



भारतीय प्रौद्योगिकी संस्थान गुवाहाटी
INDIAN INSTITUTE OF TECHNOLOGY GUWAHATI

MA 374: Financial Engineering Lab **Lab 06**

AB Satyaprakash (180123062)

Note: 

1. All plots are put separately in the **/Plots** folder.
2. All data (daily, weekly, and monthly) collected are put in **/BSE** and **/NSE** folders.
3. Please run python programs using **python3**, i.e. **python3 <filename>.py**

We first collect historical data from Yahoo Finance for 20 stocks (10 for BSE and 10 for NSE).

BSE Stocks (Stocks in Sensex)	NSE Stocks (Stocks in Nifty)
IndusInd Bank Ltd(L)	Oil & Natural Gas Corporation Ltd(L)
HCL Technologies Ltd(L)	GAIL (India) Ltd(L)
State Bank Of India(L)	Bharat Petroleum Corporation Ltd(L)
ITC Ltd(L)	Indian Oil Corporation Ltd(L)
Infosys Ltd(L)	NTPC Ltd(L)
Bajaj Finserv Ltd(L)	Coal India Ltd(L)
Maruti Suzuki India Ltd(L)	Asian Paints Ltd(L)
Axis Bank Ltd(L)	Power Grid Corporation Of India Ltd(L)
Tata Steel Ltd(L)	Tech Mahindra Ltd(L)
Tata Consultancy Services Ltd(L)	Tata Motors Ltd(L)

We store the data in 6 files, with a naming convention as [d=daily, w=weekly, m=monthly] - <{d,w,m}><{bse,nse}>data1.csv

Eg. **wbsedata1.csv** represents **weekly BSE data of 10 stocks in the period Jan 1, 2014, to Dec 31, 2018**. The data and plots have been very properly organized.

Question 1.

We first read the adjusted closing prices of all stocks from the CSV files (using pandas), and then draw the plots of prices against time for 3 cases, i.e., daily, weekly, and monthly.

The plots have been drawn from page 5 onwards.

Question 2.

For this question, we first compute returns for stock prices, which are calculated by:

$$R(i) = \frac{S(i) - S(i-1)}{S(i-1)} \text{ and } R(0) = 0$$

The normalized returns are then computed by:

$$\hat{R}(i) = \frac{R(i) - \mu}{\sigma}, \mu = \text{sample mean}, \sigma = \text{sample SD}$$

We now simply plot the histograms and super-impose on them the graph $N(0, 1)$. In order to compare these 2 graphs, we scale down the histogram using the parameter, `density=true` in `plt.hist()` of python.

The plots have been drawn from page 25 onwards.

Observations:

- The first and very obvious observation is the striking similarity in the graph of $N(0, 1)$ and the histogram. {This is also slightly obvious because we are observing the Central Limit Theorem, which dictates that the distribution of these normalized returns has to be $N(0, 1)$ }
- Near the tails of these plots, the histogram deviates slightly from the $N(0, 1)$ plot. We see that while $N(0, 1)$ goes to 0 at these points, the stock

does not always go because the practical market scenario is not ideal and is influenced by factors like economic fluctuations, company decisions, etc.

Question 3.

For this question, the process followed is exactly the same as Question 2, except for the computation of the returns, which is now done as:

$$R(i) = \log_e \left(1 + \frac{S(i) - S(i-1)}{S(i-1)} \right) \text{ and } R(0) = 0$$

The plots have been drawn from page 45 onwards.

Observations:

- The observations are exactly similar to question 2, but in this case, we see less deviation between the $N(0,1)$ curve and the histograms.

Question 4.

For this question, the jump-diffusion model was used to predict the stock prices for the year 2018 in a daily fashion by calculating μ and σ from the data till 31 Dec 2017.

The basic algorithm has been explained below:

①	Generate $Z \sim N(0,1)$
②	Generate $N \sim \text{Poisson}(\lambda(t_{i+1} - t_i))$ If $N = 0$, set $M = 0$ and go to step ④
③	Generate $\log Y_1, \log Y_2, \dots, \log Y_N$ from their common distribution and set $M = \log Y_1 + \log Y_2 + \dots + \log Y_N$
④	Set $X(t_{i+1}) = X(t_i) + \left(\mu - \frac{1}{2}\sigma^2 \right)(t_{i+1} - t_i) + \sigma \sqrt{t_{i+1} - t_i} Z_i + M$

Thereafter $S(t_{i+1})$ is obtained using $S(t_{i+1}) = e^{X(t_{i+1})}$.

The plots have been drawn from page 65 onwards.

Question 5.

The process here is the same as question 4, only we have modified the number of observations since this number depends on the number of time points in our data set which will be different for daily, weekly, and monthly observations.

The plots have been drawn from page 75 onwards.

Extras...

For this lab, we will need to make use of the following packages. The installation instructions are given alongside.

Kindly use pip3 since the code must be run in python 3 as mentioned previously.

```
Numpy - pip3 install numpy  
Matplotlib - pip3 install matplotlib  
Pandas - pip3 install pandas
```

Index for Plots:

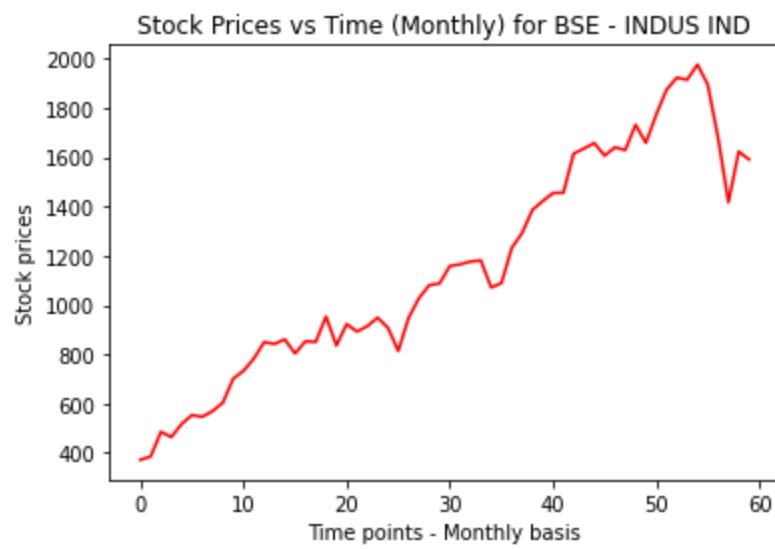
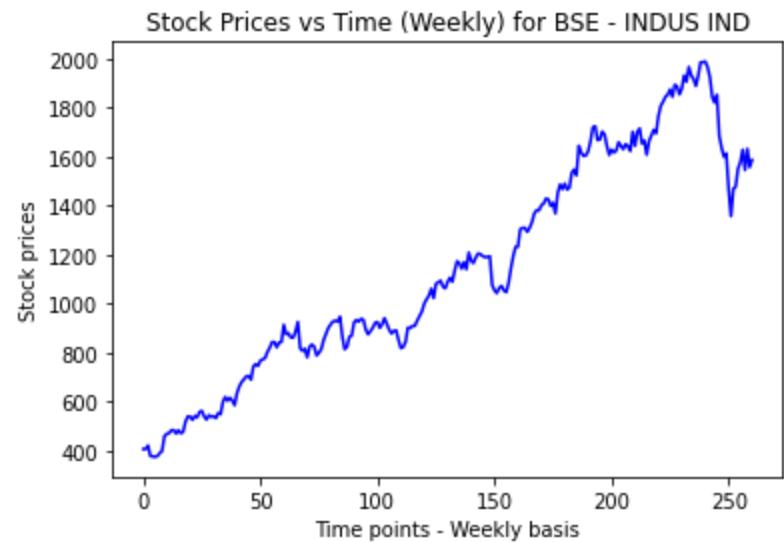
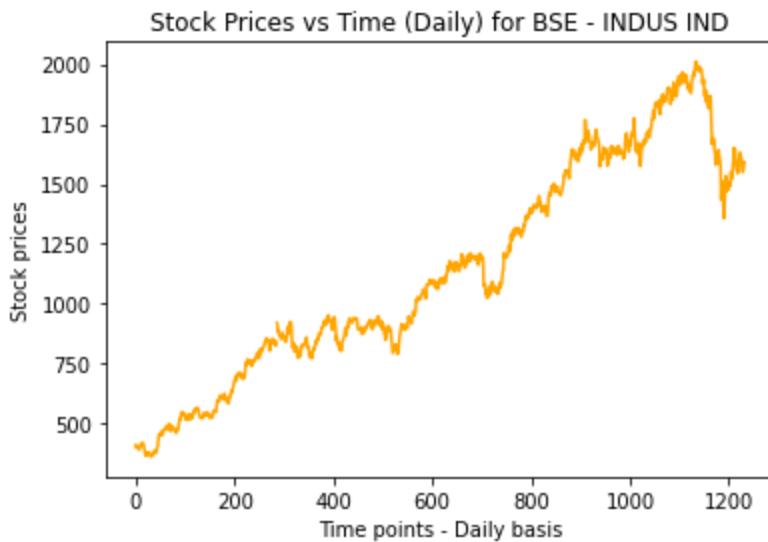
1. Question 1: **Page 5**
2. Question 2: **Page 25**
3. Question 3: **Page 45**
4. Question 4: **Page 65**
5. Question 5: **Page 75**

All plots can be found in their respective folders inside the ZIP file I have submitted!

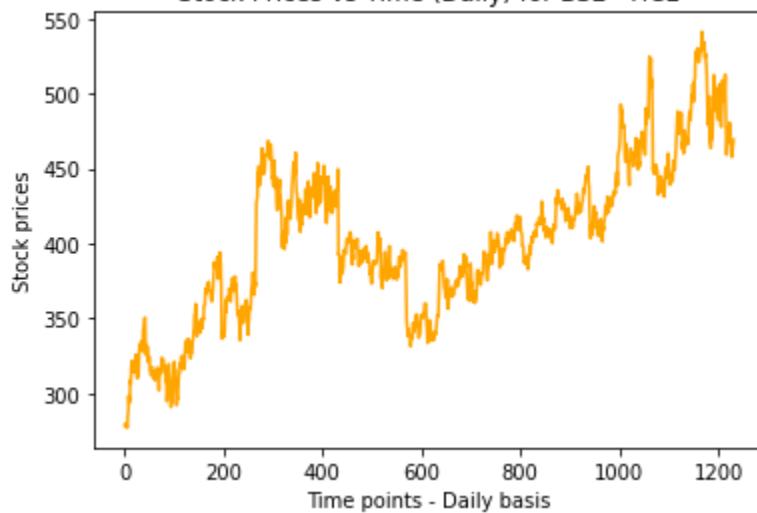
Plots

Question 1.

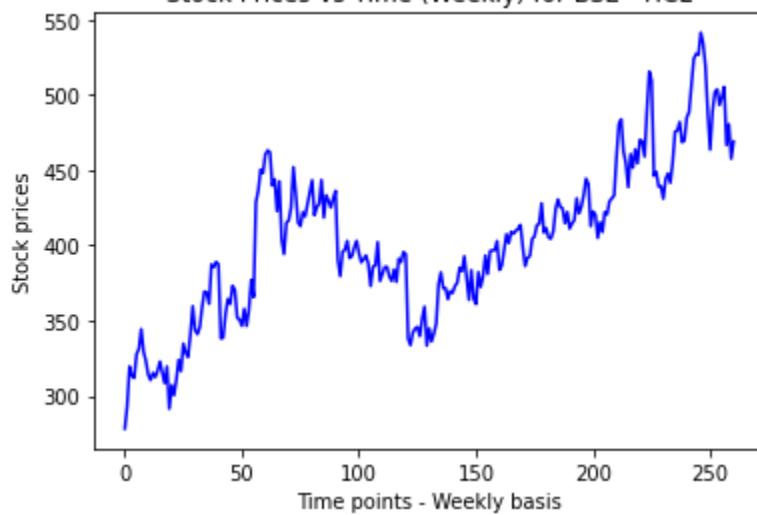
BSE:



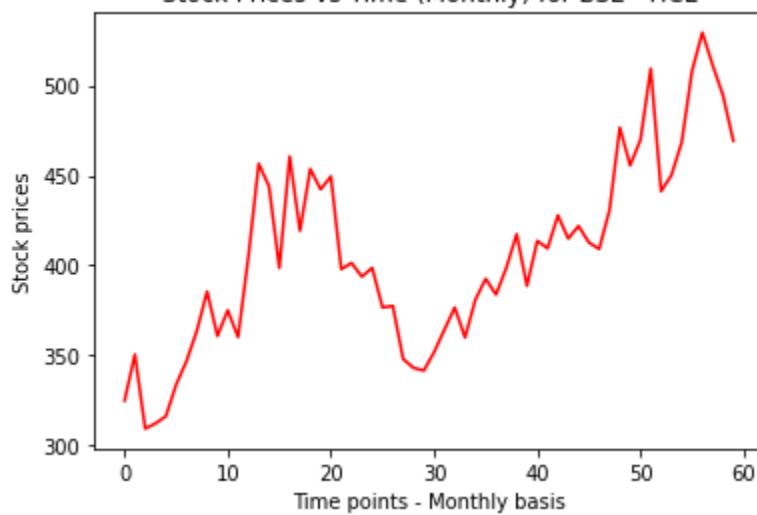
Stock Prices vs Time (Daily) for BSE - HCL

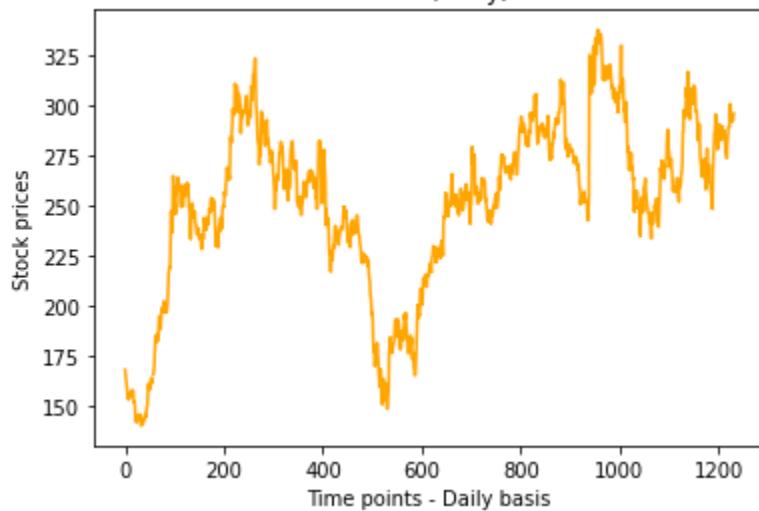
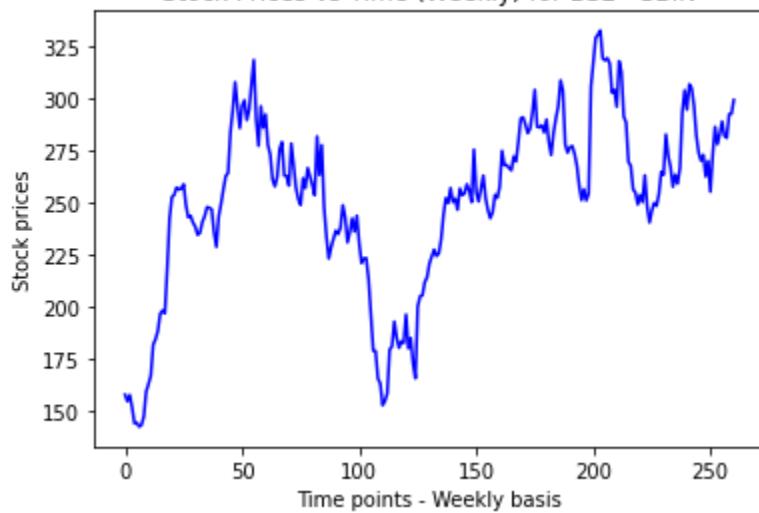
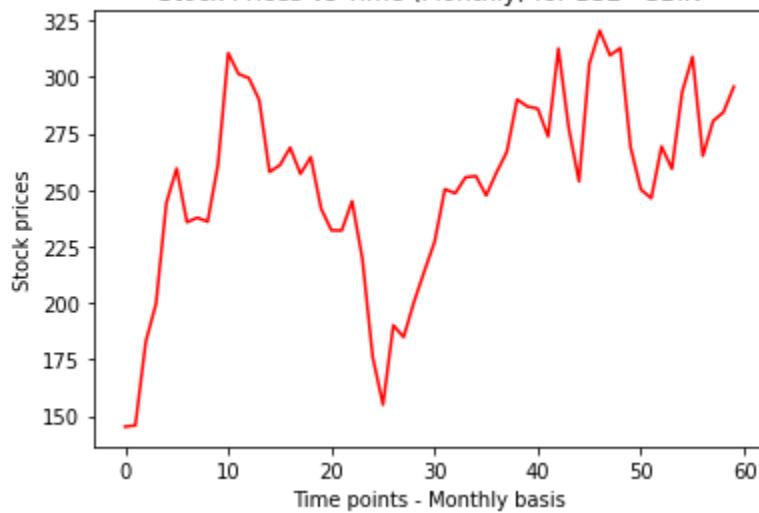


Stock Prices vs Time (Weekly) for BSE - HCL

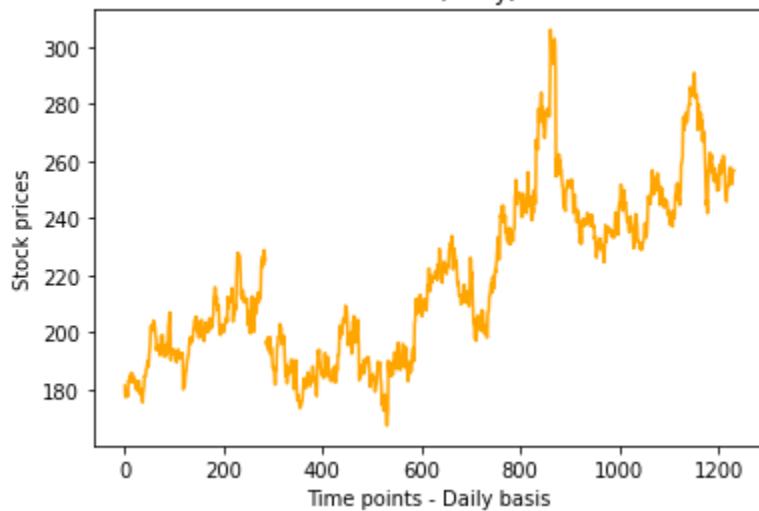


Stock Prices vs Time (Monthly) for BSE - HCL

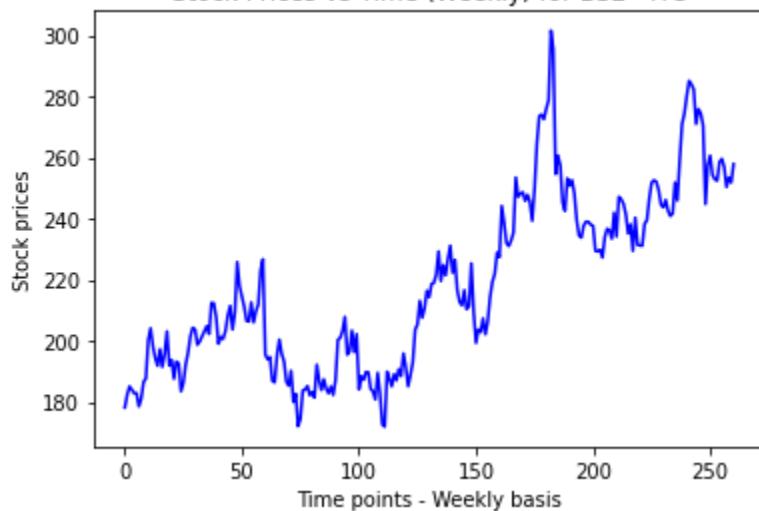


Stock Prices vs Time (Daily) for BSE - SBIN**Stock Prices vs Time (Weekly) for BSE - SBIN****Stock Prices vs Time (Monthly) for BSE - SBIN**

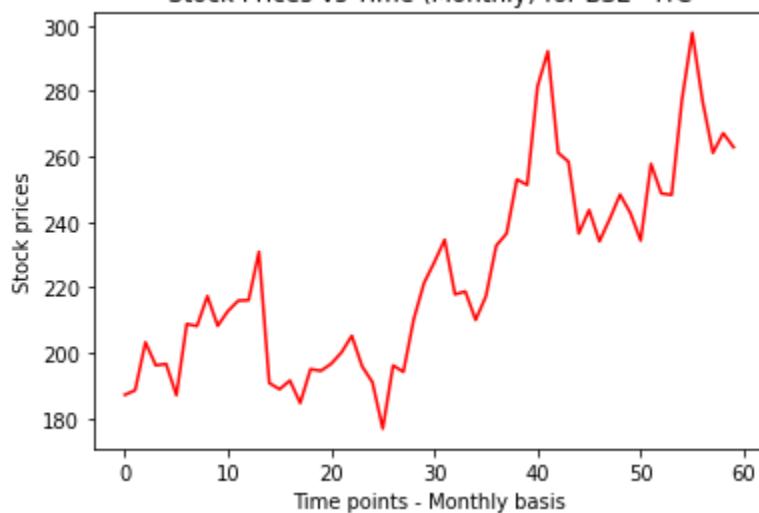
Stock Prices vs Time (Daily) for BSE - ITC



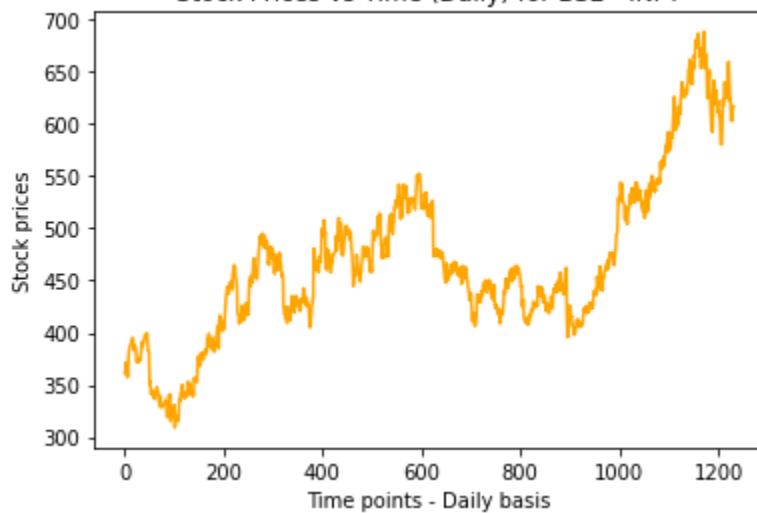
Stock Prices vs Time (Weekly) for BSE - ITC



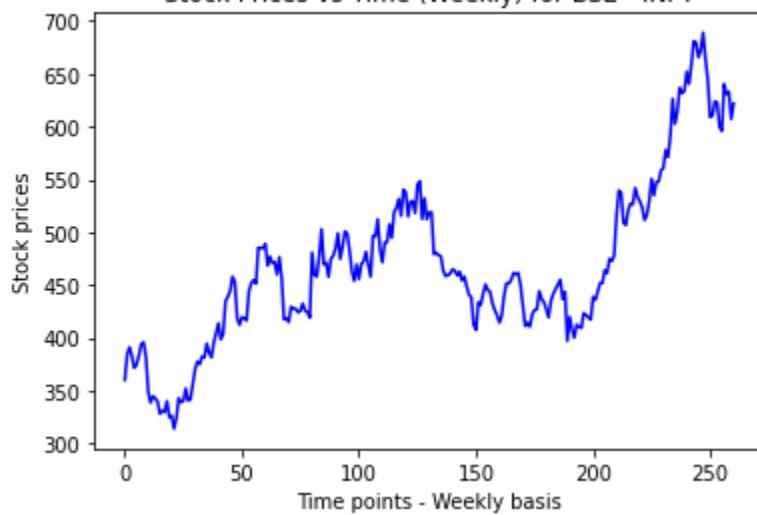
Stock Prices vs Time (Monthly) for BSE - ITC



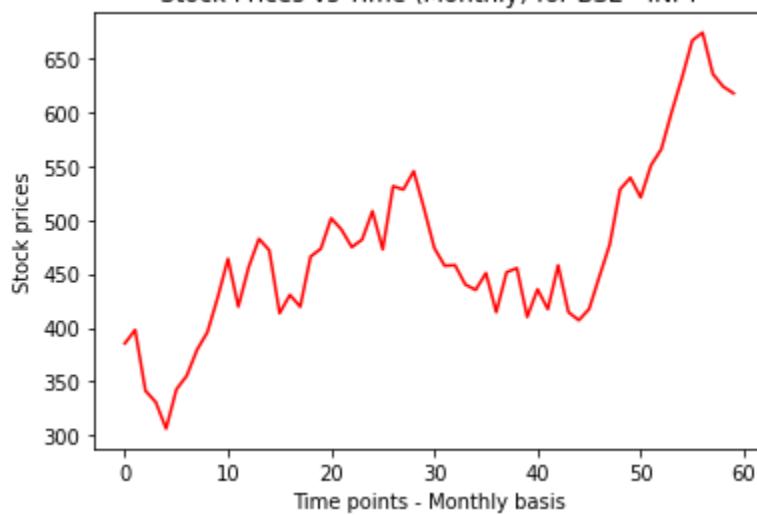
Stock Prices vs Time (Daily) for BSE - INFY

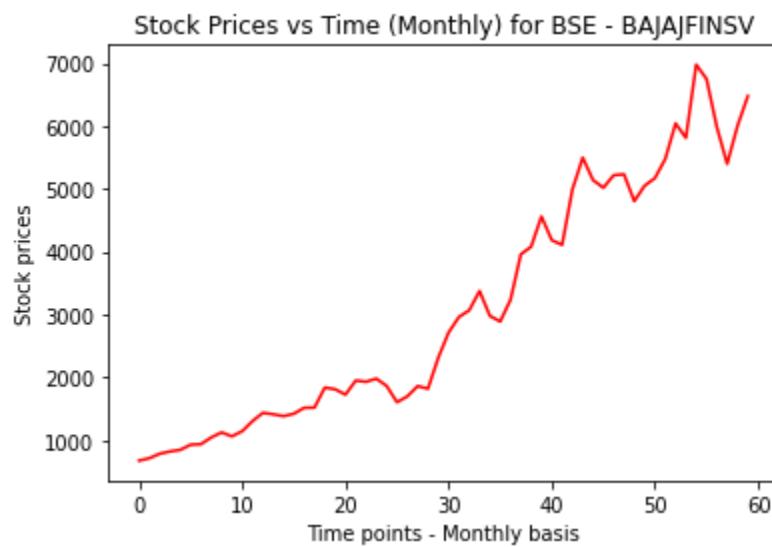
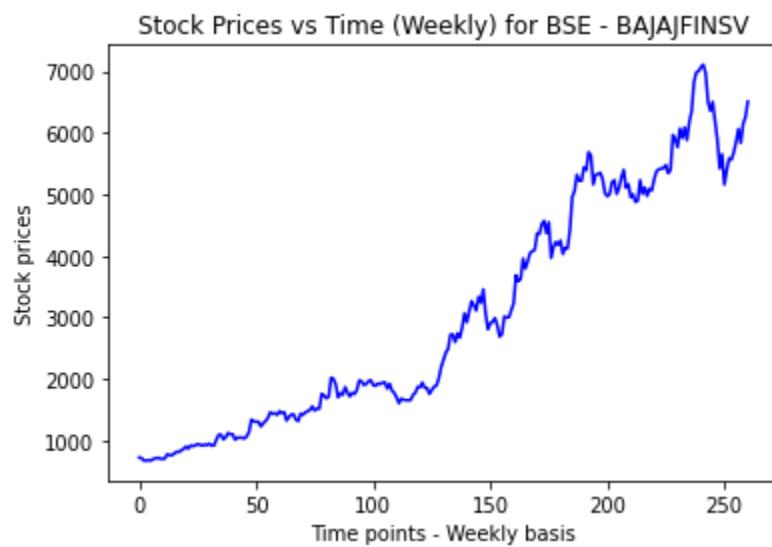
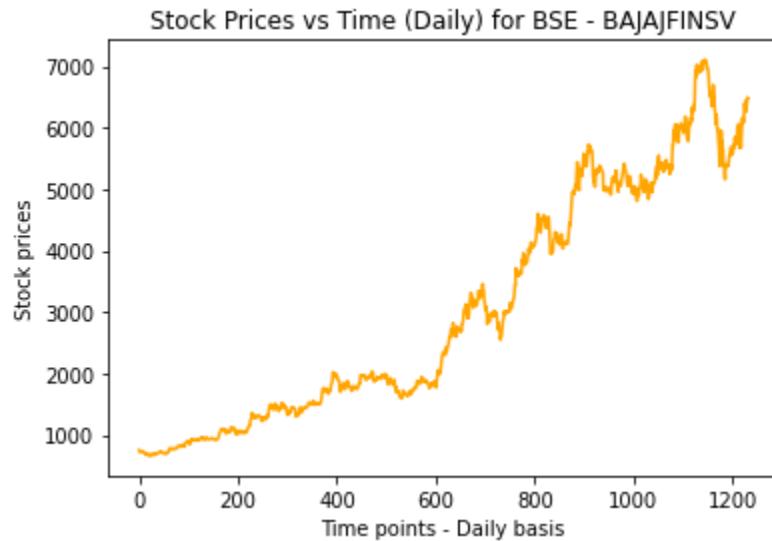


Stock Prices vs Time (Weekly) for BSE - INFY

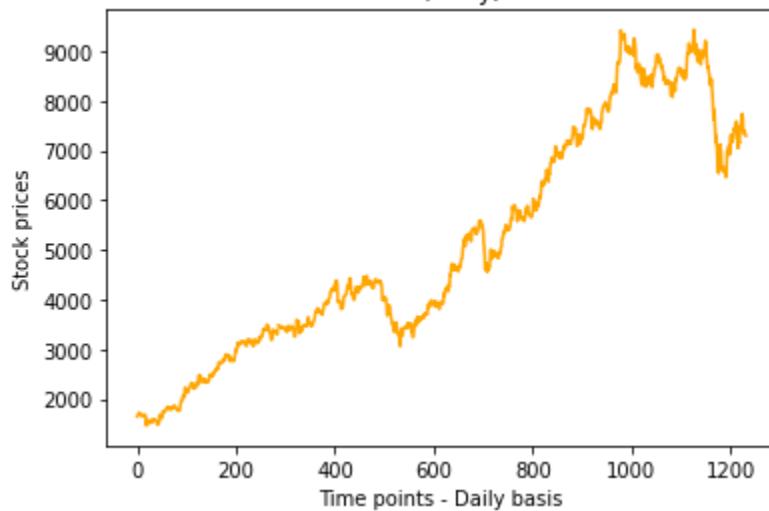


Stock Prices vs Time (Monthly) for BSE - INFY

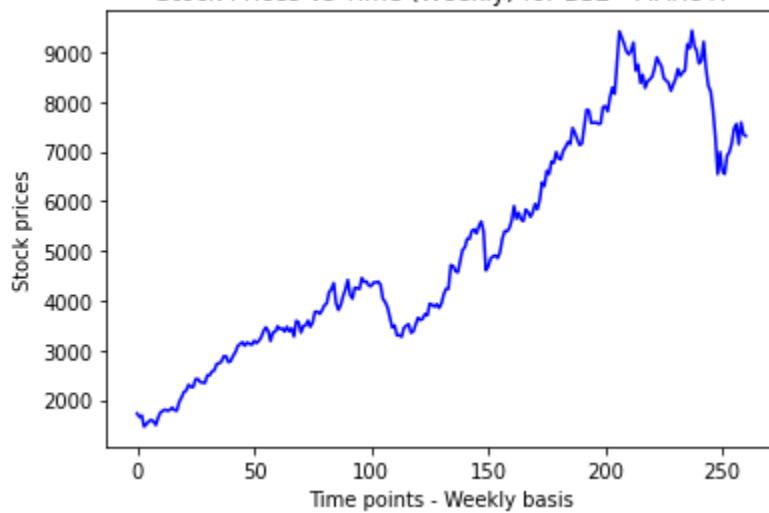




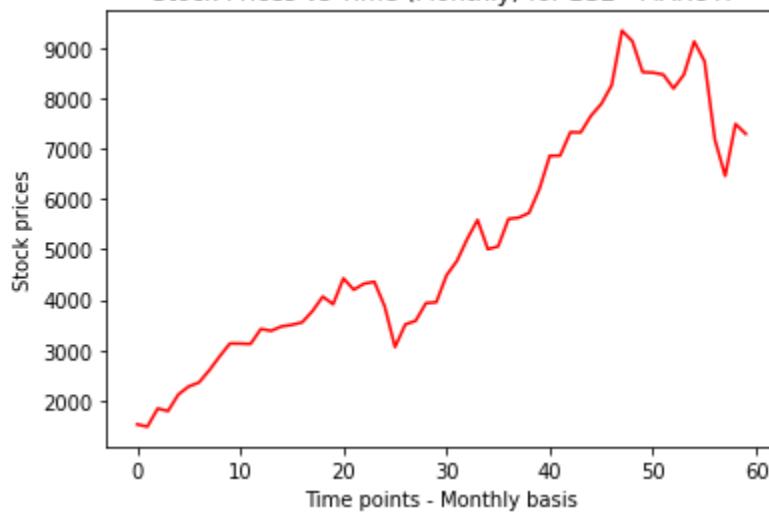
Stock Prices vs Time (Daily) for BSE - MARUTI



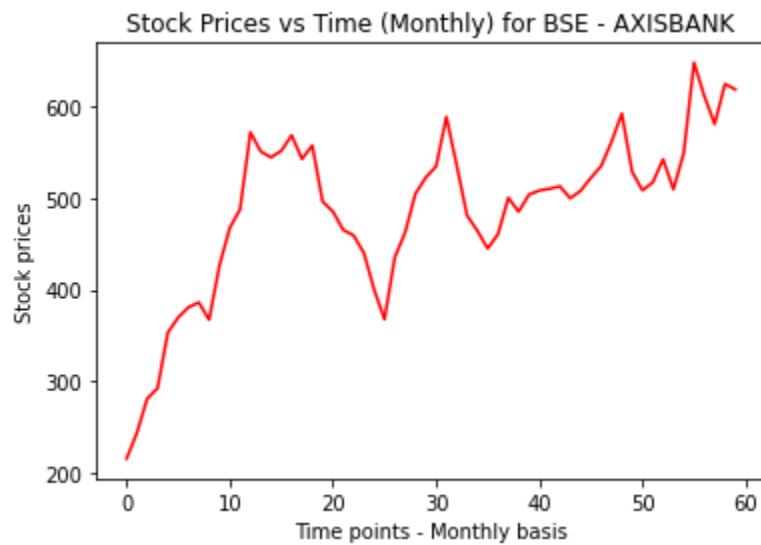
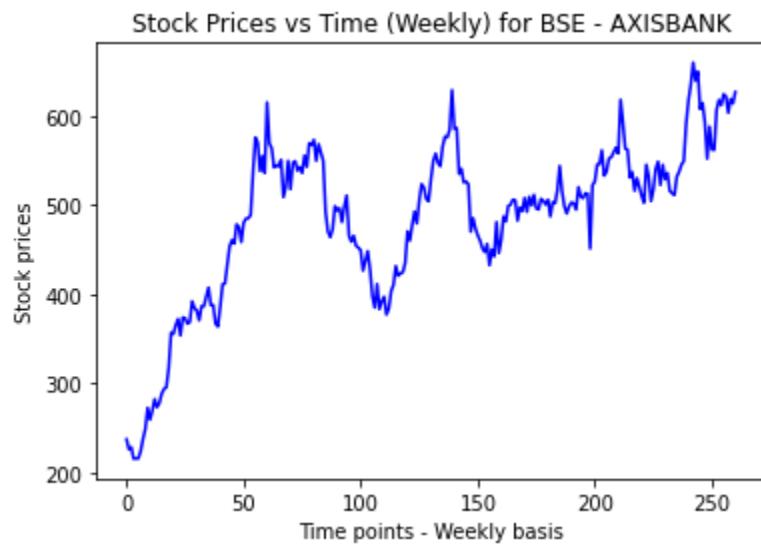
Stock Prices vs Time (Weekly) for BSE - MARUTI

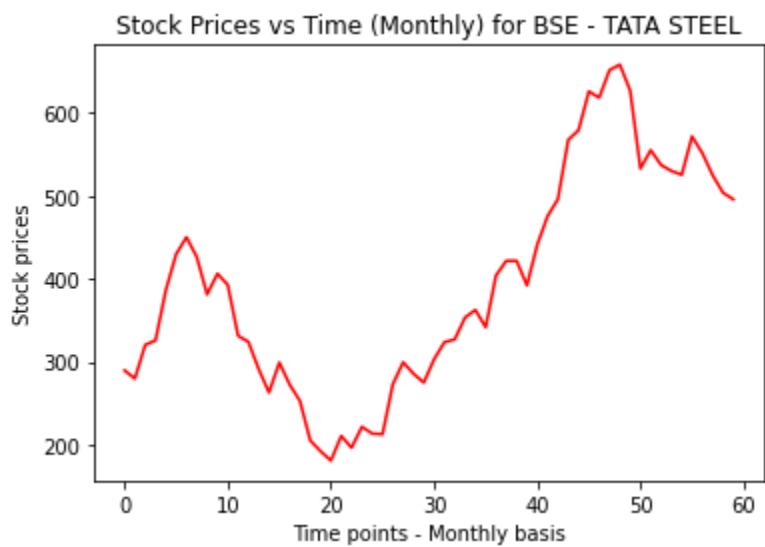
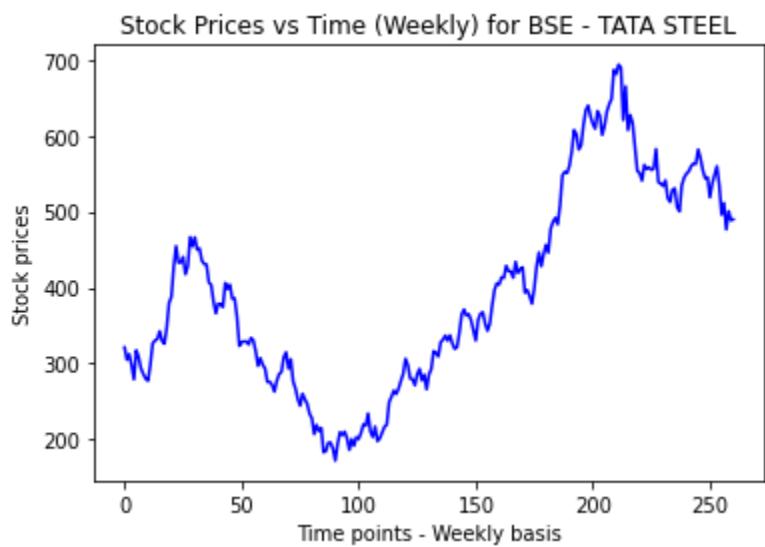
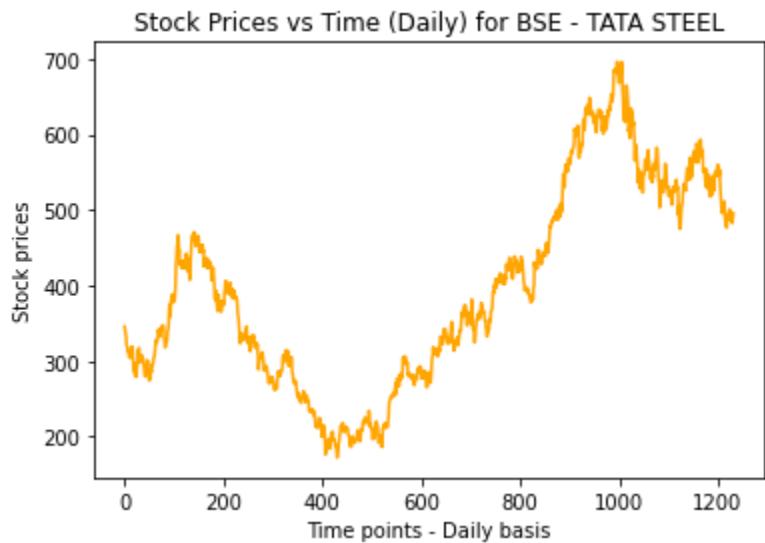


Stock Prices vs Time (Monthly) for BSE - MARUTI

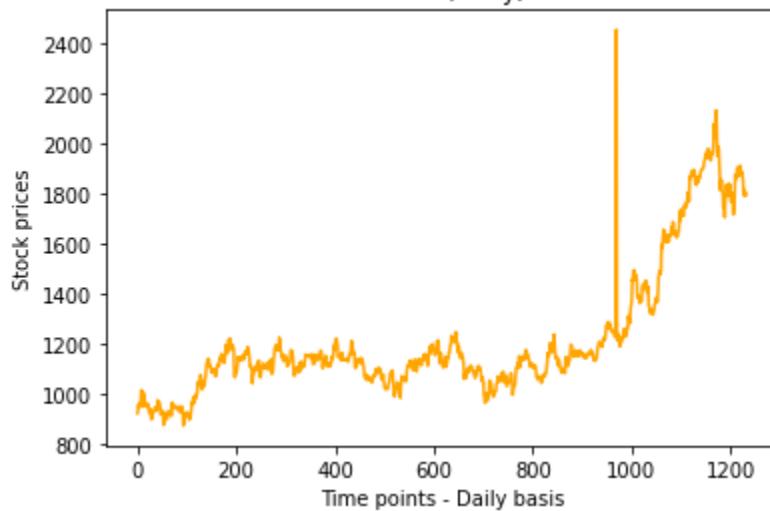


—

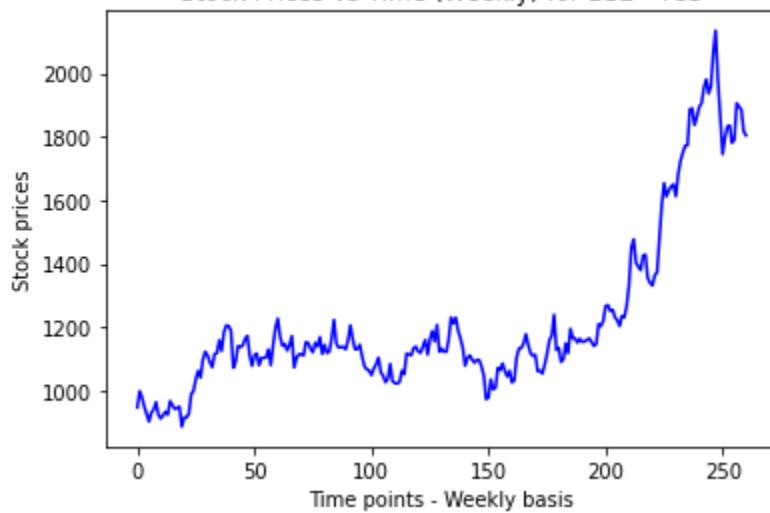




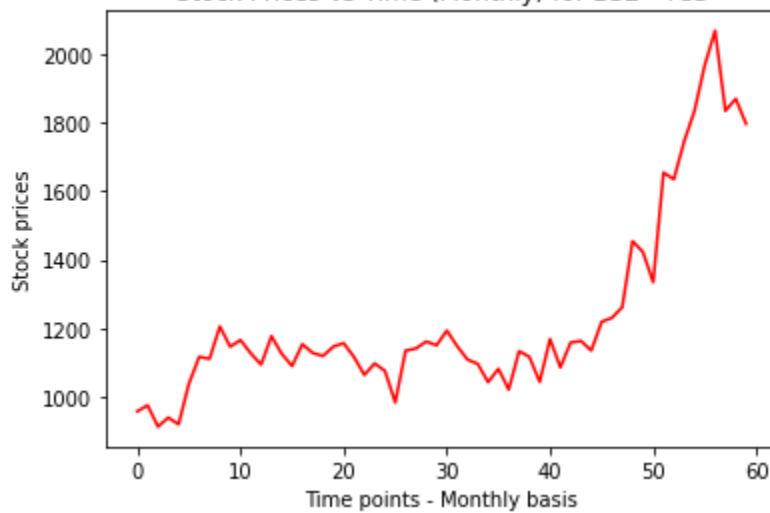
Stock Prices vs Time (Daily) for BSE - TCS



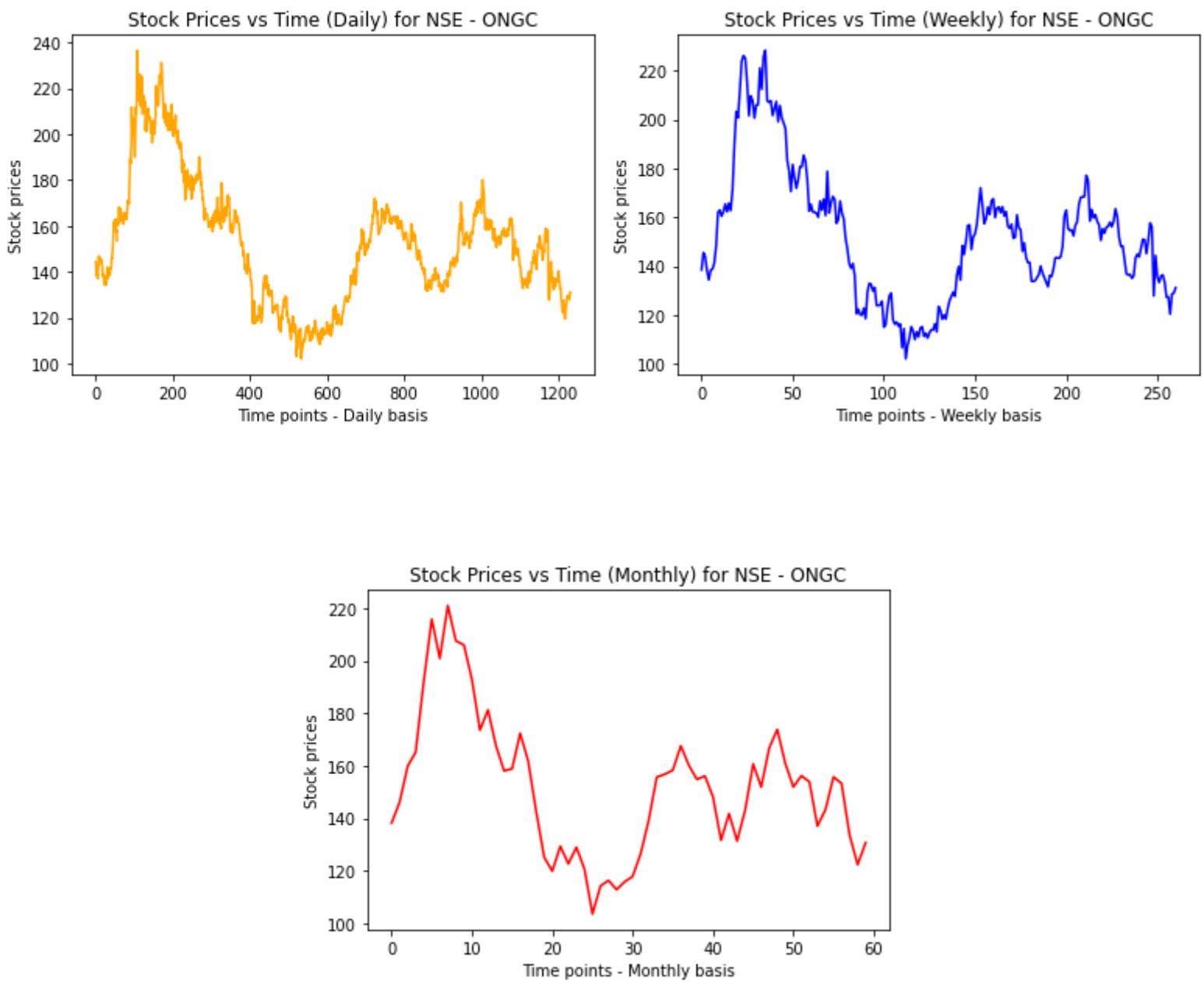
Stock Prices vs Time (Weekly) for BSE - TCS



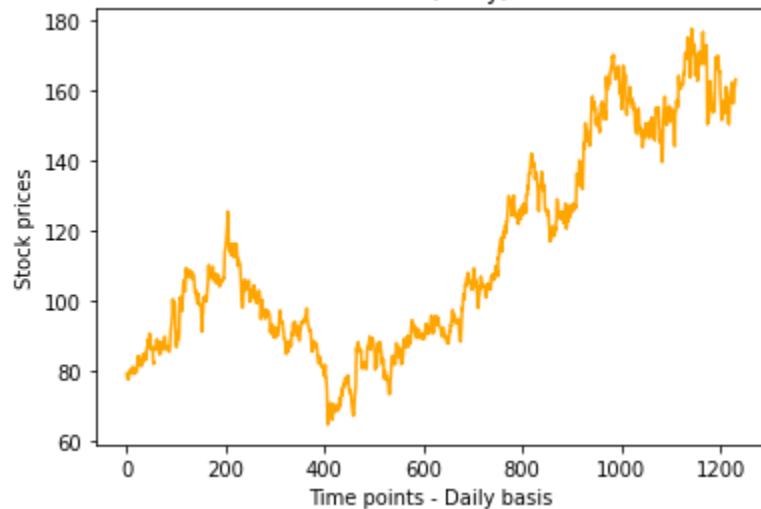
Stock Prices vs Time (Monthly) for BSE - TCS



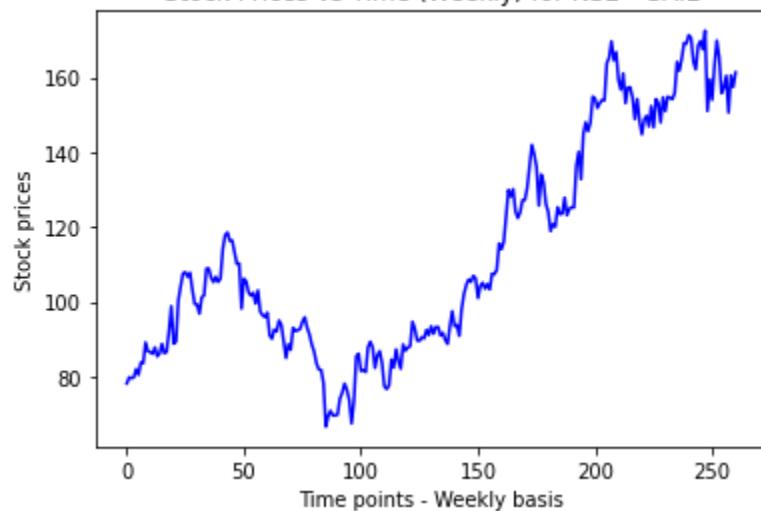
NSE:



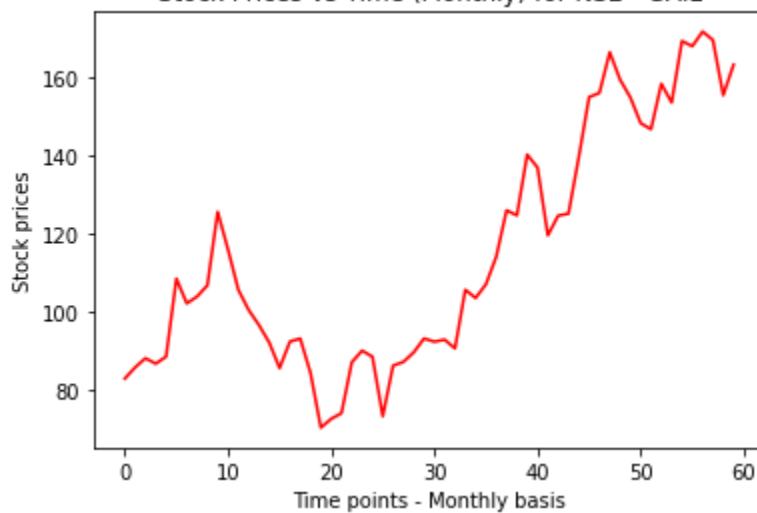
Stock Prices vs Time (Daily) for NSE - GAIL



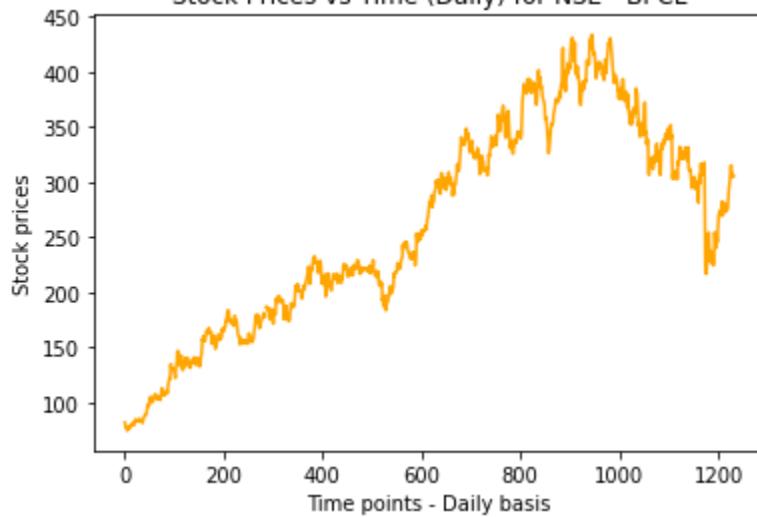
Stock Prices vs Time (Weekly) for NSE - GAIL



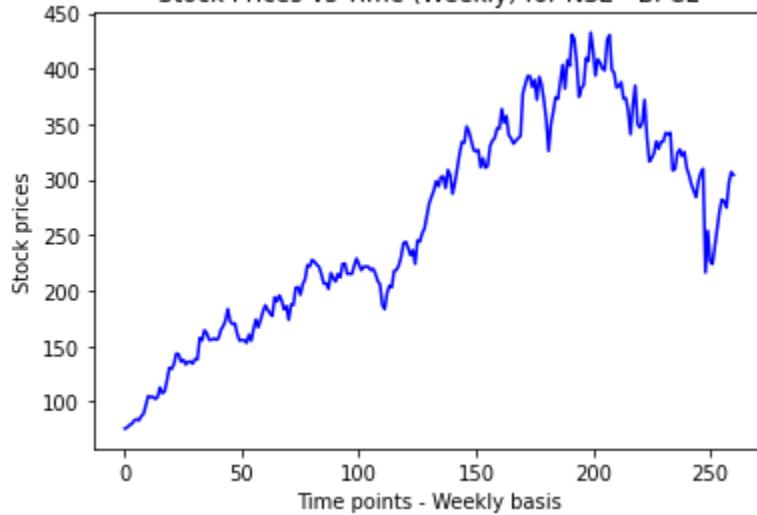
Stock Prices vs Time (Monthly) for NSE - GAIL



Stock Prices vs Time (Daily) for NSE - BPCL

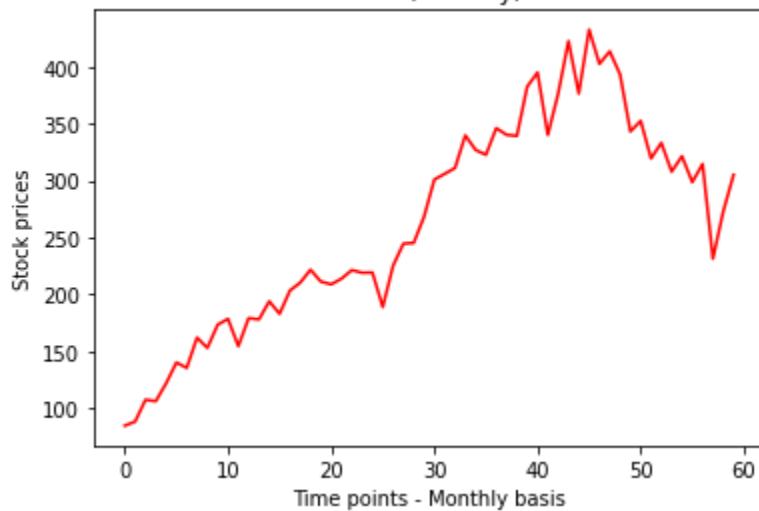


Stock Prices vs Time (Weekly) for NSE - BPCL

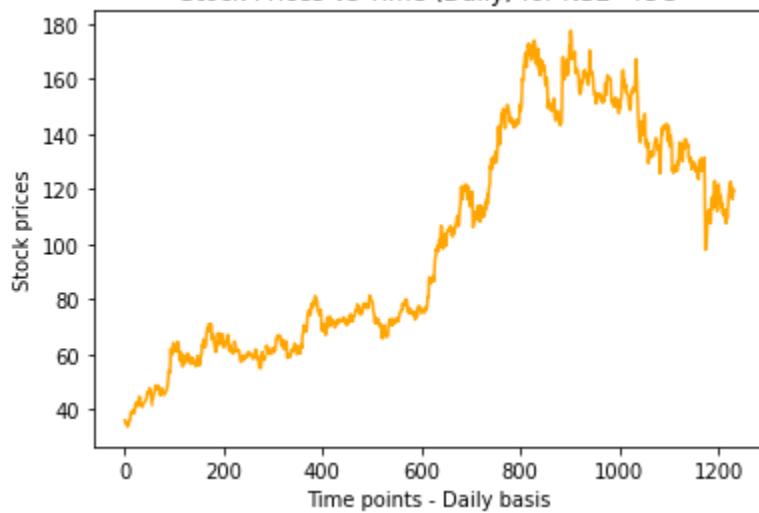


—

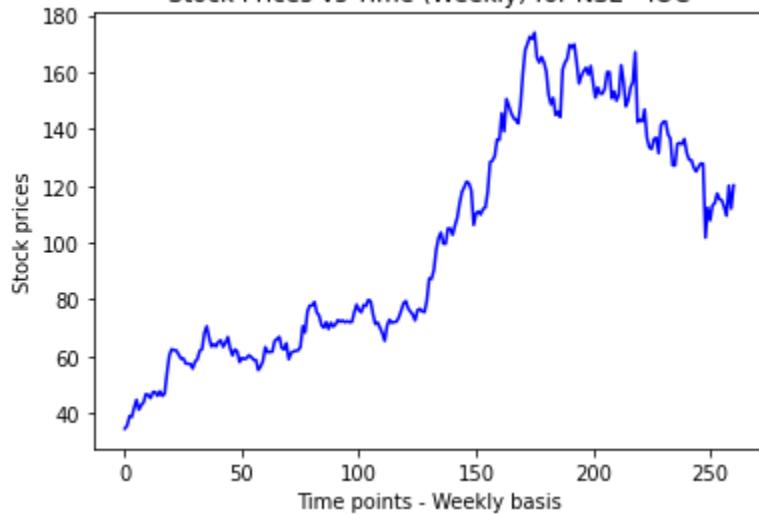
Stock Prices vs Time (Monthly) for NSE - BPCL



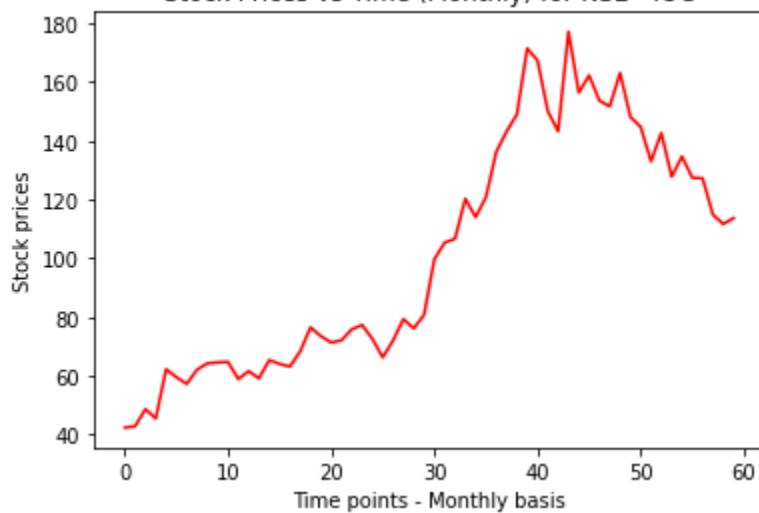
Stock Prices vs Time (Daily) for NSE - IOC



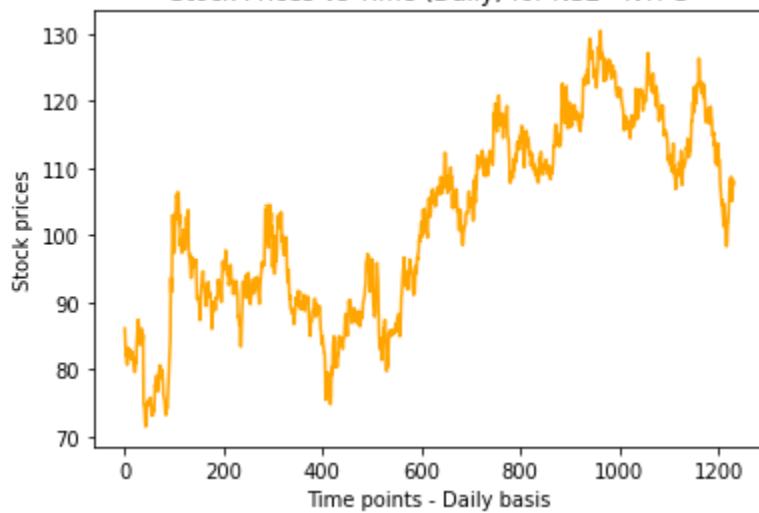
Stock Prices vs Time (Weekly) for NSE - IOC



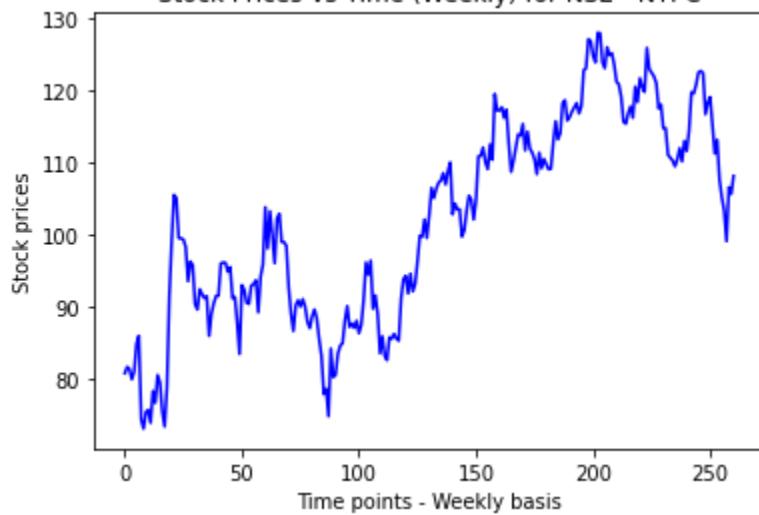
Stock Prices vs Time (Monthly) for NSE - IOC



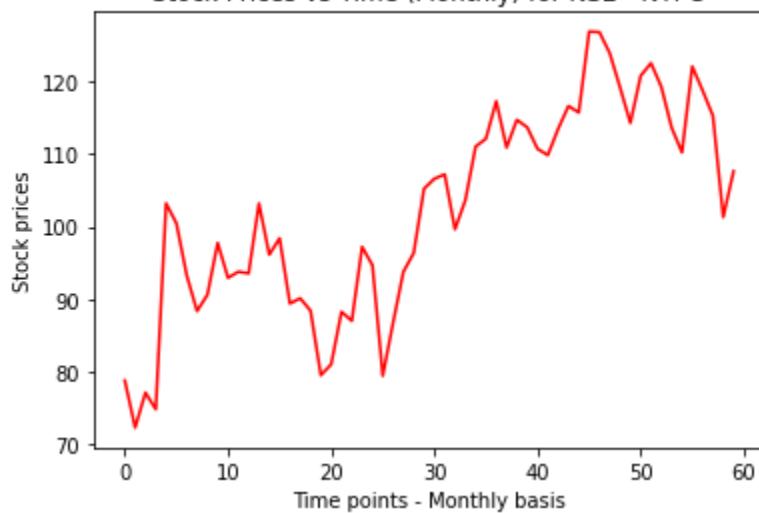
Stock Prices vs Time (Daily) for NSE - NTPC



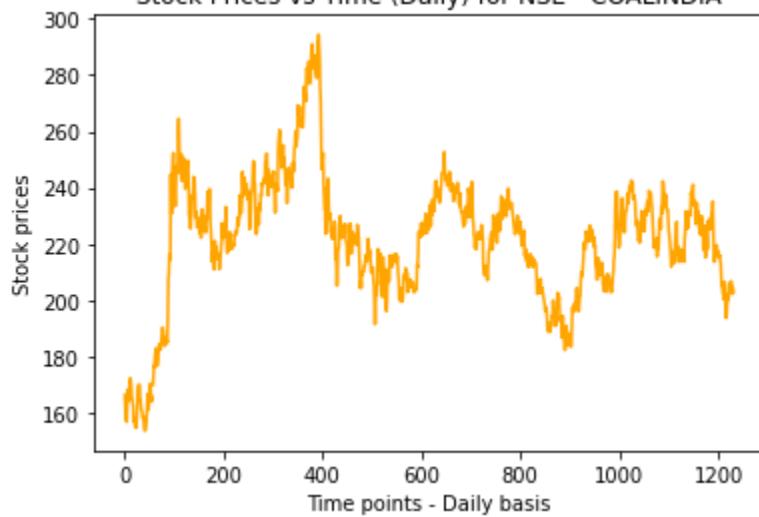
Stock Prices vs Time (Weekly) for NSE - NTPC



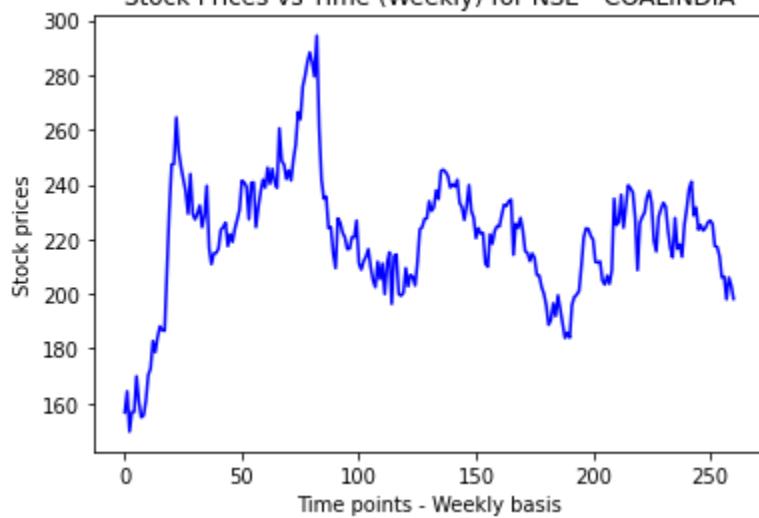
Stock Prices vs Time (Monthly) for NSE - NTPC

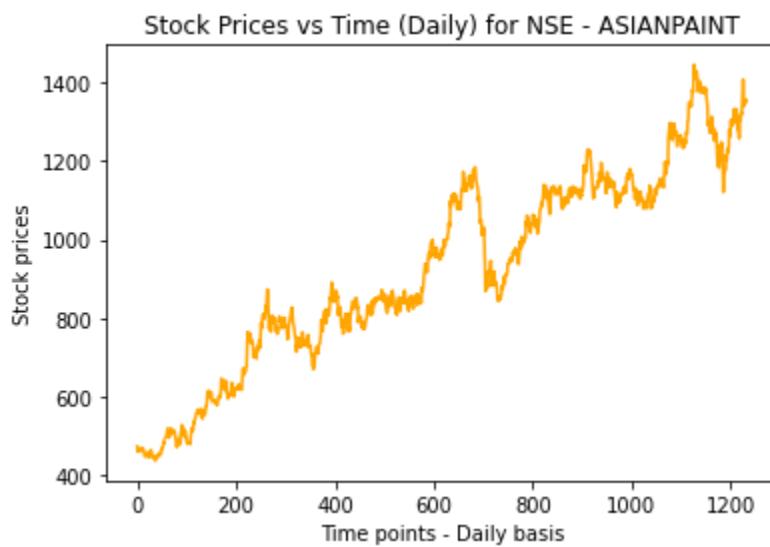
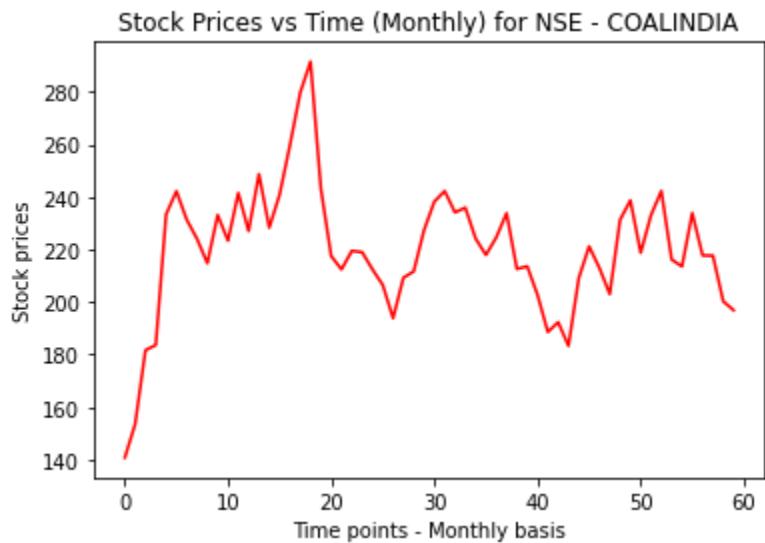


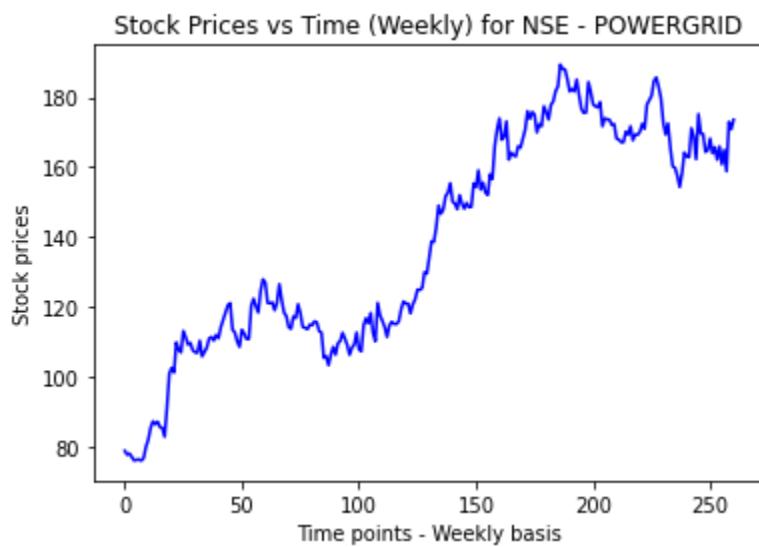
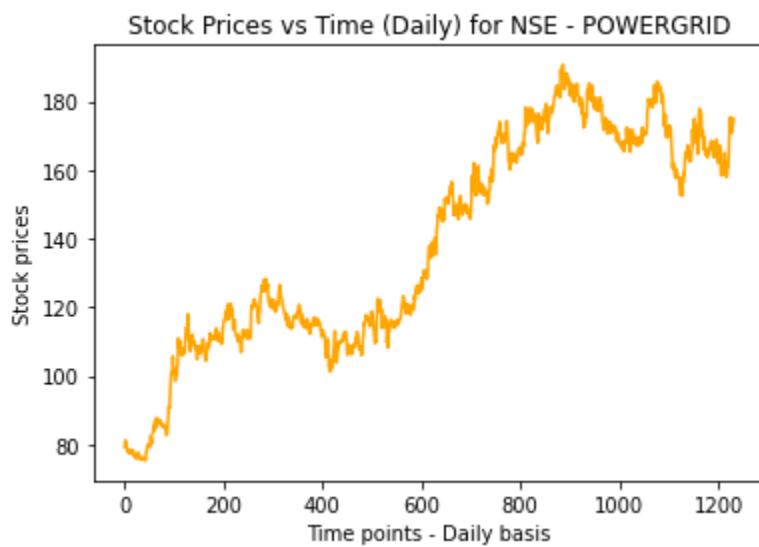
Stock Prices vs Time (Daily) for NSE - COALINDIA

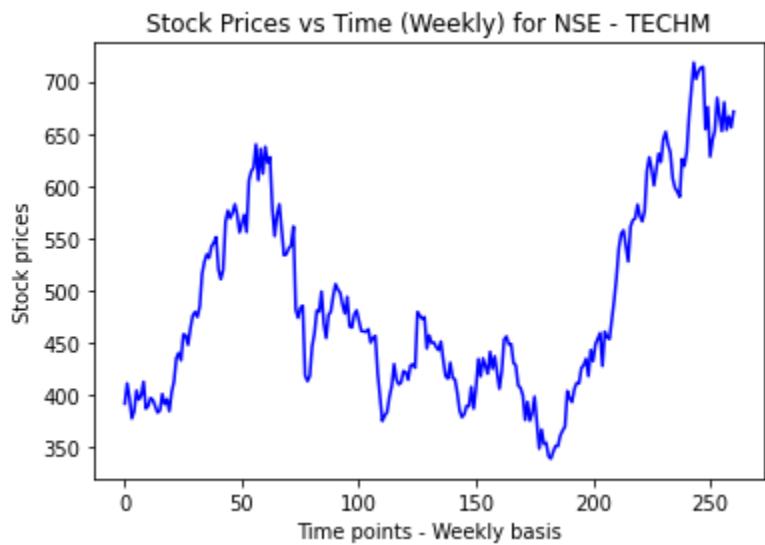
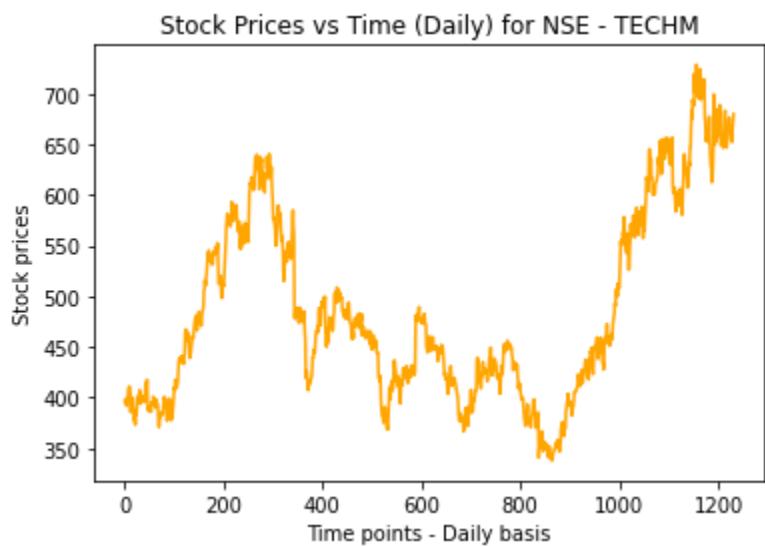
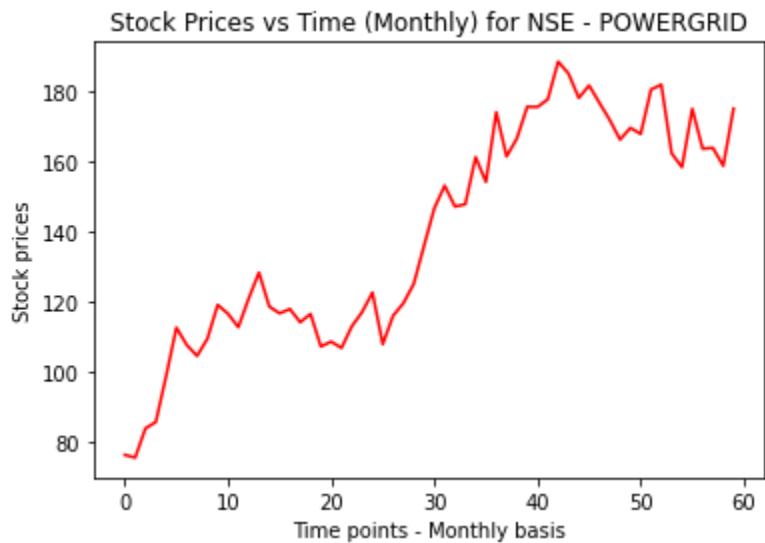


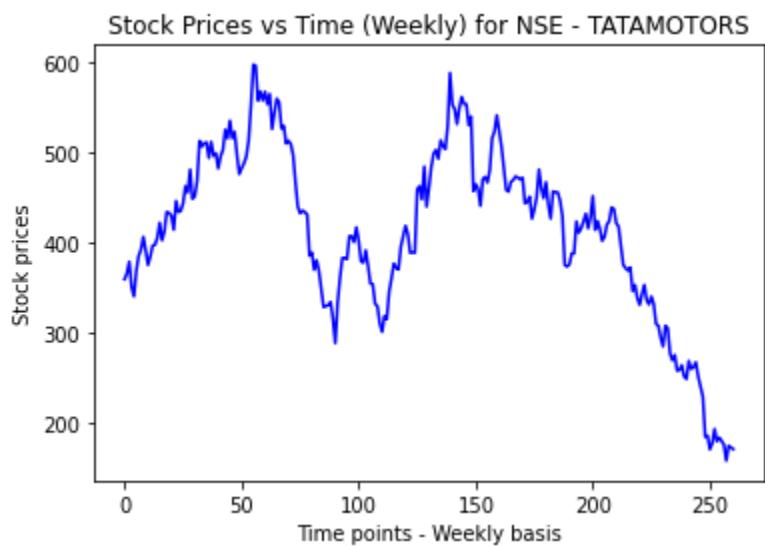
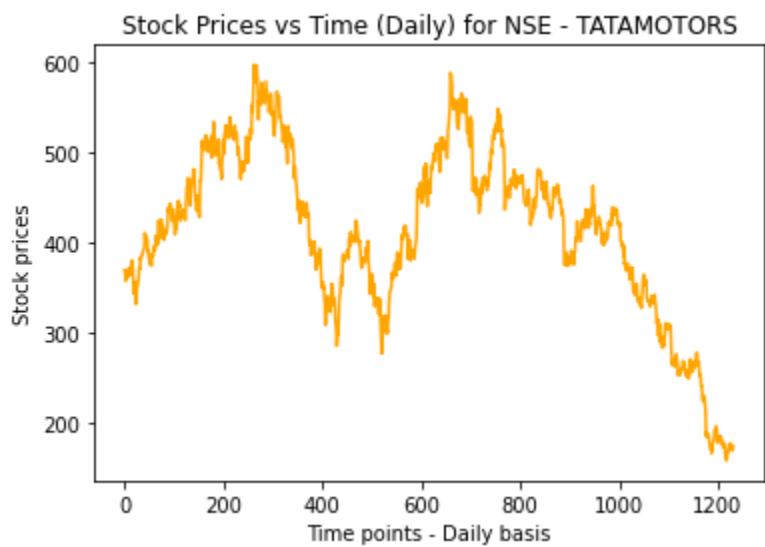
Stock Prices vs Time (Weekly) for NSE - COALINDIA

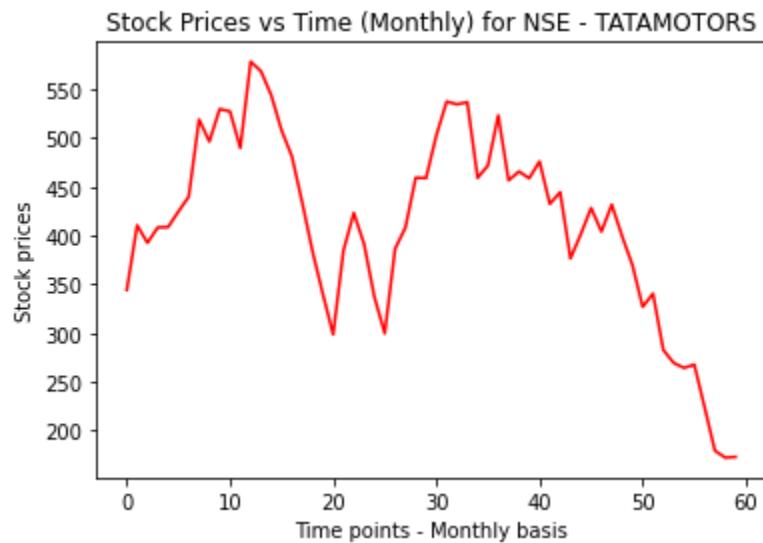






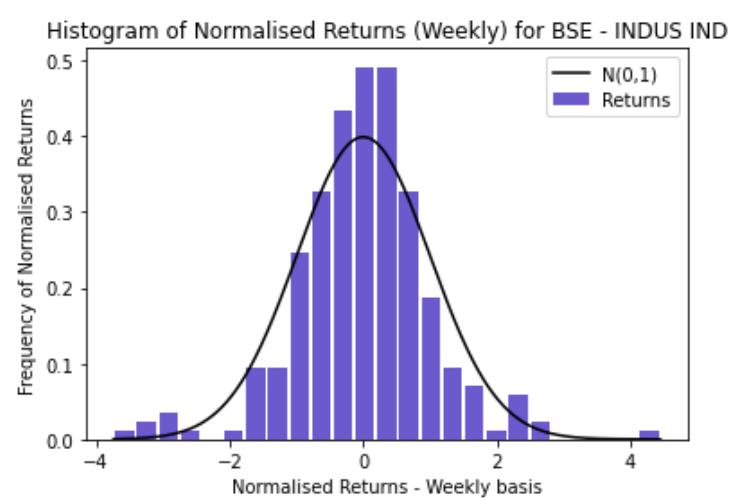
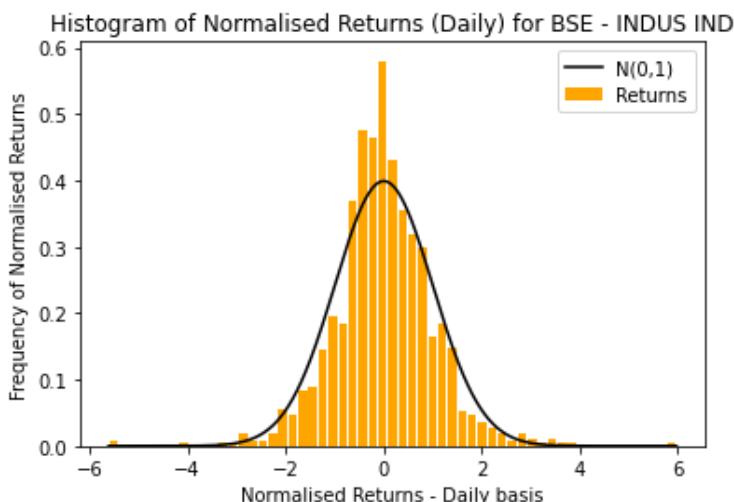


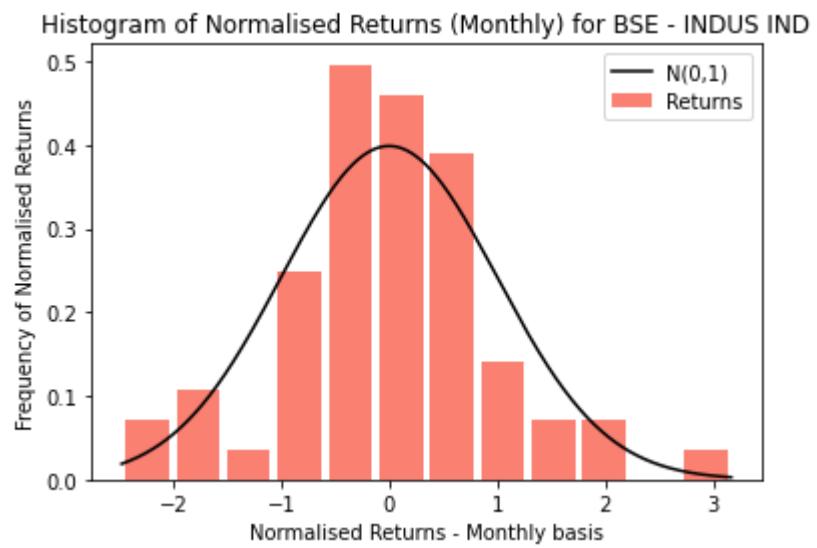




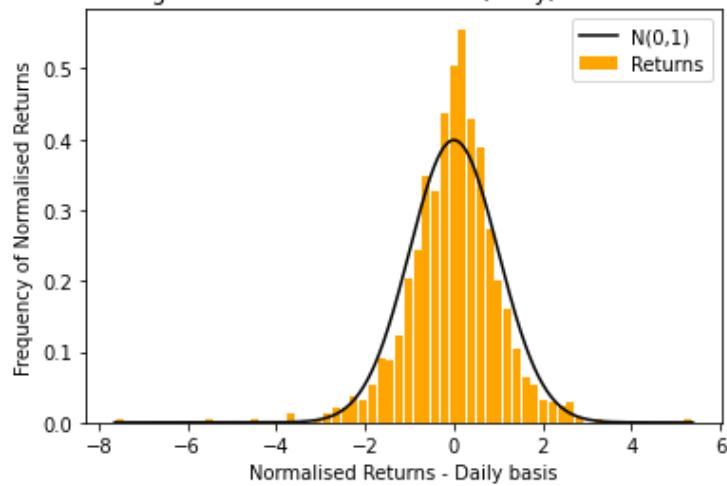
Question 2.

NSE:

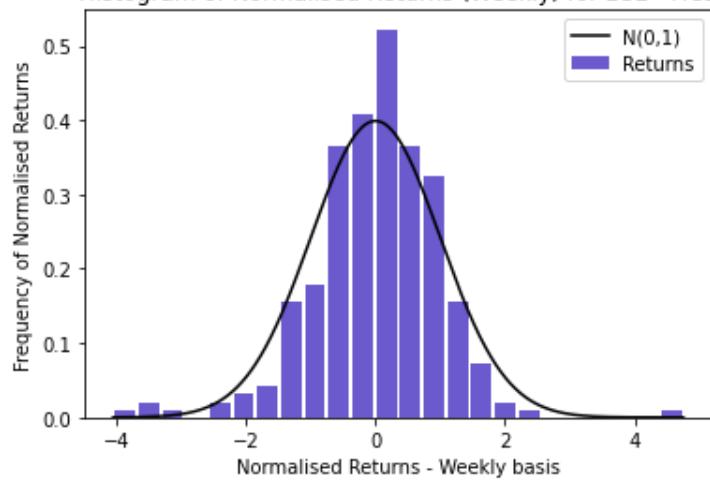




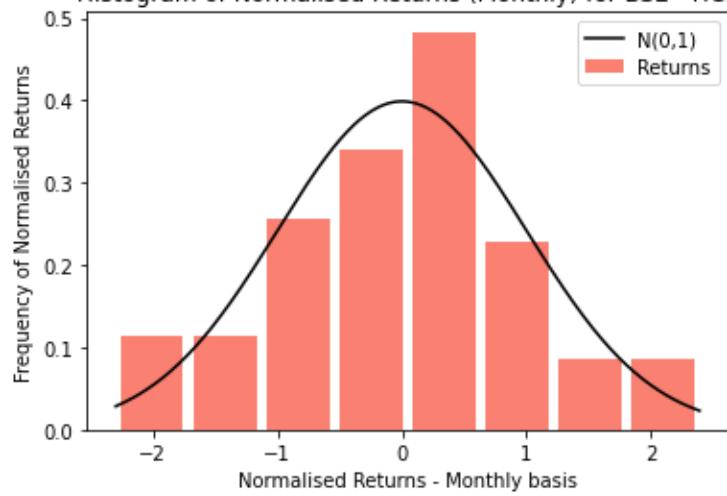
Histogram of Normalised Returns (Daily) for BSE - HCL

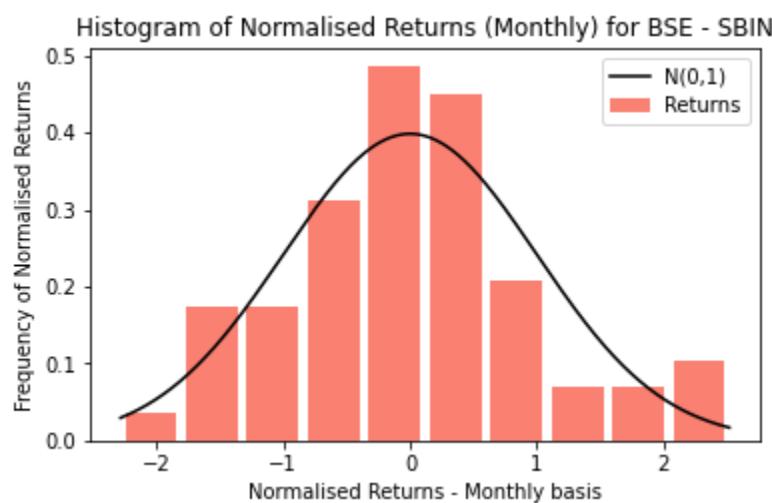
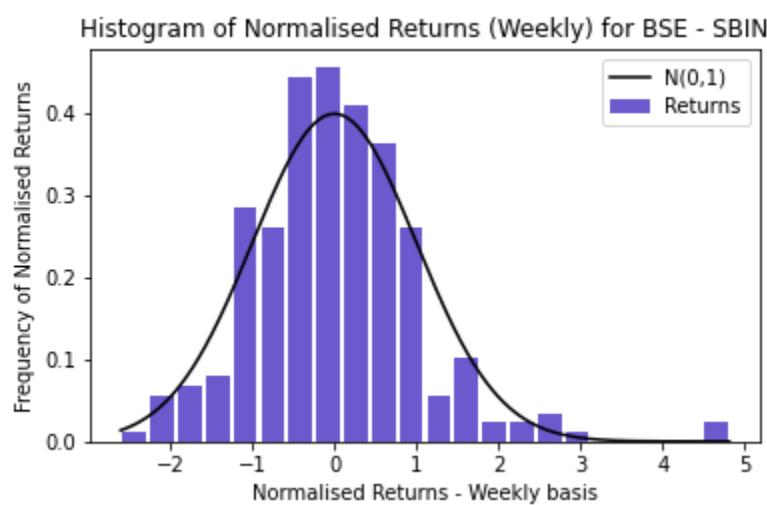
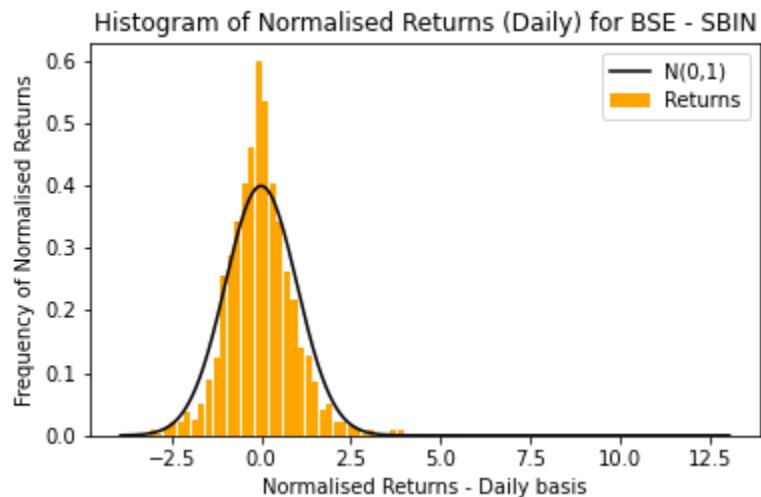


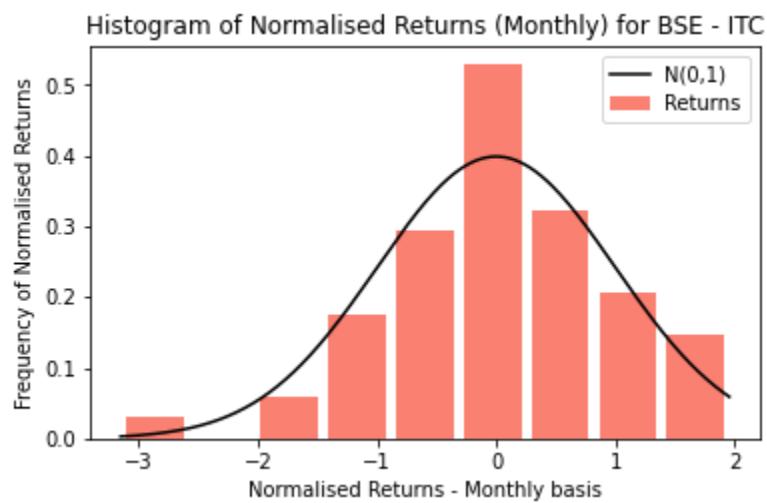
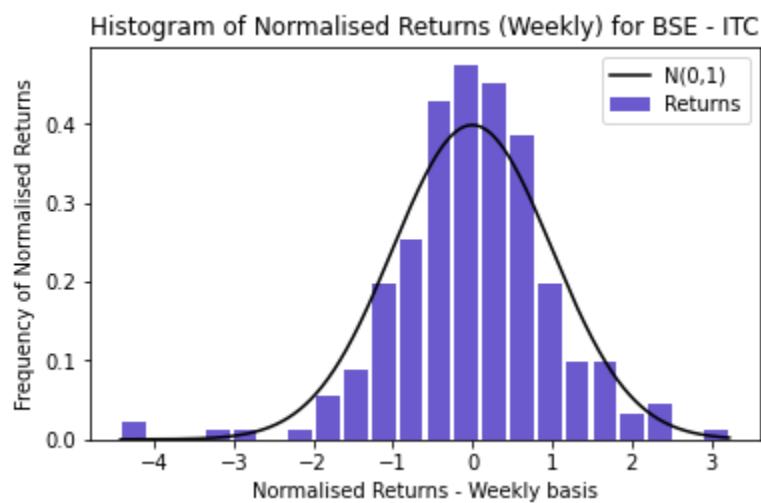
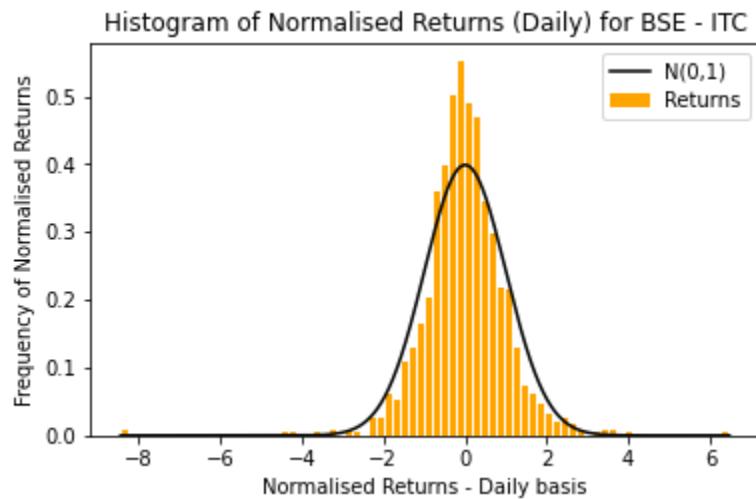
Histogram of Normalised Returns (Weekly) for BSE - HCL



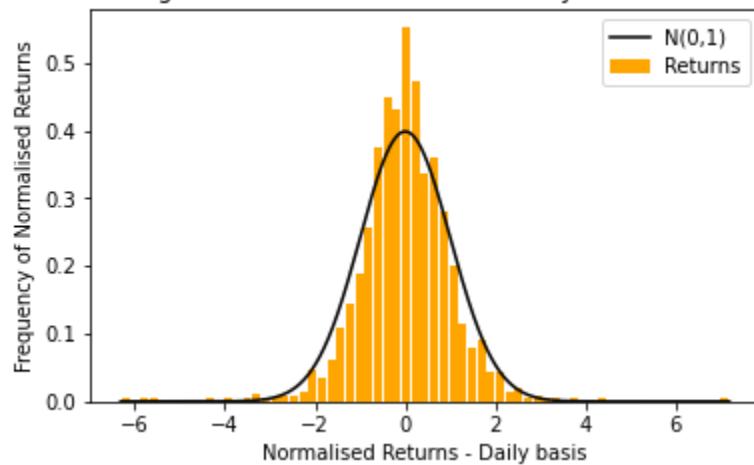
Histogram of Normalised Returns (Monthly) for BSE - HCL



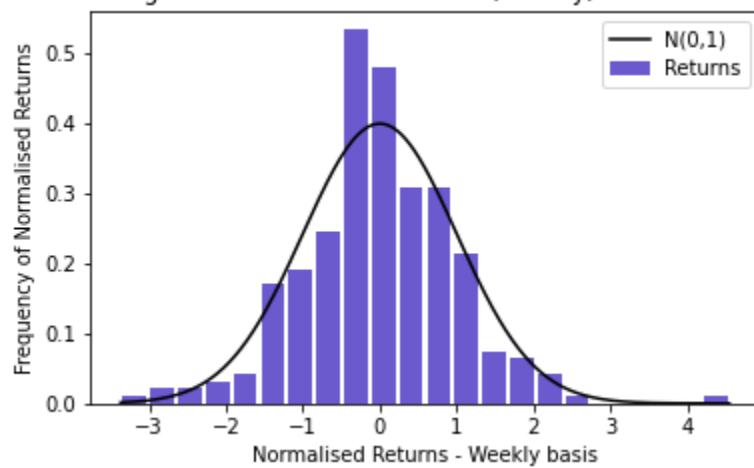




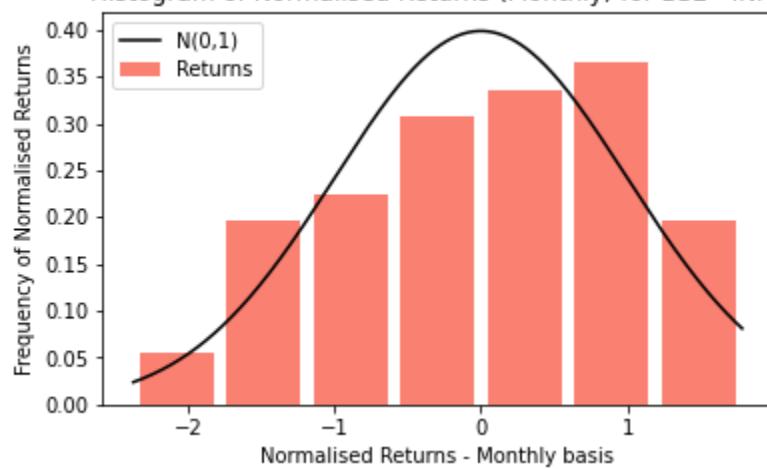
Histogram of Normalised Returns (Daily) for BSE - INFY

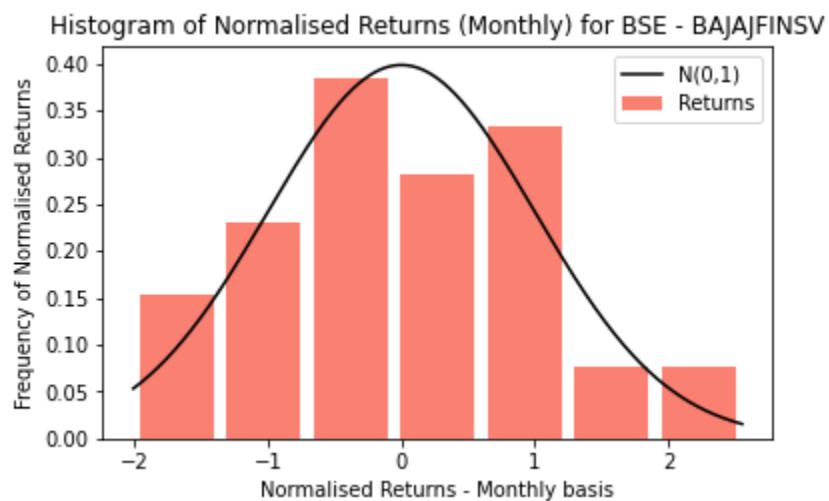
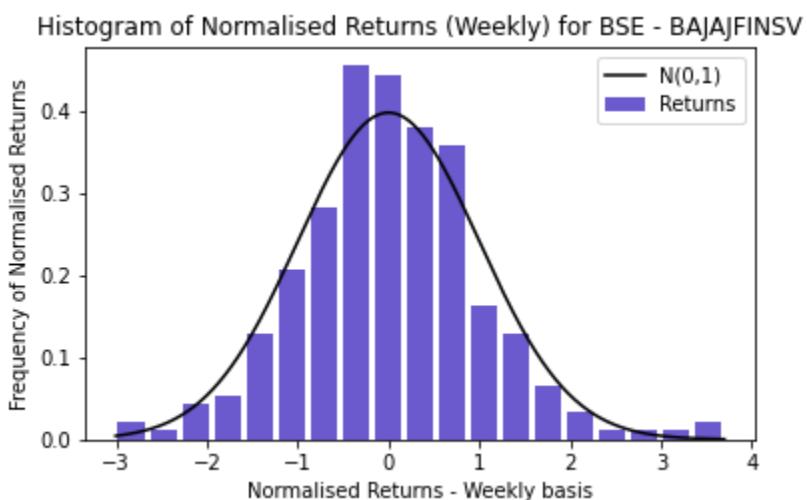
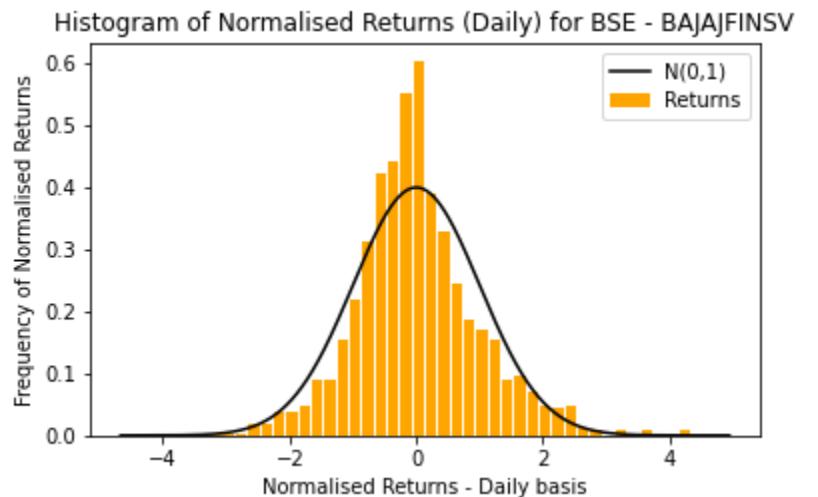


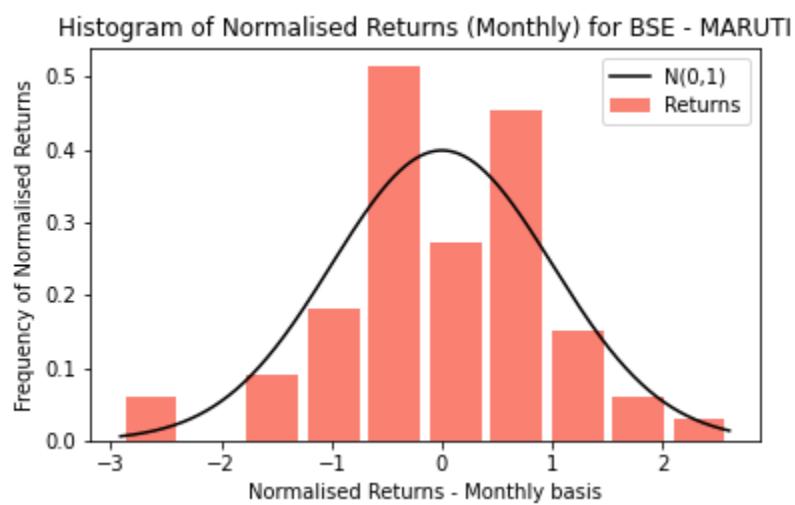
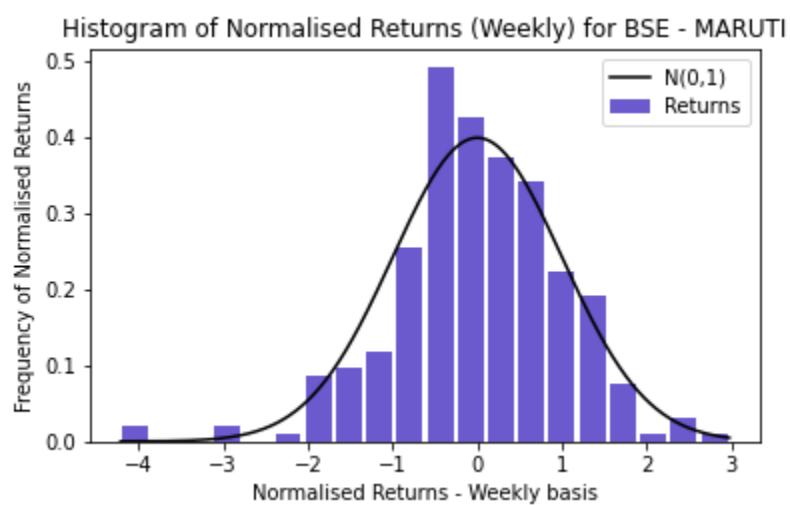
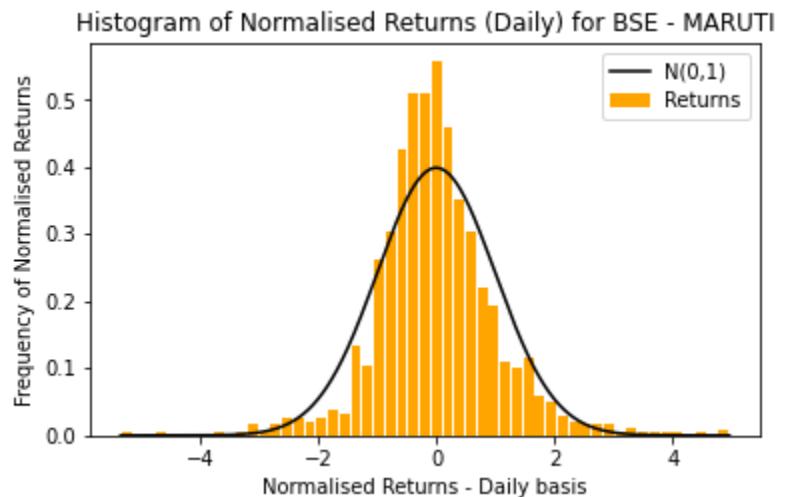
Histogram of Normalised Returns (Weekly) for BSE - INFY

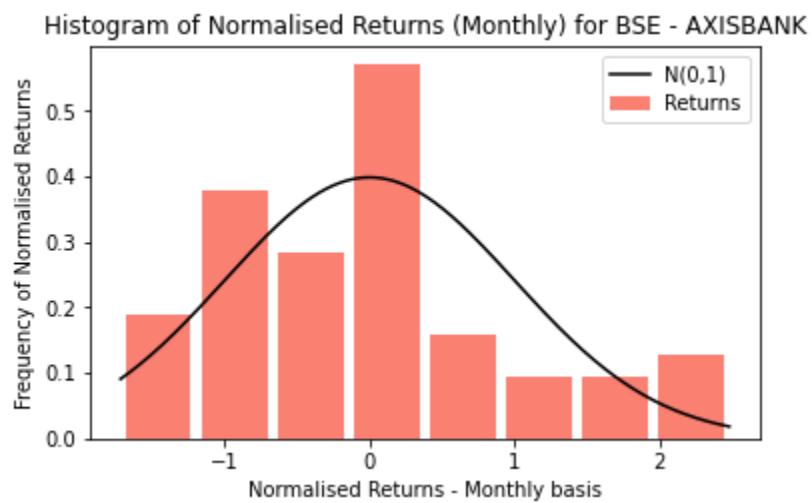
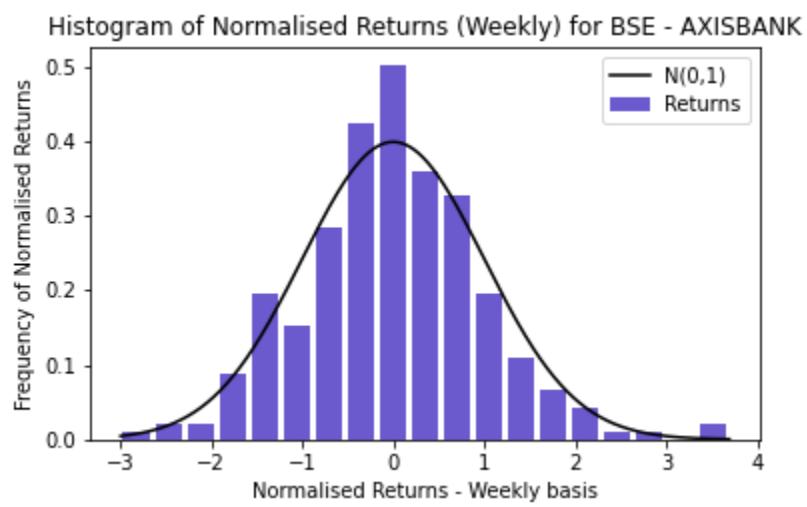
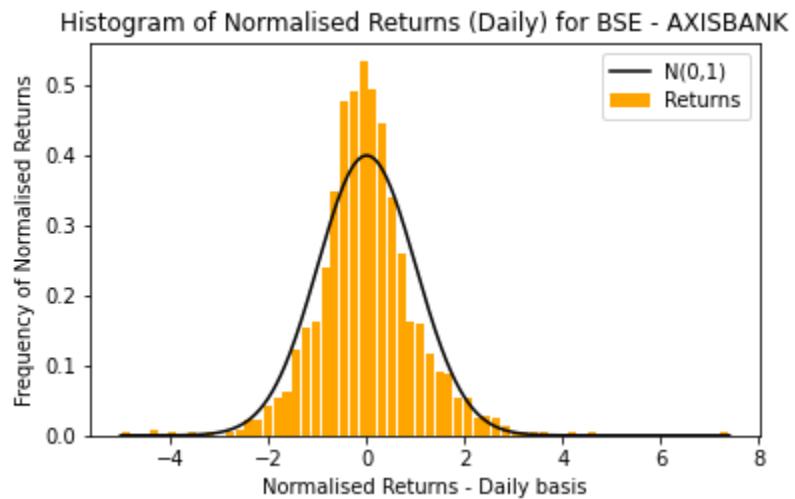


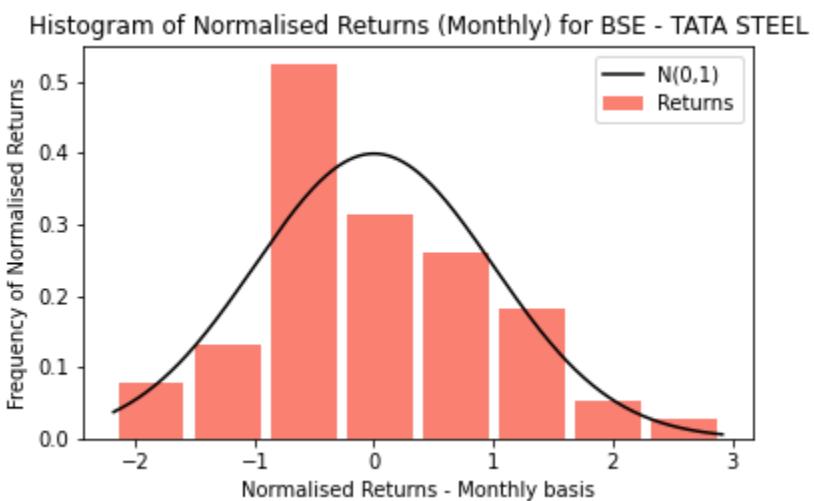
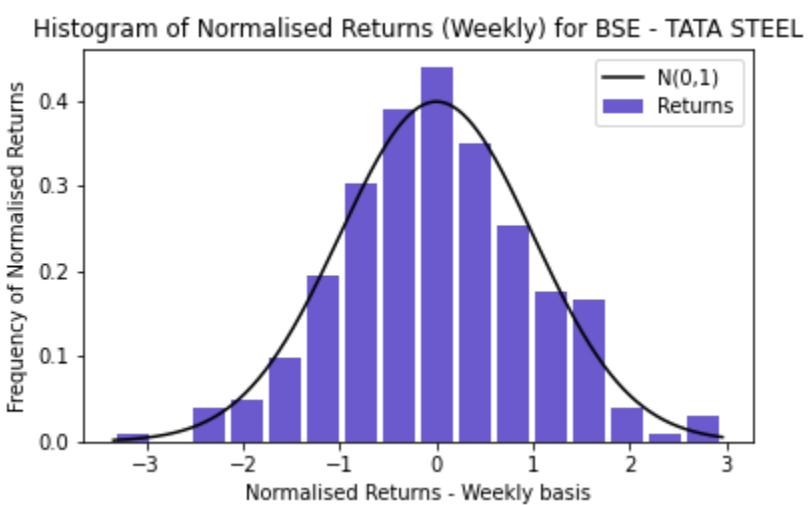
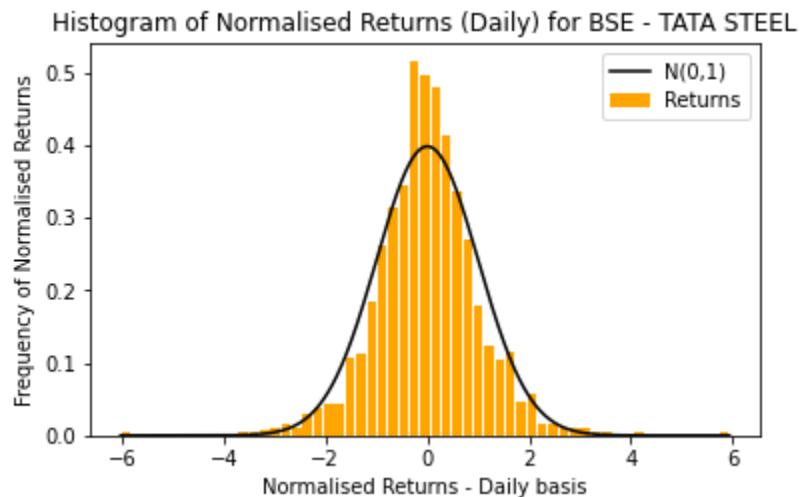
Histogram of Normalised Returns (Monthly) for BSE - INFY

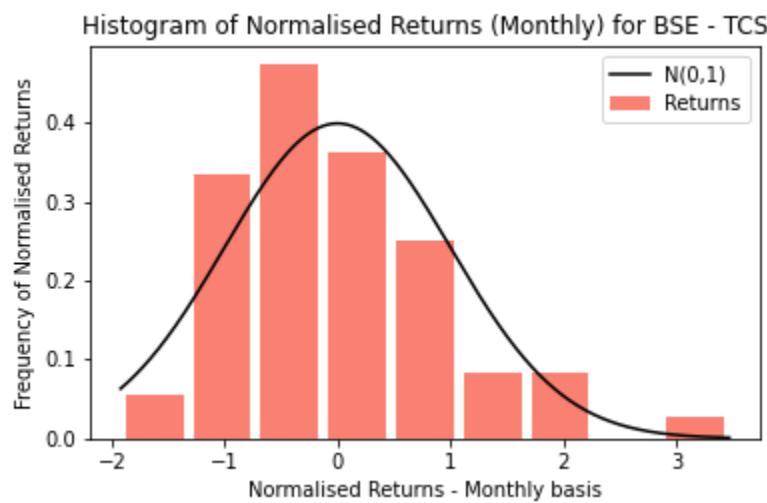
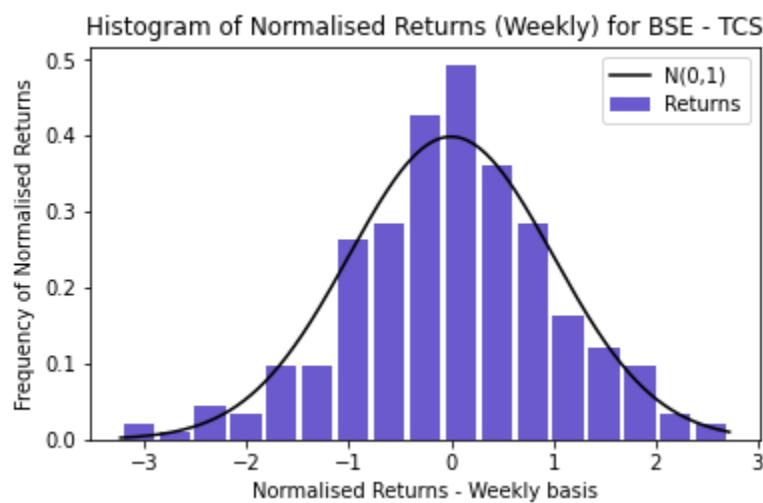
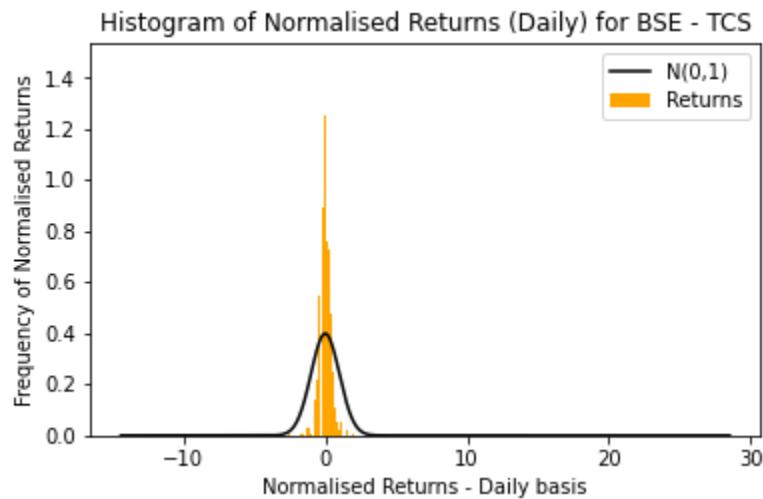






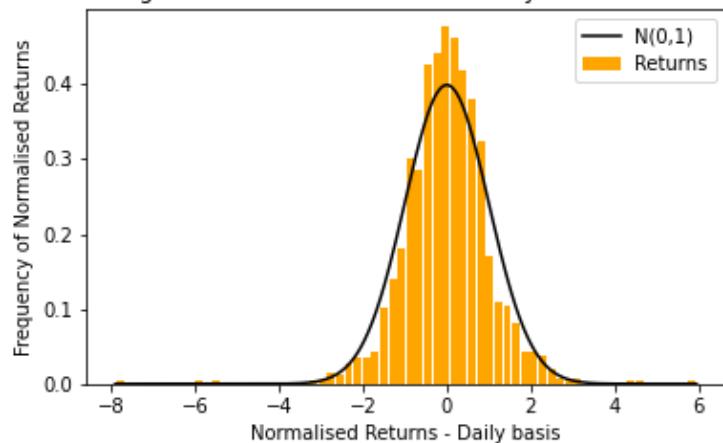




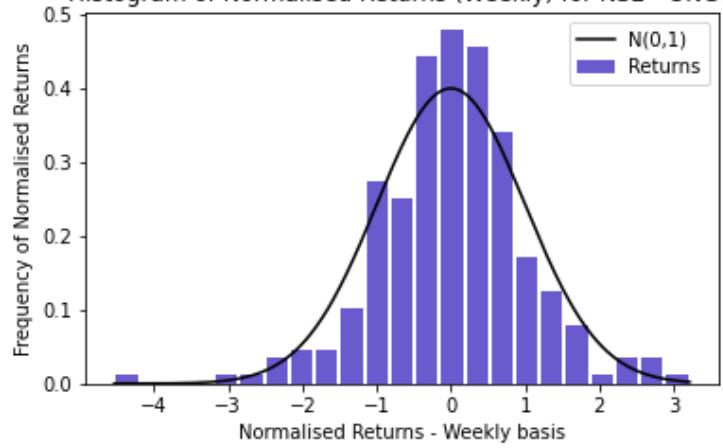


NSE:

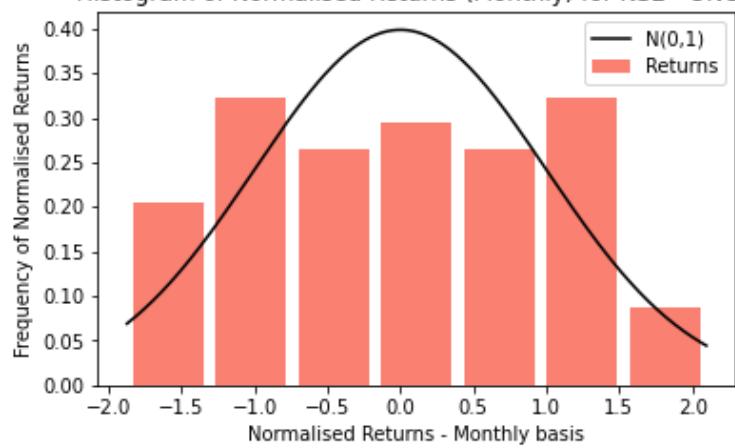
Histogram of Normalised Returns (Daily) for NSE - ONGC



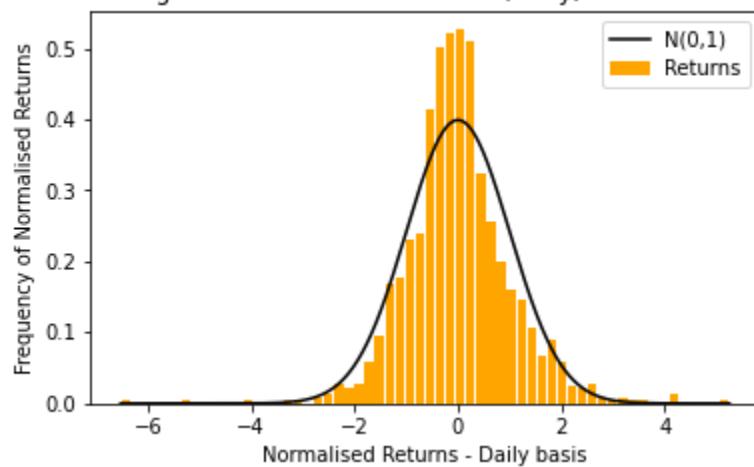
Histogram of Normalised Returns (Weekly) for NSE - ONGC



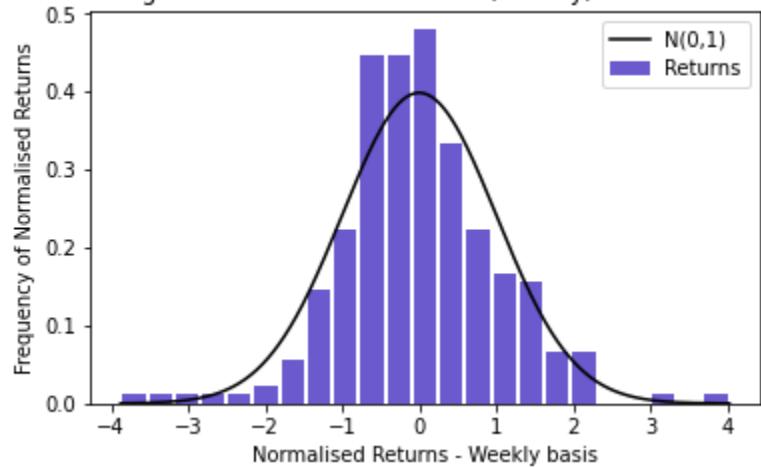
Histogram of Normalised Returns (Monthly) for NSE - ONGC



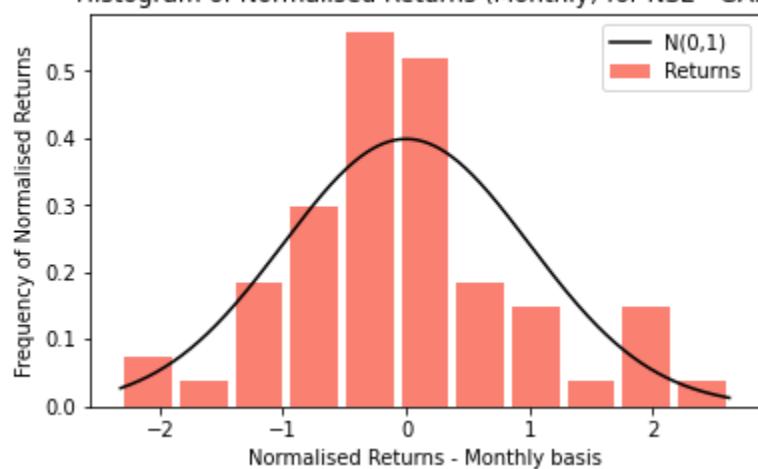
Histogram of Normalised Returns (Daily) for NSE - GAIL



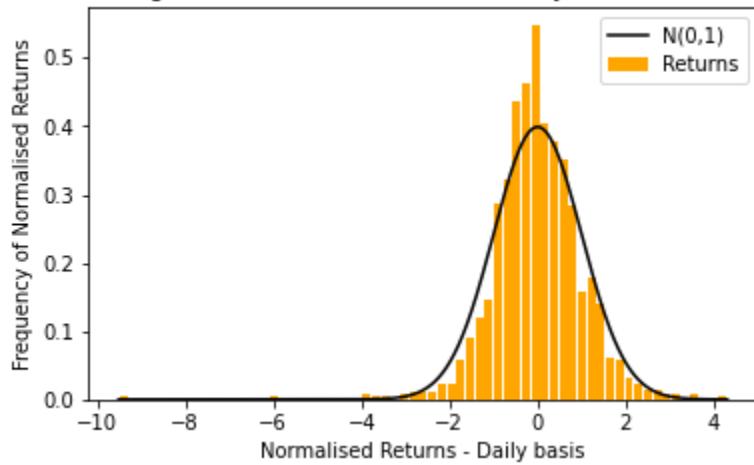
Histogram of Normalised Returns (Weekly) for NSE - GAIL



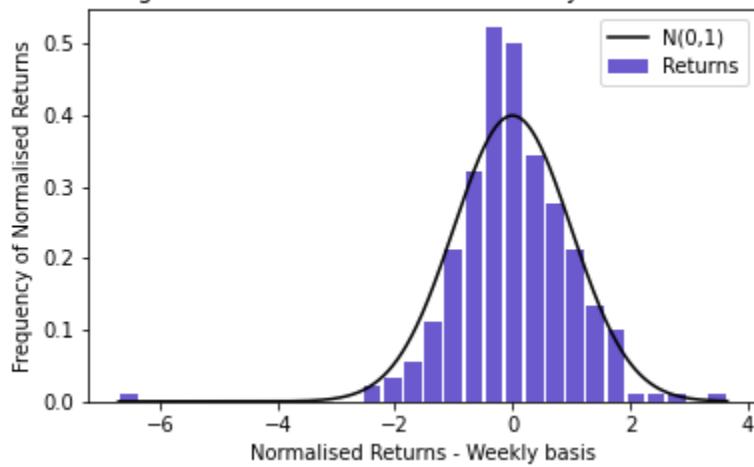
Histogram of Normalised Returns (Monthly) for NSE - GAIL



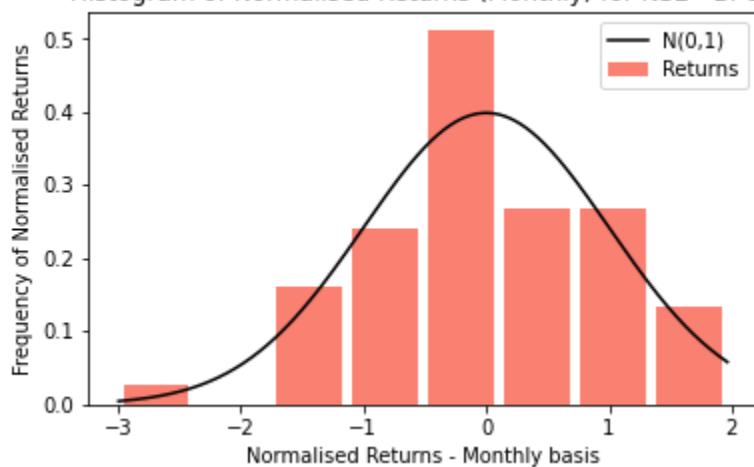
Histogram of Normalised Returns (Daily) for NSE - BPCL

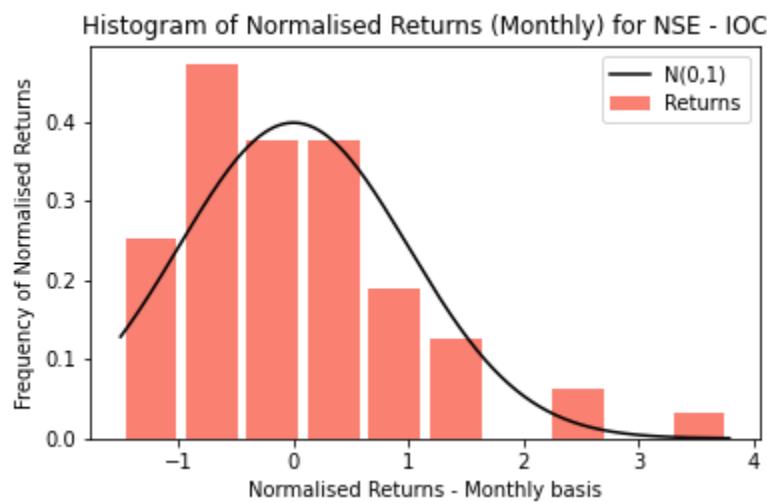
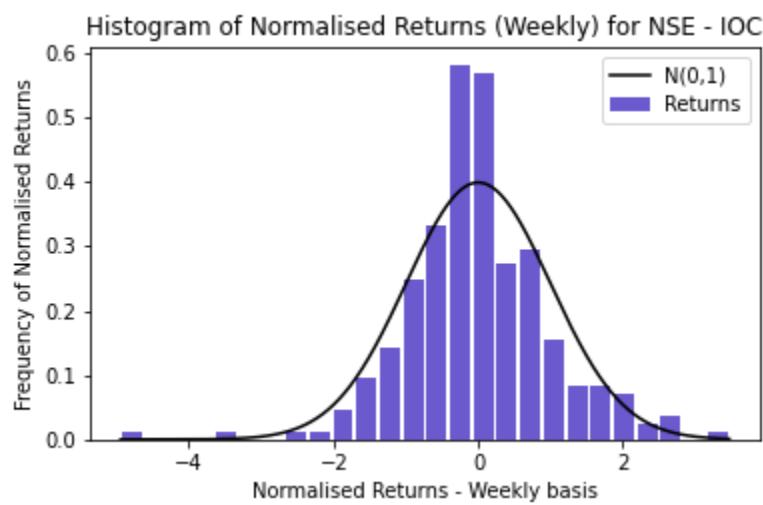
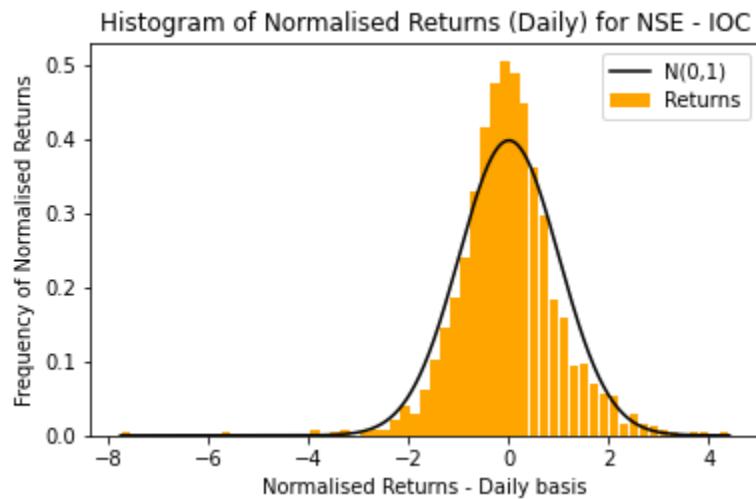


Histogram of Normalised Returns (Weekly) for NSE - BPCL

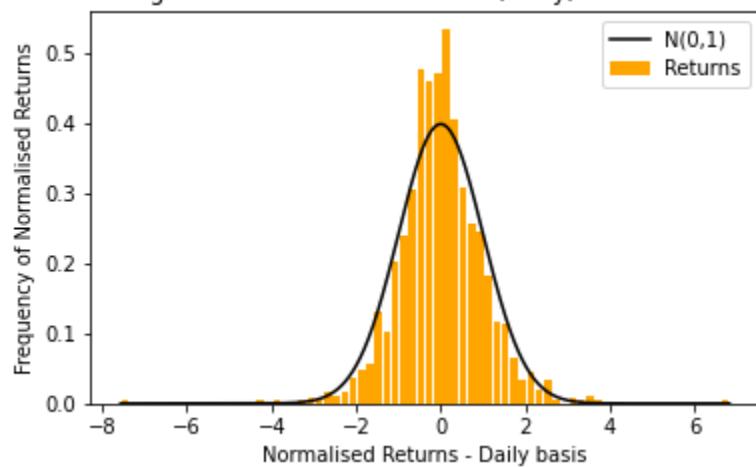


Histogram of Normalised Returns (Monthly) for NSE - BPCL

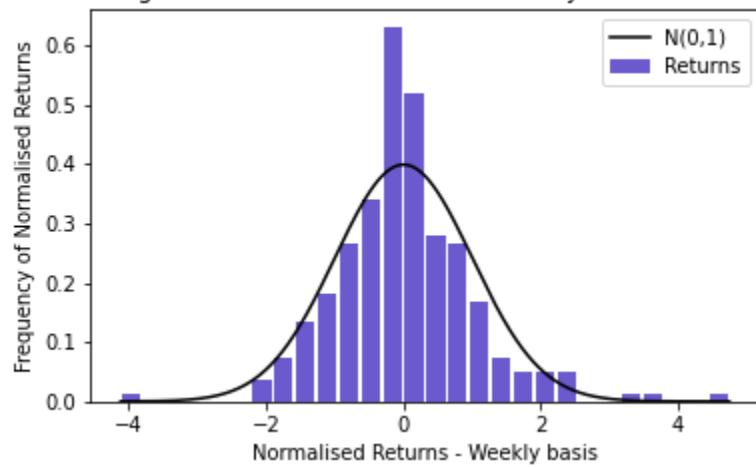




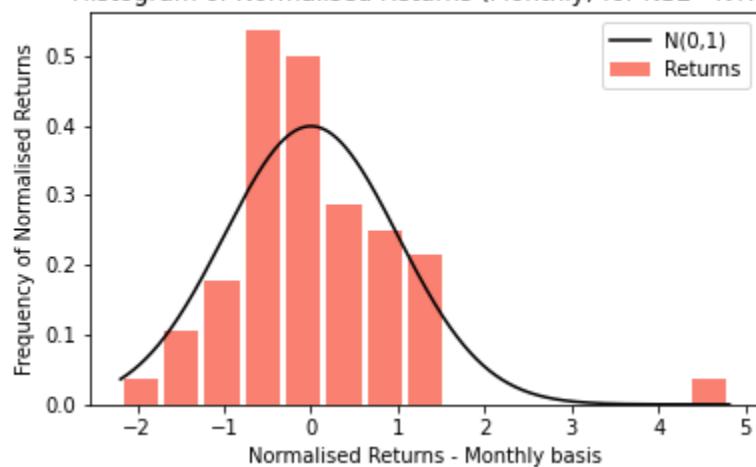
Histogram of Normalised Returns (Daily) for NSE - NTPC

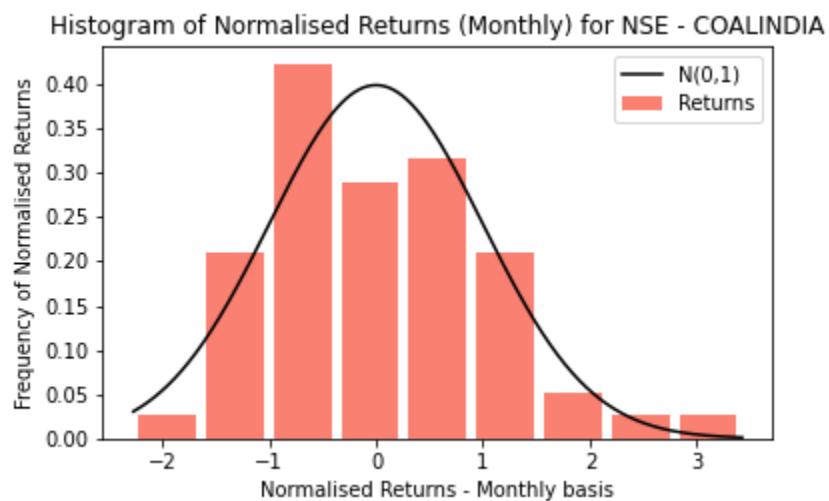
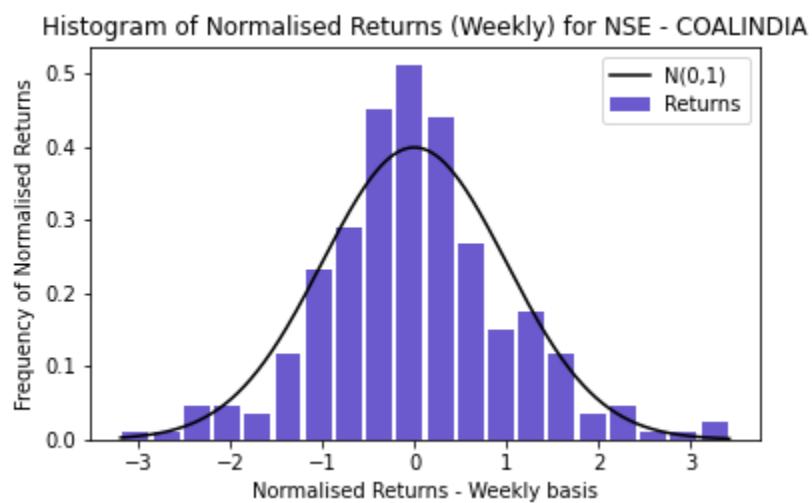
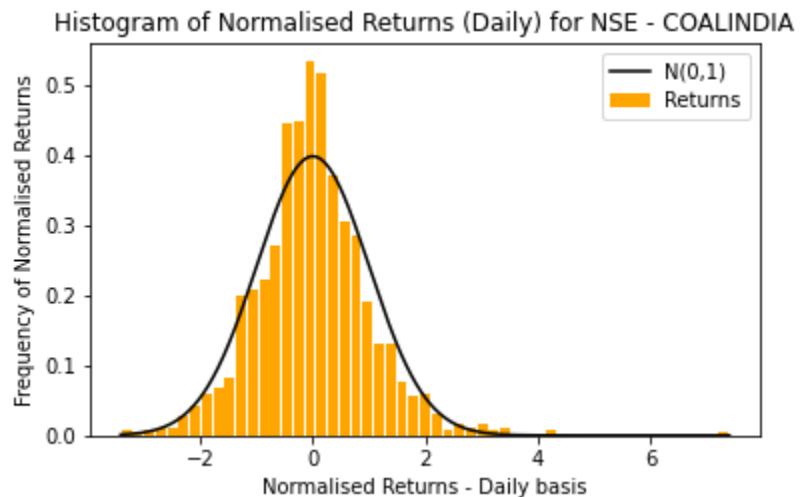


Histogram of Normalised Returns (Weekly) for NSE - NTPC

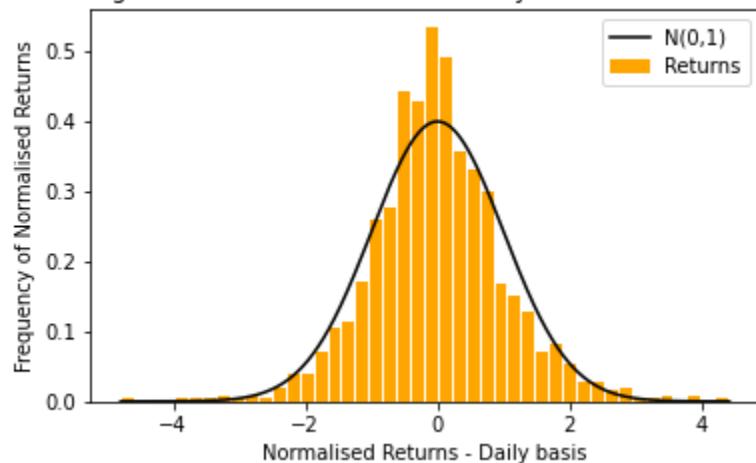


Histogram of Normalised Returns (Monthly) for NSE - NTPC

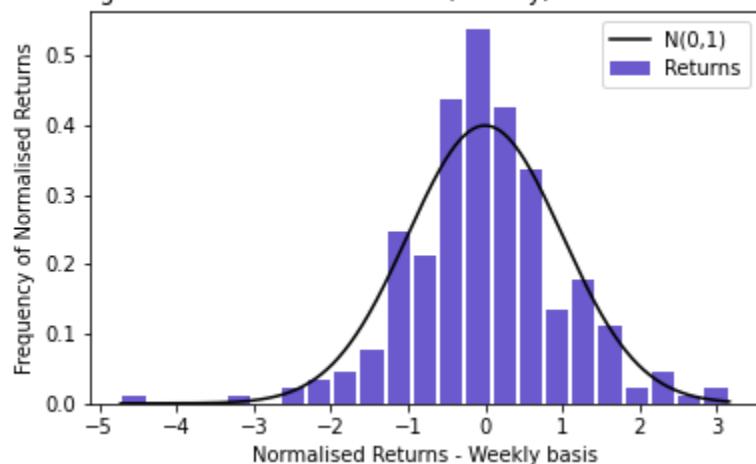




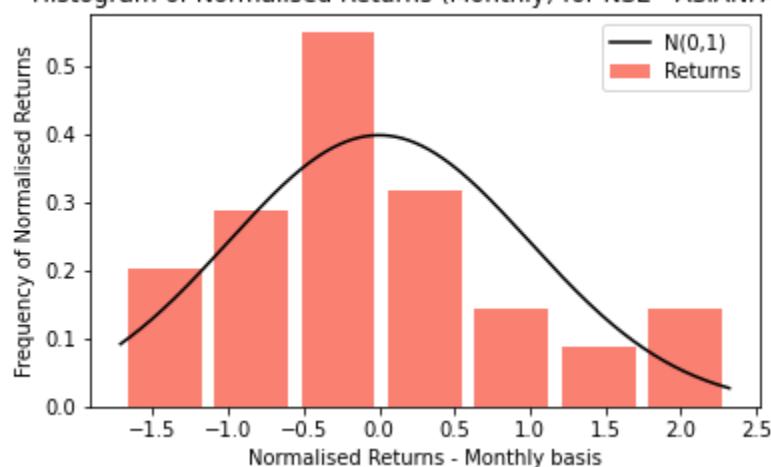
Histogram of Normalised Returns (Daily) for NSE - ASIANPAINT



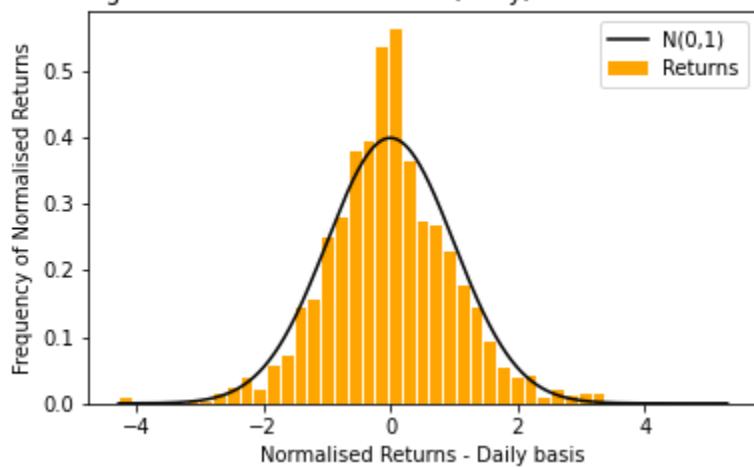
Histogram of Normalised Returns (Weekly) for NSE - ASIANPAINT



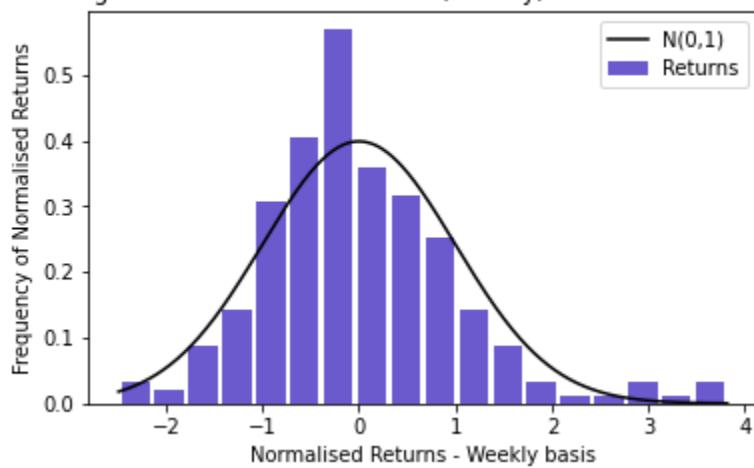
Histogram of Normalised Returns (Monthly) for NSE - ASIANPAINT



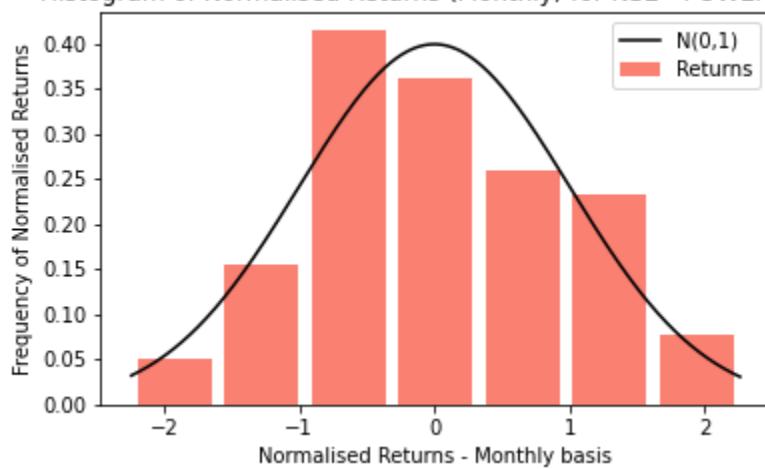
Histogram of Normalised Returns (Daily) for NSE - POWERGRID

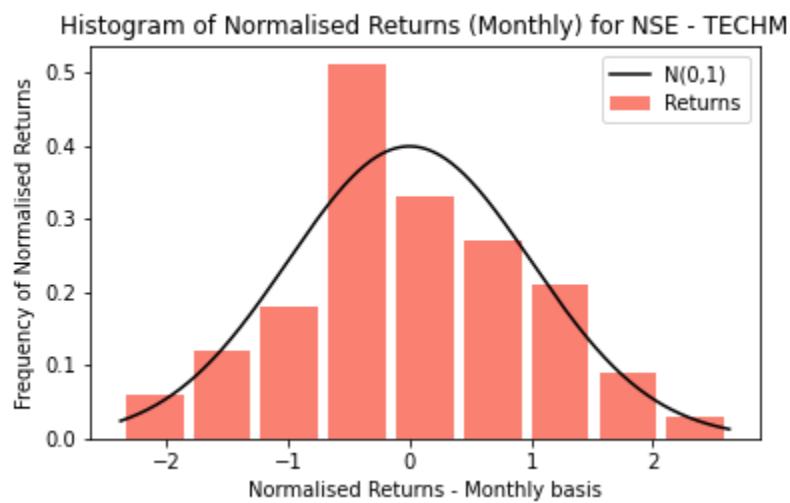
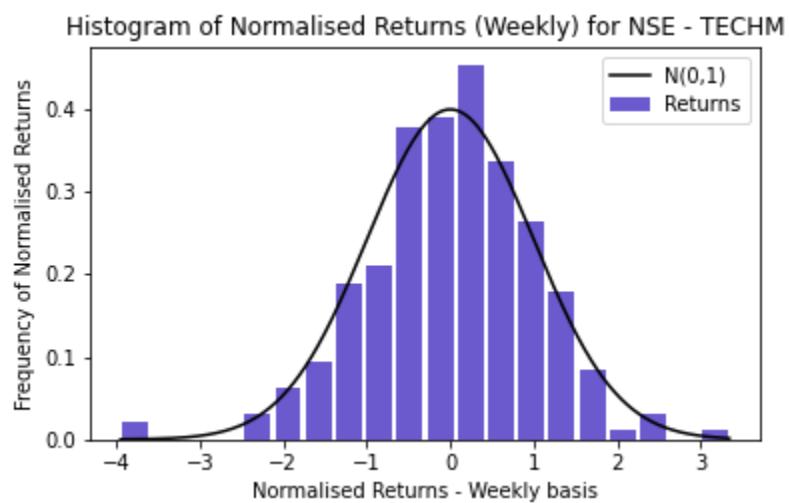
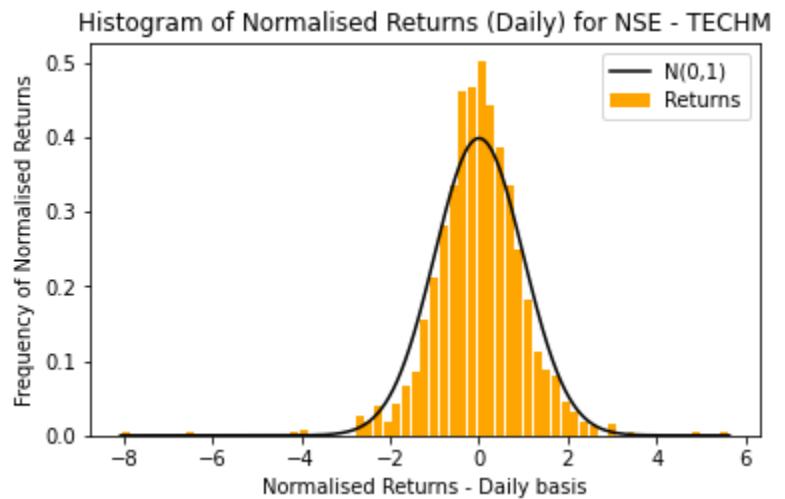


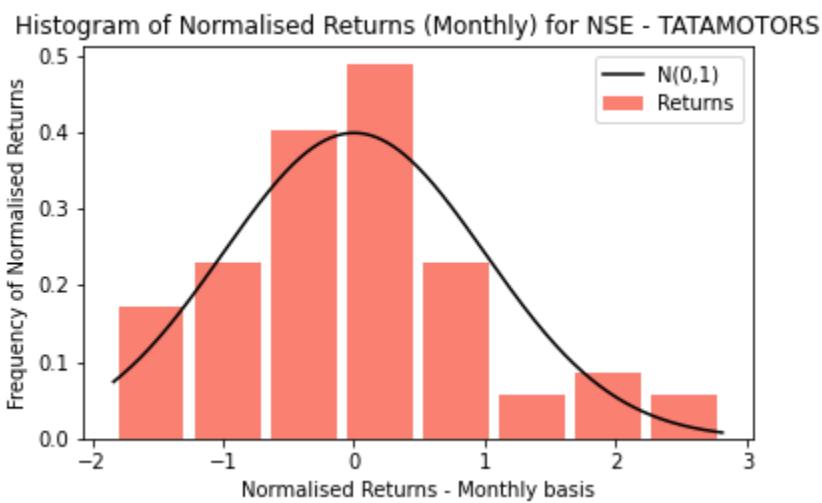
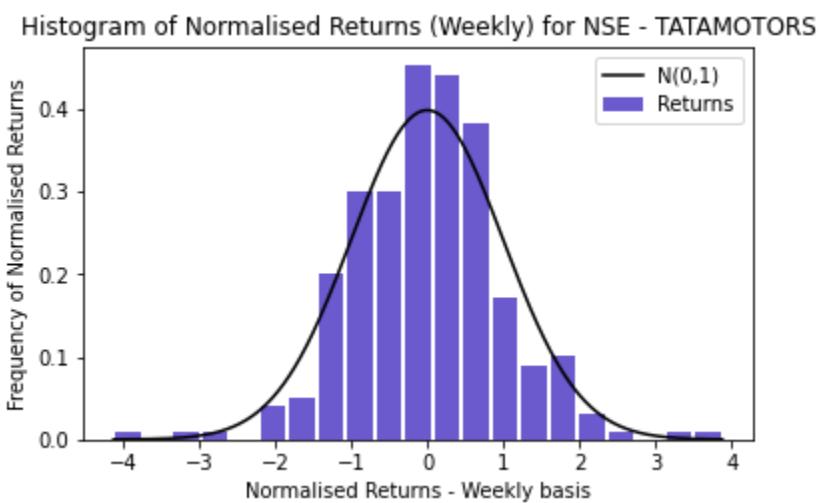
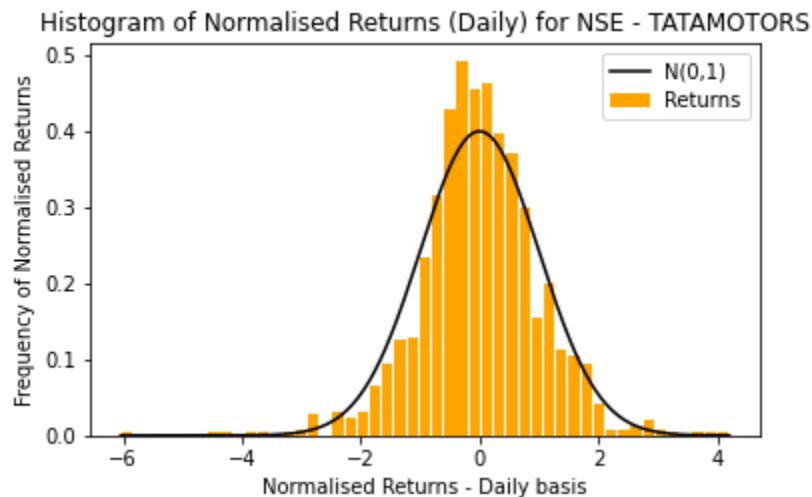
Histogram of Normalised Returns (Weekly) for NSE - POWERGRID



Histogram of Normalised Returns (Monthly) for NSE - POWERGRID

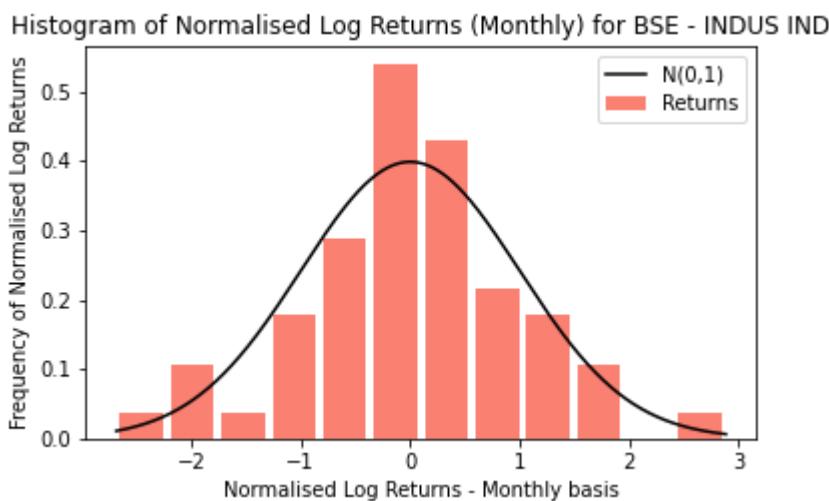
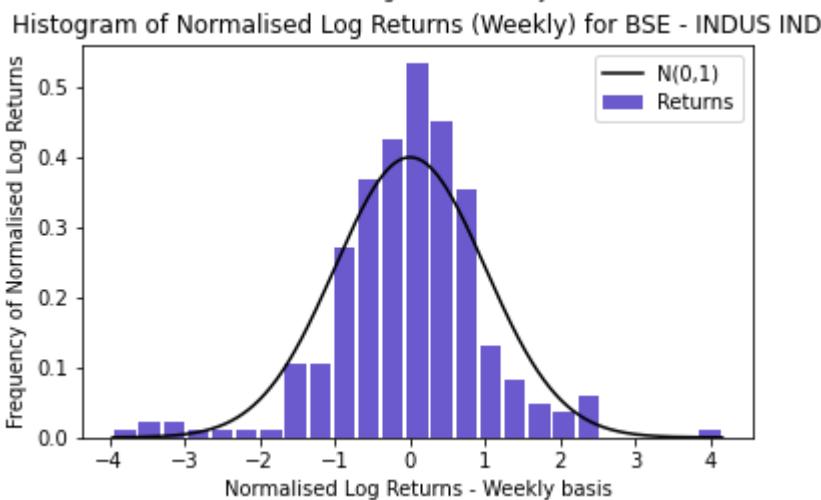
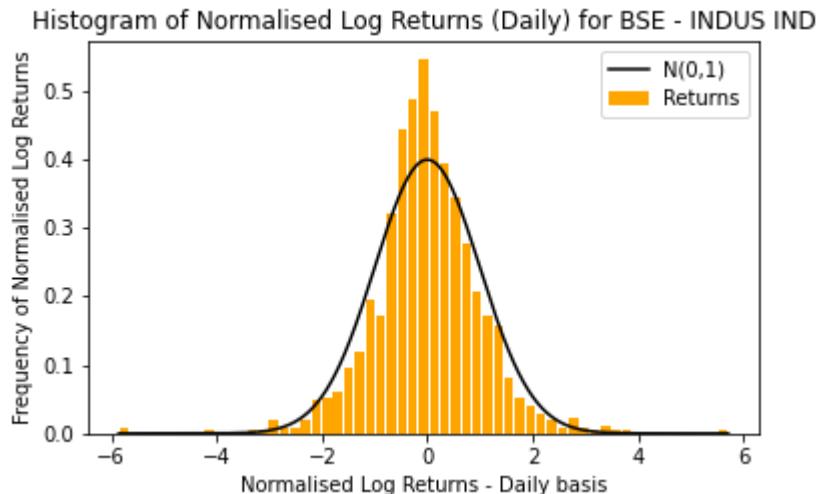


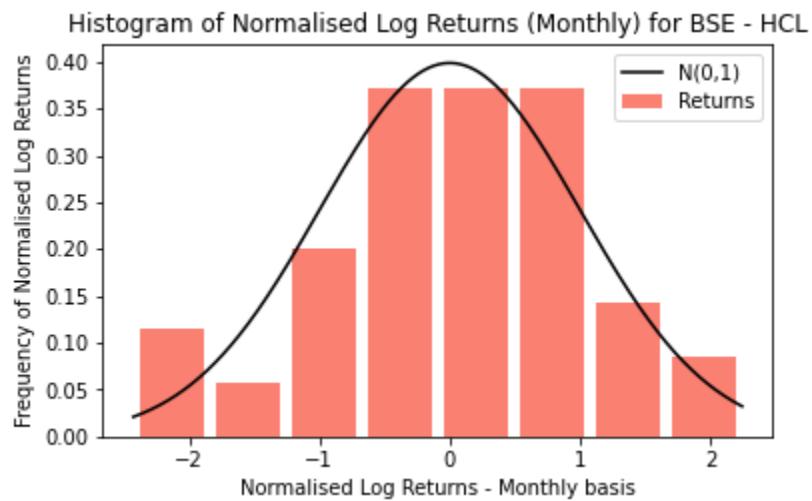
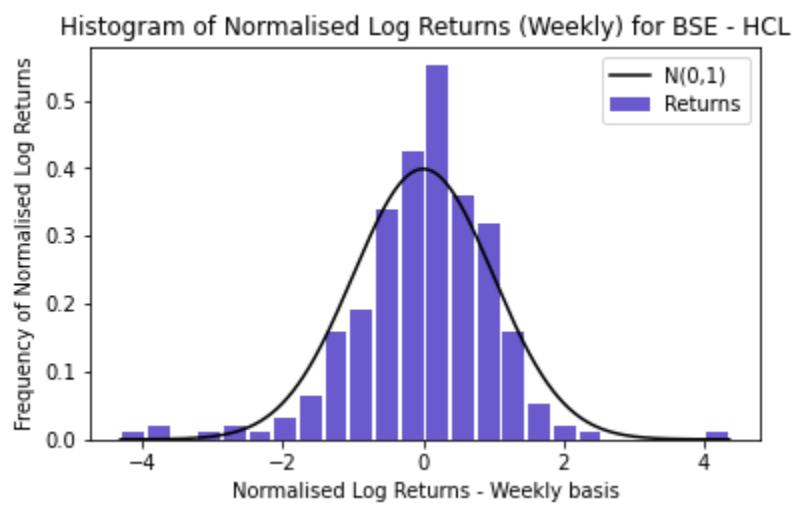
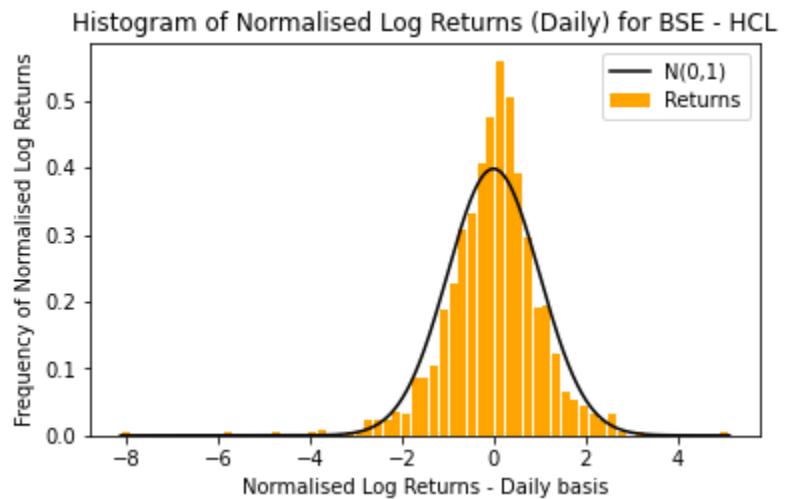


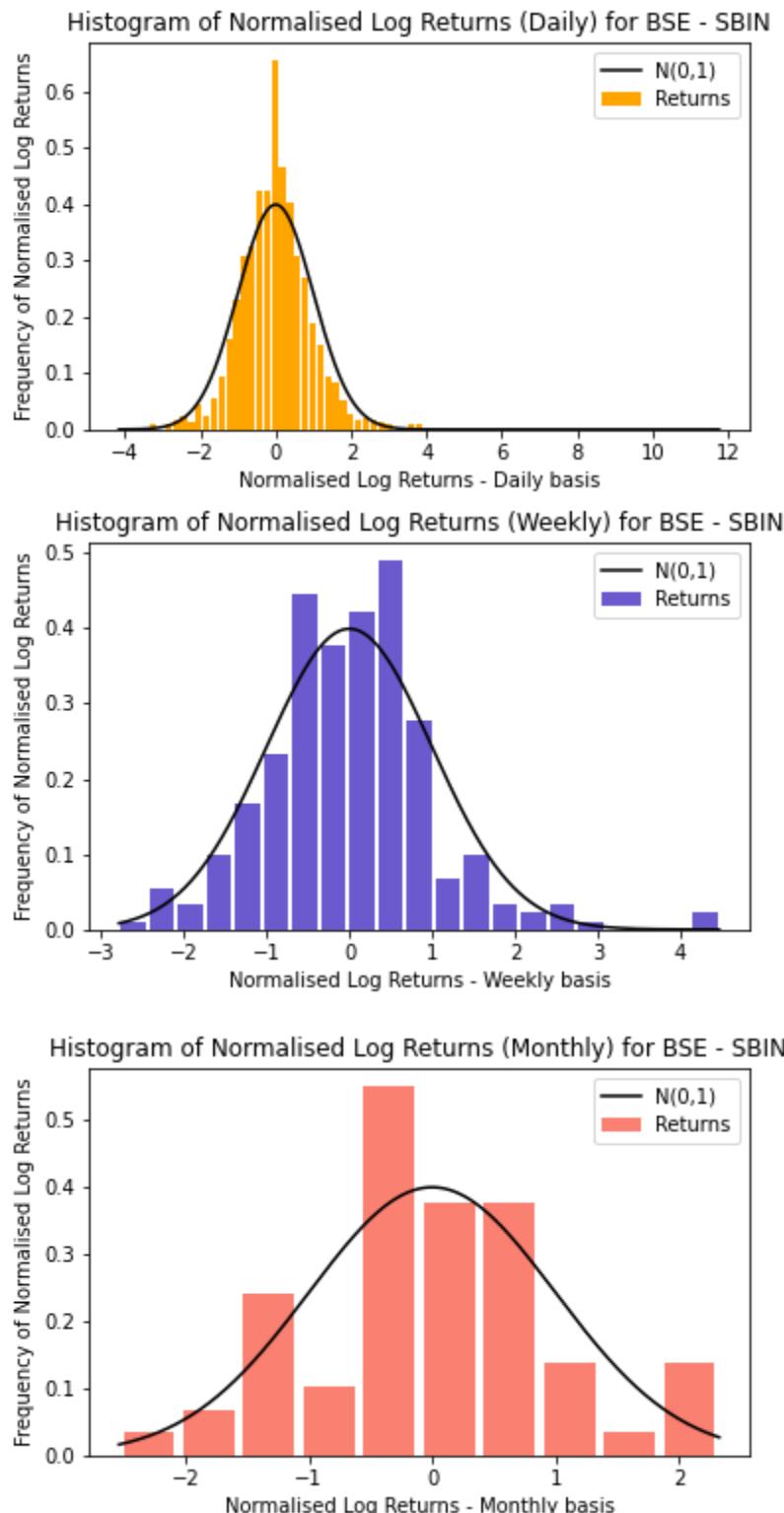


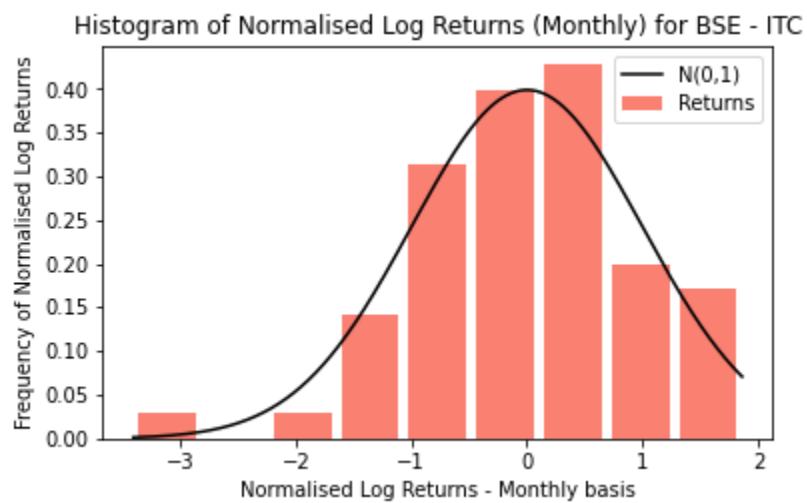
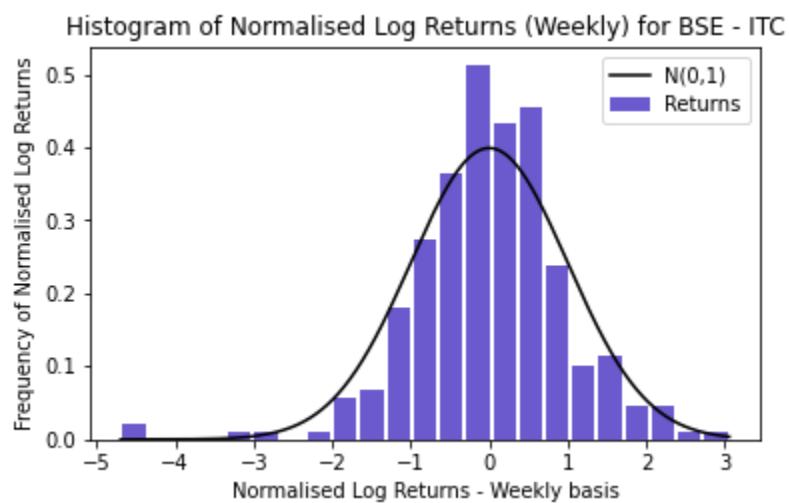
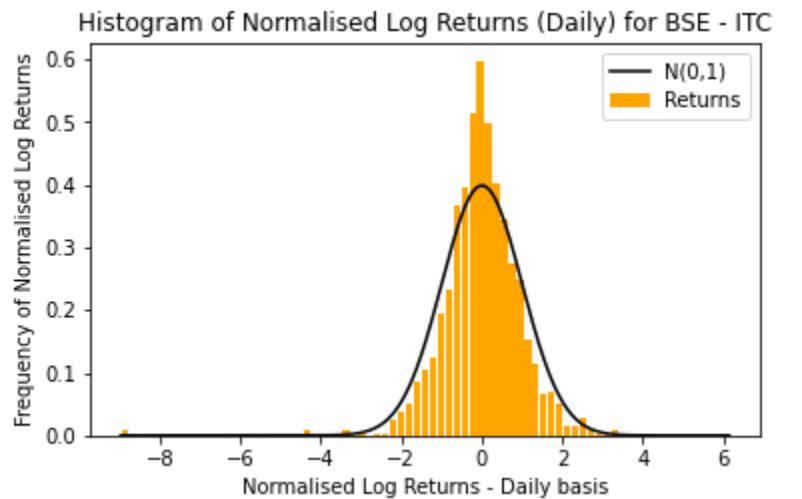
Question 3:

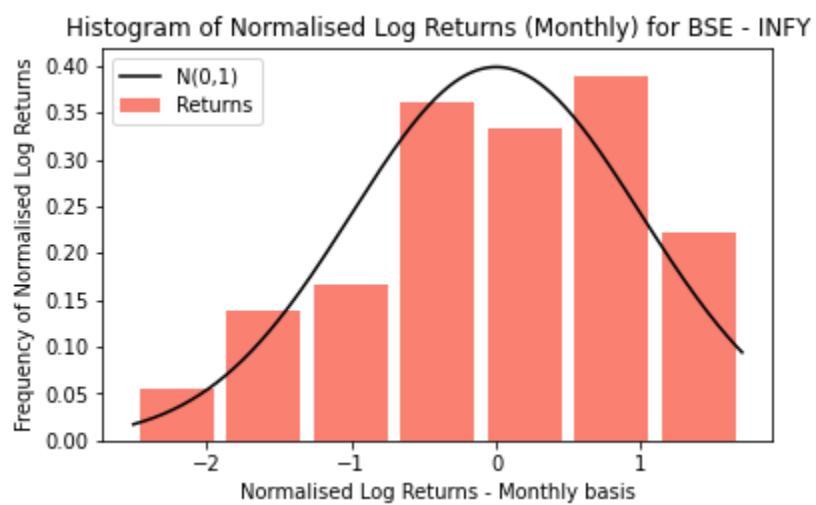
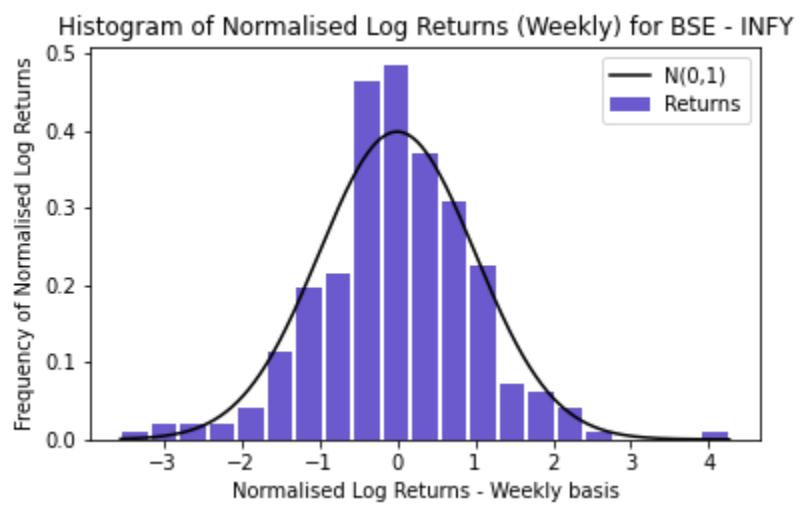
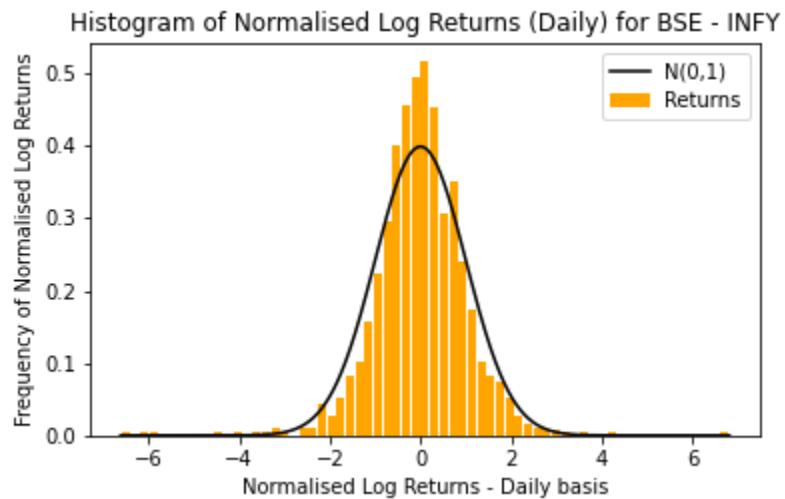
BSE:



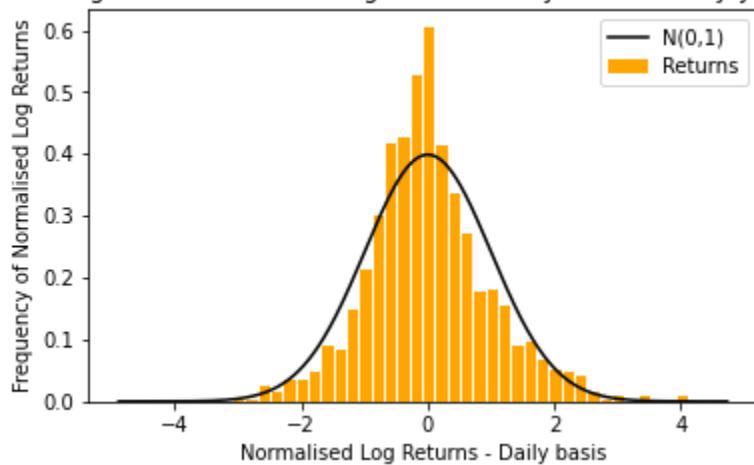




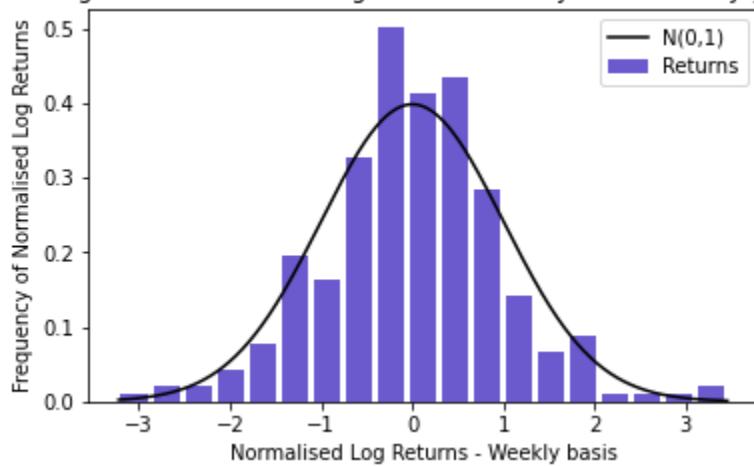




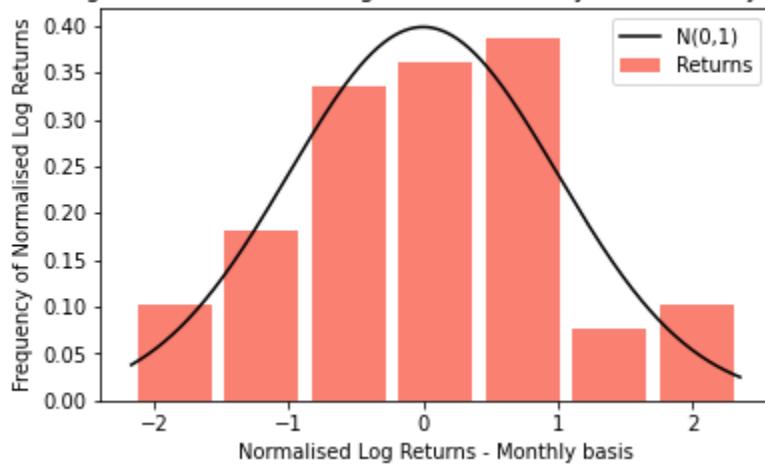
Histogram of Normalised Log Returns (Daily) for BSE - BAJAJFINSV

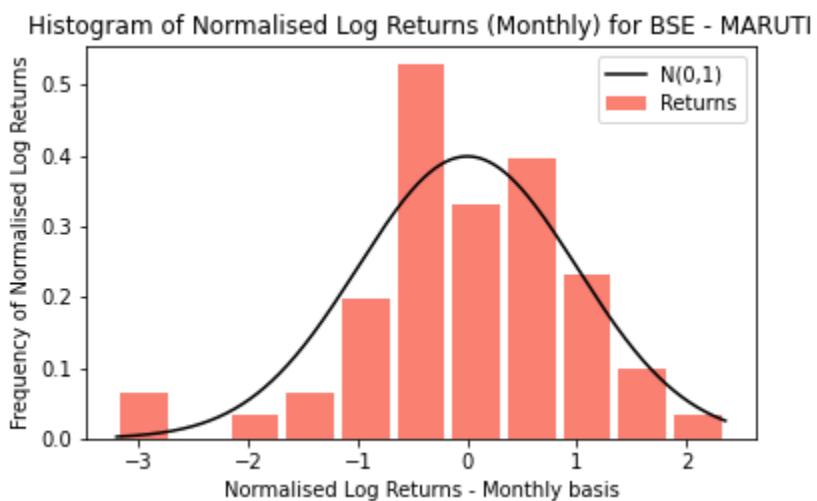
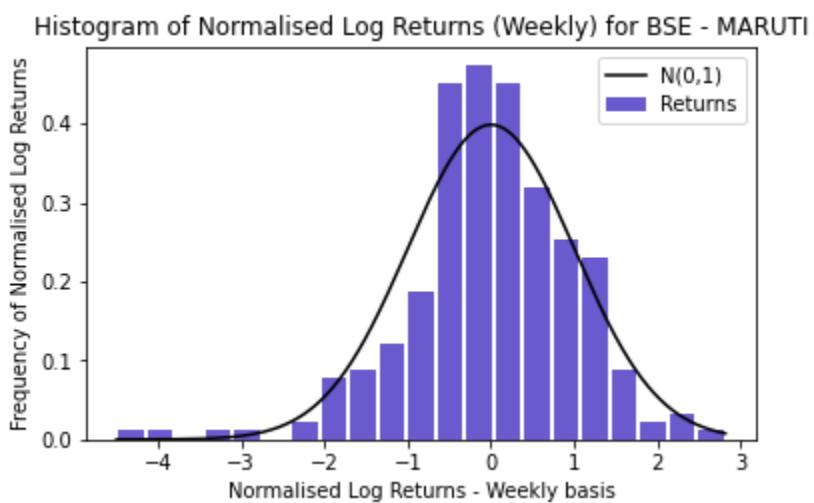
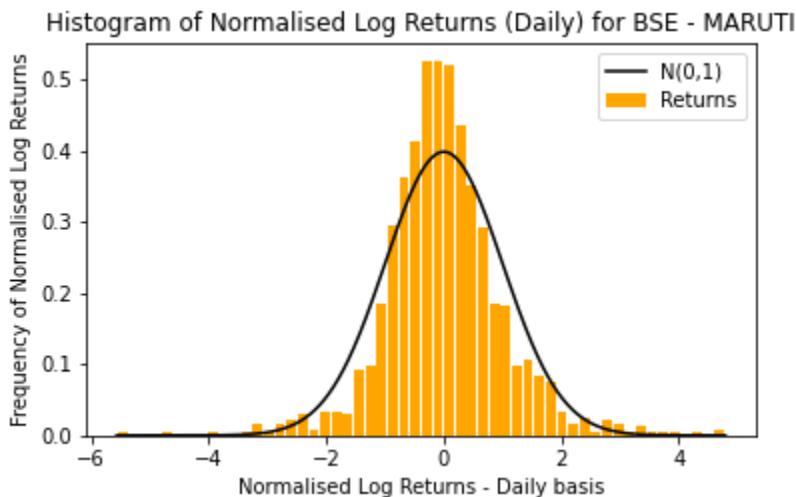


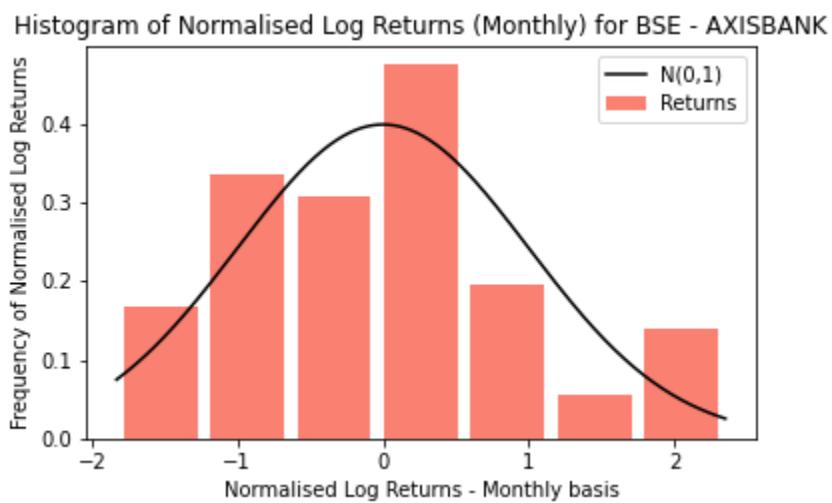
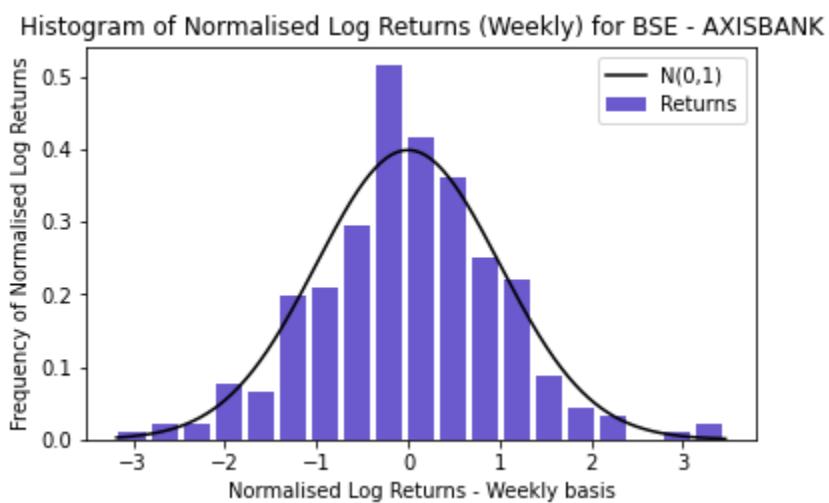
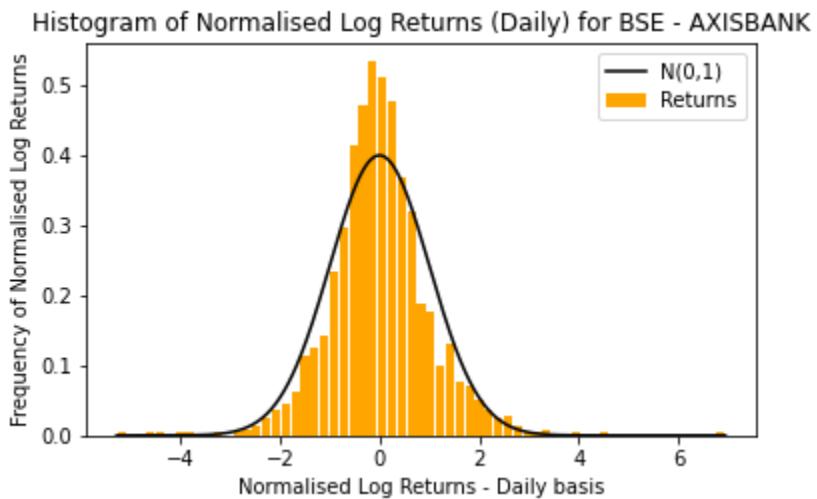
Histogram of Normalised Log Returns (Weekly) for BSE - BAJAJFINSV



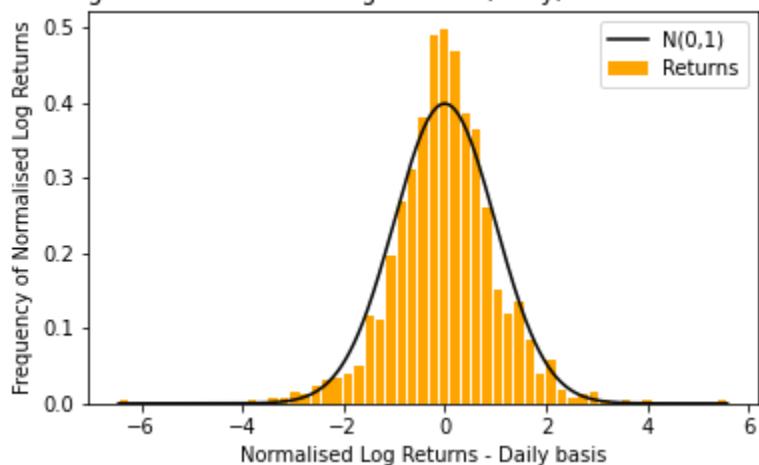
Histogram of Normalised Log Returns (Monthly) for BSE - BAJAJFINSV



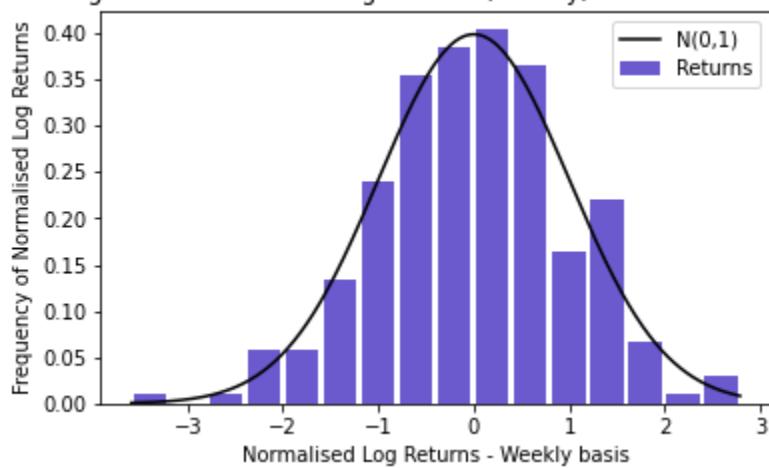




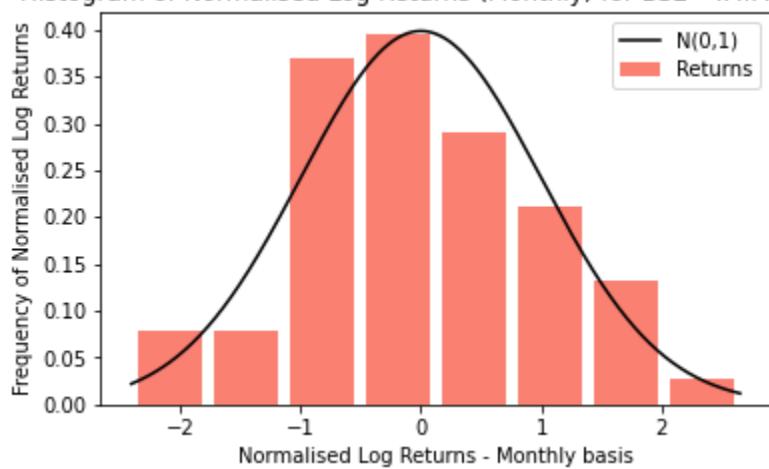
Histogram of Normalised Log Returns (Daily) for BSE - TATA STEEL

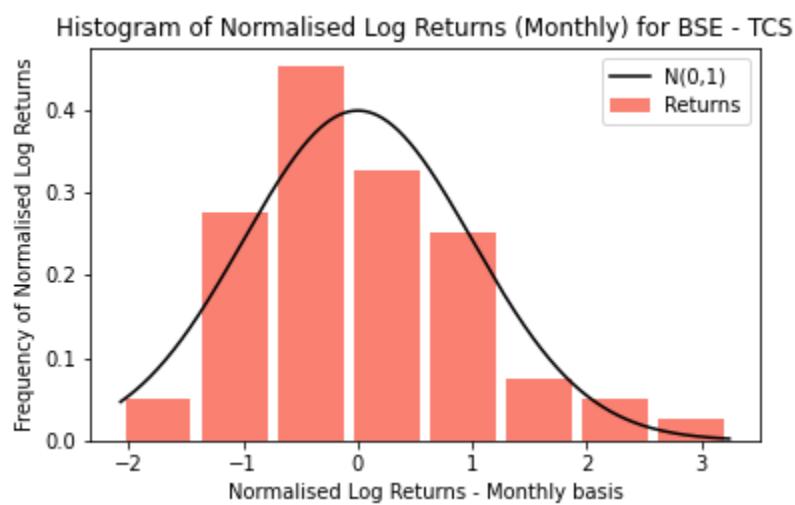
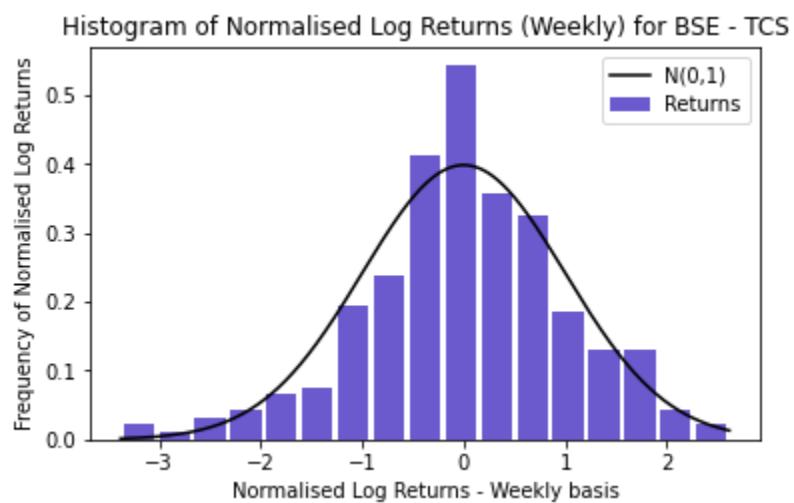
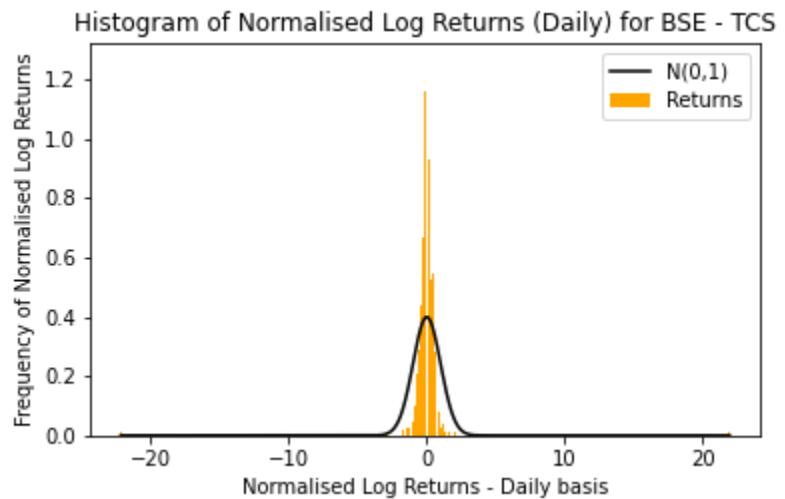


Histogram of Normalised Log Returns (Weekly) for BSE - TATA STEEL

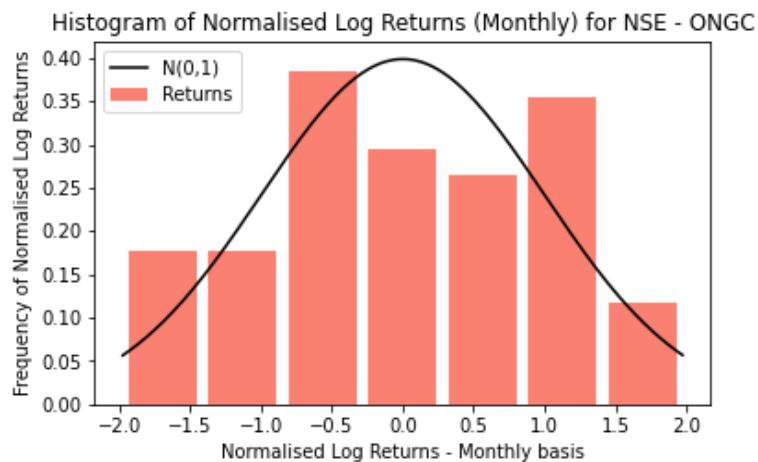
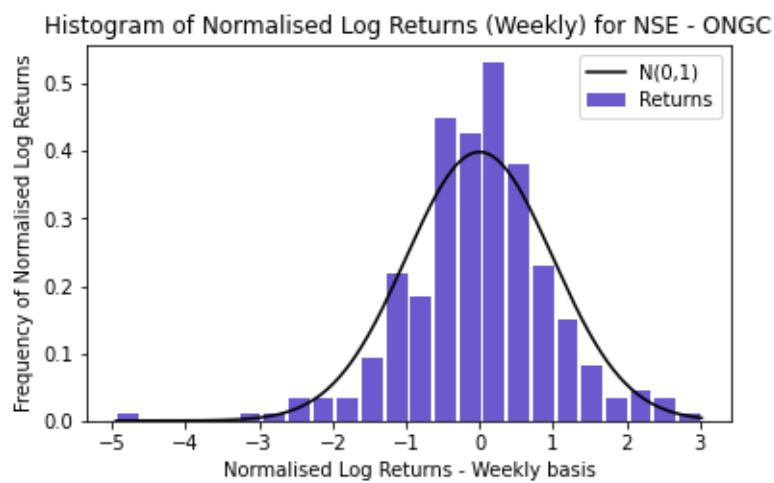
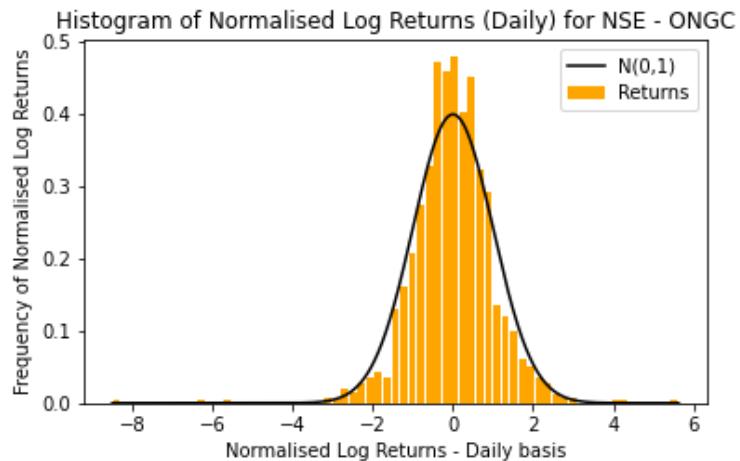


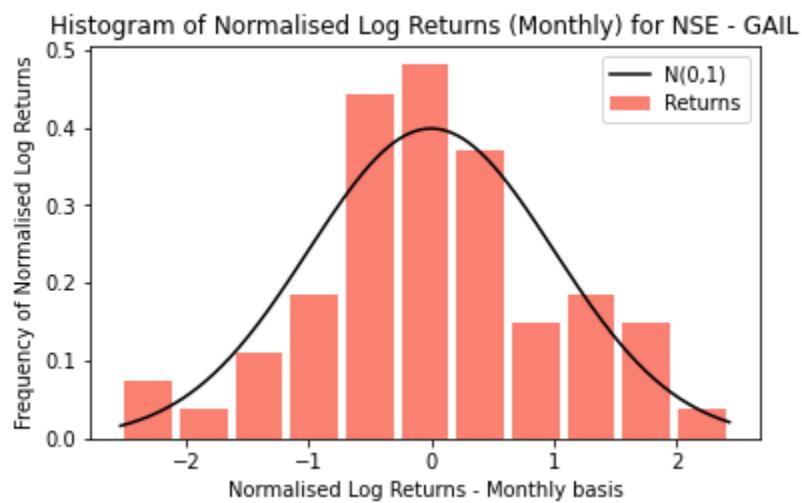
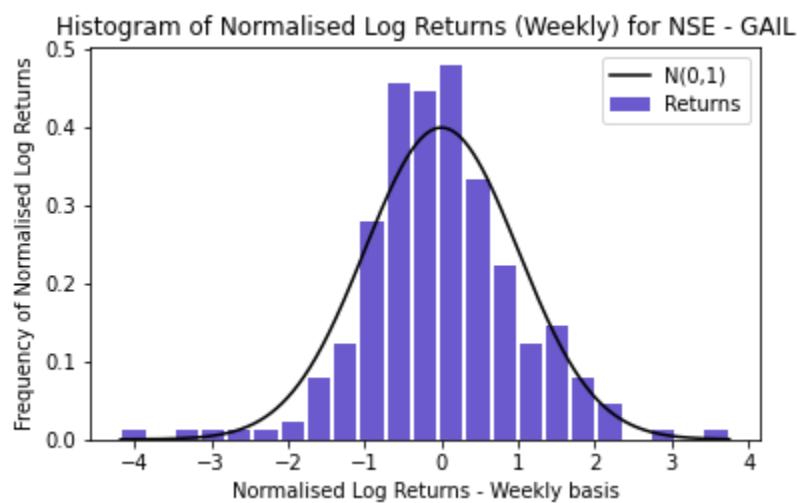
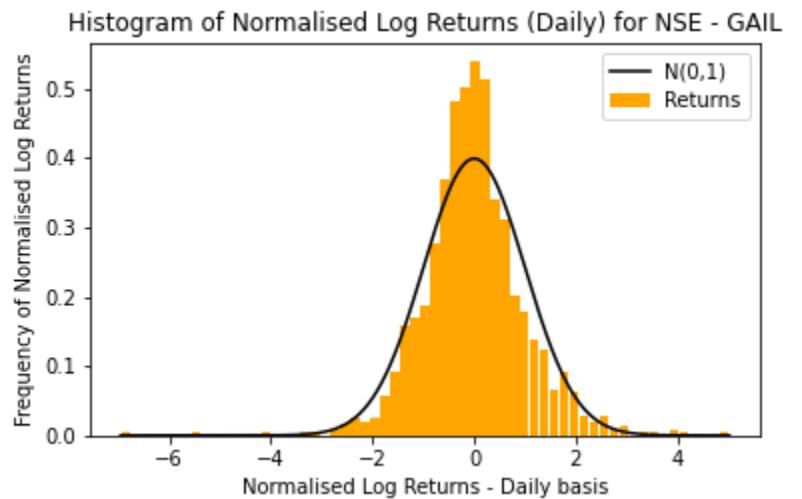
Histogram of Normalised Log Returns (Monthly) for BSE - TATA STEEL

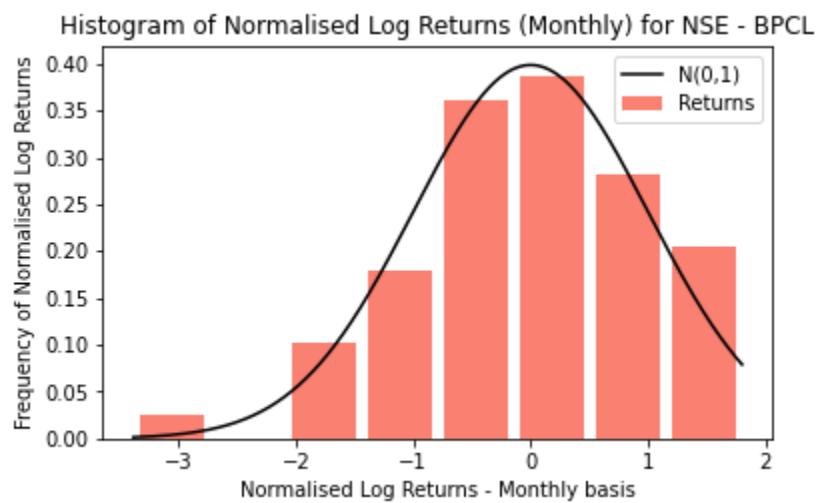
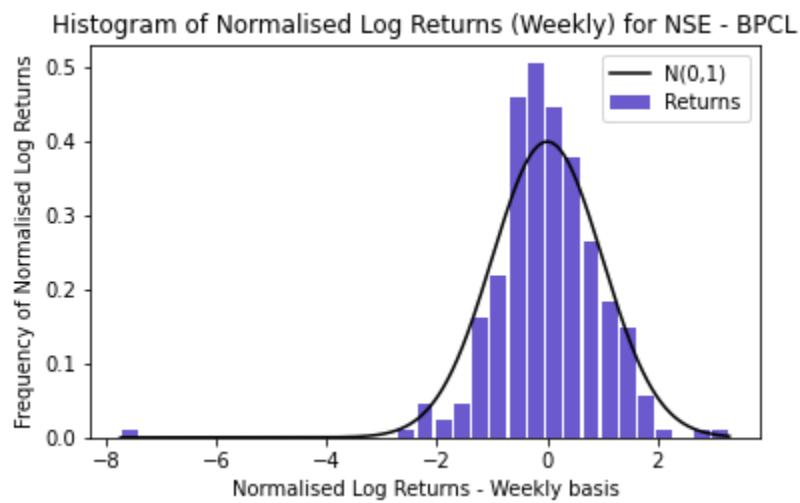
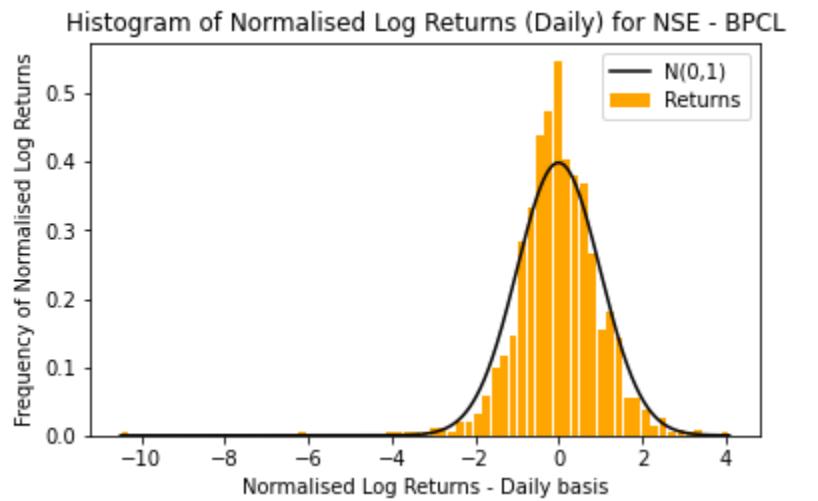


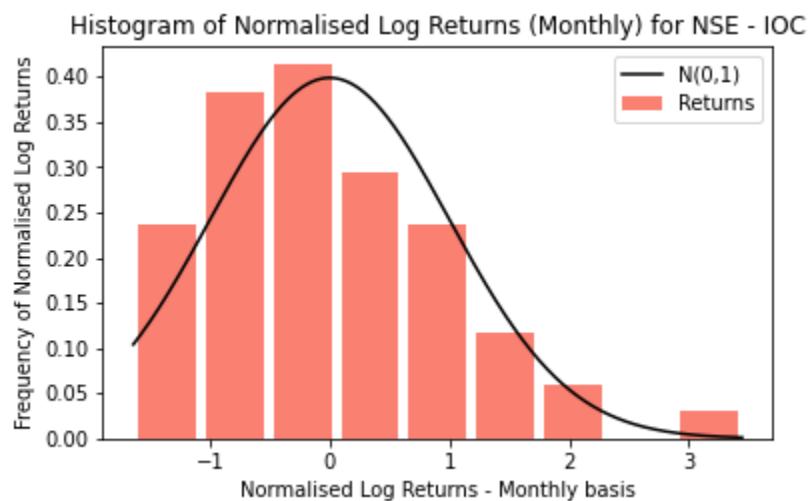
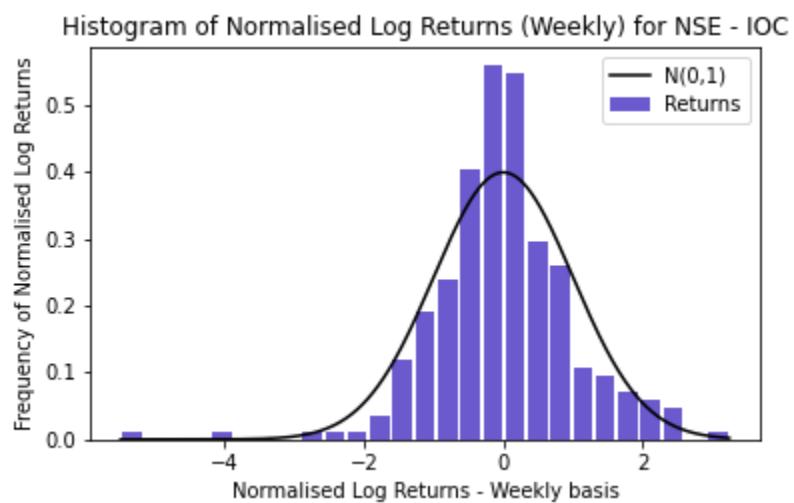
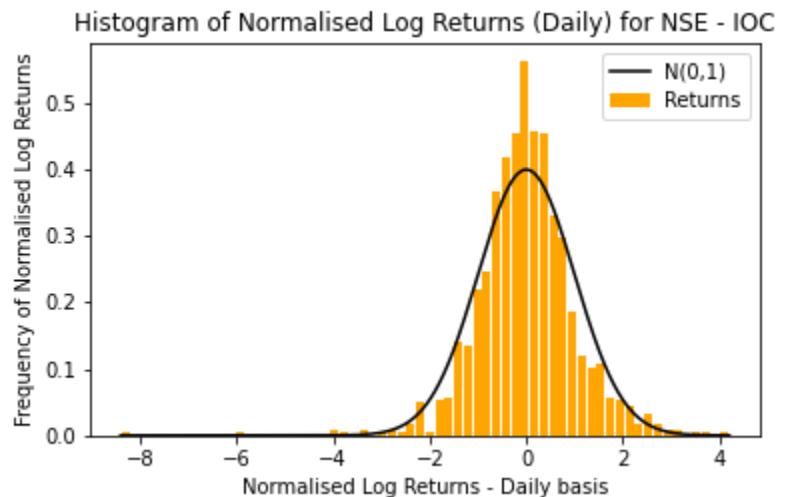


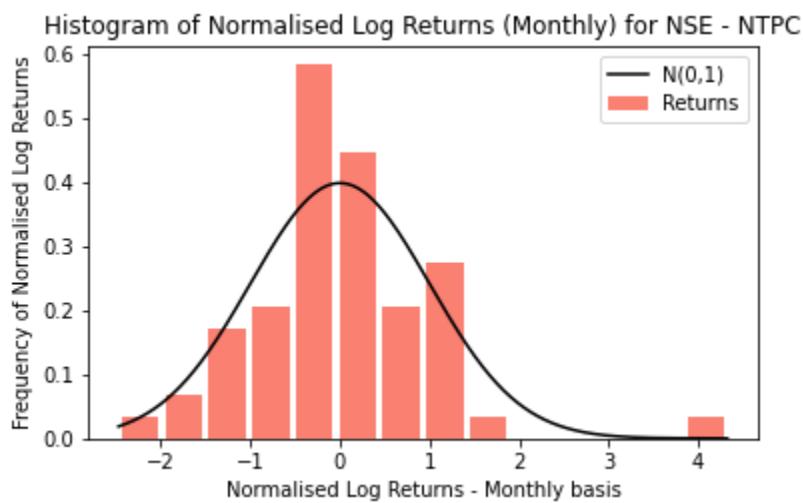
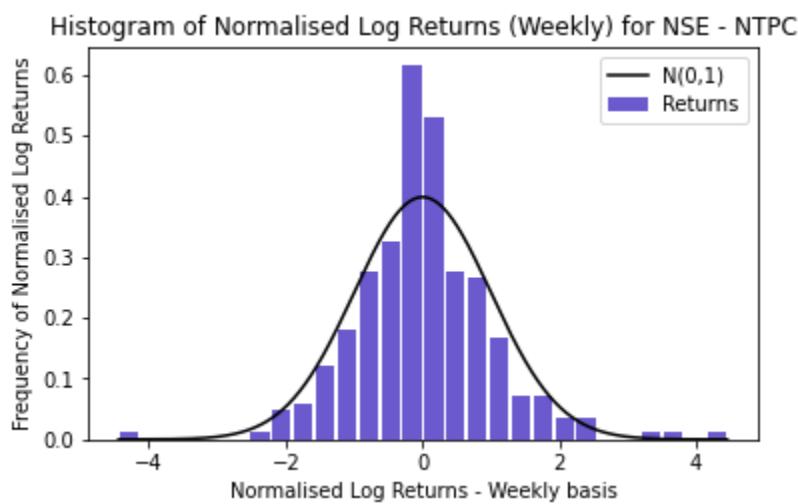
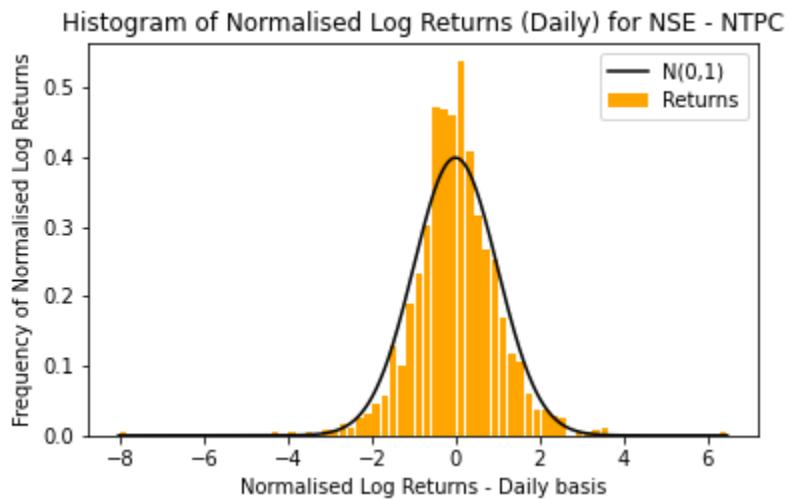
NSE:



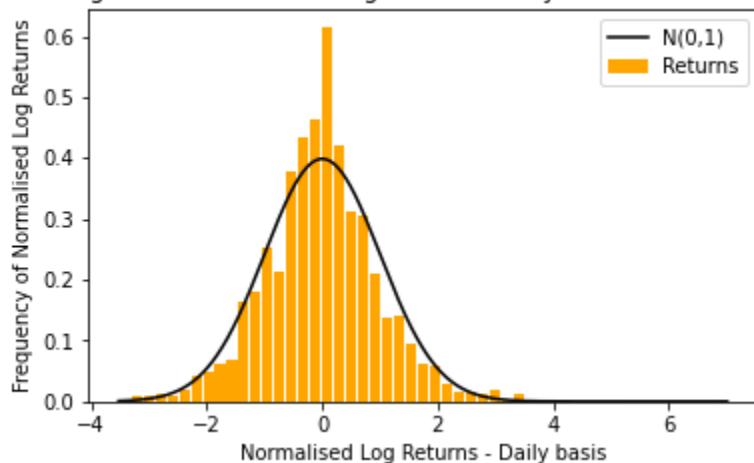




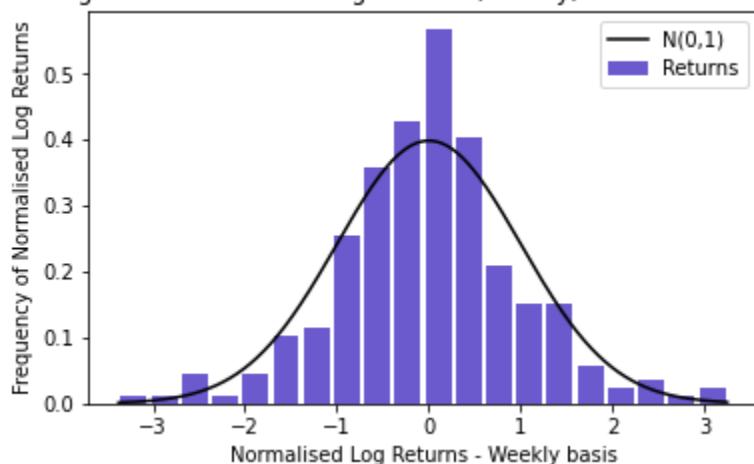




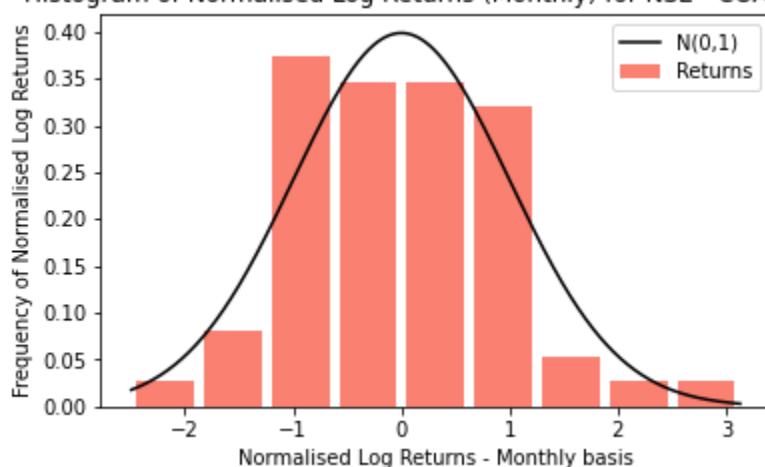
Histogram of Normalised Log Returns (Daily) for NSE - COALINDIA



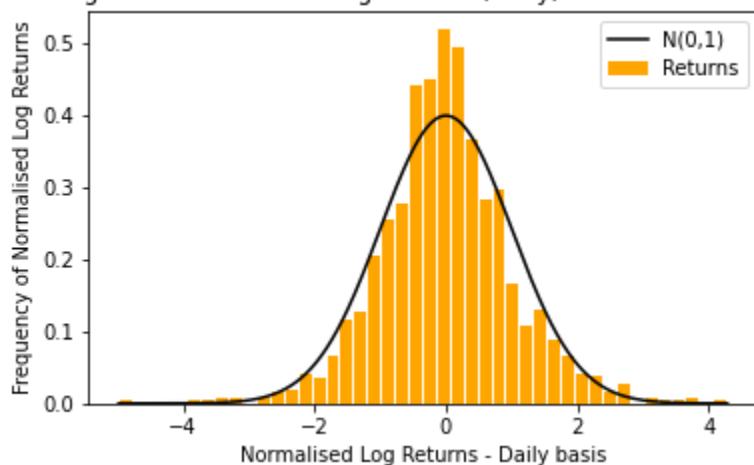
Histogram of Normalised Log Returns (Weekly) for NSE - COALINDIA



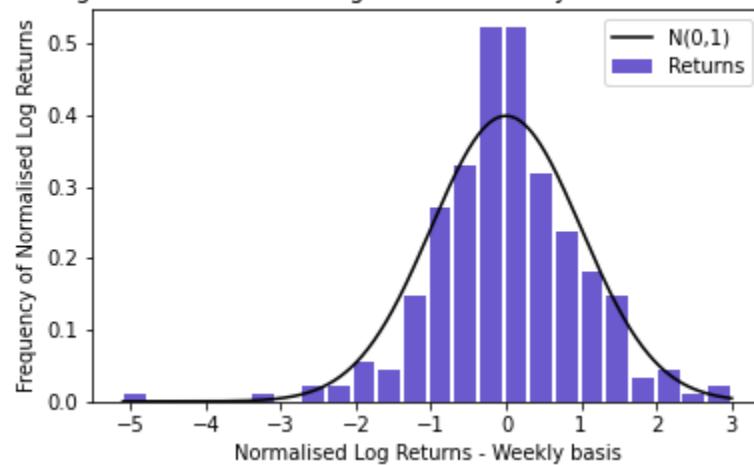
Histogram of Normalised Log Returns (Monthly) for NSE - COALINDIA



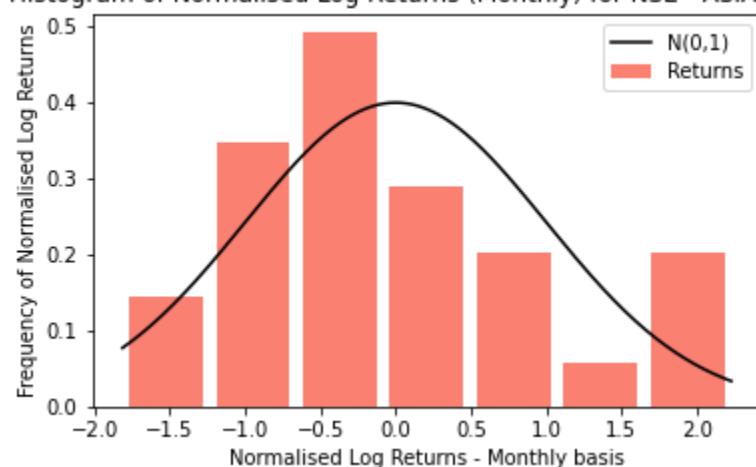
Histogram of Normalised Log Returns (Daily) for NSE - ASIANPAINT

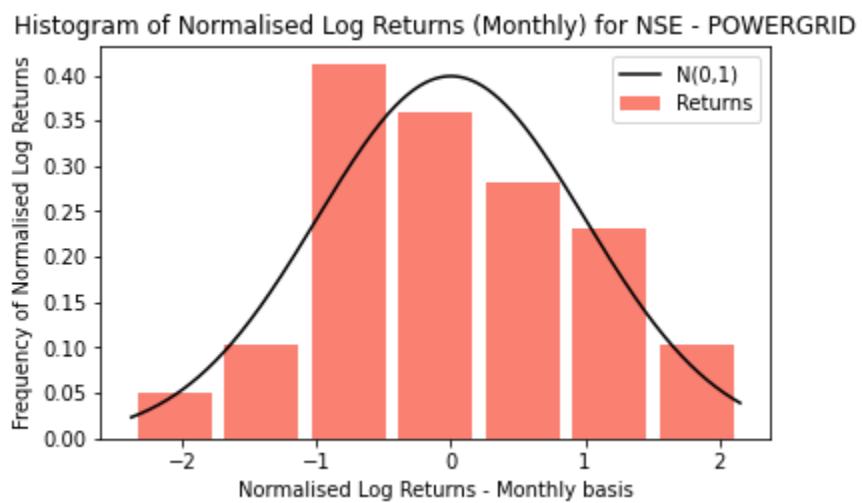
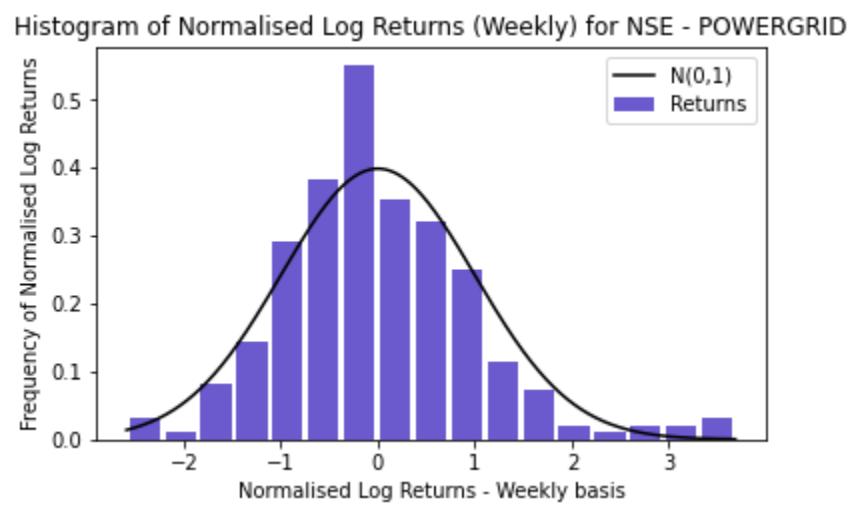
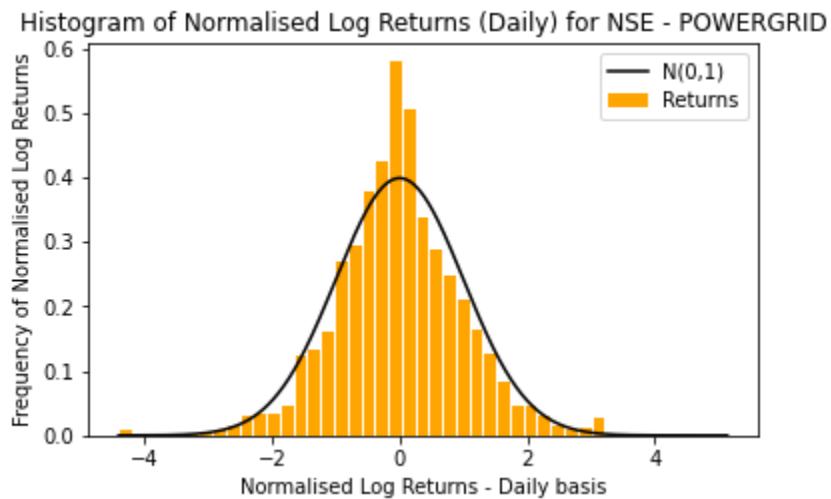


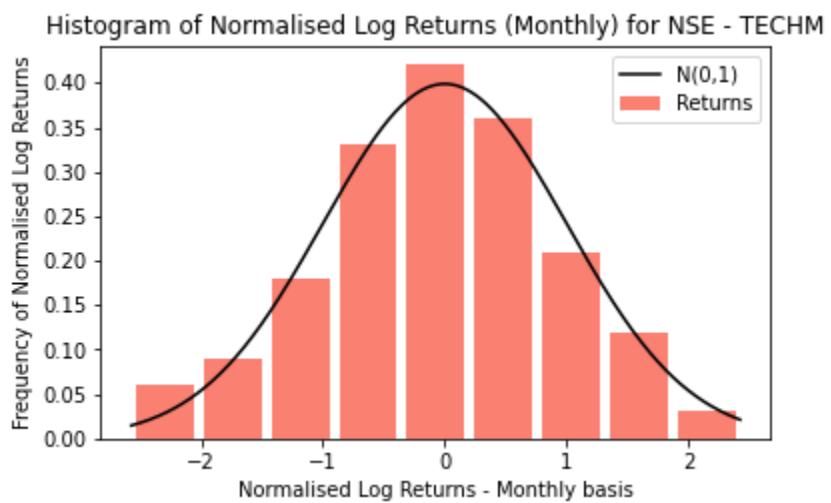
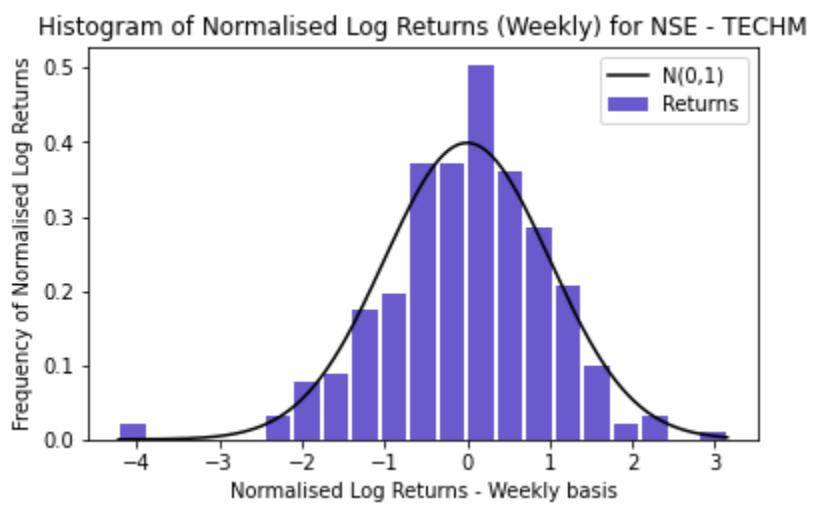
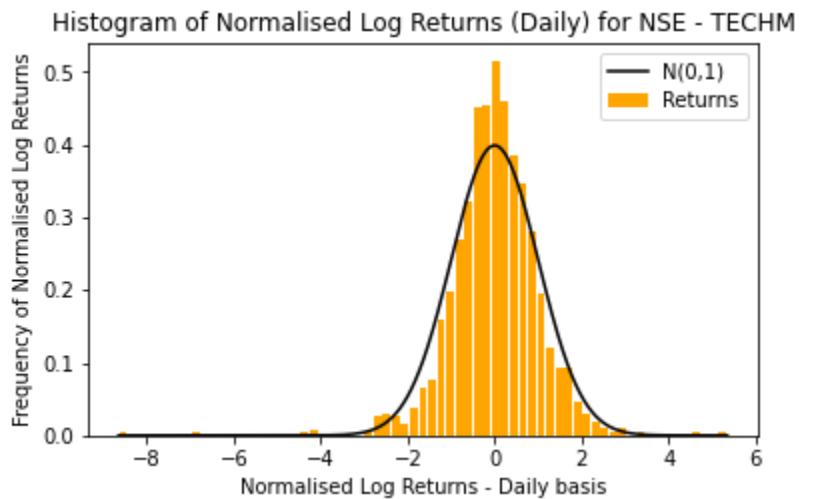
Histogram of Normalised Log Returns (Weekly) for NSE - ASIANPAINT

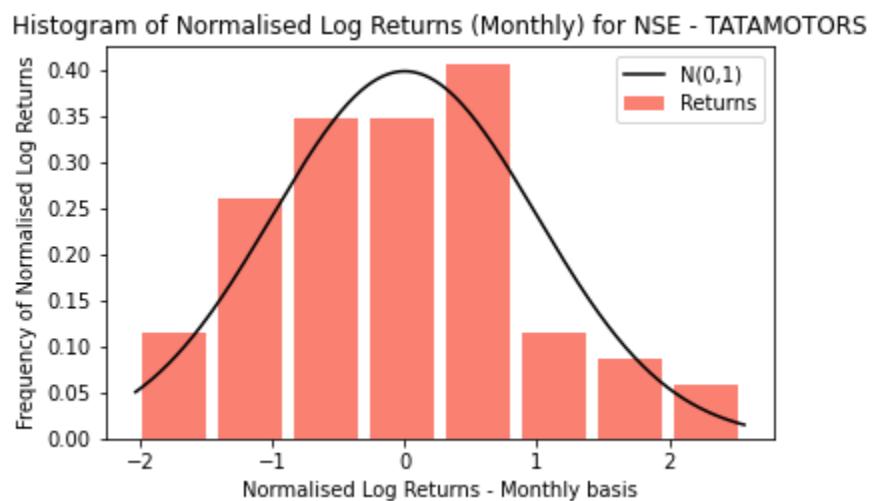
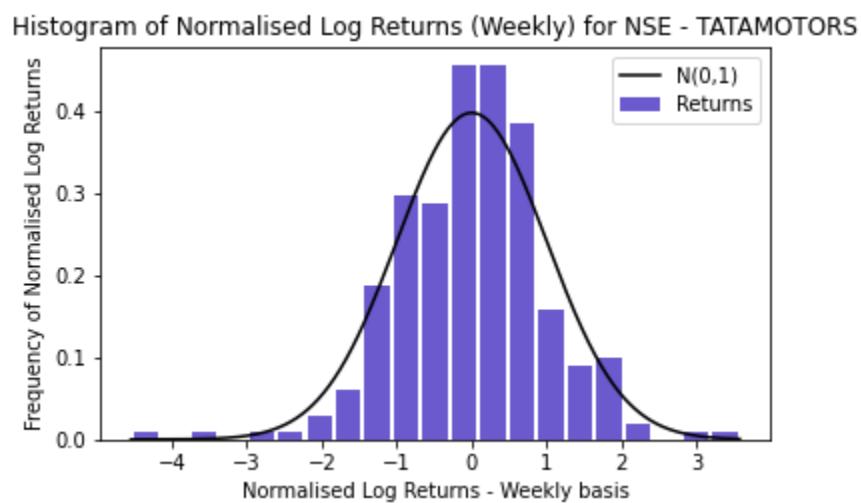
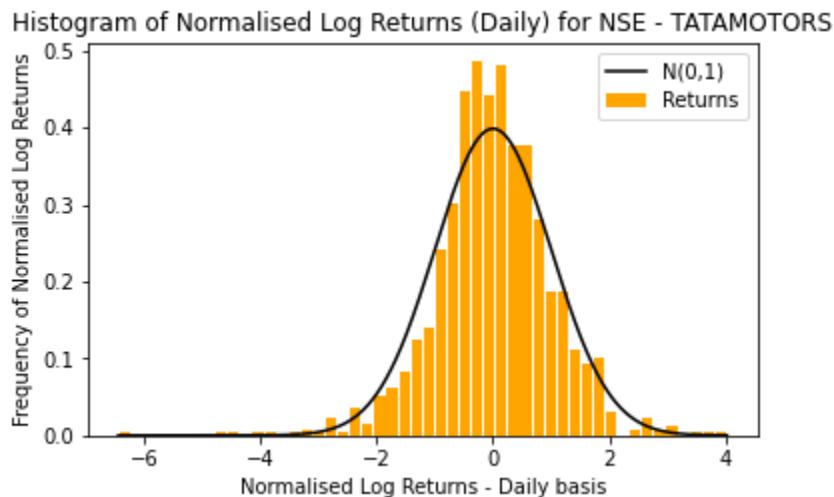


Histogram of Normalised Log Returns (Monthly) for NSE - ASIANPAINT



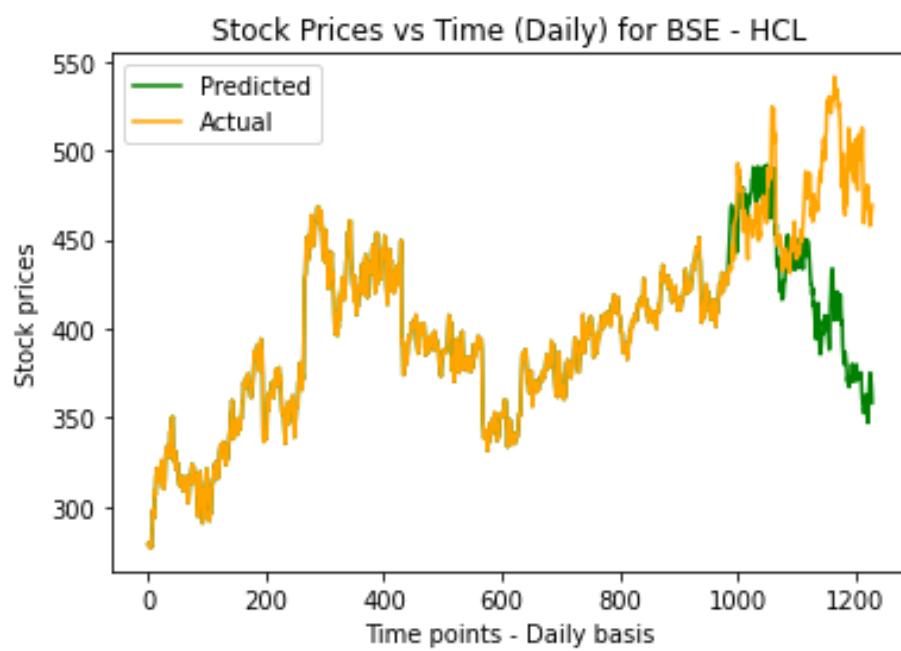
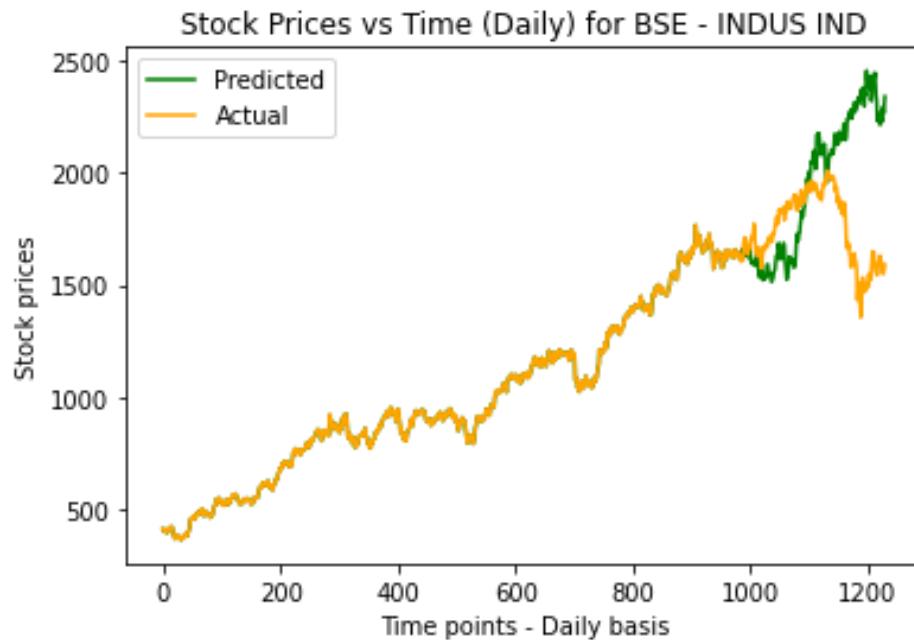




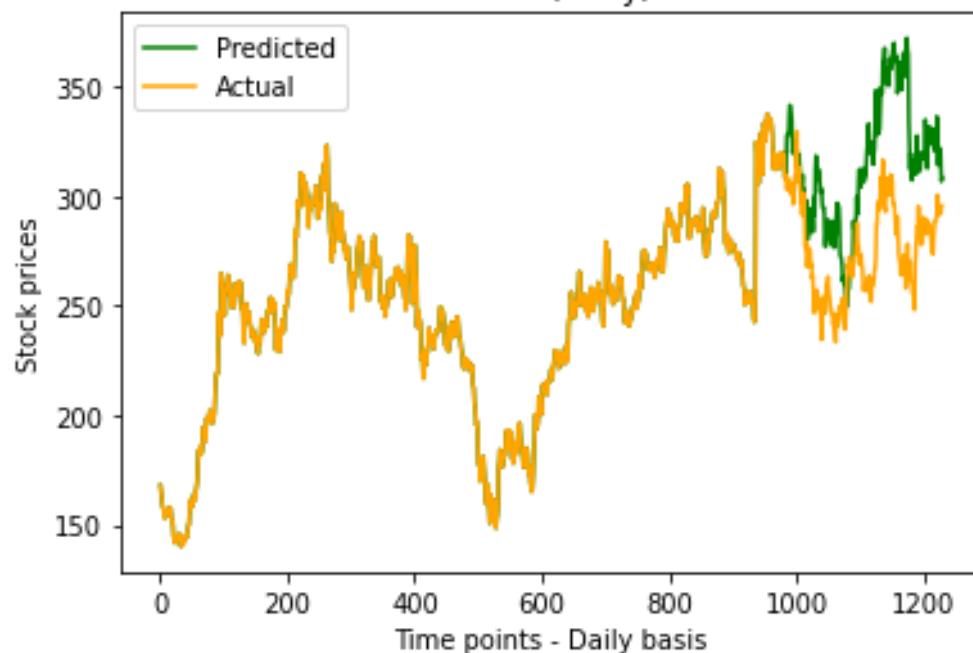


Question 4.

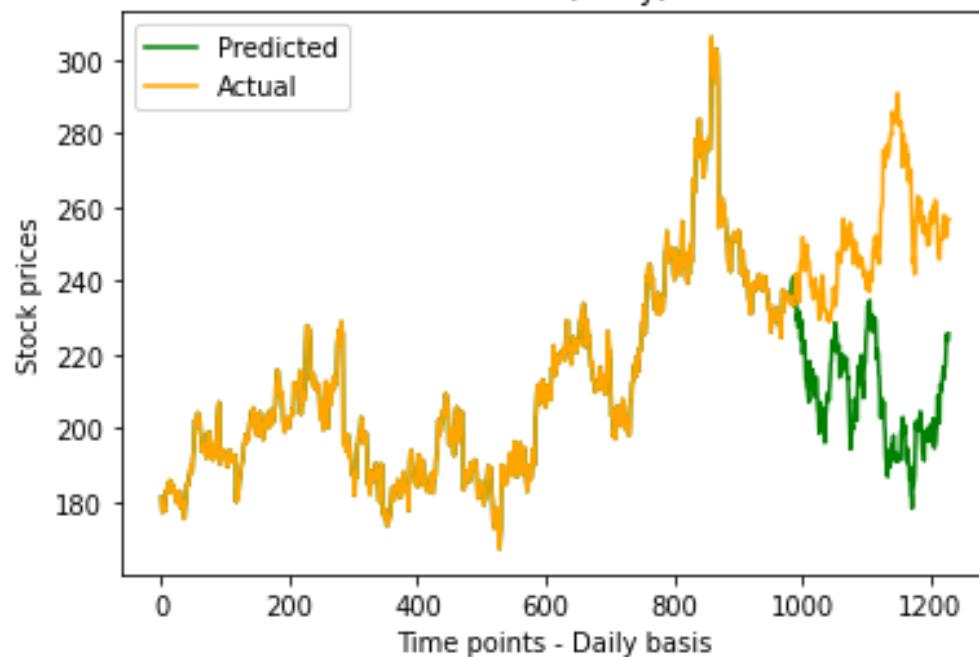
BSE:

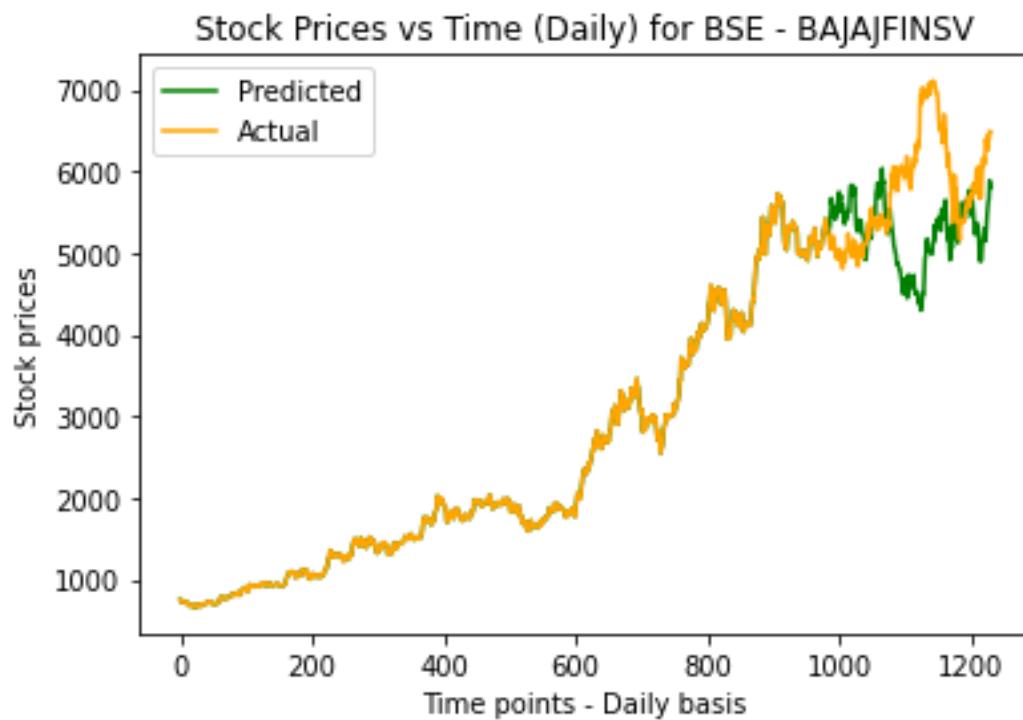
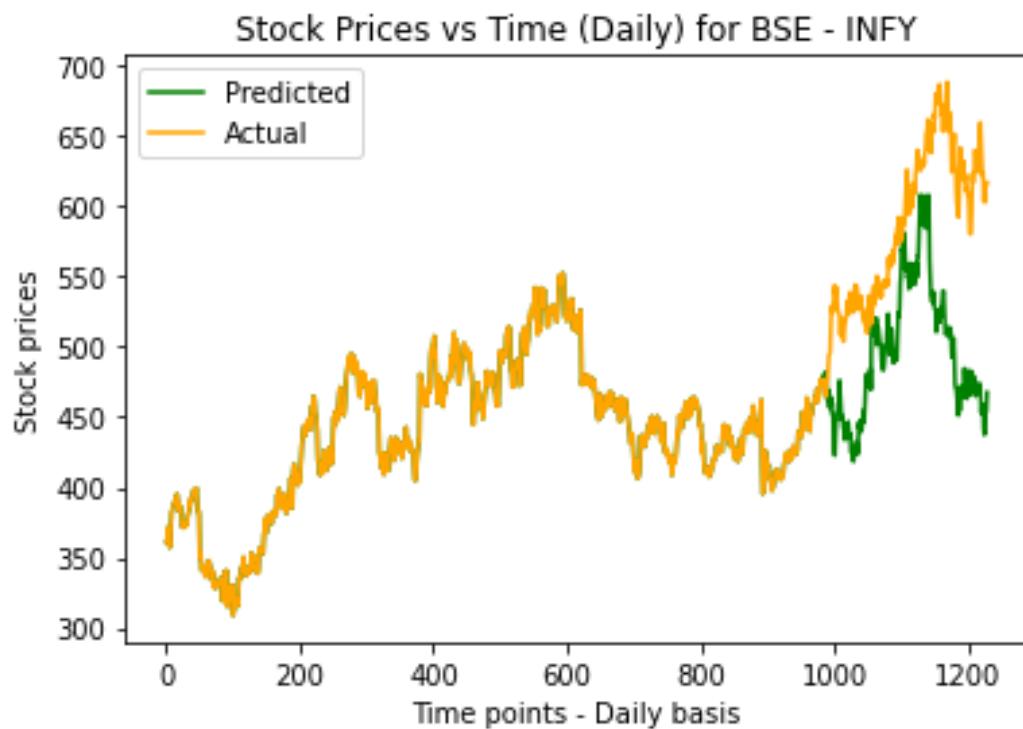


Stock Prices vs Time (Daily) for BSE - SBIN

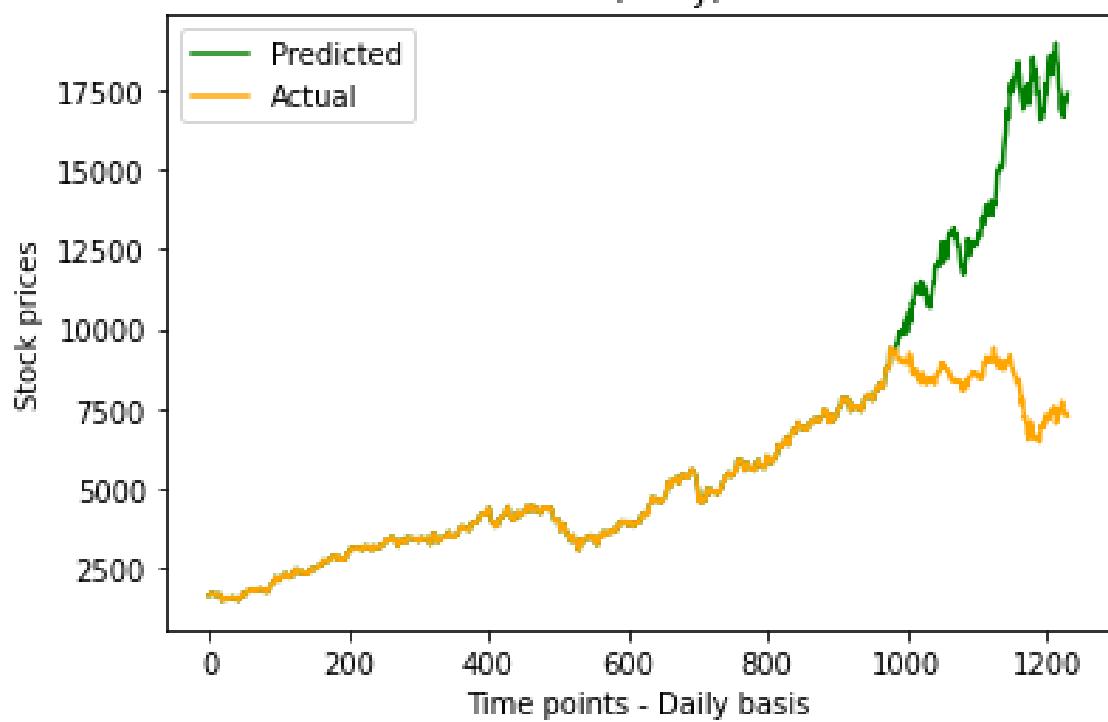


Stock Prices vs Time (Daily) for BSE - ITC

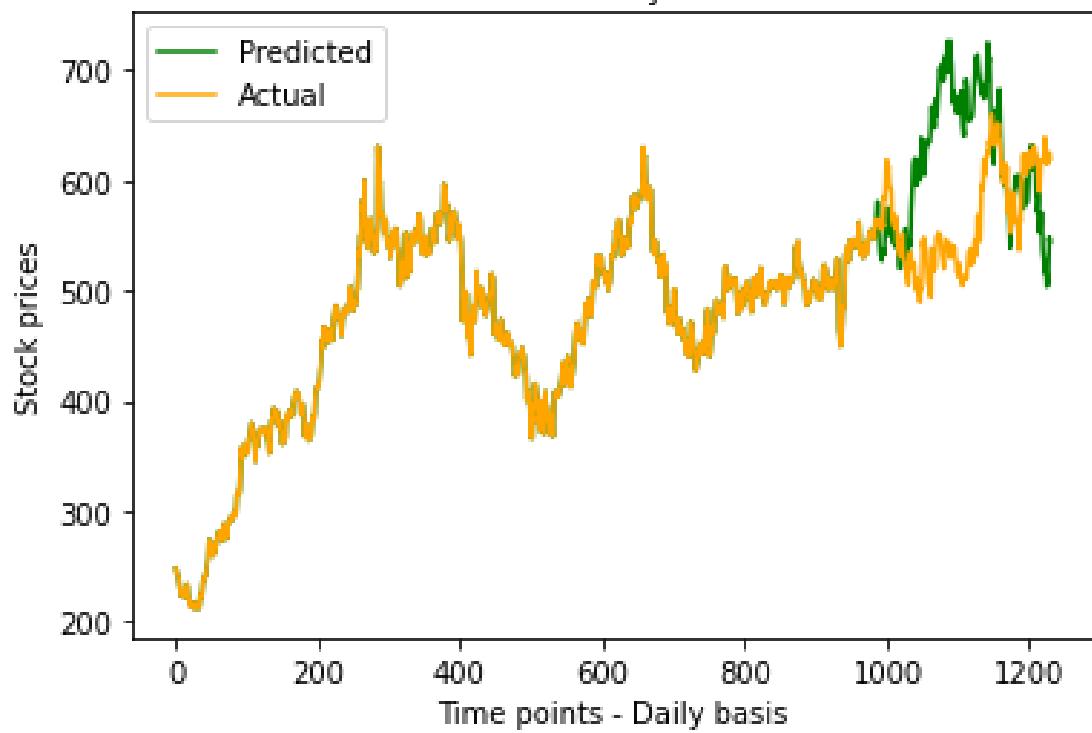




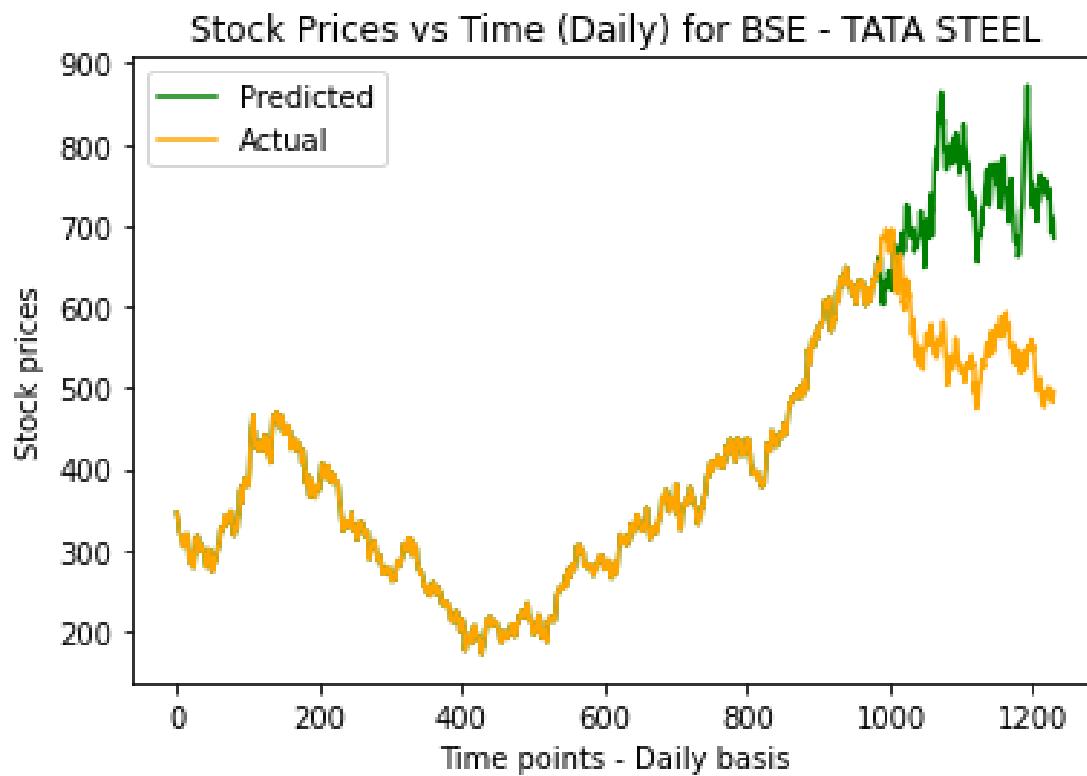
Stock Prices vs Time (Daily) for BSE - MARUTI



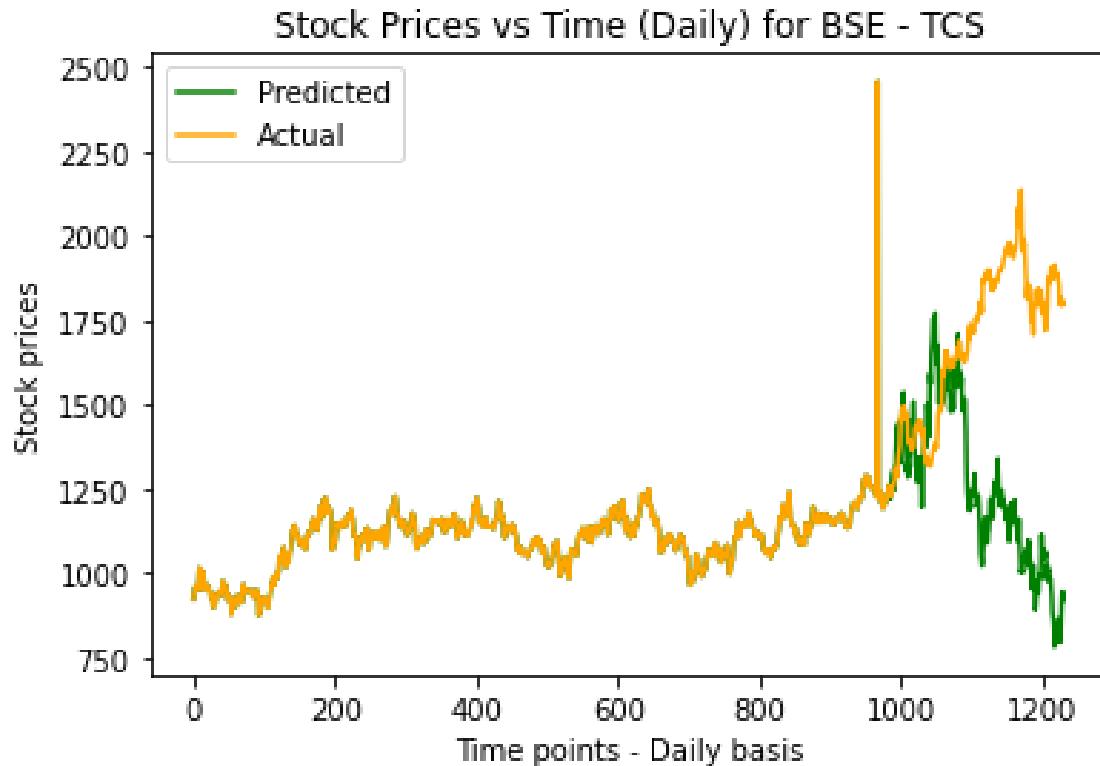
Stock Prices vs Time (Daily) for BSE - AXISBANK



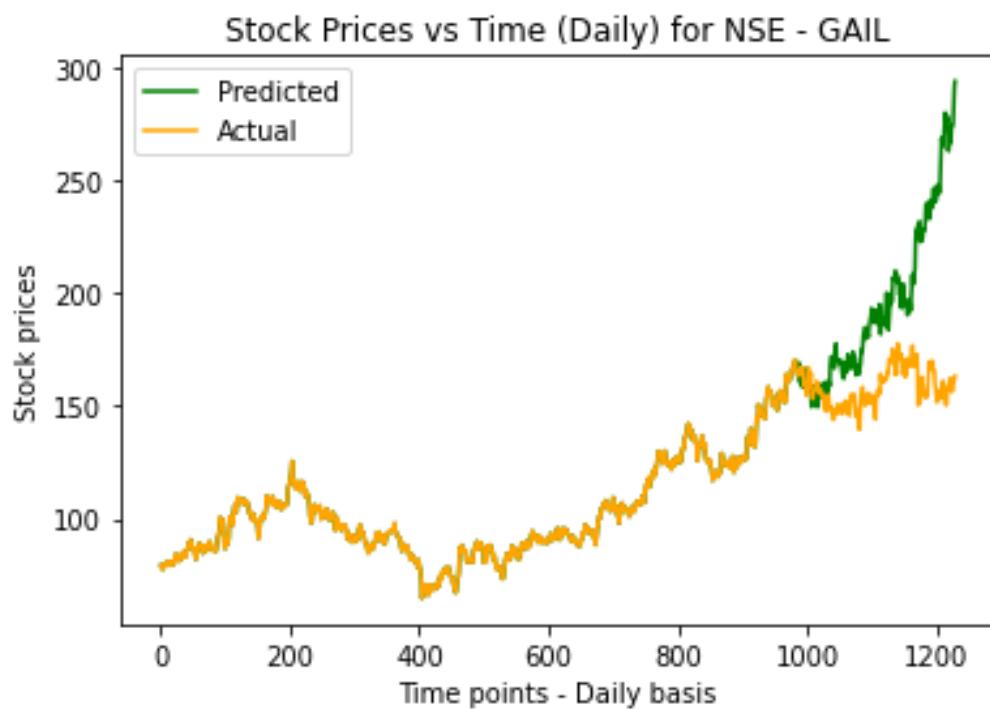
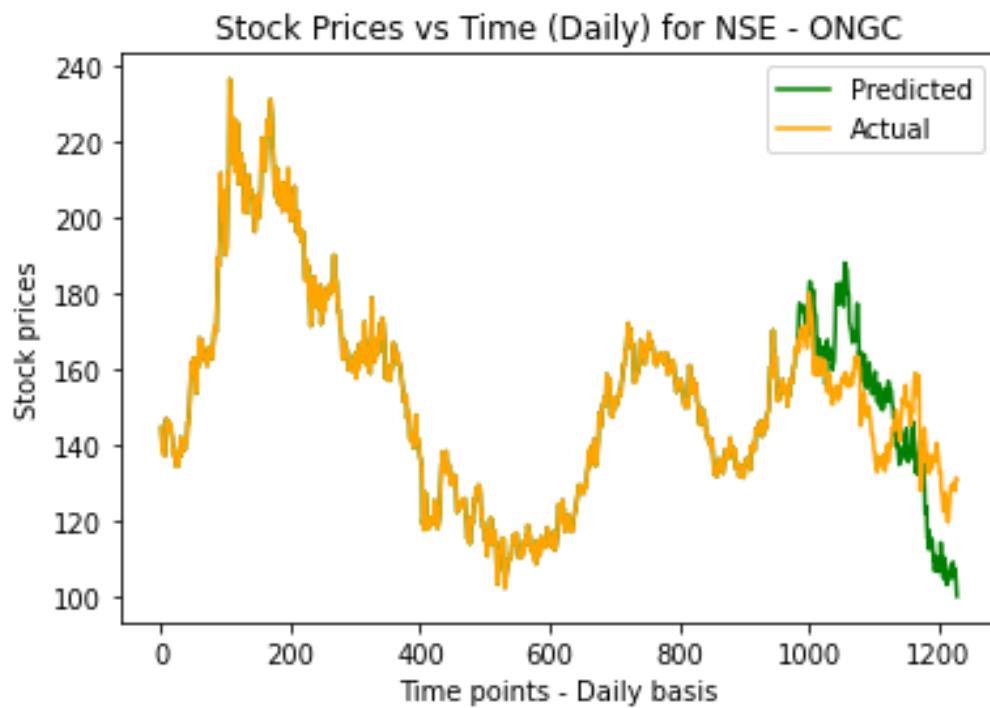
Stock Prices

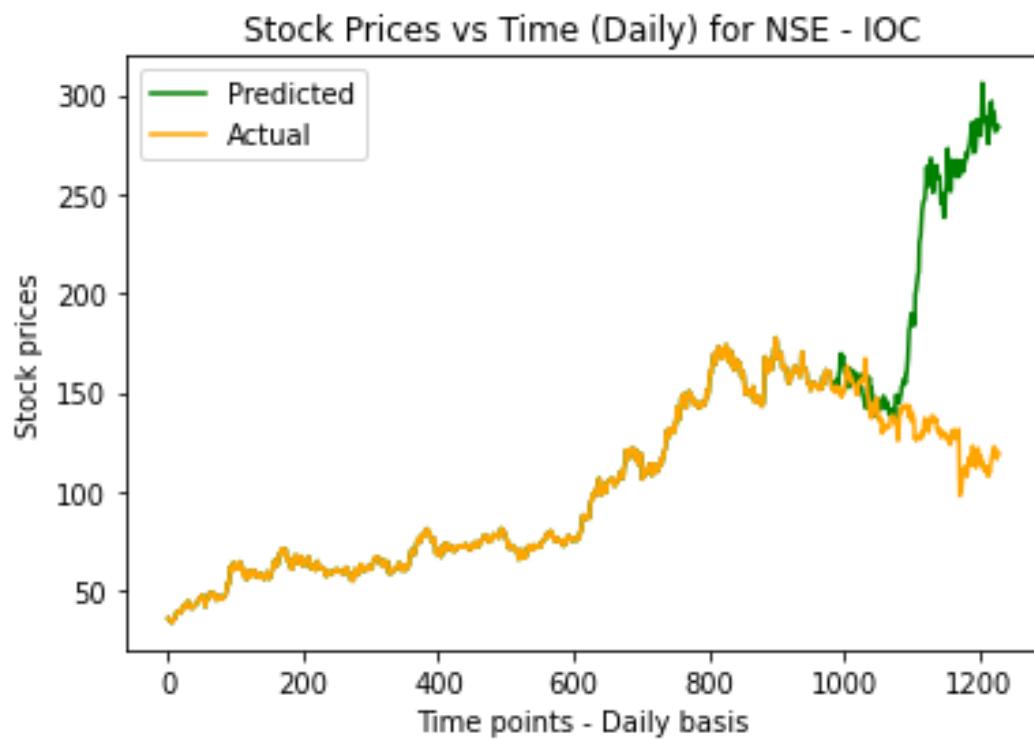
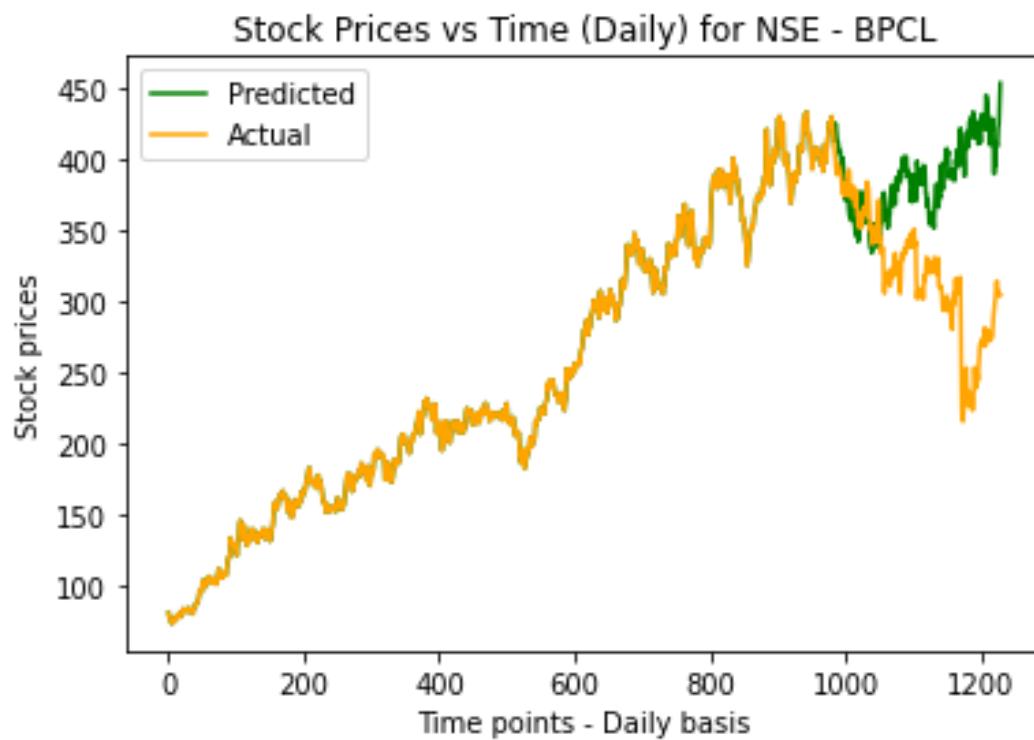


Stock Prices

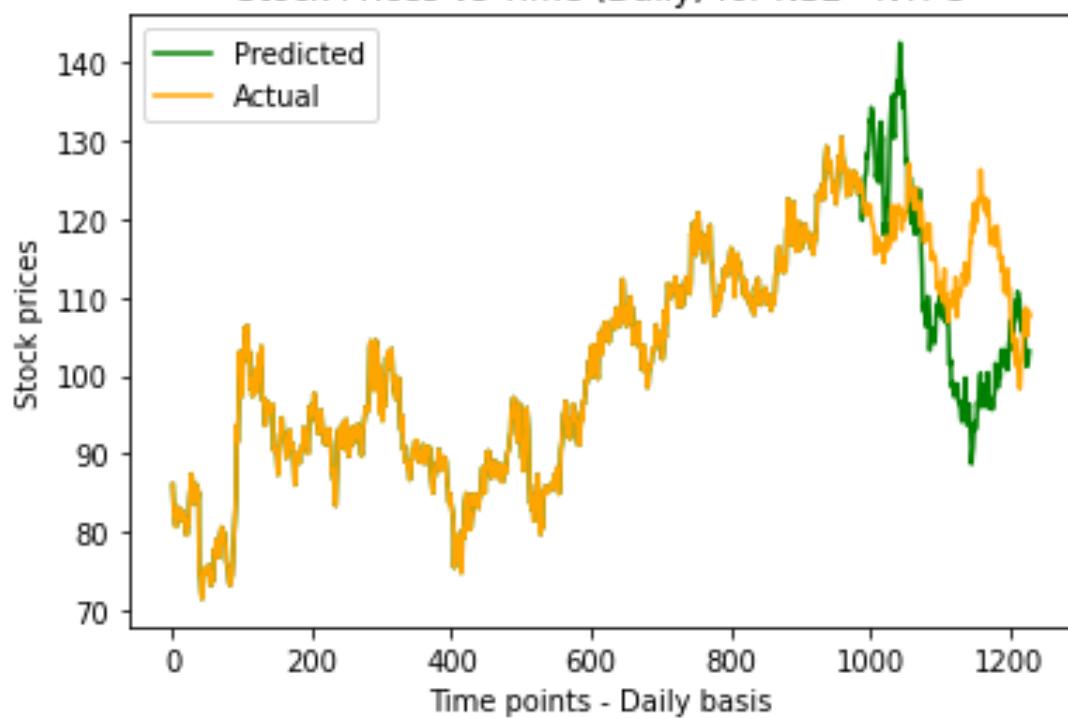


NSE:

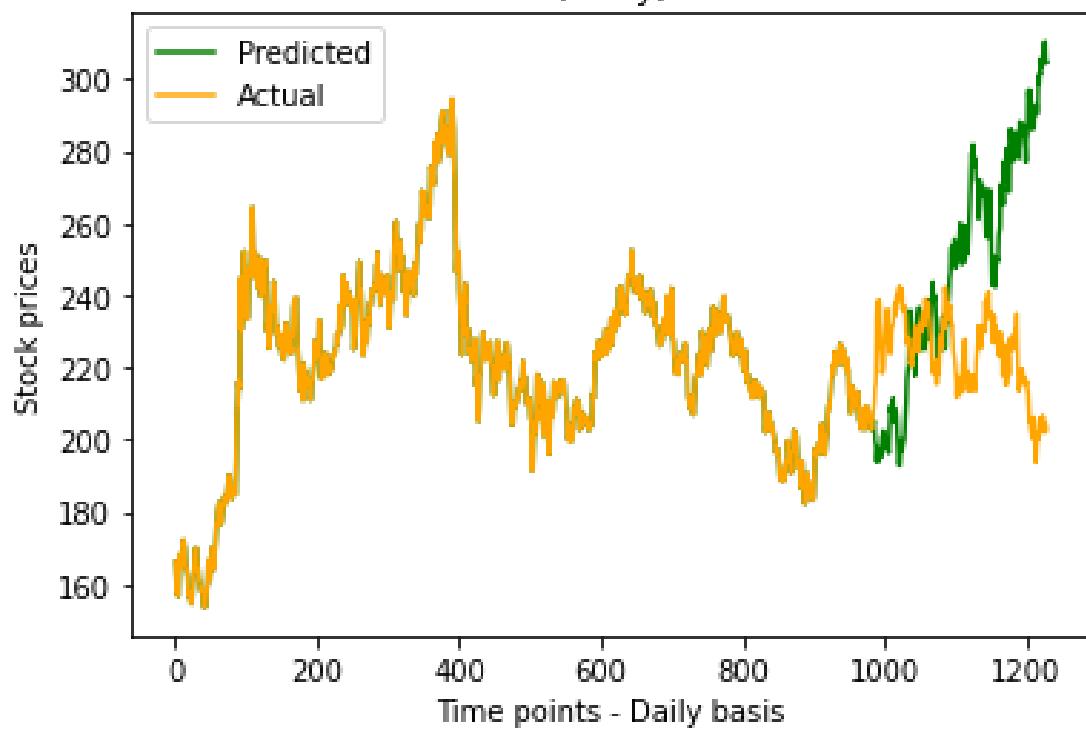


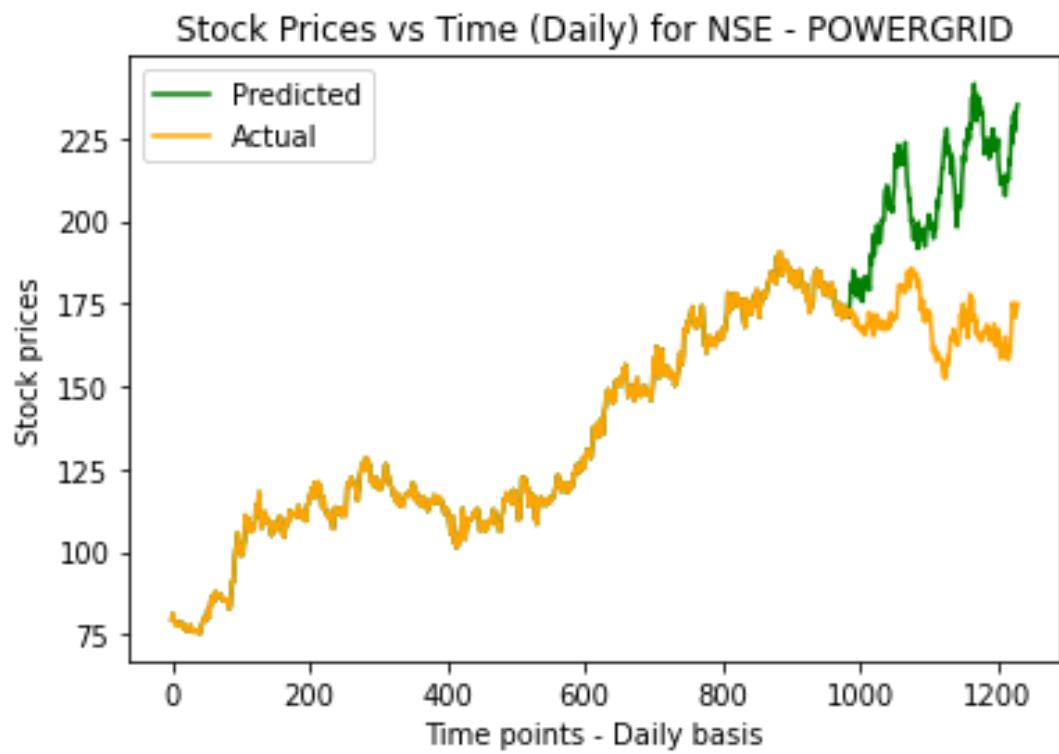
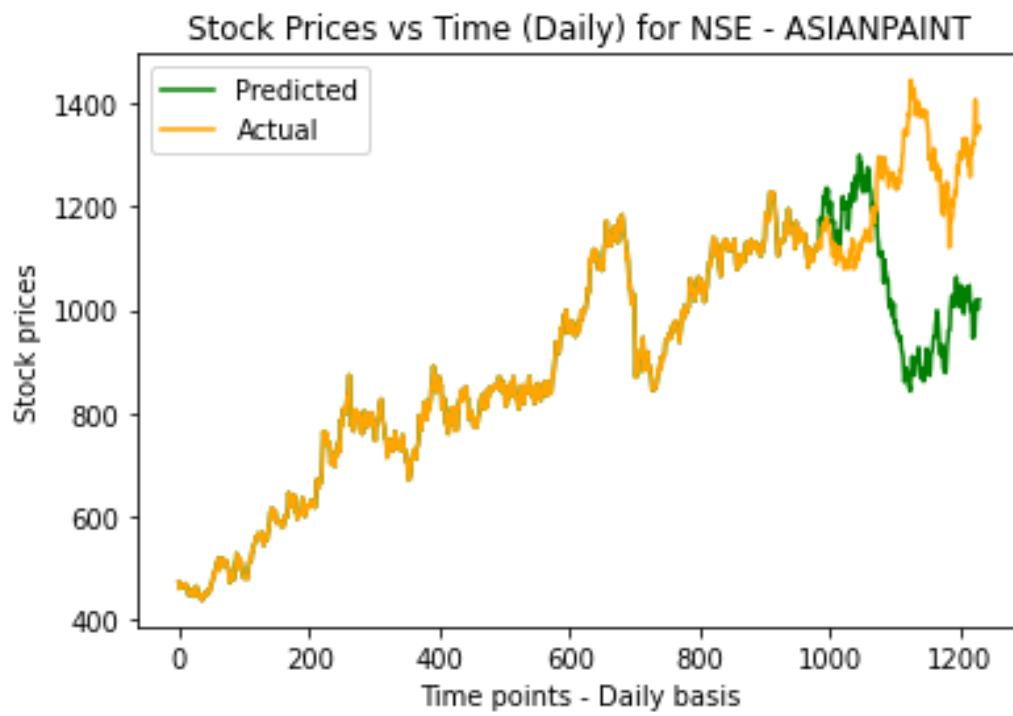


Stock Prices vs Time (Daily) for NSE - NTPC

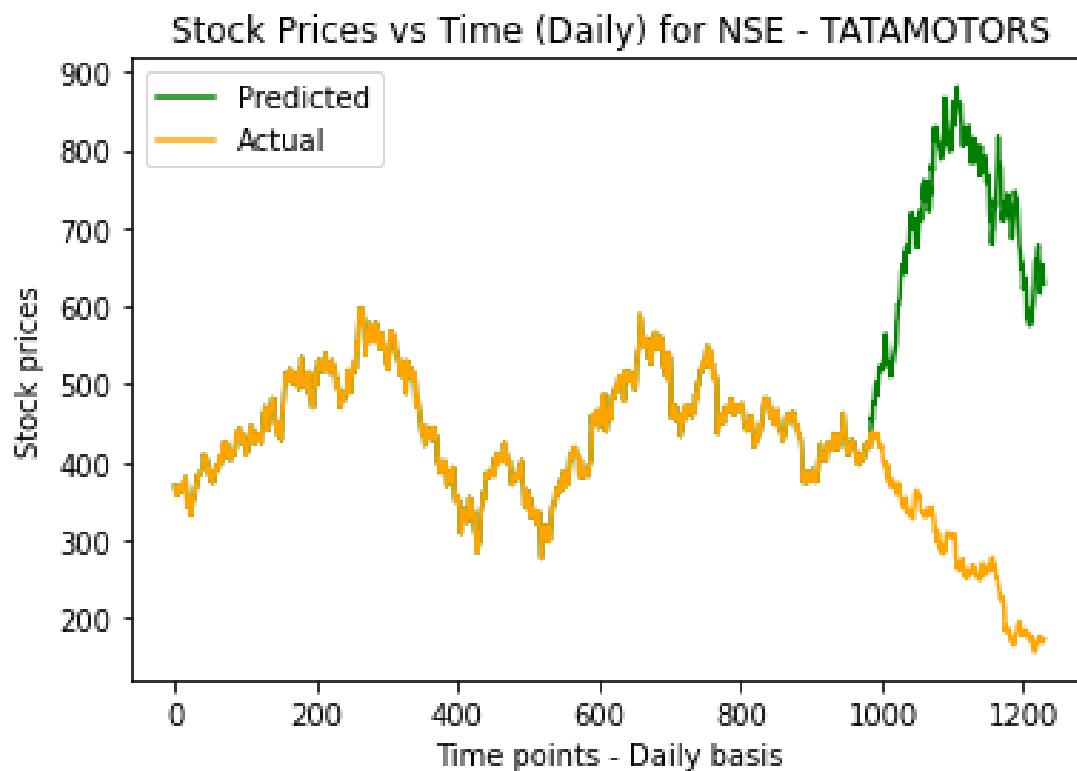
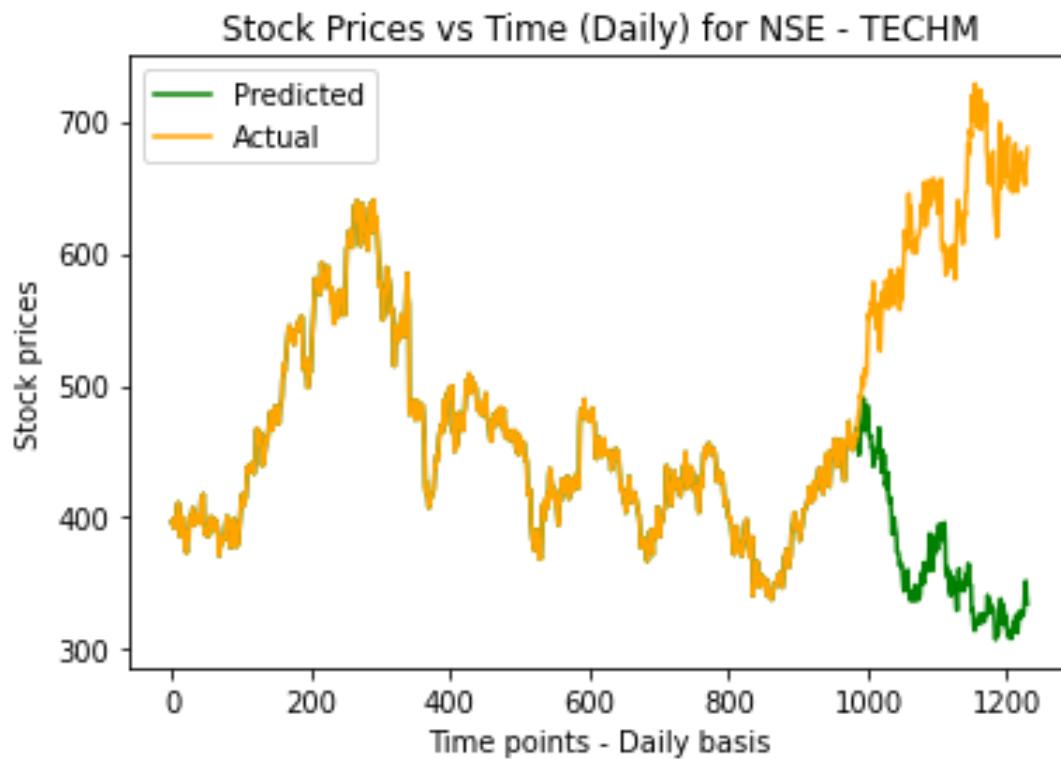


Stock Prices vs Time (Daily) for NSE - COALINDIA



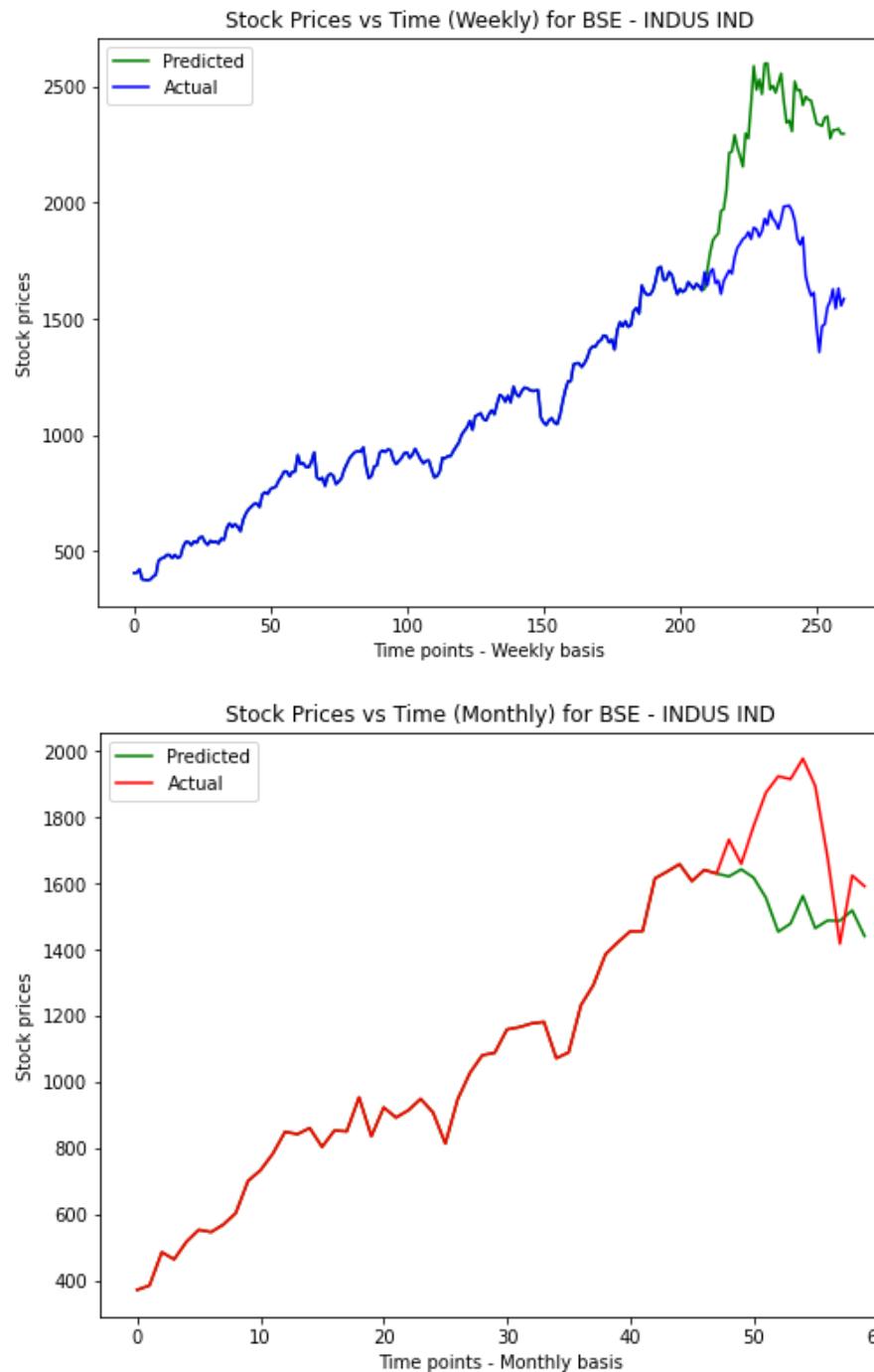


QUESTION

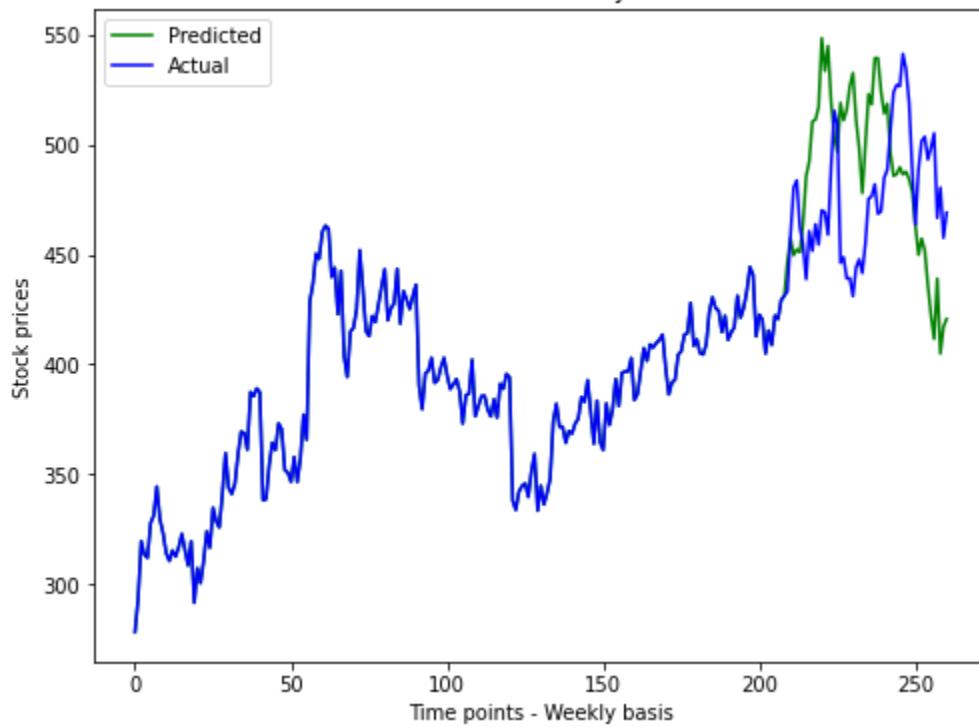


Question 5.

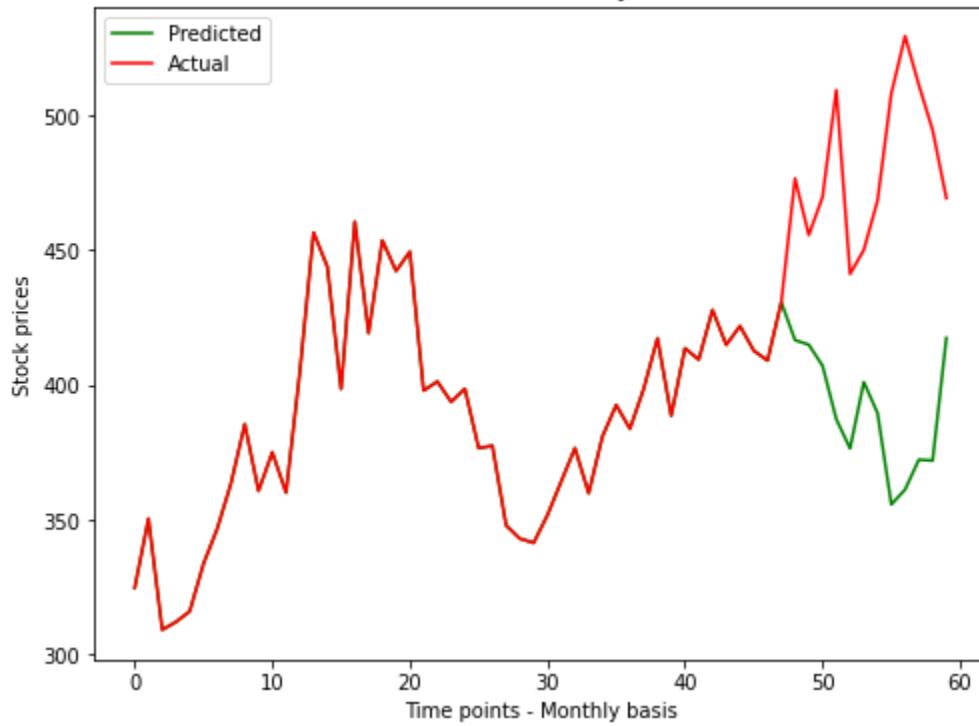
BSE:



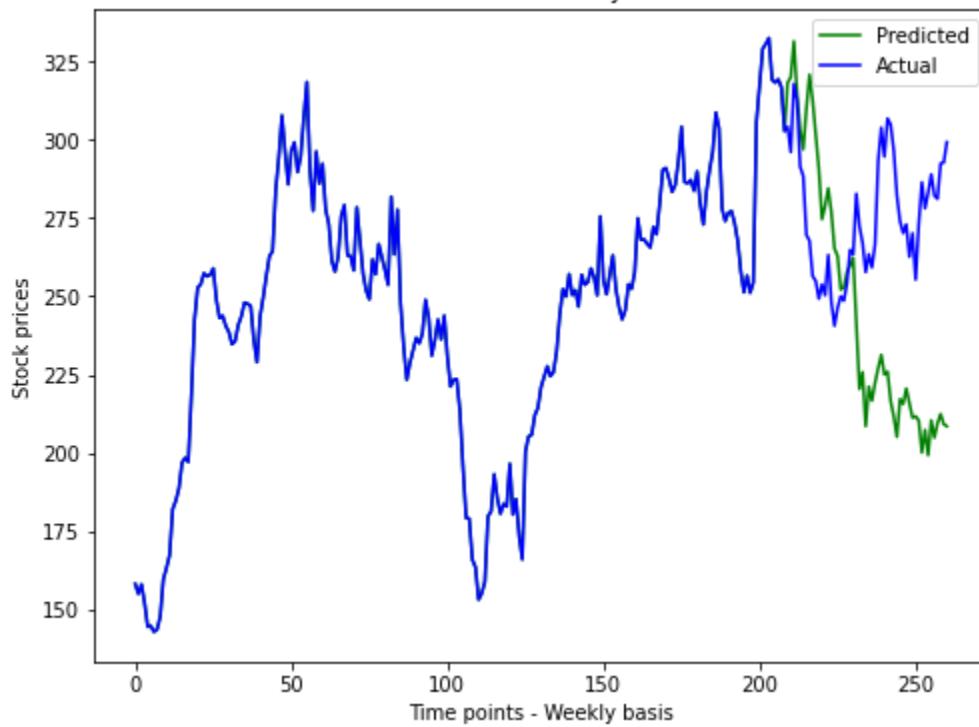
Stock Prices vs Time (Weekly) for BSE - HCL



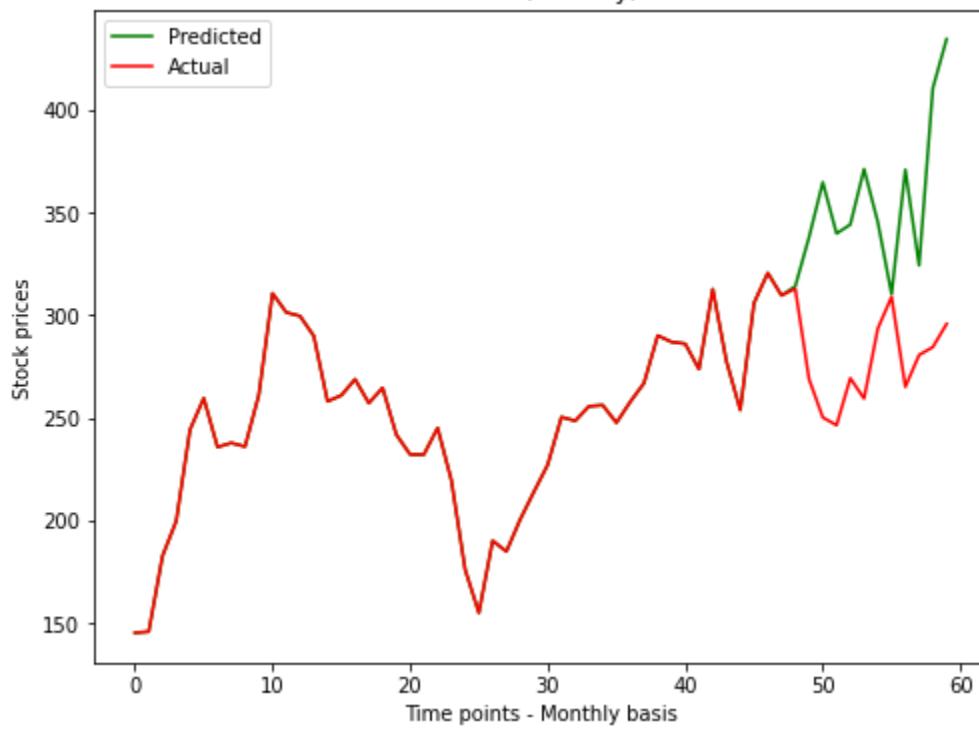
Stock Prices vs Time (Monthly) for BSE - HCL



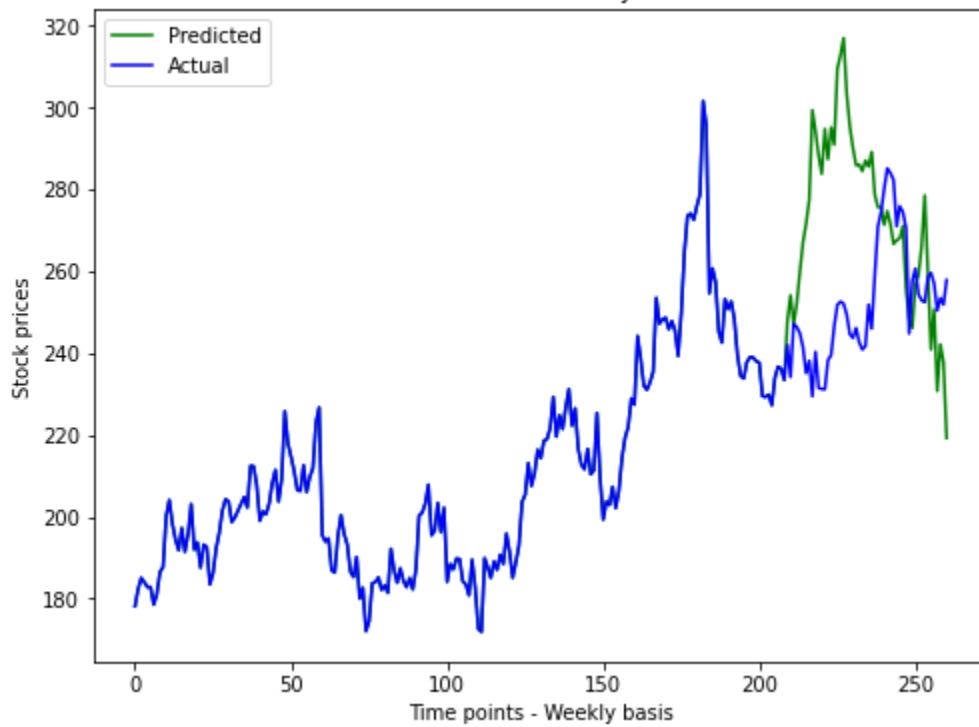
Stock Prices vs Time (Weekly) for BSE - SBIN



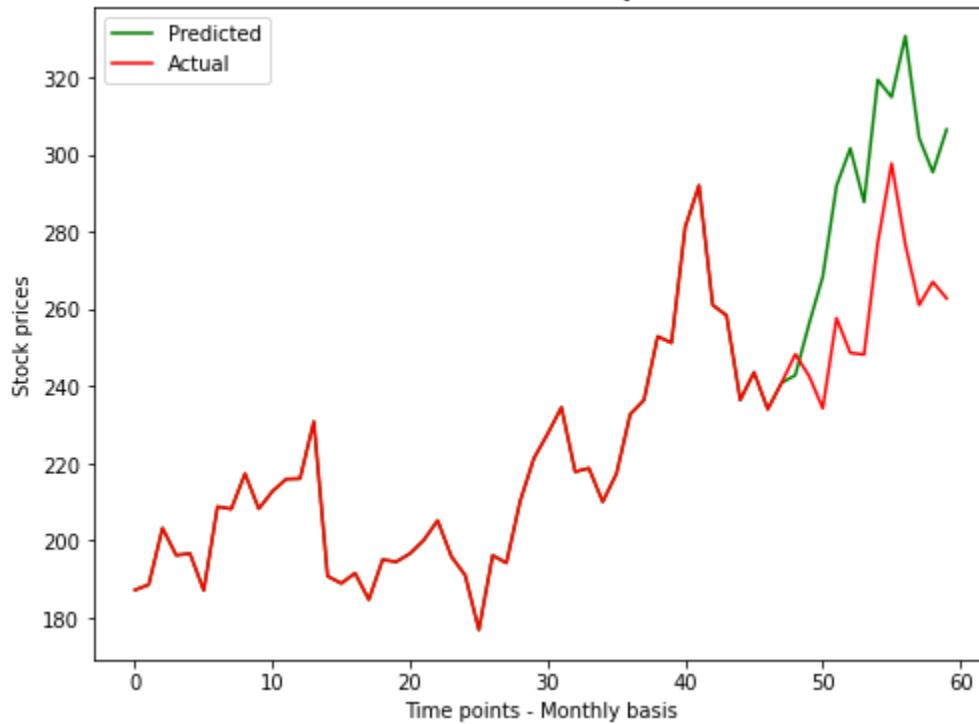
Stock Prices vs Time (Monthly) for BSE - SBIN

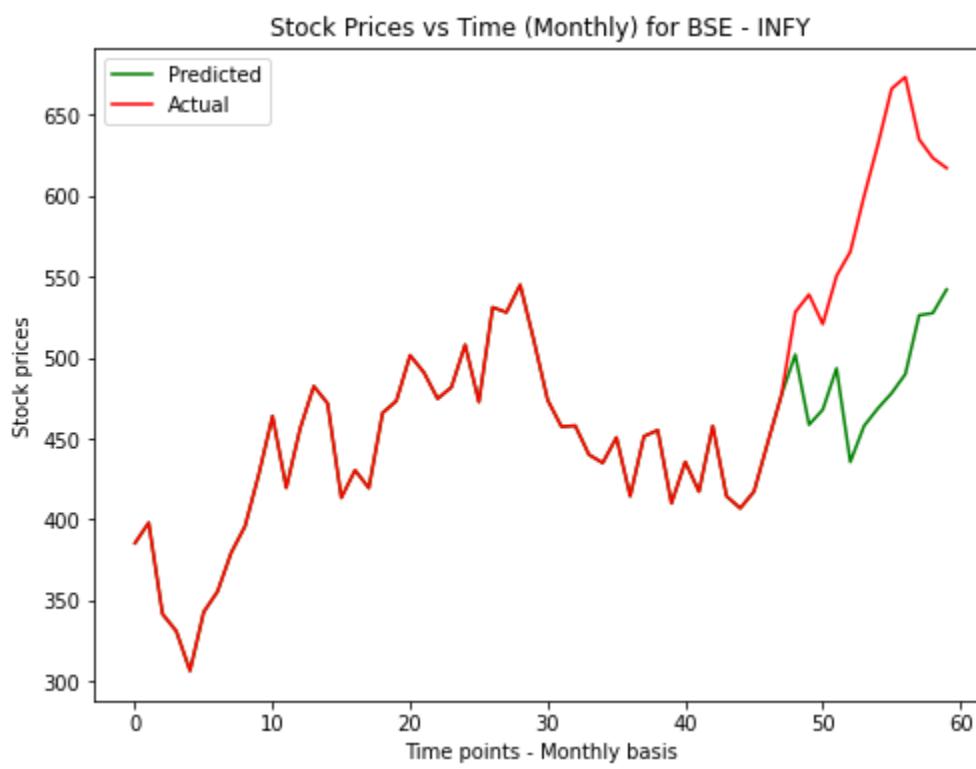
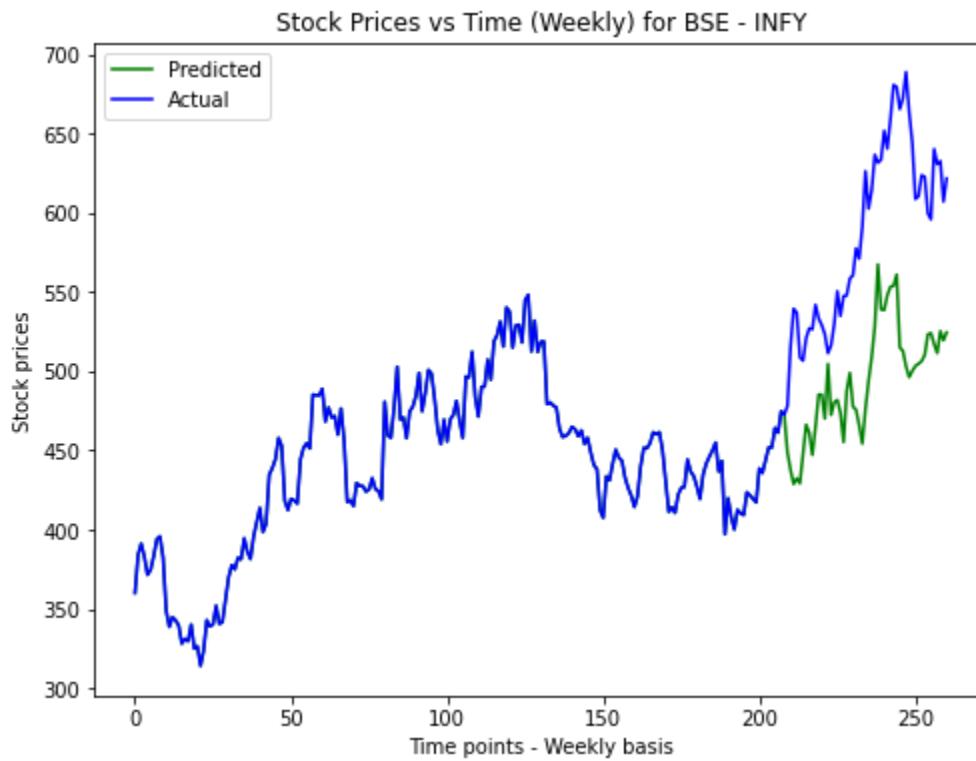


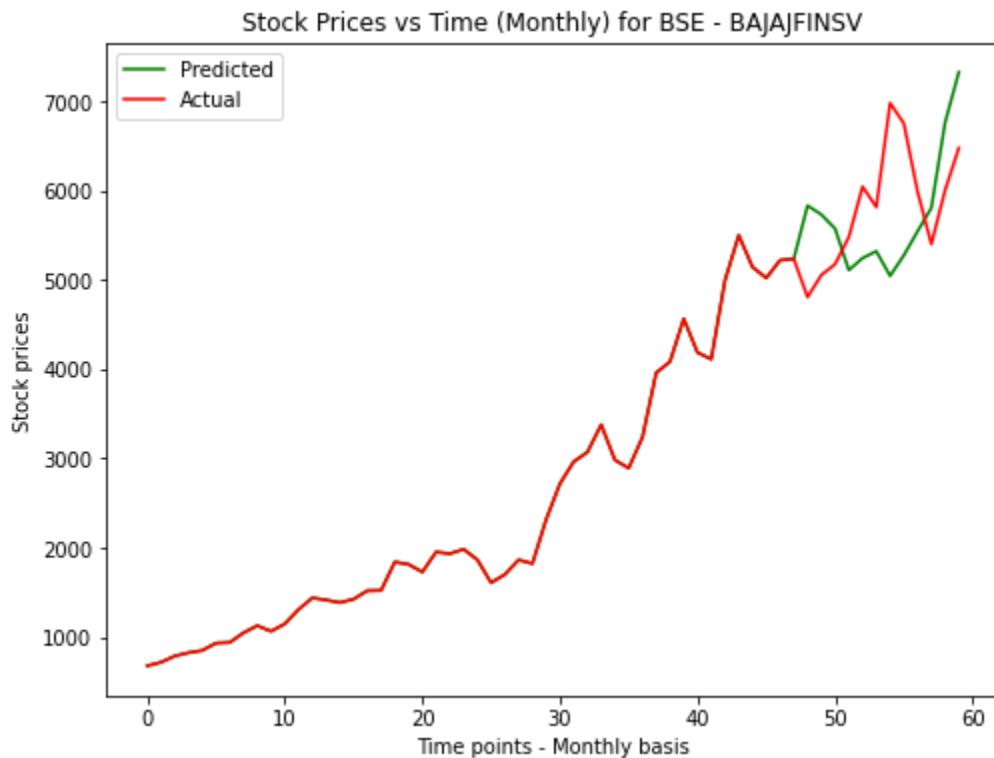
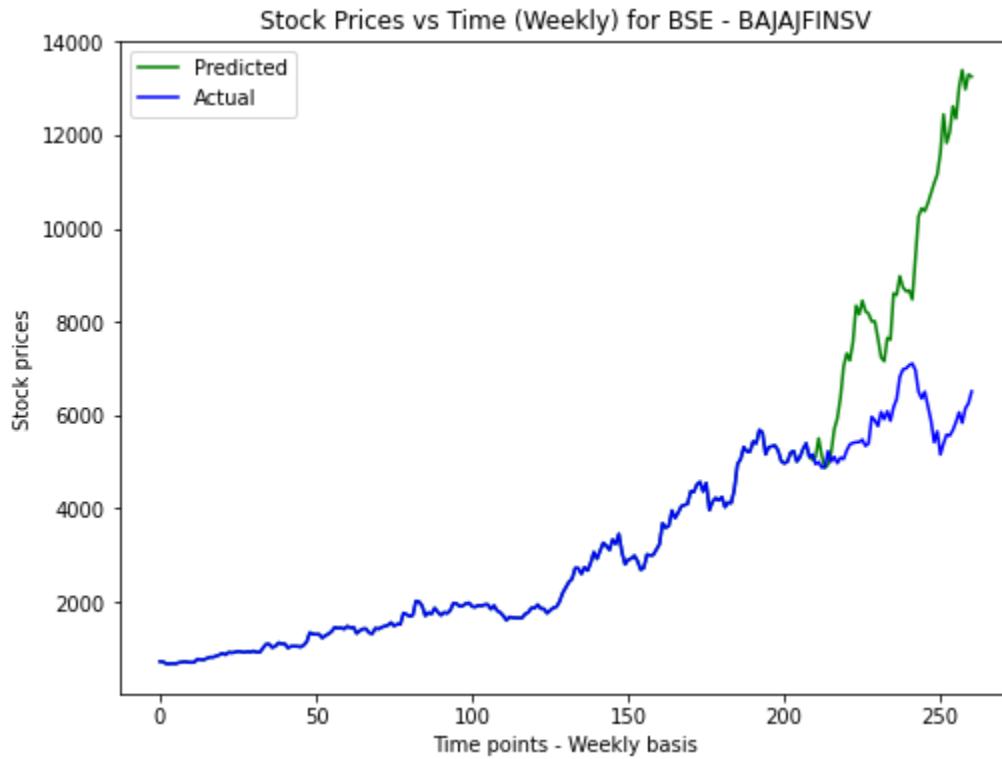
Stock Prices vs Time (Weekly) for BSE - ITC



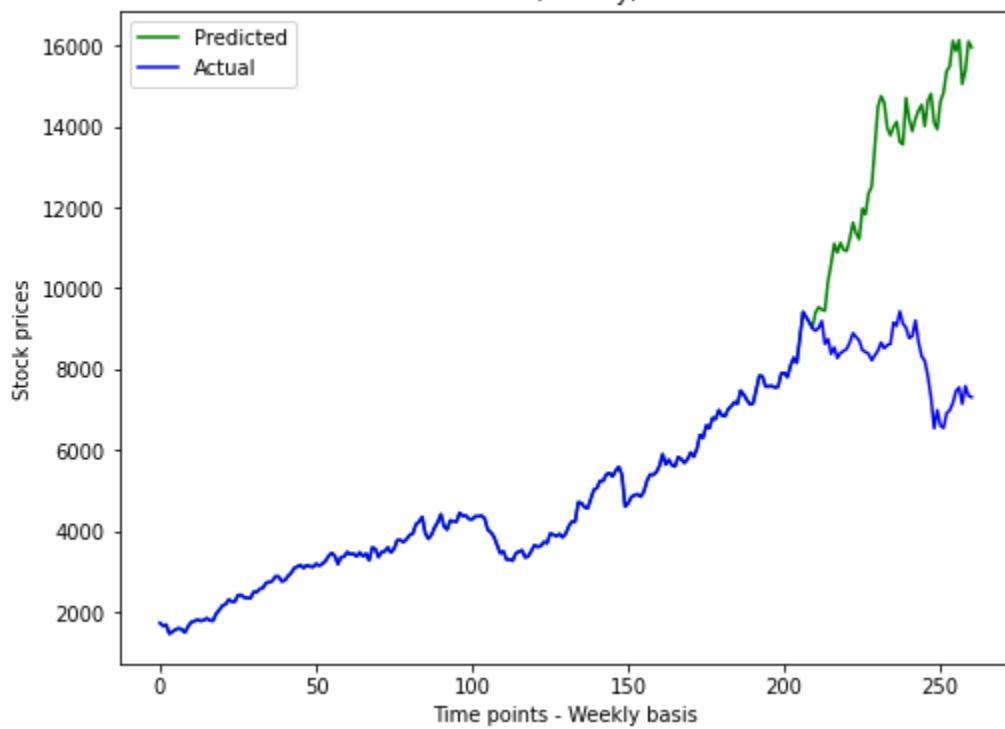
Stock Prices vs Time (Monthly) for BSE - ITC



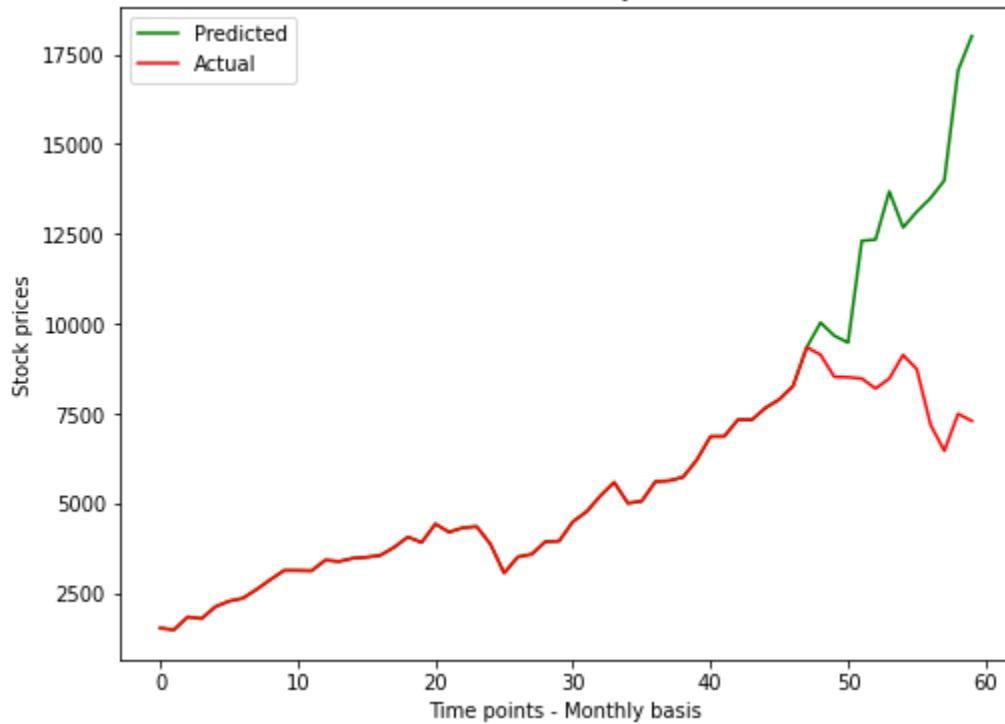




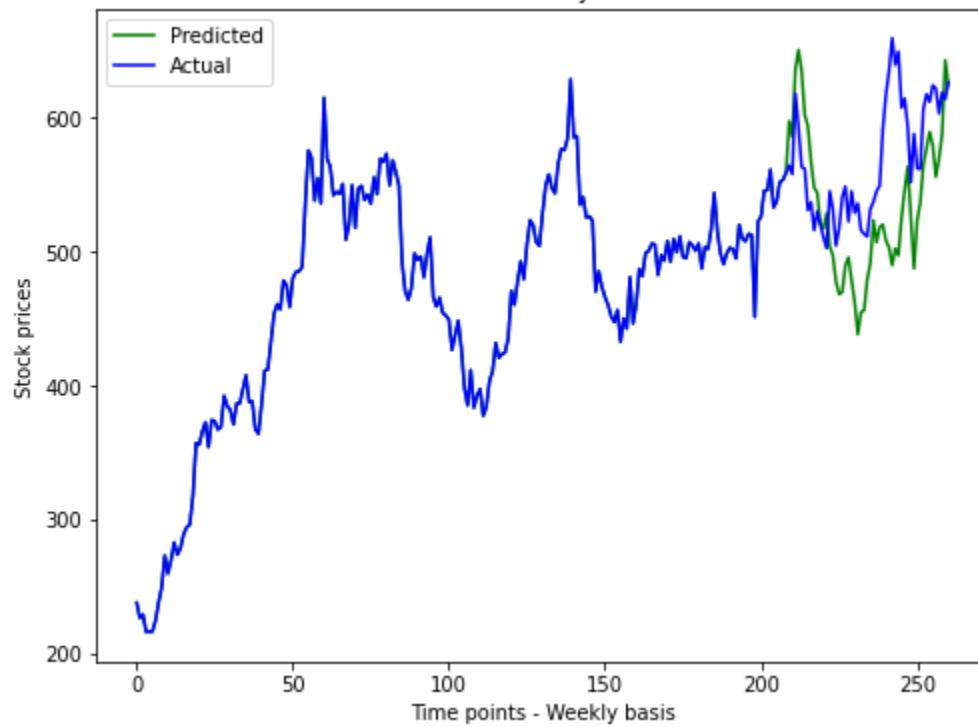
Stock Prices vs Time (Weekly) for BSE - MARUTI



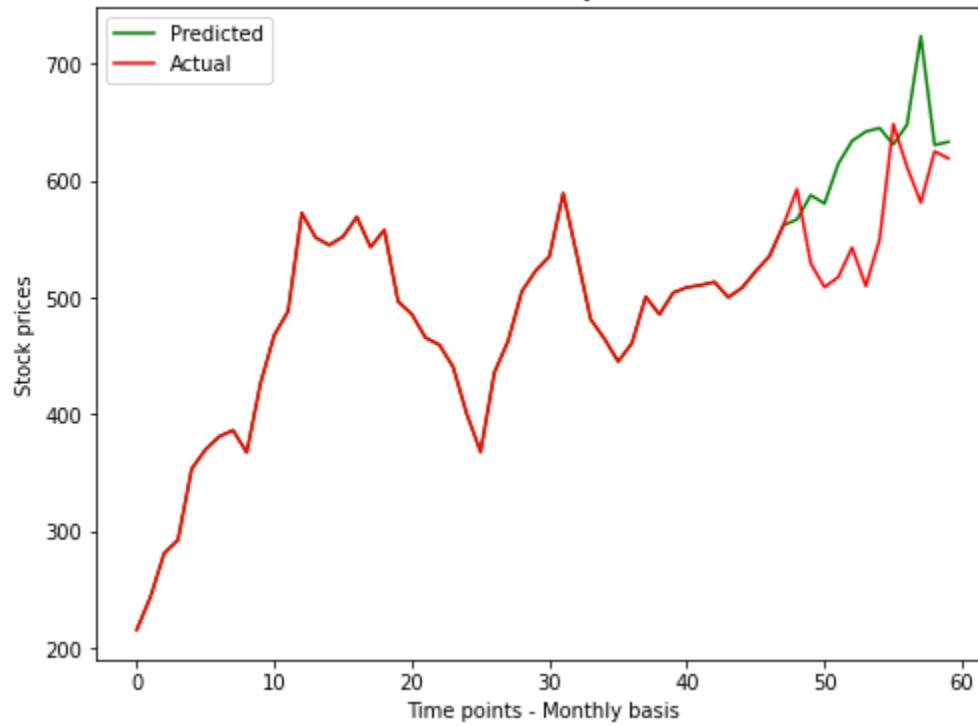
Stock Prices vs Time (Monthly) for BSE - MARUTI

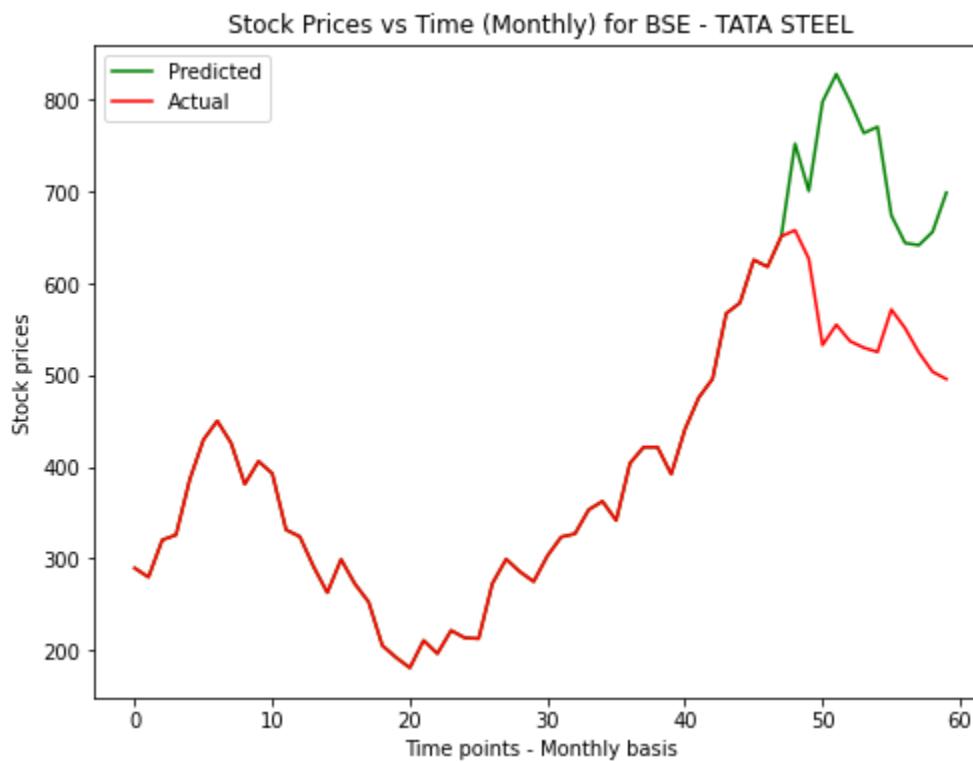


Stock Prices vs Time (Weekly) for BSE - AXISBANK

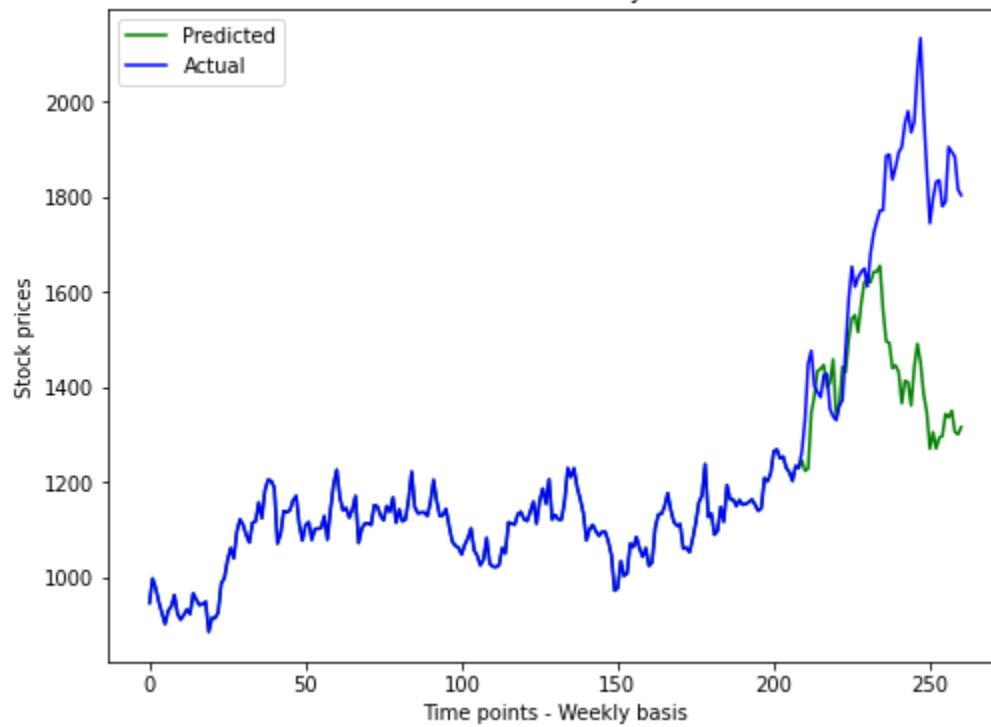


Stock Prices vs Time (Monthly) for BSE - AXISBANK

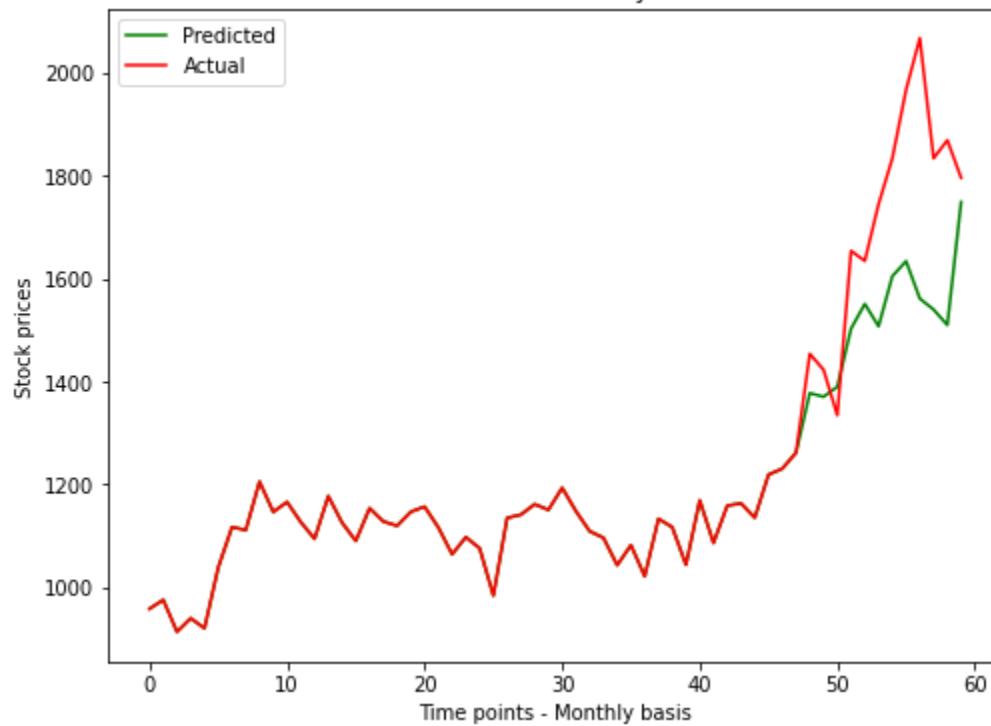




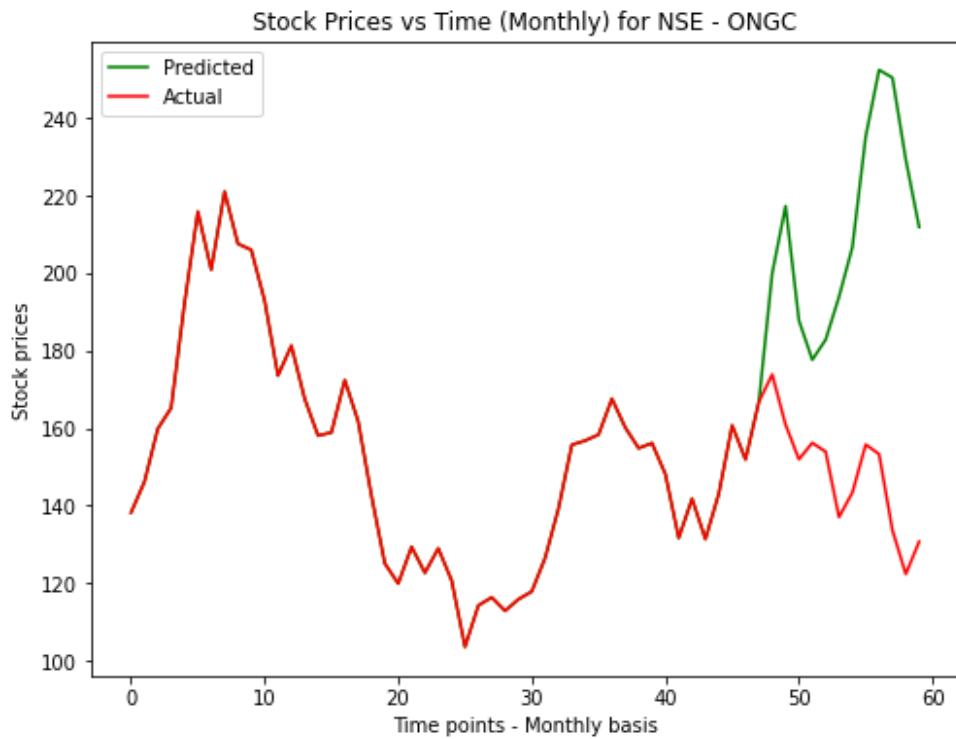
Stock Prices vs Time (Weekly) for BSE - TCS



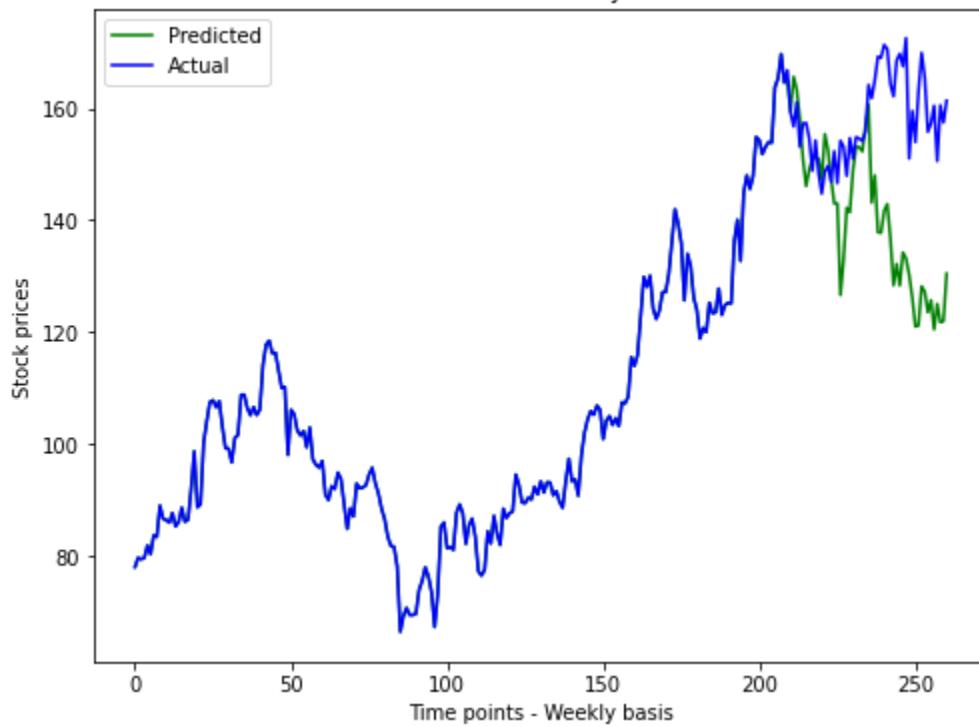
Stock Prices vs Time (Monthly) for BSE - TCS



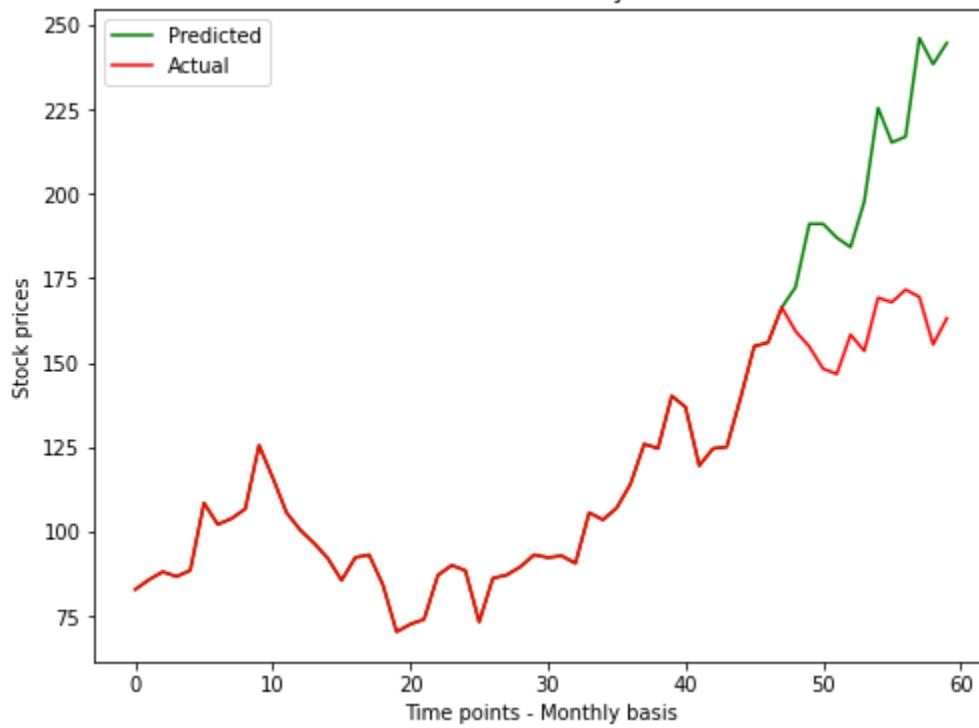
NSE:



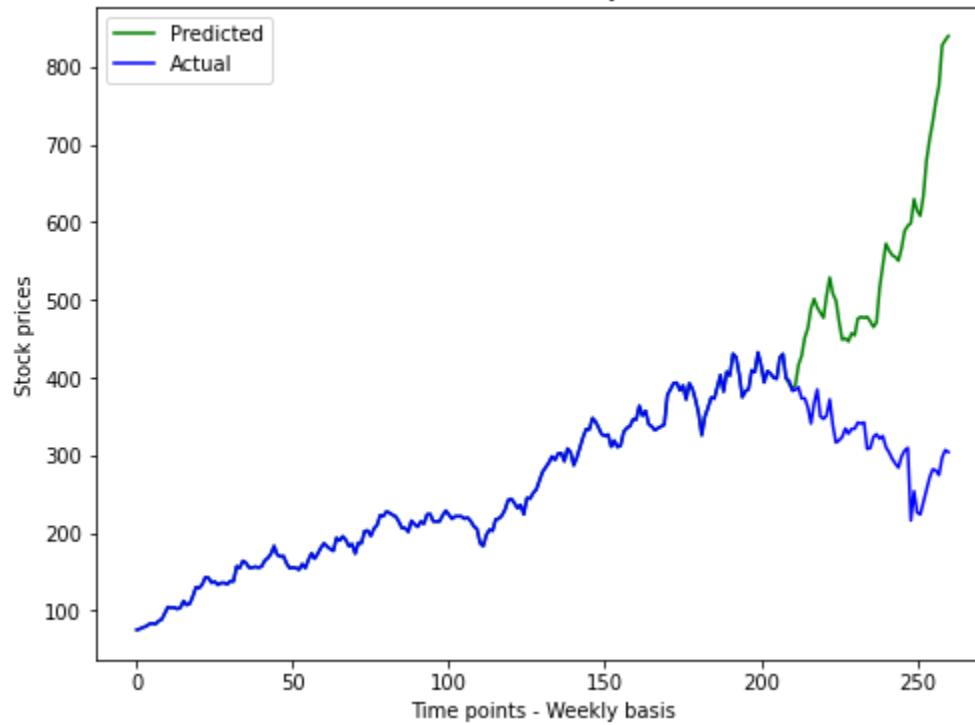
Stock Prices vs Time (Weekly) for NSE - GAIL



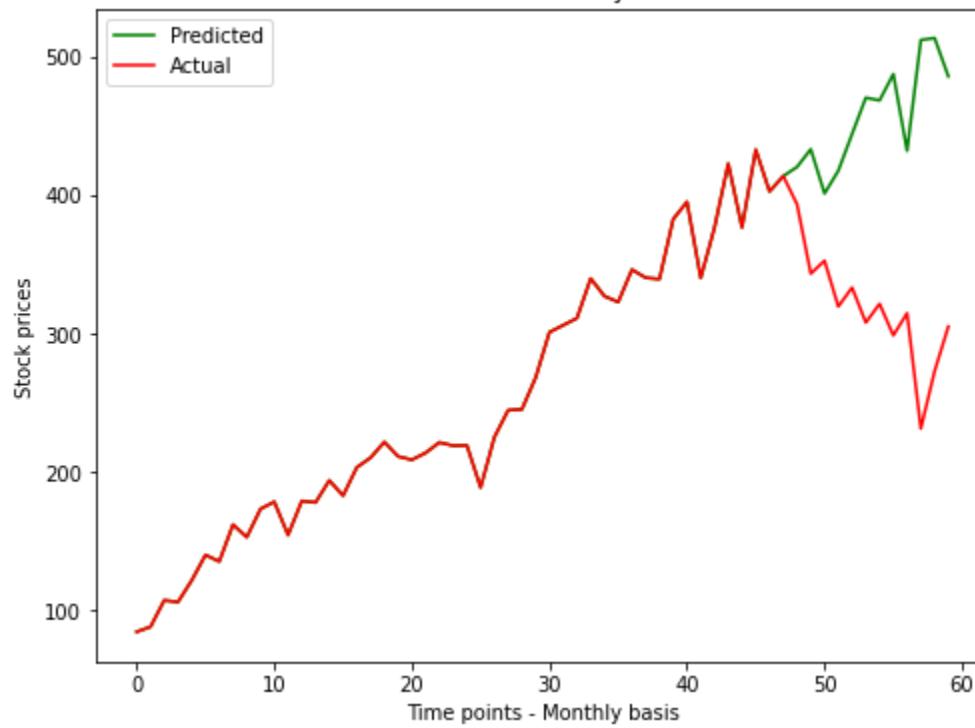
Stock Prices vs Time (Monthly) for NSE - GAIL



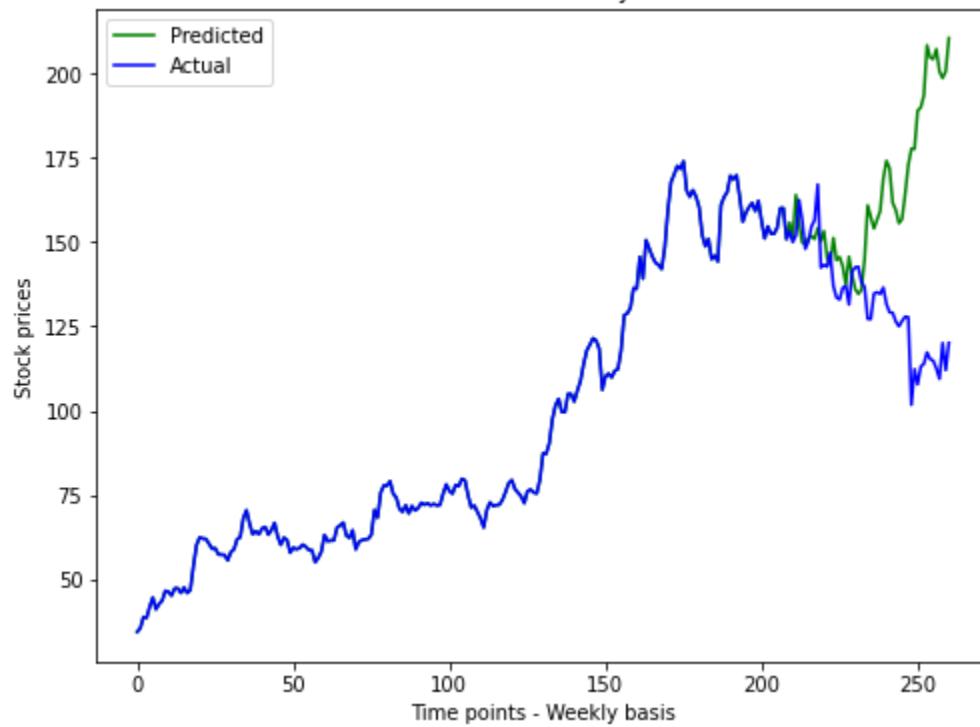
Stock Prices vs Time (Weekly) for NSE - BPCL



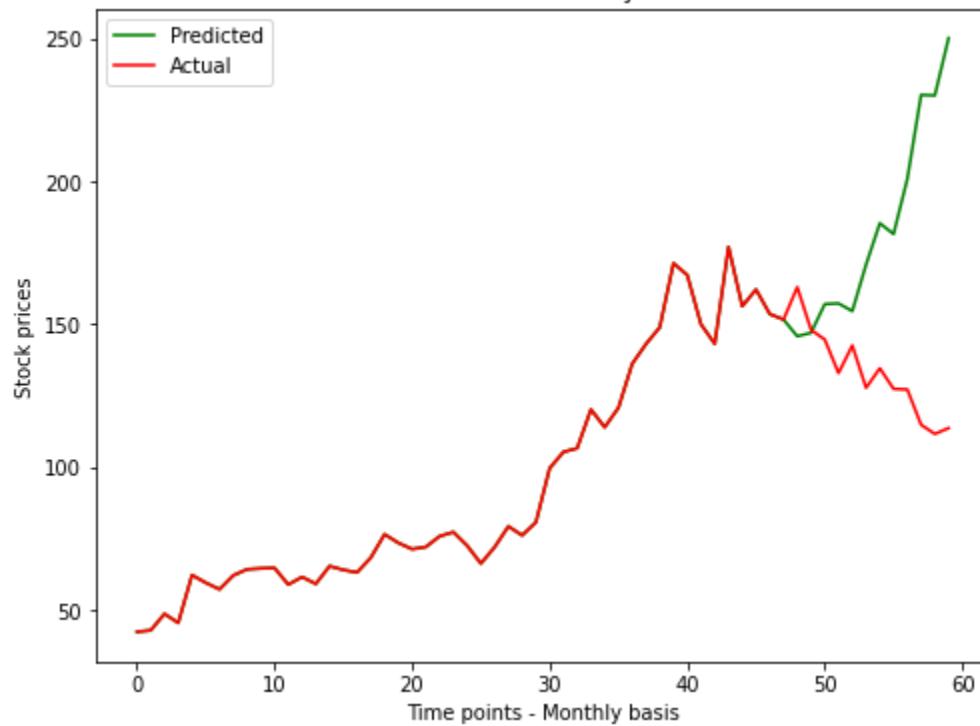
Stock Prices vs Time (Monthly) for NSE - BPCL

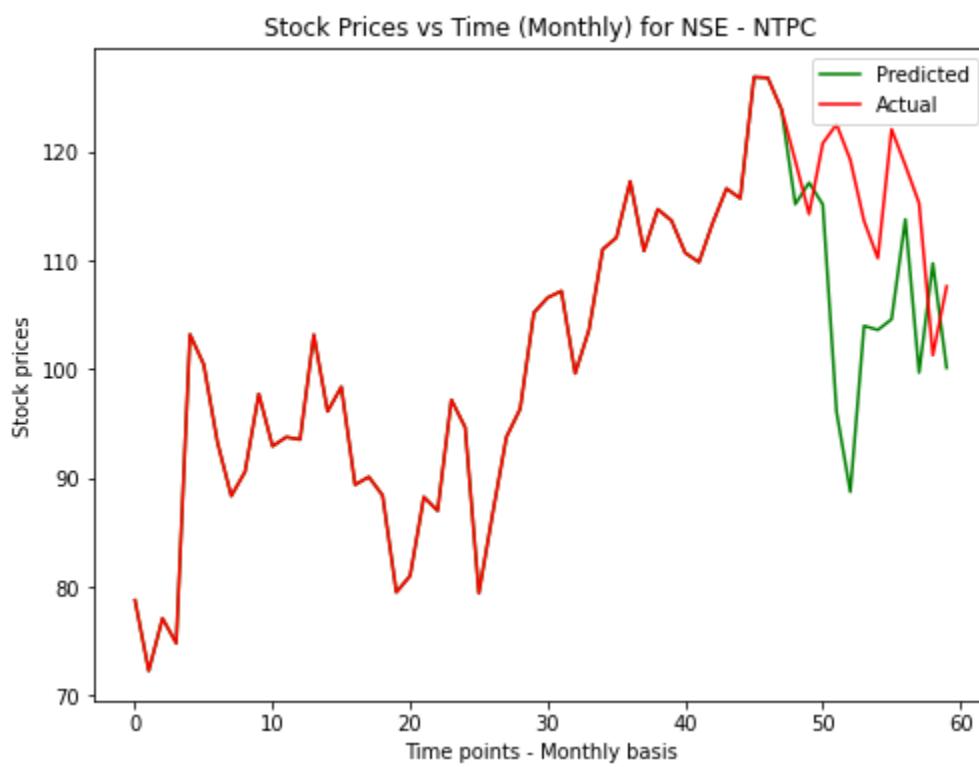


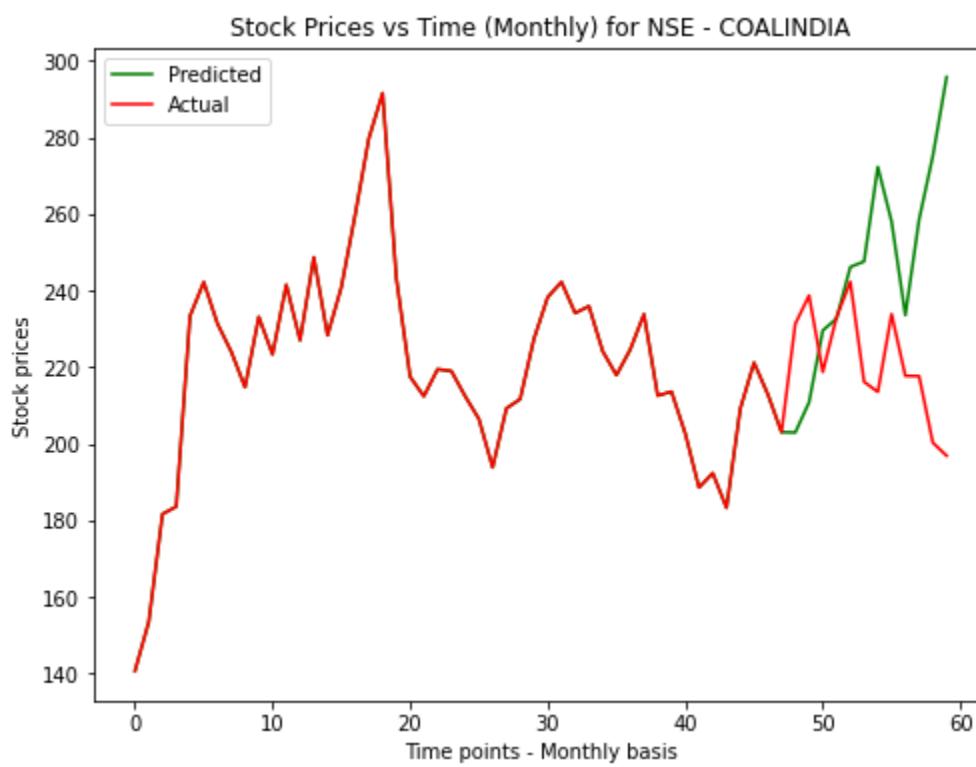
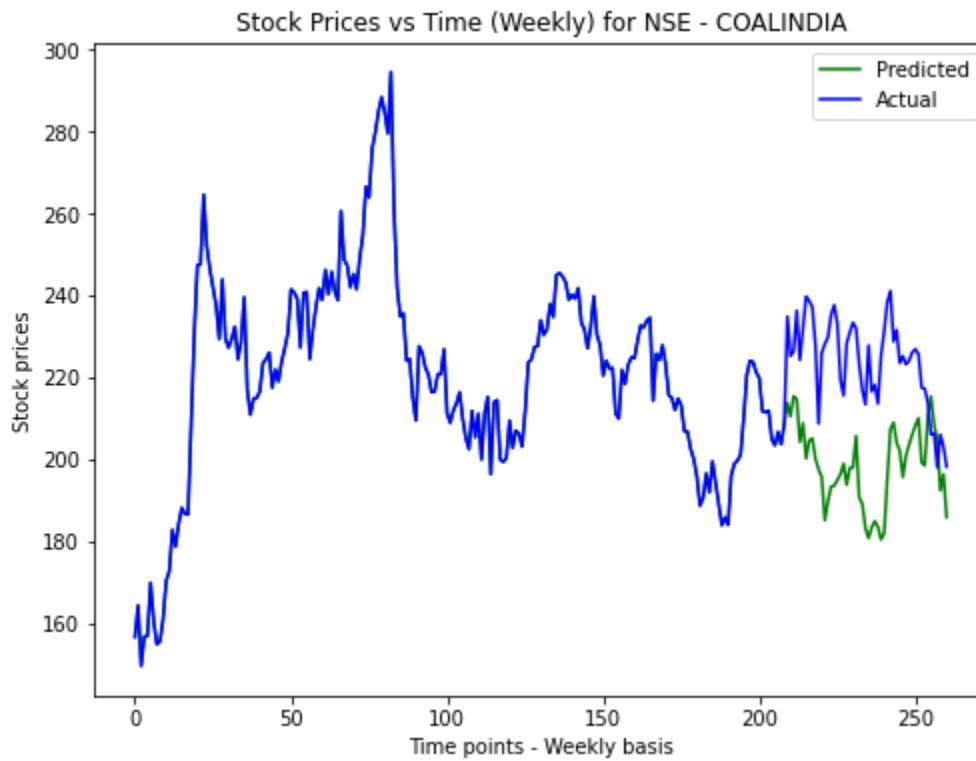
Stock Prices vs Time (Weekly) for NSE - IOC

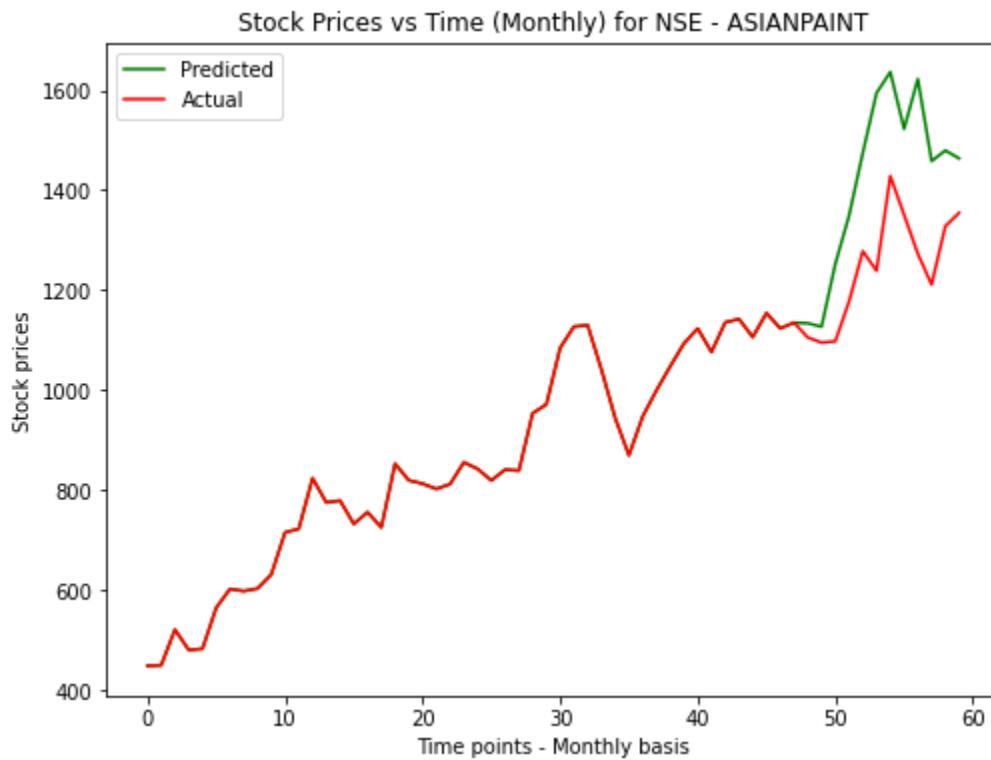


Stock Prices vs Time (Monthly) for NSE - IOC

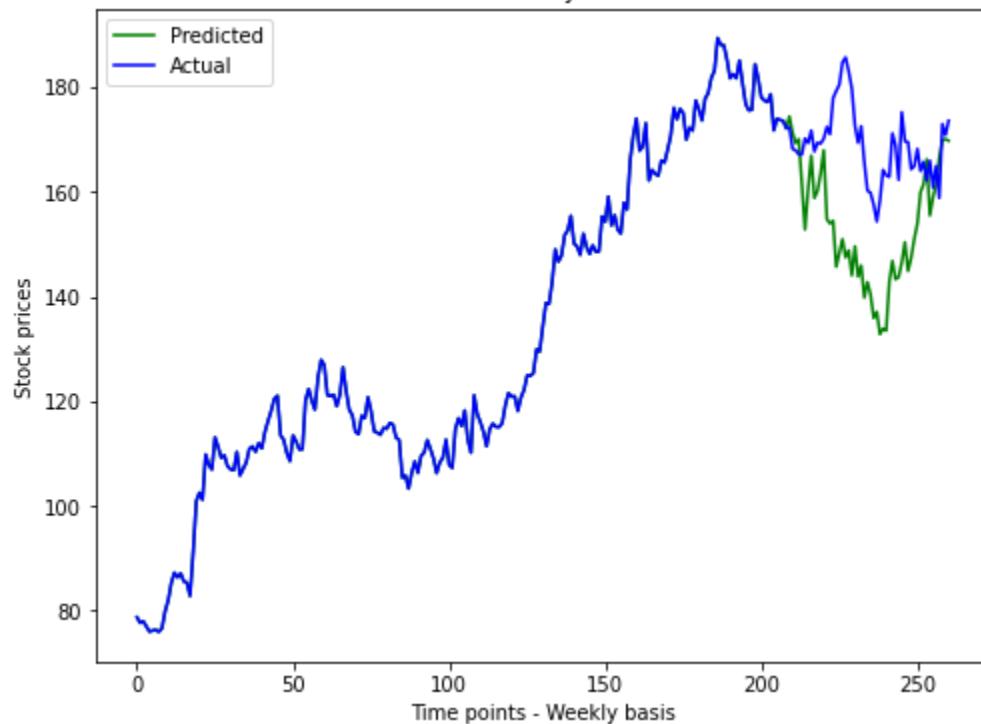




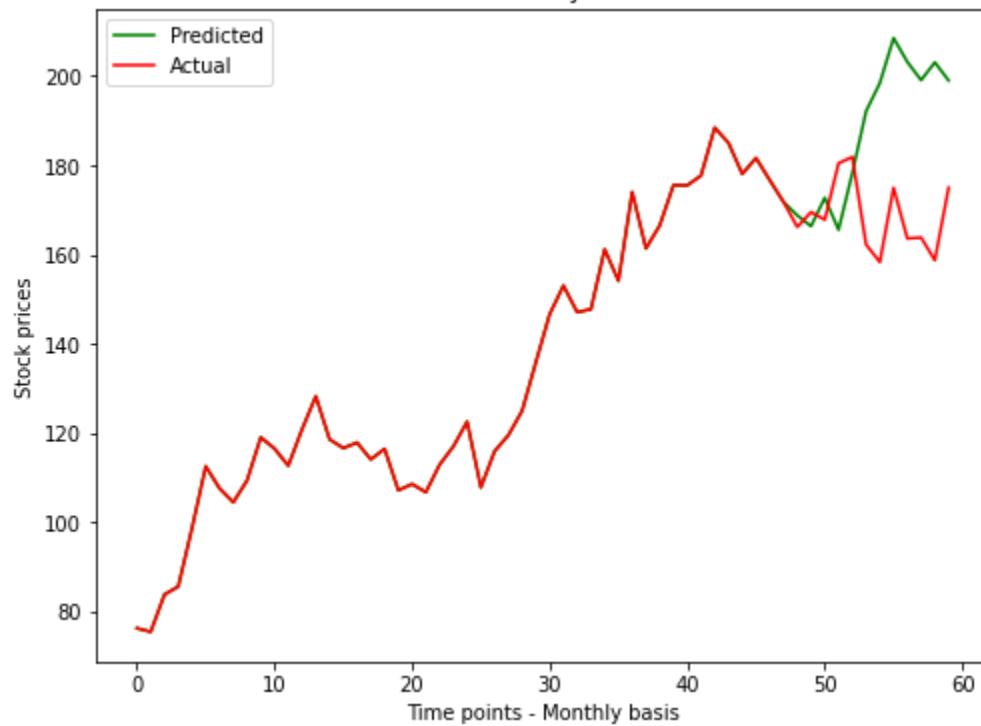




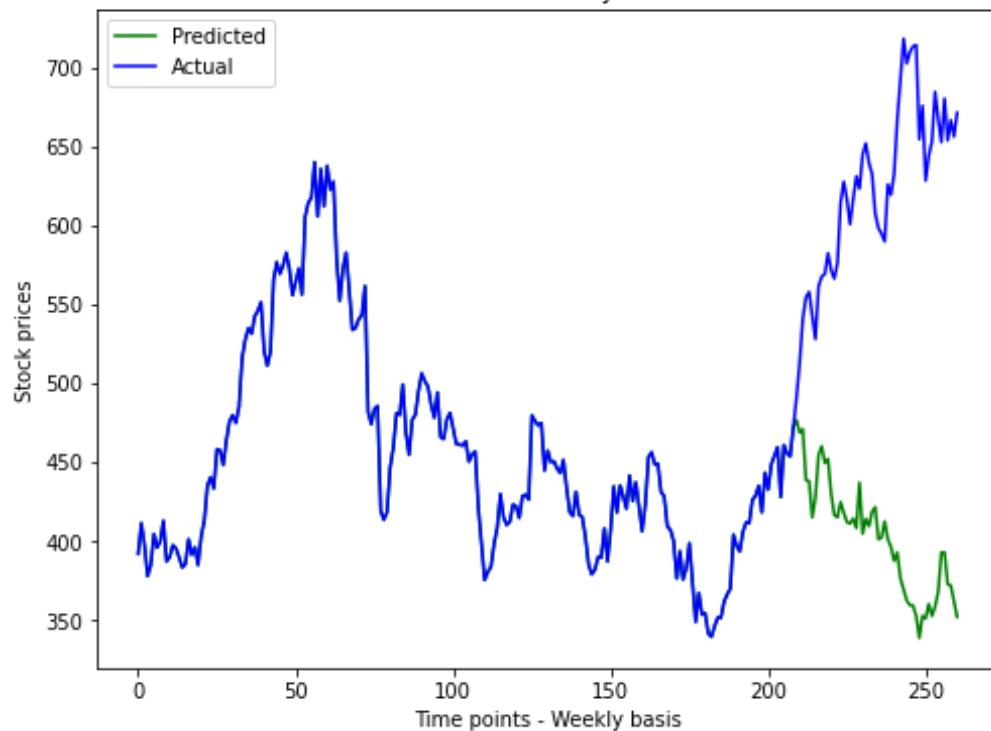
Stock Prices vs Time (Weekly) for NSE - POWERGRID



Stock Prices vs Time (Monthly) for NSE - POWERGRID



Stock Prices vs Time (Weekly) for NSE - TECHM



Stock Prices vs Time (Monthly) for NSE - TECHM

