NATIONAL AND INTERNATIONAL FACTORS AFFECTING TO STOCK PRICES

Dr. Rajeshkumar P. Chetiwal
Assistant Professor,
Head, Department of Commerce,
Arts and Commerce College,
Satara

***Abstract**: This study aims to investigate the effect of some factors on market stock price such as exchange rate, Politics, Natural disasters, Economic numbers, Industry performance etc. The present study is instrumental in identifying the main determinants affecting share prices in the Indian financial market. This suggests that investors can make optimum investment decisions and be assured fair returns if they consider these determinants which have evolved to be the significant contributors to the market price of shares in India.*

***Keywords:** market price of shares, fixed effect and random effect, determinants*

Introduction:

Stock markets always play a crucial role in the growth and stability of a country's economy. The development of the stock market encourages capital accumulation, efficient use of resources and promotion of economic growth. The rise of stock market can increase opportunities for investment and expansion for industries, thus creating more jobs and increasing the purchasing capacity of the people. On the other hand, stock market crashes throughout history have caused economic slowdowns, recessions, unemployment, curbed consumer spending etc. In basic terms, when people choose to invest their savings into the stock market instead of keeping the money at home, the funds become an active part of the economy as they become available to industries for use in productive purposes. The following factors are affecting to stock prices.

Government Policies:

Economy and business are largely affected by Government policies. The Government has to implement new policies in regard to the economic condition of the country. Any new change in policy can be profitable for the economy or tighten the grip around. This creates a possibility of the stock market being affected due to any change or introduction of the new policy by the Government. For instance, the increase in corporate taxes impacts the industry severely as their profits will take a hit and at the same time the stock price will fall.

Monetary Policy of RBI and Regulatory Policies of SEBI:

If RBI raises the key rates it reduces the liquidity in the banks. This makes borrowing costlier for them and in turn, they increase the lending rates. Ultimately, this makes borrowing highly expensive for the business community and may find it difficult to service their debt obligations. Similarly, any changes in trading and investment policies done by the

Securities Exchange Board of India (SEBI) who keeps an eye on the entire stock market activities impacts the performance of the shares of the listed companies on the stock exchanges (NSE, BSE).

Exchange Rates:

The exchange rates of Indian Rupee keep fluctuating as compare with other currencies. When the rupee hardens in respect to other currencies it causes Indian goods to become expensive in foreign markets, Companies that are highly affected are the ones involved in overseas operations. Companies dependent on exports experience a drop in demand for their goods abroad. Thus, revenue from exports decline and stock prices of such companies in the home country fall. On the other hand, softening of rupee with other currencies results in opposite effect, in this, the stock price of exporters rises whereas, that of importer drops.

Interest Rate and Inflation:

Whenever the interest rates go up, banks raise the lending rates which increases the cost for corporate and individuals alike. The rising cost will tend to create an impact on the profit levels of the business affecting the stock prices of the company. Inflation is a surge in the pricing of goods and services over a period of time. High inflation discourages investment and long-term economic growth. The listed companies in the stock market may postpone their investment and halt production, leading to negative economic growth. The fall in the value of money could also lead to a fall in the value of savings. The stocks of luxurious companies also tend to suffer as nobody will want to invest in them. This not only adversely affects one's purchasing power but also the investing power.

Foreign Institutional Investors and Domestic Institutional Investors:

FIIs and DIIs activities highly impact the stock market. As they have a prominent role in the stocks of the company, their entry or exit will create a huge impact on the equity market and will influence the stock prices.

Politics:

Factors like election, budget, government intervention, and other factors have a huge impact on the economy and the financial markets. The political events and budget announcements create tremendous levels of volatility in the market influencing the stock market deeply.

Natural Disasters:

Natural disasters hamper the lives and the market equally. It impacts the company's performance and the capacity of people to spend the money. This will lead to lower levels of consumption, lower sales and revenues ultimately hitting the company's stock performance.

Economic Numbers:

Various economic indicators affect the overall economy, ultimately creating an impact on the financial market. The movement of oil prices and GDP have a huge impact on the stock market. A country that is dependent on imported oil, any price change is likely to impact the economy. The movement of oil prices is one of the key determinants of the stock market. As and when the prices rise, the expenses will increase and will lower the buyers' ability to invest in the market. Similarly, Gross Domestic Product (GDP) looks at the aspect of total economic production of the country and its overall economic health. It helps to showcase the economic developments and the future direction of the market. A healthy GDP status will create a positive impact on financial markets and investment.

Gold Prices and Bonds:

There is no established theory that expresses the relationship between stock price and gold & Bonds. Usually, stocks are considered a risky investment whereas gold & bonds are considered as a safe investment havens. So at the time of any major crisis in the economy, investor prefers to invest in safe instruments. As a result, gold and bond prices increase while the stock price tumbles.

Industry performance:

The stock price of the companies in the same industry will move in tandem with each other. This is because market conditions generally affect the companies in the same industry the same way. But sometimes, the stock price of a company will benefit from a piece of bad news for its competitor if the companies are competing for the same market.

Investor sentiment:

Investor sentiment or confidence can cause the market to go up or down, which can cause stock prices to rise or fall. The general direction that the stock market takes can affect the value of a stock:

bull market – a strong stock market where stock prices are rising and investor confidence is growing. It's often tied to economic recovery or an economic boom, as well as investor optimism.

bear market – a weak market where stock prices are falling and investor confidence is fading. It often happens when an economy is in recession and unemployment is high, with rising prices.

Economic outlook:

If it looks like the economy is going to expand, stock prices may rise. Investors may buy more stocks thinking they will see future profits and higher stock prices. If the economic outlook is uncertain, investors may reduce their buying or start selling.

Economic and political shocks:

Changes around the world can affect both the economy and stock prices. For example, a rise in energy costs can lead to lower sales, lower profits and lower stock prices. An act of terrorism can also lead to a downturn in economic activity and a fall in stock prices.

Changes in economic policy:

If a new government comes into power, it may decide to make new policies. Sometimes these changes can be seen as good for business, and sometimes not. They may lead to changes in inflation and interest rates, which in turn may affect stock prices.

Supply and demand:

If a company is doing well and everyone wants to buy shares of the same company, there will be a shortage of shares, leading to the shooting up of the stock price of the company. And the opposite happens if there are too many shares available, but no one wants to buy them. The stock price will plummet in that case.

Current events:

News and other current events also affect the stock market. **Current events that affect the stock market** include any political turmoil, civil war or riots, or terrorist attacks. All these events are bound to make stock prices go down drastically and affect the market volatility.

Natural calamities:

Calamities like earthquakes and floods drastically reduce the stock market price. This happens due to many reasons, like destruction of property and other assets. This causes companies to incur heavy losses which lead to falling of stock prices. Company sales are affected due to a breakdown of manufacturing and transport of goods. Therefore, when natural disasters occur, stock prices are bound to fall.

News:

The political situation, negotiations between countries or companies, product breakthroughs, mergers and acquisitions and other unforeseen events can impact stocks and the stock market. Securities trading happen across the world and markets and economies are interconnected, news in one country can impact investors in another, almost instantly.

Conclusion:

The aim of this study was to identify factors affecting stock pricing and define which of the most important factors have a powerful effect on the firm stock price. Stock prices of the company may rise or fall due to different factors. Ideally, the investor should have a solid allocation strategy in place after a thorough understanding of the above factors. It will ensure that the investor makes the right investment decision and generate magnificent returns in the long-run. Many factors can cause the price of a stock to rise or fall-from specific news about a company's earning, to a change in how investor feel about the stock market in general

References:

- Barber. M.B, Hath. C. &Odean. T.," Good Reasons to Sell: Reason based Choice among Group and Individual Investor in Stock Market", Management Science, Vol. 49 (12), (2003)
- ParthsarathySrikanth, "Price and Volume Effects Associated with Index Additions: Evidence from Indian Stock Market", Asian Journal of Finance and Accountancy, Vol. 2 No.2, (2011)
- Shaikh and Kalkundrikar, "Impact on Demographic Factors on Retail Investors Investment Decisions – An Exploratory Study". Indian Journal of Finance, 5(9), (2011)
- VijayaMarisetty and Vedpuriswar, "Corporate Governance and Market Reactions", National Stock Exchange of India Limited Grant (2003).
- https://www.karvyonline.com/knowledge-center/intermediate/factors-affecting-share-prices-in-india
- https://www.5paisa.com/articles/9-factors-affecting-indian-stock-market
- https://www.adityabirlacapital.com/abc-of-money/factors-affecting-stock-market
- https://www.mymoneysage.in/blog/6-factors-that-affect-stock-prices-in-india/
- https://indiacsr.in/what-factors-are-affecting-the-indian-stock-market/
- https://www.edelweiss.in/investology/introduction-to-stock-markets-51c006/how-stock-prices-change-52166b
- https://www.angelbroking.com/knowledge-center/share-market/factors-affecting-share-prices