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Call Auction and Market Quality: Evidence from Bombay Stock Exchange

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The Securities and Exchange Board of India (SEBI) introduced opening call auction (CA) on October 18, 2010 to S&P BSE Sensex stocks. The objectives of CA are to increase price discovery in the opening session, minimize the opening volatility, and to reflect the overnight market-related information on the prices. In this study, we empirically examine the impact of opening CA on the market quality of Bombay Stock Exchange (BSE). We use an event study methodology that was modified by Cohen, et al. (1983a) to study the effect of CA. We use two years' data, one year pre- and one year post-event period. Adjusted R Square is used to measure price discovery and First Pass Beta to test the liquidity of the securities. We use the Second Pass Beta estimators to measure the intervalling effect of the securities and the market friction. The empirical results demonstrate that opening CA does not improve price discovery. Further, the opening CA adversely impacts the intervalling effect in the market and increases market friction.

Income Diversification and Earnings' Volatility: Experience of the Indian Banking Sector

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The Indian banking sector has undergone sea changes over the years. Many of these changes are consequences of the irreversible process of liberalisation, globalisation and privatisation. Banks in India, to a large extent, have become functionally dynamic and operationally efficient. One of the important developments one can witness in the sector is the growing scale of diversification of revenue-earning sources. Income diversification is expected to usher in positive results by way of reduced risks and increased returns. Against the backdrop of existing literature, which renders diverse views about the diversification benefits, the present study examines the manner in which income diversification reduces the earnings' volatility and improves returns of the banks in India. The results indicate that non-interest income bears greater potential to stabilize earnings as compared to interest-earning sources. At the

same time, income diversification is also found to be positively correlated with returns and also have a significant positive impact on all types of returns.

IS/IT Success Factors in Financial Services Sector in India: A Process Model Perspective

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The purpose of the study is to apply DeLone and McLean Information System (IS) success model in the Indian context to evaluate information technology (IT) investment success in financial services sector. We identify the various dimensions and constructs of IS in financial services' industry and develop a model for evaluating information system success using DeLone and McLean-modified IS success model (2003). The scales for measuring user's perception on infrastructure quality, information quality, system quality, user satisfaction and net benefits of information system are developed. The perception of internal users of information system / information technology (IS/IT) in financial services' sector constitutes the basic data for the study.

The main contributions of the study are: A new 'Financial Services Information System Success Model' framework is proposed for information system evaluation in the financial services' sector and a valid itemised rating scale to measure information system constructs and performance has been developed for use by banking and non-banking companies. This implies that the evaluation of IS/IT success in banking industry can be conceptualized as a six-dimension structure, as per the perception of the internal users.

Taper Talk Impact on the Rupee: Preconditions for the Success of an Interest Rate Defence of the Exchange Rate

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The Reserve Bank of India (RBI) used exceptional monetary measures to address the taper tantrum-induced exchange market pressure on the rupee in the third quarter of 2013. This paper provides theoretical and empirical justifications for using the monetary policy to defend the exchange rate under exceptional circumstances, and also outlines certain preconditions which may determine the success of such a policy response. The empirical hypothesis on the effectiveness of an interest rate defence has been examined using four alternative approaches: first, the conventional monetary approach to exchange rate; second, uncovered interest rate parity (UIP) condition in the presence of time-varying risk premium; third, impact assessment in a vector auto regression (VAR) framework; and fourth, a comparative quantitative assessment of the costs associated with depreciation of the rupee relative to a higher interest rate for the Indian corporate sector in a panel regression

framework. The scope for different policy inferences that could be derived from the results of alternative approaches highlight the need for a careful assessment of preconditions while designing and applying monetary measures to stabilise the exchange rate.

Book Review

Saving the City: The Great Financial Crisis of 1914

Richard Roberts

United Kingdom, Oxford University Press, 2013, xvii + 301, pp Rs 1295.

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