

Information Arrivals, Stock Price Variability and Market Efficiency in Indian Stock Market

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The present paper examines whether the Indian stock market is an efficient processor of macro information or not. The data used are the monthly RBI share price indices of all India, Bombay, Calcutta, Madras, Ahmedabad and Delhi during the period 1981-84 to 1994-95. The causality framework is employed to ascertain whether share price variability can explain the arrival of macro information such as money supply, income and price level. The results of Granger (1969) and Geveke, Meese and Dent (1983) tests show mixed evidences i.e., while the regional stock markets are efficient in processing money supply, they are not efficient in processing the other two macro variables.

Introduction

Stock market plays a more vital role in a nation's economy than just mobilize new capital. A healthy national stock market has been considered essential to national economic growth due to its different bundle of crucial services that stimulate the accumulation of capital and contribute to improvements in productivity. An efficient market, with a good banking system, thus, enables not only to promote economic growth but also to predict it. Indicators such as capitalization, liquidity, asset pricing and turnover relating to stock market operations have been used to understand whether a national economy is proceeding on sound lines or not. Further, economic development also induces stock market development which in turn provides the means to predict future rates of growth in capital, productivity and per capita GDP¹. Hence, it is of interest to know whether the stock market changes (developments) explain changes (developments) in macroeconomy or not.

The relationship between stock return and macro information has been subjected to extensive research in the recent past. In general, attempts have been made to explain various possible ways of interactions between share price changes and movements in the economy in general. A more specific view has been to consider a rise in stock price as an increase in nominal wealth. Here an interesting question is to

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¹ A good and explanatory study on 'stock market and economic growth' is available in World Bank Policy Research Bulletin (1995), Vol.6, No.2, pp. 1-6.