Preface

This thesis presents results from years of research on inter-relationship between two of the significant macro economic indicators viz. The Exchange rate and the Share prices.

The economic reforms since 1991, have made Indian capital market evolve as a globally relevant one. The great leap in financial liberalisation and technological development have changed the order of the financial markets of the country with wider participation from both domestic as well as foreign investors. Equally, the flow of foreign capital in the form of portfolio investment and foreign direct investment have become sizeable so much so that one has to recognize the influence capital movements could have on the country’s financial architecture, especially of its capital market and its foreign exchange market.

The topic of study was conceived while the South East Asian economies were trying to recover from the shocks of the concurrent currency turmoil and stock market crash of 1997. Theories which existed then, failed to fully explain the link between the two markets. The Indian markets were believed to have been saved to a great extent from the aftermath of the crises as the Rupee was under the managed float exchange rate regime and was not fully convertible. However, with the progressive convertibility of the Rupee and with the transition of the currency from a fixed to a floating system, the Rupee also has been undergoing cycles of depreciation and appreciation. On the other hand, the emergent Indian Capital Market has evolved as a preferred destination for foreign investors.

What I have presented in the following chapters, is the result of my extensive search for any statistically significant influence of the exchange rate fluctuations on the share prices in the Indian Equity Market, over the long period of fifteen years from 1991 to 2006.