The impact of Macroeconomic Fundamentals on Stock Prices revisited: An Evidence from Indian Data

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Abstract

The study investigates the relationships between the Indian stock market index (BSE Sensex) and five macroeconomic variables, namely, industrial production index, wholesale price index, money supply, treasury bills rates and exchange rates over the period 1994:04–2011:06. Johansen’s co-integration and vector error correction model have been applied to explore the long-run equilibrium relationship between stock market index and macroeconomic variables. The analysis reveals that macroeconomic variables and the stock market index are co-integrated and, hence, a long-run equilibrium relationship exists between them. It is observed that the stock prices positively relate to the money supply and industrial production but negatively relate to inflation. The exchange rate and the short-term interest rate are found to be insignificant in determining stock prices. In the Granger causality sense, macroeconomic variable causes the stock prices in the long-run but not in the short-run. There is bidirectional causality exists between industrial production and stock prices whereas, unidirectional causality from money supply to stock price, stock price to inflation and interest rates to stock prices are found.

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These studies conclude that stock prices do respond to the changes in macroeconomic fundamentals but the sign and causal relationship might not hold equal for all the studies. However,
until recently, a negligible amount of research has been conducted for Indian stock market and economic factors and thus the conclusion might be inadequate (see. Pethe and Karnik, 2000; Bhattacharya and Mukherjee, 2006; Ahmed, 2008; Pal and Mittal, 2011). The Impact of Macroeconomic Fundamentals on Stock Prices Revisited… quarterly data for the period January 1995 to December 2008 with the Johansen’s co-integration framework. Their analysis revealed that there was a long-run relationship exists between the stock market index and set of macroeconomic variables. Impact-Of-Macroeconomic-Variables-On-Stock-Market-Performance-In-India-An-Empirical-Analysis. School School of Advance Business and Commerce, Faisalabad. Course Title ABC 101. The main objective of this paper is to study the impact of selected macroeconomic fundamentals on the performance of BSE Sensex. Multiple regression technique is employed for this purpose. To begin with the formal statistical investigation, Durbin-Watson test is applied and no evidence of auto correlation between the independent variables is found and the data set is made available for further testing. The stock prices reflect all information about the stocks and also the expectations of the future performances of corporate houses. org. abstract. The impact of macro-economic factors on stock returns has been long proven through research studies. This paper extends this idea to understand the impact of macro-economic factors on sectoral indices of the National stock exchange (NSE) of India. The study uses data over a 10 year period. Karam Pal; Ruhee Mittal: Impact of macroeconomic indicators on Indian capital markets Pramod Kumar, Naik; Puja, Padhi: The impact of Macroeconomic Fundamentals on Stock Prices revisited: An Evidence from Indian Data; 7). Omran, Mohammed; Pointon, John: Does the inflation rate affect the performance of the stock market? The case of Egypt; Create relationships with this publication (for registered authors). The findings show the evidence of causality from stock price index to wholesale price index in both long-run and short run but not other way around. Furthermore, it is observed from the findings that money supply causes stock prices only in the long-run but not in short run. Discover the world's research. The paper examines the impact of selected macroeconomic variables on the Indian stock market. The macroeconomic variables used in the study are interest rate, exchange rate, index of industrial production (IIP) and gold price. We have used the monthly data for all the variables from January 2001 to December 2016. Regression analysis and Granger Causality test is used to establish the relationship between the stock market and macroeconomic variables.