Foreign Investors Under Stress: An Event Study for India

Discussion at NIPFP-DEA Conference

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  - Focus on event study analysis, argues better inference using this method.
- Employs data from 2002 to 2010 from custodian banks' reports to the government on FII flows.
  - Also uses return data for the Nifty, and S&P500.

Comments on this Paper

- 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.

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- 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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  - **Horizon matters:** *You have to think hard about the horizon over which FIIs should impact liquidity and prices under different assumptions about their informedness.*
- These last two points are the focus of my specific comments on this paper.

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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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    - Easy since states and dates are essentially the same in this scenario.

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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.