III. PREFACE

International portfolio diversification gives better opportunity to the investor to reap maximum benefit out of risk-return trade off. This is a common belief among the financial economic theorists, which has historical evidences too in support of it. Plenty of earlier studies since the late sixties by eminent scholars showed that national markets are segmented enough to provide profitable portfolio allocation avenues. However, situation changes since the crash of 1987. The works during the crash period and after showed that, developed countries are interrelated to each other and portfolio risk could hardly be diversified investing in those countries. However, developing and emerging markets were still segmented because of controls on capital account convertibility, restriction on repatriation of capital or due to income differences and other political and economic constraints. This specific feature opens the floodgate of short-term capital movement from developed nations to developing and emerging markets. Indian capital market has also turned to a most preferred hunting ground for the foreign institutional and non-institutional investors along with other emerging countries of Asia. Since the liberalization of Indian capital market in the year 1991, there has been a plethora of foreign investment flows into our market and the attraction continues till date. From the mid of nineties Indian investors also started to invest abroad through portfolio and direct investment as well. Number of listed Indian companies in the foreign stock exchanges and their market capitalization are increasing day by day. These sorts of openness in the market compel us to believe that there might be some sort of interrelationship between Indian capital market and other markets of the world and our economy might be climbing towards global efficiency. The slump in our stock price indices after the American economic crisis (2008-2009) and its contagious effect among most of the countries of the world strengthens the belief. Stock market integration of India with the international markets draws the attention of quite a number of scholars but their studies offer conflicting evidences.

How far our capital market is integrated to world market? Can any benefit our investor fetch from international diversification? What are the impacts of other

national stock market on Indian market? Is our economy safe from contagious effects of economic crisis in the other countries? These sorts of questions started to disturb me when I was studying finance during my post-graduation. At that stage, truly I was a bit confused. My immaturity, contradictory results of previous studies virtually barred me to draw any sort of conclusion. Now, I get the opportunity to research on this matter and believe that findings of the study would help our investors to manage their portfolio risk globally. We hope that, this research can also suggest some policy implication for our Government regarding development of capital market. My research findings surprisingly suggest, Indian capital market is yet to be grouped with the other developed markets of the world; its institutions are not yet developed and finally Indian capital market is very weakly interlinked with the major markets of Asia as well as USA and UK.

At the bottom, the study is organized as follows: chapter one contains the brief introduction of the topic, which follows the objective of the study research hypotheses and questions, data, time period and methodology of the study. Some economic and market facts of the countries like economic stability, capital market liberalization, capital account convertibility, are presented in the second chapter. The relationship between development and integration is depicted in the third chapter. That chapter also assessed India's position among the other countries of the world regarding development based on the competitive scores given by World Economic Forum (2008). Measurement of correlation coefficients between Indian capital market and other select sample markets are presented in chapter four. We also tried to find out the influence of volatility on the correlation coefficient. Chapter five, deals with the portfolio implications of the variance - covariance analysis. How efficient portfolio can be constructed with a perfect risk return trade- off is discussed in this chapter. Finally, in chapter six, we summarized all the observations and made some suggestions to our investors and the government of India as well.

During my research work, two papers entitled (i) Benefits from International Diversification: Indian Experience. (With Dr. M. K Roy and Dr. Hirak Roy, CEA Journal of Economics ISSN 1857-5250. Vol – 7 (II) June – 2012) (ii) Risk

Diversification: A Cross Country Co integration Approach (With Dr. Hirak Ray and Avijit Lahiri, Asian Journal of Research in Business Economics and Management, Vol – 2 (9), Sept – 2012, ISSN – 2249-7307), are published and another one entitled (iii) Volatility Effect on Correlation (With Dr. M. K Roy and Dr. Hirak Ray) is accepted for April issue of Asian Journal Of Research In Banking and Finance. Issn: 2249-7323.