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An examination of the Indian stock market's volatility

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Abstract:
The financial system's stock market is one of its most diverse segments, and it is crucial to the advancement of the economy. The stock market is a central location where investors can buy and sell things. their stock, bonds, and debt obligations, etc. In other words, the stock market serves as a barrier-free venue for trading a variety of assets and derivatives. Many companies list their commercial ventures on the stock market through public offerings. Long-term investors are currently making investments in businesses through the stock market in order to profit. The National Stock Exchange (NSE), the Bombay Stock Exchange (BSE), and the Calcutta Stock Exchange are all listed stock exchanges in India (CSE). The Indian Stock Market is dominated by these three. A statistical measurement of volatility is the dispersion of returns for a certain securities or Market Index. The risk attached to a security is often higher the higher the volatility. Volatility estimate is crucial for a number of factors involving various market participants. Established markets have consistently offered long-term greater returns with little volatility. In comparison to developed countries, the Indian market has begun to become more informationally efficient. The research will make it easier for the reader to comprehend the historical, present, and prospective features of the Indian Stock Market.
Keywords: BSE, NSE, volatility, shares, Indian Stock Market, etc.

INTRODUCTION

In order to finance the Indian business sector, the stock market has been given a significant role as part of the economic liberalization process. The primary purposes of the stock markets include providing liquidity for investors, overseeing and reining in business managements, as well as facilitating the direct mobilization of resources for investment from investors. The primary draw of stock markets is that they give businesses and governments a way to raise money directly from investors while also offering liquidity to those same investors. Additionally, it has been asserted that the allocation of resources and the chances for long-term economic growth are improved by liquid markets.

The stock market is also anticipated to play a significant role in reinforcing corporate management. Since the very first stage of liberalization in the early 1980s, India has placed a strong emphasis on the growth of its equity markets. Once the liberalization process broadened and intensified in 1991, the growth of capital markets became even more of a focus since it was integrated into the restructuring plan. Indian markets today adhere to international standards in terms of operating effectiveness and market structure.

FROM AN INDIAN PERSPECTIVE: STOCK MARKET

When the Bombay Stock Exchange (BSE) was founded as "The Native Share and Stockbrokers Association," a voluntary non-profit organisation, the idea of stock markets was introduced to India in 1875. We all know that veggies are bought and sold at the neighbourhood Bhaji (Sabji) market. A stock market functions similarly to the bhaji (sabji) market as a marketplace for buying and selling equities. Via a process of bid and offer, the stock market establishes the price for a stock for the day. You have the right to bid on, purchase, and offer to sell stock shares at a profit. In order to place the greatest offer, buyers compete with one another and quote their highest prices to buy a specific number of stock market shares. Similar to buyers, sellers compete with one another for the stock's lowest advertised price. A trade is carried out when the best bid and the best offer coincide. With automated exchanges, this entire task is handled by fast computers. On stock markets, stocks of various companies are listed. In India, there are now 23 stock markets. The three major stock exchanges are the Bombay Stock Exchange (BSE), the National Stock Exchange (NSE), and the Calcutta Stock Exchange (CSE). The state capitals and other significant cities are home to a large number of local regional exchanges.

A REVIEW OF THE WORKS

In his study, **"Debjit Chakraborty" (1997)** sought to demonstrate a link between important economic indicators and stock market activity. Additionally, it examines how the stock market responded to shifts in the economic environment. Inflation, money supply, GDP growth, fiscal deficit, and credit deposit ratio are taken into account. The BSE National Index of Equity Prices (Natex), which consists of 100 companies, was used as the index to determine the trend in the stock markets. The analysis demonstrates that, in addition to political stability, the C/D ratio, inflation, and budget deficit have a significant impact on stock market fluctuations.

"**Avijit Banerjee" (1998**) examined Fundamental Analysis and Technical Analysis to assess the value of the specific stocks that were required for the development of a portfolio. Technical analysis identifies when it is best to buy or sell a company. It seeks to steer clear of the problems of poor timing for investing choices. He added that the "beta" value P is the most recommended way to assess scrip risk according to contemporary portfolio literature. In order to reduce risks, stocks with low P should be chosen while building a portfolio.

"Madhusudan" (1998) discovered that by utilising correlation analysis on monthly stock return data over the period of January 1981 to December 1992, BSE sensitivity and national indices did not follow random walk.

According to "Suresh G Lalwani" (1999), the importance of risk management in the securities market, with a focus on price risk in particular, was stressed. The securities market, he said, is a "vicious animal," and there is a good probability that rather than getting better, the situation would get worse.

The behaviour of the daily and weekly returns of five Indian stock market indexes was examined by "**Bhanu Pant and Dr. T.R.Bishnoy" (2001)** for a random walk from April 1996 to June 2001. They discovered that the indices of the Indian stock market did not behave randomly.

GOALS OF THE STUDY

1. To research the reasons behind the Indian Stock Market's volatility.
2. To thoroughly research the various facets of the Indian Stock Market.
3. To research the volatility control techniques that has been implemented

Data collection for this study was done using secondary sources of information.

The necessary information regarding the Indian Stock Market, Bombay Stock Exchange (BSE), and National Stock Exchange (NSE) has been gathered from a variety of sources, including publications from the Ministry of Commerce, the SEBI Handbook of Statistics, and the Government of India. CNX Data is downloaded from the NSE websites in nifty format. The index value for each year is calculated by taking the daily closing index values and averaging them. This method is thought to produce an index value that is more accurate for the full year than a single closing index value from one day or month.

VOLATILITY CAUSES IN THE INDIA STOCK MARKET

Many different macroeconomic, social, and political variables, including global trends, economic cycle, economic growth, budget, general business conditions, credit policy, etc., contribute to the volatility of the stock market. These variables include changes in inflation, interest rates, financial leverage, corporate earnings, dividend yield policies, bond prices, and many others. Trading volume, the receipt of fresh information about new floats, or any type of private information that influences market stock prices are the primary drivers of volatility.
Robert Shiller's Market Volatility is among the works of literature that are most pertinent to the whole topic of volatility (1990). Shiller strongly supports the widely accepted model explanation for stock market volatility. A qualitative explanation of price volatility is provided by the well-known models. In essence, it contends that investor reactions based on psychological or sociological ideas have more of an impact on the market than reasons that make sense from an economic standpoint.
It is possible to divide the volatility on stock exchanges into two categories: 1. volatility coming from information-based price fluctuations; and 2. volatility arising from noise trading/speculative trading, or destabilizing volatility.
Players in the financial markets could be speculators or actual investors. Real investors base their decisions on fundamental factors, whereas speculators look for quick gains by betting on short-term market changes. It might be challenging to tell whether a transaction is a hedge or a speculative one. Speculative activity generally play a significant part in the instability of the stock markets. Speculators may cause volatility to reach worrisome heights.
Theoretically, our assumptions about the market participants will have a significant impact on the potential impact that trading in derivatives may have on the underlying market. One of the fundamental presumptions concerns the futures contracts' capacity to draw either more knowledgeable or less knowledgeable traders to the market.

Trading Before Hours

In order to determine the starting price, SEBI launched pre trading / pre open session in July 2010. Its primary goal is to eliminate or reduce opening volatility on securities prices. The opening price will not be determined by the cost of the first trade in the security, but rather by the equilibrium price determined by supply and demand for the security. As a result, it enables the opening price to appropriately reflect overnight news in securities. The pre-open session runs from 9:00 to 9:15 am and lasts for 15 minutes. Order Collecting and Order Matching periods make up the pre-open session. There will be a silent interval following order matching to make the change from pre-open session easier.

SL. NO.	PRODUCT	MARKETING TIME
1	Cash Market	9:55 am to 3:30 pm
2	Equity Derivatives	9:55 am to 3:30 pm
3	Currency Derivatives	9:00 am to 5:00 pm
4	Commodity Derivatives	10:00 am to 11:30 pm
5	Power Exchange	10:00 am to 12:00 noon

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PRODUCT MARKETING TIME SL. NO.

As part of efforts to reduce volatility, discussions are also taking place about keeping markets open for 6 days a week as opposed to 5 days, with Saturday being proposed as a trading day. Markets are currently open from Monday through Friday. As markets reopen on Monday, prices reflect the information that has accumulated since Friday's trading session ended. As a result, there is a tendency for the variance of returns to rise. So, it is being thought of extending the trading days from the current 5 days to 6 days in order to reduce this impact.

CONCLUSION

In the stock market, risk is reduced by spreading investments across a number of different companies, which is accomplished by combining several little investments into a single, sizable investment. The stock market offers the chance to invest in a diversified, expertly managed portfolio at a relatively cheap cost, making it the most suited investment for the average person. The analysis of the literature has revealed that:

The simultaneous listing of corporate securities on multiple stock exchanges enhances the liquidity of the securities and the efficiency of the stock market.

In the Indian stock market, there is rampant speculation.

Danger cannot be measured or quantified. Nonetheless, historical volatility is used to calculate risk.

Apart from political stability, the broad money supply, inflation, the C/D ratio, and the fiscal deficit are the main drivers of stock market movements. Low execution costs make derivatives, especially futures, particularly suitable for frequent and short-term trading to manage risk more efficiently.

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