

Abstract

In this study we attempt to capture the long term relationship between Crude oil prices, Gold prices and Indian Stock market. Specifically we study a) How these markets are interrelated and which market is leading and which one is lagging, b) How the shocks in one market can affect the other markets and how long these shocks can persist or can influence other markets.

Empirical analysis based on the sample of prices and index over 1991-2012 shows that Gold prices, Crude oil prices and Sensex are positively correlated. Secondly, there exists a long run relationship between all the three markets. Gold price linearly granger cause Sensex and vice versa, Crude oil prices linearly granger cause Sensex and vice versa but no evidences were found for causality running in either direction between gold prices and crude oil prices. Finally we find that Gold price move faster than Crude oil prices and Sensex to restore the long run equilibrium.

Impulse response function showed that shock in one market have long lasting effect on other markets thus giving evidences of high degree of interdependence.

Keywords: Cointegration, Granger causality, Impulse response function, Vector error correction model.