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Assessing the Influence of Chinese Stock Market on Indian Stock Market

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Abstract : Background and significance of the study Indian stock market has undergone sudden changes after the current China crisis in terms of turnover, market capitalization, share prices, etc. The average returns on equity investment in both markets have more than three and half times after global financial crisis owing to the development of industrial activity, corporate sectors development, enhancement in global consumption, change of global financial association and fewer imports from developed countries. But the economic policies of both the economies are far different, that is to say, where Indian economy maintaining a conservative policy, Chinese economy maintaining an aggressive policy. Besides this, Chinese economy recently lowering its currency for increasing mysterious growth but Indian does not. But on August 24, 2015 Indian stock market and world stock markets were fall down due to the reason of Chinese stock market. Keeping in view of the above, this study seeks to examine the influence of Chinese stock on Indian stock market. Methodology This research work is based on daily time series data obtained from yahoo finance database between 2009 (April 1) to 2015 (September 28). This study is based on two important stock markets, that is, Indian stock market (Bombay Stock Exchange) and Chinese stock market (Shanghai Stock Exchange). In the course of analysis, the daily raw data were converted into natural logarithm for minimizing the problem of heteroskedasticity. While tackling the issue, correlation statistics, ADF and PP unit root test, bivariate cointegration test and causality test were used. Major findings Correlation statistics show that both stock markets are associated positively. Both ADF and PP unit root test results demonstrate that the time series data were not normal and were not stationary at level however stationary at 1st difference. The bivariate cointegration test results indicate that the Indian stock market was associated with Chinese stock market in the long-run. The Granger causality test illustrates there was a unidirectional causality between Indian stock market and Chinese stock market. Concluding statement The empirical results recommend that India’s stock market was not very much dependent on Chinese stock market because of Indian economic conservative policies. Nevertheless, Indian stock market might be sturdy if Indian economic policies are changed slightly and if increases the portfolio investment with Chinese economy. Indian economy might be a third largest economy in 2030 if India increases its portfolio investment and trade relations with both Chinese economy and US economy.

Keywords : Indian stock market, China stock market, bivariate cointegration, causality test
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