
Demonetisation upshot on the volatility and returns of banking sector stocks of national stock exchange

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Abstract: Demonetisation, the tool used by the Indian government, to battle the income earned surreptitiously when it decided to enforce by announcing after the trading hours of the Indian equity market on 8 November, 2016. The data relating to the price behaviour of the selected stocks for the period of six months before and after the demonetisation process were considered for the study. It was found that the Indian banking industry was able to deliver positive returns even during the post demonetisation period. In order to understand the pre and post level of volatility, triggered by the rarest economic event i.e., 'demonetisation', hitting the Indian economy, the study was done by aptly applying the GARCH (1,1) model and was found that the private sector banking stocks were more volatile than the public sector banking stocks and this scenario was found to repeat during the post demonetisation period too.

Keywords: demonetisation; volatility; GARCH (1,1) model; banking sectoral stocks; private sector banking stocks; public sector banking stocks; pre-demonetisation; post-demonetisation; heteroscedasticity effect.

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