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STOCK MARKET IN INDIA: EVOLUTION, CAUSES, AND CONSEQUENCES

Sanchit Chand, Harsh Gokhle, Prashant

Undergraduate Student Bachelor`S Of Arts

Rungta College Of Science And Technology

Guided By- Ms Kavita Panigrahi,

Assistant Professor Department Of Arts

Rungta College Of Science And Technology

ABSTRACT

The allure of making a lot of money in a short period of time has always been attractive. an investor who invests money in the stock market. However, there is no patent remedy for success in the stock market. All capital market investments are gradually being made in India recognized by investors. But younger investors are more willing to invest. In capital market instruments, there is too much of it in the stock market segment. without the knowledge of the stock exchange investor . Be rational and tend to make decisions with or through your broker, try investing in this market with your friends. This study was conducted to examine the Find out how well-known various stock exchange products are and what their risks are Preferences in different segments. It takes a lot of patience, discipline and knowledge this market. Before you actually start investing and trading in the stock market, it helps in understanding the stock market trading practices of prospective investors. this paper shows the development of stock market and its growing popularity in India and also discuss information about stock market events, companies, securities and prices for systematic investment.

INTRODUCTION

The stock market in India is a complex and constantly evolving phenomena with an intertwined history of cause and effect that governs its day-to-day movements. Firstly, one must understand the origin of the Indian stock market, and its subsequent evolution over the years, to then gain insight into the deeper reasons behind the present state. The first share market of India was founded in Bombay in 1875, named The Native Share and Brokers Association. This was later renamed The Bombay Stock Exchange (BSE) in the 1920s. This early form of proposal was restricted to financial bourses, and participation was limited to a select few up until the 1990s. It wasn't until the turn of the century that the stock market witnessed a period of monumental activity, due to reforms implemented by the Indian Government that allowed for foreign investments, privatization of state-owned companies, and a reduction of bureaucratic red-tape. With these reforms, the Indian stock market underwent a sea-change, allowing an entirely new, global investor-base to partake in the proceedings. This created immense activity, with companies taking India's economy to previously unseen heights, supported by the massive inflow of foreign investment, or 'hot-money'. This further gave way to beneficial investments in the debt markets and massively contributed to economic growth. The Indian financial sector has undergone a significant structural transformation since the initiation of the economic reforms in 1990's. Financial sector reforms mainly entailed reforms of the banking system and the capital market. As a result of reforms since 1991, the financial markets have transited to a regime of market-determined interest and exchange rates, current account convertibility, phased capital account liberalization and an auction based system in the government securities market. Policy initiatives have tried to ensure financial stability, curbing excessive fluctuations and volatility in interest rates, exchange rates and hence moderating inflation without choking credit to productive sectors, thus mitigating risks arising out of deregulation and globalization of financial markets and helping in the efficient allocation of resources in the real sectors of the economy. Most importantly, the capital market reform was an integral part of the agenda of financial sector reforms in India. However, with such growth also comes a plethora of consequences. During 2008, the world faced one of the biggest economic crises of modern times, and the Indian market was not exempt from the blow. Many investors found themselves in dire-straits as the prices of their stocks dropped and the market seized up. Furthermore, the introduction of algorithmic trading and high-frequency trading greatly increased the magnitude of certain price movements, making the market increasingly volatile and unpredictable.

Stock market basically is an electronic platform where the share of the companies are listed and traded. Because of this advanced platform it is possible for companies to raise capital from public efficiently and effectively. With the economic reforms in the country, stock exchanges have grown exponentially in terms of foreign institutional investment and transaction turnover. This increase is mainly due liberalized and supportive along with regulative role of government. The share prices of the listed companies fluctuate on the basis of various factors which affect and build the sentiments of markets and investor. In India, we have a very low level of economic literacy and if we quantify it then in a population of more than 125 Crore, less than 2% of population actually invests in stock market. Such low participation is because of the above mentioned low level of economic literacy plus huge fluctuations in the market due to several factors. India is pioneer in Information Technology industry and IT companies of India are one of the greatest contributors in total export as well as fame for the country. Being a pioneer industry, shares of IT companies are always remain in the limelight of stock market. Further return on this is again fluctuative due to industry and market factors. Since so many fluctuations exist in the stock market, it creates an urge to study about those factors which are responsible for the ups and downs in the market.

STOCK EXCHANGES IN INDIA

Stock Exchange (also known as stock market or share market) is one of the main integral part of capital market in India. It plays a vital role in growing industries and commerce of a country which eventually affect the economy. It is well organized market for purchase and sale of corporate and other securities which facilitates companies to raise capital by pooling funds from different investors as well as act as an investment intermediary for investors. Moreover, it ensures that securities should be traded according to some pre defined rules and regulations.

London Stock Exchange is the oldest stock exchange in the world whereas Bombay Stock Exchange is the oldest one in India. In India, there are 7 Stock Exchanges out of which NSE and BSE are the two main indices. Most of the trading in Indian Stock Market takes place on these two stock exchanges. Both the exchanges follow the same trading hours, trading mechanism, settlement process etc. At the last count, BSE comprises of 5800 listed firms whereas on the other hand its rival NSE consists of 1659 listed firms. Interestingly, out of all the firms listed on BSE, only around 500 firms constitutes more than 90 % of its market capitalization.

Bombay Stock Exchange (BSE) is the leading and fastest stock exchange in India as well as in South Asia established in 1875. Bombay stock exchange is the world's 11th largest stock market by market capitalization at $1.7 trillion as of 31 January 2015 (Monthly Reports, World Federation of Exchanges). More than 5,000 companies are listed on BSE. The main index of Bombay stock exchange is Sensex which comprises of 30 stocks.

National Stock Exchange was incorporated in 1992 as a tax paying company and was recognized as a stock exchange in 1993 under the Securities Contracts (Regulation) Act 1956. NSE is the 12th largest stock exchange in the world with a market capitalization of more than US$ 1.65 trillion as on 31 January 2015 (Monthly Reports, World Federation of Exchanges). Moreover, it was the first exchange to provide fully automated screen based electronic trading system. Nifty is the indices to measure overall performance of the National Stock Exchange which comprises of 50 stock index.

INDIA STOCK MARKET FORECAST 2019 VS. EMERGING MARKETS FORECAST 2019

Before answering the questions outlined above we want to highlight that our India stock market forecast for 2019 is strongly influenced by intermarket dynamics. No surprise, there is a strong correlation with emerging markets (EEM), no surprise, as India is one of the largest markets. As explained in great detail in our Emerging Markets Forecast For 2019 both the emerging market currencies (CEW) as well as the Euro are leading indicators. Emerging market currencies have a chart with a similar setup as emerging stock markets: an amazing rise between Jan 2016 and Jan 2018, followed by a retracement. The recent retracement brought this instrument to an important support area. We wrote: ―Readers should look at this chart as aheatmap which is divided in areas based on the bands of the channel. Emerging markets currencies went from support to resistance, and now remain in the upper band of their long term channel. Our interpretation? The bullish trend of emerging markets will continue in 2019 unless the Euro crashes in the next weeks or months.‖ The Euro, and our interpretation of the Euro chart: ―What we conclude after analyzing this chart in detail as well as the current global market landscape is the following. Both US and European stock markets are in ‗risk on' mode, the US more than Europe. The Euro is not in a strong bullish nor bearish trend right now. Also, the peak of emerging markets in January of this year coincided with the Euro being stopped at its 2014 (crude oil crash) breakdown point with no other major ‗event' in any global market. Since then, also on the Euro chart, no major trend up or down started.‖All in all we believe our India stock market forecast for 2019 is not negatively impacted by leading indicators of emerging markets. We will get worried if the Euro starts falling (sharply) as well as emerging market currencies.

INDIA STOCK MARKET FORECAST 2019 VS. 10-YEAR YIELDS

This brings us to the underlying indicator: U.S. yields. As explained in How The US Dollar May Impact Emerging Markets In 2018 and 2019 we said that the primary driver, and early indicator, for emerging markets is U.S. yields. ―With the strong correlations between the US Dollar vs emerging markets and commodities, it becomes clear that the most important market we are looking at is 10-year Treasury Yields (in the U.S.). Yes, this is, by far, the most important market in the world with the most important influences on a global scale. Bare with us as Yields are about to reveal future direction of the Dollar, emerging markets, US stocks, commodities, and precious metals any time soon! 10-year Yields in the U.S. are at a major turning point, that's what we wrote in End Of 40-Year Bull Market In Bonds. They are trying to end their 40-year falling trend. This, of course, is breaking news, regardless whether mainstream media talk about it or not. If, and that's a big IF, Yields will continue to rise, it will put pressure on the U.S. Dollar, and favor emerging market currencies as well as the Euro. This, for us, is one of the important indicators for our India stock market forecast for 2019 and beyond.

THE INDIAN STOCK MARKET, ITS DEVELOPMENT AND ECONOMIC GROWTH

The Bombay Stock Exchange (BSE) formed in 1875 and the National Stock Exchange (NSE) founded in 1992 are the two stock exchanges in India where most of the trading takes place. Sensex and Nifty are the two prominent market indexes in India. Sensex provides timeseries

data of 30 firms listed on the BSE representing 45% of the index's total market capitalization. Whereas, Nifty provides time series data of 50 firms listed on the NSE representing 62% of the index's total market capitalization. The Bombay Stock Exchange is the oldest stock exchange in the whole of Asia and continues to remain as one of the major and most-recognized stock exchanges in the world along-side NYSE, LSE, NASDAQ and Tokyo Stock Exchange . Even though the BSE has been in existence since 1875, stock markets in India started developing after the financial sector reforms took place in 1991. Stock markets in India showed tremendous growth in terms of market capitalization, market turnover and allocation efficiency of investments post liberalization of the economy. According to the World Bank indicators (2018), India was ranked sixth in terms of market capitalization and 14th in terms of turnover ratio. In the backdrop of such an expansion of the stock markets in India, various studies were conducted to analyse the relationship between the development of the stock market and economic growth in India. It was found that the size of the stock market has a positive association with economic growth. In a study, it has found that there is a causal link between the growth rate of real GDP to stock market capitalization in the context of India. Several researchers have established a prominent role of the stock market development in the economic growth process of India. Given the growing role of the stock market in India and its impressive global influence, it is worthwhile to analyse the factors driving the development behind the stock market in India.

DETERMINANTS OF STOCK MARKET DEVELOPMENT

The Traditional growth literature emphasized the role of fiscal policy in economic growth, but it did not include the stock market and the financial intermediation as other actors involved in the growth of the economy. In their study, Garcia and Liu (1999) examined the macroeconomic determinants of stock market development, particularly market capitalization in 15 industrial and developing countries. The results of their study suggested real income; saving rate, financial intermediary development, and stock market liquidity as important determinants of stock market capitalization. Macroeconomic factors such as income level, gross domestic investment, banking sector development, private capital flows, and stock market liquidity are important determinants of stock market development in emerging market countries . The results have also shown that political risk, law, order, and bureaucratic quality helps in enhancing the viability of external finance thus these factors also serve as important determinants of stock market development. In a study of 10 developing Asian nations, it was found that the stock market and the tax revenue influences economic growth. The study results also indicate that for market economic progress, governments of the developing nations ought to improve the channels between the securities market, taxation policy, and economic process by developing securities market liquidity and by characteristic growth-oriented tax reform methods . In another study the results showed FDI, savings, economic process, trade openness, exchange rates, banking sector development, and exchange liquidity, as the factors which had a positive impact on the exchange development in emerging markets. Numerous studies have established the importance of stock market in accelerating the economic growth of nations as provided in the former section of the paper. Given this background, studies have been conducted to identify the determinants of stock market development and they have been classified under three broad categories— microeconomic factors, macroeconomic factors and institutional factors.

EFFECT OF STOCK MARKET ON ORDINARY PEOPLE

Most people, who do not own shares, will be largely unaffected by short term movements in the stock market. However, ordinary workers are not completely unaffected by the stock market.

1. Pension funds. Many private pension funds will invest in the stock market. A substantial and prolonged fall in the stock market could lead to a fall in the value of their pension fund, and it could lead to lower pension payouts when they retire. Similarly, if the stock market does well, the value of pension funds could increase. Even if people don‘t own shares, it is quite likely people with a private pension will have some connection to the stock market.

2. Business investment. The stock market could be a source of business investment, e.g. firms offering new shares to finance investment. This could lead to more jobs and growth. The stock market can be a source of private finance when bank finance is limited. However, the stock market is not usually the first source of finance. Most investment is usually financed through bank loans rather than share options. The stock market only plays a limited role in determining investment and jobs.

3. Short-termism. It could be argued workers and consumers can be adversely affected by the short-termism that the stock market encourages. Shareholders usually want bigger dividends. Therefore, firms listed on the stock market can feel under pressure to increase short-term profits. This can lead to cost cutting which affects workers (e.g. zero contract hours) or the firm may be more tempted to engage in collusive practises which push up prices for consumers. It has been argued that UK firms are more prone to short-termism because the stock market plays a bigger role in financing firms. In Germany, firms are more likely to be financed by long-term loans from banks. Typically, banks are more interested in the long-term success of firms and are willing to encourage more investment, rather than short-term profit maximisation.

CONCLUSION

In conclusion, it is evident that the Indian stock market has passed through an immense amount of development since 1875, and continues to be a complex and puzzling phenomenon. The cause of its current state can be largely attributed to government reforms leading to an influx of foreign investment, and the further emergence of algorithmic trading. However, the consequences of such investments have been mixed, as can be seen in the 2008 crisis. Therefore, it remains imperative to closely monitor the stock market in order to correctly predict future trends and protect against downsides. Stock markets are one of the factors that affect the economy, but there are others as well. Interest rates affect the economy because rising rates mean higher borrowing costs. Consumer spending and business investment slows down, which reduces economic growth. Falling interest rates can stimulate economic growth. Fiscal policy decisions also can affect the economy. For example, large budget deficits can reduce government investments and purchases, which can slow down the economy. Currency fluctuations can drive up the price of exports, which can harm export-driven economies.

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