Impact of Single Stock Futures Trading
on Underlying Stock Market in India

ABSTRACT

This paper examines the price discovery, price-volume relationship of 47 single stock futures (SSFs) and impact of SSFs listing on underlying stock market in the National Stock Exchange of India (NSE). The study periods are November 2001-December 2008 for SSFs first lot (22 SSFs) and December 2006-December 2008 for SSFs last lot (25 SSFs). The study adopts error correction model (ECM) to reveal that spot prices lead futures prices. Further, spot prices contribute, on average, up to 57% and 65% of price discovery process for first and last lot, respectively. Nevertheless, the test suggests that there is no causal relationship between return and volume of SSFs in both directions. The study also suggests the trading volumes drop significantly following the listing of SSFs for the underlying stocks of SSFs first lot, but are not statistically different for the underlying stocks of SSFs last lot. However, the stock return volatility is not statistically different after SSFs listing.