CHAPTER II

RESEARCH DESIGN AND METHODOLOGY
In this chapter, a modest attempt is made to present the research design and methodology of the study. The issues focused include significance of stock market including the Bombay Stock Exchange (BSE) Limited, statement of the problem, review of existing available literature relating to theme of the topic of research, gaps in the existing literature and the framework of present study in terms of objectives, sampling design and size, period of the study, data collection, tools of analysis, scope and limitations and chapter outline.

1. Significance of the study

The BSE is one of the premier stock exchanges in India since its inception. The superiority of the BSE over the other stock exchanges was maintained till the emergence of the National Stock Exchange (NSE) Limited. During 1875-1992, the BSE had enjoyed foremost position in the secondary market. During its long period of existence, it had gone through several ups and downs. In other words, it had passed through various phases. After the implementation of first generation financial sector reforms, radical changes were effected with regard to infrastructure, operations, market surveillance mechanism, trading pattern, settlement cycle etc in the stock market. The BSE has played a catalytic role in bringing the transformations. The profile of stock market has undergone a sea change after the advent of liberalisation, privatization and globalization (LPG). The processes and procedures set by the BSE have marked a paradigm shift. In the last decade, the relative outlook and working of stock exchanges has undergone a sea change in the Indian economy. After the emergence of the NSE, the importance of the BSE has considerably declined. The BSE lags behind the NSE in trading volume though the number of listed companies on the former is much higher than on the NSE. In spite of this, the BSE is considered one of the best and promising stock exchanges of India. Even today, the BSE is considered a barometer to know the temperature of the economy, especially the financial sector.
The BSE assumes greater significance in the context of an overpopulated country like India, which has the second largest potential population in the world next to China. It is estimated that the investor population stagnates at 20 million since liberalisation. This phenomenon shows that there is an enormous potential for the BSE to take up nation-wide trading. The BSE can enhance the demand for existing corporate securities by reaching out to investors. This in turn helps investors to get better prices for their investments and capital appreciation. This may, in the long run, result in an increase of investor base.

Increase in investment interest of small and marginal investors in financial assets is due to their improved economic condition. Consequently, it is likely to enhance the demand for new securities. The BSE acts as an instrument to foster a strong linkage between the primary and secondary markets. The BSE contributes significantly to the turnover of securities in the stock market nearer to the NSE. Moreover, the BSE has introduced several best market practices which were internationally common. But these were absent in other stock exchanges in the country. For example, clearing corporation, settlement through nation-wide depository network, counterparty guarantee and the adoption of foreign investment up to 49 per cent. In the near future, the BSE has plans to offload shares to investors. Further, the BSE fully became a company during 2007. Today, these measures have become de facto standards in the Indian stock market. The reforms introduced over the last few years have transformed market practices, reduced fragmentation across the functioning of market and improved competitive pricing in the equity market. For a country like India, where the share of savings of household sector in the total financial assets is low at 4.8 per cent as compared to developed countries, the BSE, as one of the premier stock exchanges in India, has greater responsibility of channelizing household savings into productive investment. Today, the BSE is the world's number one stock exchange.
in terms of number of listed companies. It is the world’s 5th most active one in terms of number of transactions handled through its electronic trading i.e. BSE online trading (BOLT) system. In terms of market capitalisation, the BSE is in the top ten stock exchanges in the globe. The BSE has registered market capitalisation at US$ 1.28 trillion as of February, 2010.

2. Statement of the problem

As already stated, the BSE is considered one of the premier stock exchanges of India. With the advent of online trading, the activities of the BSE through trading terminals have spread over the globe. This has erased the regional character of functioning. The BSE bestows a lot of attention on investor protection due to the introduction of stock market reforms. This is so to mitigate the problems encountered by investors. The capitalisation, turnover and liquidity have rapidly increased in the recent past. It is said in the literature that there is a high volatility in the stock prices of the BSE. This is on account of upward trend in trading volume, market capitalisation, liquidity, psychology of investing public, fluctuations in the fundamentals of listed companies etc. Therefore, an earnest attempt is made to carry out an empirical study on the performance of the BSE during the recent decade i.e. 2001-10. The emphasis is laid on volatility in the stock prices and protection of investors.

3. Review of literature

In this section, an attempt is made to review the existing available studies relating to the topic of research.

Tadeshi Endo in his paper focused on practices and rules in the Indian stock market. The author studied the organization structure, membership criteria, trading mechanism, listing and turnover. The study concluded that in the capital market, individual investors were more speculative than institutional investors. The study compared the BSE with the NSE in terms of average daily turnover and delivery rates
but ignored trend in turnover. It is purely descriptive in nature. Gupta conducted an empirical study on the effects of excessive speculation. The data was drawn from 15 companies listed in the BSE. The author employed two way criteria i.e. share trading velocity and concentration of market activity in few shares to analyse speculation. The author found that there was a wild speculation in the stock market. The over speculative character was reflected in two statistical features of trading: firstly, there was extreme high concentration of market's activity in a handful of shares lading to neglect of the rest of the shares; and second, absurdly high trading velocities in the speculative counters. The author made an all India survey of household investors during 1990-91 and used 4 point scale to analyze quality service provided by stock brokers. A little over 42 per cent of investors were dissatisfied with the service offered by brokers. Nearly 26 per cent of investors complained that the stock brokers were unwilling to execute small order even when these were in market lot. Around 26 per cent investors complained that there is undue delay in the payment of sale proceeds.

Gupta made an analysis of volatility for 30 share sensitivity index (Sensex) and 100 shares national index of BSE. He presented half monthly percentage change in share prices during 1990. Volatility is analysed with the help of statistical techniques such as high-low spread analysis and half-monthly opening to closing percentage change. The study contributes a useful empirical analysis of effects of speculation, volatility and quality of service provided by stock brokers. It suffers from the coverage of a few indices of BSE. Patel pointed out that there is lack of liquidity in a number of securities listed on stock exchanges. This is a major problem confronting the investors. The committee identified the frequency of transactions in equity shares of 3401 companies listed in A and B groups in major stock exchanges. The conclusions include: securities were traded in 959 or 28.20 per cent of companies; frequency in 347 or 10.20 per cent of companies and daily in 207 or 6.09 per cent of companies during 1993. The SEBI
organized a similar study on 2275 companies listed on the BSE. The analyses showed that the securities of 20 per cent of companies were traded almost daily while those of 36 per cent of companies between 50 per cent and 90 per cent of trading days.

Mayya\textsuperscript{10} made an overview of Indian capital market. The study emphasized the need for modernization and computerization to provide liquidity and to serve efficiently. Yaakov Amihud and Haim Mendelson\textsuperscript{11} examined the benefits of the costs of increasing the liquidity and the method to trade off the cost and the benefit. They also studied the impact of financial management policies and institutional arrangements to enhance the liquidity. They suggested a new perspective for studying the financial management policies. They concluded that the benefits of liquidity increasing financial policies, which reduce the firm's opportunity of cost of capital, have to be balanced against their costs. In examining the associated tradeoffs, they explained a number of observed corporate financial policies and institutional arrangements which may enhance liquidity.

Bernstein\textsuperscript{12} made an attempt to explore the concept of liquidity for common stocks and calculated different measures of liquidity. The author opined that there is a relationship between liquidity and market efficiency. Although market liquidity and market efficiency are attributes of a good market, they are not compatible with each other. The author examined the various attributes of market- depth, breadth, and resilience, fair and orderly market from the view point of liquidity. Klemacasky and Conroy\textsuperscript{13} evaluated the impact of competition on the spreads of securities listed in the New York Stock Exchange (NYSE). In this study, competition was categorized into external and internal competition. External competition means competition provided by competing markets and competing dealers whereas internal competition arises when the system itself competes in the form of public orders. The study developed a model that showed the interaction between the specialist's bids-ask quote and limit orders. The empirical
results suggested that the competition from public limit orders was more effective than that of direct dealer competition.

Cooper et al\textsuperscript{14} arrived at the conclusion that the theory that listing augments liquidity is ill-founded. The study summed up that listing is unlikely to result in greater liquidity when the aggregate market value of outstanding stock is taken into account. Richard Roll\textsuperscript{15} reports that the influences of bid-ask spread on the performance of stock market. In an informationally efficient market, the trading cost will be very minimal, sometimes equaling zero. Further, in an efficient market, the average bid-ask randomly fluctuates. The Stock Exchange of Hong Kong\textsuperscript{16} reviewed the desirability and potential market demand for introducing market makers into appropriate segments of the market with a view to improve liquidity, particularly in second line stocks.

Rajeev Ranjan and Amith Padhye\textsuperscript{17} undertook an empirical analysis on the pattern of daily equity returns and day-of-the-week effect with reference to Indian stock market. No general comment can be made on the presence of day-of-the-week effect as the evidence differs over the two largest exchanges of India. In the case of the NSE, the test of week-end effect shows that the returns are negative on Monday and positive on Wednesday. For the BSE, the overall result indicates that the daily returns for all days of the week are zero. But the difference in returns between Monday and Friday is significantly positive. Generally, Monday is the most volatile day of the week.

Chandrasekhar and Parthapratim Pal\textsuperscript{18} studied the trading behaviour of foreign institutional investors (FIIs) in the sensex companies. The authors concluded that small and periodic shifts in their behavior led to market volatility. They add that such volatility is an inevitable result of the structure of Indian financial market as well. The authors explored the various market making systems overseas and considered several other proposals that could improve the liquidity of second line stocks. Several suggestions were made to improve the quality of market of second line stocks. These included; (i) modification
of existing public float procedures; (ii) promotional activity for second line stocks; iii) enhancement of sponsor's role; and iv) relaxation in short selling and repurchase rules. Further, the study found that the liquidity of small sized stocks fluctuated greatly with the change in the market sentiment and they tend to have higher frequency for zero-trading days. Finally, the study recommended that the market-making system should help in improving liquidity.

Gupta and Rohtagi have conducted a study to get more accurate idea of the need for liquidity in a specific context. It is held that the speculator and the genuine investors look for instant liquidity. The need of genuine investor is limited in nature. The authors advocated professional speculation for the smooth functioning of stock market including interest of genuine investors. Rajpal organised a study on the Over the Counter Exchange (OTCE) of India. The author has suggested establishing the OTCE to enable small companies with potential, viable green field ventures on hand to obtain capital from investors. The author has emphasized the need of two-tier market as it facilitates upward movement of small companies automatically. The study provides literature but it is not data based research. In a study, Prabhu Dev employed correlation and regression to examine trading frequency. The author reports that when the trading activity is less or moderate, price volatility is moderate and changing frequency is disproportionate to the change in price volatility. There is a lesser degree of correlation between trading frequency and price volatility.

In his study, Mayya opined that there is a great need to safeguard the interests of investors. The author examined various problems of investors in relation to their investment decisions. These include interest on application money, issue of certificates in market lots, transfer of shares, and payment of dividend etc. Further, the author studied interest rights of investors against stock brokers, transparency of transaction, volatility of stock market, and lack of liquidity. The author concluded that stock exchange administration has
to play a crucial role in investor protection. Ajay Shah\textsuperscript{23} assessed the reforms in equity and debt market. The author stated that the extensive reforms introduced in mid nineties have enhanced the integrity, transparency and efficiency of securities market. Further, the author expressed the view that the reforms resulted in improvement of market practices, lowered transaction costs and led to high market efficiency in the stock exchanges. The author also presented a qualitative view of liquidity on Indian securities market during 1994-98. Finally, the author arrived at the conclusion that reforms have, however, failed to obtain a liquid and efficient debt market.

Pandya\textsuperscript{24} felt that a great responsibility lies with the SEBI in the matter of investor protection. In his opinion, the measures introduced by the SEBI cover locative efficiency in the primary market with a fair degree of transparency, reforms in the secondary markets and regulation of various market intermediaries. Anshuman and Chandra\textsuperscript{25} examined the government policy of favouring the small shareholders in terms of allotment of shares. They argued that such a policy suffers from several lacunas such as higher issue and servicing costs and lesser vigilance about the functioning of companies. They argued that all this happened because of inadequate knowledge to safeguard the interest of investors. They suggested that there is a need to bring appropriate reforms for a better performance of securities market and to strengthen investor protection.

Venkatwaran\textsuperscript{26} investigated the relationship between the Indian stock market and other prominent international stock markets. The author studied 23 international stock indices during 1983-87 and concluded that there is practically no meaningful relationship between the BSE sensex and other international stock market indices, though the British and the South Korean indices are inversely related to the BSE. Satyanarayana Chary\textsuperscript{27} opined that the Indian stock market is moving ahead and conveying to the world that they are very strong from multiple dimensions which will help in order to change them into
developed markets. Further, the author stressed that the markets are not helping the common investor due to high level of sophisticated speculation in the market. The author suggested that the SEBI needs to move heaven and earth in order to rationalize future stock market activities to enable it to face the global challenges.

Ray\textsuperscript{28} opined that investor psychology plays a vital role in evaluating the performance of stock market. The author interlinked investor psychology with behavioral finance. The author has tried to convince that apart from the traditional fundamental analysis, there is a need to understand systematic predictable patterns and other behavioral variables in order to increase the accuracy of stock market movements. Ahmad\textsuperscript{29} investigated the behavior of the stock prices of 24 companies to test the random walk hypotheses variant of market efficiency theory. His findings explained that shocks to share prices will have a stretched effect on the performance of stock market. They have opined that transaction costs have come down, screen based system has reduced settlement problem. The author concluded that Indian stock market is inefficient though there is improvement in the light of reforms.

Mallikarjunappa\textsuperscript{30} presented a discussion on various determinants of equity market returns. In his study, he has chosen totally 45 variables to represent different sectors of the economy and individually investigated the relationship between these and equity market returns. The empirical results for agriculture and equity market returns show that production of breeder seeds and foundation of seeds and non-food grain yield showed negative relation whereas the food index of industrial workers showed positive relation. In the industry sector index of industrial production, production of manufacturing, basic, capital, consumer and petroleum and other energy sources are the significant determinants of the equity market returns. In the economy, only net domestic savings emerges as the significant determinants of returns. The author combined all the 45 variables and
investigated them together. It emerges that nine of the variables are significant determinants of the equity market returns. These nine are production of breeder and foundation seeds, food price index of industrial workers, production in mining and quarrying, electricity, spun yarn, fertilizers, intermediate goods and private final consumption expenditure in the domestic market.

Roll\textsuperscript{31} collected the equity price indices from 24 countries during 1988-1991. The sample period had witnessed several important events across the globe. The USA 'mini crash' of October 1989, the Japanese market rapid decline, eight months of Kuwait invasion etc. The author decomposed individual stock returns into country and industry components and found that the industry components were significant. This means the stocks from different countries of the same industry are closely correlated. Thus, they concluded that countries whose stock markets were similar in terms of industry composition will be interdependent, i.e., there was a co-movement between stock markets from the same industry, but from different countries.

Saravana Kumar\textsuperscript{32} has undertaken a study to know the investor preference of future and cash market. The study revealed that most of the investors prefer cash market than derivatives market because of lack of knowledge about the derivatives market. The study has highlighted a few suggestions for removing constraints in the crucial variables which directly affect the investor and company. Kapil Choudhary\textsuperscript{33} has investigated and found that the Indian stock market's informational efficiency is in weak form in the context of calendar anomalies. The author considered the day-of-the week effect and month-of-the year effect. In his study, the author used daily closing value of the BSE sensex and the BSE 100 indices during 1996 to 2006. The study is bifurcated into two sub-periods, namely, 1996 to 2001 and 2002 to 2006. In this study both the parametric and non-parametric approaches have been employed to check any seasonal pattern in common stock returns. The findings regarding the day-of-the week
reported that there is no significant differences in the sample distribution of daily common stock returns during the whole study period. The author concluded that there was an evidence of anomalies after post-reforms period of study.

Nidheesh\textsuperscript{34} has examined the role of FIIs in the development of Indian stock market with reference to the development of the BSE and the NSE. The author opined that the liberalization policies had the desired expansionary effect and had either increased the mean level of FII flows and/or sensitivity of these flows to a change in the BSE returns and/or the inertia of these flows. Further, the author stressed that FIIs had emerged as the most dominant investor group in Indian stock market, particularly, in companies that constitute the BSE sensex. The author stated that there was long term relationship between net FII investment and sensex performance. The author added that FIIs investment did not respond to short run changes or technical position of the market and they were more driven by fundamentals. Silky \textit{et al}\textsuperscript{35} carried out work on the relevance of random walk model and price changes /changes in return. The authors employed run test and correlation to test the market efficiency. They opined that the price movements of the shares of the companies in the BSE sensex are random, i.e., nobody is successful in predicting the future prices on the basis of historical data only. Finally, they concluded that before investing in the shares of the company listed on the BSE, an investor should not rely on the historical prices of the shares of that company.

Kantawala\textsuperscript{36} has analyzed the relation between tax reforms and capital market performance. The author added that the various reforms like lowering of tax rate on long term capital gains (LTCG), exemption of dividend in the hands of recipient, exemption from LTCG if amount of LTCG or net consideration is invested in specified securities or bonds, recognition of units of mutual funds (MFs) as securities attracted new investors and led to development of capital market. Raul\textsuperscript{37} has expressed his views on Indian stock market that the success story is
based on structural rather than cyclical boom. The author strongly believed that fundamental changes have driven the market rally. However, some grey clouds are hovering in the bright sky, the author added. Further, it is believed that to continue the boom in the market, regulatory authorities should make continuous efforts to check anomalies in the market by investing more in infrastructure.

Gupta\textsuperscript{38} studied the working of stock exchanges in India and has given a number of suggestions to improve their performance. The study highlighted the need to regulate the volume of speculation so as to serve the needs of liquidity and price continuity. It was suggested that there should be enlistment of corporate securities in more than one stock exchange at the same time to improve liquidity. The study also suggested that the cost of issues should be low, in order to protect small investors. Baumol\textsuperscript{39} made an important contribution to a better understanding of the performance of the stock market. In his book, the author made an analysis on synthesis of past research and current thinking on the subject. It analyses in considerable detail both the short-run and long-run price equilibrating processes. It pointed out the important departures from the competitive ideal and the implications of these departures to stock market efficiency. Besides, the author offered his own hypothesis on the pricing of securities, and he sheds new light on the overall efficiency of the stock market as a mechanism for allocating the nation's capital resources.

Rohtagi\textsuperscript{40} stated that the basic function of the stock market is to provide ready marketability and liquidity of securities. The author expressed the view that the ideal stock market should provide instantaneous and unlimited liquidity. Blume and Friend\textsuperscript{41} stated that the proportion of stock owned by institutional investors in America has increased sharply, while that owned by individual investors has decreased. They analyzed the effects of the shift in stock ownership from individuals to institutions on the efficiency of equity market. They also examined the pros and cons of numerous proposals for improving
the securities market. Transactions by individuals have always been regarded as essential to both the liquidity and the efficiency of the securities market.

Panda\textsuperscript{42} has studied the role of stock exchanges in India before and after independence. The study revealed that the listed stocks covered four-fifths of the joint stock sector companies. Investment in securities was no longer the monopoly of any particular class or of a small group of people. It attracted the attention of a large number of small and middle class individuals. It was observed that a large proportion of savings went in the first instance into purchase of securities already issued. Gupta\textsuperscript{43} made a comprehensive analysis of the geographic distribution of corporate shareholding in India. The study revealed that the process of securitization is going on in the Indian securities market. The spotlight of the study was on equity shareholders. It covered individual holders of industrial securities in India. It is based on a sample of 1, 09,031 security holders drawn from 165 companies distributed over various regions of India.

Devakumar\textsuperscript{44} opined that during 1985 there were very few investors with sufficient knowledge about the stock market operations. The author found that thousands of new investors invaded the market during 1985 boom. The new investors suffered heavy losses compared to the professionals. A good number of new investors have walked out of the stock market to safer areas like unit UTI units, National Saving Schemes (NSC) etc. Further, the author added that there is a mild shift of investment preferences to mutual funds. Gupta\textsuperscript{45} made an extensive survey on Indian shareowners during 1990s. It has thrown a light on many unknown aspects of the market for shares and other financial assets. The study covered a wide range of aspects and has generated much new data on investors, their investment habits and preferences. The study involved nearly 6000 households spread over more than 100 cities of India. As per the study, there were around 38 lakh share-owning households and about 90 to 95 lakh share-owning individuals
in India. The number of debenture-owning households is about 29 lakh and most of them are shareowners also.

Jawaharlal presented a profile of Indian investors and evaluated their investment decisions. The author studied their familiarity with, and comprehension of financial information, and the extent to which this is put to use. The author opined that the information provided by companies generally fails to meet the needs of a variety of individual investors and there is a general impression that the company's annual report and other statements are not well received by them. Singh opined that the primary market is a perennial source of supply of funds. It mobilises the savings from the different sectors of the economy like households, public and private corporate sectors. The number of investors increased from 20 lakhs in 1980 to 150 lakhs in 1990. In financing of the project costs of the companies with different sources of financing, the contribution of the securities rose from 35.01 per cent to 52.94 per cent during 1981-89. In the total volume of the securities issued, the contribution of debentures/bonds in recent years has increased significantly from 16.21 per cent to 30.14 per cent.

Bajpai studied the liquidity aspect and found that it is an essential constituent of an efficient stock market. He added that the growth of the equity cult in the 1980s was supported by the actual experience of the Indian investors and equity prices between 1978 and 1993 have outperformed other popular avenues of investment. The chance of lucrative capital gain along with annual return from equity investment attracted investors on a large scale towards primary and secondary capital markets. The study highlighted the need for liquidity of investment. The author found that only 6 per cent of the listed scrips remained on the active trading, and 28 per cent of them were traded once in a year just to satisfy the requirements of listing agreement. Bhole observed various categories of investors in India during 1980-1991. The author opined that the stock market is regarded and projected as the barometer of the economy and the essentiality of the
growth or spread of equity culture or equity cult is being constantly stressed. He added that the stock market activity is subject to wide fluctuations and that the long-term trend has been one of steep increase. It is evident that the investors' asset preference has somewhat shifted from deposits to industrial securities.

Amanulla and Kamaiah assessed the Indian stock market efficiency by using market integration approaches. The results have shown that there is no evidence in favour of market efficiency of Bombay, Madras and Calcutta stock exchanges whereas market efficiency is found in Ahmedabad and Delhi stock exchanges. They opined that market efficiency may be due to quick transmission of information along with reliable operational efficiency. Thus rapid informational network and operational efficiency may pave the way towards market efficiency. They considered provision for liquidity of capital and continuous market for securities as prime functions from the point of view of investors. They concluded that in an efficient market, all the relevant information about a firm that is available to market participants is expected to be fully and immediately absorbed and reflected in its share prices.

Feldman and Kumar explored the potential benefits of equity markets in developing countries. They argued that several constraints were prevented banks to provide funds for long-term investment. They stated that the improvement of secondary market performance is depends on the facilities provided in the primary market of issuance of equity shares. The study found that the combined capitalisation of 38 emerging stocks had increased dramatically from less than $100 billion during 1983 to nearly $2 trillion during 1993. They pointed out that information flows, disclosure requirements, auditing and accounting standards and the existence of credit rating institutions have an influence on the development and operations of securities markets.
The Economic Times study suggested that the major factors leading to a sustained weakness in stock prices are excessive supply of equity shares and higher than apparent levels of major stocks. It stressed that when the sensex peaked at 4547 on April 2, 1992, the aggregate market capitalisation amounted to Rs. 2,410 billion whereas the sensex steadily fell to touch a bottom of 1980 billion. On 27 April, 1993, the aggregate market capitalisation declined to Rs. 1859 billion. It is reasoned that bulk of this difference is due to the increase in the sheer quantity of shares. The story concentrated on several features of Indian trading system, the attitudes of retail investors and the long-term changes in the price-earnings ratios (P/E ratio). The study revealed that Indian shares were never so cheap over the last ten years as today. The study also highlighted the importance of the retail investors and the need for their adequate protection. Gupta dealt with the problem of the prolonged and unprecedented stock market depression. The important question raised is why the market forces on their own are not able to correct themselves in the Indian stock market? The author concluded that still there are several non-rectified structural changes in the stock market.

4. Need for the study

The review of existing literature on the topic of research reveals that there are quite a number of studies on stock market reforms, volatility in stock prices, market capitalisation, turnover, liquidity, market performance, price behaviour and investor protection at the macro level in the country. There are studies on the BSE covering profile, membership, listed companies etc. There is no study with a specific focus on market capitalisation, turnover, liquidity and volatility in stock prices and investor protection in the recent decade. Furthermore, a few studies have measured the performance of the BSE with the help of sensex only and completely ignored the sectoral indices.
The BSE has maintained its glory in all the operational aspects till the advent of the NSE. The emergence of the NSE and other regional stock exchanges in the country has posed a serious challenge to the BSE in respect of market leadership, turnover, capitalisation, membership, usage of technology, investor protection etc. In the present scenario, the BSE has tried to mould itself in such a way so as to be the leader of the market. There is a need to find out possible answers/solutions to certain issues/questions. What is the magnitude of volatility in the BSE sensex compared with other sectoral indices? What is the role of the BSE in protecting the interest of investing public from market maladies? What is the performance of the BSE in terms of market capitalisation, turnover and liquidity in the recent decade? To answer the aforementioned queries, there is a need to undertake an enquiry into the BSE. In view of the gaps in the existing available literature and also the aforesaid, it is strongly believed that there is a dire need to carry out a detailed study covering aforesaid aspects in the BSE.

5. Present study

The present study is detailed in this section

5.1 Objectives

The specific objectives of the study are: to
i) review the growth of the BSE in the recent past;
ii) evaluate the role of the BSE in protecting the interest of investors;
iii) assess the volatility in the security prices of the BSE; and
iv) analyse the performance of the BSE in terms of market capitalisation, trading volume and liquidity.

5.2 Sampling

The researcher has confined the area of the study to the states of Andhra Pradesh (A.P) and Karnataka only due to time, resources and other constraints on the part of individual researcher. Therefore, the universe of the study is A.P and Karnataka. In the study area, there are
129 corporate members and 10 individual members who deal with the BSE during 2010. The corporate brokers act both as corporate brokers and investors. The FIIs are outside the purview of the study. Of the corporate members, 75 are in Karnataka and the remaining 54 in AP. The individual members spread over in Karnataka and AP are 8 and 2 respectively. The researcher has adopted census method. Following this line of thinking, the researcher has personally distributed the questionnaires to all the 129 corporate members and 10 individual members. None of the individual members responded positively and returned the filled in questionnaires for the reasons best known to them. The reasons are not far to seek. Of the 129 corporate members, the researcher has collected questionnaires from 124 only. In other words, 5 have not returned the filled in questionnaires/inaccessible as their whereabouts are not known during the period of data collection. Out of this, the questionnaires received from 110 members are full and complete in all respects. Therefore, the researcher has to necessarily depend on them and there is no other alternative. The responses of 110 corporate members only are analysed.

5.3 Data collection

The study makes use of both the secondary and primary sources of data. The secondary information is gathered through books, journals, periodicals, magazines, reports, handouts, pamphlets and websites. The primary data is collected from the respondents through specially designed questionnaires for the purpose by personal interview method. In this context, it may be noted that the researcher has designed two kinds of questionnaires i.e. one for individual members and the other, for corporate members. The questionnaires were pre-tested through pilot study before finally canvassing among the respondents. The questionnaires were modified/revised in the light of responses of respondents during the pilot study.
5.4 Tools of analysis

The collected data is processed, tabulated, analysed and interpreted with the help of appropriate statistical tools. The performance of stock market is measured with the help of trend analysis, compound growth rate etc. Further, arithmetic mean, standard deviation, quartiles and Pearson's multiple correlation are employed to measure and interpret volatility in the scrips traded in the BSE. Furthermore, weighted average, 't' test and chi-square tests are used to test the significance and initiatives on investor protection in terms of several spheres and dimensions. Further, wherever necessary and appropriate, graphs, charts and diagrams are drawn to illuminate the facts and figures.

5.5 Period of study

The present study covers a ten year period from 2001 to 2010. The period of study is appropriate in the light of capital market reforms.

5.6 Scope and limitations

The scope of evaluation of performance of the BSE is wide in character. But in order to achieve the stated objectives of the study, the enquiry has been divided into three parts. The first part traces the significance, genesis and performance of stock market in general and the profile of BSE in particular. It also deals with the recent reforms introduced in the stock market arena. The second part deals with the investor protection in terms of several variables/dimensions. The last part covers the volatility and performance of the BSE in terms of market capitalisation, turnover and liquidity. The cash segment of the BSE alone is taken for the purpose of the study. The study has not covered derivatives market due to wider scope. The impact of FIIs on stock market dealings is not focused in the study owing to a number of causes such as: some of them residing outside of the country; trading and settlement in their countries of residence may be different from those prevailing in the BSE; the investment climate and norms in their
country vary from those in India; and variations in the trading day. The retail investors who deal through brokers are also excluded from the present study due to their minimal knowledge on dealings in scripts; they deal with wholesalers and they are illiterates in the world of finance and machineries of stock market operations. These are the limitations of the study. In other words, the aforesaid might have been included in the present investigation.

5.7 Chapter plan

The research report has been divided into seven chapters. The first chapter deals with the overview of Indian stock market. The research design and methodology and review of existing available literature on the topic of research as described are given in chapter two. Chapter three covers the profile of the BSE. Investor protection is highlighted in chapter four. Chapter five analyses the volatility in the scrips listed on the BSE. The sixth chapter evaluates the performance of the BSE in terms of market capitalisation, turnover and liquidity. The last chapter presents the summary of findings, conclusions, suggestions and hints for further research in future.
References


