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Abstract:

The project examines integration of the Indian stock market with national markets of the United States, and the United Kingdom, Australia, New Zealand, Japan, Singapore, Hong Kong and Pakistan, after the financial turmoil in 2008. We adopt multivariate cointegration method, Granger causality tests, and variance decomposition for empirical study. Our findings reveal that there exists at most one cointegration relationship among above nine stock markets, and the Indian stock price is long-run Granger caused by other markets through the error-correction term. In the short run, the Indian stock market can Granger cause most of the above eight stock markets, but it can only be Granger caused by the stock markets of the United States, the United Kingdom and New Zealand. Also, the forecast variance of the Indian market is largely explained by innovations in the markets of United States, Australia and Singapore but it can explain the variance of other markets to a much lesser extent. The results provide implications for portfolio diversification in the long run.

Keywords: stock market integration, cointegration, Granger causality, variance decomposition

JEL Classification: C32, F36, G15

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Important Note

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