

Volume 31, Issue 4**Research Announcement****A causal relationship between stock indices and exchange rates in india**

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Abstract

This paper examines the causal relationship between stock prices and exchange rates, using data from 2 April 2001 to 31 March 2011 about India. Macroeconomic variables are of crucial importance for determining the effects on stock prices and investment decisions. There are many empirical studies to disclose the relationship between macroeconomic variables such as interest rate, inflation, exchange rates, money supply etc. and stock indexes. However, the direction of causality still remains unresolved in both theory and empirics. In the present study, national, services, financials, industrials, and technology indices are taken as stock price indices. The results of empirical study indicate that there is bidirectional causal relationship between exchange rate and all stock market indices. While the negative causality exists from national, services, financials and industrials indices to exchange rate, there is a positive causal relationship from technology indices to exchange rate. On the other hand, negative causal relationship from exchange rate to all stock market indices is determined.

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