ABSTRACT

Volatility means how drastically the price of an asset tends to rise and fall. The stock market is considered to be volatile when there is sharp rise and sharp decline in the markets within a short span of time. The objectives of the study are to examine the trends of volatility in Indian stock market, to study the factors which influence volatility of stock prices, to examine the relationship between the volatility and stock price behaviour, to analyze the positive and negative consequence of volatility and to arrive at stock market volatility model. The scope of the study is restricted to the extent that the BSE (Sensex) and NSE (Nifty) data considered for the present research work covers a period of sixteen financial years only, i.e., from 1996-2011. The daily closing values of each exchange form the data of this study. The crucial factors affecting the stock prices considered for the study are FIIs, Interest Rate, Inflation, Union Budget, and Company Earning. The various tools such as T-test, Unit Root Test, Granger Causality test, GARCH, EGARCH have been used to achieve the objectives. The results of measurements done for the market indices viz. BSE Sensex and S&P CNX Nifty, have been found that the market volatility was the highest during the year 2008 followed by 2009, 1997 and 2000. As far as relationships is concerned it have been found that FII equity flows and inflation have neither increased nor dampened volatility of stock market returns in India. In case of budget and interest rate, when volatility and return are considered together, the budget and announcement of interest rate has greater impact on return than volatility in short-term period, while in long-term period the impact is reversed. The regression analysis provides that in all the selected companies (HDFC Bank, State Bank of India, Tata Motors, Mahindra and Mahindra, and Hero Motors) under study as well as in BSE and NSE, the variables such as EPS, P/E, and DY have contributed most in determining share prices. It has been found that returns are negatively correlated with volatility. The main reason of negative correlation between stock and volatility is leverage effect. The study also attempted to devise a volatility forecast model for the BSE Sensex and S&P CNX Nifty, and concluded the GARCH(1,1) specification fits the Sensex return and Nifty return time series quite well.