

IMPACT OF FOREIGN INSTITUTIONAL INVESTMENT ON THE VOLATILITY OF INDIAN STOCK MARKET

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Abstract

Firstly this research paper aims at discussing how the economic scenario post 1990s forced the Indian economy to open up with the three triggers of Liberalisation, Privatisation and Globalisation. This further discusses the opening of economy for the foreign investors under the given scenario. It narrates the positives and negatives of FIIs in India in terms of their impact on the Indian economy. Secondly it also studies the movement of Indian stock market i.e. BSE Index vs. FIIs investment. Thirdly and more importantly this paper has also made a herculean efforts for studying the impact of FIIs investment on the volatility of Indian stock market on the basis of daily as well as monthly data (from 2000 to 2012). For daily data 3000 observations have been used and for monthly data 156 observations have been used. GARCH and ARCH techniques have been applied for the same. The time period from 2000 to 2012 has been divided into two phases i.e. pre crisis period from 2000 to 2008 and post crisis period from 2009 to 2012. It has been found in the study that FIIs flows have had an impact on the volatility of the Indian stock market in the pre crisis as well as post crisis period.

Keywords: FIIs, Volatility, BSE, Sensex.

JEL Classification: F 21.

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