

Stock Return Volatility Patterns in India

Abstract

This paper makes an attempt to analyze if the Indian stock market exhibits greater volatility in recent times and post financial sector liberalization in India. Using monthly stock returns the paper examines the shifts in stock price volatility and the nature of events that apparently cause these shifts in volatility. An attempt is also made to characterize the evolution of the stock market cycles over time in India and examine if in recent times the stock market cycles have exhibited greater amplitude and volatility.

Our analysis reveals that the period around the 1991 Balance of Payment crisis and the subsequent initiation of economic reforms in India is the most volatile period in the stock market. Stock return volatility in India seems to be influenced more by the domestic political and economic events rather than global events. Our analysis also shows that stock market cycles in India have not intensified after financial liberalization. We observe a generalized reduction in instability in the post reform period in India.