

Chapter 9

Determinants of Market Capitalization in India and Its Impact

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ABSTRACT

The purpose of this chapter is to study the determinants of market capitalization and to investigate the impact of determinants of market capitalization. This chapter uses secondary data from 2003-2016 relating to market capitalization, income per capita, stock market liquidity, etc. The study employed descriptive test and normality test to describe the basic features of data and their distribution. The multicollinearity test has also been used to check the interdependence among independent variables. Multiple regression statistics has been used to determine the impact of independent variables on dependent variable. The results show that there is a positive impact of determinants on development of stock market except political risk and inflation. The findings will help stock market authority, individuals, and companies to understand the factors that affect share prices.

INTRODUCTION

Financial market plays a vital role in the economic development of any country. They are the intermediaries that facilitate the flow of funds from surplus areas to deficit areas. They provide an institutional financial intermediation done by commercial banks mechanism for mobilizing savings and channel it effectively into productive investments. Basically financial intermediation is done by commercial banks between borrowers and savers. They provide finance for investments. The alternative method of intermediation is equity financing. It can be achievable through the growth of stock market. Stock market which deals with buying and selling of shares and bonds are one of the way to raise money from market.

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The stock market is an important place for companies to raise funds. In addition, stock markets can increase the efficiency of the financial system through competition among different financial instruments. So, the main objective of this paper is to discover the determinants of stock market and their impact on market capitalization.

REVIEW OF LITERATURE

Jahur et al. (2014) studied the determinants of stock market and their performance in Bangladesh. The study used secondary data sources, and applied descriptive measures and linear regression model to analyse the data. The study found that all macro-economic variables like Interest Rate and Exchange Rate, Consumer Price Index have significant impact on stock market performance.

Kimani and Mutuku (2013) examined the impact of deposit rate, GDP, inflation, Central Depository System on stock market performance under Nairobi Stock exchange. They found a negative association between stock market performance and inflation in Kenya and the Central Depository System have a significant impact on stock market performance.

Mehwish (2013) conducted a study on Determinants of Stock Market Performance in Pakistan. The data was analysed quantitatively through regression analysis using E-views. With the use of time series data the study established a negative relationship between stock market performance and real interest rate, whereas the banking sector development has no significant influence on stock market performance.

Adua et al. (2012) investigated the determinants of stock market development. The regression results stated that stock market liquidity, income per capita, institutional quality, bank development and domestic savings are significant determinants of stock market development in the Nairobi Stock Exchange.

Songole (2012) examined the relationship between stock return and selected macroeconomic variables at the Nairobi securities exchange. The study based on market interest rate, Consumer price index, Foreign exchange rate and Industrial Production Index. The study concluded consumer price index, market interest rate and exchange rate have a negative relationship with stock return, while industrial production index showed a positive relationship.

Garcia and Liu (1999) made a study on market capitalization as a determinant of stock market development. The study established that saving rate, real income, stock market liquidity and financial intermediary development are significant determinants of stock market capitalization

STATEMENT OF THE PROBLEM

The performance of stock market is a strong index of economic growth of India. So the problem of this study is what are the stock market determinants and whether they contribute positively or negatively towards stock market development.

VALUE OF THE STUDY

- **Stock Market Authority:** The findings will help to know the factors affecting the stock market and which factors are contributing towards market capitalization.

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