



## Impact Of Macroeconomic Variables On Stock Market Performance In India: An Empirical Analysis

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### Abstract

*The study investigates the relationship between the Indian stock market performance (BSE Sensex) and five macroeconomic variables, namely, index of industrial production, wholesale price index, gold price, foreign institutional investment and real effective exchange rate over the period April 2010- June 2014 using monthly data. Necessary data are collected from secondary sources. The main objective of this paper is to study the impact of selected macroeconomic fundamentals on the performance of BSE Sensex. Multiple regression technique is employed for this purpose. To begin with the formal statistical investigation, Durbin-Watson test is applied and no evidence of auto correlation between the independent variables is found and the data set is made available for further testing. The regression model summary endorses a very strong combined influence of independent variables on the Sensex. From the results, it appears that 82 per cent of variation in Sensex is explained by the five selected macroeconomic factors. Wholesale price index, index of industrial production, foreign institutional investment and real effective exchange rate have high degree of positive influence on Sensex. It is also found that Sensex is inversely influenced by changes in gold price. Further, of the five variables, the coefficients of all the variables except index of industrial production are statistically significant. This leads to the conclusion that inflation, inflow of foreign institutional investment, exchange rate and gold price significantly impact the Indian stock market performance.*

**Key words:** Macroeconomic variables, Sensex, Stock market

**JEL Code Classification:** G, E1, C10



## 1. Introduction

Stock markets play a vital role in the financial sector of every economy. An efficient capital market drives the economic growth by stabilising the financial sector. In an efficient capital market, stock prices adjust swiftly according to the new information available. The stock prices reflect all information about the stocks and also the expectations of the future performances of corporate houses. As a result, if stock prices reflect these assumptions in real, then it should be used as a major indicator for the economic activities (Ray, 2102). Hence the dynamic relationship between stock prices and macroeconomic variables contains academic interest as well as policy implications.

With the waves of economic reforms since 1991 in Indian economy, Indian capital market has undergone a series of radical changes. This resulted in remarkable improvement in Indian stock market in terms of its size and depth. The process of development of domestic stock market has been further accelerated owing to a voluminous inflow of foreign institutional investment. However, unlike mature stock markets of advanced economies, the stock markets of emerging economies like India are characterised as the most volatile stock markets. Moreover, the stock markets of emerging economies including India are likely to be sensitive to factors such as changes in the level of economic activities, changes in political and international economic environment and also related to the changes in other macroeconomic factors (Naik&Padhi, 2012). In this view an empirical question to be answered is does and at what extent the Indian stock market responds to the changes in macroeconomic variables.

## 2. Review of Literature

In the past two decades, many researchers, financial analysts and practitioners have attempted to predict the relationship between stock market movement and macroeconomic variables. They have conducted empirical studies to examine the effect of stock price on macroeconomic variables or vice-versa. This section of the paper has discussed some such previous research works and their empirical conclusions that are related to our sector analysis.

Chen et al. (1986) have examined equity returns relative to a set of macroeconomic variables for developed countries and found that the set of macroeconomic variables which can significantly explain stock returns includes growth in industrial production, changes in the risk premium, twists in the yield curve, measures of unanticipated inflation and changes in expected inflation during periods of volatile inflation. Later, Ratanapakorn and Sharma (2007) have examined the relationship between the US stock price index and macroeconomic variables using quarterly data for the period of 1975 to 1999. Employing Johansen's co-



integration technique and vector error correction model (VECM) they found that the stock prices positively relates to industrial production, inflation, money supply, short term interest rate and also with the exchange rate, but, negatively related to long term interest rate. Their causality analysis revealed that every macroeconomic variable considered caused the stock price in the long run.

Many researches over the period of time have focused on the impact of macroeconomic variables on stock price movements in developing economies. In their study, Muhammad and Rasheed (2002) have examined the exchange rates and stock price relationships for Pakistan, India, Bangladesh and Sri Lanka using monthly data from 1994 to 2000. The results show that there is a bi-directional long-run causality between these variables for only Bangladesh and Sri Lanka. No associations between exchange rates and stock prices are found for Pakistan and India.

Wongbampo and Sharma (2002) explored the relationship between stock returns and five macroeconomic variables such as GNP, inflation, money supply, interest rate, and exchange rate in five Asian countries viz. Malaysia, Indonesia, Philippines, Singapore and Thailand. Their study used monthly data for the period of 1985 to 1996, and it was found that, in the long run stock price indices of all the five countries were positively related to growth in output and negatively related to the aggregate price level. However, they found a negative relationship between stock prices and interest rate for Philippines, Singapore and Thailand, but positive relationship for Indonesia and Malaysia.

Maysami et al. (2004) also examined the relationship among the macroeconomic variables and sector wise stock indices in Singapore using monthly data from January 1989 to December 2001. They employed the Johansen co-integration and VECM approaches and found a significant long-run equilibrium relationship between the Singapore stock market and the macroeconomic variable tested.

Ahmed & Osman (2007) have investigated the long run equilibrium and short term dynamics between DSE stock index and a set of macroeconomic variables like money supply, 91 day T-bill rate, interest rate GDP and industrial production index. The cointegration test suggests that there exist two co integrating vectors one is statistically significant. In the VECM test, they found that the lagged stock index was adjusted to long run equilibrium by 43.82 percent by the combined lagged influence of all the selected macroeconomic variables. Granger causality test provides only one unidirectional causality from interest rate change to stock market return.

Similarly, even Ali (2011) could not establish relationship between macroeconomic variables and stock prices in Dhaka Stock Exchange (DSE). A Multivariate Regression Model has been



used to estimate the relationship. Regression results reveal that inflation and foreign remittance have negative influence and industrial production index; market P/Es and monthly percent average growth in market capitalization have positive influence on stock returns. No unidirectional Granger Causality is found between stock prices and all the predictor variables except one unidirectional causal relation from stock price and market P/Es. Finally, lack of Granger causality between stock price and selected micro and macro variables ultimately reveals the evidence of informationally inefficient market.

Robert (2008) has investigated the effect of two macroeconomic variables (exchange rate and oil price) on stock market returns for four emerging BRIC economies, namely, Brazil, Russia, India and China using monthly data from March 1999 to June 2006. Results affirmed that there was no significant relationship between present and past market returns with macroeconomic variables. Furthermore, no significant relationship was found between respective exchange rate and oil price on the stock market index of the four countries studied.

Akbar et al. (2012) have studied the relationship between the Karachi stock exchange index and macroeconomic variables for the period of January 1999 to June 2008. Employing a co-integration and VECM, they found that there was a long-run equilibrium relationship exists between the stock market index and the set of macroeconomic variables. Their results indicated that stock prices were positively related with money supply and short-term interest rates and negatively related with inflation and foreign exchange reserve.

Empirical studies are also conducted focussing towards the relationship between fundamental macroeconomic factors and stock market performance in India. Studies of Bhattacharya and Mukherjee (2002), Nath and Samantha (2002) found the causal relationship between stock prices and macro-economic factors in India. They applied methodology of Toda and Yamamoto for the period of 1992-1993 to 2000-2001. It was found that industrial production affects significantly the stock prices. Similar results are obtained by Chakravarty (2005). In this study positive relationship between industrial production and stock prices was examined by using Granger causality test and observed uni-directionality from industrial production to stock prices in India.

However, the findings of Chowhan et al. (2000) are contradicting the above specified results. They have tried to fetch reasons for turbulence in stock market in the short run in India taking into account SENSEX as the main index. As per the results of this paper, even long run economic factors do not support such a spike in stock prices. Such a trend was noted not just in Indian stock markets but word wide.

The results of Chowhan et al. (2000) Kumar (2008) are supported by the similar findings of Sahu&Dhiman (2011). They have tried to explore the causal relationship between stock



market indicator and macroeconomic variables of India by using correlation and Granger causality regression techniques. Annual data was used from 1981 to 2006 for all the above said variables to study the relationship. The findings of the study reveal that there is no causal relationship between BSE Sensex and real GDP of India. The paper concluded with the observation that BSE Sensex cannot yet be called as an indicator of India's growth and development.

Another study conducted by Sarkar (2005) has examined the relation between growth and capital accumulation exists in case of India. They have used annual data on various variables like nominal and real share price, share market turnover ratio, number of listed firms in the stock market, fixed capital formation and growth of real GDP and industrial output. But results show no positive relationship exists between real and stock market variables either in short run or long run during 1950-51 to 2005.

However, the studies of Kanakaraj et al. (2008), Ahmed (2008), Singh (2010), Ray (2012), Naik&Padhi (2012) and others have found significant relationship between economic variables and stock returns. Kanakaraj et al. (2008) have tried empirically to explore upon and answer that if the recent stock market boom can be explained in the terms of macroeconomic fundamentals and have concluded by recommending a strong relationship between the two. The study period covered between 1997 and 2007.

Ahmed (2008) employed the Johansen's approach of co-integration and Toda – Yamamoto Granger causality test to investigate the relationship between stock prices and the macroeconomic variables using quarterly data for the period of March, 1995 to March 2007. The results indicated that there was an existence of a long-run relationship between stock price and FDI, money supply, & index of industrial production. Causality was found running from stock price movement to movement in industrial production.

Singh (2010) in his research paper, attempted to explore the causal relation between the BSE Sensex and three key macroeconomic variables of Indian economy by using correlation, unit root stationarity tests and Granger causality test. Monthly data was used from April, 1995 to March, 2009 for all the variables, like, BSE Sensex, wholesale price index (WPI), index of industrial production(IIP) and exchange rate(Rs/\$). Results showed that IIP was having bilateral causal relationship with BSE Sensex, while WPI was found to be related to stock market unidirectional.

Pal and Mittal (2011) investigated the relationship between the Indian stock market and macroeconomic variables using quarterly data for the period January 1995 to December 2008 with the Johansen's co-integration framework. Their analysis revealed that there was a long-run relationship exists between the stock market index and set of macroeconomic variables.



The results also showed that inflation and exchange rate have a significant impact on BSE Sensex but interest rate and gross domestic saving (GDS) were insignificant.

Sharma & Mahendru (2010) analyse long term relationship between BSE and macroeconomic variables, vis-à-vis, change in exchange rate, foreign exchange reserve, inflation rate and gold price. The study period ranges between January 2008 and January 2009. The multiple regression model was applied and the results reveal that exchange rate and gold prices highly effect the stock prices, while FOREX and inflation have limited influence on stock prices.

Sabunwala (2012) attempts to unravel the relationship between the real economic variables and the capital market in Indian context. The study considers the monthly data of several economic variables like the national output, fiscal deficit, interest rate, inflation, exchange rate, foreign institutional investment in Indian markets between 1994 and 2010, and tries to reveal the relative influence of these variables on the sensitive index of the Bombay stock exchange (BSE). Linear regression model was applied to identify the relationship between BSE stock price movement and macro-economic variables. The finding shows that interest rate, output, money supply, inflation rate and the exchange rate have considerable influence in the stock market movement in the considered period, while fiscal deficit and foreign institutional investment have very negligible impact on the stock market.

Ray (2012) explores the impact of different macroeconomic variables on the stock prices in India using annual data from 1990-91 to 2010-11. A multiple regression model was used to test the effects of macroeconomic variables on the stock prices and granger causality test is conducted to examine whether there exist any causal linkage between stock prices and macroeconomic variables. Results indicate that there is no causal association between stock price and interest rate, stock price and index of industrial production, but unidirectional causality exist between stock price and inflation, stock price and foreign direct investment, stock price and gross domestic product, stock price and exchange rate, stock price and gross fixed capital formation. However, bi-directional causality exist between stock price and foreign exchange reserve, stock price and money supply, stock price and crude oil price and stock price and whole price index. The multiple regression results of the study indicate that oil price and gold price have a significant negative effect on stock price, while balance of trade, interest rate, foreign exchange reserve, gross domestic product, industrial production index and money supply positively influence Indian stock price. On the other hand, inflation rate, foreign direct investment, exchange rate and wholesale price index do not appear to have any significant effect on stock price.

Naik & Padhi (2012) have investigated the relationship between the Indian stock market index (BSE Sensex) and five macroeconomic variables, namely, industrial production index, wholesale price index, money supply, treasury bills rates and exchange rates over the period



April, 1994–June, 2011. Johansen's co-integration and vector error correction model were applied. The analysis reveals that macroeconomic variables and the stock market index are co-integrated. It was observed that the stock prices positively relate to the money supply and industrial production but negatively relate to inflation. The exchange rate and the short-term interest rate were found to be insignificant in determining stock prices. In the Granger causality test, a bidirectional causality between industrial production and stock prices and unidirectional causality from money supply to stock price, stock price to inflation and interest rates to stock prices were found.

Makan et al (2012) have tried to test the influence of macroeconomic variables on BSE stock prices. The macroeconomic variables are represented by the IIP, CPI, call rate, exchange rate, gold price, oil price and FII. Monthly data for the duration of April 2005 – March 2012 was considered. The paper employed Granger causality test, regression analysis and correlation analysis to examine such relationships. Based on the results it was concluded that three out of seven variables were relatively more significant and likely to influence Indian stock market. These factors were exchange rate, FII and call rate. There is a positive relation between FII and Sensex, call rate and Sensex whereas exchange rate and Sensex shows a negative relation. In granger causality test call rate was seen affecting BSE.

### 3. Research Gap

The brief review of the selected literature on the sector of the present analysis shows no consensus on the impact of macroeconomic variables on stock market. It can be observed from the review of literature that findings of different studies vary. Different findings in different studies might be due to different methodologies applied, different set of variables used for the study and different time periods considered for the study etc. Hence, the relationship between fundamental macroeconomic variables and stock market movements needs fresh enquiry.

### 4. Objectives

- To investigate the impact of macroeconomic variables on Indian stock market performance.
- To study the direction and degree of relationship between selected macroeconomic factors and stock returns.

### 5. Theoretical Framework

The theoretical linkage between the macroeconomic variables and the stock market performance can be directly obtained from the Present Value Model (PVM) and the Arbitrage



Pricing Theory (APT). The Present Value Model focuses on the long run relationship between the stock market movement and the macroeconomic fundamentals. According to these models, any new information about the fundamental macroeconomic factors such as real output, inflation, exchange rate, interest rate, foreign investment and so on may influence the stock price/returns through the impact of expected dividends, the discount rate or both (Chen et al, 1986, Naik&Padhi, 2012). A simple discount model shows that the fundamental value of corporate stock equals the present value of expected future dividends. The future dividends must ultimately reflect real economic activity. If all currently available information is taken into account, there could be a close relationship between stock prices and expected future economic activity. As pointed out by Ahmed (2008, quoted in Naik&Padi, 2012), these relationships can be viewed in two alternative ways; (i) the stock market as the leading indicator of economic activity or stock market leads economic activity; and (ii) the possible impact the stock market has on the aggregate demand through the aggregate consumption and investment suggesting stock market lags economic activity.

## 6. Research Methodology

### 6.1. Selection of Variables

Among the many macroeconomic variables, the study is focused on five major variables, viz. the real economic output, foreign institutional investment, inflation, gold price and exchange rate. The variables are selected based on their theoretical importance, performance measures of the economy and also their uses and findings in the existing stock of empirical literature. The level of real economic activity is regarded as the crucial determinant of stock market returns. To measure the growth rate in real sector Index of Industrial Production (IIP) is used as proxy. Theoretically it is said that increase in IIP increases the profit of industries and corporations. Hence, dividend increases and it results in increase of share prices. Therefore, a positive relationship is expected to between IIP and stock returns. The common perception is that Foreign Institutional Investment (FII) is a driving force of Indian stock market. It has been observed that Sensex increases when there are positive inflows of FII and decreases when there are negative FII inflows. To test this common perception empirically, FII has been included as another explanatory macroeconomic variable. Besides, inflation is another factor which might influence the stock market. When inflation begins to move upward it is likely that the RBI would resort to tight monetary policies which leads to increase in the discount rate. Hence, the cost of borrowing increases which in turn leads to reduction in investment in stock market. So, inflation is inversely related to equity prices. Inflation is measured, in the present study, by changes in Wholesale Price Index (WPI). Stock market is also sensitive to fluctuations in Gold Price (GP). Indian investors tend to invest less in stock as the gold price rises, causing stock prices to fall. Therefore, theoretically, a negative





relationship is expected between gold price and stock price. Exchange rate is another prominent variable which is predicted to generate positive impact on domestic stock price. Depreciation of domestic currency against foreign currencies increases the return on foreign currencies and induce investors to shift fund from Indian stock market to foreign currency assets, causing a crash in the stock price and vice versa. The study employs the Real Effective Exchange Rate (REER), which is the weighted average of Indian rupee relative to a basket of 36 other major currencies adjusted for the effects of inflation as foreign exchange rate.

Currently, there are two major stock exchanges in India; the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). The study has used BSE indices to represent the Indian stock market. The monthly average of BSE Sensitive Index (Sensex) for the base year of 1978-79 has been compiled and the average is based on daily BSE closing index.

As the present study tries to investigate the relationship between the stock price indices and five macroeconomics variables, it considers the following model:

$$X = (SENSEX, IIP, FII, WPI, GP, REER)$$

Where, SENSEX is the BSE sensitive index, IIP is the index of industrial production, WPI is the wholesale price index, GP is the gold price and REER is the real effective exchange rate and X is a 6×1 vector of variables.

### 6.2. Period of the Study and Source of Data

The study uses the monthly data for the period from April 2010 to June 2014 which involves 51 monthly observations. All the necessary data pertaining to the variables under study for the sample period are obtained from the Handbook of Statistics on Indian Economy, published by the Reserve Bank of India.

### 6.3. Tools Used for Analysis

To investigate the impact of selected macroeconomic fundamentals on BSE Sensex, the multiple regression technique has been applied. The regression model for predicting the BSE Sensex returns is:

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5$$

Where,

Y= BSE Sensex

a= Intercept of Y which is constant

$\beta_1, \beta_2, \beta_3, \beta_4$  and  $\beta_5$ =Beta coefficients of  $X_1, X_2, X_3, X_4$  and  $X_5$  respectively

$X_1$  = Wholesale Price Index

Industrial Production

$X_2$  = Index of

$X_3$ =Gold Price



Investment

$X_4$  = Inflow of Foreign Institutional

$X_5$ =Real Effective Exchange Rate

## 7. Hypotheses

The following hypotheses are developed for testing the relationship between Sensex and macroeconomic variables in India.

H<sub>1</sub>: WPI has no significant impact on BSE Sensex

no significant impact on BSE Sensex

has no significant impact on BSE Sensex

FII has no significant impact on BSE Sensex

H<sub>5</sub>: REER has no significant impact on BSE Sensex

H<sub>2</sub>: IIP has

H<sub>3</sub>: GP

H<sub>4</sub>:

## 8. Results and Discussion

The impact of macroeconomic variables on the BSE Sensex has been captured statistically by the multiple regression model. From the model summary presented in Table-1, it can be seen that the computed Durbin-Watson (d) value is 1.771. The table value of D-W d statistic for k=5 and n=51 at 1 percent level of significance is:

Lower d value ( $d_L$ )= 1.164; upper d value ( $d_U$ ) =1.587

k= number of independent variables; n=number of variables

As  $d > d_U$ , there is no evidence of autocorrelation between the independent variables and the data set is valid for further testing and interpretation. The combined influence of independent variables on the Sensex appears to be very strong. As shown in Table-1, the  $r^2 = 0.839$ . It implies that the macroeconomic variables account for 83.9 percent variation in the Sensex. However, in a multiple regression model adjusted  $r^2$  is the more reliable explanator of dependent variable than  $r^2$ . In the model, adjusted  $r^2$  is 0.821 which endorses that 82.1 per cent of the variation in BSE Sensex is explained by the five macroeconomic variables, viz. wholesale price index, index of industrial production, gold price, inflow of foreign institutional investment and real effective exchange rate. It could be interpreted that 17.9 per cent change in Sensex is caused by the factors outside the model. Thus, BSE Sensex is highly sensitive to the variations in WPI, IIP, FII, GP and REER.

Table-1. Model Summary <sup>b</sup>					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.916 <sup>a</sup>	.839	.821	798.70188	1.771
a. Predictors: (Constant), REER, FII, IIP, GP, WPI					



b. Dependent Variable: Sensex

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	149681175.828	5	29936235.166	46.928	.000 <sup>b</sup>
	Residual	28706611.143	45	637924.692		
	Total	178387786.971	50			
a. Dependent Variable: Sensex						
b. Predictors: (Constant), REER, FII, IIP, GP, WPI						

The output of Table-2 presents an analysis of variance (ANOVA). A good regression model generates high level of F value and very low level of F-significance value. In line with the thumb rule, the F-value is very high (46.92) and its significance value is the lowest (0.000) at 5 percent level of significance. This signals the goodness of fit of the model.

Another major requirement of goodness of fit of multiple regression model is non-collinearity relationship among the independent variables. VIF test is conducted in this study to check the presence/absence of collinearity among independent variables and the results proved that the absence of collinearity relationship among WPI, IIP, FII, GP and REER. As, shown in Table-3, VIF of all the independent variables, except for WPI are within the acceptable limit of 5. In case of WPI, VIF is 5.320, indicating the presence of very little collinearity but that will not affect the actual outcome as long as it is less than 10.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-24974.075	6107.726		-4.089	.000		
	WPI	254.516	18.848	1.863	13.504	.000	.188	5.320
	IIP	4.490	13.502	.022	.333	.741	.795	1.258
	GP	-.524	.053	-1.264	-9.910	.000	.220	4.551
	FII	5.634	1.156	.299	4.874	.000	.949	1.054
	REER	136.227	40.493	.332	3.364	.002	.366	2.729
a. Dependent Variable: Sensex								



The estimated regression coefficients for predicting the BSE Sensex can be derived from Table-3 and is presented in a regression model as follows:

$$\text{Sensex} = (254.516)\text{WPI} + (4.490)\text{IIP} + (-0.524)\text{GP} + (5.634)\text{FII} + (136.227)\text{REER} - 24974.075$$

These coefficients indicate the direction of relationship between independent and dependent variables. These coefficients also tell us to what degree each predictor affects the outcome when the effects of all other predictors are held constant. The signs of coefficients of all the independent variables except WPI are as per theoretical predictions. Among the five independent macroeconomic variables WPI and REER appears to have very high influence on BSE Sensex. As the WPI increases by 1 unit, the Sensex increases by 254.5 units. This positive relationship appears to be unusual. The impact of change in REER is positive on BSE Sensex. If REER changes by 1 unit, Sensex changes by 136.2 units in the same direction. India being import dominant country, appreciation of rupee against foreign currencies reduces the import bill which in turn causes higher cash flows, more profit and better stock price of the domestic firms.

Even IIP and FII have positive impact on Sensex. If the index of industrial production increases by 1 unit, Sensex increases by 4.49 units, provided effect of other predictors is held constant. This implies the theoretical belief that increase in industrial production index increases the corporate earnings which enhance the value of the firms and hence the stock prices increase. It is also observed from the results that Sensex increases by 5.634 units for 1 unit increase in the inflow of FII. A positively high degree of coefficient of FII complements the theoretical underlining which says that increasing inflow of foreign institutional investment would drive the stock market positively, while, their withdrawal from stock market would negatively affect the stock returns.

Unlike other predictors, gold price is found influencing Sensex negatively. As the gold price increases by 1 unit, the Sensex decreases by 0.524 units or vice versa. This implies that as the gold price rises, Indian investors tend to invest less in stocks, causing stock prices to fall and vice versa.

## 9. Testing of Hypotheses

The value of t-statistic for coefficient of different variables of this model can be seen from Table-3. From the results, it appears that significance values of t-statistic of coefficient of WPI, GP, FII and REER are less than 0.01. This implies that WPI, GP, FII and REER have significant impact on BSE Sensex at 1 per cent level of significance. This leads to the rejection of the null hypotheses  $H_1$ ,  $H_3$ ,  $H_4$  and  $H_5$  - which say that WPI, GP, FII and REER do not have significant impact on Sensex. However, IIP does not have significant



contribution to Sensex either at 1 percent or 5 percent level of significance. Hence, the null hypothesis  $H_2$ -IIP does not have significant impact on Sensex is accepted.

## 10. Conclusion

The aim of this paper is to study the impact of macroeconomic variables on Indian stock market. From the study it appears that the combined influence of WPI, IIP, FII, GP and REER on BSE Sensex is very strong. It is also noted that any variation in the value of WPI, IIP, FII and REER has strong positive influence on the BSE stock market performance. While, an increase in gold price is found causing crash in stock market and vice versa. Further, of the five variables, the coefficients of all the variables except IIP are statistically significant. This leads to the conclusion that inflation, inflow of foreign institutional investment, exchange rate and gold price impact the Indian stock market performance significantly.

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