ABSTRACT ON THE DISSERTATION:ESSAYS IN INTERNATIONAL INVESTMENTS

The aim of this dissertation is to see how much incremental diversification benefit the Indian capital market provides to the international portfolio investor. The viewpoints chosen are those of the American, British, German, and Japanese investors. The international portfolio consists of investment in the investor's domestic capital market and the South-East and the South Asian Emerging Markets.

The main focus of the first essay is to look at the marginal change in the Sharpe's portfolio performance "reward to risk" ratio, with the addition of the Indian Capital Market to the international portfolio. This essay also looks at the contribution of the market risk and that of the currency risk towards the total risk of the returns on the international portfolio. The main papers referred for this essay are those by Divecha et al [1992], Ferson and Harvey [1993], Harvey [1993], Solnik [1990] and Speidell and Sappenfield [1992].

The main finding is that the Indian stock market is slowly integrating with the world markets. The correlations are slowly turning positive with the other economies and hence, the diversification benefits are reducing to the international portfolio investor, as per the mean-variance portfolio theory. Yet the sturdy economic fundamentals, exhibiting sustained growth

potential of India, will keep enticing the international portfolio inflows.

The second essay looks at whether or not the stock market prices the currency risk faced by Indian companies. A company may be facing currency exposure directly through its exports, imports and foreign currency debt and equity or indirectly through its competitors' exposures. The model used to price the currency exposure is the Arbitrage Pricing Theory. The main papers referred for this essay are those by Jorion [1990] and Jorion [1991].

The main finding is mixed. Depending on the time interval chosen, the Indian stock market does or does not price the currency exposure for companies having foreign exchange exposure.

The third essay looks at whether or not there exist long run relationships between the South-East Asian capital markets and the Indian market. The methodology used is to test for the stationarity of the various series, through tests for unit roots and the order of integration. After testing for non-stationarity, the technique of cointegration is used to test for the long run equilibrium. The meaning of equilibrium is to test that the observed relationships between the markets have, on the average, been maintained by a set of variables for a long period of time. The main papers referred for this essay are those by Dickey and Fuller [1981], Dickey and Pantula [1988], Engle and Granger

[1987], Engle and Yoo [1989], Park and Phillips [1988, 1989] for methodological issues of unit roots and cointegration and Abbott and Chow [1993] and Chatrath, Ramchander and Song [1994] for application of the methodolgy to the equity markets.

The main finding is that there is no statistically significant cointegration relationship between the Indian stockmarket and any other stockmarket under study. This implies that there does not exist much of cointegrating relationship between the Indian stockmarket with the other stockmarkets.

Thus, this dissertation concentrates on the research gap existing in empirical studies regarding the emerging stock market of India and its role towards international portfolio diversification benefits. The focus is to see the incremental benefit provided by the Indian emerging stock market vis-a-vis other South-East Asian countries, to an international investor, say in a developed country. This dissertation is restricted in its scope in using only the country indices and not the individual securities returns because of no easy and economical access to the company-wise returns data for each country.