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CERTIFICATE

It is certified that the work contained in the thesis titled “**DOMESTIC FINANCIAL MARKET INTEGRATION: A STUDY ON INTER-LINKAGE AMONGST INDIAN MONEY, CAPITAL AND FOREIGN EXCHANGE MARKET**” by Debashree Dey has been carried out under our supervision and that this work has not been submitted elsewhere for a degree.


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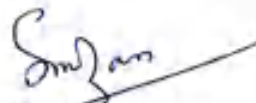
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DECLARATION

I declare that the thesis entitled “**DOMESTIC FINANCIAL MARKET INTEGRATION: A STUDY ON INTER- LINKAGE AMONGST INDIAN MONEY, CAPITAL AND FOREIGN EXCHANGE MARKET**” has been prepared by me under the supervision of former professor Hirak Ray and professor Samirendra Nath Dhar, Department of Commerce, University of North Bengal. No part of this thesis has formed the basis for the award of any degree or fellowship previously.



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I. Dedication

I dedicate the thesis to the lovely memory of my grandparents Lt. Mahendra Ch. Dey,
Lt. Priotama Dey, Lt. Pratap Ch. Kar and Lt. Bani Bala Kar

II. Acknowledgement

At first, I bow down to my esteemed teachers Prof. Hirak Ray and Prof. Samirendra Nath Dhar for their active help and encouragement to complete the thesis with utmost perfection. They are truly outliers in my life. I, also take the opportunity to express my sincere gratitude to their better halves as well for their invaluable encouragement.

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IV. Preface

The debate on globalization, free economy and integration of markets seems not to die out in recent future. Followers of McKinnon(1973) and Shaw(1973) forcefully advocate that this is the only game in the town, but, this economic proposition is not free from limitations and evils. Despite the debate on boons and evils of integration, now almost all economies are following the 'free economic policies' and obviously India cannot live in isolation and miss the benefits of globalization. The central Bank of India, accordingly, sets the objectives of reform of the financial sector and prescribed several policy measures necessary to converge the domestic markets also. Integration of domestic markets not only help to reap the benefits of liberalisation across the domestic and international financial sectors but also help to increase the efficiency, integrity and competitiveness of all the sectors —be it real or financial and the outcome of which ultimately be translated to the overall development of the economy.

In the new era, Indian financial markets appeared as the major player of the Indian financial system. In the free-regime, after initiating a good number of policy measures by the Indian authorities to integrate the segments of financial markets, emphasizing the capital (especially stock market which is considered by this study to represent capital market), money and foreign exchange market, many questions were appearing in my mind when I was a student of post-graduate classes of finance. Is there any short-term or long-term stable relationship amongst the segments of Indian domestic financial market? Do the past values of the Indian domestic markets influence the future values of other markets? Can we have some fair amount of information about the future movement of one market by observing the activities of other market or markets? Are the Indian domestic markets rigid?

I have searched the literature on financial integration and found that the issue of domestic integration has escaped adequate attention of the scholars. Majority of the studies investigated the stock, foreign exchange and money market as secondary or auxiliary issue and a few have investigated the domestic financial markets as the only or primary issue. Moreover, studies in the context of India are rare. Majority of them used monthly data to assess the activities and status of the very liquid market segments. The use of a variety of methodologies, incomplete searching, and the fractured findings attracted me to research on the issue to unveil the intricate relationship amongst the Indian money, exchange and stock market. Now I got the scope to research on the issue and hope that the findings of my study would help a lot to our policy planners in the matters of overall management of liquidity in our economy. My research findings suggest a stable long term relation between Stock market, Money market and Foreign exchange markets. They are co-integrated but the flexibility of the Stock market and Money market are relatively less than the Foreign exchange market.

At the bottom, the entire study is presented within five chapters: the 1st chapter of this thesis introduces domestic integration, major steps taken by the government to converge stock, money and foreign exchange market and a brief theoretical relation amongst the markets under the study. Chapter II outlines the objective, research questions and hypotheses along with the survey of literature. Methodology used in this study is described in chapter III. Domestic integration and other hypotheses of the study are assessed by econometric tools in chapter IV. The last chapter, i.e., chapter V concludes the study with summary, gap and further scope of the study.

During my research work, two papers titled: Indian Money and Equity Market: Are They Entwined? (with H.Ray and J.Sarkar), Asset Prices and Short-term Interest Rates: An

Experience from the Indian Stock and Money Market (with H.Ray and J.Sarkar) are published in national and international journals and presented a paper titled Domestic integration: An empirical investigation of the select segments of Indian money market (with H. Ray and J. Sarkar) in the seminar organized by the Department of Commerce, University of North Bengal on the 28th and 29th March, 2019.

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