

# A Study on Dynamic Relationship between Indian Gold Price and Sensex

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## Abstract:

This paper examines the dynamic relationship between Gold price, and stock market returns with particular reference to Bombay stock market index (SENSEX) by using various time series econometric models from the period of almost 20 years from January 2000 to November 2019 (4903 daily observation). The study finds that there is a unidirectional relationship exists in between gold price and Sensex returns. This study witnessed there is a long-run equilibrium relationship between both the variables and they are moving together. The stock price can be used to predict the gold price in India. Hence, investors have the opportunity to reap the benefit of the portfolio diversification by gaining knowledge from this study.

**Keywords:** Gold Price, SENSEX, Granger Causality, Co-integration, ADF.

## 1. Introduction

World economic history reveals that the Gold was the first metal which excavated by human beings, and it was used as a medium of exchange in ancient eras. From those Golden days to till today the modern era, the gold has some unique character among all other metals. From the investor's point of view, gold is one of the best attractive investment avenues and it has a notable place in the world monetary system. Most of the counties are used as security against the loan when they have had a deficit in their balance of payments. So, there is no credit risk attached to gold.

Moreover, during the financial crisis, the gold price was increased by 6 percent at that time other portfolios like equity dropped by around 40 percent and this is the only investment avenue which maintains its liquidity even at the time of financial hikes and inflations, so investors can easily convert into money at any time which they want. Few studies stated that gold price is one of

the macroeconomic variables for countries economic growth. Some of the reviews suggest that gold investment is the best investment diversification. That all caused as the Gold as the best and 'safe heaven' asset in all over the world. Especially countries like in India will believes that holding gold is a pride for their family and its traditional customs believes. The recent study mentioned that more than 1000 tons of gold consumed in Indian families, and they are trading every day. Since its frequently traded, the gold price has significantly had an impact on the stock price also its necessary to find the relationship between them. Therefore, gold has become the main focus of the research in the field of finance today. This research article aims to examine the relationship between Indian gold price and Sensex.

## Review of Literature

A wide variety of studies has been done to understand the relationship between stock price and gold price. Some of them are referred to as the