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Indian stock market volatility in recent years: Transmission from global market, regional market and traditional domestic sectors

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Abstract

This study investigates volatility in Indian stock markets. Specifically, it looks for the possible volatility transmission channel for the Indian stock market from among Indian sectoral developments as well as developments in the global market. The SENSEX is used as the Indian market index and its response to overseas market indices such as Dow Jones, FTSE, BVSP, MerVal and JKSE is examined. The relationship between the SENSEX and domestic sectoral indices has also been examined. It has been found that the volatility in the developed market indices Granger causes SENSEX volatility, showing strong proof of a global

contagion. SENSEX volatility is also related to some extent to the volatility of the Jakarta Stock index, hinting towards some kind of regional contagion. Moreover, as the impulse-response function shows, a shock in Dow Jones, the Jakarta stock index and BVSP has a profound effect on the SENSEX (Dow Jones having the most important one). As for sources from its domestic sectors, capital goods and consumer durables are the most prominent contributors to the volatility of the SENSEX.

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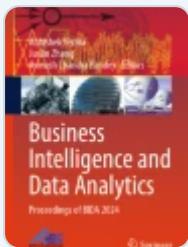
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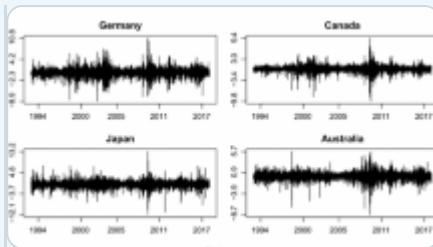
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