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Influence Of Changes Of FDI And FII Flows On Indian Stock Market

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ABSTRACT

The inflow of Foreign Direct Investment and Foreign Institutional Investors has become a strong impression of economic development in both developing and developed countries. The research paper found that values of all variables were higher than 5; it clearly indicates that the variables were non-normal found out by using the Jarque-Bera test. The study exclaimed that there is unidirectional relationship between FDI returns and the nifty returns found out by granger causality test and it explains that FDI helps to predict Nifty returns. Policy makers can make economic enhancing and growth possible based on the research made on economic performance.

Keywords: Foreign Direct Investment, Economic policy, Foreign, Cointegration and Causality

JEL Classification: O24, E6, E22, F21, R53

1. Introduction

In the emerging economy, "Globalization is the most frequently used word, which means different things to different people" (McKibbin, W. J. 2000). "Globalization is an outstanding feature for financial services industry which increases non-local investors in several major stock markets in the world. In the context of true economy, globalization refers to the increased openness of an economy to the international trade, capital flow (both portfolio and foreign direct investment FDI), transfer of technology and free movement of labour" (Bende-Nabende, A. 2017). Since 1991, Indian economy is incorporated with the global economy and initiated wholly structural reforms in India. Indian economy has been free to foreign investments especially import of technology from developed and developing countries.

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Globalization gives boost to foreign capital inflow in the type of portfolio investment and foreign direct investment which appreciates the flow of foreign exchange in India and help the country to meet out the problems of balance of payment. The problem of deficit in the country can be reduced with the possible arrival of foreign direct investment. The role of foreign direct investment is more important than portfolio foreign investment (otherwise called as FII) why because it actually increases the amount of real investment in the Indian economy and helps to achieve a faster rate of economy growth. Foreign direct investment and foreign portfolio investment reduce debt flow and play as chief source of external resources. Portfolio foreign investment refers to the foreign firms, foreign investment investors and NRIs, who invest in the equity bonds and securities of Indian firms.

Foreign investors generally seek for availability of production resource, efficiency of productivity, low labour cost, skilled labour, and market size and market growth. Foreign direct investment can be treated as an effective tool so to say the mechanism or the technology in the production streamline is disseminated in the global economy. Good quality in FDI can also enable the transfer of best practices in corporate governance, accounting rules and legal traditions across border. In the process of economy development, foreign direct investment helps to cover the domestic saving constraint and provides better access to the superior technology that promotes efficiency and productivity of existing production capacity and generates new production opportunity. The developing countries have opened their capital market to foreign investors due to their inflationary pressures and enlarging current account deficit and exchange depreciation, increase in foreign debt (Bansal and Parricha, 2009). If foreign investment increases or decreases, it reflects the volatility of stock price while demonstration effects indicate whether the fundamental factors on stock market would change (Ki and Yi, 2006). After 1991 Stock market has got spectacular development. Enormous growth was attained from 1991 to 1996. The capital flows have started a transition from industrial countries to developing countries.

India is one of the most favorable countries in the list of developing countries which attracts the global investment and this picture is truly reflected in the FII registered in SEBI. According to global development finance report, FII flow nearly 70 percent investment in India, whereas in Brazil and China the percentage was 26 and 30 respectively. India is one of the best performing markets in the global emerging markets. Net investment by FIIs and trend in the international stock exchange are the two important factors which contributed a significant behavior in the stock prices.

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In the recent decades, FDI and FII have played a pivotal role in the economic growth and stock market development. After liberalization in India, FDI and FII have been the crucial variables to determine the economic growth and the capital flows that exhibit the healthy financial position of the country. Emerging markets have been the leaders in the globe and have grown in the high rate of getting benefit from FDI. In stock market, fluctuation of FDI flow causes the changes in the stock prices.

In this paper an effort is put forth to examine the strong impulse of FDI and FII flows in the Indian stock market by using the data collected from the source www.rbi.org, www.bse.com and www.nse.com from the period April 1st 2009 to March 31st 2019. This research work found that FDI has a positive conversely relationship with BSE whereas FII has a negative relationship with BSE; FII and FDI has a strong negative relationship with Nifty. The study found out that the coefficient of FDI 0.008413 and FII 0.000596 have low effects but positively influenced on BSE Sensex returns. Thus, in stock market, fluctuation of FDI flow causes the changes in the stock prices.

2. Review of Literature

S. Baranidharan, N. Dhivya, A. Alex (2019) made a study on "Causal Linkages and Impact of Finance Companies and Stock Price on BSE FINANCE and BSE SENSEX". Descriptive statistics, Correlation, Regression and Granger Causal test were the tools used for the study. The data from the 2nd April 2014 to 30 August 2019 were taken for the study. The study found that whenever there was a movement in the BSE SENSEX and BSE FINANCE stock prices would have an impact in the Finance companies. They are AB Capital Ltd, Bajaj Finserv Ltd, Capri Global Capital Ltd, IIFL Finance Ltd, JSW Holdings Ltd and JM Finance Ltd.

Dr.S.Baranidharan, N.Dhivya (2018) made a study entitled as "Causal Relationship and Volatility of BSE Index with special references to Indian Stock Market". They found that there would be a bidirectional relationship existing between the BSE SENSEX, BSE AUTOEX, BSE CORBANEX and BSE GREENEX. It also explored that the integration and price movements of BSE Indices have been examined through the tools such as Johansen Co-integration and Granger Causality test for the period of 2010-2018. Through Unrestricted Co-integration test, the study observed that there is a long run relationship and also the price movement of BSE affects the other Indices**.**

S. Baranidharan, A.Alex, N. Dhivya (2019) studied on "integration and volatility spillover of automobile companies' stock price on BSE SENSEX and BSE AUTO Index".

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The study resulted there was a highly significant impact by the stock price movement of BSE SENSEX and BSE AUTO on the volatility of stock prices on APOLLO TYRES, ASHOK LEYLAND, BAJAJ AUTO, MARUTI SUZUKI, MOTHER SUMI and MRF.

Reena (2018) attempted a study on relation between FDI and Indian stock market. She made a special reference to Sensex by collecting the data from the 2001 to 2015. The study resulted that Stock of Indian stock market has drastic impact by the FDI. Hence the study came to a conclusion that there was a natural correlation between FDI and Sensex.

Tanu Aggarwal & Priya Solomon (2017) made a study on "Trends and Patterns of FDI and FII in India". The research analyzed the triple relation and impact of FDI, FII and BSE Sensex. It concluded that there was a positive but strong correlation between FDI and Sensex and weak but negative correlation between FII and Sensex. The study decided by the Multiple Regressions test that there was no impact of FII and FDI on BSE Sensex.

"Effects of Foreign Direct Investment (FDI) in the Indian Economy" a research article by **Sourangsu Banerji (2013)** revealedthe effects of foreign direct investment on Indian economy. The informatics study of FDI would intensify to secure foreign infrastructure and increasing capital in India. FDI has both positive and negative effects but FDI is influencing the development and growth of economy.

"Foreign Capital Flow and Indian Capital Market: An Appraisal" by **Pooja Singh, (2013)**, investigated the role of foreign capital pattern and trends in Indian capital market. It is found that FDI and FIIs help in increasing the growth and provide gigantic opportunity to Indian economy. The results concluded that there was a strong and positive effect of FDI and FII on Sensex and Nifty.

Sanjay Nandal (2013) made a study on "the impact Analysis of FDI on Retail Industry in India". They examined the impact of FDI on Indian Retail sectors. This study helped how to reduce wastage and encourage growth in employment as well as export and GDP. It concluded that FDI as a double-edged sword which would not handle both side but Indian economy could act as a panacea for all economies.

3. Objectives of the study

- To examine the impact of FDI and FII in Indian stock market
- To test the correlation between FDI and FII in Indian stock market
- To analyse the long-run relationship between FDI and FII in Indian stock market

4. Hypotheses of the study

4.1 Null Hypothesis

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- ✓ There is no impact of FDI and FII in Indian stock market
- ✓ There is no correlation between FDI and FII in Indian stock market
- ✓ There is no long-run relationship between FDI and FII in Indian stock market

4.1 Alternate Hypothesis

- ✓ There is an impact of FDI and FII in Indian stock market
- ✓ There is a correlation between FDI and FII in Indian stock market
- ✓ There is a long-run relationship between FDI and FII in Indian stock market

5. Research Methodology

5.1 Statement of the problem

Fear of losing short-term gains rather than long-term advantages, Terrorists' attacks, international policies from different countries, natural calamities, power of compounding and the lack of saving made investors hesitate to invest in stock markets. The purpose of the study is to help the investors what best can they do if at all they would like to invest. It also helps the investors to establish a better strategy for investment decision-making.

5.2 Period of the Study

The period of the study is ten years from April 1st 2009 to March 31st 2019. This study is based on the availability of data.

5.3 Sources and collection of data

The study is using mainly secondary data. Information is obtained from www.rbi.org, www.bse.com and www.nse.com.

5.4 Selection of the Sample

The present study reveals the time data series which is obtained from vital sources i.e. BSE and NSE official websites and RBI Handbook of statistics on Indian economy. The data is in use from BSE Sensex and NSE nifty fifty, which serves as deputy for Indian stock market indices. Hence, it is probably impossible to incorporate very ado position with respect to manifest the stock market behavior and limit to select the macroeconomic variables namely, foreign direct investment and foreign institutional investors. The selected variables for this study depend on the existing theoretical considerations and the empirical evidences.

5.5 Tools used for analysis

Statistical Methods for Data Analysis

This study reveals the relationship between the return on stock market and the chosen key macro-economic variables. Time series data analysis and OLS regression may provide bogus regression if the data is not stationary. Histogram test is used to test the normality. Co-

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integration test is for analyzing the long-run relationship among the variables. Serial correlation test is know whether presence of serial correlation is between the variables or not and CUSUM test is used to test stability of coefficient.

5.6 Analysis and Interpretation

5.6.1 Descriptive statistics

Table 1: Descriptive Statistics for impact of FDI and FII on Indian stock market

	BSE Returns	FDI Returns	FII Returns	Nifty Returns
Mean	0.029872	0.258455	-7.48158	0.014047
Median	-0.020536	0.010677	-0.454427	0.022477
Maximum	1.143106	8.795737	14.56516	0.325784
Minimum	-0.35554	-0.807418	-682.0324	-0.270934
Std. Dev.	0.233999	1.165544	68.89964	0.076639
Skewness	1.953906	4.721515	-9.722525	-0.122918
Kurtosis	8.658706	32.24716	95.6918	7.488872
Jarque-Bera	193.1088	3856.983	36627.01	82.52584

Sources: www.rbi.org, www.bse.com and www.nse.com computed from Eviews 7.

Interpretation

Table 1 represents the descriptive statistics; the mean returns of FDI at 0.258455, BSE at 0.029872 and Nifty at 0.014047 recorded positively and mean return of FII at -7.48158 recorded negatively. FII at 68.89964 recorded a high standard deviation, it denoted that a high risk compared to rest of variables. FII at -9.722525 recorded negatively skewed except for three variables which were positively skewed. The values of Kurtosis of BSE returns at 8.658706, FDI returns at 32.24716, FII returns at 95.6918 and Nifty returns at 7.488872 were higher than value 3 which indicates that leptokurtic and symmetric curve were at peak. The Jarque-Bera test explains that values of all variables were higher than 5; it clearly indicates that the variables were non-normal.

5.6.2 Correlation

Table 2: Correlation for FDI and FII on Indian stock market

	BSE Returns	FDI Returns	FII Returns	NIFTY Returns
BSE Returns	1			
FDI Returns	0.023125	1		

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FII Returns	-0.199511	-0.016887	1	
NIFTY Returns	0.261117	-0.115122	-0.008967	1

Sources: www.rbi.org, www.bse.com and www.nse.com computed from Eviews 7.

Interpretation

Table 2 on the above shows the correlation results; FDI and BSE at 0.023125 and BSE and Nifty at 0.261117 have significant positively correlated; FII and BSE at -0.199511, FDI and Nifty at-0.115122 and FII and Nifty at -0.008967 have recorded negatively correlated. FDI has a positive conversely relationship with BSE. In other hand, FII has a negative relationship with BSE; FII and FDI have a strong negative relationship with Nifty during the study period.

5.6.3 Unit root test

Table 3: Unit Root Test for the study of Influence of changes of FDI and FII flows on Indian Stock Market.

	Unit Root Test		Test critical values:		
Variables	Augmented Dickey-Fuller test statistic	Phillips-Perron test statistic	1% level	5% level	10% level
BSE returns	-9.22016***	-9.1963***	-3.499167	-2.89155	-2.582846
FDI Returns	-12.4233***	-12.8203***	-3.499167	-2.89155	-2.582846
FII Returns	-9.86485***	-9.86485***	-3.499167	-2.89155	-2.582846
Nifty Returns	-8.82553***	-8.80112***	-3.499167	-2.89155	-2.582846

Sources: www.rbi.org, www.bse.com and www.nse.com computed from Eviews 7.

*** represent significant level of 0.01(1%). **represent significant of 0.05(5%). ADF and PP tests represents for stationary at level difference

Interpretation

The ADF and PP test applied for checking the stationary at the level of time series; they exhibit stationary level without taking or considering concept and trend. The analysis of long- run relationship between stock market and macro-economic variables preconceives that data must be stationary at same level. Therefore, all the time series data are incorporated of

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order one I (0) and all the variables were stationary at same significant level 0.01 (1%) in both the tests.

5.6.4 OLS Analysis

Table 4: OLS Estimation Results of FDI, FII and BSE returns

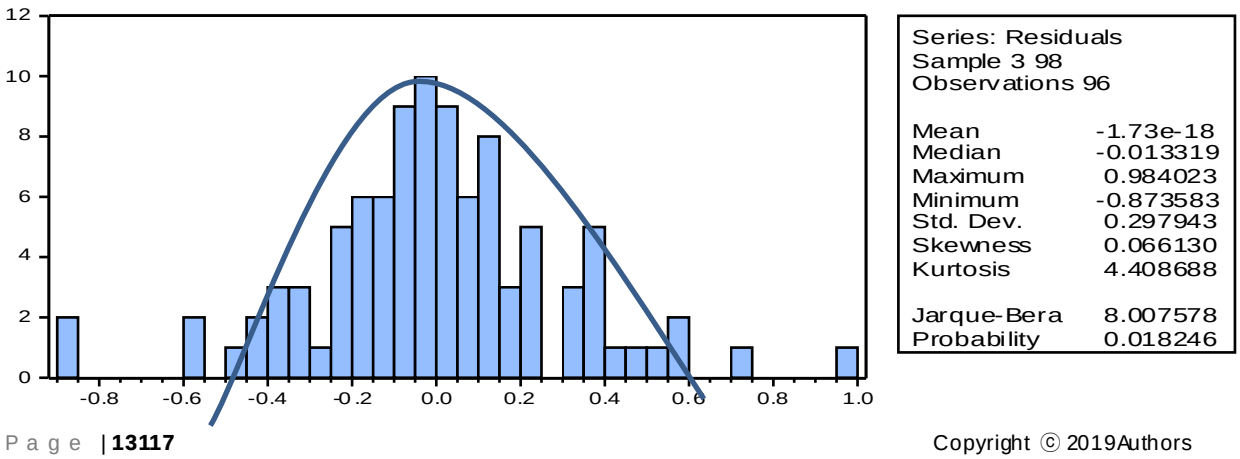
Dependent Variable: D (BSE Returns)				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-4.61E-05	0.033685	-0.00137	0.9989
D(BSE Returns(-1))	-0.37428	0.099182	-3.77365	0.0003
D(FDI Returns(-1))	-1.42E-02	0.02752	-0.51545	0.6075
D(FII Returns(-1))	-0.00023	0.000456	-0.49387	0.6226
FDI Returns(-1)	0.008413	0.043255	0.19449	0.8462
FII Returns(-1)	0.000596	0.000642	0.927846	0.356
R-squared	0.158614	F-statistic	3.393268	
Adjusted R-squared	0.11187	Prob(F-statistic)	0.007448	
Durbin-Watson stat	2.307403			

Sources: www.rbi.org, www.bse.com and www.nse.com computed from Eviews 7.

Interpretation

Table 4 represents the results of regression; above table clearly exhibits that Adjusted R-square value 0.11187 is bit lower than the R-Square value 0.158614 which indicates that it is more accurate; and results explain a better model performance. An Adjusted R-Square value of 0.11187 would denote that model explains approximately at 11% of the variation in the BSE returns. FDI and FII would influence 11% on BSE Sensex returns. The values of coefficient of FDI 0.008413 and FII 0.000596 have low effects but have positively influenced on BSE Sensex returns.

Fig. 1 Histogram - Normality



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Sources: www.rbi.org, www.bse.com and www.nse.com computed from Eviews 7.

Interpretation

Normality test was adopted to examine whether the data is modeled appropriately by a normal distribution or not. The Figure 1 represented that symmetric curve which indicates that all the variables were normally distributed; and Jarque-Bera stat. value 8.007578 is higher than 5; thus there is an enough proof to conclude that the data of variables were in the position of normality.

5.6.5 Johansson Co-integration Test

Table 5: Johansson Cointegration Test for FDI and FII on Indian stock market

BSE returns, Nifty returns, FDI returns and FII returns	H_o	Trace Statistic	Critical Value (5%)	Max-Eigen Statistic	Critical Value (5%)	Prob.**	**Remark**
	R = 0	126.3296	47.85613	44.0306	27.58434	0.0002	Co-integrated
	$R \leq 1$	82.29901	29.79707	34.581	21.13162	0.0004	Co-integrated
	$R \leq 2$	47.71801	15.49471	27.43407	14.2646	0.0003	Co-integrated
	$R \leq 3$	20.28394	3.841466	20.28394	3.841466	0	Co-integrated
Trace test indicates 4 co-integrating eqn(s) at the 0.05 level * denotes rejection of the hypothesis at the 0.05 level **MacKinnon-Haug-Michelis (1999) p-values							

Sources: www.rbi.org, www.bse.com and www.nse.com computed from Eviews 7.

Interpretation

Johansson co-integration test is functioned to determine whether the linear combination of the time series seizes a long-run equilibrium relation or not. Table 5 reveals the results that both trace and Max-Eigen values were higher than critical value at 5 % significant level. The results stated that there is a long-run relationship among FDI, FII, BSE returns and nifty returns.

5.6.6. Diagnostic test

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Table 6: Diagnostic Test to analyse the influence of changes of FDI and FII flows on Indian Stock Market

Breusch-Godfrey Serial Correlation LM Test:			
F-statistic	19.40668	Prob. F(1,89)	0.0001
Obs*R-squared	17.18567	Prob. Chi-Square(1)	0
Heteroscedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	0.915596	Prob. F(5,90)	0.4747
Obs*R-squared	4.646814	Prob. Chi-Square(5)	0.4605

Sources: www.rbi.org, www.bse.com and www.nse.com computed from Eviews 7.

Interpretation

The Diagnostic test is to test the residuals in the long-run. The results presented in the table 6 which clearly exhibited that serial correlation of P-value of F-stat 0.0001 was less than significant level at 1% (0.01); it indicates that there was a serial correlation; the Breusch-Godfrey with the null hypothesis of no serial correlation is rejected. The results of Heteroscedasticity test reveal since the P-value of F-stat 0.4747 was higher than the significant level 5% (0.05) it indicates that there was an absence of the Heteroscedasticity problem.

5.6.7 Stability Test

Fig 2: CUSUM Curve

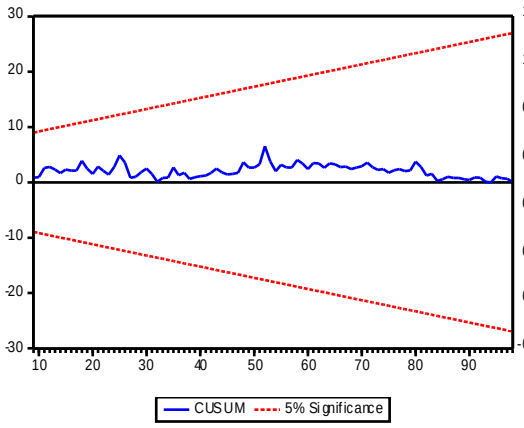
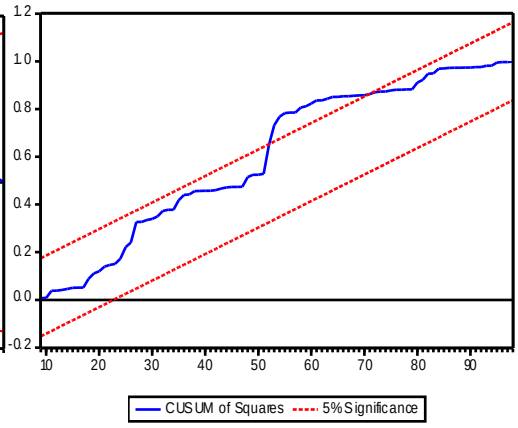


Figure 3: CUSUMSQ Curve



Sources: www.rbi.org, www.bse.com and www.nse.com computed from Eviews 7

Interpretation

"The Cumulative sum of recursive residuals (CUSUM) and CUSUM of square (CUSUMSQ) tests applied to test the parameter of stability" (Ravinthirakumaran et al., 2015). Both the plots clearly revealed that the statistics line fell within the serious limits at 5

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percent significant level and rejected the null hypothesis. Hence, these statistic plots confirm that there was a stability in the long-run coefficient of regressors.

Table 7: OLS Estimation Results of FDI, FII and Nifty returns

Dependent Variable: D(NIFTY Returns)				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.00383	0.01035	-0.3704	0.712
D(NIFTY Returns(-1))	-0.35864	0.097841	-3.66551	0.0004
D(FDI Returns(-1))	0.005185	0.0087	0.596006	0.5527
D(FII Returns(-1))	-0.00012	0.000139	-0.88977	0.376
FDI Returns(-1)	0.011429	0.013322	0.857908	0.3932
FII Returns(-1)	-7.97E-06	0.000198	-0.04022	0.968
R-squared	0.222696	F-statistic	5.156971	
Adjusted R-squared	0.179513	Prob(F-statistic)	0.000332	
Durbin-Watson stat	2.376623			

Sources: www.rbi.org, www.bse.com and www.nse.com computed from Eviews 7.

Interpretation

The above Table 7 represents the results of OLS regression. The results expound that R-Square at 0.222696 is bit higher than the Adjusted R-Square at 0.179513; it represents a more accurate and better model performance. An Adjusted R-Square at 0.179513 explains that approximately 17% of variation in the Nifty returns i.e., FDI and FII had 17% impact on Nifty returns. The coefficient of FDI at 0.011429 had low effects and a positive impact on Nifty returns. FII at -7.97E-06 had high negative effects and a negative impact on Nifty returns.

Figure 4: Histogram - Normality

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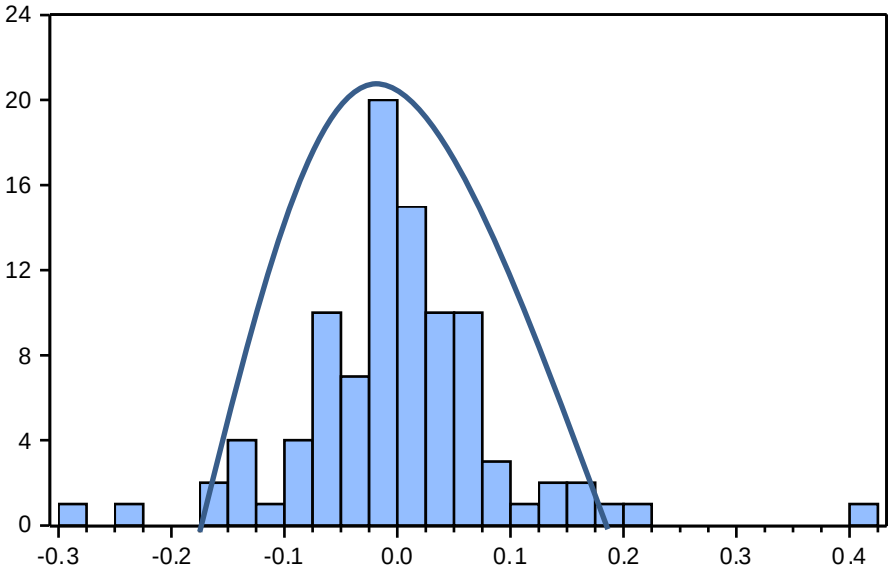

Sources: www.rbi.org, www.bse.com and www.nse.com computed from Eviews 7.

Interpretation

Normality test is to estimate how fundamental random variables are normally distributed. If P-value of JB stat is < 0.01 then it implies that the error term is not distributed normally. Figure 4 explains that P-value of JB stat is 0.0000 > 0.01, then the results clearly conclude that the error term is not normally distributed.

Table 8: Diagnostic Test to analyse the impact of FDI and FII on Indian stock market

Breusch-Godfrey Serial Correlation LM Test:			
F-statistic	25.89908	Prob. F(1,89)	0
Obs*R-squared	21.63909	Prob. Chi-Square(1)	0
Heteroscedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	3.7007	Prob. F(5,90)	0.0043
Obs*R-squared	16.37123	Prob. Chi-Square(5)	0.0059

Sources: www.rbi.org, www.bse.com and www.nse.com computed from Eviews 7.

Interpretation

The serial correlation test and Heteroscedasticity test are used to test the residuals of the long run. The results presented in the table 8 clearly reveal that serial correlation of P-value of F-stat 0.0001 is less than significant level at 1% (0.01). It denoted that there is a serial correlation; the Breusch-Godfrey with the null hypothesis of no serial correlation is rejected. The results of Heteroscedasticity test, since the P-value of F-stat 0.0043 is lower than the significant level 5% (0.05), exemplify that it has enough evidence to conclude that

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there is an error in input data that have non-constant variance and accept the null hypothesis. Hence there exists a Heteroscedasticity problem.

Figure 5: CUSUM Curve

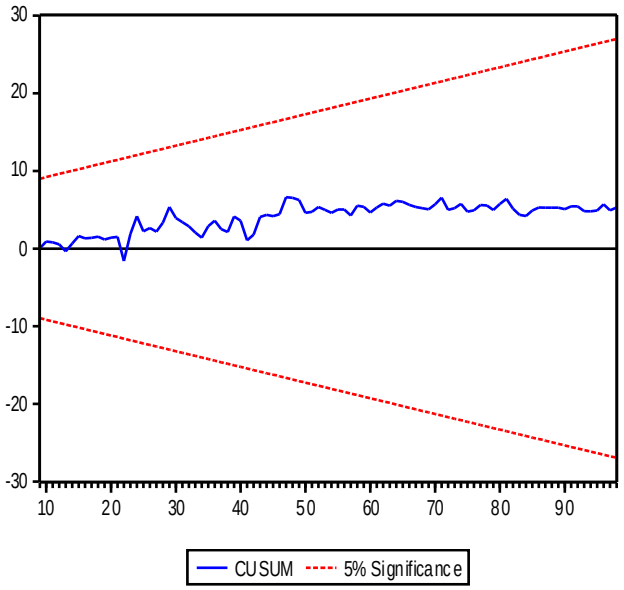
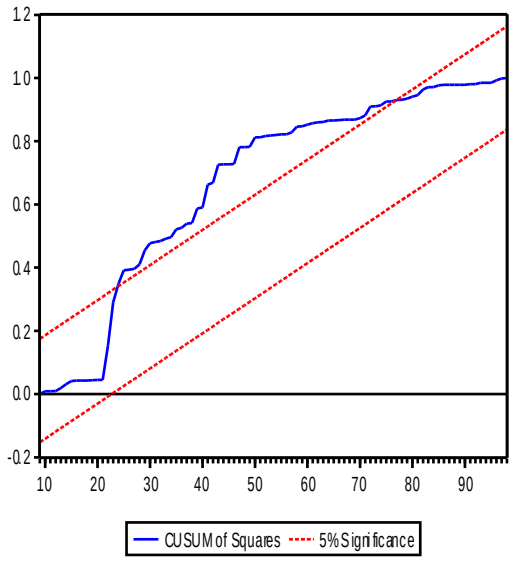


Figure 6: CUSUMSQ Curve



Sources: www.rbi.org, www.bse.com and www.nse.com computed from Eviews 7.

Interpretation

Figure 5 and 6 are the representations of long-run coefficient. The both cumulative of sum recursive residuals (CUSUM) and cumulative of sum recursive residuals square (CUSUMSQ) graphs show that the statistical remains are within the critical bound of significant level at 5%. The results of two plots clearly explain that there is a stability in the long-run coefficient.

5.6.8 Granger Causality Test

Table 9: Granger Causality Test to analyse the impact of FDI and FII on Indian stock market

Null Hypothesis:			F-Statistic	Prob.
FII Returns	→	NIFTY Returns	0.61967	0.5404
NIFTY Returns	→	FII Returns	0.29548	0.7449
FDI Returns	→	**NIFTY Returns**	**3.62824**	**0.0305****
NIFTY Returns	→	FDI Returns	0.60162	0.5501
BSE Returns	→	NIFTY Returns	0.50891	0.6029
NIFTY Returns	→	BSE Returns	1.32751	0.2702
FDI Returns	→	FII Returns	0.55425	0.5764
FII Returns	→	**FDI Returns**	**2.4836**	**0.0891***

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BSE Returns ⟶ FII Returns	0.11799	0.8888
FII Returns ⟶ BSE Returns	0.11512	0.8914
BSE Returns FDI Returns ⟶	0.04684	0.9543
FDI Returns ⟶ BSE Returns	0.27652	0.7591

Sources: www.rbi.org, www.bse.com and www.nse.com computed from Eviews 7.

Note: 10% (*), 5% (**) and 1% (***) significant level.

Interpretation

The results of Granger causality test shown in the Table 9 explain that there is unidirectional relationship of granger causality between FDI returns and the nifty returns and they explain that FDI helps to predict Nifty returns. FII returns have no granger causality relationship with Nifty returns. There is no granger causality from FDI returns and FII returns to BSE returns and FII returns have unidirectional granger relationship with FDI returns. The results supported that the FDI would be enhancing the stock market returns during the study period.

6. Findings of the study

1) The data of model were normally distributed; FDI is in positive correlation with BSE returns and negative correlation with Nifty returns at 5% significant level.
2) FII is in negative correlation with both BSE returns and Nifty returns.
3) The Flow of FDI in India has an existence of the parallel trend and positive behavior in Indian stock market. There is an existence of long-run relationship among FDI, FII, BSE Sensex and Nifty.
4) Jarque Bera test indicated that values of all variables were higher than 5 non-normal.
5) Granger Causal Test found that there was no granger causality from FDI returns and FII returns to BSE returns and FII returns which has unidirectional granger relationship with FDI returns.

7. Conclusion

Indian Stock market has been attaining a significant development in the last two decades. The major important factors of developed markets are the flows of institutional investors and foreign direct investments and its information efficiency in one's nation. This research paper is set out to find the influence of Indian stock market in achieving the capital from foreign direct investment and institutional investors.

Since liberalization foreign capital has vastly entered into the financial market and it reflects the economic growth of India. Foreign capital is significant of financial source which

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forces to reformation of stock markets in relation to transaction, trading and interrelating the local market with international markets. In the recent times, foreign capital plays the major role by developing the labor productivity and strengthening the foreign exchange reserves so that the money that enters into India meets out the current account deficit. The intensity of FIIs and FDI investment magnifies a great capital fund flow in the country. In addition to this flow, the portfolio managers of FDI and FIIs would always expect that their money invested is growing in the multiple levels. They would like to make profit for the short term dynamic portfolio across countries. Fundamentally, when they extract their fund or when they inject capital inflow, this could influence volatility associated with FDI and FIIs investments. It ultimately results fluctuations in stock price.

The impact of FDI and FII on Indian stock market is significant and BSE returns has no Heteroscedasticity but Nifty returns has it. It explains through the results which are reliable for BSE but not Nifty. Co-integration test exhibits that there is a sophisticated long-run relationship among Indian stock market, FDI & FII. The results declare that there is a serial correlation link and stability among Indian stock market, FDI and FII. FDI has granger cause to Nifty returns and it has unidirectional relation. FDI helps to predict Nifty returns on the other side. FII has no granger cause to BSE returns during the study period. Hence FDI and FII have strong long-run relationship with BSE returns and Nifty returns. Both FDI and FII are important instruments to economic development. Policy makers are suggested to identify the measures and to boost economic enhancing and growth. Policies based on the study may be suitably framed for the steady flow of fund through FDI and FII in Indian Stock market which steers the economic growth and development of the nation.

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