

## Stock Prices, Money, Inflation and Real Activity : A Cross-Spectral View

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*The stock market in India is perceived as playing an important role, especially in the period after 1982. Since then, the financial markets in the Indian Economy are experiencing an unprecedented upswing with the corporate sector increasingly turning towards the capital market for fresh finance both in the form of equity issues and debentures, convertible and non-convertible issues. At the same time, in secondary markets, the share prices in general have been increasing rapidly, in comparison to the relatively slow upward thrust in the 70's. It is also argued that the very increase in share prices is encouraging the corporate sector to turn away from commercial and development banks towards the stock market for finance. Given the increasing levels of investment by the households in shares and the increasing importance of this form of finance for corporations and the catalytic nature of share prices in encouraging savings and investments, concern is being expressed by policy-makers as to whether the share price movements are based on real economic activity or are just speculative froth. The present study attempts to study the stock price-economic activity linkage by choosing a number of variables representing various facets of economic activity like output, income, prices, interest rates, government budgetary operations, savings and money and monetary variables. The study first attempts to trace the possible channels of influence whereby the movements in the pvariable would lead to changes in share prices and then goes on to empirically testing the strength of the relationship and the leads-lags between each variable and stock prices.*

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