

Evaluating Role of Foreign Institutional Investors and Mutual Funds in Changing Market Scenario

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ABSTRACT

Financial system of a country which is inevitable constituent of economy facilitates mobilization of resources through financial markets. Stock exchange is one of the corporate secondary financial market which enables buying and selling in corporate shares or debentures. Function of a stock market is very important in resource mobilization and keeping capital base of a corporate sector constant by making investment switchover facility available to share holder who often change their portfolio on the basis of growth and earning potentials of a company along with other factors. During this decade 2001-2010, Indian capital market has witnessed various reforms and liberalization of mutual funds FIIs norms which made Indian market more liquid and rising. This article focuses on contribution made by mutual funds and FIIs to boost market liquidity by keeping minimum impact cost of a trade. Article makes comparative analysis of mutual funds and FIIs in their participation in market capitalization and discovers relationship between investment pattern of mutual funds and FIIs with market capitalization.

Keywords: Foreign Institutional Investors, Mutual Fund

INTRODUCTION

History of stock market dates back us in 1860-65, when civil war was broken out in US. Civil war caused failure of US to supply raw cotton to UK and because of this; demand of Indian raw cotton was increased sharply. Consistent and increasing demand of raw cotton had generated excess liquidity in the economy which fuelled speculation in market and shot the sentiments of securities market, real estates and metal market. But when the US civil war was pacified, demand for Indian raw cotton started declining, which broke the financial bubble, dried the excess liquidity and pulled the market on ground. 1865-1870 was a period of black days of Indian markets where a majority of people were caught in real financial trouble. This worst situation demanded need of coming together with discipline and regulation to trade and finally in the year 1875 'Bombay Native Brokers Association' was established which is now called as BSE (Bombay Stock Exchange). ¹After independence the High-Powered Committee on establishment of new stock exchanges headed by M.J.

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Pherwani, the former UTI Chairman, first mooted the need for a stock exchange at national level. Accordingly National Stock Exchange was set up by IDBI and other all India financial institutions in Mumbai in November 1992 with a paid up capital of Rs. 25 Crores.² It was recognized by the Government in the same year and the Exchange started operations in Wholesale Debt market in June 1994 and in equity segment in November 1994.³ But In the decade of 1991-2000 volatility of a market was at its peak, there was a problem of liquidity, delay in physical delivery of shares, high impact cost, high brokerage cost, and ignorance of retail investors. Participation of mutual funds was very minimal and the scope for foreign institutional investors was narrowed by strict and conservative regulations. Furthermore as the speculative movements and scams sprouted in the market, it worsened the market sentiments and participation. It made market highly volatile, unpredictable and created ‘Financial Bubbles’. To regulate and restructure market operations and sentiments capital reforms were carried out, The change have been taken place in the administration of stock exchange, securities trading, fast rolling and settlement, delivery versus payment, securities transfer, price discovery, maintaining lower transaction costs , trading in derivatives, risk containment measures, screen based trading, investor protection fund and many more.⁴ Strong fundamentals of the economy, encouraging corporate results, revival of structural reforms by the government and an investor friendly regulatory framework provided by SEBI attracted all classes of investors. SEBI widened the opportunities for foreign institutional investors. Mutual funds and foreign institutional investors became leader of a market and important root of resource mobilization. In the light of aforementioned changing market sentiments from daunting to enthusiastic, it becomes important to analyze actual role played by foreign institutional investors and mutual funds in current changing scenario. This article evaluates participation of foreign institutional investors and mutual funds to boost market liquidity.

Period and sample of study

For weighing the role of foreign institutional investors and mutual funds hypothesis was framed on market capitalization (liquidity). Period from 1/4/2001 to 31/3/2011 is considered on monthly data.

(H₀) Null Hypothesis of study

There is no significant impact of net investment made by mutual funds and foreign institutional investors on market capitalization.

ANALYSIS OF MONTHLY DATA

Mutual funds net monthly investment and market capitalization

Months	Net investment	Cumulative Net investment	Market capitalization
Apr-01	-293.00	-293.00	653,720
May-01	-479	-772.00	592,437
Jun-01	-112	-884.00	569,797
Jul-01	-445	-1,329.00	574,260
Aug-01	-378	-1,707.00	575,242
Sep-01	112	-1,595.00	509,105

Oct-01	-674	-2,269.00	535,846
Nov-01	-345	-2,614.00	581,386
Dec-01	77	-2,537.00	552,908
Jan-02	-435	-2,972.00	563,683
Feb-02	-352.00	-3,324.00	621,523
Mar-02	-472	-3,796.00	636,861
Apr-02	-383	-4,179.00	649,551
May-02	-140	-4,319.00	631,609
Jun-02	-395	-4,714.00	659,991
Jul-02	-288	-5,002.00	608,643
Aug-02	-203	-5,205.00	632,618
Sep-02	28	-5,177.00	599,603
Oct-02	-44	-5,221.00	606,788
Nov-02	-336	-5,557.00	645,388
Dec-02	2	-5,555.00	672,862
Jan-03	-403	-5,958.00	572,277
Feb-03	31	-5,927.00	581,985
Mar-03	62	-5,865.00	537,133
Apr-03	-177	-6,042.00	530,630
May-03	68.00	-5,974.00	612,030
Jun-03	-196.00	-6,170.00	678,550
Jul-03	71.00	-6,099.00	719,145
Aug-03	403.00	-5,696.00	836,651
Sep-03	-290.00	-5,986.00	863,481
Oct-03	-195.00	-6,181.00	926,748
Nov-03	191.00	-5,990.00	979,541
Dec-03	852.00	-5,138.00	1,167,029
Jan-04	938.00	-4,200.00	1,116,150
Feb-04	-534.00	-4,734.00	1,110,954
Mar-04	176.00	-4,558.00	1,120,976
Apr-04	-219.00	-4,777.00	1,171,828
May-04	1,005.00	-3,772.00	950,494
Jun-04	-260	-4,032.00	979,700
Jul-04	-470	-4,502.00	1,066,087
Aug-04	-98.00	-4,600.00	1,143,075
Sep-04	-229.00	-4,829.00	1,227,550
Oct-04	-422.00	-5,251.00	1,253,825
Nov-04	-695.00	-5,946.00	1,446,292
Dec-04	-356.00	-6,302.00	1,579,161

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Jan-05	548	-5,754.00	1,557,444
Feb-05	102.00	-5,652.00	1,614,597
Mar-05	1,543.00	-4,109.00	1,585,585
Apr-05	1465	-2,644.00	1,517,908
May-05	3,340.00	696.00	1,654,995
Jun-05	-1,817.00	-1,121.00	1,727,502
Jul-05	505.00	-616.00	1,848,740
Aug-05	2,293.00	1,677.00	1,957,491
Sep-05	3,233.00	4,910.00	2,098,263
Oct-05	3,020.00	7,930.00	1,927,645
Nov-05	581.00	8,511.00	2,166,823
Dec-05	-1,377.00	7,134.00	2,322,392
Jan-06	-1,172.00	5,962.00	2,434,395
Feb-06	-246.00	5,716.00	2,512,083
Mar-06	4,483.00	10,199.00	2,813,201
Apr-06	3121	13,320.00	2,990,200
May-06	7,893.00	21,213.00	2,612,639
Jun-06	-1977	19,236.00	2,524,659
Jul-06	-82.00	19,154.00	2,514,261
Aug-06	426.00	19,580.00	2,777,401
Sep-06	1,340.00	20,920.00	2,994,132
Oct-06	-4.00	20,916.00	3,138,319
Nov-06	-25.00	20,891.00	3,373,652
Dec-06	1,627.00	22,518.00	3,426,236
Jan-07	-1342	21,176.00	3,571,487
Feb-07	-274.00	20,902.00	3,296,931
Mar-07	-1,641.00	19,261.00	3,367,350
Apr-07	1,032.00	20,293.00	3,650,368
May-07	1,907.00	22,200.00	3,898,078
Jun-07	1,213.00	23,413.00	3,978,381
Jul-07	-901.00	22,512.00	4,317,571
Aug-07	4,094.00	26,606.00	4,296,994
Sep-07	-764.00	25,842.00	4,886,561
Oct-07	-1,715.00	24,127.00	5,722,227
Nov-07	2,170.00	26,297.00	5,876,742
Dec-07	3,024.00	29,321.00	6,543,272
Jan-08	7,703.00	37,024.00	5,295,387
Feb-08	514.00	37,538.00	5,419,942
Mar-08	-1971	35,567.00	4,858,122

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Apr-08	-111.00	35,456.00	5,442,780
May-08	64.00	35,520.00	5,098,873
Jun-08	3,179.00	38,699.00	4,103,651
Jul-08	1,413.00	40,112.00	4,432,427
Aug-08	-369.00	39,743.00	4,472,461
Sep-08	2,292.00	42,035.00	3,900,185
Oct-08	1,432.00	43,467.00	2,820,388
Nov-08	-373.00	43,094.00	2,653,281
Dec-08	341.00	43,435.00	2,916,768
Jan-09	-864.00	42,571.00	2,798,707
Feb-09	-1,496.00	41,075.00	2,675,622
Mar-09	1477	42,552.00	2,896,194
Apr-09	39.00	42,591.00	3,375,025
May-09	2,291.00	44,882.00	4,564,572
Jun-09	839.00	45,721.00	4,432,596
Jul-09	1,826.00	47,547.00	4,816,459
Aug-09	570.00	48,117.00	4,975,800
Sep-09	-2,335.00	45,782.00	5,353,880
Oct-09	-5,194.00	40,588.00	5,024,830
Nov-09	-696.00	39,892.00	5,430,088
Dec-09	-1,762.00	38,130.00	5,699,637
Jan-10	-1311	36,819.00	5,782,965
Feb-10	-697.00	36,122.00	5,755,305
Mar-10	-4,082.00	32,040.00	6,009,173
Apr-10	-1,410.00	30,630.00	6,117,858
May-10	99.00	30,729.00	5,932,578
Jun-10	-1,093.00	29,636.00	6,229,136
Jul-10	-4,231.00	25,405.00	6,340,120
Aug-10	-3,170.00	22,235.00	6,393,418
Sep-10	-7,236.00	14,999.00	6,958,534
Oct-10	-5,801.00	9,198.00	7,055,094
Nov-10	-100.00	9,098.00	6,894,912
Dec-10	1,377.00	10,475.00	71,39,310
Jan-11	590.8	11,065.80	64,41,491
Feb-11	1427.1	12,492.90	61,95,967
Mar-11	-253.3	12,239.60	67,02,616

Source: <http://www.sebi.gov.in/Index.jsp?contentDisp=Database>

FII's net monthly investment and market capitalization statement

Months	Net investment	Cumulative Net investment	Market Capitalization
Apr-01	1,770	1769.8	653720
May-01	-112	1657.5	592437
Jun-01	715	2372.8	569797
Jul-01	722	3095.2	574260
Aug-01	437	3532.6	575242
Sep-01	-416	3117	509105
Oct-01	716	3832.7	535846
Nov-01	51	3883.2	581386
Dec-01	250	4133.4	552908
Jan-02	423	4556.7	563683
Feb-02	1,966	6523	621523
Mar-02	391	6914.4	636861
Apr-02	12	6926.1	649551
May-02	-56	6870.1	631609
Jun-02	-381	6489	659991
Jul-02	349	6837.5	608643
Aug-02	204	7041.8	632618
Sep-02	469	7510.4	599603
Oct-02	-776	6734	606788
Nov-02	602	7335.8	645388
Dec-02	427	7763	672862
Jan-03	888	8651	572277
Feb-03	379	9029.7	581985
Mar-03	412	9441.4	537133
Apr-03	430	9871.7	530630
May-03	1,221	11092.5	612030
Jun-03	2,582	13674.2	678550
Jul-03	2,347	16020.7	719145
Aug-03	2,091	18112	836651
Sep-03	3,851	21963.3	863481
Oct-03	6,798	28760.8	926748
Nov-03	3,301	32061.3	979541
Dec-03	6,161	38222.4	1167029
Jan-04	3,177	41399.2	1116150
Feb-04	2,398	43796.7	1110954
Mar-04	5,604	49401.1	1120976
Apr-04	7,638	57039.3	1171828

May-04	-3,247	53792.4	950494
Jun-04	516	54308.8	979700
Jul-04	914	55222.4	1066087
Aug-04	2,892	58114.7	1143075
Sep-04	2,386	60500.3	1227550
Oct-04	3,263	63763.6	1253825
Nov-04	6,741	70504.4	1446292
Dec-04	6,684	77188.2	1579161
Jan-05	457	77645.3	1557444
Feb-05	8,376	86021.6	1614597
Mar-05	7,502	93523.8	1585585
Apr-05	-654	92869.7	1517908
May-05	-1,140	91729.6	1654995
Jun-05	5,329	97058.2	1727502
Jul-05	7,934	104992.3	1848740
Aug-05	5,051	110043.5	1957491
Sep-05	4,647	114690.3	2098263
Oct-05	-3,694	110996.4	1927645
Nov-05	4,039	115035.1	2166823
Dec-05	9,335	124370.1	2322392
Jan-06	3,678	128047.7	2434395
Feb-06	7,588	135635.5	2512083
Mar-06	6,689	142324.3	2813201
Apr-06	522	142846.2	2990200
May-06	-7,354	135492	2612639
Jun-06	480	135971.5	2524659
Jul-06	1,145	137116.7	2514261
Aug-06	4,643	141759.8	2777401
Sep-06	5,425	147184.5	2994132
Oct-06	8,013	155197.6	3138319
Nov-06	9,380	164577.7	3373652
Dec-06	-3,667	160910.3	3426236
Jan-07	492	161402.4	3571487
Feb-07	7,240	168642	3296931
Mar-07	-1,082	167560	3367350
Apr-07	6,679	174239.2	3650368
May-07	3,960	178198.9	3898078
Jun-07	1,643	179842	3978381
Jul-07	23,872	203714.4	4317571

Aug-07	-7,771	195943.9	4296994
Sep-07	16,133	212076.5	4886561
Oct-07	20,591	232667.4	5722227
Nov-07	-5,850	226817.5	5876742
Dec-07	5,579	232396.6	6543272
Jan-08	-13,036	219360.9	5295387
Feb-08	1,733	221094.2	5419942
Mar-08	-130	220963.8	4858122
Apr-08	1,075	222038.6	5442780
May-08	-5,012	217027.1	5098873
Jun-08	-10,096	206931.3	4103651
Jul-08	-1,837	205094.5	4432427
Aug-08	-1,212	203882.8	4472461
Sep-08	-8,278	195604.7	3900185
Oct-08	-15,347	180257.4	2820388
Nov-08	-2,598	177659.1	2653281
Dec-08	1,750	179409.2	2916768
Jan-09	-4,245	175163.9	2798707
Feb-09	-2,437	172727.3	2675622
Mar-09	530	173257.6	2896194
Apr-09	6,508	179765.8	3375025
May-09	20,117	199883	4564572
Jun-09	3,830	203713	4432596
Jul-09	11,066	214779.3	4816459
Aug-09	4,903	219682	4975800
Sep-09	18,344	238026.3	5353880
Oct-09	9,077	247103.3	5024830
Nov-09	5,497	252600.3	5430088
Dec-09	10,233	262833.4	5699637
Jan-10	-500	262333.1	5782965
Feb-10	1,217	263550	5755305
Mar-10	19,928	283478	6009173
Apr-10	9,361	292839.3	6117858
May-10	-9,437	283402.6	5932578
Jun-10	10,508	293911	6229136
Jul-10	16,617	310528.4	6340120
Aug-10	11,687	322215.6	6393418
Sep-10	24,979	347194.1	6958534
Oct-10	28,563	375757	7055094

Nov-10	18,293	394050.1	6894912
Dec-10	2049.6	396099.7	71,39,310
Jan-11	-4813.2	391286.5	64,41,491
Feb-11	-4585.5	386701	61,95,967
Mar-11	6897.8	393598.8	67,02,616

Source: <http://www.sebi.gov.in/Index.jsp?contentDisp=Database>

Mutual funds and FIIs combined net monthly investment and market capitalization

Months	Mutual funds net investment	FII net investment	Cumulative combined net investment	Market capitalization
Apr-01	-293.00	1,769.80	1,476.80	653,720
May-01	-479	-112.3	885.50	592,437
Jun-01	-112	715.3	1,488.80	569,797
Jul-01	-445	722.4	1,766.20	574,260
Aug-01	-378	437.4	1,825.60	575,242
Sep-01	112	-415.6	1,522.00	509,105
Oct-01	-674	715.7	1,563.70	535,846
Nov-01	-345	50.5	1,269.20	581,386
Dec-01	77	250.2	1,596.40	552,908
Jan-02	-435	423.3	1,584.70	563,683
Feb-02	-352.00	1,966.30	3,199.00	621,523
Mar-02	-472	391.4	3,118.40	636,861
Apr-02	-383	11.7	2,747.10	649,551
May-02	-140	-56	2,551.10	631,609
Jun-02	-395	-381.1	1,775.00	659,991
Jul-02	-288	348.5	1,835.50	608,643
Aug-02	-203	204.3	1,836.80	632,618
Sep-02	28	468.6	2,333.40	599,603
Oct-02	-44	-776.4	1,513.00	606,788
Nov-02	-336	601.8	1,778.80	645,388
Dec-02	2	427.2	2,208.00	672,862
Jan-03	-403	888	2,693.00	572,277
Feb-03	31	378.7	3,102.70	581,985
Mar-03	62	411.7	3,576.40	537,133
Apr-03	-177	430.3	3,829.70	530,630
May-03	68.00	1,220.80	5,118.50	612,030
Jun-03	-196.00	2,581.70	7,504.20	678,550
Jul-03	71.00	2,346.50	9,921.70	719,145
Aug-03	403.00	2,091.30	12,416.00	836,651

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Sep-03	-290.00	3,851.30	15,977.30	863,481
Oct-03	-195.00	6,797.50	22,579.80	926,748
Nov-03	191.00	3,300.50	26,071.30	979,541
Dec-03	852.00	6,161.10	33,084.40	1,167,029
Jan-04	938.00	3,176.80	37,199.20	1,116,150
Feb-04	-534.00	2,397.50	39,062.70	1,110,954
Mar-04	176.00	5,604.40	44,843.10	1,120,976
Apr-04	-219.00	7,638.20	52,262.30	1,171,828
May-04	1,005.00	-3,246.90	50,020.40	950,494
Jun-04	-260	516.4	50,276.80	979,700
Jul-04	-470	913.6	50,720.40	1,066,087
Aug-04	-98.00	2,892.30	53,514.70	1,143,075
Sep-04	-229.00	2,385.60	55,671.30	1,227,550
Oct-04	-422.00	3,263.30	58,512.60	1,253,825
Nov-04	-695.00	6,740.80	64,558.40	1,446,292
Dec-04	-356.00	6,683.80	70,886.20	1,579,161
Jan-05	548	457.1	71,891.30	1,557,444
Feb-05	102.00	8,376.30	80,369.60	1,614,597
Mar-05	1,543.00	7,502.20	89,414.80	1,585,585
Apr-05	1465	-654.1	90,225.70	1,517,908
May-05	3,340.00	-1,140.10	92,425.60	1,654,995
Jun-05	-1,817.00	5,328.60	95,937.20	1,727,502
Jul-05	505.00	7,934.10	104,376.30	1,848,740
Aug-05	2,293.00	5,051.20	111,720.50	1,957,491
Sep-05	3,233.00	4,646.80	119,600.30	2,098,263
Oct-05	3,020.00	-3,693.90	118,926.40	1,927,645
Nov-05	581.00	4,038.70	123,546.10	2,166,823
Dec-05	-1,377.00	9,335.00	131,504.10	2,322,392
Jan-06	-1,172.00	3,677.60	134,009.70	2,434,395
Feb-06	-246.00	7,587.80	141,351.50	2,512,083
Mar-06	4,483.00	6,688.80	152,523.30	2,813,201
Apr-06	3121	521.9	156,166.20	2,990,200
May-06	7,893.00	-7,354.20	156,705.00	2,612,639
Jun-06	-1977	479.5	155,207.50	2,524,659
Jul-06	-82.00	1,145.20	156,270.70	2,514,261
Aug-06	426.00	4,643.10	161,339.80	2,777,401
Sep-06	1,340.00	5,424.70	168,104.50	2,994,132
Oct-06	-4.00	8,013.10	176,113.60	3,138,319
Nov-06	-25.00	9,380.10	185,468.70	3,373,652

Dec-06	1,627.00	-3,667.40	183,428.30	3,426,236
Jan-07	-1342	492.1	182,578.40	3,571,487
Feb-07	-274.00	7,239.60	189,544.00	3,296,931
Mar-07	-1,641.00	-1,082.00	186,821.00	3,367,350
Apr-07	1,032.00	6,679.20	194,532.20	3,650,368
May-07	1,907.00	3,959.70	200,398.90	3,898,078
Jun-07	1,213.00	1,643.10	203,255.00	3,978,381
Jul-07	-901.00	23,872.40	226,226.40	4,317,571
Aug-07	4,094.00	-7,770.50	222,549.90	4,296,994
Sep-07	-764.00	16,132.60	237,918.50	4,886,561
Oct-07	-1,715.00	20,590.90	256,794.40	5,722,227
Nov-07	2,170.00	-5,849.90	253,114.50	5,876,742
Dec-07	3,024.00	5,579.10	261,717.60	6,543,272
Jan-08	7,703.00	-13,035.70	256,384.90	5,295,387
Feb-08	514.00	1,733.30	258,632.20	5,419,942
Mar-08	-1971	-130.4	256,530.80	4,858,122
Apr-08	-111.00	1,074.80	257,494.60	5,442,780
May-08	64.00	-5,011.50	252,547.10	5,098,873
Jun-08	3,179.00	-10,095.80	245,630.30	4,103,651
Jul-08	1,413.00	-1,836.80	245,206.50	4,432,427
Aug-08	-369.00	-1,211.70	243,625.80	4,472,461
Sep-08	2,292.00	-8,278.10	237,639.70	3,900,185
Oct-08	1,432.00	-15,347.30	223,724.40	2,820,388
Nov-08	-373.00	-2,598.30	220,753.10	2,653,281
Dec-08	341.00	1,750.10	222,844.20	2,916,768
Jan-09	-864.00	-4,245.30	217,734.90	2,798,707
Feb-09	-1,496.00	-2,436.60	213,802.30	2,675,622
Mar-09	1477	530.3	215,809.60	2,896,194
Apr-09	39.00	6,508.20	222,356.80	3,375,025
May-09	2,291.00	20,117.20	244,765.00	4,564,572
Jun-09	839.00	3,830.00	249,434.00	4,432,596
Jul-09	1,826.00	11,066.30	262,326.30	4,816,459
Aug-09	570.00	4,902.70	267,799.00	4,975,800
Sep-09	-2,335.00	18,344.30	283,808.30	5,353,880
Oct-09	-5,194.00	9,077.00	287,691.30	5,024,830
Nov-09	-696.00	5,497.00	292,492.30	5,430,088
Dec-09	-1,762.00	10,233.10	300,963.40	5,699,637
Jan-10	-1311	-500.3	299,152.10	5,782,965
Feb-10	-697.00	1,216.90	299,672.00	5,755,305

Mar-10	-4,082.00	19,928.00	315,518.00	6,009,173
Apr-10	-1,410.00	9,361.30	323,469.30	6,117,858
May-10	99.00	-9,436.70	314,131.60	5,932,578
Jun-10	-1,093.00	10,508.40	323,547.00	6,229,136
Jul-10	-4,231.00	16,617.40	335,933.40	6,340,120
Aug-10	-3,170.00	11,687.20	344,450.60	6,393,418
Sep-10	-7,236.00	24,978.50	362,193.10	6,958,534
Oct-10	-5,801.00	28,562.90	384,955.00	7,055,094
Nov-10	-100.00	18,293.10	403,148.10	6,894,912
Dec-10	1,377.00	2,049.60	406,574.70	71,39,310
Jan-11	590.8	-4,813.20	402,352.30	64,41,491
Feb-11	1427.1	-4,585.50	399,193.90	61,95,967
Mar-11	-253.3	6,897.80	405,838.40	67,02,616

Analysis and interpretation

Author has performed co relation and T test on annual and monthly data of mutual funds and FIIs net cumulative investment with market capitalization. Following are the results

Statistical value	Mutual funds and market capitalization	FII and market capitalization	Mutual funds, FII (combined)and market capitalization
Correlation	0.791	0.976	0.974
Coefficient of determination	0.626	0.954	0.9495
Z test statistic	14.94913485	14.2591164	15.809317

1. Correlation between Mutual funds investments and market capitalization on monthly data is very strong and positive also its calculated z test statistic is 14.94913485 compared to tabulated value (5% level of significance) is 1.96 hence null hypotheses is rejected.
2. Correlation between FII investments and market capitalization on monthly data is very strong and positive also its calculated z test statistic is 14.2591164 compared to tabulated value (5% level of significance) is 1.96 hence null hypotheses is rejected.
3. Correlation between mutual funds and FII combined investments and market capitalization on monthly data is very strong and positive also its calculated z test statistic is 15.809317 compared to tabulated value (5% level of significance) is 1.96 hence null hypotheses is rejected.

CONCLUSION AND SUGGESTIONS

1. Null hypotheses (H_0): “There is no significant impact of net investment made by mutual funds and foreign institutional investors on market capitalization.” is absolutely rejected.

2. Article has proved that investment pattern of mutual funds and FIIs have a positive and strong impact on market capitalization. It also clarifies positive and strong relationship between mutual funds, FIIs and market liquidity (market capitalization). Thus role of mutual funds, FIIs in boosting liquidity in the market is vital. Article also discovers the fact that role of FIIs is more decisive than domestic mutual funds in boosting the market liquidity as their correlation value and coefficient of determination is high. Hence author suggests widening the market access to mutual funds and FIIs to make Indian stock market more liquid with minimal impact cost.

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