Price Efficiency of Stock and Index Futures in India

- Vipul

This paper explores the pricing efficiency of the nascent financial derivatives market in India. The expected price under 'no arbitrage' proposition is compared with the actual prices of futures contracts. Numerous arbitrage opportunities in the index and stock futures are found after accounting for the transaction costs for a typical financial institution or a member of stock exchange. The mispricing persists for at least one working day and gets exacerbated by a longer time to expiry. 'Time to expiry' has an amplifying effect on the mispricing but the constant factor does not change with an under or overpricing in futures. Restrictions on short selling in the cash market plausibly manifest as a negative drag on the pricing of futures. Rising market appears to depress the futures prices mildly but its effect becomes insignificant after the effects of persistence and days to expiry are accounted for. The findings have obvious implications for arbitrageurs in the futures markets.

An Empirical Investigation of Causality and Dynamic Linkages : A Case of Indian and American Equity Markets

- Khan Masood Ahmad, Shahid Ashraf, Shahid Ahmed

This paper attempts to detect the causal relationship and dynamic linkages between the Nasdaq Composite Index in US and the NSE Nifty in India during the period of 1999 to 2004 using intra-daily data. The study carries out a comprehensive analysis using Granger causality, cross-correlation and the application of ARCH and VAR to examine the co- movement and volatility transmission between Indian and US markets. The main findings of the study are as follows : the Granger causality results indicate unidirectional causality running from US to Indian market, however, the causal relationship is stronger during 1999 to 2001 and weakens in the period 2002-2004. The cross-correlation results substantiate the Granger causality test. The ARCH model gives evidence of volatility clustering in each series. The VAR analysis shows the spillover of volatility from Nasdaq to Nifty being significant during 1999 to 2001 while it is not so for the 2002-2004 period.

Brief Articles, Notes and Comments

Book Reviews

Booknotes