ABSTRACT

The Stock market is an important element of the economic structure of a country. The stock market plays a critical role in the development of the industry and commerce of the area that eventually affects the economic structure of the country to a great extent. Furthermore, it plays a crucial role in the mobilization of capital in many of the emerging economies. There are many factors which affect the stock market behaviour rapidly. The variation due to the different factors reflects its impact on the economy also. It is said that if one wants to discover the economic structure of the country, he/she should read out the behaviour of the securities markets. So, in the above context, there is a need to conduct present research to investigate the relationship between stock market and financial (economic) factors.

The study investigated the impact of financial (economic) variable such as: Gross Domestic Product (GDP), The Index of Industrial Production (IIP), Consumer Price Index (CPI), Foreign-exchange reserves (also called forex reserves or FX reserves), International Crude Price (CP) on selected stock market, namely Indian Stock Market (S&P BSE SENSEX (BSE 30) index, S&P CNX Nifty index (NIFTY 50), London Stock Exchange (Financial Times Stock Exchange 100 Index (FTSE 100) and New York Stock Exchange(NASDAQ) Dow Jones Industrial Average (Dow 30). The data sets of all variables have been considered from April, 2001 to March, 2013 on a monthly basis. All the required information for the study has been retrieved from the International Financial Statistics (IMF Data Base).

Descriptive statistics (to know the subject knowledge of the variables considered in the whole research work), Augmented Dickey Fuller Test (ADF), to check the stationarity of data, Ordinary least square (to test the relationship between the selected financial economic variables and the stock price index), Johansen Co – integration test (to check the long run relationship between selected variables), Granger Causality test (to examine the relation between individual explanatory variables and selected indexes, either unidirectional, bidirectional or no relation have been employed to examine the objectives of the study. The study reveals long run relationship among the variables and the results of Granger Causality test reveals unidirectional, bilateral relation (Feedback) and exogeneity (Independence) among the variables.