A Critical analysis of the Impact of Economic Policies on Stock Market Performance: Evidence from India

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Abstract

Purpose: The current study evaluates the influence of economic policies on stock market performance in India and examine the interplay between economic policies and contribution to market dynamics.

Design/Methodology/Approach: A cross-sectional research design was applied and the data were collected through a Google Form from 404 respondents in the period January 2024 to March 2024. Descriptive statistics, reliability analysis, correlation, and regression analysis were carried out for data analysis.

Findings: There was a significant positive association between the economic policies and the stock market performance. The regression equation $R^2 = 0.46$, $p < 0.01$. Economic policies accounted for 46% of the variation in the stock market performance with a standardized beta coefficient of 0.68.

Practical Implications: The findings show the importance of sound economic policies in improving market performance and stability. Such findings will help policymakers to frame such a framework that will be helpful for the growth of financial markets.

Originality/Value: This paper offers empirical evidence on the association between economic policies and the stock market performance in India. It contributes to the existing literature on economic policy and interaction between the two.

Keywords: Economic Policies, Stock Market Performance, India, Regression Analysis, Economic Stability

List of Abbreviation

EPs: Economic Policies
SMP: Stock Market Performance
R^2: Coefficient of Determination
SE: Standard Error
t: t-statistic
p: p-value

1. Introduction

The stock market is very essential for the country's economic development in the mobilization of capital and allocation of resources (Paramati & Gupta, 2011). It has experienced growth in the last few decades, making the Indian stock market an essential barometer of the economic health of a country (Dua, 2023). Economic policies, encompassing fiscal, monetary, and trade regulations, directly influence stock market performance by impacting investor confidence, market liquidity, and corporate profitability (Shahani & Vashisth, 2020). Understanding this relationship is vital, as stock market fluctuations often reflect the effectiveness of economic strategies in fostering growth and stability (Chikwira & Mohammed, 2023). The global research clearly indicates the influence of policies on market trends, and the Indian market, which has its unique regulatory environment and wide diversity in investor base, offers an interesting case to be explored (Naka et al., 1991).

Although significant, few studies have analyzed the direct effects of economic policies on stock market performance in India (Ngare et al., 2014). Previous studies have been focused more on the broader economic indicators, neglecting the more detailed aspects of how changes in policy can influence stock market behavior (Batabyal & Killins, 2021). This study aims to bridge this gap by analyzing the influence of economic policies on the stock market during the period from January 2024 to March 2024. Using a cross-sectional research design and robust statistical techniques, the study aims to provide empirical evidence that can inform policymakers and market participants about the intricate linkages between policy interventions and market performance.

2. Literature Review

2.1 Critical Literature Review

Economic policies and stock market performance have been the central themes of financial and economic research (Chen, 2022). Economic policies-the fiscal measures, monetary strategies, and regulatory frameworks have direct impacts on market dynamics due to their influence on investor behavior, capital flows, and corporate earnings (Elangovan et al., 2022). For instance, expansionary monetary policies, such as low interest rates, tend to encourage investments in equities due to increased liquidity and reduced borrowing costs (Mai et al., 2023). Similarly, fiscal policies, such as tax reforms or government spending, tend to create ripple effects across sectors and, therefore, affect market valuations and performance (Ghani & Ghani, 2024). In fact, research further shows that transparency and consistency in policy execution are vital elements in establishing investor confidence and market stability (Bagh et al., 2023).

However, the Indian stock market is unique in many ways as compared to other global markets; it is highly dependent on domestic policies, has less penetration of the market, and has a diverse investor base (Haritha & Rishad, 2020). The studies have analyzed specific policy decisions like demonetization and Goods and Services Tax (GST) and its impact on the performance of the market. However, in-depth analyses are very few (Prabu et al., 2020). Moreover, as the literature at the international level emphasizes that macro-economic policies affect the stock market, so the relation of economic policies with some markers of market performance in India also needs to be explored.

2.2 Research Gaps

There are studies on economic policies and the stock markets; however, few of those relate comprehensive economic policies to performance in Indian context. Literature often focuses on one policy measure at a time and ignores the accretive effect of combining all policy measures. There is less evidence based on mechanisms which have economic policies affecting performance of the market in specified variables. Most of the studies used retrospective data

and failed to address recent changes in policy, leaving an important gap for understanding modern market dynamics.

Hypotheses

- H1: Economic policies significantly influence the stock market performance in India.

- H2: There is a significant positive correlation between economic policies and stock market performance in India.

The variables and items of the study are given in Table 1.

Table 1 Variables and Items

Variable	Sources	Code	Item
Economic Policies (EPs)	(Garg & Kapil, 2021; Praneeth & Nivetha, 2022; Sumanjeet, 2011)	EP1	Policy Stability
		EP2	Tax Reforms
		EP3	Interest Rate Changes
		EP4	Trade Policies
		EP5	Inflation Control Measures
		EP6	Government Spending
		EP7	Monetary Policies
		EP8	Foreign Investment Regulations
		EP9	Subsidy Reforms
		EP10	Employment Policies
Stock Market Performance (SMP)	(Dayal, 2023; Ghose et al., 2021; Johar et al., 2020; Khosla & Kumar, 2017)	SMP1	Market Liquidity
		SMP2	Market Volatility
		SMP3	Return on Investment
		SMP4	Market Index Performance
		SMP5	Equity Growth
		SMP6	Market Capitalization
		SMP7	Investor Confidence
		SMP8	Trading Volume
		SMP9	Dividend Growth
		SMP10	Sectoral Performance

3. Research Methodology

3.1 Research Design

This study adopts a cross-sectional research design to investigate the impact of economic policies on stock market performance in India. A quantitative approach is utilized to collect and analyze data, providing empirical insights into the relationship between the independent variable (economic policies) and the dependent variable (stock market performance). The research focuses on measuring perceptions of respondents over a defined period, from January 2024 to March 2024.

3.2 Sampling Method and Sample Size

A convenience sampling method is employed to gather data efficiently from a target population of stock market participants and policy observers. The study aims to collect responses from a sample size of 404 participants, ensuring sufficient representation for statistical analysis and hypothesis testing.

3.3 Data Collection

Data is collected through an online Google Form designed to capture respondents' perspectives on economic policies and their perceived impact on stock market performance. The form comprises structured questions based on the study's variables, measured using a 5-point Likert scale ranging from "Strongly Disagree" to "Strongly Agree."

3.4 Variables and Measurement

The study includes two main variables; a) Economic Policies (EPs), measured using 10 items (e.g., tax reforms, interest rate changes, trade policies), and b) Stock Market Performance (SMP), assessed through 10 items (e.g., market liquidity, index performance, investor confidence). Both variables are evaluated using a validated scale, ensuring reliability and consistency in measurement.

3.5 Data Analysis Techniques

Data analysis is conducted using descriptive statistics to summarize the data, reliability analysis (Cronbach's Alpha) to assess the internal consistency of the scales, and Pearson correlation to evaluate the strength and direction of relationships between variables. Regression analysis is performed to determine the influence of economic policies on stock market performance, with model summaries and coefficients providing insights into the strength and significance of the predictive relationship.

4. Results and Discussion

4.1 Demographic Statistics

As presented in Table 2, the demographic characteristics of the respondents reveal a diverse sample, with the majority (45%) aged between 20 to 25 years, followed by 30% in the 18 to 20 years category, 17% aged 25 to 30 years, and 8% aged 30 to 35 years. Gender distribution is balanced, with 52% female and 48% male respondents. In terms of educational qualifications, 55% hold a bachelor's degree, 22% have completed intermediate education, 19% possess a master's degree, and 4% have a PhD. Regarding employment status, 60% of the respondents are unemployed (students), while 40% are employed, indicating a mix of academic and professional perspectives in the sample.

Table 2: Demographic Characteristics of Respondents

Characteristic	Frequency	Percentage
Age		
18 to 20 years	122	30%
20 to 25 years	182	45%
25 to 30 years	70	17%
30 to 35 years	30	8%

Gender		
Male	194	48%
Female	210	52%
Educational Level		
Intermediate	90	22%
Bachelor	223	55%
Master	76	19%
PhD	15	4%
Employment Status		
Employed	162	40%
Unemployed (Student)	242	60%

4.2 Descriptive Statistics

The descriptive statistics (Table 3) reveal that respondents rated economic policies with a mean score of 4.15 and a mode of 4, indicating a generally positive perception, with a standard deviation of 0.65 and a variance of 0.42. Scores for economic policies ranged from 2.8 to 5. Similarly, stock market performance had a mean score of 4.08 and a mode of 4, reflecting slightly lower yet positive perceptions, with a standard deviation of 0.7 and a variance of 0.49, and scores ranging from 2.5 to 5.

Table 3: Descriptive Statistics

Variable	Mean	Mode	Std. Dev	Variance	Minimum	Maximum
Economic Policies	4.15	4	0.65	0.42	2.8	5
Stock Market Performance	4.08	4	0.7	0.49	2.5	5

4.3 Reliability Analysis

Reliability analysis (Table 4) demonstrates strong internal consistency, with Cronbach's Alpha values of 0.87 for Economic Policies and 0.85 for Stock Market Performance, indicating reliable measurement scales.

Table 4: Reliability Analysis (Cronbach's Alpha)

Variable	Cronbach's Alpha
Economic Policies	0.87
Stock Market Performance	0.85

4.3 Correlation Analysis

The correlation analysis (Table 5) shows a significant positive relationship between economic policies and stock market performance, with a correlation coefficient of 0.68 ($p < 0.01$), suggesting that favorable economic policies positively impact stock market performance.

Table 5: Correlation between Economic Policies and Stock Market Performance

Variable	Stock Market Performance
Economic Policies	0.68

Note: p < 0.01

4.4 Regression Analysis

The regression analysis results (Table 6) highlight the significant impact of economic policies on stock market performance. The constant (intercept) has a coefficient of 1.2 (SE = 0.18, t = 6.67, $p < 0.01$), indicating the baseline value of stock market performance when economic policies are absent. The coefficient for economic policies is 0.68 (SE = 0.05, t = 13.6, $p < 0.01$), with a standardized beta value (β) of 0.68, showing a strong positive effect of economic policies on stock market performance. The model explains 46% of the variance in stock market performance ($R^2 = 0.46$), with an adjusted R^2 value of 0.45, ensuring robustness.

Table 6: Regression Analysis of Economic Policies on Stock Market Performance

Predictor	B	SE	Beta (β)	t	P
Constant (Intercept)	1.2	0.18	-	6.67	<0.01
Economic Policies	0.68	0.05	0.68	13.6	<0.01
Model Summary					
R^2		0.46			
Adjusted R^2		0.45			

Based on the analysis, the regression equation is:

$$SMP=0.68(EP)+1.2$$

This indicates that for every unit increase in the effectiveness of economic policies, stock market performance improves by 0.68 units, underscoring the significant influence of economic policy frameworks.

4.5 Discussion

The findings depict a strong positive association of the economic policies and the performance of the stock market in India, pointing to how proper policy frameworks can really impact the market's overall functioning. Descriptive statistics reveal that the two variables were perceived favorably, and the reliability for the former is strong at Cronbach's Alpha = 0.87. The correlation analysis confirms a strong positive relationship, $r = 0.68$, $p < 0.01$, indicating that good policies create investor confidence and help to stabilize the market. This result is in line with previous studies that have highlighted the role of fiscal and monetary policies in enhancing the performance of the market (Bajaj & Padmavathy, 2015; Meena, 2020).

The regression analysis reveals that economic policies explain 46% of the variation in the stock market performance; the standardized beta coefficient was established to be 0.68, indicating an important predictive effect. In this regard, transparent and consistent policy implementation will indeed drive positive market outcomes, which is in line with the viewpoint of Khan (2016). Findings from the current study show the need for stable yet adaptable policies that will allow growth and solve current economic challenges. The results are immediately applicable for policymakers to design workable frameworks and for investors to tailor their strategy along with policy change. Some of the areas of research that would help further an understanding of this relationship include sectoral variations, international influences, and a mediating effect of factors that are market-specific.

5. Conclusion

This study, therefore, demonstrates the significant effect of economic policies on the performance of the stock market in India. It stresses the importance of sound policy frameworks in fostering market stability and growth. The findings point to a strong positive correlation between economic policies and stock market performance, with regression analysis indicating that economic policies account for 46% of the variance in market performance. This further

underlines the importance of transparent, consistent, and adaptive economic strategies in promoting investor confidence and market results. The study contributes useful insights for policymakers and market participants, as it reveals how policy measures interplay with the dynamics of the stock market.

Limitations

This study's cross-sectional design limits the understanding of long-term effects of economic policies on stock market performance. Convenience sampling reduces generalizability, and reliance on self-reported data may introduce bias. Moreover, external global and geopolitical factors were not considered.

Implications

The above results can be used by policymakers to design transparent and stable policies that improve market confidence and growth. Investors find insights into aligning their strategies with policy changes, while researchers are provided with a framework for further explorations of policy-market interactions.

Future Recommendations

Future research should adopt longitudinal designs to examine long-term effects, incorporate global and sectoral variables, and explore mediating factors like market liquidity and investor sentiment. Probability sampling can enhance generalizability, and comparative studies across economies could offer broader insights.

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