ASSIGNMENT 02

LOVELY PROFESSIONAL UNIVERSITY

(Master of Business Administration)

MITTAL SCHOOL OF BUSINESS

Annexure-V- Cover Page for Academic Tasks

Course Code: **EECOM525** **Course Title:** **Managerial Economics**
Course Instructor: Dr. Tirtha Saikia
Academic Task No.: **02** **Academic Task Title:** Indian stock market: Does it explains perfect competition
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Student's Roll no: RQ2240A19   **Student's Reg. no: 12202342**

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Declaration:

I declare that this Assignment is my individual work. I have not copied it from any other student's work or from any other source except where due acknowledgement is made explicitly in the text, nor has any part been written for me by any other person.

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Evaluator's comments (For Instructor's use only)

Evaluator's Signature and Date:

Marks Obtained: ___________

Max. Marks:…………………

Indian Stock Market: Does it Explain Perfect Competition?

Problem Statement:

The stock market is one of the most important sources for corporates to raise capital. A stock exchange provides a market place, whether real or virtual, to facilitate the exchange of securities between buyers and sellers. It provides a real time trading information on the listed securities, facilitating price discovery.

Participants in the stock market range from small individual investors to large traders, who can be based anywhere in the world. Their orders usually end up with a professional at a stock exchange, who executes the order. Some exchanges are physical locations where transactions are carried out on a trading floor. The other type of exchange is of a virtual kind, composed of a network of computers and trades are made electronically via traders.

By design a stock exchange resembles perfect competition. Large number of rational profit maximisers actively competing with each other, trying to predict future market value of individual securities comprises the main feature of any stock market. Important current information is almost freely available to all participants.

Price of individual security is determined by market forces and reflects the effect of events that have already occurred and are expected to occur. In the short run it is not easy for a market player to either exit or enter; one cannot exit and enter for few days in those stocks which are under no delivery. For example Tata Steel was in no delivery from 29/10/07 to 02/11/07. Similarly one cannot enter or exit on those stocks which are in upper or lower circuit for few regular trading sessions. Therefore a player has to depend wholly on market price for its profit maximizing output (in this case stock of securities).

In the long run players may exit the market if they are not able to earn profit, but at the same time new investors are attracted by rise in market price. As on 01/11/07 total market capital at Bombay Stock Exchange (BSE) is $1589.43 billion (source: Business Standard, 1/11/2007); out of this individual investors account for only $100bn.

In spite of the fact that individual investors exist in a very large number, their capital base is less than 7% of total market capital; rest of capital is owned by foreign institutional investor and domestic institutional investors (FIIs and DIIs), which are very small in number. Average capital owned by a single large player is huge in comparison to small investor. This situation seems to have prompted Dr Dash of BSE to comment 'The stock market activity is increasingly becoming more centralised, concentrated and non-competitive, serving interest of big players only." Table 1 shows the impact of change in FII on National Stock Exchange movement during three different time periods.

Table 1: Impact of FIIs' Investment on NSE

Wave	*Date*		*Index*	Net Investment *(₹ Cr.)*	Change in market Capitalization *(₹ Cr.)*
Wave 1					
From	17/05/04	1388.75			
To	26/10/05	2408.50	1019.75	59520	5,40,391
Wave 2					
From	27/10/05	2352.90			
To	11/05/06	3701.05	1348.15	38258	6,20,248
Wave 3					
From	12/05/06	3650.05			
To	13/06/06	2663.30	–986.75	–9709	–4,60,149

By design, an Indian Stock Market resembles perfect competition, not as a complete description (for no markets may satisfy all requirements of the model) but as an approximation.

Questions
1. Is stock market a good example of perfect competition? Discuss.
2. Identify the characteristics of perfect competition in the stock market setting.
3. Can you find some basic aspect of perfect competition which is essentially absent in stock market?

What are FIIs? Many foreign organisations with registered offices outside of India, including foreign banks, foreign mutual funds, foreign governments, foreign insurance firms, and many more, constantly seek ways to increase their capital by making investments in particular ventures, businesses, or rapidly developing nations.

These FIIs pay notice when a nation (like India) expands and develops in terms of production and infrastructure and appears to have enormous development potential. Foreign institutions may opt to invest their foreign money via the stock exchange in emerging nations as these economies have a greater potential for growth and provide better returns than developed and mature economies. As a result, foreign investors profit from higher returns when the project is finished and occasionally get tax breaks on their investments.
In India, some of the largest and most popular foreign institutional investors (FIIs) happen to be:

- Europacific Growth Fund
- Government of Singapore
- Abu Dhabi Investment Authority
- JP Morgan
- DSP Blackrock

- Franklin Templeton Investment Funds

Think of FIIs as your close family friends or relatives who live overseas and visit India with presents for your entire family. Because they are fantastic and have the money, they frequently offer you more pocket money than your Indian relatives and they wish you well and encourage you. You repay the favour by giving up your room to their family and making every effort to please them whenever they visit. Since they get to stay in a luxurious place for free, they like you even more.

What are DIIs? Institutions with Indian registrations that invest in the Indian stock market are known as domestic institutional investors, or DIIs. This covers Indian banks, mutual funds, investments made by the Indian government, insurance firms, etc. They often handle bigger funds from several investors, which allows them to invest larger sums in various businesses and have a greater impact on the expansion of those businesses.

How do FIIs and DIIs impact the stock market? FIIs and DIIs typically account for roughly 35% of activity on the Indian stock exchange and have a significant impact on the stock markets. A lot of retail and individual investors typically gain trust when a FII or DII invests in a firm. The foreign exchange reserves of a nation are also increased through FII investment, allowing the government and the RBI to conduct monetary operations.

After the huge investment of FII and DII, the market price of the company will reach its high. Then it will be reflected in the National Stock Exchange. Because investors are mostly invested through stock exchange. This was the activity made in the first 2 waves which was mentioned above. Based on the activities of the companies, FII will invest or returned their investment. FIIs returned their investment in the wave 3. So, the market value of the companies was decreased on that period of time.

Which economic model will be useful to rectify the problems occurred in these waves and how to maintain the Indian stock market as the perfect competition?

SOLUTION

FII however also helps the domestic economy they invest in. This is because they bring with them huge capital, boosting economic growth in capital deficient countries. FII also helps improve the Current Account Deficit situation of a country. Therefore FII interest or net positive inflows are a good sign. FII outflows, on the other hand, depict a country where investments have become too risky or are a sign of an unstable government.

DII's allude to establishments that put resources into nations they are set up in. It is vital to take note of that a nation's political and legitimate climate assumes an urgent part. An administration that offers monetary motivations which incorporate corporate expense decrease, charge occasions, endowments, and other monetary impetuses. These establish an ideal venture climate. In such a situation besides the fact that FII's intrigued yet additionally are the DII's are urged to continue money management inside India as opposed to searching for valuable open doors in different nations.

In 2015 Profits and Long-haul Capital Additions (LTCG) on shares exchanged stock trades are completely excluded from Annual duty even though not the poor acquire them. Such moves urge Institutional financial backers to add to the capital in India. However, the inverse happened when in 2018 when the then Money Pastor Mr. Arun Jaitley pronounced a 10% Long haul Capital Increase in the financial plan upsetting the opinions of the market. This get prompted tenacious auctioning off of offers held by the FII's and DII's in February 2018.

These ventures were redirected towards Brazil and Gabon where they get appropriate states of procuring for example 100 percent exception in Annual Assessment and Long-haul capital addition were available. Thus, it is likewise vital for the public authority to establish a positive venture climate to keep the capital inside India.

Which economic model will be useful to rectify the problems occurred in these waves?

While having a primary information of economic principle is not perceived as being as important as balancing a household price range or getting to know how to power a automobile, the forces that underpin the look at of economics effect every second of our lives. on the most simple degree, economics attempts to explain how and why we make the shopping alternatives we do.

4 key monetary principles—scarcity, deliver and demand, costs and benefits, and incentives—can help explain many choices that humans make.

Everything Is in the Incentives

Inside the most trendy terms, an incentive is whatever that motivates a person to do some thing. while we’re talking about economics, the definition turns into a chunk narrower: economic incentives are economic motivations for people to take positive actions.

While incentives are effectively aligned with organizational desires the blessings may be outstanding. these practices consist of income sharing, performance bonuses, and worker stock possession. however, these incentives can pass away if the criteria for determining if an incentive has been met falls out of alignment with the unique aim. as an instance, poorly based overall performance bonuses have driven a few executives to take measures that improve the monetary results of the corporation in the short-time—simply sufficient to get the bonus. inside the long-term, these measures have then validated unfavourable to the health of the enterprise.

5 Common Types of Economic Incentives

1. **Tax Incentives-** Tax incentives—additionally referred to as “tax advantages”—are reductions in tax that the authorities makes so that it will encourage spending on sure objects or sports. Tax incentives are frequently mentioned as a brilliant way to encourage monetary development.

2. **Financial Incentives-** A economic incentive is a broader time period that encompasses any monetary gain given to a purchaser, organization, company, or corporation as a way to incentivize them to do something they won't otherwise do.
3. **Subsidies-**Subsidies are government incentive programs that offer set amounts of money to organizations on the way to assist them develop. Agricultural subsidies aren’t the only form of U.S. authority’s subsidy, of path. Others forms of government subsidies include oil, ethanol, export, environmental, housing, and health care.
4. **Tax rebates-** Tax rebates are incentives to take certain actions, like investing in solar energy, for example. In the case of renewable energy tax rebates, a state or local government offers a certain amount of money to consumers to purchase more environmentally friendly methods to generate electricity.
5. **Negative incentives-** Poor economic incentives, or disincentives, punish human beings financially for taking certain actions. this is a way of encouraging unique actions without making them obligatory.

CONCLUSION

Foreign Institutional investment has had a large have an effect on at the Indian capital market. it is observed that there is a positive correlation between DII and Indian principal index NIFTY over the past eight years.

The global economic market has a power on FII flows and DII flows in the Indian capital market. From the analysis, it's miles observed that in the global recession there had been decreases in FII flows and DII flows that made a terrible impact at the Sensex and NIFTY.

By the way of identifying government policy revision you may examine the impact of the effect of government policies on FII flows within the Indian capital marketplace. regardless of there being other factors that have an effect on the Indian capital market over the last 8 economic years traders are endorsed to take FII into consideration.

The studies has found that FII has the most influence at the Indian capital market. That’s involved in this text on ” consequences of FII and DII on inventory Markets in India “, allow us to understand what you think about this article inside the comments beneath. satisfied making an investment!

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