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GENERAL MANAGEMENT

Demystifying Development and Maneuvring of Indices of Stock Market in India

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Abstract

A plethora of information on indices of popular bourses across the globe has heisted investors off their mental peace to give them nightmares. Operational nuances and informed interpretations of the movement in the stock market indices of bourses operating at the international level, regional level, and national level and of those of sector specific have always been a daunting task to myriad of investors actively functioning in the market arena. This paper seeks to demystify the modus operandi of developing indices of bourses using pragmatic episodes and thereby aid the investors in comprehending the subtleties associated with it and the niceties involved in its dexterous maneuvering and making robust decisions for triumphant innings in the bourses. This paper provides model of insights in computation of stock market indices with techniques such as market capitalization weighted index, free-float weighted index, price weighted index, equal weighted index, impact cost, and index management.

Keywords: *Indices of the bourses; Operational nuances; Pragmatic episodes; Dexterous maneuvering of indices.*

1. Introduction

The global business environment is the base for setting positive business climate in our country. India has been ranked as one of the biggest stock market in the work according to Bloomberg data compiled by ETIG. Govindasamy (2019) the degree of formality and level of financial planning across the firm help them to a position of the company. Both have been made possible only through the citizens who monitor the progress and swiftly respond to the market positively. Dzombak, Dan (2019) said as stock market is a measure of stock market and Portfolio tailored to facsimile a specific bourse index is designated as an index fund. For instance, the 30 large U.S. stocks contained in the Dow Jones Industrial Average are weighted by their respective share prices. Referring to Govindasamy (2020) reiterates that it is to be remembered monitoring portfolio is a consistent on-going process. Broby (2007) says there is no correct answers to the question of how many stocks are optimal for inclusion in an Index. Sankar Babu (2018) in his study says everyone is looking for a better solution and looking for the missing link. According to Cochrane (2005), index that includes assets priced at par with its discounted pay-off are bound to reflect the macroeconomic risks underpinning the assets' value. Put-together a tool which gauges the variations in the general economic scenario is termed as an Index. Felix Goltz (2010) robust indices use sound and reliable inputs for enhancing the risk-reward metric. In the parlance of stock market, it is construed as a specific combination of securities acting as a proxy of a portion or a market as a whole. Each index has its own unique way of calculation. Fama (1970), in his study "efficient capital markets" has concluded that deepening and strengthening the process of economic liberalization in the Asian developing countries is essential for minimizing the risks and maximizing the benefits from increased international capital market integration. Generally the variations are enunciated as a percentage to a value in the base period which may be previous day(s), last month(s), or last year(s). Stock Market indices gauge in terms of percentage the variations in the price of shares, debentures, T-bills and other securities over a period of time. Sharma et al. (2013), the study implies that there exists opportunities for diversification of the investors among the stock exchanges of BRICS. It was also observed that there are domestic factors (macroeconomic variables) that influence the stock markets. Sheu and Liao (2011), the empirical results demonstrated that the stock markets of Brazil, Russia, and China have begun exerting significant influences on the Dow Jones to some extent after 2006, and the Dow Jones index continues to play a dominant role. An and Brown (2010), their findings indicated that there is some co-integration between the US and China, while there is no co-integration between the US and the other emerging markets by themselves. Gupta (2011), Indian markets showed maximum variance. Kurtosis, as referred to as the volatility of the volatility, measures the peakedness of the distribution.