Foreign Investors Under Stress: An Event Study for India
Discussion at NIPFP-DEA Conference

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  - Do they follow or cause such events? Draws implications for policy.

Focus on event study analysis, argues better inference using this method.

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  - Also uses return data for the Nifty, and S&P500.
Authors have started work on an important question. Very similar to another question.

Are FIIs a stabilizing or destabilizing influence in emerging equity markets?

- Price pressure. FIIs trade in a manner that pushes prices away from fundamental value.
- Information. FIIs are better informed than domestic investors about movements in fundamental value.

Two important comments to help improve the analysis:

1. Important to absorb the related literature. People have worked on this question a lot.
2. Think hard about the appropriateness of the methodological choices being made.
What Do We Know?

- **Evidence:**

  - FII flows are contemporaneously correlated with returns at the quarterly frequency (Brennan and Cao (1997), Bohn and Tesar (1996), Tesar and Werner (1994, 1995)).
  - Domestic investors are smarter than FIIs, implicitly destabilizing (Kang and Stulz (1997), Choe, Kho and Stulz (2001), Griffin, Nardari and Stulz (2004), Dvorak (2005)).
  - FIIs are smarter than domestic investors, stabilizing (Froot, O'Connell, Seasholes (2001), Seasholes (2004), Froot and Ramadorai (2008)).
  - FII flows predict dividend yields (fundamentals), stabilizing (Clark and Berko (1997), Bekaert, Harvey and Lumsdaine (2002)).
  - FIIs driven around by uninformed investors, destabilizing (Jotikasthira, Lundblad and Ramadorai (2011)).

No definitive results in sight (so far).

Different studies have used different data samples, over different time periods, from different countries. But important methodological lessons have emerged.
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These last two points are the focus of my specific comments on this paper.
Specific Suggestions

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- Simply cannot distinguish between the two possibilities.
- Using extreme events doesn’t get rid of this problem; possibly exacerbates it. We don’t know the relationship of the 5% tails to news...
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- Can decompose correlation results into that coming from different return movement sizes.
  - Easy since states and dates are essentially the same in this scenario.
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2. Need to work on motivation of the paper a bit more. What's the main focus? If it is as I describe it, more work on fundamentals needed.

3. Throwing away information, should work on correcting standard errors for overlap and other issues (authors mention this in conclusion, I agree).

4. Have you thought about using copulas for analyzing tail dependence?

5. I would like to see more description of the data before you jump into analysis.
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