

# IMPACT OF NATIONAL AND INTERNATIONAL INSTITUTION ON THE BEHAVIOUR OF INDIAN STOCK MARKET IN INDIAN ECONOMY

MAHUL BRAHMA, DR. RUCHIKA GUPTA

<sup>1</sup>Research Scholar  
SSSUTMS, Sehore

<sup>2</sup>Research Guide  
SSSUTMS, Sehore

## Abstract

The investment through Foreign Institutional Investors (FIIs) has become a powerful force within the development of Indian stock market and it is increasingly viewed as an important reason for stock market unpredictability. This situation has powered researchers to analyze the nexus between FIIs capital moves and stock exchange volatility. To be able to ascertain the hyperlink between the two, present researches make a moderate attempt to create an understanding from the FIIs investment decision and its effect on stock market movements. To check the actual non-stationarity of times series the particular Augmented Dickey-Fuller (ADF) device root examination is used. In present study, statistical tools such as mean, difference, standard deviation, skewness as well as correlation evaluation are used to analyze the impact associated with FIIs influence on Indian currency markets volatility. Along with these tools, GARCH model will be also utilized to study the effect of FIIs capital flows on stock market volatility. The research reveals there is significant relationship between FIIs capital flow and stock market volatility. Furthermore, FIIs purchase has statistically significant impact on a volatility of NIFTY and SENSEX, used as proxy to be able to Indian industry.

**Keywords:** Indian Economy, Market, public organizations, Foreign Institutional Investors

## Introduction

Along with rapid modifications in our economy due to liberal financial policies as well as fast pace modifications due to globalization, Indian marketplace has become a concentrate point with regard to foreign investors. Organizations tend to target for large volume of trade in this era of globalization. Trade flows are indeed one of the most visible aspects of globalization. International investment decision is an effective source within propelling the entire world toward drawing a line under economic incorporation. FII refers to the investment made by resident of one country in the financial capital and asset of another country it facilitates and persuades large productivity and help in shaping up balance of payments. FII flows in India have continuously grown in importance. With over 20 million shareholders, India has the third largest investor base in the world after the USA and Japan. Over 9,000 companies are listed on the stock exchanges, which are serviced by approximately 7500 stockbrokers.

The capital investment through FIIs is actually motivated not just by the domestic and external economic circumstances but also by short operate expectations, mainly developed by the system known as 'market sentiment'. These short run expectations in return develop an element of speculation and high mobility in FII's capital flows and as such give rise to volatility in stock market of host country. The common belief about equity market is that price or return indices in stock markets are frequently subject to extended deviation from fundamental values with subsequent reversals and that these savings are largely influenced or created by the mobility of foreign capital flows. In such a situation small investors have serious concern that whether prices accurately reflect their expectations about the present value of future cash flows. This hypothesis is referred to as market rationality to be distinguished from informational efficiency. The persistent anomaly calls into question market rationality and is evidenced by stock market volatility, stock market crashes and market overreactions. Volatility defined as the level of price variance between the discuss prices throughout a particular time period and is an indicator of a higher liquid market place. Though some quantum of volatility is desirable because it highlights the changing values across economic activities and it facilitates resource allocation yet volatility created by the flow of funds by FIIs is detrimental for stock markets and investors. Volatility characterizes the stability or instability of any random variable. It is a common statistical measure of depression around the average of any random variable such as earnings, market-to-market values, market value, losses due to default etc.

## OBJECTIVES

The objectives of the study are;

- To analyze the trend investment by FIIs in Indian stock market.
- To assess the impact of FIIs inflows on the movements Indian stock Market.

## RESEARCH METHODOLOGY

Research Methodology is used to discuss fundamentals research methodology and different statistical tools and techniques of the research study. Research has framed hypothesis for study objectives and identify dependent variables and independent variables for research work. Moreover, this research paper assists to justify the research methodologies employed for the present study and shows how the sample design, data collection and analysis, hypothesis are apply to fulfill the research objectives draw round.

## DATA COLLECTION

The data related to FIIs inflows have been collected from various sources like Bulletins of Reserve Bank of India, Fact sheets of DIPP, Govt. of India. The BSE Sensex and CNX Nifty data have been taken from the websites of bseindia and nseindia respectively.

## Statistical Tools and Techniques

- Regression model analysis
- Coefficient of determination
- T – test
- F- test

## Descriptive Statistical tools like

- Mean

- Median
- Std. deviation
- Std. error
- Coefficient of variance
- P - value

**Variable of the study**

Researcher has used variables for research work dependent variable & independent variable.

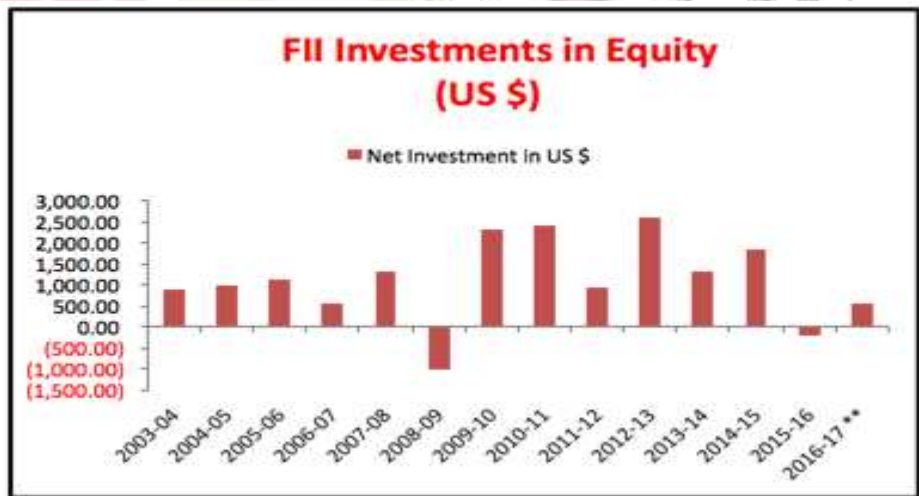
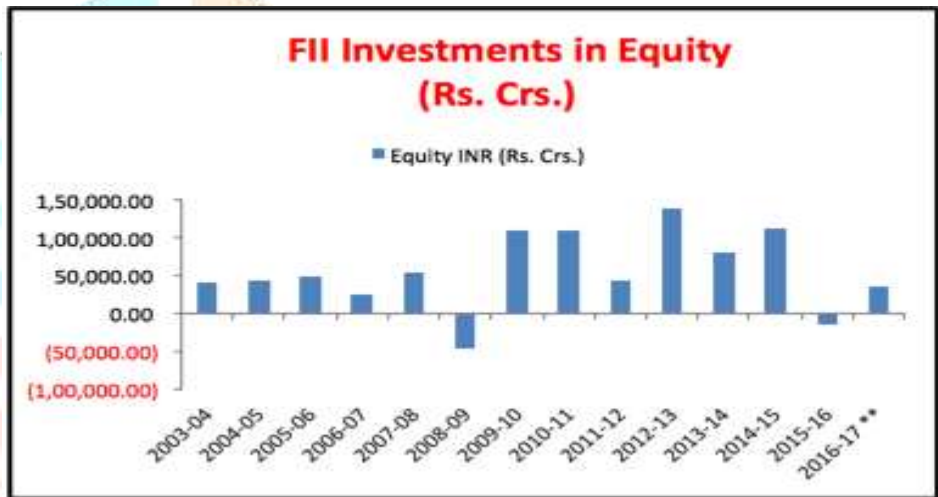
1. Dependent Variables & Independent variable

- NIFTY 50 (Deep Variable)
- FIIs investment (Independent Variable)
- Exchange rate of US \$ v/s Indian Rupee

**HYPOTHESES**

H01: The impact of FIIs inflows on the movements of Sensex and Nifty are statistically insignificant.

**FII Trends in India**



**FORMULA:**

- $\gamma = a + bx$
- Here, FII = Independent Variable (x)
- Nifty = Dependent Variable (y)
- a = Constant of Regression line

• b = Beta

### Data Analysis

#### Correlation between FII and Nifty

Correlation has been used to determine the statistical relationship between variables under study FII and NIFTY. Based on the results it can be concluded that there is a moderate positive correlation of 0.781 between FII and NIFTY. Since the significance value is 0.00 which is less than 0.05, we should reject the null hypothesis. There is a relationship between FII and NIFTY.

**Table 1 Correlation**

		NIFTY	FII
Personal Correlation	NIFTY	1.000	.781
	FII	.781	1.000
Sig (1-tailed)	NIFTY	.	.000
	FII	.000	
N	NIFTY	23	23
	FII	23	23

#### Regression analysis between FII and NIFTY:

Regression continues to be used to figure out the strength of relationship between FII and FIFTY. R -Square worth is 61% which means product explains the actual 61% variance. In some other words, self-employed variable FII is able to clarify 61% variant of the dependent variable NIFTY. P value is 0.00 which is > than 0.05 which means null hypothesis is rejected as well as there is no substantial impact associated with FII upon NIFTY.

**Impact of FII's on NIFTY:** The effect of FII's on nifty is positive and co-efficient of correlation is .781 this shows that it has moderate degree of positive correlation; hence the effect is also moderate on nifty.

Model	Sum of Squares	Df	Mean square	F	Sig.
Regression	438975.171	1	438975.171	32.787	.000 <sup>a</sup>
Residual	281158.583	21	13388.504		
Total	720133.754	22			

a. Dependent Variable: NIFTY

**Table 3 Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		Std. Error	Beta			Lower Bound	Upper Bound
Constant	123.533	30.930		3.994	.001	59.211	187.855
FII	3.603	.629	.781	5.726	.000	2.294	4.911

**Table 4 Descriptive Statistics**

	Mean	Std. Deviation	N
NIFTY	234.3489	180.92361	23
FII	30.7586	39.20771	23

**Table 5 Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	Df2	Sig. F Change
1	.781	.610	.591	115.70870	.610	32.787	1	21	.000

**Findings of the study**

- There is a moderate positive correlation between FII and NIFTY stock market index. There is a relation between FII and NIFTY.
- FII is able to explain 61% variation of the dependent variable Nifty.

**CONCLUSION**

Capital flow within the forms of portfolio and foreign investment decision is not only the engine for liberalization but also the catalyst for your performance associated with Indian Stock exchange. The study evaluates the impact regarding FIIs on the Indian stock market individually. From the research, it is crystal clear that Circulation of FDI in FPI has substantial impact on BSE Sensex as well as NSE Nifty movements. Throughout the study time period the FDI affects probably the most both Sensex and Nifty up to sixty one per cent and also 86 % respectively and it is associated extremely and favorably with both the financial markets with a rating of 0.78 along with 0.92 respectively based on the Karl Pearson's coefficient involving correlation. The actual FIIs revealed a very low-impact on Sensex and a comparison high impact upon NSE. Within the light from the above results it is suggested that this government connected with India in association with its applying bodies need to attract increasingly more FIIs in addition to FPIs for that smooth plus rapid economic development.

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