

THE INDIAN STOCK MARKET- DOES IT DEMAND ANY CHANGE?

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ABSTRACT

The Indian Stock Market is one of the key reasons behind the growth and development of Indian Economy. More than the appreciated aspect of economical growth, stock market investing has become an emerging trend that attracts more number of potential investors. It is proved to be great source of income to a lot of people. It not only encourages a company in raising funds through share capital but at the same time promotes the company. Stock market index is subject to a lot of fluctuations. The factors that affect such change shall include the current affairs of the class. This paper aims to explain the process of stock trading, classification of Stock markets in India. This paper also studies the various kinds of stock trading, its classification of the primary market and the secondary market and other data as such. It also critically analyses the generally prevalent malpractices and the major reasons for the same. This paper also studies the most noted stock market issues that shook India.

Keywords: Stock, Market, Trade, funds, Share, Capital

AIM

The major aim of this paper is to analyze the current scenario of India Stock market. It also intends to study the features of primary and secondary market, the malpractices that are most commonly observed, the general process of stock trading and the most famous and commonly known stock market issues.

OBJECTIVES

1. To analyze the current scenario of the Indian Stock Market

2. To examine the process of stock trading in India
3. To critically analyze the role played by SEBI[3]
4. To make suggestions so as to alleviate the generally prevalent malpractices
5. To study the Fluctuations in the economic policies

HYPOTHESIS

H₀: Even when the Economy fluctuates, the stock market in India does not require a change.

H_a: The Indian Stock market very much demands a change due to fluctuations in the market and in the economic policies.

MATERIALS AND METHODS

For this study, only secondary sources- Doctrinal research have been referred to. Secondary sources include books, articles, and journal publications. Various other websites, blogs and web-derived materials have also been used for the study.

RESEARCH QUESTION

Does the Indian Stock market demand any change?

CHAPTERS

Introduction

The term stock can be understood as a type of security being acquired by customers commonly known as shareholders for some consideration thereby becoming a part of company and holding a part of its debt or equity capital. Generally, these stocks yield a return. In case of Debentures it would be interest and in case of Shares it would be Dividend.

Stock market is the place where these stocks of different companies are being traded. The whole process of transacting stocks shall be termed as stock trading.

General process of stock trading

It is quite a well known fact that listed companies enjoy more advantages than unlisted ones. [\(Wójcik and Burger 2010\)](#) It is so because listing of securities shall give out more speediness, accessibility with respect to trading of securities. Listing of securities is whereby a

company which intends to invite public for subscription of its shares lists itself in a STOCK EXCHANGE. Doing this, the investors upon entering the market gets to know about the existence of the company and thereby enter into a stock dealing with the said company of course, after weighing its pros and cons.

Now, there comes the concept of stock Market, as said earlier, stock markets are the place where stock dealings are being carried out. In India, the two major and well known stock exchanges include BSE[4] and NSE[5]([Wójcik and Burger 2010](#); [Krishnamurti and Lim 2001](#)). These are the places where the companies in India that invite stock dealing from the public for the purpose of raising capital list themselves.

Rather than sticking to the theoretical descriptions, it could be easier to understand the actual process that has been happening since a long time with reference to stock dealing. They are explained as follows:

- The company carries on its internal discussion regarding raising of capital through different means like debt capital and equity capital.
- After such ascertainment the company prepares a prospectus gets it registered and then the company goes for listing.
- Once when the company gets itself listed, it becomes open to all the public and thereby the process of stock trading commences.

Insight about primary market and secondary market

The basic classification of financial market includes money market and capital market.

Capital market is further divided into primary market and secondary market.

Capital market generally consists of development banks, stock exchanges, and commercial banks. The further division of capital market is the place where generally stocks are being dealt.([Wójcik 2011](#))

PRIMARY MARKET:-

- It shall otherwise be known as new issues market.
- There exists a direct relationship between the company and investor.
- The capital formation process is direct in nature

- It is a one way market, where only buying of shares is done and securities may not be sold there.

SECONDARY MARKET:-

- Trading of shares that already exist shall only be done.
- The company in the case of secondary market is not involved at all.
- The capital formation process is indirect in nature
- It is a two way market, where both buying and selling takes place.

Role played by the regulatory authority – SEBI

Securities Exchange Board of India is the regulatory authority that governs the process of stock trading in India. Just like Reserve Bank of India (RBI) to the banking sector, SEBI is to the stock exchange sector. [\(Saha 2009\)](#)

The Act governing SEBI in India is Securities Exchange Board of India Act, 1992.

The major objectives of SEBI include:-

- Protecting the interest of Investors
- Regulating securities market
- To prevent malpractices in trading

SEBI performs two fold functions with respect to this paper, the regulatory functions performed by SEBI shall be considered.

It includes a variety of tasks that include Registration of brokers and registration of collective investment schemes, etc.

Generally prevalent mal practices

The most common problem faced in stock markets are the malpractices that exist in the process of trading.

Though many laws have been brought in this respect, it is still found insecure at certain aspects. It becomes the duty of the stock exchange and SEBI to ensure proper protection of interests of the investors. [\(Machiraju 2009\)](#)

The most common problem arises with the introduction of stock brokers. Though they gain a legal status as an authorized or registered broker, there is still some problem in that aspect. Considering the present scenario, the investors do not have much insight about the actual

conditions of stock market. People find it comfortable when a third party does the job for them in no time. But, the issue begins when this third party acts untruthfully.

The gap between the investors and the companies are bridged by the Stock brokers. These stock brokers serve as a intermediary and mediates the process of stock exchange. they receive remuneration in the form of commission for the work that they do.

More than a number of malpractices being done, these stock brokers also act negligently. Their lethargy might cause problems. The most common malpractices include:

- Misstating the information the investors
- Acting untruthfully
- Overpricing shares or stocks
- Receiving any amount other than commission
- Being unfaithful to the company
- Being unfaithful to the stock exchange
- Non adherence to the rules prescribed by SEBI

Etc.

Say for example, if a stock broker receives an amount of rupees 10 from the investor and where the actual price of the share quoted by the company is only rupees 7 thereby manipulating the information in the prospectus of the company for this purpose shall constitute a malpractice.

Most famous stock market issues(Basu and Dalal 2007)

A few scams or issues in the Indian stock market had proved the presence of various problems. A few of these include:

- HARSHAD MEHTA SCAM[6] where the estimated amount went upto rupees 4000 Crore
- CRB SCAM[7] where the amount went upto Rs. 1200 Crore
- KETAN PAREKH SCAM[8] where the amount went upto Rs. 800 Crore
- SATHYAM SCAM[9] where the amount went upto rs.14,000 Crore([Basu and Dalal 2007; Chaturvedi and Makkar 2011](#))

SUGGESTIONS

The major suggestions to this paper are that:

Indian stock market is something that is becoming complicated day by day and it is necessary to look into the authenticity of the process

Brokers who perform the job of intermediary must act more faithfully and must stick to the rules of SEBI

Laws have to be made much stricter so that no loopholes can be found.

Dematerialization of securities has to be done a grander scale so that it can avoid a lot of manipulation of records

Investors should not merely look it as a source of income but should take proper care in investing it the right way

CONCLUSION

Thus, to conclude it could be told that, stock market is one of the reasons why India is becoming a financially secured and economically stable country. For a developing nation like ours, it is important to establish a proper economy and well equipped stock market.

More than this, investors play a key role in the whole process of stock trading. It is important to adhere to proper ways of investing and not to resort to improper ways.

Considering these suggestions, one could promise a well established, well formulated and malpractice-free Stock market.

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[3] Securities Exchange Board of India

[4] Bombay Stock Exchange

[5] National Stock Exchange

[6][http://www.forbesindia.com/article/independence-day-special/economic-milestone-stock-market-scam-\(1992\)/38457/1](http://www.forbesindia.com/article/independence-day-special/economic-milestone-stock-market-scam-(1992)/38457/1)

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