Inspira- Journal of Modern Management & Entrepreneurship (JMME)
ISSN : 2231–167X, Impact Factor : 2.3982, Volume 07, No. 02, April, 2017, pp. 63-69

IMPACT OF FOREIGN DIPLOMAT VISIT ON STOCK INDEX OF INDIA

Dr. Dhaval Maheta*

Abstract

The Foreign Diplomat visit is considered to be most important event in stock market as in this visit core issues such as bilateral trade agreement, business and economic policy related matters are discussed. The purpose of this study is to measure the impact of foreign diplomat visit on the Indian stock market index which is SENSEX, the premier index of Bombay Stock Exchange. The impact is observed in terms of mean return. The researcher took the closing price of SENSEX from January, 2012 to January, 2015 and applied independent T Test to measure the impact. The main findings of the research are any diplomat visiting from Unites States of America, China and Japan has significant effect on short, medium and long term SENSEX mean returns.

Keywords: *SENSEX, EMH, Foreign Diplomat Visit, Economic Policy, Stock Market, Traded Assets.*

Introduction

Foreign diplomat visiting India has a huge impact on stock market index returns. The main reason for this effect is discussion of policy related matters at Apex Level. This visit also considers bilateral trade agreement, business and economic policy related matters, etc. As per **Modak (2015)**, "The enthusiasm revolving around US President Barack Obama's second visit to India seems to have a rub-off effect on stock markets. During his previous visit on November 6, 2010, the Sensex had hit an all-time high of 21,005 a day earlier. This time, the Sensex closed at 29,279 on Friday, another all-time high. However, market players would hope the coincidence ends there. After his previous visit, the Sensex crashed and it took four painful years to top the 21,000 mark". Researchers have always been investigating and trying to predict equity price movements. The Efficient Market Hypothesis states that financial markets are "informationally efficient". Eugene Fama (1960) developed the Efficient market hypothesis (EMH). According to this hypothesis it is not possible to have exceptional gains from stock market as the current prices reflects all the information which is available in public domain. It believes that all the investors are rational and markets are efficient. The supporters of this model believe that it is not possible to search for undervalued stocks or try to predict trends in the market through fundamental analysis or technical analysis. As per this hypothesis, rational and efficient markets cannot be predicted.

As per efficient market hypothesis the gain in stock market is just a matter of chance and not skill. A lot of opposition has been done on this theory especially from the technical analysts. According to technical analysts investors don't invest just on the basis of fundamental analysis but they also consider past prices, past earnings, track records and other indicators. Because stock prices are largely based on investor expectation, many believe it only makes sense to believe that past prices influence future prices. This means that one cannot consistently achieve returns in excess of average market returns. There are three major versions of the hypothesis: "weak", "semi-strong", and "strong". The weak form of the EMH claims that prices on traded assets (*e.g.*, stocks, bonds, or property) already reflect all past publicly available information. If the market is informationally efficient then security prices adjust rapidly and

* Assistant Professor, Department of Business and Industrial Management, Veer Narmad South Gujarat University, Surat, Gujarat.