ABSTRACT:
This study researched the job of securities exchange development on financial development of a country. This is a comparative type of paper where references from various papers have been taken into account to reach the final conclusion. The study investigates the connection between financial market advancement records and monetary development. The papers taken into account showed both side of the interlinkage. The results show that stock market indices and the economic growth have a very weak correlation which is almost negligible. This result implies that only stock market cannot be taken into account for analyzing the relation, various factors like market capitalization, liquidity have also to be taken into account. We should see with alert the thought that securities exchange size isn't critical for monetary development since multi-collinearity existed in the information utilized by different analysts for similar studies. The public authority should make approaches that support the premium of homegrown financial backers as this would spike financial backers' premium and lift securities exchange action.


I. INTRODUCTION:
The link between economic development and stock market returns is a persistent financial problem. Recently, for example, several developing countries have accomplished striking growth, also numerous institutional investors are wondering whether they can give these countries a higher weight centered on gross domestic product (GDP) instead of market capitalization. Investors like these, expect that big future returns will explain this greater weight.

This is definitely not another inquiry; 'supply' models were set up to describe and foresee value market returns dependent on macroeconomic outcomes. These models depend on the hypothesis that capital returns flourish in the productivity of the fundamental genuine economy and that drawn out returns can't outperform or be underneath the hidden economy's development rate.

For this study, we use stock market index of Bombay Stock Exchange (BSE), India for the given period and Economic Growth is time-series of the real GDP from expenditure approach. Models on the stockpile side assume that the hidden economy's GDP improvement streams to proprietors in 3 phases. Second, the net gain rise changes into development in income per share and, at last, development in EPS is reflected in an improvement in value costs. In the event that we close it further, the extent of business income stays stable in the general economy, financial backers are qualified for a consistent portion of those benefits and
proportions of valuation stay steady. A couple of assessments have thought about why countries with even more long stretch veritable GDP progression have oftentimes higher long stretch certified monetary trade returns (Ritter, 2005). The shocking finding was counter to presumptions – there may be a negative association between stock returns and monetary headway across countries. Various assessments show this quick finding exhibiting a benefit for stock toward GDP improvement demonstrating a negative affiliation. Regardless, notice that these preliminaries rely upon the beginning and finishing reason for the took apart period. Understanding the total national output (GDP) is important for financial backers since it can have a positive and a negative impact on how the capital business sectors work. Amazing GDP improvement is likewise communicated in higher business compensation, which are positive for the financial exchange. On the other hand, declining GDP suggests easing back financial improvement that is horrible for profit and consequently market costs. As per the standard idea, when two progressive quarters of negative GDP development exist. The trajectory of GDP also has the reverse impact for bond holders. Powerful GDP development typically implies higher demand for corporate and household credit, and it also indicates an eventual inflation. This typically contributes to higher interest rates, lowering bond yields. In comparison, decreasing GDP typically implies lower inflationary pressures as well as decreased financing demand, which means lower interest rates and higher bond prices in general.

The general measure, all things considered, and benefits produced in a country is communicated by GDP. Estimation of the size of the economy of a country and one of the critical markers of the personal satisfaction of a nation is thought of. Gross domestic product improvement is likewise seen as a proportion of an economy's financial prosperity. Not suddenly, the market is by and large viewed as performing better as it develops. Occupations will ascend by bosses enrolling more staff, recommending that shoppers have more cash to contribute. Which at that point makes more clients and proceeds with the circle?

As GDP recoils, the converse occurs: firms slice interest and advancement and workers are laid off. Gross domestic product additionally doesn't rise quickly enough to permit firms to create and to select more representatives, which thus takes care of the stale or descending twisting, as it did in the years since the Great Recession. Financial backers may settle on sensible monetary speculation decisions by checking the high points and low points of the economy. There is no unmistakable association, in spite of the fact that GDP development influences monetary business sectors, financial backers don't try to expressly connect GDP development with the stock or security market return, regardless of whether positive or negative. There is an association between the force of the economy all in all and the capital business sectors, albeit when all is said in done it is free and noticeable over very significant stretches of time. Most importantly, GDP is a slacking intermediary, which shows what the economy has accomplished before, though as of late. In the United States, the US Bureau of Labor Statistics doesn't distribute GDP for one schedule year. Division of Commerce before the finish of the following month. Also, two extra changes are made to the first investigation.

Investment, notwithstanding, is basically a planned activity. Financial backers buy or sell stocks and offers based on what they accept would be the way of potential GDP improvement and what this would mean for their specific portfolios more than how this has been accomplished before. Albeit past results may show how the economy will function later on, there is no assurance that the future will follow a similar pattern.

An enormous reason behind those extensions in stock and bond costs has been the astounding exercises of public banks, including the Bank of England, the U.S. National bank, the Bank of Japan and the European Central Bank. These associations have kept transient credit costs at or right around zero for quite a while purchasing tremendous proportions of government, corporate and contract protections to drive down long stretch rates. Those methodologies were relied upon to make protections and other fixed-pay instruments less engaging by cutting down their yields, thusly driving monetary patrons into more hazardous endeavors, for instance, values. Since GDP development has been so frail over the previous decade, numerous enterprises saw fit not to put resources into development in their own organizations or recruit new laborers.
Or maybe, they held income, repurchased their own stock or expanded their profits, which additionally pushed stock costs higher.

Theoretically, according to a couple of specialists, theory gains should even more eagerly partner with GDP improvement. In light of everything, they fight, the shrouded economy drives corporate advantages and consequently pay per share, which over the long haul chooses the expense of an association's stock. As time goes on, all out corporate benefit rises when the economy creates or the opposite way around. Regardless, this conceivably works when a country's economy is closed, valuations stay steady and if simply local associations are recorded on a country's protections trade. Clearly, we live in an overall economy, where many, if not most, exchanged on an open market association work in various countries. In this way, their development is impacted by business conditions, laws, financing expenses, charge and cash related methodology, money regards and various factors in each spot.

II. LITERATURE REVIEW:

In the past few years, the relation between stock market growth and Gross Domestic Product (GDP) has been a hot topic among many practitioners and researchers. Many researchers and investors have been showing great interests in finding the factors that may help in predicting the stock prices while the government people making policies are interested in any indicator that may impact economic growth. Researching this topic is really essential as to know whether or not investors can utilize or depend on the release of macro-economic news to predict where the market is headed, or if the policy makers can use the stock market growth to predict the economic growth.

A good number of researchers have attempted to study the association between stock market growth and GDP by using various structural models. Various studies have been done on the stock market and GDP individually based on univariate models of volatility measurement. However, recently the multivariate models for volatility measurement have gained heightened interest among the community of researchers to capture the interlinkage between return from stock market and GDP.

The findings of the researches have really not been consistent as the interlinkage between the two variables is tangled because of the various elements involved which vary from one country to another country (Boubakari & Jin, 2010). Fama (1990) concluded that a huge portion of difference of stock market return could be elucidated, predominantly by time varying anticipated returns and forecast of real economic activity. However, as absurd as it may seem, Levine and Zervos (1996) suggest that high economic growth rates do not certainly correspond to high long term stock market return. Various researchers consider financial development a key factor for economic growth (Fry, 1995; Mathieson, 1980; Shaw, 1973; McKinnon, 1973). Precisely they support a liberalized financial environment which according to them is capable to deploy an enlarged amount of financial saving and grant capital for more fruitful usage which may increase the volume of cash in hand and also, it’s productiveness and thus contributing to economic development.

Luintel and Khan (1999) inveterated the causation between growth of the economy and the stock market growth in time series and cross-sectional analysis. Levine and Zervos (1996) were among the first few researchers who made an effort to seek out whether financial markets were purely rapidly growing cash spinning casinos where people would come and gamble, or if stock markets were notably linked to the growth of the economic. Through their research they suggested that the financial market growth is positively linked with the growth in the economy. Tachiwou (2010) noted in his research, on influence of financial market on the growth of economy using the stock exchange of Bourse Régionale des ValeursMobilières, a West African Sub-region, that financial market growth has a positive impact on the West African Sub-region both in short and the long term.
Share prices express the expectations with respect to the economic activities of the coming times by the citizens. Simply put, stock market is dynamic and share prices merely give the sensible prediction of the upcoming economic activity. If an economic slowdown is expected, the share prices indicate this by reducing in value, whereas a huge surge in the share prices may suggest the forecast with regard to economic growth in future(Mauro, 2000; Nasseh & Strauss, 2000; Jefferi & Okeahalam, 2000; Shirai, 2004; Adjasi & Biekpe, 2006; Mun, Siong, & Thing, 2008). Pardy(1992) had suggested that even in under-developed nations, financial markets are competent to put household savings in action and are also skilful to distribute funds in a more productive fashion. His work suggested that financial markets can engage in a crucial role in inspiring growth in under-developed nations.

On the contrary, various well-known economists and researchers are cynical of the idea that stock market is a crucial factor in development of the economy. Kuznets(1955) in his research stated that stock markets start to expand till the national economy advances towards the halfway level of the expansion activity and evolve as soon as the economy has fully grown. So, this meant that in a developing or under-developed economy the financial market would not grow as the economy grows. This notion was also supported by Mookerjee and Yu(1999) who suggested in their research that in immature/developing financial markets, individual investors are very responsive and are likely to react disproportionately to news or even gossip.

Before Kuznets, Robinson(1952) a well-known British economist, in her book supported the idea that financial markets do not indicate the economic growth. She suggested in her book that largely it seems that the direction of the enterprise is followed by the finance. She was among the first ones to suggest that the activity in financial markets is not passed on to the economy of the country.

Through the years more and more curious economists and researchers started to question the reliability of the stock markets in indicating a country’s economic growth. Lucas(1988) stated in his research work that the significance of financial activity in relation to the economic growth is exceedingly aggravated. Chandavarkar(1992) states that he had not come across any development economics pioneers who even considers finance in the list of factors effecting development. This shows that some economists consider finance a slave to the enterprise as they respond to the market demand of the distinct type of financial service initiated by economic development. This idea was additionally upheld by crafted by various different analysts whose reviews set up a connection between share costs and financial development alongside other large scale monetary factors and have set-up that development in stock costs generally feature financial exercises(Cheung & Ng, 1998; Ferson & Harvey, 1993).

In defiance of Chandavarkar’s argument, Lewis (1955), who is considered among the development economics pioneers, proposed a two-way connection between growth in the financial markets and development of a country’s economy. According to him, financial markets grow as an outcome of the economic development which acts as a simultaneous real economic growth. Patrick(1966) supported Lewis’s argument that it’s a two-way connection connecting growth of the financial market and development in the economy. On similar lines, various endogenous models of growth, also manifest a two-way association between growth in the financial market and the economic development.

The previous paragraph of engaging ideas exemplifies the argument surrounding the financial and economic growth causality. To resolve this dispute, an empirical analysis would be of great help. This paper will be doing that only. However, there are various empirical literature on our topic, but the results have a lot of variations among them. Some researchers used the Granger non-causality time-series analysis, only to give mixed results about the interlinkage between financial markets and growth in economy(Arestis & Demetriades, 1996; Demetriades & Hussain, 1996). Another cross-country research report optimistic effect of development of financial markets on growth even though they allowed supplementary factors of growth(Gelb, 1989; King & Levine, 1993a).
The complication with the time-series currently existing is that they have compared the data synonymously that is they have compared the same time financial growth data with the same time economic development data. They did not consider the consequences of stock markets on the economy after a quarter or a couple of quarters. Also, no specific study regarding the effect of financial markets on the economic condition of India could be found. Though researchers have used various other determinants of economy and market development to study the influence of stock market on economy.

III. CONCLUSION:

We should intuitively think about stock returns owing to the fundamental development of the real economy. Nevertheless, it has been noted that in the long-term, in several countries, real income development dropped in several countries over the observed duration behind long-term GDP growth. This disparity can be clarified by multiple causes. First of all, we ought to look at global rather than local economies in today's integrated environment. Second, emerging companies and not established businesses are accountable for substantial economic development; this lead the way to weakening of GDP output until it hits owners. Finally, anticipated economic development will be integrated into costs, thus reducing potential returns.

The distribution models connect the stock of a country to its GDP growth in its refined form, but don’t display an ideal fit among the two variables. Rather, they see actual GDP development to put limit on long-term portfolio revenue, since added variables dilute GDP until hitting owners. However, there are some drawbacks to the analytical study of the alleged correlation between GDP and stock growth. While our foreign equity data are reasonably long lasting, the outcomes of our assessments depend on the beginning and end time of the time series, as economies and equities adopt recurring trends. One more problem is the position of the aspirations of the investors. Provided that projections of potential GDP growth are completely embedded onto the valuations of this very day, equity market fluctuations seem to precede the underlying economic progress. To search for difference among the two-time series, a deeper study is needed.

In reality, there was no direct correlation between GDP growth and market prices between 2007 and 2017. Since the financial catastrophe of 2008 int he US, S&P 500 fell about 40%, even though the growth in GDP decreased from its pinnacle of 2005 to its rock-bottom at the start of 2009 by roughly 9%, when economy deteriorated by 2% (U.S. Bureau of Economic Analysis, Real Gross Domestic Product [A191RL1A225NBEA], n.d.). Despite sluggish and erratic global GDP growth, stock and bond prices have since risen sharply. For comparison, total GDP growth in the US after the 2008 global recession is less than two percent a year, the S&P 500 more than tripling with an estimated annual dividend-free growth of more than 27 percent. Hence, it’s can be said that the stock market and GDP are not directly linked but various other factors will also come into play while assessing their linkage with each other.

REFERENCES:


