Abstract

Over the past decade and a half, India has been undergoing a slow but steady process of economic reformation. It has come through different regimes of foreign exchange management and capital market reforms during which process it is claimed to have transited from an administered exchange rate pricing system to one that is determined by market forces. The financial architecture of the country has changed perceptibly, and there is irreversible degree of integration not only between the various subs-segments of the domestic financial market but also with the global markets. India’s financial matrix is now under considerable influence from global capital flows. In this context the study on ‘Impact Of Exchange Rate Fluctuations On The Share Prices In The Indian Capital Market’ is an attempt to bring to light the nature of response and interrelationship between Exchange Rate and Equity Prices in the Indian context. This study is very comprehensive and extensive in terms of the depth and breadth of analysis and the period of coverage which spans from July 1991 to June 2006. The study has used wide range of analytical tools from simple graphical exploration to sophisticated econometric tools such as Causality and Co-integration Tests to demystify the dynamic nature of the relationship between Exchange Rate and Stock Prices.

Keywords: Dynamic Equilibrium Relationship, Exchange Rate, Stock prices, Causality, Co-integration.