ISSN – 2277-7911
Impact Factor – 5.519

YOUNG RESEARCHER
A Multidisciplinary Peer-Reviewed Refereed Research Journal

July-Aug-Sept 2024
Vol. 13 No. 3

THE IMPACT OF GOLD MANIA AND STOCKMARKET IN INDIA

Dr. M. A. Shakila Banu[1] & Dr. S. Thilagavathy[2]

[1]*Associate Professor*

Jamal Institute of Management,

Jamal Mohamed College (Autonomous) (Affiliated to Bharathidasan University),Trichy

[2]*Associate Professor*

Jamal Institute of Management,

Jamal Mohamed College (Autonomous) (Affiliated to Bharathidasan University),Trichy

Corresponding Author: Dr. M. A. Shakila Banu

DOI - 10.5281/zenodo.13994513

ABSTRACT:

This study examines the connection between Indian stock market involvement and gold prices. For a long time, gold has been regarded as a conventional safe-haven asset that is sought in uncertain economic times. Gold is gradually being recognized as a new asset class with potential advantages for diversification. The stock market is also a vital channel for making investments and building wealth. The tests investigate the interactions between these two assets in the Indian market using various methods, including the normality test, ADF test, PP test, and VAR Granger Causality test. Investors, policymakers, and financial institutions in India must understand the relationship between gold and stock market participation to make informed investment decisions and gain insights into portfolio diversification techniques.

Keywords: Stock market, Gold market, Investment, Wealth Building, Portfolio diversification techniques.

INTRODUCTION:

Western economists and philosophers have been amazed by Indians' insatiable desires for gold throughout history. Western economists claim that gold is an asset that yields no return, in contrast to other financial assets; Keynes referred to gold as a "barbaric relic," one that has withstood numerous hardships and the test of time. Gold is a fundamental component of Indian culture. It is also an essential component of Indian philosophy. Indians have a strong desire to own gold. Purchasing gold is increasingly seen as an investment that increases in value over time and serves as a medium that can be readily pledged to obtain financing when needed.

The robust Indian economy, the rise in the proportion of the population in gold's primary target market due to changes in the country's demographics, economy, and attitudes, and the traditional cultural affinity for the metal are the main drivers of the metal's

strong demand. Indian households consistently and primarily invest in their all-time favorite, "Gold," which has the exceptional ability to thwart inflation. The weakening rupee has led to a notable increase in India's gold prices, reaching all-time highs. Because gold typically performs well when other asset types falter, it protects capital during difficult markets.

Indian households are hesitant to regard the capital market as a suitable asset class for saving because of the uncertain prospects for domestic equity returns. Gold is a symbol of luxury that appeals to people of all ages and socioeconomic backgrounds throughout the nation.

The demand for gold can be divided into two categories: investment and jewelry consumption. Indian culture has a special fascination for jewelry. It has long been a vital component of Indian ethnicity and way of life. India currently has a large domestic jewelry market. Additionally, it is the world's largest producer of gold jewelry. Financial goods also satisfy the demand for gold investments. There are different types of gold items on the market. Financial tools like gold ETFs, e-gold, and mutual funds backed by gold are available to retail investors.

NEED FOR THE STUDY:

The population is increasingly becoming economically independent through increased investments in stock and gold markets. They are often looking for new business opportunities to make income. As a result, the global investor population is growing rapidly. When things get tough, the Indian population turns to Gold for help. Over the decades, this situation has ushered in "Gold Mania" in India. However, many households avoid the stock market because they do not have sufficient financial knowledge about the stock market, its operating mechanisms, and asset pricing. This leads to little retail involvement, creating a "dilemma" for the Indian stock markets. The complexity of financial markets has recently led to an implied increase in the importance of financial literacy in India.

REVIEW OF LITERATURE:

The question of whether gold is a hedge or a safe-haven asset in the context of the U.S., UK, and German stock markets was explicitly tested by Baur and Lucey (2010), **in "Does Gold Act as a Hedge or a Safe Haven for Stocks?"** A Smooth Transition Approach" in Ruhr Economic Papers, No. 502. Their findings show that gold is generally a safe-haven asset during crises and can hedge against stocks. In the event of unfavorable general market conditions, haven assets provide hedging advantages that help minimize losses.

Kabra et al. (2010) published their Journal "Factors Influencing

Investment Decision of Generations in India": An Econometric Study. Asian Journal of Management Research, 1(1), 308-328, investigated the range of variables affecting the decision-making process and investment risk tolerance of men, women, and various age groups. The primary factors identified in this study are investing experience, viewpoint, leadership, length of investment, investment awareness, and security. The authors concluded that those who are risk-averse choose insurance products, bank fixed deposits, post office deposits, PPF, and NSC.

According to **Gerardi, Goethe, and Meier (2010) in their Journal "Financial Literacy and subprime mortgage delinquency": Evidence from a Survey matched to administrative data".** Federal Reserve Bank of Atlanta: Working Paper Series: Subprime mortgage crisis was not significantly affected by deficiencies in specific areas of financial literacy.

The strong correlation between wealth and financial knowledge is emphasized by **Monticone (2010) in their article "How much does wealth matter in the acquisition of financial literacy?" Journal of Consumer Affairs, 44, 403-422.** Moreover, the findings indicate that those with varying degrees of expertise in finance or economics are probably more financially literate and adept financial planners than those without prior financial or economics education.

Makarovi, Dmitry S. and Shornick, A. V. (2010) "Planning Households Investment Behavior". INSEAD Working Papers Collection. 2010, Issue 44, p1-23. 23p.- provide a cohesive theoretical framework for understanding households' investing behavior. According to the authors, some households will decide not to trade stocks, with poorer households being less inclined to do so. Compared with less-wealthy households, wealthier households opt to allocate more of their assets to riskier ventures. Given the empirical data that wealthier investors typically acquire more expensive knowledge, the authors establish a relationship between investor wealth and the degree of uncertainty. Lastly, the authors propose that increased stock market participation is associated with increased overall wealth.

According to **McArdle and Willis (2010)**, men are more likely than women to be selected as the household's financial representative, and the husband's education and cognitive abilities are stronger indicators of this decision than the wife's.

In their study, **Sandhu H.S. et al. (2010) in their Journal "An Empirical Investigation of Motivating Factors for Investment in Yellow Metal",** International Journal of Management Prudence Pg 1-8 sought to determine and examine several characteristics that encourage investors to purchase gold.

According to the report, there are six main driving forces behind gold's strategic place in an investor's portfolio. The most crucial component was "hedging against risk and inflation," which was closely followed by "traditionally preferred investment" and "effective wealth preserver." Additionally, the promise of "future financial security" encourages investors to depend on gold. In addition to the previously listed reasons, gold is a " haven during uncertainties" and has high marketability and liquidity, making it a valuable asset for investors.

According to Noblett and Jackie (2010) in their Journal "Soaring Gold Prices Spur ETF Marketing Rush, Financial Times"., there has been a significant influx of money into gold exchange-traded funds (ETFs) from institutions, advisors, and individual investors seeking to get exposure to the precious metal as a hedge against inflation and currency instability.

OBJECTIVES OF THE STUDY:

1. To determine the normality and stationarity of the selected data
2. Analyzing the relationship between gold prices and NSE S&P Nifty index returns in terms of causality and co-integration

HYPOTHESES:

1. The data follow a normal distribution and are stationary with no unit roots.
2. There exists no causal relationship between NSE S&P CNX NIFTY and daily gold price returns.
3. There is no co-integration between daily gold price returns and returns on the NSE S&P Nifty Index.

STATEMENT OF THE PROBLEM:

In India, gold has long been regarded as a traditional and culturally significant investment, while the stock market has emerged as a modern investment avenue, with marketing strategies playing a crucial role in attracting investors. However, the interplay between these two investment avenues and the marketing practices surrounding them presents several challenges and uncertainties.

RESEARCH METHODOLOGY:

RESEARCH DESIGN:

Among the various research designs, in this study, the researcher tested only a cross-sectional research design as the conceptual framework in which the research study is conducted, and the blueprint is constructed for the collection of historical data on the gold market returns, and stock market returns are taken into consideration for the measurement and analysis of data.

PERIOD OF STUDY:

Secondary data about the bullion and stock market ranges for 2 years from 2022 to 2024. This period was

selected because the internationalization of the Indian Rupee was initiated on July 11, 2022.

TECHNIQUES FOR SECONDARY DATA ANALYSIS:

Normality test, Lilliefors test, Unit Root test; Augmented Dickey-Fuller Test, Phillips -Perron test, Johansen–Co integration

DATA ANALYSIS AND INFERENCES:

Table 1: Test for Normality

Particulars	Gold Price Returns		Nifty Stock Prices	
	Calculated Value	Probability Vale	Calculated Value	Probability Vale
Doornik-Hansen test	141.999	1.463	122.13	3.01916
Shapiro-Wilk	0.915349	2.98836	0.913335	4.12842
Lilliefors test	0.142812	0	0.147546	0
Jarque-Bera test	48.9007	2.40626	48.2297	3.365510

Table 2: Test for Stationarity Measurement

	Gold Price Returns		Nifty Stock Prices	
	Augmented Dickey-Fuller Test			
	T Statistics	P Value	T Statistics	P Value
1% Level	-3.441715	0.6398	-3.447080	0.9901
5% Level	-2.866446		-2.868809	
10% Level	-2.569442		-2.570709	
	Phillips–Perron test			
1% Level	-3.441695	0.6464	-3.447080	0.9901
5% Level	-2.866437		-2.868809	
10% Level	-2.569437		-2.570709	

	Augmented Dickey-Fuller Test		Phillips–Perron test	
Particulars	Gold Price Returns	Nifty Stock Indices	Gold Price Returns	Nifty Stock
R-squared	0.029997	0.000987	0.003362	0.000987
Adjusted R-squared	0.026539	-0.001614	0.001592	-0.001614
S.E. of regression	35.03121	63.90854	35.44942	63.90854
Sum-squared residual	688451.0	1568372.	707500.5	1568372
Log-likelihood	-2804.496	-2151.485	-2816.679	-2151.485
F-statistic	8.674402	0.379503	1.899247	0.379503

Prob(F-statistic)	0.000195	0.538234	0.168710	0.538234
Mean dependent variable	2.092199	8.866710	2.070796	8.866710
S.d.-dependent variable	35.50551	63.85702	35.47767	63.85702
Akaike information criterion	9.955661	11.15795	9.977625	11.15795
Schwarz criterion	9.978719	11.17845	9.992976	11.17845
Hannan-Quinn criteria	9.964662	11.16608	9.983617	11.16608
Durbin-Watson stat	2.032713	1.849220	2.324379	1.849220

Table 3: Vector Autoregression Granger Causality Test

Particulars	Gold Price Returns	Nifty Stock
R-squared	0.991515	0.994246
Adj. R-squared	0.991485	0.994216
Sum sq. residuals	688451.0	1556366
S.E. equation	35.03121	63.82990
F-statistic	32777.34	33001.37
Log-likelihood	-2804.496	-2144.931
Akaike AIC	9.955661	11.15808
Schwarz SC	9.978719	11.18889
Mean dependent	5341.411	9028.608
S.D. dependent	379.6235	839.2526

Table 4: Johansen Co Integration

Hypothesized	Eigenvalue	Trace Statistics	Critical Value	Probability
None	0.001201	3.841466	0.459208	0.4980

FINDINGS, SUGGESTIONS, AND CONCLUSIONS

FINDINGS:

As per Table 1, when the Doornik-Hansen test is applied, the p-value is 1.463, which is greater than 0.05; hence, we accept the hypothesis that the daily gold price returns are normal. Also, the Nifty stock indices are 3.01916, which is greater than 0.05; hence, we accept the hypothesis that the NIFTY stock indices are normal. The Shapiro-Wilk test is applied, and the p-value is 2.98836, which is greater than 0.05, hence we accept the hypothesis that the daily gold price returns are

normal. In addition, the nifty stock index is 4.1284, which is greater than 0.05, hence we accept the hypothesis that the NIFTY stock indices have a normal distribution. The Lilliefor test is applied, and the p-value is 0, which is less than 0.05, hence we fail to accept the hypothesis that daily gold price returns are normal. In addition, the nifty stock index is 0, which is less than 0.05, hence we fail to accept the hypothesis that the NIFTY stock index has a normal distribution. The Jarque-Bera test is applied, and the p-value is 2.4062, which is greater than 0.05, hence we accept the hypothesis that the daily gold price returns are normal. In addition, the nifty stock index is 3.3655, which is greater than 0.05, hence we accept the hypothesis that the NIFTY stock indices have a normal distribution.

As per Table 2, the ADF test is used to find the daily gold price returns and determine the existence of the unit root, and it is found that there is the existence of the unit root. The P-value is 0.6398, which is greater than the significance value of 0.05, indicating that the time series is non-stationary. Also, the ADF test is used to find the existence of a unit root for NIFTY stock prices, and it is found that there is the existence of a unit root. P-values of 0.9901 are greater than the significant value of 0.05; hence, the time series is non-stationarity. Daily gold prices in Table 2 are significant at a 5% significance level. Hence, the probability value of 0.6464, which is greater than 0.05, altogether objects to the acceptance of the null hypothesis, which posits the non-stationarity of daily gold prices. Hence, the non-presence of the unit root makes it evident that the items are stationary. The NIFTY stock price is significant at the 5% level. Hence, the probability value of 0.9901, which is greater than 0.05, altogether objects to the acceptance of the null hypothesis, which posits the non-stationarity of daily gold prices. Hence, the non-presence of the unit root makes it evident that the items are stationary.

As per the reference in Table 3, the probability value is 1.072596, which is greater than 0.05, thereby allowing us to accept the null hypothesis. Hence, the returns of NIFTY do not have a Granger causality relationship with daily gold price returns. But there does exist a relationship between daily gold price returns and NIFTY stock returns as the probability value is 0.04165, which is less than 5% of the significance level. To conclude, there exists a uni-directional relationship between daily gold price returns and NIFTY stock prices.

As per Table 4, the results of the Johansen co-integration test as shown in the above table with the lag interval in the first difference (1 to 4) reveal that γ trace statistic value is estimated to be 3.841466, which is greater than the critical value of 0.4980, and the maximum eigen statistic value is estimated to be 3.841466, which is

greater than the critical value of 0.459208. This finding establishes a long-run co-integration relationship between daily gold price returns and NSE S&P CNX NIFTY index returns. The p-value for both statistics (trace statistics) and maximum eigenvalue is highly significant at the 1% level. Therefore, the null hypothesis is rejected at a 1% significance level, indicating that there is one co-integrating vector between the daily gold price returns and the NSE S&P CNX NIFTY index returns.

SUGGESTIONS:

A state of sadness surrounding stock markets is the disappearance of retail equity investors. Retail investors will be convinced to return to the Indian stock market through intensive financial education. The SEBI is eager to investigate efficient ways to use social media and contemporary technologies to make the stock market and financial education easy to understand and entertaining. The SEBI is committed to promoting regulation of market development and protecting investor interests, with the goal of elevating the Indian stock market to a global standard.

To increase stock market involvement, the researcher offers a few investment ideas to prospective investors to help them wean off gold. The following potent maxims serve as stepping stones for the stock market:

- Invest progressively and methodically in the stock market.
- Instead of racing, investors enter the market to invest.
- Do not base your investments on the prosperity of others.
- Avoid being seduced by "easy money."
- Anticipate a range-bound market with significant volatility.
- Long-term investments yield greater returns.
- Invest in indices because individual stocks can be unstable.
- Continue investing for a consistent length of time.
- Consider your liquidity before making an investment
- Recognizing the risks involved in investing

CONCLUSION:

Indians hoard gold for a variety of reasons, including the belief that gold is an essential investment for their family's security and prosperity. Although the desire for gold in India transcends economic considerations, many Indians view gold as essential to their social, cultural, and religious lives. Families in India have been purchasing and accumulating gold for generations, then passing it down to the next generation. The fact that Indian families purchase gold to increase family wealth is a strong indicator. Gold has always

captivated humanity, increasing its desire to attain it.

For both the wealthy and the impoverished, gold is essential to their social and economic lives. In addition to serious financial and social concerns, owning gold holds a great deal of nostalgia for Indians. Gold is being increasingly thought of as an investment that yields returns over time and acts as an inflation hedge. In our nation, obtaining gold is seen as lucky and necessary for creating trinkets that provide family members with a sense of well-being. The true allure of gold is obvious and uncomplicated. Gold is a popular investment option because of its high returns, high liquidity, lack of taxation, and ease of documentation. Gold investments typically avoid such tax traps, although all investments in financial saving vehicles are tracked and provide a clear path for taxation.

It is becoming more well-known that gold is a valuable store of wealth and a good investment; thus, it is increasingly difficult for jeweler buyers and investors to break the allure of gold. Financial literacy and investor education are important for those without access to gold-backed financial products, those residing in remote areas, and those who are ignorant about gold investment options. In India, there is less of a need for gold for investments than for consumption. To make potential physical gold buyers more accessible to alternative gold-backed financial instruments in the financial market, effective actions must be taken to increase their understanding. Investors should now be more financially literate due to the market's rising complexity of financial products.

The foundation of an equity market is believed to be composed of individual investors. Regaining regular investors' confidence is more urgent. A reliable barometer to gauge retail investors' attitudes is needed. There is no better method for Enhancing rather than controlling the investor's financial knowledge. The government and the media should do a better job of promoting an equitable culture. Investors who actively participate in investor education programs gain confidence and are better equipped to understand various equity-oriented instruments. As the year went on, the fundamentals of the market grew stronger, but specific policy initiatives encompassing every niche of the market strengthened the regulatory framework and restored investor confidence.

REFERENCES:

1. Wiley, J. (2012). Shares Bullion Which Better Investment?, 6(4), 241–245
2. Hyazadehfar, M., and Babaie, A. (2012). Macroeconomic Variables and Stock Prices: New evidence from Iran. Middle East Journal of Scientific Research, 11(4), 408–415. Retrieved

fromhttp://www.scopus.com/inward/record.url?eid=2-s2.0-0815806&partnerID=tZOtx3y

3. Zhou, J. (2012). Life-cycle stock market participation in taxable and tax-deferred accounts. Journal of Economic Dynamics and Control, Vol. 36 Issue 11, p1814- 1829.
4. Chirwa TG, Odhiambo NM.(2020). Determinants of gold price movements: An empirical investigation in the presence of multiple structural breaks. Resources Policy, 69, 101818. Retrieved from https://doi.org/10.1016/J.RESOURPOL.2020.101818
5. T. Choudhuryi, S. S. Hassan, S. S., and S. Shari (2015). Relationship between gold and stock markets during the global financial crisis: Evidence from nonlinear causality tests. International Review of Financial Analysis, 41, 247–256 https://doi.org/10.1016/J.IRFA.2015.03.011.
6. Dahlberg, A. H. (2016). Bitcoin, gold and the dollar GARCH volatility analysis. Finance Research Letters, 16, 85–92. Retrieved from https://doi.org/10.1016/J.FRL.2015.10.008
7. Akhtaruzzaman, M., Boubaker, S., Lucey, B. M., and Sensoy, A. (2021). Is gold a hedge or safe-haven asset in the COVID–19 crisis? Economic Modeling, 102, 105588. https://doi.org/10.1016/J.ECONMOD.2021.105588
8. Bariviera, A. F., Font-Ferrer, A., Sorrosal-Forradellas MT, Rosso OA. (2019).An information theory perspective on the informational efficiency of gold prices. The North American Journal of Economics and Finance, 50(1), 101018. https://doi.org/10.1016/J.NAJEF.2019.101018www.business-standard.com
9. www.rbi.org
10. www.nseindia.org
11. www.sebi.org