INTRODUCTION

When we talk about the stock market the first thing that comes into our mind is this is an important element of an economy because stock market plays a vital role in the growth of key sectors of the economy and ultimately affects the economy of the country. Stock market plays the significant role for the industry and also for the investor who wants to invest in the stock market to gain maximum return on his savings. In India there are number of stock exchanges but two of them are very popular BSE and NSE.

The primary function of any stock market is to play the role of supporting the growth of the industry and economy of the country and it is also the measurement tool that gives the idea about the industrial growth as well as the stability of the economy with their performance. The rising index or consistent growth in the index is the sign of growing economy and if the index and stock prices are on the falling side or their fluctuations are on the higher side it gives the impression of un-stability in the economy exist in that country. On the other side we know that the growth of the country is directly related to the economy which consists of various variables like GDP, Foreign Direct Investment, Remittances, Inflation, Interest rate, Money supply, Exchange rate and many others. These variables are the backbone of any economy. The movements in the stock prices are affected by changes in fundamentals of the economy and the expectations about future prospects of these fundamentals. Stock market index is a way of measuring the performance of a market over time. These indices used as a benchmark for the investors or fund managers who compare their return with the market return.

Numerous studies conducted in USA, UK and Japan to find out the relationship between macroeconomic variables and the fluctuations of stock prices. The findings of these studies show that with the minor variation these macroeconomic variables have the significant impact on stock prices. These results helped investors to make better predictions about the movement of stock prices whenever these fundamentals change their position. Here we consider four independent factors – sensex, gold, FII and exchange rate and their impact on Nifty.

The main objectives of this study are:
1. To study the impact of gold prices on Nifty.
2. To study the impact of dollar prices on Nifty.

REVIEW OF LITERATURE

According to Agrawal (2010), the correlation between Nifty returns and exchange rates were found to be negative. Further investigation into the causal relationship between the two variables using Granger causality test highlighted unidirectional relationship between Nifty returns and exchange rates, running from the former towards the latter. The results of Sharma et al. (2010) reveal that there is high correlation between the empirical results reveal that exchange rate and gold prices highly effect the stock prices on the other hand the influence of foreign exchange reserves and Inflation on the stock price is up to limited extend only. Sjastad et al. (1996) as the world gold market is dominated by the European currency bloc, appreciations or depreciations of European curren

ABSTRACT

The research has been undertaken to know the effect of gold prices and dollar prices on the stock exchange indices. For the purpose of study secondary data for 3 years have been collected from 2011 to 2014. Average of opening and closing price has been considered. For the purpose of data analysis multiple regression has been applied with the help of statistical software SPSS. It has been concluded that both dollar and gold prices were having positive effect on the stock market indices.
US dollar exchange rate and equity prices. However, since 2003, the same is largely due to the volatility in the US dollar exchange rate and mildly due to volatility in equity prices. The paper also concludes that implications of correction in gold prices on the Indian financial markets are likely to be muted.

The empirical results of Bhunia et al. (2012) provide support of feedback causality between the selected variables and indicate that the gold prices Granger-causes stock market returns and stock market returns also Granger-causes the gold prices in India during the study period. The results indicate that the co-movement of gold prices and stock prices even during the period global financial crisis and thereafter. Indians have started considering gold not only as jewellery but also an important mode of investment like investment in bonds and equities.

Thai-Ha Le et al. (2011) confirmed that the price of gold and stock, among others, can help form expectations of higher inflation over time. In the short run, only gold price impacts the interest rate in Japan. Overall, the findings of this study could benefit both the Japanese monetary authority and investors who hold the Japanese yen in their portfolios. Jorion (2009) the empirical results, however, do not suggest that exchange risk is priced in the stock market. The unconditional risk premium attached to foreign currency exposure appears to be small and never significant. As a result, active hedging policies by financial managers cannot affect the cost of capital, and other reasons must explain why firms decide to hedge. Forest Capiea (2005), a negative, typically inelastic, relationship is indeed found between gold and these exchange rates, but the strength of this relationship has shifted over time. Thus, although gold has served as a hedge against fluctuations in the foreign exchange value of the dollar, it has only done so to a degree that seems highly dependent on unpredictable political attitudes and events. Patel S (2012) the study found that Interest Rate is I (0); Sensex, Nifty, Exchange Rate, Index of Industrial Production, Gold Price, Silver Price and Oil Price are I (1); and Inflation and Money Supply are I (2). It also found the long run relationship between macroeconomic variables and stock market indices. The study also revealed the causality run from exchange rate to stock market indices to IIP and Oil Price.

In the study, effects of S & P CNX Nifty Index Reorganisations, Kumar et al. (2004) considers the effects of changes (both inclusions and exclusions) in the composition of the Nifty and Jr. Nifty index for the period 1996-2003. The study finds no significant price effects on the announcement day. However price effects were observed only for the Nifty index on the effective day averaging around 1.47% which is subsequently reversed by ninth day. Similar results were found for the Nifty deletions too. For the Jr. Nifty no price effects were observed either on announcement day or on the effective day for both inclusions as well as exclusions. However there were no abnormal volumes associated with the price effects for the Nifty index. Also the study finds no significant changes in the liquidity of the stocks that were either included or excluded to/from the Nifty. Since the price effects are confined only to Nifty and were absent for the Jr. Nifty certification effect may be ruled out. There is prima facie support for the price pressures hypothesis however the conclusions are not emphatic because of the lack of abnormal volumes in the effective day window.

Bhunia et al. (2013), in his empirical study of Indian stock exchanges analyses the impact of domestic gold price on stock price indices in India for the period from 2 January 1991 to 10 August 2012 using appropriate statistics, unit root test and Granger causality test. The domestic gold price in India is eternally escalating in consequence of its intense domestic demand on account of protection, liquidity along with spreader portfolio. It give the impression of being at the remarkable data brings to the plane that when the stock market crumples or when the dollar worsens, gold prolongs to be a safe haven investment because gold prices increase in such situations. The study is based on secondary data obtained from World Gold Council database and BSE and NSE database. Unit root test indicates that time series are not stationary at levels and the selected time series are stationary at 1st difference. Granger causality test illustrate that no causality exists between Nifty and gold price, gold price and sensesx and Nifty and sensesx and bidirectional causality exists between gold price and Nifty, sensesx and gold price and sensesx and Nifty.

In, Dynamics of Gold Prices, Gold Mining Stock Prices and Stock Market Prices Comovements, Gilmore et al. (2009) examine the dynamic relationships between gold prices, stock price indices of gold mining companies and broad stock market indices. Evidence of cointegration between these variables is found. A vector error-correction model reveals that both gold and large-cap stock prices adjust to disturbances to restore the long-term relationship between the variables. Short-term unidirectional causal relationships are running from large-cap stock prices to gold mining company stock prices and from gold mining company stock prices to gold prices.

In his study Chen (1973) analyses the factors which have contributed to gold price fluctuation include the interaction between gold demand and supply, government intervention, uncertainty of the world political environment and global economic stability. Previously researchers looked at modeling the variation in gold price movements. Williams (1972) used a pure descriptive way to review the activities of the gold market during the period from 1968 to 1972, a time when great changes in gold prices occurred. He asserted that the private gold markets are relatively unstable, and that gold prices may show a rapid rise under conditions of crisis or acute uncertainty. In Williams' study, no precise relationship or functional forms were employed to explain the fluctuation of gold prices.

Jiang et al. (2014), the study of the price of gold futures based on heterogeneous investors' overconfidence in his study analyse the price of gold futures based on
heterogeneous investors’ overconfidence. This paper divides the traders of gold futures market into two kinds: the speculators and arbitrageurs, and then constructs a market equilibrium model of futures pricing to analyse the behaviours of the two kinds of traders with overconfidence. After getting the decision-making function, the market equilibrium futures price is attained on the condition of market clearing. Then, this paper analyses how the overconfidence impacts on futures price, volatility of the price of gold futures and the effects on individual utility. Under different market conditions, the overconfidence psychological impacts of heterogeneous investor on the price and volatility of futures are different, sometimes completely opposite. In the past literature, the relationships between overconfidence and the price or volatility are positive; however, the study shows that sometimes it is positive, and sometimes it is negative.

Wei Fan et al. (2014), in his work Macro-factors on gold pricing during the financial crisis, aims to propose the idea of which macro-factors and how the macro-factors impact on the gold price. An EGARCH model is applied to test the volatility of gold price. A VAR method is applied to validate the idea by decomposing gold’s value into three parts according to its features. Three macro-factors have significant impact on the gold’s price. The USDX index is negatively correlated with the gold price, while the CRB index and the US Treasury CDS spreads are positively correlated with the gold price. In particular, it is found that the one-lagged CRB index, one-lagged USDX index, and two-lagged US treasury CDS spreads have significant impact on the gold price. The findings in this study suggest a normal case of the gold price. However, in particular cases, new models or new parameters may need to be introduced. This paper bridges the gap between theory and practice on the gold pricing model. The three-factor model can be used for trading in the field of gold investment.

METHODOLOGY

The study has been conducted to know the effect of dollar and gold prices on Nifty. The study was exploratory in nature. Sample consists of weekly data for a period of 3 years from 2011 to 2014. For the purpose of the study secondary data has been collected through various web sites and last close and current opens averages have been considered.

For the purpose of data analysis multi regression analysis had been applied on the data collected with the help of SPSS.

RESULTS AND DISCUSSION

Hypothesis

H<sub>01</sub>: Dollar price is not dependent on sensex.
H<sub>11</sub>: Dollar price is dependent on sensex.

The hypothesis dollar price is not dependent on sensex has been accepted; 38.8% change in Nifty is explained by the dollar price and 62% by others. The relationship between dollar and sensex is negative (beta= -.620) and this relationship is significant (p < 0.50).

Hypothesis

H<sub>02</sub>: Gold price is not dependent on sensex.
H<sub>12</sub>: Gold price is dependent on sensex.

Interpretation

The hypothesis gold price is not dependent on sensex has been rejected; 35.5% change in Nifty is explained by the gold price and 59.6% by others. The relationship between gold and sensex is positive (beta = 59.6) and this relationship is significant (p < 0.50).

Findings

With the help of regression analysis applied on above hypothesis the effect of Gold price and dollar price on Nifty is analysed. The hypotheses (H<sub>01</sub>, H<sub>02</sub>) were rejected and reveal that dollar and gold price have their effects on Nifty.

CONCLUSION

The study performed necessary analyses to answer the research question of whether some of the identified independent factors can influence the Nifty. The independent factors are represented by gold price and dollar price. Here dependent variable is Nifty. Weekly data for a time span of 3 years (2011–2014) was considered. The paper employed regression analysis to examine such relationships. The results are interesting and useful in understanding the Nifty and some factors which we consider and their effects on Nifty.

On the basis of overall analysis it can be concluded that Nifty was highly related and affect more significantly. There is a positive correlation between gold and Nifty, and negative relation between dollar price and Nifty but have less effect on Nifty compared to other factors. The results of this analysis should not be treated as conclusive for an investment in Nifty because there are various other factors which affect Nifty.

REFERENCES

## APPENDICES

### Dollar and Sensex

**Table 1**

<table>
<thead>
<tr>
<th>Model</th>
<th>Variables Entered</th>
<th>Variables Removed</th>
<th>Method</th>
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a. Dependent Variable: Sensex

b. All requested variables entered.

**Table 2**

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a. Predictors: (Constant), $$

**Table 3**

**ANOVA**

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a. Dependent Variable: Sensex

b. Predictors: (Constant), $$

**Table 4**

**Coefficients**

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a. Dependent Variable: Sensex

### Gold and Sensex

**Table 1**

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<th>Method</th>
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a. Dependent Variable: Sensex

b. All requested variables entered.

**Table 2**

<table>
<thead>
<tr>
<th>Model</th>
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<th>$R^2$</th>
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<th>Std. Error of the Estimate</th>
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a. Predictors: (Constant), Gold
Table 3

ANOVA\(^a\)

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\(a\). Dependent Variable: Sensex  
\(b\). Predictors: (Constant), Gold

Table 4

Coefficients

<table>
<thead>
<tr>
<th>Model</th>
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<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
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<tbody>
<tr>
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<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
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<tr>
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\(a\). Dependent Variable: Sensex