

ABSTRACT

When countries open up their stock markets to foreign investors, the stocks are repriced which in turn affects stock returns. The change in stock returns can be attributed to the change in systematic risk as liberalization leads to sharing of risk with the rest of the world. India underwent a similar liberalization in September 1992 followed by continuous reforms to liberalize its stock markets further.

The purpose of this paper is to find out the effect of liberalization on the returns of the stocks listed in the Bombay Stock Exchange. It shows that the difference between the post liberalization and pre liberalization stock returns of firms can be explained by the difference in their return covariance with the world and local market return and that they have a positive relationship. The findings of this paper point out that CAPM (Capital Asset Pricing Model) can predict the repricing of systematic risk when markets are opened up.

