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STUDY ON MACRO ECONOMIC VARIABLES AND STOCK MARKET OF COMMODITY DEVELOPMENT ON INDIAN ECONOMY

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Abstract : *The dynamic linkage connecting macroeconomic variables and stock prices has fetch increasing amount of concentration from economists, economic analysts, investors and document maker. Are number of domestic and international macroeconomic factors that potentially can affect the stock returns of the companies there is a comprehensive group of macroeconomic variables that influences the stock prices in the share market of any country. It is believed that, if a country's economy is performing well and expected to grow at a vigorous pace, the market is frequently anticipated to reflect the same. However, the literature suggests some contradictory findings regarding which precise events or economic factors are likely to influence the stock prices and the degree of influencing power of the economic factors. New theoretical and empirical research works provides support to the growing assertion that the financial development is treated as a precondition for economic growth of a country.*

Key words: *Macro, Economic, Variables, market, Development.*

1. INTRODUCTION:

The history has shown that the price of shares and other financial assets are an important aspect of the dynamics of economic activity, performing a crucial role in the economy of any nation. Further, many researchers have proved that the stock market plays an important role in economic prosperity, fostering capital formation and sustaining the economic growth of the economy. The stock market is one of the most vital components of a free-market economy, as it helps to arrange capital for the companies from shareholders in exchange for shares in ownership to the investors then especially the stock markets of emerging economies are likely to be sensitive to fundamental changes in macroeconomic structure and policies, which plays an important role in achieving financial stability. At the same time, the development of the stock market is the outcome of many macroeconomic variables like foreign direct investment, foreign institutional investment, exchange rate and economic reforms.

2. REVIEW OF LITERATURE:

[1] Christie-David, et al. (2000) said that gold and silver responded strongly to the release of capacity utilization. Gold also responds strongly to the release of the CPI but silver responds weakly to the CPI. Gold responds weakly to the release of the Federal deficit. Kim, et al. (2011) Soft and hard commodity prices seem to be strongly affected by the financial factor. [2] Kaufmann (2008) said that the demand shock in 2007-2008 was due to an increase of Chinese oil demand, led to a sudden increase in non-OPEC production. But halt in demand in 2008 led to the loss of OPEC spare capacity. These changes were reinforced by speculative expectations, but it was difficult to measure directly. [3] Nag and Goswami (2008) said that the short-run expansionary effect of the rising in money supply does not persist in the long run through an equi-proportionate rise in the price of the primary commodity, the nominal exchange rate, and the industrial price level. [4] Kaabia and Gil (2000) said that in the long run agricultural prices are homogeneous. That led to the reaction of input and output prices are of the same magnitude. It is also noticeable that, in the long run, changes in agricultural variables have not had a significant impact on fundamental variables. In the short-run, agricultural exports are more sensitive to agricultural prices than to any other fundamental variable.

3. RESEARCH METHODOLOGY:

The data are collected mostly from secondary sources by way of access to various stock market reports for NSE and BSE including published Annual Reports, Journals, Books and available official websites.

4. RELATIONSHIP BETWEEN MACROECONOMIC VARIABLES AND STOCK MARKET DEVELOPMENT:

4.1 Stock Market Development Indicators:

It is a well-known fact that, well-functioning stock markets can play an important role in economic development processes and a sound economy can boost up the performance of the stock market. A stock market can mobilize capital, enhance liquidity, diversify risk and can affect saving decisions, on the other hand the economic prosperity of the country leads to boost up investor confidence and encourage them for further investments. It is difficult, however, to construct accurate measures of these functions.

4.2 Stock Market Size:

Market Capitalization Ratio is an indicator to measure the stock market size. The market capitalization ratio equals the value of listed shares divided by GDP and the ratio has frequently been used as a measure of stock market size by the analysts. The market capitalization refers to the total value of listed shares on the stock exchange.

4.3 Stock Market Liquidity:

The Market liquidity is a market's ability to facilitate the purchase or sale of an asset without causing much change in the asset's price. The stock market is said to be liquid if the shares can be rapidly sold and the act of selling has little impact on the stock's price. Liquidity is an important indicator of stock market development because theoretically more liquid stock markets improve the allocation of capital to their optimal use, influence long term investment decisions and facilitate technological innovation, thereby enhancing long term growth. Greater liquidity also has a direct impact on the stock market performance. First, with the increase in market activity, the information content for the share prices also increases and more investors show their attention towards the stock. Second, to control the corporate activities, the effective use of stock market requires that the market should be liquid. The must condition for takeovers is that it requires a liquid capital market where bidders access a huge amount of capital at short notice.

5. MACROECONOMIC VARIABLES:

5.1 Money Supply:

The amount of money in an economy is referred to as the money supply or it is the total amount of monetary assets available in an economy at a specific time. The Money supply is one of the components of monetary policy that any central bank uses to cause a desired level of change in real activities. These frequent changes in the monetary policy component are believed to have a significant effect on the stock market. Therefore, it is important to analyze the relationship between money supply and an important determinant of the economy, the stock market. The present value of the future cash flows is calculated by discounting the future cash flows at a discount rate. The money supply has a significant relationship with the discount rate and, hence, with the present value of cash flows.

5.2 Economic Growth:

The growing importance of stock markets in developing economies around the world over the last few decades has shifted the focus of many researchers, academicians, policy makers and economists, to explore the relationship between the stock market and economic growth. The idea that financial markets may be related to economic activities is not new, but the interpretation of this relationship has changed over time, with changing international and domestic economic environment and growing econometric techniques and focused on the services provided by financial intermediaries and argues that these are essential for technological innovation and economic development.

6. CONCLUSION:

The relationship between macroeconomic variables and stock prices has been the focus of both theoretical and empirical research since early nineteenth century. The existing empirical studies have shown the use of vast range of macroeconomic variables to examine their influence of stock prices. Last two decades has witnessed a dramatic change in the world financial markets particularly in the stock market due to globalization and financial sector reforms across the world market. These changes in the macro environment influence the stock prices of a single country. Indian stock market has developed in terms of the number of stock exchanges, number of listed stocks, market capitalization, trading volume, turnover of the stock exchanges, investor’s population and price during these years.

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