

GEOPOLITICAL RISK, ECONOMIC POLICY UNCERTAINTY AND EQUITY RESPONSES IN INDIA

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ABSTRACT

In this study, Geopolitical Risk (GPR) and Economic Policy Uncertainty (EPU) related shocks are studied in the Indian equity market by using a quantile regression approach. It is found that (i) GPR significantly holds a negative relationship in a bearish market, (ii) while EPU exhibits a significant negative relationship in a bullish market, (iii) however, the asymmetric dependence among the different market periods is not found to be significant. These results hold in the face of controlling for established macroeconomic variables like Oil, CPI, Exchange Rate, and BSE (NSE) traded volume. The robustness of GPR holds even for a different market index, i.e., for Sensex and Nifty50. However, it does not for EPU. It is believed that these results would contribute to the existing literature, substantiate the understanding of the Indian equity markets in the face of these shocks, and provide helpful information for policymakers and investors in managing risks.

Keywords: Geopolitical Risk, Economic Policy Uncertainty, Quantile Regression, Equity returns

JEL classification: F51, E61, C13, C21, G12