

THE TIME-VARYING RISK AND RETURN TRADE-OFF IN INDIAN STOCK MARKETS

ROSHNI MOHANTY¹

Utkal University, Bhubaneswar, Odisha, India
Email: roshni.mohanty9@gmail.com

SRINIVASAN P²

Xavier Institute of Management & Entrepreneurship, Bangalore, Karnataka, India
Email: srinivasaneco@gmail.com

Abstract

This paper investigates the relationship between stock market returns and volatility in the Indian stock markets using AR(1)-EGARCH(p, q)-in-Mean model. The study considers daily closing prices of two major indexes of Indian stock exchanges, viz., S&P CNX NIFTY and the BSE-SENSEX of National Stock Exchange (NSE) and Bombay Stock Exchange (BSE), respectively for the period from July 1, 1997 to December 31, 2013. The empirical results show positive but insignificant relationship between stock returns and conditional variance in the case of NSE Nifty and BSE SENSEX stock markets. Besides, the analysis reveals that volatility is persistent and there exists leverage effect supporting the work of Nelson (1991) in the Indian stock markets. The present study suggests that the capital market regulators, investors and market participants should employ the asymmetric GARCH-type model that sufficiently captures the stylized characteristics of the return, such as time varying volatility, high persistence and asymmetric volatility responses, in determining the hedging strategy and portfolio management and estimating and forecasting volatility for risk management decision making at Indian Stock Exchange.

Keywords: Stock Market Returns, Weak-From Efficiency, India, AR-EGARCH-M model

JEL classification codes: G12, C15, C22

¹Research Scholar, Department of MBA, Utkal University, Bhubaneswar, Odisha, India. Email: roshni.mohanty9@gmail.com

²Corresponding author. Assistant Professor, Xavier Institute of Management & Entrepreneurship, Bangalore, Karnataka, India. Email: srinivasaneco@gmail.com