TITLE: IMPACT OF FOREIGN INVESTMENT ON STOCK MARKET-A STUDY OF IN AND OUT FLOWS OF FUNDS IN AN INPUT OUTPUT FRAMEWORK

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ABSTRACT:

Development depends on a host of factors. Traditional theory considers labour and capital as the basic instruments of growth. Vakil and Brahamnand, T.W.Schultz, and Dennison propounded the concept of human capital and evaluated its role in development. Subsequently, organizational structure and decisions and managerial techniques have also been highlighted as factors of growth (Prakash and Balakrishanan,2005).Though Marshall has not only conceptualized enterprise and entrepreneur and organizational behaviour as factors of production. (1890, 1919), yet his contribution to this area was overlooked. Encompassment of large number of countries under globalization has put foreign investment as a pivotal factor of growth, specially for developing countries like India. Foreign direct investment, including FDI, plays a multiplicity of roles. The following are important contribution of FDI to growth: As FDI accelerates growth, the problem is to measure its contribution (Dunning, 1970). The contribution of FDI to growth equals the difference between value of sales of foreign owned firms and sum of values of their imports and repatriated profits; It fills up the gap between requirement investment for growth and domestic capital formation; It provides access to advance technology; It brings advance managerial techniques and organizational structure; It introduces new products. and provides access to new markets for exports; It improves balance of payments equilibrium; It stabilize external value of national currency; It pushes stock market to higher level; It integrates national and international stock markets. But it also exposes both business and stock market to external stocks. Foreign investment enters through stock market which acts as indicator of health of an economy and growth status. This prompted us to analyse impact of FI and FDI on stock market, which experiences volatility. The stock market volatility differs in nature and degree in different phases of cycles and on particular days of the week and months of the year. However, if seasonal effect in general and month effect in particular have not been examined, though day of the week effect has been researched. We propose to investigate volatility in its totality. The paper examines volatility affects growth directly and indirectly. Foreign investment impact shows in two ways: stock

price change and output change. Stock market effect shall be estimated from Pt + (-b/a) Pt-1 = C/a   Input output model is given below: X = (I-A)-1(f1) X = (I-A)-1(f2)   X = Vector of gross output;   f1 = Represents foreign direct investment in production sector. f2 = Shows total foreign investment in different sectors of economy through stock market. Rest of the elements of final demand vector shall be zero.   DATA SOURCES Input output table for 2003-2004 shall be used as a data base. Data relating to stock prices and foreign investment shall be collected from other sources