

A COMPARATIVE STUDY ON VOLATILITY OF SELECTED STOCKS IN NSE FUTURES WITH NSE SPOT

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ABSTRACT

Global liberalization and integration of financial markets has created new investment opportunities, which in turn require the development of new instruments that are more efficient to deal with the increased risk perception. Derivative is the financial instrument, value of which is derived from another financial instrument or underlying security or a basket of securities. Derivatives have various products or variants that play a vital role in the market, like - Forwards, Futures, Options and Swaps etc.

Futures are the notional agreement to buy or sale a standard quantity of underlying financial asset on a pre specified date at a price determined in the present. In Indian market context, a wider range of instruments are now available to the investors. The National Stock Exchange of India Limited (NSE) commenced trading in derivatives with the launch of index futures on June 12, 2000. Futures trading in NSE are presently materialized with two underlying financial instruments – (a) Index and (b) Individual Stock. Futures on individual stock or securities were introduced on November 9, 2001.

While India's derivatives markets have grown dramatically since their introduction, they are still in an early development stage. Derivatives trading have been started in Indian stock market with the theme that it would reduce the volatility, which is generally considered as a measurement of risk in the stock market return.

Present empirical study is concerned with the comparative study on volatility of some selected stocks in NSE Futures with NSE Spot market segment. This study also aims at indicating some probable reasons for the volatility in respect of security's return on these selected stocks and finally ends with providing justified recommendations thereon.

KEYWORDS: Derivatives, Forwards, Futures, Options, Swaps, Volatility