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Role of stock market in economic development in India-Review of literature.

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ABSTRACT

Stock markets which function effectively fosters growth of the economy and development of the economy by promoting the channelization and mobilization of financial resources and by integrating those with the need of funds to bring up innovation and to achieve growth, with those who have resources to invest. This function of the stock market is being carried in a regulated environment ,along with secure and transparent trading platforms that also fosters transparent trade by securing the rights of investors and educating their employees to ensure good governance by providing all the information to the investors on timely basis. The NSDL and CDSL along with several depository participants play a major role to facilitate trade. However, despite playing a major role in the economy, the link between stock exchanges and the development of economy is not commonly understood and accepted. A prominent view in this regard is that when the stock markets develop it has a positive impact on the economy. The capital formation in an economy is the direct impact of efficiency in stock market and its development. Capital is required to produce goods and services and thereby leading to overall growth. Due to a predisposition that stock markets harm economic development due to the existence of volatility some theorists believe there is no link between stock markets and economic development. The objective of this study is to review literature and find whether there is a relationship between capital market development and economic development in Indian economy.

INTRODUCTION

The importance of financial systems in mobilizing savings ,capital allocation and risk management cannot be overseen. The stock markets in India has made a huge progress in developing innovative instruments and contemporary market mechanisms as per the literature available from the recent past. The key factor of the Indian stock market is the automated trading system on all exchanges and a wide variety of instruments as well as a thoroughly integrated platform for trading in stock and derivative .Stock markets facilitate capital formation without which too much reliance would be on borrowing. It allows corporate and entrepreneurs to raise resources for their companies and new ventures through public issue. Investors are becoming more willing to undertake long term investment in stock market than any other platforms. Business can raise capital through the issue of shares and unlike loans it doesn't have the repayment burden .Due to the access to capital business can expand their level of operation and also create more job opportunities .This will lead to reduced rate of unemployment and increased rates of revenue to the government by the way of taxes from business.

Government also uses this trading floor to raise capital to develop socially relevant projects and implement it, a water treatment plant or upcoming road network or waste management system can easily be funded from the stock market trading floor. This can be done by issue of bonds which would otherwise have done by increase in taxes. When investors buy these bonds, the government is able to raise the money it needs to launch various projects that can ease the cost of living or even create jobs for locals. In the long run, this improves the economy.

Investments in agriculture, real estate, manufacturing etc are a key driver for economic trade, growth and prosperity. Stock market also acts as an auction house where on daily basis stocks are bought and sold which makes it highly liquid. The exit strategy from stock market is easy since the investor can find a buyer soon. The price of stocks fluctuates along with demand and supply and the happenings in the international market, foreign exchange fluctuations and also the other macro economic variables. This gives a chance for arbitrage and thereby earning profit. Apart from capital growth investors can earn dividends regularly or periodically depending on the type of stock they invested.

STATEMENT OF PROBLEM

Several studies have established that a well functioning stock market increases the economic efficiency, investment and growth. The stock markets integrate surplus funds with the sectors where there is deficit. If the functioning of stock exchange is at optimum the economic growth is guaranteed in the long run from the available literature but somehow at many times the operations run at sub optimal level especially in a developing countries context. It is on this regard that the study is being undertaken.

PURPOSE OF STUDY

To examine past and present of the Indian stock market's role in economic development from available the literature and help investors to understand the basics in the pandemic period.

OBJECTIVE

1. To find out the association between GDP rate, unemployment rate and Stock market indices for the period 2016-2020

LITERATURE REVIEW

F Khambata, The Journal of Developing Areas, 1989 – JSTOR: Studied the growth of Indian stock market by dividing the study into nine parts. He identified that Indian capital market contributed towards mobilization of savings from 1950s but the percentage of stock market investment in domestic savings remained very low.

G Bekaert, CR Harvey, C Lundblad - Journal of development Economics, 2001 – Elsevier: In a study named Emerging equity markets and economic development the author examines two major components of financial liberalization stock market development and portfolio capital flows in the context of developed countries. This paper considers micro and macro economic perspectives on their implications for long term development and economic growth.

PK Narayan, HA Ahmed, SS Sharma - Pacific-Basin Finance, 2014 – In the study using a range of technical and momentum trading strategies it was studied and identified that the Indian stock market is profitable. A main finding was that the sectoral heterogeneity with respect to profitability is a result of gradual diffusion of information from the market to the different sectors.

Amit Kumar sign, Neha Nainwal, Asia Pacific Journal of Management Research and Innovation 13(1-2), 70-80, 2017: This study identified that the role of stock market has a positive impact on economic growth. The role of stock market becomes significant as it leads to capital formation in an economy which is used for producing goods and services, leading to growth in the real sectors.

P Misra - Australasian Accounting, Business and Finance, 2018: In the study it was identified that the economic growth of India has positioned it as one of the rapidly growing economies in the world and is expected to be one of the top three economies in the next decade. Contrary to the slow down in earnings of the corporate due to excess of existing capacity, the stock market has performed well. The study established a positive link between growth indicators and stock market indices.

NB Nyamwero - 2021 - papers.ssrn.com: Studied the role of relationship of capital market development and economic growth, and identified that the link between capital market development and economic growth is a thing which cannot fall apart.

K. Vijaya Chitra, Think Indian Journal 22 (4), 2019. Found that the capital market in India has made enormous progress in developing sophisticated instruments and modern market systems and that the trade in stock and derivatives form a vital part in the economy, it also analyzed the multifaceted concepts of economic development and its linkages with stock market growth.

Srinivasan Palaimalai, Karthigai Prakasam, 2020: This study investigated the direction of causality between stock market development and economic growth in the Indian context. The study confirms a long run equilibrium relationship between the stock market indicators and economic growth in India.

Geert Bekaert, Campbell, R. Harvey, Christian Lundblad, *Journal of Development Economics* 66(2), 465-504, 2000. Study examined influence of liberalization while controlling for a number of other macro economic and financial variables. The study found that across a number of factors the growth in economy has linkage with stock market.

RESEARCH DESIGN

Descriptive research design

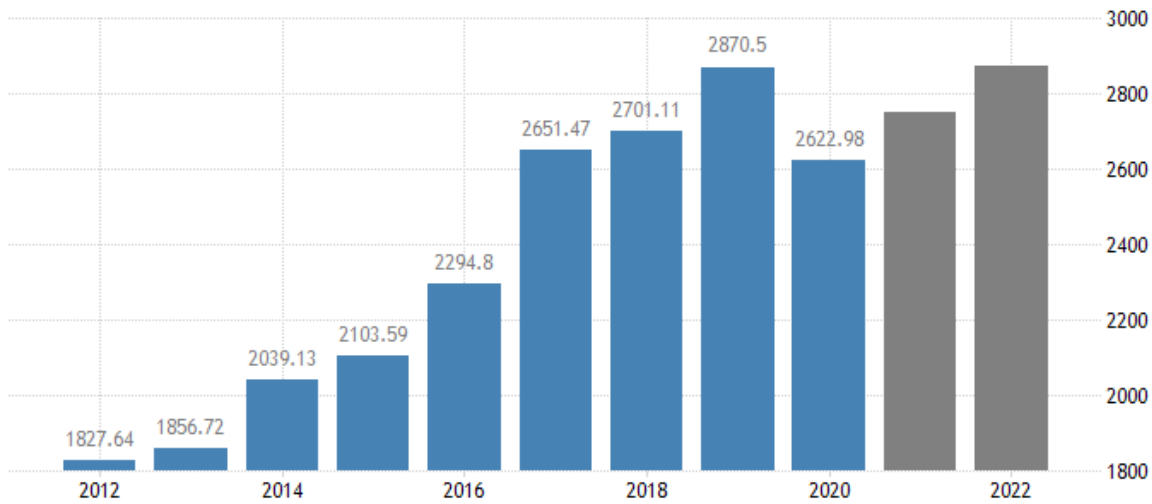
POPULATION

INSTRUMENT

DATA COLLECTION AND ANALYSIS

Secondary data from published sources, journals and website and growth indices published after surveys undertaken by government.

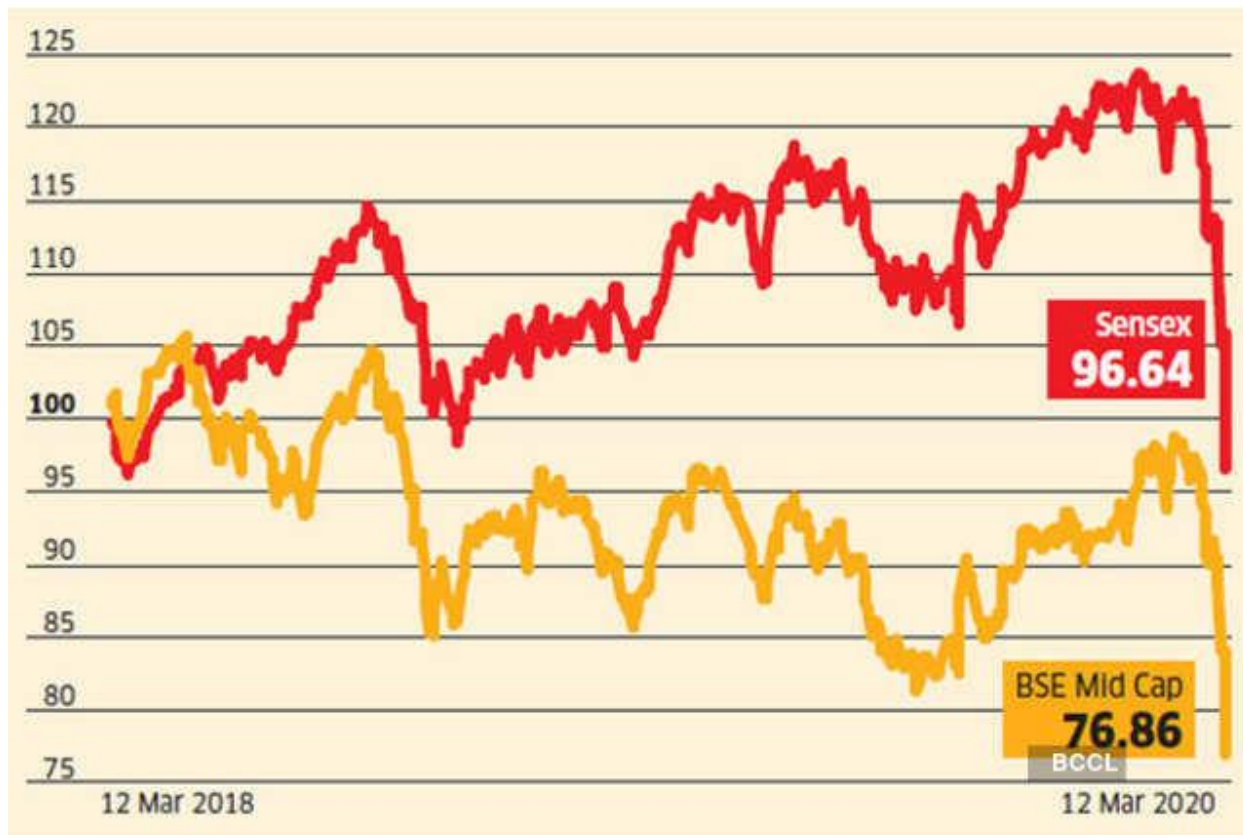
GDP and Stock market INDICES with special reference to NSE during pandemic period tested on the basis of regression analysis to find out the relationship.



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Year	GDP Per Capita (US \$)	Annual Growth Rate (%)
2020	\$1,901	-9.52%
2019	\$2,101	5.20%
2018	\$1,997	0.82%
2017	\$1,981	14.32%

In the year of pandemic 2020 it is clear that India’s GDP has declined by 9.52%.



Source; The economic times

This figure shows the drop in BSE indices as a result of the pandemic.

For finding out the relationship between economic development and stock market growth unemployment rate from 2016-2020, GDP from 2016-2020 and PRICE Earning ratio of sensex from 2016 to 2020 is being taken.

REGRESSION ANALYSIS BETWEEN GDP AND UNEMPLOYMENT RATE

X (GDP 2016-2020) Y(UNEMPLOYMENT RATE 2016-2020)

8.26	5.5
6.80	6
6.53	5.33
4.04	5.27
-7.96	7.7

Regression line equation

$$\hat{Y} = 6.4521 - 0.1393X$$

1. Y and X relationship

R Square (R^2) equals **0.8219**. It means that 82.2% of the variability of Y is explained by X. correlation (R) equals **-0.9066**. It means that there is a **very strong inverse relationship** between X and Y.

REGRESSION ANALYSIS BETWEEN ANNUAL RETURN ON SENSEX AND GDP RATE DURING THE PERIOD 2016-2020

<u>X(ANNUAL RETURNS ON SENSEX 2016-2020)</u>	<u>Y(GDP growth rate 2016-2020)</u>
0.09	8.26
0.17	6.8
0.11	6.53
0.17	4.04
-0.24	-7.96

Regression line equation

$$\hat{Y} = 1.4143 + 35.3291X$$

1. Y and X relationship

R Square (R^2) equals **0.8419**. It means that 84.2% of the variability of Y is explained by X. correlation (R) equals **0.9176**. It means that there is a **very strong direct relationship** between X and Y.

FINDINGS

CONCLUSION

RECOMMENDATION

REFERENCES