



**NSE-NYU Stern School of Business
Initiative for the Study of Indian Financial
Markets**

**WHITE PAPER SERIES
(2012–2013)**

Copyright© 2015 by National Stock Exchange of India Ltd. (NSE)

Exchange Plaza, Bandra Kurla Complex

Bandra (East), Mumbai 400051, India

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form by any means, electronic, mechanical, photocopying, recording, or otherwise.

The views expressed in this volume are of the respective authors and do not necessarily reflect those of NSE or NYU. Neither NSE nor NYU guarantees the accuracy of the data included in this publication or accepts responsibility for any consequence of their use. These White Papers have been adapted from the NSE-NYU Stern 2012–2013 Working Paper Series.

Preface

We are proud to announce the inaugural issue of the White Paper Series of the NSE-NYU Stern Initiative on the Study of Indian Capital Markets. The “white papers” are based on the 2012-13 Working Paper Series of the Initiative and are aimed to aid policy discussion on a range of issues relating to Indian markets, in particular, (1) the impact of foreign institutional flows on equity markets, (2) the trading behavior of short-term and long-term traders during equity market crashes, (3) the impact of algorithmic trading on co-movement in stock market returns and quality, (4) analysis of different IPO mechanisms, (5) analysis of conflict of interest issues relating to the presence of business groups in mutual fund sector, and finally, (6) the pricing of foreign debt in the US 144A (private-placement) bond markets.

The NSE-NYU Stern Initiative was set up in 2012 to play a catalytic role in creating an environment where industry and academia can complement each other, to provide research support for effective policy making. In its first year (2012-13), the Initiative supported six research projects, four of which were screened from over 50 submissions received in response to the Call for Papers. These four projects and two invited papers were presented at the Initiative’s Annual Conference in Mumbai on July 29-30, 2013. The papers were reviewed before and after the Conference as well as discussed at the Conference by independent referees. These papers have been released as NSE-NYU Working Paper Series.

The highly technical nature of these papers, however, restricts their readership broadly to the academics. To make the essence of these papers more useful to the market participants and policy makers--with the aim of serving the basic objective of the Initiative better-- it was necessary to have short policy pieces (white papers) in easy-to-understand language based on the findings of these papers. This constitutes the origin of the White Paper Series.

We hope you find these ‘white papers’ stimulating in terms of enriching your understanding of Indian financial markets, and also, relevant for the policy issues you may currently be grappling with. We welcome your feedback on the pieces as well as on other policy issues that you consider worthy of investigation in future work supported by the Initiative. You may send your feedback at nse_nyu_conference@nse.co.in.

Sincerely,

Viral V. Acharya
Director, NSE-NYU Stern Initiative on
the Study of Indian Financial Markets and
C. V. Starr Professor of Economics,
Department of Finance, NYU Stern.

Nirmal Mohanty
Vice President and
Head, Department of Economic Policy and
Research
National Stock Exchange of India

Table of Contents

1.	FII Flows in Indian Equity Markets: Boon or Curse?	1
	Authors: Viral V. Acharya, V. Ravi Anshuman, and K. Kiran Kumar	
2.	Stock Market Liquidity: Behavior of Short-Term and Long-Term Traders During Crashes	8
	Authors: Mila Getmansky, Ravi Jagannathan, Lorian Pelizzon, and Ernst Schaumburg	
3.	A Brief Discussion of Algorithmic Trading and Co-movement in Returns and Market Quality	12
	Authors: Ekkehart Boehmer and R. L. Shankar	
4.	IPO Mechanisms in India: A Brief Note	16
	Authors: Amit Bubna and N. R. Prabhala	
5.	Do Indian Business Group-Owned Mutual Funds Maximize Value For Their Investors? A Summary	26
	Authors: Pulak Ghosh, Jayant R. Kale, and Venkatesh Panchapagesan	
6.	Pricing of Foreign Debt in the US Rule 144A Bond Market	31
	Authors: Alan G. Huang, Madhu Kalimipalli, Subhankar Nayak, and Latha Ramchand	