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An Overview on the Investors' Perceptions towards Indian Capital Market

Dr. R. Uma Devi
Assistant Professor, Department of Commerce
Dr. S. R. K. Govt. Arts College, Pondicherry University, Puducherry, India

Abstract:
Capital market is the backbone of any country's economy. It is one of the most vibrant sectors in the financial system, marking an important contribution to economic development. It facilitates conversion of savings to investments; thereby corporate entrepreneurs can raise funds for their business ventures. Today long term investors are interested to invest in the capital market rather than invest anywhere. As risk and uncertainty are the inevitable factors in financial markets, the investors are much aware of the trends in trading of securities, government policies, performance of the corporate enterprises and so on. In India, common investors participating in the capital market is massive. But due to globalization and liberalization policies, the capital markets experiencing drastic swings over one and half decade. The main reason for slump and raise is fluctuations of investor confidence in the capital market. So it is important to understand the causes and measures of revival and or retaining of investors' confidence leading to capital mobilization and investment in right avenues creating, economic growth in the country. On this backdrop, an attempt is made to overview the trends of Indian capital market and investors' perceptions towards it.

Key words: *Capital Market, Confidence, Primary Market, Secondary Market, Investors' Perceptions*

1. Introduction

The Indian Financial system has grown enormously since 1950 in terms of size, innovations, diversity, complexity and sophistication. Capital is defined as "wealth used in the production of further wealth". Financial markets are the centres for buying and selling financial claims and services. The financial market comprises two components viz., The Money Market and The Capital Market. While the money market deals with the provision of short-term credit, the capital market deals with the lending and borrowing of medium-term and long-term credit. Broadly the Indian capital market can be divided into two constituents: the financial institutions and the securities market. The financial institutions such as IFCI, IDBI, Exim Bank, SIDBI, IDFC, SFCs and LIC etc. Provide long-term and medium-term loan facilities. The securities market is a market where securities issued by corporate firms can be bought and sold freely. It is divided into – the gilt edged market and the corporate securities market.

Capital market facilitates government as well as corporate in raising capital to meet requirements of capital expenditure and/or discharge of other obligation.

As a part of the process of economic liberalization, the capital market has been assigned an important place in financing the Indian corporate sector. Besides enabling mobilizing resources for investment, directly from the investors, providing liquidity for the investors and monitoring and disciplining company managements are the principal functions of the capital markets. The main attraction of the capital markets is that they provide for entrepreneurs and governments a means of mobilizing resources directly from the investors, and to the investors they offer liquidity. It has also been suggested that liquid markets improve the allocation of resources and enhance prospects of long term economic growth.

1.1. Investment Alternatives

There is a wide range of investment alternative available to an investor in the Indian Capital market, which can be depicted in the figure below:

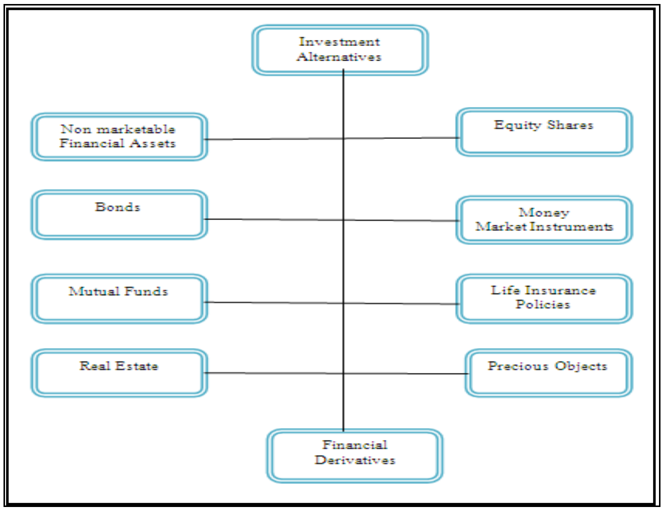

Figure 1: Various Investment alternatives in Indian Capital Market

1.1.1. Non- Marketable Financial Assets
A good portion of financial assets is represented by non- marketable instruments that include:
- Bank deposits
- Post office deposits
- Company deposits
- Provident fund deposits

1.1.2. Equity Shares
Equity shares represent ownership capital. As an equity shareholder, you have an ownership stake in the company. This essentially means that you have a residual interest in income and wealth.
- Blue chip shares
- Growth shares.
- Income shares
- Cyclical shares
- Speculative shares

1.1.3. Bonds
Bonds or debentures represent long terms debt instruments.
- Government Securities
- Savings bonds
- Government agency securities
- PSU bonds
- Debentures of private sector companies

1.1.4. Money Market Instruments
Debt instruments which have a maturity of less than one year at the time of issue are called money market instruments.
- Treasury bills.
- Commercial paper
- Certificates of deposit

1.1.5. Mutual Funds
Instead of directly buying equity shares and/or fixed income instruments, you can participate in various schemes floated by mutual funds.
- Equity schemes
- Debt Schemes
- Balanced schemes

1.1.6. Life Insurance
In a broad sense, life insurance may be viewed as and investment. Insurance premiums represent the sacrifice and the assured sum, the benefits.
- Money back policy

- Whole back policy
- Terms assurance policy

1.1.7. Real Estate

For the bulk of the inverters the important asset in their portfolio is a residential house.

- Agricultural land
- Semi urban land
- Commercial property

1.1.8. Precious Objects

Precious objects are items that are generally small in size but highly valuable in monetary terms. Some important precious objects are:

- Gold and Silver
- Precious stones
- Art objects

1.1.9. Financial Derivatives

The term 'derivative' indicates that it has no independent value i.e. its value is entirely derived from the value of underlying asset. The underlying asset can be securities, commodities, currency etc. Some important financial derivatives:

- Forward
- Future
- Option warrants
- swaps

2. Review of Literature

Nowadays common man is more interested on investing in capital market and he should be aware of the trends of capital market in order to make wise and safe investment. There is a vast body of literature by eminent scholars and financial experts on different aspects of the capital market. This chapter presents an overview of the important studies on capital market.

Cho (1986) argues that financial market liberalisation may remain incomplete without an efficient capital market as a means of spreading risk and reward. Gupta (1987) makes a comprehensive analysis of the geographic distribution of corporate shareholders in India. The study shows that a process of 'securitisation' is going on in the Indian capital market. Devakumar (2005) reveals that earlier to 1985, there were very few investors and they were knowledgeable. During the 1985 boom, thousands of new investors invaded the market. The new investors suffered heavy losses compared to the professionals. A good number of new investors have walked out of the stock market to safer areas like UTI Units, NSC, etc. There is a mild shift of investment preferences to mutual funds also. Narayana Rao and Bhole (1990) point out that over longer periods of time, positive rate of return was being provided by equities, but in the short-run, the real return was often negative. The regression analysis shows that the nominal total return on equities in India has increased, but not in proportion to an increase in the rate of inflation. The coefficient of inflation is found to be nearer to zero than one. The real return on equity has been found negatively related to inflation throughout all periods. Thus equity share in India may only be a weak or partial hedge against inflation. Gupta (1991) made an extensive survey of Indian investors around mid-1990. It throws light on many unknown aspects of the market for shares and other financial assets. The study covers a wide range of aspects and has generated much new data on investors, their investment habits and preferences. Jawahar Lal (1992) presents a profile of Indian investors and evaluates their investment decisions. He made an effort to study their familiarity with, and comprehension of financial information, and the extent to which this is put to use. The information that the companies provide generally fails to meet the needs of a variety of individual investors and there is a general impression that the company's Annual Report and other statements are not well received by them.

Subhash Chander (2003) and Ashwani Kansara (1994) opined that the majority of investors are casual investors. The investors regard abridged prospectus as well as the investment journals as the prime source of information for their investment decisions. Investment decisions also depend upon unofficial premium quoted in business magazines, expert analysis, market trends, political considerations, etc. Bajpai (1994) establishes that, the liquidity aspect is an essential constituent of an efficient stock market, a sub-system of capital market. The growth of the equity cult in the 1980s was supported by the actual experience of the Indian investors. Equity prices between 1978 and 1993 have outperformed other popular avenues of investment. The chance of lucrative capital gain along with annual return from equity investment attracted investors in a large scale towards primary and secondary capital markets. It highlighted the need for liquidity of investment. Bhole (1995) opined that the investors' asset preference has somewhat shifted from deposits to industrial securities due to the New Economic Policy (NEP) in the mid of 1991. The capital market has been regarded and projected as the barometer of the health of the economy. Nagaraj (2003) identifies that capital market growth has changed domestic financial savings composition from bank deposits to shares and debentures, without favourably influencing domestic savings rate. Equity capital's share in the total market mobilisation declined, as bulk of such mobilisation is in the form of debt securities. Suresh G Lalwani (2001) emphasised the need for risk management in the securities market with particular emphasis on the price risk. He commented that the securities market is a 'vicious animal' and there is more than a fair chance that far from improving, the situation could deteriorate.

Several studies such as Sahni (1985), Kothari (1986), Mukherjee (1988), Lal (1990), Chandra (1990), Franscis (1991), Ramesh Gupta (1991,1992), Raghunathan (1991), Varma (1991),
Gupta (1992) and Sinha (1993) comment upon the Indian capital market in general and trading systems in the stock exchanges in particular and suggest that the systems therein are rather antiquated and inefficient, and suffer from major weakness and malpractices. According to most of these studies, significant reforms are required if the stock exchanges are to be geared up to the envisaged growth in the Indian capital market.

3. Database and Methodology

Capital market provides the bridge through which the savings of surplus units may be transformed into medium and long-term investments. It performs critical functions, which promote economic growth and prospects of the economy. Empirical evidence linking capital market development to economic growth has been inconclusive even though the balance of evidence is in favour of a positive relationship between capital market development and economic growth. Many researchers have undertaken to study the various aspects of Capital Markets. Even then remained some pertinent gaps and in order to fill those gaps, the present study, entitled "*An overview on the Investors' Perceptions towards Indian Capital Market*" is undertaken with the following specific objectives:

- To study the meaning and structure of the capital market
- To Study the various aspects of Indian Capital Market
- To analyze the role of capital market in economic growth and the contributing factors to the growth of capital market
- To study the Problems of capital market and steps undertaken to promote healthy capital market development
- To analyze various Investment alternatives available and the trends of investment decisions in Indian Capital Market
- To analyze the investors' perceptions towards and the future prospects of Indian Capital Market.
- To analyze the role of investors in the development of the growth of Indian capital market in particular and the economy as a whole..

The data pertaining to the study obtained from two sources viz., Primary data and Secondary data. The secondary is obtained from published sources of various public departments, journals, periodicals and websites etc. The primary data is obtained from sample investors in E. G. District of Andhra Pradesh. The data is collected by a stratified random sampling technique of urban, semi-urban and rural investors in E. G. District. The data is collected through pre-tested questionnaire method based on age, gender, educational and marital status, income levels, family history, saving habits, life style of the investors and so on. In order to make the study more attractive and meaningful; the data is presented in tables and figures. For analysis part, simple statistical techniques such as ratios and percentages are used to make the study more imperative.

4. Analysis

The most common primary mechanism for raising capital is an Initial Public Offer (IPO), under which shares are offered to common public as a precursor to the trading in secondary market of an exchange. The price at which the shares will be issued is decided with the help of book building mechanism and in case of oversubscription the shares are allotted on a pro-rata basis. When securities are exclusively offered to the existing shareholders of company, as opposed to the general public it is called 'Rights Issue'. Another mechanism whereby a listed company can issue equity shares, fully and partly convertible debentures which can be converted into equity shares later on, to a Qualified Institutional Buyer (QIB) is termed as Qualified Institutional Placement. Apart from raising capital in domestic market, companies can also issue securities in international market through ADR/GDR/ECB route and raise capital.

4.1. Components of Indian Capital Market

The corporate securities market consists of Primary market and the Secondary market. Primary market is known as the New Issues Market which is that part of the capital market that concerns with the issue of new securities, i.e., bonds, debentures, shares and so on. The public limited companies raise funds through it for setting up or expanding their business. Under this market, capital can be raised from the general public by the issue of prospectus, by offer for sale, by private placing and by offering rights issue. The secondary market is a highly organized market for the purchase and sale of second-hand quoted or listed securities. It refers to stock exchanges where existing securities can be regularly purchased and sold. These are an important element in mobilization of resources. They enhance the efficiency of the flow of savings and fulfils a basic need of the investors namely the liquidity. They provide marketability to securities encourages savers to take risk and make investments in the existing securities. These investments stimulate production activity which in turn accelerates economic growth of the economy.

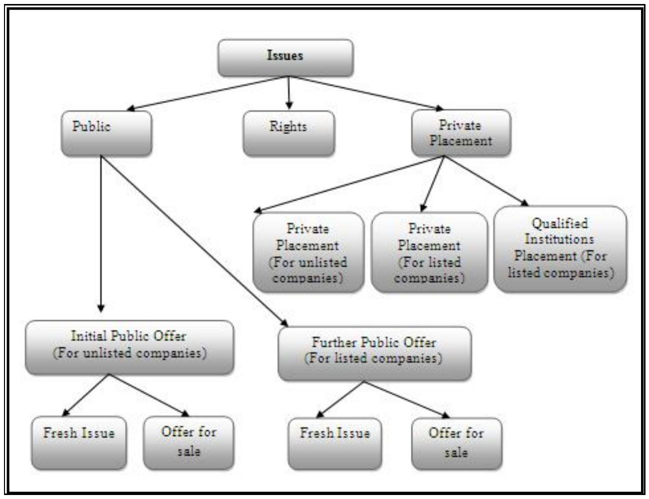

Figure 2: Types of Issues in Primary market

A major proportion of investment in primary & secondary markets comes from small investors in India whereas in developed countries, institutional investors constitute a major proportion of investment. Small investors approach primary markets for both regular income and capital gains. When they invest in companies either at par or at a reasonable premium they will receive dividends and appreciation in financial markets. Primary market is important as it is significantly related with the index of industrial production.

4.2. Importance of Indian Capital Market

Financial markets constitute an important part of the total infrastructure for every society and capital markets as a vibrant component of it performs the following functions:

- Raising capital for businesses
- Mobilization of savings and acceleration of capital formation
- Promotion of industrial growth and Facilitate Company Growth
- Redistribute Wealth
- Corporate governance
- Creates investment opportunities for small investors
- Government raise capital for Development projects
- Raising long-term capital
- Ready and continuous market
- Proper channelization of funds
- Provision of a variety of services
- Barometer of the Economy

4.2.1. Growth of Capital Market in India

Since 1991, the investor base for the government securities has expanded rapidly due to the structural and institutional reforms. The policy of liberalization by the government in July 19991 and the abolition of capital Issues Control with effect from 29th may, 1992, the securities market got a tremendous boost. NSE, BSE etc. are trading in listed securities. The turnover and trading in the capital market is now much more than it was, a decade back. The following are the contributing factors for the growth of capital market in India:

- Establishment of development banks and industrial financing institutions
- Legislative measures by the Govt. in order to control and direct the corporate enterprises.
- Growth of underwriting business
- Growing public confidence
- Increasing awareness of investment opportunities
- Setting up of SEBI in order to promote the welfare of the investors
- Growth of mutual funds enhance liquidity and market recovery
- Set up of credit rating agencies such as CRISIL, ICRA and CARE provide guidance to investors/creditors for determining the credit risk associated with a debt instrument.

4.3. Investors in India

The investor is one of the most important links in the working of financial system. The health and efficiency of the financial system are significantly influenced by the risk-return-liquidity-preferences and confidence of investors. A report by SEBI-NCAER reveals the following profile of the Indian investors:

- About 13.1 million household investors directly invested in equity shares/debentures/both in 2000-01.
- During 1998-2001, there has been a definite migration of investors from equity market to bond market.
- The urban and rural equity investors are 70 percent and 30 percent respectively where as the urban and rural bond investors are 15.29 percent and 4.24 percent respectively.
- Middle and high income groups own more mutual fund units. The salaried and the self-employed individuals are the major owners of units.
- The level of income, education, age, occupation, gender and place of residence determine the level and type of investments.
- The professional investors are prominent shares/bonds buyers. The higher the education, the greater the likelihood of investment in industrial securities.
- At present the investors are more interested in debt market than equity. They are investing in futures, options and swaps etc.
- The Indian investors feel cheated in respect of the risk, return and liquidity of their investments.
- A system of iniquitous returns has evolved as a result of interest rate policy and tax policy.
- The liquidity of financial assets particularly for small investors is not high.

*Risk-return trade –off***:** The investor faces many types of risks – default, financial, liquidity, maturity, call, interest rate, inflation, exchange rate, business, systematic and unsystematic, total and country risk. The rate of return is the reward for investment that comprises periodic interest receipts and capital gains. There is a positive linear correlation between the expected return and risk. The objective of maximizing return can be pursued only at the cost of incurring higher risk. While selecting an instrument for investment, the investor has to consider both its return potential and the risk involved. The securities are generally priced such that high risk is rewarded with high return and vice versa. This relationship is known as risk-return trade-off.

4.3.1. Investors Perceptions towards Capital Market

Though most of the investors want a safe and secure return on their investment, they also look for maximum returns. The pure debt investment brings an average return with lesser liquidity as compared to the equity investments. So in search of higher return (keeping the risk factor in mind) investor are a heading towards equity investment on analysis of recent year investment trends, FII, entrance and operations in Indian capital markets, it has been found that equity is gaining ground in India. The main attraction of equity among investors is:

- Higher return (especially in case of capitalization and dividend if any)
- Higher Liquidity
- Option to start trading with small investments
- Daily trading (as it increase chances of more “buy or sell” transaction which leads to fast profits/loss generation)

With these benefits, equity has a risk factor of poor dividend payout or the negligible capitalization. Moreover, sometime the investment in equity trading goes to bottom level and nothing is expected in return. Still then, the attraction of equity remains high in investors mind become of “return & liquidity factor. And this perception has leaded the investment trends from debt to equity and portfolio investment. Now-a-days the investors are rational and analyzing the market trends by equating risk- return trade off.
Investors considering the following factors in investing portfolios: Corporate governance, Industry profile, Issue price, Liquidity, Information received, Market conditions, Infrastructure, Regulatory framework and Merchant Banker‘s image etc.

4.4. Problems faced by Indian capital market:

The major problems in Indians primary market are lack of transparency, no control on intermediaries, higher issue price compared with fundamentals, inefficient grievance redressed machinery, political interference etc.

- Instability is a hurdle for the growth of capital markets. It may be of financial, economic or monetary instability. At present instability and volatility has increased in Indian capital market due to global economic crisis.
- The Indian capital market was dominated by a few large companies and financial institutions; it is highly speculative, volatile, and imperfect and lacks free entry.
- The valuation of companies has little relation with company fundamentals. As a result, the allocate efficiency of the market is poor.
- The risk of investment is high due to dishonest practices, frauds committed and unethical investment culture.
- The investors experience a sense of helplessness and insecurity and have no confidence in capital market.

4.4.1. Regulatory Norms

New issues market (NIM) focuses on decreasing information asymmetry, easy accessibility of capital by large sections of medium and small enterprises, national level participation in promoting efficient investments, and increasing a culture of investments in productive sector. In order that these goals are achieved, a substantial level of improvement in the regulatory standards in India at the voluntary and enforcement levels is important. The most crucial factor to achieve these goals would be to develop measures to strengthen small investor confidence.

- Improvement in the organizational effectiveness and risk management by all financial entities
- Reduction in the settlement cycle on the stock exchanges and abolishing carry forward system
- Introduction of securities transaction tax, circuit breakers and graded capital gains tax in respect of securities trading.

- Drastic reduction in the external debt of the country
- Building up of decentralized capital and credit markets
- Corporate frauds have to be prevented by strict regulations and stringent actions have to be taken against fraud companies especially the bogus companies.
- Transparency in operations and simplified and stringent procedures to be adopted and excess regulation to be avoided.
- Strict screening of the securities to promote and attract investors
- Reduce political interference in markets and abolish taxes on investment in shares
- Consumer friendly enactment is necessary
- Nurturing of a philosophy of ethical finance through conscious and systematic efforts for investors' education.

4.5. Stock Exchange Board of India

The SEBI is set up with an objective to protect the interests of the investors in securities and to promote the development of and to regulate the securities market and for matters connected therewith or incidental thereto. It aims at facilitating an efficient mobilization and allocation of resources through the securities markets, stimulating competition and encouraging innovations. To investors, it provides a high degree of protection of their rights and interests through adequate, accurate and authentic information and disclosure of information on a continuous basis. It introduced an automated complaints handling system to deal with investors' complaints. It also supervises the allotment process in order to prevent malpractices in primary markets. It has accorded recognition to several genuine, active investor associations. It guides and enlightens investors on various issues related to the securities market and of their rights and remedies.

4.6. Measures for improving/ retaining the investor's confidence

- All latest information should be easily available to investors.
- There should be availability of public information
- The investors should be educated and their awareness on the primary market has to be improved.
- Everyone should be availed by the most important and sensitive information.
- All information that depicts the promoter‘s background, their track record and experience should be available which should be transparent.
- News about improvements that are taking place in the market should be released timely and regularly by the regulating authority.
- Apart from already existing associations, many investor associations should be provided.
- Media should develop public consciousness
- The investors should be educated about the riskiness associated with investment in shares
- There must be sound communication between top management and shareholders
- Companies should consider shareholders' interests while taking decisions

5. Conclusion

The Indian capital Market has witnessed a radical transformation over one and a half decade. During 1990s, the ranking of Indian capital market with reference to global standards of efficiency, safety, market integrity etc. was low. But after setting up of SEBI and extension activities of NSE, the Indian capital market has ranked top now. A wide variety of innovative hybrid instruments were introduced to suit varied needs of investors and issuers/borrowers. Despite setback in some years due to stock market scams, the sentiments look positive due to the revival of retail investor interest in the market following encouraging corporate performance in recent period. In order to protect the investors, the regulation of the new issue market is essential as the number of small investors in new issue market is massive. Most of new investors make their first entry into equity investments via the new issue market. So retaining common investor confidence in primary markets is important. Studies have also indicated that equity markets suffer serious inadequacies as a mechanism for raising capital. There is more speculation by investors rather than investment orientation.

The current and potential investors in Indian capital market are quite vast. The primary study reveals that the majority of investors are interested to invest more in debt securities than equities and units of mutual funds. The level of income, education, age, occupation, gender and place of residence determine the level and type and level of investment of their savings by the people. Urban, educated and young investors are more interested in high risk instruments in anticipation of high returns. They are the key players in the secondary market. Whereas the rural, aged people with low education are investing their savings in primary market and low-risk securities. Gender also plays a vital role in investment perceptions. Small investors are much aware of the trends in capital markets, government policies and policies of corporate bodies. Corporate Social Responsibility also plays a significant role in investment habits of the investors. By the study, it is evident that most of the investors are investing in debt market than equity.

The volatility and instability in capital markets have increased after the introduction of the policy of liberalization and globalization. They are experiencing wild swings in prices, trading volumes and market capitalization due to a large number of problems- volatility, vulnerability, depression etc. They are afflicting the economies throughout the world which needs adoption of cautions approach to the development and management of the Indian capital market. It is the duty of the market regulator to bring in stringent regulations and protect the investors from fraudulent and unhealthy practices in the market. Thus, a reform in the capital market is imperative. Investors are the major source of making the primary issues success. They should have enough confidence in the system to invest in it. The regulatory framework must be strict and stringent against all un-ethical practices. Investors must be made available about all the information on the market and in no way their trust shall be reduced.

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