

The Impact of Introducing Stock Futures Trading on the Cash Market in India

Referee Report 2

This long and rambling proposal has only one page (the last page on methodology) on what the study is all about. This page talks about three distinct topics that would be studied (a) players in stock futures market and their trading strategies, (b) study of basis/spread, and (c) impact on cash market trading pattern. We therefore have only one paragraph on each of these three studies. Based on this sketchy information, my comments are:

(a) Players in stock futures market and their trading strategies

This is something worth studying and a good study would certainly add value. But the sentence : "Because of the delicate issue of confidentiality involved, the attempt will be to collect general information ..." is very troubling. There is a danger that the study would degenerate into some anecdotes and some unreliable estimates.

(b) Study of basis/spread

It is not clear what empirical analysis would be done and what it would add to what is already known. The existence of backwardation is well known not only in Indian stock futures but also in index futures which is supposed to be a hedging product. The researchers themselves say that a longer time period is required to understand what is going on.

(c) Impact on cash market trading pattern

This again is an interesting question. But there is nothing on methodology. Is it an event study? The event study approach becomes difficult when there is only one event to study (all the stock futures were introduced in one shot). How would the researchers control for the concomitant structural changes in the market?

In short while the researchers have identified a lot of interesting issues relating to stock futures, they have not come up with a convincing research proposal.