



A STUDY ON VOLATILITY OF SHARE PRICES WITH RESPECT TO ECONOMIC FACTORS

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ABSTRACT

In pure financial terms, volatility is defined as, 'the degree to which the price of a security, commodity, or market rises or falls within a short-term period'. From the above definition, volatility relates to the variability in the price of a security. In the context of the stock market, volatility of the market refers to the volatility of the indices of the securities within the market. In India, for instance, the Bombay Stock Exchange (BSE) SENSEX (a 30 scrip weighted index of market capitalization) would be one of the relevant indices to look into for examining stock market volatility. When examining the issue of stock market volatility, it is relevant to measure percentage volatility of stock return. This reflects the percentage change in the value of the amount invested in the stock market. It reflects the change in the investor's wealth. Theorists use various measures of volatility like standard deviation, variance, co-efficient of variation, to measure volatility of stock market return.

Stock market volatility is often classified as historical (actual) volatility or implied volatility. The most common measure of historical or actual stock market volatility is the standard deviation. In simple terms, standard deviation measures the deviation of the returns of equity from its mean return. It is a relative measure i.e. standard deviation of stock returns in one period can be compared with standard deviation of another period to understand which period has been more volatile.

This research is done in the field of Indian share markets taking into account one year data from January 2010 to December 2010. The research includes how the share prices of various selected companies vary with respect to economic factors.

The research work includes the collection of data regarding the share prices of the selected companies during the past one year and the SENSEX.

This research attempts to study the relationship of stock returns with macroeconomic variables in Indian context. The data consists of 12 months from January 2010 to December 2010 comprising of two macro indicators for the study: Exchange Rate & inflation rate.