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STATUS OF MARKET CAPITALIZATION DURING INFLATION PERIODS IN INDIA WITH ESTIMATION OF BSE AND ASIA REGION

B. S. Zare

ABSTRACT

Market Capitalization is calculated on the basis of stock price and its volume for the certain period. In India, BSE and NSE plays crucial role as financial market as the best exchange and provide trading platform to the traders. The growth of market capitalization shows the best performance of the exchange in the country. Present study finds the market capitalization performance in the World, Asia region and BSE as well as estimates their contribution in the world. The study also prevails on the market capitalization status and finds that Market Capitalization status was steady in high inflation period and BSE recorded constant. In the regression equation, Asia region is positive and BSE contributes negative contributes.

KEYWORDS : *International Financial Markets, Financial Forecasting, Market Capitalization*

JEL Code: *G15, G17, N20, O57*

SHORT PROFILE

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INTRODUCTION :

The Market Capitalization of Bombay Stock Exchange (BSE) provides online trading platforms to the trades. On the basis of trading the trading volume determines. In the World Federation of Exch anges (WFE), there are 60 countries members. WFE collects the exchanges domestic market capitalization data in millions of local currency, such data is also available in American Dollar. Exchanges are categorized in three regions namely, the America, Asia-Pacific and Europe - Africa - Middle East.

The WFE are the trade association of 60 publicly regulated stock, futures and options exchanges and their operators are responsible for the functioning of key components in the financial world. WFE's annual survey of global markets found that while the global market capitalization increased 15.1% in 2012, the volume of all products traded on WFE member exchanges fell significantly. According to the WFE figures, which are gathered from WFE member exchanges, the number of listed companies remained stable in 2012, while both ETFs and securities derivatives increased their listings. In 2013, the global market capitalization continued to increase significantly with a 17% growth rate to USD 64195 mn. It reached again the level observed during the first part of 2008 before Lehman Brothers bankruptcy. Americas and EAME regions experienced similar growth rates (+22%), whereas the increase was less pronounced for Asia Pacific region (+7%). In the Americas, the growth was mainly driven by the US exchanges that increased 29% while Canada increased slightly less (+10% in local currency) and Latin American Exchanges decreased by 13% in USD and by 4% in local currency. In Asia-Pacific, the highest growth rates in local currency terms were observed in Japan (+50%), Taiwan (+16%), Malaysia (+15%) and Hong Kong (+10%). The relative lower performance of Asia Pacific

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region compared to Americas and EAME could be partly explained by currency effects. Excluding currency effects, the growth rate for the region would have been +16% instead of +7%. In EAME, Europe increased 23% (+19% in local currency terms) while Africa and Middle East rose 13% (+26% in local currency terms).

RESEARCH REVIEW OF LITERATURE:

Das (2014) finds that the return series is more volatile in the crisis period the Indian stock market is more inefficient in that period due to the fact that higher volatility corresponds to a higher probability of a declining market efficiency and as the return series is the most less volatile in the post-crisis period the Indian stock market tends to be efficient in that period. Hence we can especially claim that, the current Indian stock market indicating by S&P BSE Sensex Index is efficient, at least in terms of weak form.

J Dennis Rajakumar (2014) reported that the entire period from 2004-05 to 2012-13 had been marked by two phase, namely, 2004-05 to 2008-09 when inflation was low, and 2009-10 to 2012-13 when inflation ruled high. In the second phase, the profitability of the corporate sector had been adversely affected due to the rising percentage of manufacturing cost to sales. Moreover, during the phase of high price inflation, corporates tended to increase dividend payout. In order to rein in inflation, the RBI had been pursuing a tight monetary policy which had created credit market constraints.

Gayathri&Kalaivani (2014) examined the relationship between stock market growth and economic development for 15 developing countries, based on time series data for 12 years (2001-2012).The stock market growth was assessed in terms of size (market capitalization), liquidity (total value of stocks traded and stock turnover ratio) and volume (total number of companies listed in the stock exchange of each of the country).

DeepinderKaur&ShipraBansal (2014) finds that both SENSEX and S&P CNX Nifty are interrelated to each other. Both are influenced by the same market forces. Any change in economy Affect both the indices. But S&P CNX Nifty is more sensitive than BSE Sensex as beta of S&P CNX Nifty is more is more than one. Thus S&P CNX Nifty needs to be taken more seriously as a sound market index as it is more comprehensive than BSE Sensex.

SheebaWani (2014) states that one of the major problems confronting the international marketing manager faced with the breadth and diversity of international markets is how to identify potential target segments, and what information to collect for this purpose. A systematic two-step procedure to identify and analyse target segments has been proposed. First, countries can be divided into similar groups on the basis of national market characteristics. Then within these groups markets can be further segmented on the basis of differences in customer characteristics within each group.

Victoria Dobrynskaya (2014) suggests that there is a closer link between the currency and stock markets today. The increasing volume of carry trade activity by institutional investors may have contributed to this trend.

Numan U Lku&Enzo Weber (2014) interprets on the positive relation between net foreign flows and local returns as evidence of disadvantage with respect to local information were based on an incomplete setting that omits comparing foreigners' responses to global and local information.

Sabina Yasmin& Mohammad Abu Yusuf (2008) discusses on Market Capitalization Impact and finds that there is no direct link to market cap and buying, selling decisions, especially those who actively participate in the market. However, for external potential investors, one of the criteria for decision making may be market cap; as a proxy measure to market liquidity and also relative to the size of their investment.

Husni Ali Khrawish, WalidZakaria Siam &

Mohammad Jaradat (2010) finds that utilized time series analysis revealed that there is significant and positive relationship between government prevailing interest rate (R) and stock market capitalization rate (S). In addition, it shows that government development stock rate (D) exerts negative influence on stock market capitalization rate (S); it shows also availability of a significant and negative relationship between government prevailing interest rate (R) and government development stock rate (D)."

For need of considering Market Capitalization the web idfcmf.com (2013) claims that stock price of a company by itself doesn't reflect the actual value of a company. In other words if the stock price is high doesn't always conclude the company is growing or has high value; Market cap tell us what is the value of the company in the market i.e. for how much the company can be sold in the market, It is based on market opinion on back of the company's earnings, macro-economic factors etc. and to help investor know the growth and risk associated with the company, market cap of company can be classified into Large cap, Midcap and Small cap.

Dimitrios N. Subeniotis, Dimitrios L. Papadopoulos, Ioannis A. Tampakoudis & Athina Tampakoudi (2011) finds that the market capitalization index is one of the variables that clarify stock market movements, since it has a comparably increased coefficient. The positive sign reflects a positive relationship between market capitalization and stock market indices, which is consistent with both the economic theory and the previous literature. Since market capitalization is the product of stock prices multiplied by the number of stocks, it could be argued that this index rises when stock prices grow, as the number of stocks is a constant. Still, stock prices rise when investor demand increases, which leads to the conclusion that the demand for stocks is positively correlated with the market indices.

OBJECTIVES OF STUDY:

1.To find the status of Market Capitalization for BSE and NSE in high inflation.
2.To estimate the Market Capitalization for BSE and Asia region at the World.

Data Source and Research Methodology:

For the research study, the Market Capitalization data for BSE, Asia region and the World is collected from the database of WFE website at http://www.world-exchanges.org/statistics/

monthly-query-tool of ten years i.e 2003 to 2013. Total 120 months data is used for the research. Student t-test was used for examination of difference between the means before and after inflation by using Microsoft Excel Software and effect size (r) was considered for the same. Regression analysis is used for estimation of BSE and Asia region market capitalization at the World.

Data Analysis and Findings:

Table No. 1 shows that in the low inflation period (2004-05 to 2008-09) the Co-efficient of Variation (C.V) for capitalization of market for BSE and NSE was recorded 41.69% and 41.65% respectively, but in the high inflation period (2009-13) the C.V for capitalization of market for BSE and NSE was recorded 7.92% and 9.04% respectively. The Market Capitalization of BSE was more stable than NSE in the high inflation period.

Table No. 1
Market Capitalization of BSE & NSE
(Figures in Million INR)

Year	BSE	NSE
2004-05	236037748.0	219793869.5
2005-06	366171643.0	341111765.8
2006-07	570434428.8	534059619.7
2007-08	550579282.0	514142654.6
2008-09	89462100.0	3460948749.2
2009-10	645760920.0	612203289.3
2010-11	803297577.4	784010313.8
2011-12	748970110.4	732510503.5
2012-13	769435790.8	752947154.1

Source: Consolidated data from http://www.world-exchanges.org/statistics/monthly-query-tool

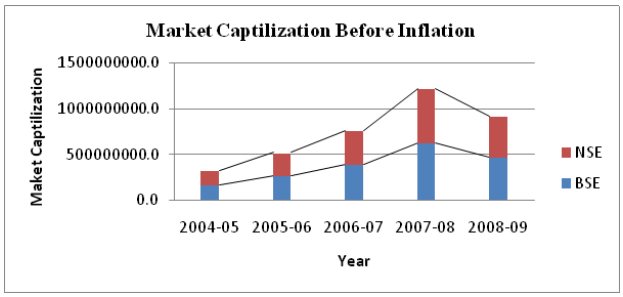

Chart No.1: Market Capitalization before Inflation in India

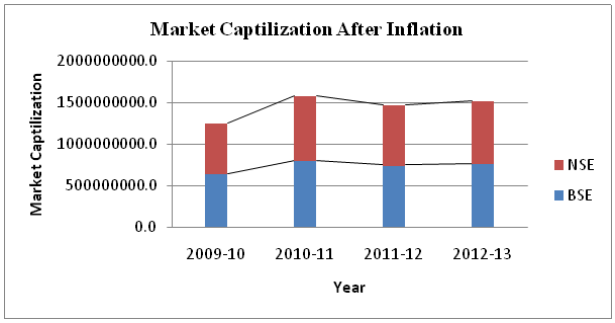

Chart No.2: Market Capitalization after Inflation in India

Table No. 2
t-Test: Paired Two Sample for Means Before Inflation

	BSE	*NSE*
Mean	385637004	360124348.6
Variance	3.23E+16	2.81E+16
Observations	5	5
Pearson Correlation	0.99998	
df	4	
t Stat	4.724	
t Critical two-tail	2.776	

$H_0 : \mu_d = 0$

$H_1 : \mu_d \neq 0$

Table No. 2 shows that the calculated t_{cal} = 4.724 is more than its critical $t_{\alpha/2}$ = 2.776, at *df* = 4 and $\alpha/2$ = 0.025 with effect size r = 0.9209, the null hypothesis is rejected. Hence, it concluded that there is an improvement in the test before inflation in market capitalization of BSE and NSE.

Table No.3
t-Test: Paired Two Sample for Means After Inflation

	BSE	*NSE*
Mean	732676202.6	709574702.2
Variance	6.40E+15	7.77E+15
Observations	3	3
Pearson Correlation	0.99875	
df	2	
t Stat	4.366	
t Critical two-tail	4.303	

$H_0 : \mu_d = 0$

$H_1 : \mu_d \neq 0$

Table No. 3 shows that the calculated tcal = 4.366 is more than its critical $t_{\alpha/2}$ = 4.303, at df = 2 and $\alpha/2$ = 0.025 with effect size r = 0.9513, the null hypothesis is rejected. Hence, it concluded that there is an improvement in the test after inflation in market capitalization of BSE and NSE.

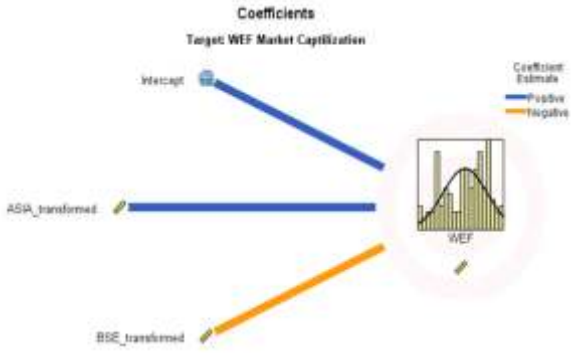

Figure No.1: Coefficient Estimation of WFE Market Capitalization

Coefficients

Target: WEF Market Captilization

Model Term	Coefficient	Std.Error	t	Sig.
Intercept	11,922,334.328	1,001,279.234	11.907	.000
ASIA_transformed	2.967	0.188	15.810	.000
BSE_transformed	-7.237	1.791	-4.040	.000

95% Confidence Interval		Importance
Lower	Upper	
9,941,278.840	13,903,389.815	
2.595	3.338	0.939
-10.781	-3.693	0.061

Figure No.2: Regression analysis of WFE Market Capitalization

Figure No. 1 shows that in the regression equation, estimation of coefficient of Asia region is positive and BSE contributes negative while target of WFE Market Capitalization. It proves in the regression equation of Asia region will increased by 2.967 and BSE will decreased by -7.327 (Figure No.2), with increment of one year.

CONCLUSIONS:

Market Capitalization in both Indian exchanges was more stable during high inflation period than low inflation period with BSE recorded steady than NSE during the high inflation period. There is an improvement in the test before and after inflation in market capitalization of BSE and NSE. In the regression equation, Asia region is positive (2.967) and BSE contributes negative (-7.327) with the increment of a year.

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