

A PRAGMATIC INVESTIGATION ON INDEX FUTURES TRADING AND VOLATILITY IN INDIAN SPOT MARKET

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ABSTRACT

In India, Derivatives trading commenced since June 2000 with the introduction of Stock Index Futures by BSE and NSE. Futures and Options are hedging instruments. This paper provides a theoretical background to and pragmatic confirmations of the impact of Index futures on the spot market volatility. This paper is based on closing price returns as well. The sample data comprise of daily opening and closing price returns of S&P CNX Nifty and S&P Nifty Index futures from June 1997 to June 2012.

Previous studies have used different time series techniques like Event Study, IGARCH, ECM, OLS, etc. to access the impact of derivatives on the spot market volatility. The present study uses family of GARCH techniques to confine the time varying nature of volatility and the effect of Index Futures on Spot market in India. The pragmatic evidence suggests that Index futures reduced the volatility of the spot market and the structure of the volatility has been changed to some amount.

Jel Classification: Derivatives, Index Futures, ARCH, GARCH, Volatility.

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