

## **ABSTRACT**

This paper investigates the relationship between stock markets and the economic growth of India. It uses seasonally adjusted quarterly time series which cover the period from first quarter of 2001 to the fourth quarter of 2013. The stock markets are represented by stock indices and the economic growth is reflected by Gross Domestic Product at constant prices.

The Hypothesis which is verified in this paper is that the stock markets have the ability to predict economic development. This is tested by the correlation analysis and Granger causality test. However we cannot comment about the vice versa according to the findings of this paper. The Hypothesis is supported by many empirical findings which cover the unidirectional causal relationship between stock market and real economic activity. There are many studies which provide contrary solutions i.e., they suggest that the relationship between stock markets and economic growth is reversible. The empirical findings of this paper support the contention that stock markets provides the predictive ability for the real economic activity.