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Impact of Modi Government on Stock Market Returns

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ABSTRACT

This study is aimed at examining the relationship between Indian election and NIFTY and to examine the usefulness of volatility index as risk management tool for stock market trading. It is found that relationship between NIFTY and election result is strong. The linear association between the election result and NIFTY is statistically significant.

Keywords— Stock Market Closing Price, Volume of Stock Traded, Election Result

1. OBJECTIVE

The objective of this research paper is to analyse the volatility i.e., To Compare the Stock Market Returns Pre and Post occurring of the event. The event taken in this research paper is of 16 May 2014 i.e., The date when the results of Lok Sabha elections were announced and Modi Government came into power.

2. INTRODUCTION

More than a century ago, India's stock market was developed which can easily be oscillated by numerous internal and external factors. Stock Exchange is noted as an essential member of the Capitalist Economic System. The new 20 years of invention have progressed, making both the share trading mechanism and the media increasingly work. The innovation advances expanded exchange movement and the number of financial specialists entering the share trading system. Thanks to the change, media has expanded to the internet, data collection is made faster and in higher volumes across their networks. Stock costs are rising and each time due to changes in the operation of the free market. If more individuals need to buy a specific stock, its market cost would increase. If individuals wish to sell, on the other hand, their cost will fall.

This connection between stock market behaviour is combined with the kind of news reports that are released at a particular minute, which directly affects the market, which can turn a horrible day into a happy one or a bad day into a terrible one, with its effect on stock price. Whether you are an accomplished financial expert or a transient speculator, sporadic surveying of the news features is critical. There may be positive news, negative news or news that market cannot respond to by any means whatsoever. Negative news has more specific effects on stock prices and the supposition of financial professionals than positive news, among other issues. Stock prices react strongly to antagonistic news that it could actually deter ordinary people from having to buy stocks. In addition, the notion of a demand is an integral factor. The scarcest piece of disturbing news is enough to send out a stock tumbling to a large degree negative environment. The link between the news and the market may be extremely inconsistent on the part of the best experts. Negative news typically gives customers stocks to sell. Terrible earnings reports, weak corporate governance, monetary and political instability, and additionally abrupt, grievous incidents would mean offering weight and lowering stock price.

Good news usually can encourage people to purchase stocks. Great revenue reports, improved corporate governance, new items and acquisitions, as well as generally positive financial and political markers, develop into buying weight and stock price growth. We may note that the bid turnover on the nation's stock exchange is all things considered to be 18 percent lower on the day a daily paper strike occurs, but remains unchanged the days before, than after the day of the occurrence.

In addition, the observable value is incredibly solid given the relatively small amount of strike occasions helping to consider the impact of a strike—the coefficient gage is remarkable at the level of 0.1 per cent. The market's volatility is also reduced yet not significantly. The media are promoting the sale of all stocks apart from the unique expansive and adding to the uncertainty of the smallest stocks. One must be alert enough to analyse the news and quickly get a grip on whether it will affect his stocks in any case and if it really does, how much the news will affect the stock market or its stocks.

We took an incident that was an important reason for volatility in the stock market in India. The case is India 2014 Lok Sabha Election. Economic developments continue to have a major influence on the stock market. In many instances, the stock market

fluctuates due to political decisions such as the promulgation of legislation, changes to laws and national elections. In many instances, the stock market fluctuates because of political decisions such as the promulgation of legislation, law changes and national elections.

3. RESEARCH METHODOLOGY

3.1 Data Collection

Secondary data for this study mainly comprises of internal and external secondary data sources like company record, sales data, financial record, published data, computer stored data, syndicated data sources and institutional syndicated data sources. This data helps to get literature review for the study and also support the findings of the study. Other benefits include hypothesis designing, validation and providing a sampling frame.

The Data taken for this research Paper comprises of 500 dates i.e., 1 year before the event and 1 year after the event has taken place. The event occurred on 16 May' 2014 and the data is collected for Nifty50 Index.

The NIFTY 50 is a well diversified 50 stock index which represents important economic sectors. The NIFTY 50 Index represents about 66.8% of the free float market capitalization of NSE-listed stocks as of March 29, 2019. The cumulative traded value of NIFTY 50 index constituents for the last six months ending March 2019 is about 53.4% of the traded value of all NSE stocks.

3.2 Data Analysis

To Analyse our objective, the tools used are Regression, Correlation and Moving Average in Microsoft Excel. We conducted Descriptive Statistics on the data. The results of our study are as follows:

The Results obtained from Correlation between the Pre- Event and Post- Event Stock Prices are:

		Pre event	Post event
Pre event		1	
Post event		0.493481	1

The Results obtained from Correlation between Pre- Event and Post Event Stock Volume Traded is:

		Pre Event	Post Event
Pre Event		1	
Post Event		-0.34046582	1

The Results obtained from Regression between the Pre- Event Stock Prices and Post- Event Stock prices are:

SUMMARY OUTPUT								
<i>Regression Statistics</i>								
Multiple R	0.493481							
R Square	0.243524							
Adjusted R Square	0.240473							
Standard Error	390.4047							
Observations	250							
<i>ANOVA</i>								
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>			
Regression	1	12168231	12168231	79.83575	9.47E-17			
Residual	248	37799125	152415.8					
Total	249	49967356						
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	4425.986	418.8075	10.56807	8.56E-22	3601.113	5250.859	3601.113	5250.859
Close	0.610357	0.06831	8.935085	9.47E-17	0.475815	0.744899	0.475815	0.744899

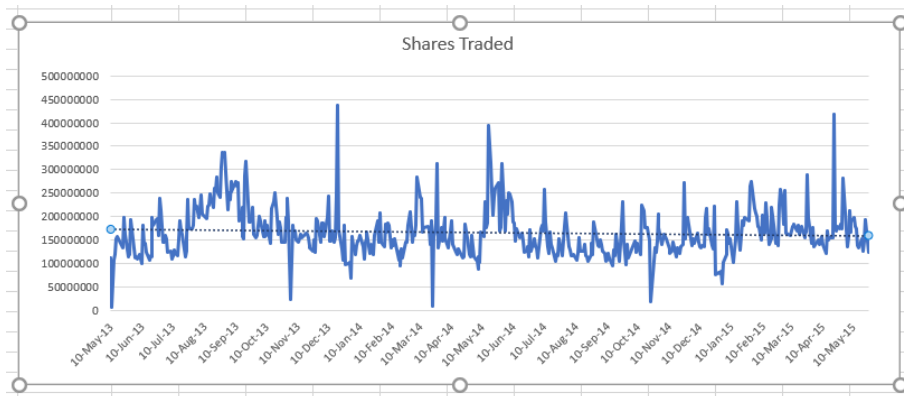
The Results obtained from Regression between Pre- Event and Post- Event stock volume traded are:

SUMMARY OUTPUT									
Regression Statistics									
Multiple R	0.34046582								
R Square	0.115916975								
Adjusted R Square	0.112352124								
Standard Error	46662091.06								
Observations	250								
ANOVA									
		<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>			
Regression		1	7.08001E+16	7.08E+16	32.51664031	3.35E-08			
Residual		248	5.39983E+17	2.18E+15					
Total		249	6.10783E+17						
Coefficients									
		<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept		215913441	9695635.928	22.26914	4.3114909271812E-61	1.97E+08	2.35E+08	1.97E+08	2.35E+08
Shares Traded		-0.3101963	0.054398106	-5.70234	3.34942281424046E-08	-0.41734	-0.20306	-0.41734	-0.20306

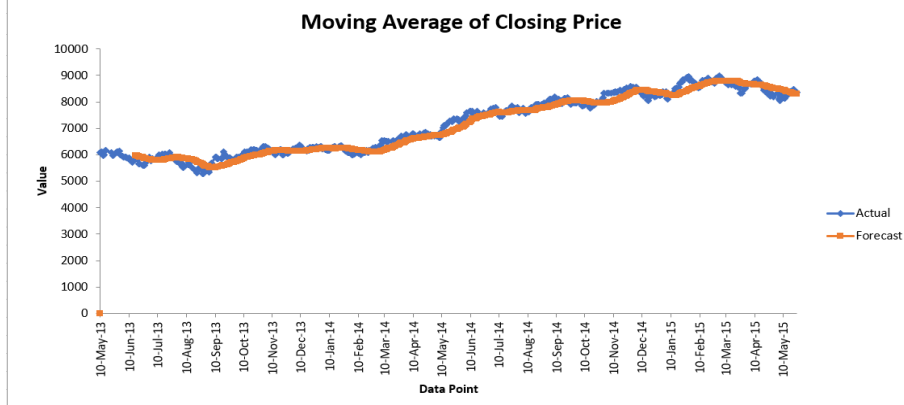
The Graph to show the trendline of overall Stock Prices (both Pre and Post Event) are:



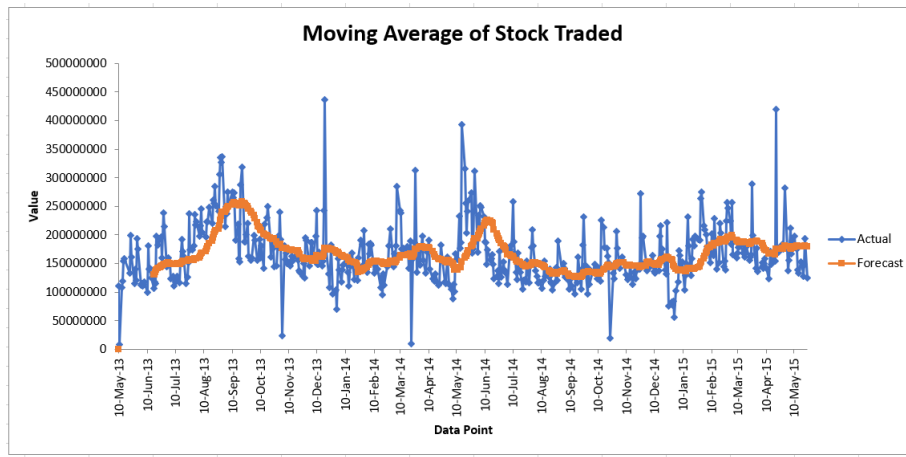
The Graph to show the trendline of overall Stock Volume Traded (both Pre and Post Event) are:



The Results for 25 days Moving Average can be explained by the following graph:



The Results for 25 days Moving Average can be explained by the following graph:



4. INTERPRETATION

First, we would analyse the correlation of the pre event and post event stock prices. The correlation of pre event and post event stock prices is 0.493481 which shows that there is a positive moderate correlation between the pre and post event which basically implies that the post event stock prices are impacted by the event. However, if we observe the stock volume traded the correlation is -0.34046582 which is a negative correlation which basically means that the pre event stock traded volume is not correlated to the post event stock traded volume.

In the analyses done for regression of pre event and post event stock prices, the multiple R Square is 0.493481 which is the correlation, R Square is 0.243524 which implies that the change in the post event can be explained by 24.3524%, basically the post event stock price are impacted by 24.3524% by the event which is the result date of Modi government. Standard error means the standard deviation of our model which is 390.4047 which is a huge number which implies that our model has the limitation of huge standard deviation. The p value of the closing price is 9.47E-17 which basically implies that our confidence interval of 95% since p value is less than 0.05 our model is significant which means that our post event stock prices are impacted by the event and are different from the pre event stock prices. Similarly, the regression analyses done for pre event and post event stock traded volume tell us that the multiple R Square is -0.34046582 which is the correlation, R Square is 0.115916975 which implies that the change in the post event can be explained by 11.591%, basically the post event stock volume are impacted by 11.591% by the event which is the result date of Modi government. Standard error means the standard deviation of our model which is 46662091.06 which is a huge number which implies that our model has the limitation of huge standard deviation.

In trend line, we have taken the entire stock prices(both pre and post event) and we observe a positive upward sloping trend line which basically tells us there is a substantial difference between pre and post event as the event occurred on 16 may 2014 where we can see a rise in stock prices after that event. However, the same analyses cannot be done for stock volume traded since the trend line is constant trend line and it is not an upward sloping trend line which tells that there is no significant difference between the stock traded pre and post event.

Moving averages are a common way for technical traders to begin the process of price analysis. It is often one of the first indicators that traders will add to their charts and will serve as a measure on its own or in comparison with other indicators.

A moving average is the average price of a futures contract or stock over a set period of time. Traders can add just one moving average or have many different time frames on one chart. It is used to understand trends. A trend is simply a price that is continuing to move in a certain direction. Moving average of closing price shows upward trend. It means that closing price is increasing over the time. Moving average of stock traded shows sideways trend. There is no consistent upward or downward trend. Therefore, we can only create a range of the stock traded and cannot identify a specific trend.

5. CONCLUSION

The impact of Modi Government on the stock market could be clearly seen with the help of the Nifty50 index, and we could also see the impact was less on the stock traded started to reshape itself in short span of time (says in a week). So, it can be concluded from the observations that the market was very volatile in the initial stage of announcement of election 2014. So, we clearly observed that the election results have a huge impact on the stock market prices.

6. REFERENCES

[1] www.nseindia.com