

## **The Interdependencies between Indian and Global Stock Markets: A Cointegration and Causality Analysis**

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### **Abstract**

Financial markets are a function of multiplicity of factors, which is a mix of both domestic and global factors. Company specific domestic and international factors do impact the stock market, however macroeconomic factors affecting one country and measurement of its impact on other country's stock market is an area of research. Studying the interdependencies can help an investor to take informed decisions and also allow corporate bodies to identify the opportune time for raising funds through capital markets. With the aim of understanding the cointegrating and causal relationships, the present study has been done investigating the cointegrating and causal relationship that FTSE 100, NASDAQ and NYSE have on Nifty. The sample consists of month wise data from 1<sup>st</sup> January 2005 to 1<sup>st</sup> June 2023. Unit root tests were employed to check for stationarity followed by Johansen's Cointegration test for checking cointegration. Further, VAR model, Wald test, and other explanatory tests were used to understand short run dynamics of the system. Pair-wise causality test has been performed for comprehending the effective causality that variables have on each other. Eviews12 Student version was employed for conducting the tests for the study. The findings suggest absence of cointegration and no evidence for short-term relationship or causality. The findings imply independence of Indian capital market, thereby explaining the growing confidence of foreign investors.

**Keywords:** Cointegration, causality, FTSE 100, NASDAQ, NYSE, NIFTY, VAR, Granger Causality, Eviews12

**JEL classification:** C12, C23, C32, C88, G15

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