

Empirical Relationship of Macroeconomic Variables and Stock Prices : Indian Stock Market and Japanese Stock Market

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Abstract

In the motive of strong democracy and partnerships, India is expected to be act as one of the top three economic powers of the world over the next 10-15 years and has emerged as the fastest growing major economy in the world. A stock exchange acts as a platform for financial instruments like stocks and derivatives were traded. The relationship between macroeconomic variables and stock prices has been an attractive subject for both financial and macro economists for a long period of time. The macroeconomic variables were driven the movement of stock prices. The purpose of this study is to find out the impact of various macroeconomic variables on Indian Stock Market and Japanese Stock market and also relationship exists through the data collected from the period 1st April 2013 to 31st March 2018 by using e-views Software, Descriptive Statics and Correlation which helps investors to consider all relevant source of information for Investment Decision making.

I. Introduction

STOCK MARKET IS the secondary market act as a versatile sector in the economic development in the way of arranging the financial facilities through trading the stocks and other securities. A Stock Exchange is a form of an integral part of any nation. The Indian stock market is one of the oldest stock market in Asia. Bombay Stock Exchange Ltd is Asia's first & greatest Stock Exchange and one of India's leading exchange groups. Over the past 140 years, Bombay Stock Exchange has facilitated the growth of the Indian corporate sector by providing it an efficient capital-raising platform. "Tokyo

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stock market pricing mechanism as well as its return generating process. The study observes that three out of five factors are relatively more significant and likely to influence the long term pricing mechanism of Indian stock market and Japan stock market. These factors are Industrial Production, Inflation, and T.bills. The Indian stock market seems to give little importance to Index of industrial production, Exchange rate and Sensex index related information in pricing mechanism. The Japan Stock market gives such importance to Inflation and Nikkei return. This simply concludes that in long term the Indian stock market is more driven by domestic macroeconomic factors rather than global factors.

The results of this analysis should not be treated as conclusive for an investment. Apart from understanding Indian stock market and Japan Stock market pricing based on the contributions of the significant variables, there remain other important issues that affect the return generating process. These issues are the cost of equity capital, asset valuation, industry analysis, a firm's management and operational efficiency analysis, and so on. Any investor should consider all relevant sources of information when making an investment decision.

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