

DYNAMIC RELATIONSHIP BETWEEN OPTION AND SPOT MARKET IN INDIA: AN ARDL APPROACH

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ABSTRACT

It is very essential to know the movement of the stock and derivative market and the relationship between the different variable which leads to forecast a particular market. Before choosing a market for the investment it needs to understand marketing, and how it is functioning and what are the subsequent factors which provide information for the determination of the market. Under this study it has been trying to find out the dynamic relationship between the option and spot market in India. The call option has been selected from the S&P CNX nifty index of NSE for the period of January 2010 to December 2012. For the analysis of the study the ARDL approach of co- integration has been applied. The result of the study shows that there is a relationship both in the short run as well as a long run in option and spot markets. Option trade volume and spot prices are the important determinant of the market.

KEYWORDS: Spot Market, Option Market, Price Discovery, Contract, Investors.