RECENT TRENDS AFFECTING STOCK MARKET OF INDIAN ECONOMY

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ABSTRACT

Movements in the stock market can have a profound economic impact on the economy and everyday people. A collapse in share prices has the potential to cause widespread economic disruption. Most famously, the stock market a key factor in causing the great depression of the 1930s. Yet, daily movements in the stock market can also have less impact on the economy than we might imagine. During the great recession of 2009-13, the stock market performed quite strongly. This rise in share prices was rather misleading to the state of the economy. Also, a fall in share prices doesn't necessarily cause an economic downturn.

The Financial market plays an essential role in the growth of commerce and industry which ultimately affects the economy of the country to a large extent. This is the rationale that the industrial bodies, government advisors and even the central bank of the country keep a close eye on the activities of the stock market. Financial markets help to efficiently direct the flow of savings and investment in the economy in ways that facilitate the accumulation of capital and the production of goods and services. The combination of well-developed financial markets and institutions, as well as a diverse array of financial products and instruments, suits the needs of borrowers and lenders and therefore the overall economy. This is paper mainly find out the how the stock market effect of Indian economy?

Keywords: Financial Market, Economy, Industrial Bodies, Goods and Services.

DEFINITION OF 'STOCK MARKET'

Definition: A stock market, equity market or share market is the aggregation of buyers and sellers (a loose network of economic transactions, not a physical facility or discrete entity) of stocks (also called shares), which represent ownership claims on businesses; these may include securities listed on a stock exchange as well as those only traded privately.

I. INTRODUCTION

Indian Stock Markets is one of the oldest in Asia. Its history dates back to nearly 200 years ago. The earliest records of security dealings in India arc meager and obscure. The East India Company was the dominant institution in those days and business in its loan securities used to be transacted towards the close of the eighteenth century.

By 1830's business on corporate stocks and shares in Bank and Cotton presses took place in Bombay. Though the trading list was broader in 1839, there were only half a dozen brokers recognized by banks and merchants during 1840 and 1850. The 1850's witnessed a rapid development of commercial enterprise and brokerage business attracted many men into the field and by 1860 the number of brokers increased into 60. In 1860-61 the American Civil War broke out and cotton supply from United States to Europe was stopped; thus, the 'Share Mania' in India began. The number of brokers increased to about 200 to 250.

At the end of the American Civil War, the brokers who thrived out of Civil War in 1874, found a place in a street (now appropriately called as Dalai Street) where they would conveniently assemble and transact business. In 1887, they formally established in Bombay, the "Native Share and Stock Brokers' Association", which is alternatively known as "The Stock Exchange". In 1895, the Stock Exchange acquired a premise in the same street and it was inaugurated in 1899. Thus, the Stock Exchange at Bombay was consolidated.

The Indian stock market has been assigned an important place in financing the Indian corporate sector. The principal functions of the stock markets are:

- Enabling mobilizing resources for investment directly from the investors
- Providing liquidity for the investors and monitoring.
- Disciplining company management.

II. THE TWO MAJOR STOCK EXCHANGES IN INDIA ARE:-

1. National Stock Exchange (NSE)
2. Bombay Stock Exchange (BSE).

National Stock Exchange

With the liberalization of the Indian economy, it was found inevitable to lift the Indian stock market trading system on par with the international standards. On the basis of the recommendations of high powered Pherwani Committee.

The National Stock Exchange was incorporated in 1992 by Industrial Development Bank of India, Industrial Credit and Investment Corporation of India, Industrial Finance Corporation of India. all Insurance Corporations, selected commercial banks and others.

The National Stock Exchange (NSE) is India's leading stock exchange covering various cities and towns across the country. NSE was set up by leading institutions to provide a modem, fully automated screen-based trading system with national reach. The Exchange has brought about unparalleled transparency, speed & efficiency, safety and market integrity. It has set up facilities that serve as a model for the securities industry in terms of systems, practices and procedures.

Trading at NSE can be classified under two broad categories:

Wholesale debt market NV Capital market

Wholesale debt market operations are similar to money market operations - institutions and corporate bodies enter into high value transactions in financial instruments such as government securities, treasury bills, public sector unit bonds, commercial paper, certificate of deposit, etc.

There are two kinds of players in NSE:

- Trading members
- Participants

Recognized members of NSE are called trading members who trade on behalf of themselves and their clients. Participants include trading members and large players like banks who take direct settlement responsibility. Trading at NSE takes place through a fully automated screen-based trading mechanism which adopts the principle of an order-driven market. Trading members can stay at their offices and execute the trading, since they are linked through a communication network.

The prices at which the buyer and seller are willing to transact will appear on the screen. When the prices match the transaction will be completed and a confirmation slip will be printed at the office of the trading member. NSE has several advantages over the traditional trading exchanges. They are as follows:

- NSE brings an integrated stock market trading network across the nation.
- Investors can trade at the same price from anywhere in the country since inter-market
- Operations are streamlined coupled with the countrywide access to the securities.

Delays in communication, late payments and the malpractice's prevailing in the traditional trading mechanism can *be* done away with greater operational efficiency and informational transparency in the stock market operations, with the support of total computerized network.

NSE Nifty

S&P CNX Nifty is a well-diversified 50 stock index accounting for 22 sectors of the economy. It is used for a variety of purposes such as benchmarking fund portfolios, index based derivatives and index funds .NSE came to be owned and managed by India Index Services and Products Ltd. (IISL), which is a joint venture between NSE and CRISIL. IISL is India's first specialized company focused upon the index as a core product. IISL have a consulting and licensing agreement with Standard & Poor's (S&P), who are world leaders in index services. CNX stands for CRISIL NSE Indices. CNX ensures common branding of indices, to reflect the identities of both the promoters, i.e. NSE and CRISIL. Thus, 'C' Stands for CRISIL, 'N' stands for NSE and X stands for Exchange or Index. The S&P prefix belongs to the US-based Standard &Pooes Financial Information Services.

BOMBAY STOCK EXCHANGE

The Bombay Stock Exchange is one of the oldest stock exchanges in Asia. It was established as "The Native Share & Stock Brokers Association" in 1875. It is the first stock exchange in the country to obtain permanent recognition in 1956 from the Government of India under the Securities Contracts (Regulation) Act, 1956. The Exchange's pivotal and pre-eminent role in the development of the Indian capital market is widely recognized and its index, SENSEX, is tracked worldwide.

III. SENSEX

The Stock Exchange, Mumbai (BSE) in 1986 came out with a stock index that subsequently became the barometer of the Indian stock market.

SENSEX is not only scientifically designed but also based on globally accepted construction and review methodology. First compiled in 1986, SENSEX is a basket of 30 constituent stocks representing a sample of large, liquid and representative companies. The base year of SENSEX is 1978-79 and the base value is 100. The index is widely

reported in both domestic and international markets through print as well as electronic media. Due to is wide acceptance amongst the Indian investors; SENSEX is regarded to be the pulse of the Indian stock market. As the oldest index in the country, it provides the time series data over a fairly long period of lime. Small wonder, the SENSEX has over the years become one of the most prominent brands in the country. The SENSEX captured all these events in the most judicial manner. One can identify the booms and busts of the Indian stock market through SENSEX. The launch of SENSEX in 1986 was later followed up in January 1989 by introduction of BSE National Index (Base: 1983-84 = 100). It comprised of 100 stocks listed at five major stock exchanges. The values of all BSE indices are updated every 15 seconds during the market hours and displayed through the BOLT system, BSE website and news wire agencies. All BSE-indices are reviewed periodically by the ¯index committee" of the exchangeSettlement Cycle and Trading HoursEquity spot markets follow a T+2 rolling settlement. This means that any trade taking place on Monday gets settled by Wednesday. All trading on stock exchanges takes place between 9:55 am and 3:30 pm, Indian Standard Time (+ 5.5 hours GMT), Monday through Friday. Delivery of shares must be made in dematerialized form, and each exchange has its own clearing house, which assumes all settlement risk, by serving as a central counterparty.

Market Indexes

The two prominent Indian market indexes are Sensex and Nifty. Sensex is the oldest market index for equities; it includes shares of 30 firms listed on the BSE, which represent about 45% of the index's free-float market capitalization. It was created in 1986 and provides time series data from April 1979, onward.

Another index is the S&P CNX Nifty; it includes 50 shares listed on the NSE, which represent about 62% of its free-float market capitalization. It was created in 1996 and provides time series data from July 1990, onward.

Market Regulation

The overall responsibility of development, regulation and supervision of the stock market rests with the Securities & Exchange Board of India (SEBI), which was formed in 1992 as an independent authority. Since then, SEBI has consistently tried to lay down market rules in line with the best market practices. It enjoys vast powers of imposing penalties on market participants, in case of a breach.

Who Can Invest In India?

India started permitting outside investments only in the 1990s. Foreign investments are classified into two categories: foreign direct investment (FDI) and foreign portfolio investment (FPI). All investments, in which an investor takes part in the day-to-day management and operations of the company, are treated as FDI, whereas investments in shares without any control over management and operations, are treated as FPI.

For making portfolio investment in India, one should be registered either as a foreign institutional investor (FII) or as one of the sub-accounts of one of the registered FIIs. Both registrations are granted by the market regulator, SEBI. Foreign institutional investors mainly consist of mutual funds, pension funds, endowments, sovereign wealth funds, insurance companies, banks, asset management companies etc. At present, India does not allow foreign individuals to invest directly into its stock market. However, high-net-worth individuals (those with a net worth of at least $US50 million) can be registered as sub-accounts of an FII.

Foreign institutional investors and their sub accounts can invest directly into any of the stocks listed on any of the stock exchanges. Most portfolio investments consist of investment in securities in the primary and secondary markets, including shares, debentures and warrants of companies listed or to be listed on a recognized stock

exchange in India. FIIs can also invest in unlisted securities outside stock exchanges, subject to approval of the price by the Reserve Bank of India. Finally, they can invest in units of mutual funds and derivatives traded on any stock exchange.

An FII registered as a debt-only FII can invest 100% of its investment into debt instruments. Other FIIs must invest a minimum of 70% of their investments in equity. The balance of 30% can be invested in debt. FIIs must use special non-resident rupee bank accounts, in order to move money in and out of India. The balances held in such an account can be fully repatriated.

IV. RESTRICTIONS/INVESTMENT CEILINGS

The government of India prescribes the FDI limit and different ceilings have been prescribed for different sectors. Over a period of time, the government has been progressively increasing the ceilings. FDI ceilings mostly fall in the range of 26-100%.By default, the maximum limit for portfolio investment in a particular listed firm, is decided by the FDI limit prescribed for the sector to which the firm belongs. However, there are two additional restrictions on portfolio investment. First, the aggregate limit of investment by all FIIs, inclusive of their sub-accounts in any particular firm, has been fixed at 24% of the paid-up capital. However, the same can be raised up to the sector cap, with the approval of the company's boards and shareholders.

Secondly, investment by any single FII in any particular firm should not exceed 10% of the paid-up capital of the company. Regulations permit a separate 10% ceiling on investment for each of the sub-accounts of an FII, in any particular firm. However, in case of foreign corporations or individuals investing as a sub-account, the same ceiling is only 5%. Regulations also impose limits for investment in equity-based derivatives trading on stock exchanges. (For restrictions and investment ceilings go to http://www.fiilist.rbi.org.in/)

V. OBJECTIVES OF STOCK MARKET

- To provide a fair, transparent and efficient securities market to investors using electronic trading system.
- To Study the how the stock market effect to the Indian Economy?

VI. ECONOMIC EFFECTS OF THE STOCK MARKET

1. Wealth effect

The first impact is that people with shares will see a fall in their wealth. If the fall is significant it will affect their financial outlook. If they are losing money on shares they will be more hesitant to spend money; this can contribute to a fall in consumer spending. However, the effect should not be given too much importance. Often people who buy shares are prepared to lose money; their spending patterns are usually independent of share prices, especially for short term losses. The wealth effect is more prominent in the housing market. In Dec 2014, the value of the UK stock market was US $6.06 trillion so it has a big impact on wealth.

2. Effect on pensions

Anybody with a private pension or investment trust will be affected by the stock market, at least indirectly. Pension funds invest a significant part of their funds on the stock market. Therefore, if there is a serious fall in share prices, it reduces the value of pension funds. This means that future pension payouts will be lower. If

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share prices fall too much, pension funds can struggle to meet their promises. The important thing is the long term movements in the share prices. If share prices fall for a long time then it will definitely affect pension funds and future payouts.

3**. Confidence**

Often share price movements are reflections of what is happening in the economy. E.g. a fear of a recession and global slowdown could cause share prices to fall. The stock market itself can affect consumer confidence. Bad headlines of falling share prices are another factor which discourages people from spending. On its own it may not have much effect, but combined with falling house prices, share prices can be a discouraging factor. However, there are times when the stock market can appear out of step with the rest of the economy. In the depth of a recession, share prices may rise as investors look forward to a recovery two years in the future.

4. Investment

Falling share prices can hamper firm's ability to raise finance on the stock market. Firms who are expanding and wish to borrow often do so by issuing more shares – it provides a low cost way of borrowing more money. However, with falling share prices it becomes much more difficult.

5. Bond market

A fall in the stock market makes other investments more attractive. People may move out of shares and into government bonds or gold. These investments offer a better return in times of uncertainty. Though sometimes the stock market could be falling over concerns in government bond markets

VII. HOW DOES THE STOCK MARKET AFFECT 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 practices 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 maximization.

VIII. FINDINGS

1. The legitimate sale of stock on any exchange requires reliable and accurate information. Otherwise its failing automatically investor feel unsecure automatically effect to the stock market.
2. Movements in the stock market can have a profound economic impact on the economy and everyday people. A collapse in share prices has the potential to cause widespread economic disruption.

IX. SUGGESTION

1. According to Finding 1.Stock market create more Transparency using High Level Technology and Using More Secure way it will help to the investors make investing in risk free

2. Stock market performance and economic growth is just like a two sides of a coin. As Stock market increases economy is also fast in growth on the other hand downfall in market performance means slowdown of economy growth .Both are related to each other so we would create new ways to maintain growth of market, saving & more investment. There is a need for economic growth in India, that's why emphasis should be more on the functioning of stock market.

X. CONCLUSION

Based on this paper Often share price movements are reflections of what is happening in the economy. E.g. a fear of a recession and global slowdown could cause share prices to fall. The stock market itself can affect consumer confidence. Bad headlines of falling share prices are another factor which discourages people from spending.

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