positive coefficients on short term interest rates and business surveys of manufacturing. The only negative coefficients are found on long term interest rates. Additionally, they find that European stock markets are highly integrated with that of Germany and also find industrial production, stock prices and short term rates in Germany positively influence returns on other European stock markets (namely France, Italy, Netherlands, Switzerland and the UK).
Poshakwale, S (2002) he examines the random walk hypothesis in the emerging Indian stock market using daily data on individual stocks. The statistical evidence in this paper rejects the random walk hypothesis. The results suggest that daily returns earned by individual stocks and by an equally weighted portfolio show significant non-linear dependence and persistent volatility effects. The non-linear dependence takes the form of ARCH-type conditional heteroskedasticity and does not appear to be caused by non stationarity of underlying economic variables. Though conditional volatility is time varying, it does not explain expected returns.

Praphan Wongbangpo and Subhash C. Sharma [2002] this study investigates the role of select macroeconomic variables, i.e., GNP, consumer price index, money supply, interest rate and the exchange rate on the stock prices in five ASEAN countries (Indonesia, Malaysia, Philippines, Singapore, and Thailand). They observe long and short term relationships between stock prices and these macroeconomic variables. Moreover, the macroeconomic variables in these countries cause and are caused by stock prices in the Granger sense. Since the stock prices interact with the key macroeconomic variables in the short and long run, decent government economic or financial policies can yield impressive gains in both the sectors.

Bhattacharya and Mukherjee (2002) studied the nature of the causal relationship between stock prices and macro aggregates for the period of 1992-93 to 2000-2001. Their results show that there is no causal relationship between stock price and macro economic variables like money supply, national income and interest rate but there exists a two way causation between stock price and rate of inflation. Their results also indicate index of industrial production lead the stock price.

Fabio Panetta [2002] he identifies the macroeconomic factors that influence Italian equity returns and tests the stability of their relation with securities returns. The relation between stock returns and the macroeconomic factors is found to be unstable: not only are the factor loadings of individual securities virtually uncorrelated over time, but a high percentage of the shares experience a reversal of the sign of the estimated loadings. This result is not confined to single periods or to a small group of shares, but holds in different sub-periods and for securities in all risk classes. These findings suggest that research should carefully investigate the specification of the return generating process and the stability of the risk measures.
Muhammad and Rasheed (2002) examine the exchange rates and stock price relationships for Pakistan, India, Bangladesh and Sri Lanka using monthly data from 1994 to 2000. The empirical results show that there is a bi directional long-run causality between these variables for only Bangladesh and Sri Lanka. No associations between exchange rates and stock prices are found for Pakistan and India. Stanley Morgan (2002) has examined that FIIs have played a very important role in building up India’s forex reserves, which have enabled a host of economic reforms. Secondly, FIIs are now important investors in the country’s economic growth despite sluggish domestic sentiment. The Morgan Stanley report notes that FII strongly influence short-term market movements during bear markets. However, the correlation between returns and flows reduces during bull markets as other market participants raise their involvement reducing the influence of FIIs. Research by Morgan Stanley shows that the correlation between foreign inflows and market returns is high during bear and weakens with strengthening equity prices due to increased participation by other players.

Bhattacharya et al (2003) they examines the stability of the day of the week effect in returns and volatility at the Indian capital market, covering the period January 1991-September 2000. The paper specifies a generalized autoregressive conditional heteroscedasticity (GARCH) model on returns and introduces separate dummies for days in alternate weeks in the specification of both the mean and the conditional variance to examine the robustness of the day of the week effect in return and in volatility within a fortnight. Results are compared to those based on ordinary least squares (OLS) procedure to examine how erroneous the inference on day-level seasonality could be when the aspect of volatility is ignored. The paper finds evidence in favour of significant positive returns on non-reporting Thursday and Friday, in sharp contrast to the finding of significant positive returns only on non-reporting Monday by OLS procedure. Separate subperiod analyses reveal that there have been changes in daily seasonality in both returns and volatility since the mid-1990s at the Indian capital market, manifested in the opposite signs and changes in the level of significance of some similar coefficients across periods. These findings on the day of the week effects along with its variation within a fortnight suggest that stock exchange regulations and the nature of interaction between the banking sector with the capital market could possibly throw valuable insights on the origin of the day of
the week/fortnight effect in returns, while interexchange arbitrage opportunities due to differences in settlement period could lead to a seasonality in volatility.

Marisetty, Vijaya B (2003) a stock exchange's efficiency can be measured by its liquidity and price discovery mechanism. An exchange that provides price discovery will have high liquidity. By measuring the speed of stock price adjustment to its intrinsic value with the arrival of new information, we can understand the price discovery process and productive efficiency of a stock exchange. India has 23 stock exchanges, 20 of which have almost become dysfunctional due to negligible trading during the last five years. Measuring productive efficiency of the current active stock exchanges will help to understand the future direction of the Indian stock market. Using the corrected model and a new model proposed in this paper, it found that information adjustment in the Indian market is very slow. Contrary to the developed markets, in the Indian stock market, stock prices overreact before adjusting to their intrinsic values. It also found that market-wide information adjusts faster than firm-specific information.

Golaka C. Nath and G. P. Samanta [2003] the present study examines the causal relationship between returns in stock market and forex market in India. Using daily data from March 1993 to December 2002, we found that causal link is generally absent though in recent years there has been strong causal influence from stock market return to forex market return. Taewon Suh and Omar J. Khan [2003] they explore the impact of both the increase in foreign direct investment inflows and the increase in information and communication technology infrastructure investments on exporting in ASEAN nations (the trade bloc of which is known as AFTA) compared with two other major trade blocs: CEFTA and LAIA. The analyses are based on data from a cross section of countries (26 emerging markets from three trade blocs) over time (from 1995 to 2000). The results show that the increase of investments in ICT infrastructure yields positive and significant returns in the national exporting level only for the ASEAN/AFTA and CEFTA sample. Interestingly, the impact of the increase of FDI inflows on export is significant only in the CEFTA and LAIA samples. These results are discussed in the light of the different economic experiences of these trade blocs, noting that variations are typically present between individual countries. Overall, reflecting the results from this study, research concerned with the
determinants of national exporting level should be conducted independently, along
with regional and national characteristics.

Ramin Cooper Maysami et al [2004] this paper they examine the long-term
equilibrium relationships between selected macroeconomic variables and the
Singapore stock market index (STI), as well as with various Singapore Exchange
Sector indices the finance index, the property index, and the hotel index. The study
concludes that the Singapore’ stock market and the property index form cointegrating
relationship with changes in the short and long-term interest rates, industrial
production, price levels, exchange rate and money supply.

Suzanne K. Ryan & Andrew C. Worthington (2004) this study employs an
extended version of the Generalised Autoregressive Conditional Heteroskedasticity in
Mean (GARCH-M) model to consider the time-series sensitivity of Australian bank
stock returns to market, interest rate and foreign exchange rate risks. Daily Australian
bank portfolio returns, a market wide accumulation index, short, medium and long-
term interest rates, and a trade-weighted foreign exchange index are used to model
these risks over the period 1996 to 2001. The results suggest that market risk is an
important determinant of bank stock returns, along with short and medium term
interest rate levels and their volatility. However, long-term interest rates and the
foreign exchange rate do not appear to be significant factors in the Australian bank
return generating process over the period considered.

Nidal Rashid Sabri [2004] the study revealed that stock trading volume and
currency exchange rate respectively represent the highest positive correlation to the
emerging stock price changes; thus represent the most predicting variables of
increasing price volatility. International stock price index, deposit interest rate, and
bond trading volume were moderate predicting variables for emerging stock price
volatility. While changes in inflation rate showed the least positive correlation to
stock price volatility, thus represents the least predicting variable.

Cumhur Erdem et al (2005) price volatility spillovers in ISE indexes were
analysed based on monthly data from January 1991 to January 2004 for exchange
rate, interest rate, inflation, industrial production and M1 money supply. The
Exponential Generalized Autoregressive Conditional Heteroscedasticity model was
used to test univariate volatility spillovers for macroeconomic variables. It was found
that there exists unidirectional strong volatility spillover from inflation, interest rate to all stock price indexes. There are spillovers from M1 money supply to financial index and from exchange rate to both IMKB 100 and industrial indexes. There is no volatility spillover from industrial production to any index.

Dhankar, Raj.S.Singh, Rohini (2005) the arbitrage pricing theory (APT) has been proposed as an alternative to the capital asset pricing model (CAPM). They use principal components analysis to estimate the factors that influence stock returns. Analysis of the Indian stock market using monthly and weekly returns for 1991-2002 shows that APT with multiple factors provides a better indication of asset risk and estimates of required rate of return than CAPM which uses beta as the single measure of risk.

Sehgal, Sanjay and Tripathi, Vanita (2005) in this study we attempt to test if there is a size effect in Indian stock market. The data relates to the top 482 Indian companies for the period 1990-2003. We find a strong size premium using six alternative measures of company size, viz., Market Capitalization, Enterprise Value, Net Fixed Assets, Net Annual Sales, Total Assets and Net Working Capital. Further the size based investment strategy seems to be economically feasible as it provides extra normal returns on risk adjusted basis. Frequent rebalancing of size based portfolio is however found to be undesirable. The size effect does not seem to be owing to any seasonality or business cycle factors. The study has strong implications for mutual funds managers, investment analysts as well as small investors who are continuously on the lookout for trading strategies that beat the market. The presence of a strong size premium also raises doubts about the informational efficiency of Indian equity market.

Bernanke and Kuttner (2005) argue that the price of a stock is a function of its monetary value and the perceived risk in holding the stock. A stock is attractive if the monetary value it bears is high. On the other hand, a stock is unattractive if the perceived risk is high. The authors argue that the money supply affects the stock market through its effect on both the monetary value and the perceived risk. Money supply affects the monetary value of a stock through its effect on the interest rate. Tightening the money supply raises the real interest rate. An increase in the interest rate would in turn raise the discount rate, which would decrease the value of the stock.
as argued by the real activity theorists. The impact of real sector macro variables on equity returns has been much more difficult to establish.

Sarkar, P (2005) has examined that if any meaningful relation between growth and capital accumulation exists in case of India. They have used annual data on various variables like nominal and real share price, share market turnover ratio, number of listed firms in the stock market, fixed capital formation and growth of real GDP and industrial output. But all tell the same story that no positive relationship exists between real and stock market variables either in short run or long run during 1950-51 to 2005-2006.

Christopher Gan et al (2006) in this paper, we examine the relationships between the New Zealand Stock Index and a set of seven macroeconomic variables from January 1990 to January 2003 using cointegration tests. Specifically, we employ the Johansen Maximum Likelihood and Granger-causality tests to determine whether the New Zealand Stock Index is a leading indicator for macroeconomic variables. In addition, this paper also investigates the short run dynamic linkages between NZSE40 and macroeconomic variables using innovation accounting analyses. In general, the NZSE40 is consistently determined by the interest rate, money supply and real GDP.

Dhankar, Raj-S.Kumar and Rakesh (2006) the paper attempts to measure the relationship between risk and return, and the effect of diversification on non-market risk in Indian stock market by applying Market Index Model. For the analysis monthly adjusted opening and closing prices of composite portfolio of BSE 100 companies, for the period June 1996 through May 2005, have been taken. The study reports high positive correlation between portfolio return and risk. It also signifies that portfolio non-market risk declines with diversification. The results, so obtained are fully coinciding with the generalization of market index model, and thereby hold it applicable in Indian stock market, in establishing the trade off between risk and return.

Mohsen Bahmani-Oskooee & Ahmad Sohrabian [2006] it is argued that a change in stockprices could also have an impact on exchangerates, i.e. there could be a two-way relationship between exchangerates and stockprices. Granger concept of causality as well as cointegration technique are employed to support this conjecture. The empirical results show that there is bidirectional causality between stock prices
measured by S&P 500 index and the effective exchange rate of the dollar, at least in the short-run. The cointegration analysis reveals that there is no long-run relationship between two variables.

Husain (2006) has examined the causal relationship between stock price and real sector variables of Pakistan economy, using annual data from 1959-60 to 2004-05. It has divided the data into two halves - pre and post liberalization and has studied the causal relationship between them using various econometric techniques like ECM, Engle-Granger co-integrating regressions and Augmented Dickey Fuller (ADF) Unit Root tests. By using this data set and methodology, this analysis has indicated the presence of a long run relationship between the stock prices and real sector variables.

Abdillah al.mutairi aid husain al.omar (2006) this paper is an attempt to study the effect of macroeconomic variables and the behaviour of Kuwait stock exchange during the period from 1995 to 2005 using monthly data for both the market and its sub sectors. Interest rate, money supply, inflation, and government expenditure are the macro variables used, while market activity is represented by the value of traded shares. Vector autoregression technique is employed to achieve this goal. The study indicates that macroeconomic variables have the expected but a limited impact on the activities of the Kuwait Stock Exchange. Concerning the size of the macroeconomic variables effect, the results show that macroeconomic variables have a long run but limited affect averaging 30%. On the other hand, the results indicate, on average, that a negative and long term effect of both interest rate and inflation, a positive and long term effect of money supply, and a positive and long term effect of government expenditure except for the insurance sector. These results are typical for emerging markets such as that of Kuwait Stock Exchange where speculation dominates the activities in such markets.

Alireza Tourani-Rad et al [2006] the purpose of this paper is to estimate New Zealand's country level risk using a time-varying country beta market model. Country beta is allowed to vary as a function of several macro-economic variables, including the net government overseas borrowing, 90-day bill rate, ten-year bill rate, wool price, trade-weighted index, manufacturers price index, retail trade, current account balance, and money supply. Methodology used is Multivariate regression analysis is used to test the relation between country volatility and the macro-economic variables for the
period September 1985 to March 2000. It is found that the US dollar exchange rate (USD) and the monetary conditions index (MCI) have a significant impact on New Zealand's country beta. The temporal variance of New Zealand's country beta displayed a great deal of volatility prior to and immediately following the 1987 stock market crash. The beta was far less volatile during the 1990s. The study provides a better appreciation of the relationship between the country beta and several macroeconomic variables that has not been applied to the New Zealand economy before.

Naka, Atsuyuki et al [2006] in this paper we analyze relationships among selected macroeconomic variables and the Indian stock market. By employing a vector error correction model, we find that three long-term equilibrium relationships exist among these variables. Our results suggest that domestic inflation is the most severe deterrent to Indian stock market performance, and domestic output growth is its predominant driving force. After accounting for macroeconomic factors, the Indian market still appears to be drawn downward by a residual negative trend. It attribute this to economic mismanagement, since the size of the downward pull mitigates after 1990, coinciding with the beginning of Indian economic reforms.

Yutaka Kurihara and Eiji Nezu [2006] this paper, using daily data, sets out to present an empirical analysis of the relationship between recent Japanese stock prices and macroeconomic variables under the quantitative easing policy in Japan. The theoretical framework of the analysis is provided followed by application of the empirical method and analysis of the deterministic elements of stock prices in Japan. Vector error correction method is applied. The results indicate that interest rates, especially the domestic interest rate, have not impacted Japanese stock prices. Exchange rates also have not been a significant determinant of Japanese stock prices. US stock prices have significantly influenced Japanese stock prices. Moreover, there exists a long-term stable relationship between Japanese and US stock market prices.

Andreas Humpe and Peter Macmillan [2007] the framework of a standard discounted value model examines whether a number of macroeconomic variables influence stock prices in the US and Japan. A cointegration analysis is applied in order to model the long term relationship between industrial production, the consumer price index, money supply, long term interest rates and stock prices in the
US and Japan. For the US we find the data are consistent with a single cointegrating vector, where stock prices are positively related to industrial production and negatively related to both the consumer price index and a long term interest rate. They also find an insignificant (although positive) relationship between US stock prices and the money supply. However, for the Japanese data it find two cointegrating vectors. They find for one vector that stock prices are influenced positively by industrial production and negatively by the money supply. For the second cointegrating vector it find industrial production to be negatively influenced by the consumer price index and a long term interest rate. These contrasting results may be due to the slump in the Japanese economy during the 1990s and consequent liquidity trap.

Dixit, Alok et al (2007) this research paper is aimed at diagnosing the pricing inefficiencies prevailing in the Indian index options market. The analysis reveals that implied volatilities are, in fact, mean-reverting. However, implied volatility of long dated options is not evolving the way as warranted by rational expectations hypothesis and the evidences of over reaction and under reaction are seen for both call as well as put option. Tariq and Bellman, Eric (2007) the article discusses the prospects for India's stock market in light of the rising interest rates and appreciation of the rupee. According to Shriram Iyer of Edelweiss Securities, the impact of rising interest rates and stronger rupee will manifest in the second quarter of 2007. He expects the Bombay Stock Exchange 30-stock Sensitive Index or Sensex, to hover around 14000.

Xin Huang [2007] this paper studies the financial market responses to macroeconomic news announcements, in the form of volatility and jumps. Using more than a decade of high-frequency data, this paper finds that there are more large jumps on news days than on no-news days, with the fixed-income market being more responsive than the equity market, and non farm payroll employment being the most influential news. Surprises in forecasts impact the fixed-income market more than the equity market, while disagreement and uncertainty influence both markets with different effects on volatility and jumps.

Aktham Maghyereh and Ahmad Al-Kandari [2007] the purpose of this research is to examine the linkages between oil prices and stock market in Gulf
Cooperation Council (GCC) countries. This study employs newly developed techniques of rank tests of non linear cointegration analysis proposed by Breitung and Gourieroux and Breitung. The Breitung's method is selected in this study due its potential superiority at detecting cointegration when the error-correction mechanism is nonlinear. The empirical analysis of the paper supports that oil price impact the stock price indices in GCC countries in a nonlinear fashion. Thus, the statistical analysis in this paper obviously supports a nonlinear modeling of the relationship between oil and the economy.

Gevit Duca (2007) two variables are considered in this study, namely nominal GDP and stock market indices, with the relationship between them being tested by the Granger Causality test. The observed unidirectional causality between GDP and stock prices implies that the level of economic activity in a country, can potentially depend on the stock market amongst other variables. The observed phenomenon hinted in the introduction, that long periods of weaknesses such as the Great Depression and the ‘lost decade’ in Japan are identified with the asset-price busts that preceded them, could therefore be no mere coincidence. The significant contraction in asset values, triggered a subsequent contraction in consumption and economic activity levels. Hence a large downfall in stock prices caused a similar decrease in economic activity.

Jon Faust et al [2007] the joint movements of exchange rates and U.S. and foreign term structures over short-time windows around macro announcements are studied using a 14-year span of high-frequency data. In order to evaluate whether the joint effects can be reconciled with conventional theory, the implications of these joint movements for changes in expected future exchange rates and changes in foreign exchange risk premia are deducted. For several real macro announcements, a stronger than expected release appreciates the dollar today and must either (i) lower the risk premium for holding foreign currency rather than dollars or (ii) imply net expected dollar depreciation over the ensuing decade.

Preksha Shah [2007] project the research analyses relationships among macroeconomic variables and BSE Stock Indices from April, 1999 to March, 2007. By employing the Johansen’s Vector Error Correction Model, results indicate that the impact of macroeconomic variables on the fundamental indices and sectoral indices vary, necessitating the requirement for separate sectoral studies. While industrial
production is found to drive the BSE capital goods index in the long run, it is negatively related to the BSE consumer durables index. The exchange rates seem to affect the BSE capital goods index in the long run but not BSE consumer durables index. The nature of the relationship between the call rates and the two indices is also opposite in the long run. In the short run also, the responses of both the indices to the call as well as the exchange rate are in opposite directions.

Puneet Jain [2007] the results show that the industry has recorded a robust growth during this time period and has created great opportunities for investment. Further, the research compares India with four other leading developing countries (Brazil, Russia, China and South Africa) during 2006-07 and concludes that India is one of the fastest rising stars among all these major emerging economies with its economic growth rate running at over 9% annually.(Economic Times, Feb 2007). In order to tap the true potential of the economy, the Indian Government and financial community need to be pro-active in promoting the country as a safe destination for foreign capital, while at the same time ensuring that the vital interests of the economy are not adversely affected.

Robert D. Gay, Jr.(2008) the relationship between share prices and macroeconomic variables is well documented for the United States and other major economies. However, what is the relationship between share prices and economic activity in emerging economies? The goal of this study is to investigate the time-series relationship between stock market index prices and the macroeconomic variables of exchange rate and oil price for Brazil, Russia, India, and China (BRIC) using the Box-Jenkins ARIMA model. Although no significant relationship was found between respective exchange rate and oil price on the stock market index prices of either BRIC country, this may be due to the influence other domestic and international macroeconomic factors on stock market returns, warranting further research. Also, there was no significant relationship found between present and past stock market returns, suggesting the markets of Brazil, Russia, India, and China exhibit the weak-form of market efficiency.

L.M.C.S. Menike (2008) this study investigates the effects of macroeconomic variables on stock prices in emerging Sri Lankan stock market using monthly data for the period from September 1991 to December 2002. The multivariate regression was
run using eight macro economic variables for each individual stock. The null hypothesis which states that money supply, exchange rate, inflation rate and interest rate variables collectively do not accord any impact on equity prices is rejected at 0.05 level of significance in all stocks. The results indicate that most of the companies report a higher R2 which justifies higher explanatory power of macroeconomic variables in explaining stock prices. Consistent with similar results of the developed as well as emerging market studies, inflation rate and exchange rate react mainly negatively to stock prices in the Colombo Stock Exchange (CSE). The negative effect of Treasury bill rate implies that whenever the interest rate on Treasury securities rise, investors tend to switch out of stocks causing stock prices to fall. However, lagged money supply variables do not appear to have a strong prediction of movements of stock prices while stocks do not provide effective hedge against inflation specially in Manufacturing, Trading and Diversified sectors in the CSE. These findings hold practical implications for policy makers, stock market regulators, investors and stock market analysts.

Shahid Ahmed (2008) this study investigates the nature of the causal relationships between stock prices and the key macro economic variables representing real and financial sector of the Indian economy for the period March, 1995 to March, 2007 using quarterly data. These variables are the index of industrial production, exports, foreign direct investment, money supply, exchange rate, interest rate, NSE Nifty and BSE Sensex in India. Johansen’s approach of cointegration and Toda and Yamamoto Granger causality test have been applied to explore the long-run relationships while BVAR modeling for variance decomposition and impulse response functions has been applied to examine short run relationships. The results of the study reveal differential causal links between aggregate macro economic variables and stock indices in the long run. However, the revealed causal pattern is similar in both markets in the short run. The study indicates that stock prices in India lead economic activity except movement in interest rate. Interest rate seems to lead the stock prices. The study indicates that Indian stock market seems to be driven not only by actual performance but also by expected potential performances. The study reveals that the movement of stock prices is not only the outcome of behaviour of key macro economic variables but it is also one of the causes of movement in other macro dimension in the economy.
Chakradhara Panda [2008] this paper checks whether interest rates matter for stock markets in the Indian context. It uses the monthly averages of the SENSEX and NIFTY to measure stock prices in April 1996-June 2006. For the same period, the month-end yields on 10-year government security and treasury bills (15-91 days) are used to measure long-term and short-term interest rates, respectively. The paper finds that there is a long-run relationship between interest rates and stock prices. Both long-term and short-term interest rates affect stock prices. The long-term interest rates are found to affect stock prices negatively, whereas short-term interest rates affect stock prices positively. In addition, the SENSEX is found to be more responsive to changes in interest rates than the NIFTY.

Kanakaraj et al. (2008) have examined the trend of stock prices and various macroeconomic variables between the time periods 1997-2007. They have tried to explore upon and answer that if the recent stock market boom can be explained in the terms of macroeconomic fundamentals and have concluded by recommending a strong relationship between the two. The GDP growth in India has grown consistently at high levels touching the highest average from 2003-04 to 2006-07 since Independence, and is strongly backed by manufacturing sector growth and services sector growth. Gross Domestic Investment and Gross Domestic Saving as percentage of GDP have also grown enormously with inflation remaining under control most of the time.

Mahajan Singh and Sarika Balwinder (2008) this paper examines the empirical relationship (contemporaneous and causal) between volume and return, and volume and volatility in the light of competing hypothesis about market structure by using daily data of Sensitive Index of the Bombay Stock Exchange. Consistent with mixture of distribution hypothesis, positive contemporaneous relationship between volume and volatility is observed. Causality test further support the sequentially arrival of information hypothesis, which implies that new information is not simultaneously available to all traders and it takes time to absorb, which hampers the price discovery efficiency of the market. In addition, GARCH (1,1) documents small decline in the persistence of variance (volatility clustering) over the time if one includes trading volume as a proxy for information arrivals in the equation of conditional volatility but GARCH effects remain significant, which highlights the inefficiency in the market.
Thus, volume provides information on the precision and dispersion of information signals rather than serving as a proxy for the information signal itself.

Ming-Hua Liu and Keshab M. Shrestha, (2008) the purpose of this paper is to investigate the relationship between the Chinese stock market indices and a set of macro-economic variables, i.e. money supply, industrial production, inflation, exchange rate and interest rates. The aims of this paper are addressed using heteroscedastic cointegration analysis & results show that the cointegrating relationship does exist between stock prices and the macro-economic variables in the highly speculative Chinese stock market. Detailed analysis shows stock market performance is positively related to that of macro-economy in the long term.

Charles Adjasi et al. [2008] the study looked at the relationship between Stock Markets and Foreign Exchange market and determined whether movements in exchange rates have an effect on stock market in Ghana. The Exponential Generalised Autoregressive Conditional Heteroskedascity (EGARCH) model was used in establishing the relationship between exchange rate volatility and stock market volatility. It was found that there is negative relationship between exchange rate volatility and stock market returns. A depreciation in the local currency leads to an increase in stock market returns in the long run. Where as in the short run it reduces stock market returns. Additionally, there is volatility persistence in most of the macroeconomic variables; current period’s rate has an effect on forecast variance of future rate. It was also revealed that an increase (decrease) in trade deficit and expectation in future rise in trade deficit will decrease (increase) stock market volatility. In addition, the consumer price index has a strong relationship with stock market volatility. This means that an increase in consumer price will lead to a rise in stock market volatility. Finally, there is the presence of leverage effect and volatility shocks in stock returns on the Ghana Stock Exchange.

Blog (2008) it shows India's GDP growth rate and the phase when it dropped from 9.7% in March 2007 to 5.8% in December 2008. And the consequences of this drop: People lost their job, companies saw their toplines and bottom-lines being eroded, investments dried up and FIIs took their money and ran for cover. Most importantly retail investors lost their hard-earned money; only a lucky few could salvage some profits but most of the investors were left high and dry. Analyzing the
GDP and its impact on the economy and Stock Market. GDP has a massive impact on almost all the economic factors in a country. Even a small change in GDP can have far reaching affects on the economy.

Anthony Kyereboah-Coleman and Kwame F. Agyire-Tettey (2008) the study aims at examining how macroeconomic indicators affect the performance of stock markets by using the Ghana Stock Exchange as a case study. Quarterly time series data covering the period 1991-2005 were used. Cointegration and the error correction model techniques are employed to ascertain both shortand long-run relationships. Findings of the study reveal that lending rates from deposit money banks have an adverse effect on stock market performance and particularly serve as major hindrance to business growth in Ghana. Again, while inflation rate is found to have a negative effect on stock market performance, the results indicate that it takes time for this to take effect due to the presence of a lag period and that investors benefit from exchange-rate losses as a result of domestic currency depreciation.

Kollamparambil & Banerjee (2008) their paper investigates the relationship between the Foreign Institutional Investment presence and firm performance of 25 listed banks of the Indian banking industry. The results indicate that the FII share plays a significant and positive role in determining the performance of public sector but not necessarily private sector banks. This is explained by the critical role that FII plays in public sector banks in improving managerial efficiency by avoiding issues relating to moral hazard. Private Banks suffer less from problems of moral hazard, and therefore, the role of FII in such banks is not as critical.

Krishna Reddy Chittedi [2008] the paper analyzed a performance of the sensex vs. FII in Indian stock market and some of the most talked about movements of sensex starting with the secondary market summary of each year. FII's investments in BSE sensex reveal that the liquidity as well as volatility were highly influenced by FII flows. FII's are significant factor determining the liquidity and volatility in the stock market prices. After going through all the analysis regarding the stock market in last 2 years, we can say that stock market touched its peak at 21000 but then crashed badly. Though the sensex is a barometer and after seeing such fluctuations one could
be afraid of investing. So even after such downturns, we can be hopeful for a positive market.

M. Suresh Babu and K.P. Prabheesh [2008] this paper examines the dynamic interaction between FII flows and stock market returns in Indian stock market. Using daily data from January 2003 to February 2007, VAR framework and Granger causality test, we find the existence of bidirectional causality between FII flows and stock returns. Further analysis through impulse response function indicates that FII flows are more stock return driven. It also find support for information revelation hypothesis and momentum trading hypothesis.

Tripathi, Neeta [2008] India has witnessed over a decade of FIIs portfolio flows and with each passing year, these flows have gained in their significance and have played a key role in the overall Indian economy. Investments by foreign institutional investors are typically synonymous with portfolio investments in India, with more than three months left in the current calendar year FIIs have invested a net of $10.47 billion in Indian equities, just $0.23 billion short of record high ($10.7 billion) they clocked in the whole calendar year 2005. And this is at a time when the Bse sensex and the 50 share nifty of the national stock exchange are at their all time high. As the major portion of the FIIs investment goes in to equity markets it would have an impact on the shareholding pattern of Indian companies listed on the stock exchanges. About 95% of the FII funds are invested in stocks that comprise the key indices and half of it in the top five stocks that comprise the key indices, their influence on the performance of the stock market is immense. By taking quarterly shareholding pattern data of BSE sensex companies from Dec. 2001 to Dec. 2006, it attempt to examine the changes if any, in the proportion of various shareholders in the overall shareholding pattern of these companies. it find that over the study period FIIs investment in BSE sensex companies is on the booming spree but it is still inadequate as compared to the size of our capital market and the prevailing favorable international economic conditions.

George Filis (2009) this paper examines the relationship of the cyclical components of Consumer Price Index (CPI), Industrial Production, Stock Market in Greece and the influence of oil prices on these variables. The period of the study is from 1996:1 – 2008:6. Using a VAR we find that the Greek CPI exercises a
significant negative influence in the Greek stock market. Further, oil prices are negatively influencing the Greek CPI and stock market, at a significant level. It is worth noting that on average, shocks from CPI require about 3 years to be absorbed by the each of the other variables, shocks from the stock market and oil need about 2-3 years, whereas shocks from industrial production will be absorbed within a period of 1-2 years from each of the other variables. The findings of this study are of a particular interest and importance to financial managers, financial analysts and investors dealing with the Greek market.

Husam Rjoub et al (2009) the purpose of this paper is to investigate the performance of the arbitrage pricing theory (APT) in the Istanbul Stock Exchange (ISE) on a monthly basis, for the period January 2001 to September 2005. This study examines six pre-specified macroeconomic variables which are: the term structure of interest rate, unanticipated inflation, risk premium, exchange rate and money supply. This study has tried to observe the relationship between the pre-specified macroeconomic variables and stockmarket returns in the ISE for the period of January 2001 till September 2005, on monthly basis. In summary, the results indicate that there is a significant pricing relationship between the stock return and the tested macroeconomic variables; namely, unanticipated inflation, term structure of interest rate, risk premium and money supply have a significant effect in explaining the stock market returns in various portfolios. But these results showed a weak explanatory power based on the findings. This means that there are other macroeconomic factors affecting stock market returns in ISE other than the tested ones.

K. Malarvizhi and M. Jaya [2009] this study empirically analyses the relationship between Foreign Institutional Investment (FII) and stock returns of S & P CNX NIFTY Index of NSE. The current pattern of concomitant advancement of FII flows and NIFTY does pose concern for the market analyst and the researchers. The monthly data of FII and S & P CNX NIFTY Index from April 1999 to March 2009 are utilized for the analysis. Unit root test is employed to test the stationarity of the variables used for the study and then the granger causality test is deployed. Through the empirical analysis, it is found out that there is a uni-directional causality between stock returns and foreign institutional investment, which implies that the Stock returns doesn’t granger cause FII, while FII does granger cause Stock returns. Thus the changes in FII in turn affect the stock market.
Kumar, Sundaram (2009) the purpose of this paper is to investigate the relationship between macroeconomic parameters like Exchange rate and foreign institutional investment with stock returns in India, in particular at National Stock Exchange. It find that both stock returns and exchange rate are integrated of order one. The Engle–Granger Cointegration test is then performed, suggesting that there is not a long-run equilibrium relationship between stock returns and exchange rates at 5% significance level. Moreover, there is no evidence suggesting that there is any causality relationship from the nominal exchange rate to the stock returns. Furthermore, FII data is found to be I(0) i.e. It doesn’t have a unit root at conventional level. It also gives positive unidirectional Granger causality results i.e. stock returns Granger cause FII.

M. Shabri Abd. Majid and Rosylin Mohd. Yusof, (2009) the purpose of this paper is to explore the extent to which macroeconomic variables affect the Islamic stock market behavior in Malaysia in the post 1997 financial crisis period. The paper employs the latest estimation technique of autoregressive distributed lag (ARDL) model approach to cointegration. The results suggest that real effective exchange rate, money supply M3, treasury bill rate (TBR) and federal fund rate (FFR) seem to be suitable targets for the government to focus on, in order to stabilize the Islamic stock market and to encourage more capital flows into the market. As for the interest rates and stock returns relationship, the paper finds that when interest rates rise either domestically (TBR) or internationally (FFR), the Muslim investors will buy more Shari’ah compliant stocks, thereby escalating the Islamic stock prices.

Md. Lutfur Rahman and Jashim Uddin (2009) this paper investigated the interactions between stock prices and exchange rates in three emerging countries of South Asia named as Bangladesh, India and Pakistan. It considered average monthly nominal exchange rates of US dollar in terms of Bangladeshi Taka, Indian Rupee and Pakistani Rupee and monthly values of Dhaka Stock Exchange General Index, Bombay Stock Exchange Index and Karachi Stock Exchange All Share Price Index for period of January 2003 to June 2008 to conduct the study. Empirical result shows that exchange rates and stock prices data series are non stationary and integrated of order one. Then we have applied Johansen procedure to test for the possibility of a cointegrating relationship. Result shows that there is no cointegrating relationship.
between stock prices and exchange rates. Finally it applied Granger causality test to find out any causal relationship between stock prices and exchange rates. Outcome shows there is no way causal relationship between stock prices and exchange rates in the countries.

Md. Mahmudul Alam and Md. Gazi Salah Uddin (2009) this study seeks evidence supporting the existence of share market efficiency based on the monthly data from January 1988 to March 2003 and also shows empirical relationship between stock index and interest rate for fifteen developed and developing countries-Australia, Bangladesh, Canada, Chile, Colombia, Germany, Italy, Jamaica, Japan, Malaysia, Mexico, Philippine, S. Africa, Spain, and Venezuela. Stationarity of market return is tested and found none of this stock market follows random walk model, means not efficient in weak form. To investigate the reasons of market inefficiency, relationship between share price and interest rate, and changes of share price and changes of interest rate were determined through both time series and panel regressions. For all of the countries it is found that interest rate has significant negative relationship with share price and for six countries it is found that changes of interest rate has significant negative relationship with changes of share price. So, if the interest rate is considerably controlled for these countries, it will be the great benefit of these countries’ stock exchange through demand pull way of more investors in share market, and supply push way of more extensional investment of companies.

Mittal, Satish.K and Jain, Sonal (2009) the present study deals with the testing of weak form of efficiency and the efficient market hypothesis on Indian stock market in the form of random walk, during the period of 2007-2008 based on closing prices and daily returns on the Indian stock market three representative indices: S&P CNX 500, CNX 100, and BSE 200. The paper discusses and examines three types of anomalies namely Monday Effect, Friday Effect and Day of the Week effect. The findings of this study bring out that none of the above anomalies exist in the Indian stock market as informationally efficient. Serial correlation and run test also support the Random Walk theory and market efficiency hypothesis.

Nadeem Sohail and Zakir Hussain (2009) the movements in the stock prices are an important indicator of the economy. The intention of this study was to examine long-run and short-run relationships between Lahore Stock Exchange and
macroeconomic variables in Pakistan. The monthly data from December 2002 to June 2008 was used in this study. The results revealed that there was a negative impact of consumer price index on stock returns, while, industrial production index, real effective exchange rate, money supply had a significant positive effect on the stock returns in the long-run. The VECM analysis illustrated that the coefficients of ecm1 (−1), and ecm2 (−1) were significant with negative signs. The coefficients of both error correction terms showed high speed of adjustment. The results of variance decompositions revealed that out of five macroeconomic variables consumer price index showed greater forecast error for LSE25

Nikiforos T. Laopodis [2009] the purpose of this paper is to re-examine the relationship between real investment and stock prices for the USA for 1960-2005 in view of distinct economic regimes during the 40-year period. The paper employs simple models of investment, checks for cointegration, and applies the value at risk (VAR) methodology. First, it was found that during the 1960-1990 period investment and the stock market exhibited a good relationship and shared a common stochastic trend. Second, during the 1990-2005 period this relationship broke down. Finally, extending the model to include the long-term interest rate did not produce significant impacts on or feedbacks from and to either variable. It is concluded that the 1990-2005 period has been distinct from the previous periods in that the stock market did not always abide by the fundamentals such as interest rates or investment expenditures. It is thus concluded that the high stock market growth rates of the 1990s have adversely impacted real investment expenditures.

Sridharan. P et al (2009) this paper examines the causal relationship between Foreign Direct Investment (FDI) and Growth of the BRICS countries. We employed Industrial Production Index (IPI) as a measure of Economic Growth. The stationarity of the data series are checked using Augmented Dickey Fuller (ADF) Test and tested for the existence of co-integration.Johansen Co-integration model found that the Brazil alone co-integrated among the selected countries at levels. The Vector Error Correction Model (VECM) employed to trace the existence of long run relationship. The results of VECM found that Growth leads FDI bi-directionally for Brazil, Russia and South Africa and FDI leads Growthuni-directionally for India and China respectively.
Sulaiman D. Mohammad et al (2009) this study is to explore the correlation among the macroeconomics variables and share prices of KSE (Karachi Stock Exchange) in context of Pakistan. The study consider several quarterly data for different macroeconomics variables are as foreign exchange reserve, foreign exchange rate, industrial production index (IPI), wholesale price index (WPI), gross fixed capital formation (GFCF) and broad money M2. These variables are obtained from the period 1986-2008. The result shows that after there forms in 1991 the influence of foreign exchange rate and foreign exchange reserve significantly affect the stock prices, while other variables like IPI and GFCF are in significantly affect stock prices. The result also highlighted the internal factors of firm like increase in production and capital formation in significant while external factor like M2 and foreign exchange affect positively. The study will be very helpful for national policy makers, researchers and corporate managers.

Arup Chattopadhyay and Arindam Gupta (2009) in this study, domestic financial integration in India has been explored by examining into the impact of selected such macro-economic variables on stock markets. The impact of seven macroeconomic variables representing different segments of the financial markets like Treasury bill Rate, Call money rate, RBI foreign exchange rate, FEDAI foreign exchange rate, Gold price, FII and Inflation rate has been seen on stock market and vice versa during the four-year study period from October, 2005 to October, 2009, taking S&P CNX Nifty as the representative of Indian stock market. Data of all these variables have been taken into study because of their availability on weekly basis. The formal investigation is carried out by examining the stochastic properties of the variables by using Unit Root Test to test the stationarity of the variables. In this context, the widely used techniques, Augmented Dickey Fuller (ADF) (1979) and Phillips Perron (PP) (1988) tests have been used. Finally, cointegrating regressions are calculated using Johansen’s co-integration approach (1990), in which a vector autoregressive model of any order p [VAR(p)] is estimated to know the long-run equilibrium relation among variables. In applying this approach, Trace test (or Likelihood ratio test) as well as Maximum eigen value test to decipher the stated long term dynamics has been applied. In estimating VAR, lag length has been chosen by using Akaike’s information criterion (AIC). It can be established with the outcome of findings that all the variables representing different segments of financial system are
integrated with the stock market in India in the long-run. This long-run relationship is expectedly positive with variables like, Inflation rate and FEDAI’s foreign exchange rate, and expectedly negative with variables like, Gold price and Call money rate.

Charles K.D. Adjasi (2009) the purpose of this paper is to analyse the impact of macroeconomic uncertainty on stock-price volatility in Ghana. The method of analysis is in two stages. The first stage estimates univariate volatility models for each macroeconomic variable; namely consumer price index (proxy for inflation), exchange rate, money supply, interest rates, oil price, gold price, and cocoa price using the exponential generalized autoregressive conditional heteroskedasticity (EGARCH) model. In the second stage volatility effect of macroeconomic variables on stock prices is estimated using the most recent squared residuals from the mean-conditional variance of macroeconomic variables as exogenous variables in the conditional variance equation of the stock price. Findings – The results show that higher volatility in cocoa prices and interest rates increases volatility of the stock prices, whilst higher volatility in gold prices, oil prices, and money supply reduces volatility of stock prices.

Donatas Pilinkus and Vytautas Boguslauskas (2009) the study embraces six macroeconomic variables (seasonally adjusted gross domestic product at previous year prices, harmonized consumer price index as compared to 2005, the narrow money supply, unemployment rate, short-term interest rates, and exchange rate of the Litas against the US dollar) and the main Lithuanian stockmarket index – the OMX Vilnius index. The data are monthly and extend from the January of 2000 to the June of 2009. In general, the results of the paper clearly indicate that macroeconomic variables are significant determinants for stock market prices in Lithuania. Gross domestic product and money supply have a positive effect on stock market prices while most of the time unemployment rate, exchange rate, and short-term interest rates negatively influence stock market prices.

Emrah Ozbay (2009) this study seeks to address the causal relationship between stock prices and macroeconomic factors such as interest rate, inflation, exchange rates, money supply and real economy, applying monthly data covering the period of 1998:01 to 2008:12 from Turkey. Granger causality model is employed to explore such relationships. The results of the study indicate that interest rate (OIR),
inflation (CPI), CD/GDP, and foreign sale do Granger cause stock returns, while stock returns do Granger cause money supply (M1, M2, and M2Y), exchange rate, interest rate (OIR and TIR) inflation (PPI), foreign transactions. Industrial production is indicated as neither the result variable nor the cause variable of stock price movement. Furthermore, the analysis of the results infers that interest rates (CPI and PPI) are the negative determinants of stock prices, while foreign transactions are the positive determinants of stock prices in Turkey. Finally, the evidence related to predict macroeconomic factors by using stock returns is some what stronger than the evidence related to predict stock returns by applying macroeconomic variables.

Khaled Hussainey and Le Khanh Ngoc (2009) investigates the effects of macroeconomic indicators (interest rate and industrial production) on Vietnamese stock prices. We also examine how US macroeconomic indicators affect Vietnamese stock prices used monthly time series data covering the period January 2001 to April 2008. It examined the impact of domestic and international macroeconomic indicators on Vietnamese stock prices. It found that industrial production has a positive effect on Vietnamese stock prices. It also found that long term and short term interest rates are not affecting stock prices in the same direction. Finally it found that the US real production activity has stronger effect on Vietnamese share prices that in comparison with the US money market.

Kuang-Liang Chang (2009) to understand the full picture of predictability of stock return dynamics, there paper aims to use the more elastic regime switching model, GARCH model to examine whether macroeconomic variables, such as interest rate, dividend yield, and default premium, can predict stock return dynamics, which includes conditional mean, conditional volatility, and transition probabilities, The sample period starts from January 1965 to March 1999. Empirical results show that S&P 500 stock returns and volatility depend on macro factors, and the degree of influence changes along with stock market conditions. For instance dividend yield cannot be used to predict stock returns in single-regime models, but it has significant predictive power in the Markov switching models especially during volatile periods. In addition, the contribution of default premium and interest rate to stock returns in the volatile regime is significantly greater compared to that in the stable regime. These important characteristics cannot be discovered through time-invariant predictive models. Also, dividend yield and interest rate also show nonlinear
influences on conditional variance. Dividend yield has a positive influence on volatility in the volatile regime, while the interest rate is capable of predicting volatility in the stable regime. Even after considering the predictive power of macro factors on conditional mean and variance, evidence of transition probability predictability is not found it is confirmed that the RS-GARCH-FTP-MV model has better out-of-sample predictive ability than the GARCH-N and GARCH-T models. The time-varying transition probability model will misestimate stock returns dynamics due to over-fitness, which in turn causes out-of-sample prediction performance to become poor. In the RS-GARCH-TVTP-MV model, its good in-sample performance and the bad out-of-sample performance could be attributed to the problem of over-parameterization.

M. Shabri Abd Majid and Salina Hj Kassim [2009] the purpose of this paper is to explore empirically the effects of the current financial crisis on the integration and co-movements of selected stock markets of the emerging economies, namely Indonesia and Malaysia. The paper employs the standard time series technique and vector autoregressive framework. The results of this paper support the general view that stock markets tend to show greater degree of integration or increased co-movements during the crisis period, resulting in lesser benefit of diversification that can be gained by investors participating in these markets.

Manish Kumar [2009] the present study examines dynamic relation between stock index and exchange rate by using the daily data for India. The study uses the unit root and cointegration tests to test for the long run relationship between the two variables. The study also uses linear and nonlinear granger causality tests after removing the volatility dependence from the series to examine the dynamic relationship between the two variables. The empirical evidence suggests that there is no long-run relationship. However, there is bidirectional linear and non-linear granger causality between stock index and exchange rates. The findings of the study strongly support the micro and macroeconomic approach on the relationship between exchange rates and stock prices.

K. Srinivasan et al [2009] in this paper the causal nexus between futures return, trading volume, open interest and volatility for S&P CNX Nifty futures markets were analyzed for the period from January 1, 2002 to September 30, 2009. In
view of the priority given to dynamic relationship in conducting this study, the Johansen-Juselius Multivariate Cointegration, Vector Error Correction Model (VECM), Impulse Response Function (IRF) and Variance Decomposition (VDC), are used as empirical evidence. Our result reveals, that the causal linkage of return are influenced by all the other variables, whereas the ECTs coefficients are negative and significant in the long-run but their values are too high to be in equilibrium. They conclude that, any deviation from the equilibrium Cointegrating relationships, as measured by the ECTs, is mainly caused by changes in returns and volatility. In the case of IRF appears to be broadly consistent with earlier VECM results trading volume, open interest and volatility remain consistent over the period, whereas the fluctuation in futures return was mainly determined by the other future market variables. Finally, there exist a bi-directional causal relationship exist between futures market variables in the short-run and unidirectional causality running from trading volume and open interest with return and volatility bears the brunt of short-run adjustment to long-run equilibrium.

Rekha and Anirban Dutta [2009] the purpose of this paper is to examine the effects of different sources of institutional investors – both domestic and foreign – on the dynamism of Indian capital market in the recent years. This paper begins with an understanding of what has been the trend of FIIs and DIIs flow in the Indian capital market in the last decade. In this context it has been studied that how FIIs acted as a trigger for the Sensex in the recent years. This paper also proposes that the dynamics of the Foreign Institutional Investors’ (FIIs) investment in Indian capital market is queer and is different in debt and equity segments. In particular, it believes that the Domestic Institutional Investors (DIIs) provide the much needed support to the market in hours of crisis. Through statistical analysis it has been shown that though FIIs constitute a minor portion of the total market turnover their confidence levels and strategies become increasingly important to the Indian capital market.

Sanjay Sehgal and Radhika Kapur [2009] in this article, they examine the relationship between oil price shocks and stock market behaviour using market index data for 15 sample countries. The sample countries are classified into four categories, based on their economic strength and oil exporting/importing status, to verify if the testable relationship varies across different economic settings. The study period ranges from 1 January 1993 to 31 March 2009. They find that on a pre-event basis,
sample stock markets do not provide any extra normal returns. This implies that there are no serious leakages in oil price information, which could be exploited by investors in these markets. Further, after it is observed that irrespective of the nature of oil prices shocks (price increases and decreases), the high-growth emerging economies do provide significantly positive returns on post-event basis. Among the Asian economies, the Chinese stock market reacts to oil price shock in a lagged manner.

Seyed Mehdi Hosseini et al [2009] this paper investigates the relationships between stock market indices and four macroeconomics variables, namely crude oil price (COP), money supply (M2), industrial production (IP) and inflation rate (IR) in China and India. The period covers in this study is between January 1999 to January 2009. Using the Augmented Dickey-Fuller unit root test, the underlying series are tested as non-stationary at the level but stationary in first difference. The use of Johansen-Juselius (1990) Multivariate Cointegration and Vector Error Correction Model technique, indicate that there are both long and short run linkages between macroeconomic variable and stock market index in each of these two countries.

Pan, Aaron and Mankar, Ritika (2010) the article reports on the effect of high inflation on the stock market in India. Analysts states that the endemic inflation problem in the country will restrict the country's stock market returns for the foreseeable future. According to Ritika Mankar, an analyst at Execution Noble in Mumbai, the current high growth, high inflation setting is expected to continue over the next few quarters which will result to incremental rather than exponential stock market returns.

Gaurav Agrawal et al (2010) this paper analyzes the relationship between Nifty returns and Indian rupee-US Dollar Exchange Rates. Several statistical tests have been applied in order to study the behavior and dynamics of both the series. The paper also investigates the impact of both the time series on each other. The period for the study has been taken from October, 2007 to March, 2009 using daily closing indices. In this study, it was found that Nifty returns as well as Exchange Rates were non-normally distributed. Through unit root test, it was also established that both the time series, Exchange rate and Nifty returns, were stationary at the level form itself. Correlation between Nifty returns and Exchange Rates was found to be negative. Further investigation into the causal relationship between the two variables using
Granger Causality test highlighted unidirectional relationship between Nifty returns and Exchange Rates, running from the former towards the latter.

Gagan deep Sharma and mandeep mahendru (2010) the paper analyses long term relationship between BSE and macroeconomic variables vis-a-vis, change in exchange rate, foreign exchange reserve, inflation rate and gold price. The multiple regression is used to investigate the relationship among these factors. The period of the study is jan 2008 to jan 2009. Results reveals that there is high correlation between the empirical results reveals that exchange rate and gold prices highly effect the stock prices on the other hand the influence of foreign exchange reserves and inflation on the stock price is up to limited extend only.

Imran Ali et al [2010] it has examined the causal relationship between macro-economic indicators and stock market prices in Pakistan. The data from June 1990 to December 2008 have been used to analyze the causal relationship between various macro-economic variables and stock exchange prices. The set of macro-economic indicators includes; inflation, exchange rate, balances of trade and index of industrial production, whereas the stock exchange prices have been represented by the general price index of the Karachi Stock Exchange, which is the largest stock exchange in Pakistan. The statistical techniques used include unit root Augmented Dickey Fuller test, Johansen’s co-integration and Granger’s causality test. The study found co-integration between industrial production index and stock exchange prices. However, no causal relationship was found between macro-economic indicators and stock exchange prices in Pakistan. Which means performance of macro-economic indicators cannot be used to predict stock prices; moreover stock prices in Pakistan do not reflect the macro-economic condition of the country.

Mishra, P.K [2010] the purpose of this paper is to examine the volatility of Indian capital market in the aftermath of global market slowdown. By using GARCH class models, the paper investigates the nature and characteristics of stock return volatility in the capital market of India. The results provide the evidence of time varying stock return volatility over the sample period spanning from January 1991 to August 2009. It is further found that the effect of bad news is relatively greater in causing market volatility in India.
Pati, Pratap Chandra (2010) the purpose of this paper is to estimate time-varying conditional volatility, and examine the extent to which trading volume, as a proxy for information arrival, explain the persistence of futures market volatility using National Stock Exchange S & P CRISIL NSE Index Nifty index futures. To estimate the volatility and capture the stylized facts of fat-tail distribution, volatility clustering, leverage effect, and mean-reversion in futures returns, appropriate ARMA-generalized autoregressive conditional heteroscedastic (GARCH) and ARMA-EGARCH models with generalized error distribution have been used. The ARMA-EGARCH model is augmented by including contemporaneous and lagged trading volume to determine their contribution to time-varying conditional volatility. The paper finds evidence of leverage effect, which indicates that negative shocks increase the futures market volatility more than positive shocks of the same magnitude. In addition, the results indicate that inclusion of both contemporaneous and lagged trading volume in the GARCH model reduces the persistence in volatility, but contemporaneous volume provides a greater reduction than lagged volume. Nevertheless, the GARCH effect does not completely vanish.

A.Q Khan and Sana Ikram [2010] this paper tests the efficiency of the Indian Capital Market in its semi-strong form of Efficient Market Hypothesis (EMH). The efficiency is tested in relation to the impact of Foreign Institutional Investors (FII’s) largely on the Indian Capital Market. For the purpose, two major stock indices viz; National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) that represent the Indian Capital Market have been taken. Monthly averages of NSE & BSE and Monthly FII’s net investment have taken over the period 1st April 2000 to 30th April 2010 in order to test the efficiency of Indian Capital Market. Karl-Pearsons’ Product Moment Correlation Coefficient (Simple Correlation) and linear regression equations have been used to analyze and determine the degree and direction of the relationship between the variables involved. The results suggest that the FII’s do have significant impact on Indian Capital Market, which leads to the conclusion that Indian Capital Market is semi-strong form efficient.

Taneja, Yash Pal (2010) in this study, the Capital Asset Pricing Model and Fama French Model have been examined by taking a sample of 187 companies for a study period of five years, ranging from June 2004 to June 2009. In order to validate
the results, the sample selection was made on the basis of continuous presence in S & P CNX 500 index for at least ten years without fail. The study showed that efficiency of Fama French Model, for being a good predictor, can not be ignored in India but either of the two factors (size and value) might improve the model. It is so because a high degree of correlation is found between the size and value factor returns.

Husni Ali Khrawish et al (2010) the paper examines the effect of interest rates on the stock market capitalization rate in Amman Stock Exchange (ASE) over the period 1999-2008. Based on the multiple linear regression model and simple regression model, the time series analysis revealed that there is significant and positive relationship between government prevailing interest rate (R) and stock market capitalization rate (S). The study shows that Government development stock rate (D) exerts negative influence on stock market capitalization rate (S), also it finds a significant and negative relationship between government prevailing interest rate (R) and Government development stock rate (D). Finally, this study suggests the importance of government intervention to encourage investment in ASE by reducing rate of personal taxation thus, granting incentive for creation of wealth, controlling interest rate so as to aid the growth of the stock market and improving the regulatory environment and decreasing red tape.

Ahmet Büyükşalvarcı (2010) the aim of this paper is to analyze the effects of macroeconomic variables on the Turkish Stock Exchange Market in the Arbitrage Pricing Theory framework. This study embraces seven macroeconomic variables (consumer price index, money market interest rate, gold price, industrial production index, oil price, foreign exchange rate and money supply) and the main Turkish stock market Index (Istanbul Stock Exchange Index-100). The data are monthly and extend from the January of 2003 to the March of 2010. A multiple regression model is designed to test the relationship between the ISE-100 Index returns and seven macroeconomic factors. The results of the paper indicate that interest rate, industrial production index, oil price, foreign exchange rate have a negative effect on ISE-100 Index returns while money supply positively influence ISE-100 Index returns. On the other hand, inflation rate and gold price do not appear to have any significant effect on ISE-100 Index returns.
Bansal, anad and pasricha, J.S. (2010) the main objective of the present study is to investigate the impact of foreign capital (FDI and FPIs) on economic growth of Indian economy during the period 1992–2009. Bilal Savasa and Famil Samiloglub (2010) this paper aims to investigate both the long-run and short-run relationships between stock returns and broad money supply, industrial production, real effective exchange rates, long term domestic interest rates, and foreign interest rates. Using the ARDL approach to cointegration, found long-run cointegrating relationship between stock return and various macro variables. Results of the parameter stability tests indicate that the structure of the parameters has not diverged abnormally over the period of the analysis. The cointegration test results indicate that a set of macroeconomic variables namely, L0, IPI, RER, FFR and R, IPI, RER and FFR are cointegrated with the Istanbul Stock Market-100 index in Turkey over the period of analysis. Individually, only IPI and R appear insignificant in Eqs. (1) and (2) respectively. L0 is positively related to the changes in stock prices. The negative coefficient of exchange rate lends support to the view that when a currency depreciates, imports are cheaper and this in turn causes an increase in the firm’s profitability and therefore the value of the stock. IPI has positive effect on the stock returns, suggesting stock prices should serve as barometer of future economic growth significant with plausible magnitude in both of the equations. The feedback coefficients are −0.67 in Eq. (1) and −0.45 in Eq. (2) with the expected signs. Thus, for both of the models, the speed of adjustment appears considerably fast in the case of any stochastic shock to stock market.

Dharmendra Singh [2010] in this research paper, attempt has been made to explore the relation especially the causal relation between stock market index i.e. BSE Sensex and three key macro economic variables of Indian economy by using correlation, unit root stationarity tests and Granger causality test. Monthly data has been used from April, 1995 to March, 2009 for all the variables, like, BSE Sensex, wholesale price index (WPI), index of industrial production (IIP) and exchange rate (Rs/$). Results showed that the stock market index, the industrial production index, exchange rate, and wholesale price index contained a unit root and were integrated of order one. Granger causality test was then employed. The Granger causality test indicated that IIP is the only variable having bilateral causal relationship with BSE Sensex. WPI is having strong correlation with Sensex but it is having
unilateral causality with BSE Sensex. Therefore, it is concluded that, Indian stock market is approaching towards informational efficiency at least with respect to two macroeconomic variables, viz. exchange rate and inflation (WPI).

Durga Prasad Samontaray [2010] the purpose of this research is to study whether the share price of the NIFTY index listed companies is affected by corporate governance factors or not. For this research, the annual reports and the actual share price of fifty companies as samples from NIFTY 50 Index from India, is taken. The data is collected for financial year 2007-08 relating to variables that are – share price, ROCE, EPS, D/E, P/E, Corporate Governance Score (that includes financial reporting, risk management, future strategy, recent changes, corporate social responsibility, awards and recognitions etc.). The scores are calculated in light of Narayan Murthy Committee report on corporate governance. For the analysis of data, cross-sectional regression analysis demonstrated significant relationship between share price (dependent variable) and independent variables (EPS, Sales, Net Fixed Assets and corporate Governance factors).

Khan, Rohit et al (2010) have explained that FII strongly influence market movements during bear markets. However, the correlation between returns and flows reduces during bull markets. In case of bull and bear phase Nifty explains FII more in bear phase (31%) as compare to bull phase (13%). It indicates that FII don’t hesitate to pull out their money from Indian market whenever market faces downward trend as compare to making investment in bull phase. Research by (Morgan Stanley) also shows that the correlation between foreign inflows and market returns is high during bear phase and weakens with strengthening equity prices due to increased participation by other players. Correlation coefficient is found to be very weak, though it cannot be ignored entirely. In spite of low correlation FIIs grab the headlines because in any kind of market, financial or real, investor sentiment and psychology play a crucial role. This is something that just cannot be captured in a few numbers.

Manish Kumar [2010] the purpose of this study is to investigate the long and short-run relation between stock index and exchange rates for India. The study uses cointegration methodology to test for the long-run relationship. Empirical results suggest that there is no long-run relationship between them. Furthermore, the study examines the causal relationship between two series using linear and non-linear
Granger causality tests. The non-linear causality is investigated using noisy Mackey-Glass model. The results of both the causality tests reveal evidence of bi-directional relationship between stock index and exchange rates. The findings imply that regulators can consider developments in these two markets into account to promote stability and economic growth.

Subrata Kumar Mitra [2010] in this study, we explored relations between foreign investment in India with that of stock prices in the domestic market and domestic currency changeover rates. Using daily data for the period January 2000 to July 2009, the study examined cause-effect relations and long-term relations among the series. Most of the studies in Indian market reported that domestic stock returns attract foreign fund flows but foreign flows do not cause stock returns in India. The results of this study using data for past nine and half years however detected bidirectional causality.

Thomas Gosnell and Ali Nejadmalayeri [2010] the purpose of this paper is to determine if macroeconomic announcements affect the Fama-French market, size, book-to-market risk factors and momentum factor. Using unexpected announcements of major macroeconomic indicators, a study is made of how daily innovations of risk factors react to macroeconomic shocks. In a Flannery and Protopapadakis framework, the impact of macroeconomics surprises on the levels and volatilities of the risk factors is measured. A VAR model is employed as a robustness check. To better understand the mechanism of announcement impacts on risk factors, the relationship between the macroeconomics announcements and Fama-French size/book-to-market portfolio returns is investigated. Inflation, employment, consumption and business activities were found to affect levels and volatilities of risk factors. However, these macro variables affect risk factors differently. Inflation and non-farm payrolls decrease the market risk premium while increasing the size premium. Personal income increases the size premium while reducing the book-to-market premium. Industrial production and GDP only influence the level of the momentum factor. In this model specification, producer inflation (PPI) and personal income increase the volatility of the size premium while business inventories increase the volatility of the market premium.
Abbas Alavi Rad (2011) the purpose of this paper was to examine the relationship between Tehran’s stock price index and a set of three macroeconomic variables. They used Unrestricted Vector Autoregressive (VAR) model, Impulse Response Function (IRF) and generalized Forecast Error Variance Decomposition (FEVD) to analyze behaviors of TSE price index during the period 2001-2007. The empirical results based on time series monthly data during the period under investigation are summarized follows: First, Impulse Response Function (IRF) indicates that the response of stock price index to shocks in macroeconomic variables such as consumer price index (CPI), free market exchange rate (FER) and liquidity (M2) is weak and takes four months to die out. Second, the generalized Forecast Error Variance Decomposition (FEVD) reveals that share of macroeconomic variables such as consumer price index (CPI), free market exchange rate (FER) and liquidity (M2) in fluctuations of TSE price index are about 12 per cent. In fact, macroeconomic variables don’t play an important role in fluctuations of TSE price index in Iran.

Adaramola and Anthony Olugbenga (2011) this study set out to investigate the impact of macroeconomic indicators on stock prices in Nigeria. Secondary data on stock prices of selected firms and six macroeconomic variables between 1985:1 and 2009:4 were used for the analysis. The macroeconomic indicators used in the research work are: money supply (BRDM), interest rate (INTR), exchange rate (ECHR), inflation rate (INF), oil price (OIL) and gross domestic product (GDP). The pooled or panel model was used to examine the impact of macroeconomic variables on stock prices of the selected firms in Nigeria. This model was considered appropriate for its ability to combine both time series and cross-sectional data. The empirical findings of the study revealed that macroeconomic variables have varying significant impact on stock prices of individual firms in Nigeria. Apart from inflation rate and money supply, all the other macroeconomic variables have significant impacts on stock prices in Nigeria the study therefore concluded with empirical evidences that trends in macroeconomic variables can be used to predict movement of stock prices to a great extent in Nigeria.

Ashish Kumar (2011) the present paper is aimed at studying the nature of the causal relationship between stock prices and macroeconomic variables in India, if any such relationship exists. For this purpose the techniques of unit-root tests,
cointegration and the Granger causality test have been applied between the NSE Index ‘Nifty’ and the macroeconomic variables, viz., Real effective economic rate (REER), Foreign Exchange Reserve (FER), and Balance of Trade (BoT), Foreign Direct Investment (FDI), Index of industrial production (IIP), Wholesale price index (WPI) using monthly data for the period from 1st April 2006 to 31st March 2010 have been studied. The major findings of the study are (i) there is no co integration between Nifty and all other variables except Wholesale price index (WPI) as per Johansen Co integration test. Therefore causal relationship between such macro economic variables having no co integration with nifty is not established. (ii) Nifty does not Granger Cause WPI and WPI also does not Granger Cause Nifty.

Naliniprava Tripathy (2011) this paper investigated the market efficiency and causal relationship between selected Macroeconomic variables and the Indian stock market during the period January 2005 to February 2011 by using Ljung-Box Q test, Breusch-Godfrey LM test, Unit Root test, Granger Causality test. The study confirms the presence of autocorrelation in the Indian stock market and macro economic variables which implies that the market fell into form of Efficient Market Hypothesis. Further the Granger- causality test shows evidence of bidirectional relationship between interest rate and stock market, exchange rate and stock market, international stock market and BSE volume, exchange rate and BSE volume. So it suggests that any change of exchange rate, interest rate and international market significantly influencing the stock market in the economy and vice versa. The study also reported unidirectional causality running from international stock market to domestic stock market, interest rate, exchange rate and inflation rate indicating sizeable influence in the stock market movement in the considered period. The study points out that the Indian stock market is sensitive towards changing behavior of international market, exchange rate and interest rate in the economy and they can be used to predict stock market price fluctuations.

Ghosh, Saibal (2011) using data on Indian banks for 1997-2007, the purpose of this paper is to develop an index of banking fragility and subsequently examine the factors affecting the index. The author employs basic distributional assumptions to develop the index and subsequently, employs panel data techniques to examine the factors which affect the index. Findings based on the statistical properties of the index, banks are classified as exhibiting high, moderate, and low stability. The
multivariate regressions indicate an important role for banking industry variables in influencing the index.

Gupta, Rajnarayan [2011] the present study attempts to identify the determinants of stock price level in India, an emerging market in the world. A multiple regression model is formulated for that purpose taking care of the time series properties of the variables. SENSEX, the country's most widely referred stock price index, is considered as the dependent variable. The explanatory variables include domestic and international factors, viz., index of industrial production (IIP), rate of interest (ROI), rate of inflation (INFN) and foreign institutional investment (FII). The model is tested for volatility clustering and test results indicate presence of ARCH (Auto Regressive Conditional Heteroskedasticity) effect. Instead of OLS (Ordinary Least Squares), therefore, the model is estimated by ML-ARCH method. Empirical findings show, however, that SENSEX is guided mainly by foreign institutional investment. The vulnerability of the stock market to foreign institutional investment is a cause for concern as it makes the market volatile and undermines investors' faith in stocks.

Karam Pal, Mittal (2011) the purpose of this paper is to examine the long-run relationship between the Indian capital markets and key macroeconomic variables such as interest rates, inflation rate, exchange rates and gross domestic savings (GDS) of Indian economy. Quarterly time series data spanning the period from January 1995 to December 2008 has been used. The unit root test, the co-integration test and error correction mechanism (ECM) have been applied to derive the long run and short-term statistical dynamics. The findings of the study establish that there is co-integration between macroeconomic variables and Indian stock indices which is indicative of a long-run relationship. The ECM shows that the rate of inflation has a significant impact on both the BSE Sensex and the S&P CNX Nifty. Interest rates on the other hand, have a significant impact on S&P CNX Nifty only. However, in case of foreign exchange rate, significant impact is seen only on BSE Sensex. The changing GDS is observed as insignificantly associated with both the BSE Sensex and the S&P CNX Nifty. The paper, on the whole, conclusively establishes that the capital markets indices are dependent on macroeconomic variables even though the same may not be statistically significant in all the cases.
Mohammad Bayezid Ali (2011) this paper investigates the impact of changes in selected microeconomic and macroeconomic variables on stock returns at Dhaka Stock Exchange. A Multivariate Regression Model computed on Standard OLS Formula has been used to estimate the relationship. Based on regression coefficient, it was found that inflation and foreign remittance have negative influence and industrial production index; market P/Es and monthly percent average growth in market capitalization have positive influence on stock returns. All the independent variables can jointly explain 44.48 percent variation in DS all share price index. No unidirectional Granger Causality is found between stock prices and all the predictor variables under study except one unidirectional causal relation from stock price and market P/Es. In a nut shell, lack of Granger causality between stock price and selected micro and macro variables ultimately reveals the evidence of informationally inefficient market.

Muhammad Intiaz Subhani et al [2011] a healthy stock market is a sign of sound and healthy economy. Stock market is a volatile market affected, at times directly and most often indirectly, by many micro and macroeconomic players. Of these players interest rates and exchange rates are among the ones undertaken in this study. The rationale behind this study is to ascertain the volatility in stock returns of various stock exchanges in relevance to interest rates and exchange rates over a range of 8 countries for assorted periods. GARCH (1, 1) was deployed for investigating the possible eventualities of volatilities of stock markets. The findings were found varying for Pakistan, India, Hong Kong, Japan, United States, United Kingdom, Spain and Germany. Moreover, almost for all countries GARCH (1, 1) yielded significant results confirming the existence of volatility of stock markets for the current period of outlined countries due to volatility of those stock markets during the previous lags. The findings may help investors know the stock markets’ trends which are also for some cases (nations) affected by interest rates and/or exchange rates and thus to invest accordingly.

Naresh Chandra Sahu and Deepinder H. Dhiman (2011) in this paper, an attempt has been made to explore the causal relationship between stock market indicators and macro economic variables of India by using both correlation and Ganger Causality Regression techniques. The variables that have been taken up in this
study are Bombay stock exchange (BSE) sensitive index (SENSEX), market capitalization (MCap) representing stock market, and real gross domestic product (GDP) and foreign exchange reserves (Forex) depicting real economic growth. Annual data has been used from 1981 to 2006 for all the above said variables to study the relationship. Augmented Dickey Fuller Unit Root Test has been done to check the stationary of the series. The findings of our study reveal that there is no causal relationship between stock market indicator i.e sensex of Bombay stock exchange (BSE) and real gross domestic product of India despite they being highly co-related. Therefore it is concluded in this paper that BSE SENSEX cannot yet be called as an “indicator” of India’s growth and development.

Noor Azryani Auzairy et al (2011) the purpose of this paper is to explore the effects of subsequent stock market liberalizations on stock market performances in ASEAN-3: Malaysia, Thailand and Indonesia. The effects are analyzed with and without the inclusion of macroeconomic variables. Subsequent stock market liberalization is defined as the percentage change in foreign ownership of local equities from 1997. This study also explores the effects of macroeconomic factors: exchange rates, interest rates and oil prices, on stock market performances. Univariate and multivariate regression analyses are carried out and empirical findings support two conclusions: firstly, subsequent stock market liberalization policies implemented in and after 1997 are not significantly effective in improving stock market performances of liberalizing countries; and secondly, macroeconomic variables have significant impact on the performances of liberalizing countries’ stock markets in some of these events. The study focuses on the impact of subsequent stock market liberalizations instead of the first stock market liberalization.

Rajender Kumar (2011) the present study examines causal relation between FIIs, stock market return and other macro economics variables such as exchange rate, index of industrial production (IIP), wholesale price index (WPI), interest rate and money supply in India to find out the possible determinants of FIIs in India, period of 17 years ranging from January 1993 to December 2009. Empirical evidence shows that stock market return, index of industrial production (IIP) and exchange rate are the main determinants of foreign institutional investment in India whereas the study does not find any causal relation between money supply, wholesale price index (WPI),
interest rate and foreign institutional investments. The present study examines the causal relation between FIIs, stock market return and other macro economic variables such as Exchange Rate, money supply, interest rate, IIP and WPI to find out the possible determinants of FIIs in India. For this purpose we have applied Granger Causality Test and find that stock market return, IIP and exchange rate are main determinant of FIIs flows in the stock market while as the study does not find any causal relation between money supply, wholesale price index (WPI), interest rate and foreign institutional investments.

S. Basu et al [2011] the paper tries to identify the presence of ‘market-wide herding’ in the Indian capital market and whether Institutional Investors impact such Herding. In particular, the paper looks at the impact of FII Flows as well as mutual funds on herding. The work also looks at the impact of index return and volatility on herding.

Seyed Mehdi Hosseini et al (2011) this paper investigates the relationships between stock market indices and four macroeconomics variables, namely crude oil price (COP), money supply (M2), industrial production (IP) and inflation rate (IR) in China and India. The period covers in this study is between January 1999 to January 2009. Using the Augmented Dickey-Fuller unit root test, the underlying series are tested as non-stationary at the level but stationary in first difference. The use of Johansen-Juselius (1990) Multivariate Cointegration and Vector Error Correction Model technique, indicate that there are both long and short run linkages between macroeconomic variable and stock market index in each of these two countries.

Shahnaz Mashayekh et al (2011) this paper investigates the relationship between a set of economic variables (i.e.inflation rate, interest rate of one-year investing deposits in state banks, interest rate of bonds and the growth rate of gold price) and Tehran Stock Exchange (TSE) indicators during April 1998 to March 2008. The findings of VAR model & JOHANSEN co-integration test show that the relationship between inflation rate and stock return as well as growth rate of Tehran Stock Market transactions volume in long term is positive and meaningful. Moreover, the results indicate that an increase in bank interest rate through drawing investments results in a reduction in the stock transactions volume growth and return and vice versa. So, stock and money markets can be considered as two competing and
supplementary markets in the long run, but the bonds are not the competitor investment opportunity for stock and the increase in its return rate has no negative effects on Tehran stock Exchange. The results of vector-error correction model show that in short run, gold market could be a substitute for stock market and gold return has an important role in explaining the stock market trend, but this relationship is not meaningful in the long run.

Shehu Usman Rano Aliyu (2011) this study seeks to apply the generalized autoregressive conditional heteroskedasticity (GARCH) model to assess the impact of inflation on stock market returns and volatility using monthly time series data from two West African countries, that is, Nigeria and Ghana. In addition, the impact of asymmetric shocks was investigated using the quadratic GARCH model developed by Sentana (1995) in both countries. Results for Nigeria show weak support for the hypothesis which states that bad news exert more adverse effect on stock market volatility than good news of the same magnitude; while a strong opposite case holds for Ghana. Further more, inflation rate and its three month average were found to have significant effect on stock market volatility in the two countries. Measures employed towards restraining inflation in the two countries, therefore, would certainly reduce stock market volatility, improve stock market returns and boost investor confidence.

Silky janglani et al [2011] the paper is based on the data of four years of from April 2006 to March 2010. The values of FII inflows and the spread of S&P CNX Nifty and BSE Index is taken up. The Chi Square test is applied to find the dependency between the variables and the correlation is calculated for analyzing the degree of relationship between the two variables. The paper suggests that the FIIs does not explains the discrepancy in the spread value of stock market indices and the degree of correlation lies between the range as low and moderate. Psychology plays an important part in driving FIIs inflows in the country. It is because of the volatile nature of investors’ sentiments that FIIs are tracked so closely. It would not be prudent to drive away foreign investors from investing in our country.

Sudharshan Reddy Paramati and Rakesh Gupta [2011] this study aims to investigate whether the stock market performance leads to economic growth or vice versa; study also examines short-run and long-run dynamics of the stock market. We use of monthly Index of Industrial Production (IIP) and quarterly Gross Domestic
Production (GDP) data for the time span of April, 1996 to March, 2009. This provides rich data for the empirical analysis & undertake Unit root (ADF, PP and KPSS) tests, Granger Causality test, Engle Granger Cointegration test and Error Correction Model. The monthly results of Granger causality test suggest that there is a bidirectional relationship between IIP and Stock prices (BSE and NSE) and quarterly results reveal that there is no relationship between GDP and BSE but in the case of NSE and GDP there is a unidirectional relationship and that runs from GDP to NSE. The Engle-Granger residual based cointegration test suggests that there is a long-run relationship between the stock market performance and economic growth. Similarly, the results of error correction model reveal that when the long-run equilibrium deviates then the economic growth adjusts to restore equilibrium by rectifying the disequilibrium. This study provides evidence in favor of ‘demand following’ hypothesis in the short-run.

Suhana binti Mohamed et al (2011) the aims of this research is to examine the relationship between the consumer product and industrial product index with macroeconomic variables namely Interest Rate (Base Lending Rate), Inflation Rate (Consumer Price Index), and Money Supply (M2). The methodology used was Multiple Regression Analysis which to identify the relationship between both of the stock market indices and the macroeconomic variables. The sample data taken for the period of 15 years. Results show that all variables have significance correlation with the indices. Whilst BLR and CPI have negative relationship with consumer product and industrial product index in Bursa Malaysia. Results also show that M2 has a positive relationship with consumer product and industrial product index in Bursa Malaysia which means that all variables have significant relationship with the stock market indices.

Swami Prasad Saxena and Sonam Bhadauriya [2011] the paper is intended at exploring the causal relationship between FIIs inflows and volatility in indices of NSE by adopting Granger Causality test in a bivariate VAR framework. The objective of the paper was to explore answer to the research question whether movements in FIIs inflows have an effect on stock market returns or movements in stock market returns have an effect on direction of FIIs inflows in India in particularly at National Stock Exchange, one of the fastest emerging stock markets with high volatility. The analysis covered daily data series on FIIs inflows and S&P CNX NIFTY for seven financial
years from April 2003 to March 2010. To investigate whether the data is stationary or not, the researchers used Augmented Dickey Fuller test and Phillips Perron test.

Tarika Singh1 et al (2011) this study is an attempt to examine for Taiwan the casual relationship between index returns and certain crucial macroeconomic variable namely employment rate, exchange rate, GDP, Inflation and money supply. The analysis is based on stock portfolios rather than single stocks. In portfolio construction, four criteria are used: Market capitalization, price/earnings ratio (P/E ratio), PBR and yield. The purpose was to make a finer point with respect to the relationship between economic growth and stock market especially in terms of stock prices. Empirical findings revealed that exchange rate and GDP seem to affect returns of all portfolios, while inflation rate, exchange rate, and money supply were having negative relationship with returns for portfolios of big and medium companies.

Yakup Kara et al [2011] this study attempted to develop two efficient models and compared their performances in predicting the direction of movement in the daily Istanbul Stock Exchange (ISE) National 100 Index. The models are based on two classification techniques, artificial neural networks (ANN) and support vector machines (SVM). Ten technical indicators were selected as inputs of the proposed models. Two comprehensive parameter setting experiments for both models were performed to improve their prediction performances. Experimental results showed that average performance of ANN model (75.74%) was found significantly better than that of SVM model (71.52%).

Yu Hsing (2011) this paper examines the effects of selected macerconomic variables on the stock market index in South Africa. The exponential GARCH (Nelson, 1991) model is applied. It finds that South Africa’s stock market index is positively influenced by the growth rate of real GDP, the ratio of the money supply to GDP and the U.S. stock market index and negatively affected by the ratio of the government deficit to GDP, the domestic real interest rate, the nominal effective exchange rate, the domestic inflation rate and the U.S. government bond yield. Therefore, to maintain a robust stock market, the authorities are expected to pursue economic growth, fiscal prudence, a higher ratio of the money supply to GDP, a lower real interest rate, depreciation of the rand, and/or a lower inflation rate.
Hazlina Binti Abd. Kadir et al (2011) the aim of this paper is to examine the predictability power of exchange rates and interest rates respective volatilities on stock market volatility and return using monthly Kuala Lumpur Composite Index (KLCI) returns, 3 months Malaysia Treasury bond and monthly exchange rate of Ringgit per US Dollar from 1997 January to 2009 November. The study adopts two models based on GARCH (1,1), model 1 (model 2) without (with) interest rate and exchange rate. The relationship between interest rate and exchange rate and KLCI returns are found to be negative, but significant for exchange rate and insignificant for interest rate. Insignificant relationship exists between return variance and the variables though positive for exchange rate and negative for interest rate. This means the variables have a certain degree of predictive powers for KLCI returns but weak volatility prediction.

Charles K.D. Adjasi et al (2011) the paper aims to investigate the relationship between stock prices and exchange rate movement in seven African countries. It uses vector autoregressive (VAR) cointegration and impulse response analysis to determine the long- and short-run linkages between stock prices and exchange rates. Findings – Cointegration analyses indicate a long-run relationship between stock prices and the exchange rate in Tunisia, where exchange rate depreciation drives down stock prices. A short-run error-correction model also shows similar results. Impulse response analyses for other countries show that stock returns in Ghana, Kenya, Mauritius and Nigeria reduce when induced by exchange rate shocks but increase in Egypt and South Africa. Shocks induced by either stock prices or the exchange rate are more protracted in Ghana, Kenya, Mauritius and Nigeria than in South Africa and Egypt.

Hojatallah Goudarzi and C.S.Ramanarayanan (2011) the main purpose of this paper was to investigate the cointegration and causality between the Indian stock market and foreign institutional investment (FII) in India during world financial turmoil of 2008. The cointegration and causal relationship using Engle-Granger (1987), Johansen (1991, 1995a) and Granger (1969) methodologies were investigated. The study found that BSE 500 stock index and FII series are cointegrated and causality between them is bilateral.
Rakesh Kumar [2011] this study has been carried out to study the dynamics of foreign institutional investments and stock market returns in India based on the daily data of 2246 observations. The study reveals that there is two ways causation between the stock market returns and net foreign inflows. However, such relationship is stronger in case of returns causing net inflows as compared to net inflows causing the stock market appreciation. Moreover, the Indian stock market experience the expansion in investors’ base and the sustained increases in the stock market prices and expectedly the price pressure hypothesis is satisfied in Indian stock market. Besides, there is no evidence of contrarian call is being taken by the foreign institutional investors rather they follow the positive feedback that FIIs move money into the market in response to the increasing returns at the market and withdraw with the decrease in returns.

Drama Bedi Guy et al (2011) this paper investigates the role of macroeconomic variables on stock prices movement in Cote d’Ivoire. They utilize the stock price index (SPI) call BRVM10 to represent Cote d’Ivoire stock market and some relevant macroeconomic variables such as industrial production index (IPI), consumer price index (CPI), domestic interest rate (IR), real exchange rate (EXR) and real money supply (M2). Examines both long-run and short-run dynamic relationships between the stock market index and the economic variables with quarterly data covering the period of 1999:1 to 2007:4 using Johansen's multivariate cointegration test techniques. The study identified that there is cointegration between macroeconomic variables and Stock prices in Cote d'Ivoire indicating long-run relationship. The results of Impulse Response Function (IRF) and Forecast Error Variance Decomposition (FEVD) demonstrate that out of five macroeconomic variables selected, only consumer price index (CPI) and domestic interest rate (IR) are the key determinants of the stock price movements in Cote d’Ivoire. The Granger-causality test based on the vector autoregressive (VAR) analytical framework was employed to empirically reveal that there is strong bi-directional relationship between stock price index (SPI) and domestic interest rate (IR). Thus, changes in the domestic interest rate might be used to predict the future stock price movement. The research also found that macroeconomic factors are not appropriate indicators to forecast the future behavior of the stock index movements in Cote d’Ivoire.
Guneratne Wickremasinghe (2011) the purpose of this paper is to examine the causal relationships between stock prices and macroeconomic variables in Sri Lanka, in order to examine the validity of the semi-strong form of the efficient market hypothesis. The paper adopts unit roots and cointegration, error-correction modelling, variance decomposition analysis, and impulse responses analysis to examine the causal relationship between six macroeconomic variables. There is one cointegrating or long-run relationship and three causal relationships between the stock prices and the macroeconomic variables in Sri Lanka. Further, an analysis of out-of-sample causal relationships found that at shorter horizons most of the forecast variance of the stock prices is explained by the stock prices themselves with gross domestic product (GDP) and money supply (M1) explaining the forecast variance in stock prices at longer horizons. However, the stock prices are able to explain the forecast variance of the US dollar (USD) exchange rate only. Results of the impulse response analysis indicate that a standard deviation shock given to the equations for the six macroeconomic variables generates responses from the all share price index (ASPI) only at short horizons. Also found that a shock given to the equation for M1 generates negative responses from the ASPI at all horizons considered. Further, it investigated whether a shock given to the equation for the ASPI generated any response from the macroeconomic variables. It found that all the macroeconomic variables except for M1 generated an initial negative response. Further found that except for GDP, all macroeconomic variables underwent a certain degree of volatility at shorter horizons as a result of a shock to the equation for the ASPI.

John K. M. Kuwornu and Owusu-Nantwi, Victor (2011) this study examines the relationship between macroeconomic variables and stock market returns using monthly data over period January 1992 to December, 2008. Macroeconomic variables used in this study are consumer price index (as a proxy for inflation), crude oil price, exchange rate and 91 day Treasury bill rate (as a proxy for interest rate). Full Information Maximum Likelihood Estimation procedure was used in establishing the relationship between macroeconomic variables and stock market returns in Ghana. The empirical results reveal that there is a significant relationship between stock market returns and three macroeconomic variables consumer price index (inflation rate), exchange rate and Treasury bill rate seem to affect stock market returns. Consumer price index (Inflation rate) had a positive significant effect, while exchange
rate and Treasury bill rate had negative significant influence on stock market returns. On the other hand, crude oil prices do not appear to have any significant effect on stock returns. The results may provide some insight to corporate managers, investors and policy makers.

Manoj Kumar Manish and Priyanka Agarwal [2011] economic variables like FII, exchange rate, gold price, fiscal deficit, IIP & inflation are the important factor which affects the Indian capital market. In addition to the Indian economic variable, the USA economic variables like interest rate, inflation and GDP also affect the Indian capital market. There is also a linkage between USA capital market movement and it’s affect on the Indian capital market. The monthly data between 1994 to 2010 has been taken to find that the Nifty 50 index is significantly affected by US GDP, S&P index, gold prices, Indian WPI, its fiscal deficit, IPI and exchange rate.

Mishra.ankita and mishra.vinod (2011) this study uses a two-regime threshold autoregressive (TAR) model with an autoregressive unit root to examine the efficiency of the Indian stock market. Using 11 years' weekly data for two indices and 10 common stocks from the National Stock Exchange (NSE) of India, this study applies the Caner and Hensen (2001) methodology to simultaneously test for the presence of non linearities and unit root in the stock prices data. The main finding of this study is that Indian stock prices follow a random walk albeit the presence of non linearities in the data.

Palamalai Srinivasan et al [2011] this paper aims to investigate the causal nexus between foreign direct investment (FDI) and economic growth in SAARC countries. The Johansen’s cointegration test was employed to examine the long-run relationship between foreign direct investment and economic growth in SAARC countries. Besides, the vector error correction model (VECM) was employed to examine the causal nexus between foreign direct investment and economic growth in SAARC countries for the years 1970-2007. Finally, the impulse response function (IRF) has been employed to investigate the time paths of log of foreign direct investment (LFDI) in response to one-unit shock to the log of gross domestic product (LGDP) and vice versa. The findings reveals that the Johansen cointegration result establishes a long-run relationship between foreign direct investment and gross domestic product (GDP) for the sample of SAARC nations, namely, Bangladesh,
India, Maldives, Nepal, Pakistan and Sri Lanka. The empirical results of the vector error correction model exhibit a long-run bidirectional causal link between GDP and FDI for the selected SAARC nations except India. The test results show that there is a one-way long-run causal link from GDP to FDI for India.

Rufus Ayodeji Olowe [2011] this paper aims to investigate the impact of the introduction of the 2004 bank capital requirements on the quoted stock prices on the Nigerian stock market. The methodology uses monthly data over the period January 1986 to December 2006, residual analysis methodology was used to investigate stock price reaction to the 2004 bank capital requirements on the Nigerian stock market. The results show that the introduction of the 2004 bank capital requirements has a positive impact on quoted securities on the Nigerian stock market. This is reflected in positive abnormal returns from the Nigerian stock market when trading is based on the information from the 2004 bank capital requirements. The results are unaffected by the choice of model. This lends support that the Nigerian stock market is inefficient in the semi-strong form.

Tho Nguyen [2011] the purpose of this paper is to investigate the spillover effect of the US macroeconomic news on the first two moments of the Vietnamese stock market returns. The author collected market expectation and actual announcements data for 12 key US macroeconomic announcements for the period from August 2000 to September 2009 from Bloomberg. The data set consists of monthly Non-farm payroll (NFPM), Unemployment level (UNEMP), Gross Domestic Product percentage level (GDP), Housing statistics (HOMEST), Industrial production (INDP), Leading Indicator (LEAD), Retail Sales (SALES), Consumer Price Index (CPI), Producer Index (PPI), Current Account (CA, quarterly), Trade Balance (BOT), and the Federal Reserve’s target rates (FOMC, 8 times a year and ad hoc meetings if needed). The MA-EGARCH (1,1) model is used for the empirical test of the US macroeconomic news spillover effects on the VNI index. The Findings in general, the US real economic news has the strongest effect on the first two moments of the Vietnamese stock returns. This can be interpreted as evidence that Vietnamese market participants believe that the USA is targeting real economic activities other than other variables. It is also shown that even though the US stock market (proxied by S&P500 index) significantly affects the Vietnamese stock market returns, the spillover effect of the US macroeconomic news is still significant.
Vikram K. Joshi & Miss Richa Saxen (2011) FII is allowed to enter into our country only through stock exchanges either in the form of equity or debt. Thus it makes an impact on the rise or fall of SENSEX, since FII is allowed to be purchased or sold daily. The daily transaction of FII is the reason behind the volatility in the stock markets and has strong impact on the various macro-economic variables and the economy as a whole. Thus, the paper attempts to analyze the impact of variation in FII on Sensex and to study the degree of relationship between them in various FII movement scenarios.

Karan Walia et al (2012) the present paper examines the contribution of foreign institutional investment in sensitivity index (Sensex). Also attempts to understand the behavioral pattern of FII during the period of 2001 to 2010 and examine the volatility of BSE Sensex due to FII. The data for the study uses the information obtained from the secondary resources like website of BSE sensex. Attempted to explain the impact of foreign institutional investment on stock market and Indian economy. Also attempts to present the correlation between FII and BSE sensex by the Karl Pearson’ Coefficient of correlation test. On the basis of above discussion and data analysis, it is clear that the FIIs are influencing the sensex movement to a greater extent. Further it is evident that the sensex has increased when there are positive inflows of FIIs and there were decrease in sensex when there were negative FII inflows. The Pearson correlation values indicate positive correlation between the foreign institutional investments and the movement of sensex (pearson’ correlation value is 0.746424196).

Sagarika Mishra and Harminder Singh [2012] in this article they test whether the stock market in India is driven by macro-economic fundamentals. Used a non-parametric approach to determine whether any variables are non linearly related with stock returns and the variability of stock returns by taking monthly observations from 1998 to 2008. They consider exchange rate, interest rate, industrial production, inflation and foreign institutional investments as macro-economic factors. Further, it employ a semi-parametric approach to see whether any of the macro-variables have a significant non linear impact on the stock return and on the variability of stock return. The results suggest that of the Ordinary Least Square and semi-parametric approaches, the semi-parametric approach better explains the stock returns and volatility.
Abhijeet Chandra [2012] the purpose of this paper is to examine the direction of causality between foreign institutional investment (FII) trading volume and stock market returns in the Indian context. There is evidence of uni-directional causalities from stock returns to FII flows across various sample periods. The paper attempts to establish whether net FII trading volume causes variations in stock market returns or vice versa. The study uses daily data on three different measures of FII trading volume as proxy for FII trading behaviour and S&P CNX Nifty returns, Granger-causality approach is applied to investigate the bi-directional causality between net FII trades and returns. The findings reveals Bi-directional causality between net FII investment and Indian stock market return is observed. In general, the FIIs seem to be chasing the Indian stock market returns. It is found that FII trading behaviour resulting in heavy trading volumes may cause variations in stock market returns only in the very short-term, but afterwards, it is the stock market returns which cause changes in FII trading behaviour.

Saeed Fathi et al (2012) attempt to examine the effect of macroeconomic variables on the development of the Tehran Stock Exchange. To do so, national income, investment rate, financial intermediary development and macroeconomic instability are considered as macroeconomic variables, and depth and breadth are considered as indices of the stock exchange development. Data were collected seasonally during 1998-2007. For statistical analysis. First examined stationary of the variables by augmenting the Dickey-Fuller Unit Root Test. Then, the Johansen co-integration Test was used to estimate co-integration vectors. Finally used the Vector Error Correction Model to test the research model. Findings suggest that national income and investment rates have a positive, significant effect on the depth and breadth of the stock exchange. Also, financial intermediary development and macroeconomic instability have a negative significant effect on the depth and breadth of the stock exchange.

Hussain Ali Bekhet & Mohamed Ibrahim Mugableh (2012) it examines the long-run and short-run equilibrium relationships between macroeconomic variables [GDP, producer price index (PPI), CPI, the broadest money supply (M3) and ER and the Malaysian stock market index (SMI) for the 1977-2011 period. The present paper examines the long-run and short-run equilibrium relationships between macroeconomic variables (GDP, PPI, CPI, ER, and M3) and SMI using annual time-
series data for the 1977-2011 period. However, it employs NP bounds statistics test to detect the variables stationarity and bounds F-statistic for testing the co-integrating relationships among variables. The long-run and short-run equilibrium relationships among variables are analyzed using SPSS bounds tests Approach. Results of NP test show that the $H_0$ of non-stationary is rejected at all cases except one variable. More specifically, the variables SMI, GDP, PPI, CPI, ER, and M3 are stationary at the upper bound, while the variable GDP is stationary at the lower bound. The results of bounds F-statistics test reveal that all variables are co-integrated with SMI. In addition, the results of bounds tests Approach show the presence of long-run and short-run equilibrium relationships between all macroeconomic variables and SMI. In particular, PPI, CPI, ER, and M3 are negatively associated with SMI in the long-run, while GDP is positively associated. Additionally, GDP, PPI, and ER are negatively associated with SMI in the short-run, while CPI and M3 are positively associated.

Junkin, Kyle [2012] this study investigates whether stock prices in South Africa are influenced by macroeconomic variables, and further more, the effects of financial crises on stock prices. The relationship between stock prices and the macro economy is a particularly important issue for investors, since a thorough understanding of such a relationship is likely to yield profitable or risk mitigating opportunities. Using monthly data for the period 1995 to 2010 the study focused at a macro level using the FTSE/JSE All Share Index, and at a micro level using sector indices. These included the construction and materials, financial, food producers, general retailers, industrial, mining and pharmaceuticals indices. The Johansen and Juselius (1990) multivariate cointegration approach was employed, along with impulse response and variance decomposition tests to address the issue. The results showed that macroeconomic variables do have a significant influence on stock prices in South Africa. Also, the influences of these variables were found to have an inconsistent effect across the sectors under investigation. Inflation was found to negatively influence the All Share Index, but impacted the industrial index positively. These inconsistent influences on the various sectors were seen to have important diversification implications for investors. The impact of past financial crises proved to be significant on certain indices, however, indices such as that of the pharmaceuticals sector was found to be largely unaffected by such crises.
K. Malarvizhi and M. Jaya [2012] this study analyses the dynamic relationship between stock market and exchange rate. As US Dollar is a prominent currency for foreign trade, the exchange rate of rupee and US Dollar has been taken for the study. The result found out that there is a bidirectional causal relationship between exchange rate and Nifty Index.

K. Malarvizhi et al [2012] this paper employs quarterly data from June 2000 to March 2010 to study the relationship between the NIFTY Index and GDP. The cointegration and Pairwise granger causality test surfaces the fact that there is a bidirectional causal relationship between GDP and NIFTY, i.e. changes in stock market will affect GDP and vice versa. Government and policy makers should give importance to this bi-directional causal relationship while framing policies.

Krishna Reddy Chittedi (2012) the study investigates long run relationships between oil prices and stock prices in India for the period April 2000 to June 2011 using monthly data. The oil price, BSE and NSE stock prices Autoregressive distributed lag (ARDL) approach test have been applied to explore the long-run and short relationships. The volatility of stock prices in India have a significant impact on the volatility of oil prices. While dynamics in the oil prices not impacted the price creation process of equities in Indian stock markets. This paper investigates the long run relationship between oil prices and stock prices for India over the period April 2000- June 2011. They employ Auto Regressive Distributed Lag (ARDL) Model that takes into consideration the long run relationship. The results obtained suggest that volatility of stock prices in India have a significant impact on the volatility of oil prices. But a change in the oil prices does not have impact on stock prices.

Mahmood Yahyazadehfar and Ahmad Babaie (2012) the main purpose of this paper is to investigate the impact of macroeconomic variables such as interest rate, house price and gold price on stock price in capital market of Iran. To do so, they have used a sample of monthly data from March 2001 to April 2011. The study is based upon a vector auto regression (VAR) model and Johansen-Juselius Cointegration positive relationship between stock price and house price the result indicates that there is a cointegrated vector for these variables. The estimated long-run relation shows that there is a negative relationship between gold and stock prices. There is also a positive relationship between housing and stock prices. And the effect
of nominal interest rate on stock price is negative. Real interest rate has been
decreasing by nominal rate growth for study years. So, real interest rate is considered
as discount rate in Iran. Finally, short-run relations among variables have been studied
through variance decomposition and impulse-response functions review by using
VAR. The data indicate that dynamic interaction with stock price lag to the selected
variables changes may represent Iran stock market efficiency.

Nopphon Tangjitprom (2012) this paper aims to examine the importance of
macroeconomic factors to determine the performance of stock market. The regression
analysis is used to examine this relationship. The result shows that macroeconomic
variables can explain stock return significantly after adjusting for some lags of data
availability. Moreover, the lead-lag relationship is examined by Vector Auto
regression model and Granger causality test. They reveal that macroeconomic
variables are less important to predict future stock return where as stock return can be
used to predict macroeconomic variables more. In the other word, stock return is good
candidate as a leading economic indicator. Finally, the variance decomposition
technique reveals that interest rate is the most important macroeconomic variable to
explain the variance in stock return. However, it is clearly noticed that all
macroeconomic variables can explain only a little variance in stock return.

S.V.D Nageswara Rao and Vinutha.V [2012] it identify the best index from
BSE, NSE and ET stock market indices in India in terms of efficiency and speed of
adjustment to macroeconomic factors during 2004-2011. Using Granger Causality and
regression, they determine the significant macroeconomic variables that cause index
returns. Using Speed of Adjustment, they explore how quickly the indices react to
these factors. Data Envelopment Analysis (DEA) is employed to identify the most
efficient index. Risk and market capitalization of indices are used as inputs along with
macroeconomic variables. Negative potential is used as a measure of risk in addition
to Value at risk (VaR) estimated using ARMA – GARCH with Johnson’s SU (JSU),
Pearson Type IV (PIV) and Normal Distribution. Change in term premium, M1 and
crude oil returns Granger cause return on all indices while anticipated inflation,
measured using a multiplicative seasonal ARIMA model, Granger causes returns on
two indices. SENSEX responds to changes in term premium ahead of all indices.
Evidence from DEA indicates that SENSEX closely follows CNX Nifty Junior with
sixty-eight of the seventy-two months demonstrating maximum efficiency.
Saurabh Singh et al (2012) the paper tries to examine the primary factors responsible for affecting Bombay Stock Exchange (BSE) in India. Further this paper attempts to investigate the relative influence of the factors affecting BSE and there by categorizing them. It is a well known fact that dollar price or money exchange rate and Inflation has a great influence on BSE Sensex therefore this research identifies the level of influence of exchange rate and rate of inflation on BSE Sensex. For establishing the relationship Regression Analysis has been used by using SPSS. The results suggest that Inflation Rate and Exchange Rate significantly affect the performance of BSE Sensex.

Tulin Anlas1(2012) this work explore the relationship between changes in foreign exchange rates (Euro/TL, GBP/TL, JPY/TL,CHF/TL, USD/TL, CAD/TL, SA/TL) and the main composite index at Istanbul Stock Exchange by employing monthly data spanning from January 1999 and November 2011. Based on the Augmented Dickey Fuller and other techniques of time series analysis I find that all variables in the estimation framework are non-stationary at the initial level. The stationarity is achieved at a first difference level. The results indicate that changes in domestic U.S. Dollar and Canadian dollar are positively related to changes in ISE 100 while fluctuations in domestic interest rates and Saudi Arabia Riyal have a negative impact on the index. This implies that Saudi Arabia Riyal and interest (monthly weighted time deposit rate) are alternative investment tools for ISE 100 index.

Avijan Dutta et al [2012] the objective of this paper is to predict the out performing stock with the help of Logistic Regression (LR). This paper uses financial ratios as usable selection criteria for determining performance in the stock market. The sample of the study consists of 30 large market capitalization companies ratio of four years, which are actively traded in the Indian Stock Market. Using various financial ratios as the independent variables, this study investigates and determines the financial indicators that significantly affect the share performance by using Logistic Regression Method. Findings:- It may be observed that eight financial ratios i.e. percentage change in net sales (NS), Sales/Net Assets (SNA), Price/Cash Earnings per share (PECEPS), Price/Book value (PEBV), Price/Earnings per share (PE), PBIDT/Sales (PBIDT), Cash Price/Earnings per share (CEPS) and Book value (BV)
can classify the companies up to 74.6% level of accuracy into two categories “good” or “poor” based on their rate of return.

Syed Tabassum Sultana and S Pardhasaradhi (2012) the current paper makes an attempt to study the relationship and impact of FDI & FII on Indian stock market using statistical measures correlation coefficient and multi regression. Sensex and Nifty were considered as the representative of stock market as they are the most popular Indian stock market indices. Based on 11 years data starting from 2001 to 2011, it was found that the flow of FDI & FII was moving in tandem with Sensex and Nifty. The study concludes that Flow of FDIs and FIIs in India determines the trend of Indian stock market.

Mamta Jain et al (2012) the present paper examines the contribution of foreign institutional investment in sensitivity index (Sensex). Also attempts to understand the behavioral pattern of FII during the period of 2001 to 2010 and examine the volatility of BSE Sensex due to FII. Attempted to explain the impact of foreign institutional investment on stock market and Indian economy. Also attempts to present the correlation between FII and BSE sensex by the Karl Pearson Coefficient of correlation test. Elango Rengasamy [2012] the present study attempts to analyze the impact of Sovereign Debt-related policy announcements and developments in the Euro Zone on the returns and volatility patterns of the BRICS stock markets in order to suggest suitable investment opportunities and strategies for the global investors. Share price index data of five leading stock exchanges of the BRICS nations have been collected and the data bifurcated into two periods. Period 1 has data for ten months considered a ‘normal period’ and period 2 has data for twenty two months considered the ‘post-sovereign debt crisis period’. Kolmogorov Smirnov and Shapiro-Wilk’s tests ensured the normality of returns for the entire sample period. The results indicated that no BRICS stock market had registered negative returns during the overall study period of 32 months. The mean index returns of all the five stock markets have dropped during the post-sovereign debt crisis period. It is of interest to note that the Student’s ‘t’ test applied to examine the significance of differences, if any, in the mean returns during the pre and post sovereign debt crisis periods revealed that the differences were not statistically significant at 5% level of significance. The over all conclusion is that BRICS markets, the fastest emerging economic super
powers in the world, assure promising growth and profit-making opportunities. It is, therefore, suggested that with the right portfolio mix, funds and timing, investors can reap rich benefits from these emerging markets.

Govind Lairellakpam and Mihir Dash [2012] this study focuses on identifying the factors which affect the volatility in Indian stock markets. For this purpose, certain macroeconomic variables are considered, including exchange rates, crude oil prices, interest rates, gold prices, and so on. These variables are analysed along with the movement of S&P CNX Nifty. The study uses vector autoregressive techniques and Granger causality tests to determine whether each of the factors have a significant impact on market volatility, as well as volatility of individual stocks. The findings of the study suggest that individually none of the macroeconomic variables have a significant impact on the volatility of Nifty. However, a very important finding is the movement of the exchange rate is significantly impacted by the stock market, which is quite visible in the current market scenario.

Lukasz Prorokowski [2012] the current paper aims to expand an empirical assessment of correlations of the stock exchange in Poland with other stock markets and foreign economies. The paper attempts to explore international spillover effects during the current financial crisis. An empirical model evaluating the cross-border implications for the Polish stock market was specified. The findings outline the crisis-induced changes in the uncertainty of equity investors and the implications for investment decision making processes. Comparing the responses to economic and financial information sets among different stock markets and industries delivers insight into the profitability of the international portfolio diversification based on either the country or industry specific factors.

Malarvizhi, K et al [2012] the Gross Domestic Product reflects a consolidated report of the performance of the Indian economy. The ongoing changes in the Indian stock market and changes in the GDP in the last decade lead to many empirical studies. This paper employs quarterly data from June 2000 to March 2010 to study the relationship between the NIFTY Index and GDP. The cointegration and Pairwise granger causality test surfaces the fact that there is a bidirectional causal relationship between GDP and NIFTY, i.e. changes in stock market will affect GDP and vice
versa. Government and policy makers should give importance to this bi-directional causal relationship while framing policies.

Namita Rajput et al [2012] in this paper they examine the information spillover and volatility spill-over relationship for Indian stock market. It cover data during 1992-2011. They examine if there has been an increase in volatility persistence in the Indian stock market on after the process of financial liberalization initiated in India. Further, they examine the shifts in stock price volatility and the nature of events that apparently cause the shifts in volatility. This paper explores to develop alternative models from cointegration, VECM, Variance De-composition Analysis, Granger causality, Block Exogeneity Wald test, Impulse Response Analysis and alternative forms of the Autoregressive Conditional Heteroscedasticity (ARCH) or its generalisation, the Generalised ARCH (GARCH) family, to estimate volatility in the Indian equity market return. Bidirectional informational spillover is confirmed. The bidirectional volatility spill-over, persistence and clustering is also confirmed in the sample series.

Qiang Chen et al [2012] the purpose of this paper is to empirically analyze the dynamic relationship between stock market and bond market based on the effect of different information shocks. This paper decomposes the information of stock market and bond market into public information and private information. The characteristics of response of stock market and bond market to the information shocks are examined by SVAR model and modified BEKK model. The study shows that the information shocks in financial market yield not only the effect on linear asset return but also the effect on non linear asset volatility. The public information mainly produces a short effect of return while the private information mainly produces a permanent effect on volume. The interactive relation between stock market and bond market is mainly reliant on the effect of the information shock volatility to market return volatility.

Rachna Arya and Ashok Purohit [2012] Foreign institutional investors have gained a significant role in Indian stock markets. The increase in the volume of foreign institutional investment (FII) inflows in recent years has led to concerns regarding the volatility of these flows, threat of capital flight, its impact on the stock markets and influence of changes in regulatory regimes. The dawn of 21st century has shown the real dynamism of stock market and the various benchmarking of sensitivity
index (Sensex) in terms of its highest peaks and sudden falls it can be said that while return declined reasonably after the entry of FIIs, the volatility has been reduced significantly after their entry. Besides, FIIs investment flows, there may be other reasons as well that may have some degree of influence on market volatility and return. While the FIIs investment flows and contemporaneous SENSEX, NIFTY, market capitalization and market turnover have been strongly correlated in India, the correlation between FIIs investments and market volatility and market return has been comparatively low. It means volatility in Indian market is not the function of FIIs investment flows. There may be some other reasons which induced the volatility in Indian market over the time.

Rajveer Rawlin et al [2012] this study attempted to study the effect of FII transaction amounts, derivative turnover amounts and volatility on the performance of the Nifty index. A strong correlation was observed between derivative turnover and the Nifty but the correlation was relatively weaker between the Nifty and FII transaction amounts and volatility. FII and F&O activity established important tops ahead of major tops in the Nifty. Volatility remained low during periods of significant upside in the stock market but spiked up during market declines. Linear and non-linear relationships were fit to study the effect of the three parameters on the Nifty. A non-linear relationship involving all three variables provided the best statistical fit suggesting that interplay of these and other factors possibly drive the performance of the index.

Ranjan Dasgupta [2012] this study has attempted to explore the long-run and short-run relationships between BSE SENSEX and four key macroeconomic variables of Indian economy by using descriptive statistics, ADF tests, Johansen and Juselius’s co-integration test and Granger causality test. Monthly data has been used from April, 2007 to March, 2012 for all the variables, i.e., BSE SENSEX, wholesale price index, index of industrial production, exchange rate and call money rate. Results showed that all the variables has contained a unit root and are integrated of order one. Johansen and Juselius’s cointegration test pointed out at least one co-integration vector and long-run relationships between BSE SENSEX with index of industrial production and call money rate. The Granger causality test has found no short-run unilateral or bilateral causal relationships between BSE SENSEX with the macroeconomic
variables. Therefore, it is concluded that, Indian stock markets had no informational efficiency.

Samveg Patel [2012] the study investigates the effect of macroeconomic determinants on the performance of the Indian Stock Market using monthly data over the period January 1991 to December 2011 for eight macroeconomic variables, namely, Interest Rate, Inflation, Exchange Rate, Index of Industrial Production, Money Supply, Gold Price, Silver Price & Oil Price, and two stock market indices namely Sensex and S&P CNX Nifty. By applying Augmented Dickey Fuller Unit root test, Johansen Cointegration test, Granger Causality test and Vector Error Correction Model (VECM), the study found that Interest Rate is I(0); Sensex, Nifty, Exchange Rate, Index of Industrial Production, Gold Price, Silver Price and Oil Price are I (1) and Inflation and Money Supply are I (2). It also found the long run relationship between macroeconomic variables and stock market indices. The study also revealed the causality run from exchange rate to stock market indices to IIP and Oil Price.

Yonggang Ye and Bote Chen [2012] the purpose of this paper is to analyse the implications of exchange rate fluctuations on China's national macro-financial stability and evaluate current renminbi (RMB) appreciation speed and magnitude. The contingent claims analysis method is used to construct the financial risk indicator and evaluate the macro-financial risk. The paper also implemented computer simulations to generate different scenarios in the macro-scenario analysis. The main conclusion is that there is claims-based currency mismatch in China's four major economic sectors. The simulation results show that faster appreciation leads to wide fluctuations on asset prices, the size of the base currency and foreign debt in China. In the current risk level, steady speed appreciation style is better than the accelerated appreciation style.

Yu Hsing & Wen-jen Hsieh [2012] applying the GARCH or ARCH model, this paper finds that Poland's stock market index is positively associated with industrial production or real GDP and the German stock market index, negatively affected by the government borrowing/GDP ratio, the real interest rate, the nominal effective exchange rate, the expected inflation rate, and the government bond yield in the euro area, and exhibits a quadratic relationship with the M2/GDP ratio. It suggests that the stock market index and the M2/GDP ratio show a positive (negative) relationship if the M2/GDP ratio is less (greater) than the critical value of 43.68%.
Hence, to maintain a healthy stock market, the Polish authorities are expected to pursue economic growth, reduce government borrowing, avoid currency appreciation, and keep a relatively low interest rate or a relatively low expected inflation rate. Although currency appreciation has a negative impact on the stock market index, it is possible that the negative relationship might change if a certain threshold value is reached in the future.

Yu-Fen Chen et al [2012] the purpose of this paper is to investigate whether the foreign institutional investors in Taiwan herd towards the stocks in the same industry identify the causes of industrial herding, analyze whether herding behavior impacts future industrial returns and trace the changing pattern of industrial herding, especially during the 2007-2008 financial crisis. The methodology approach that this paper applies Sias’ herding measure to identify foreign institutional industrial herding behavior. Moreover, to identify the causes and impacts of herding, the authors use regression models to analyze the relationship between foreign institutional demand for stocks in some particular industries and industrial returns, controlling industrial market capitalization, the number of firms in the industry and industrial speculative intensity. The above methods are applied to the full sample period, as well as two sub-periods respectively. To trace the time-varying trading behavior. First on average, foreign institutional investors herd in the Taiwan securities market. They follow each other into and out of the same industries. Second, they were momentum traders in the tranquil period from 2002 to 2006 and contrarian traders in the period of 2007-2008 financial crisis. Third, such herding behavior has positive impacts on future industrial returns both in the tranquil period as well as in turbulent time. The authors thus conclude that foreign institutional investors demonstrated contrarian trading strategies to stabilize future industrial returns in the financial crisis period, they buy past losers to support the prices and sell past winners to suppress the price volatility.

Musibau Adetunji Babatunde et al [2013] the purpose of this study is to investigate the interactive relationships between oil price shocks and Nigeria stock market. It applied the multivariate vector auto-regression that employed the generalized impulse response function and the forecast variance decomposition error. Empirical evidence reveals that stock market returns exhibit insignificant positive response to oil price shocks but reverts to negative effects after a period of time depending on the nature of the oil price shocks. The results are similar even with the
inclusion of other variables. Also, the asymmetric effect of oil price shocks on the Nigerian stock returns indices is not supported by statistical evidences