

A STUDY ON CAUSAL RELATIONSHIP BETWEEN SPOT RETURN AND FUTURE RETURN OF GBP/INR CURRENCY PAIR TRADED IN INDIA

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ABSTRACT

The short term association between spot return and future return of Great Britain Pound /Indian National Rupee (GBP/INR) currency pair traded in India is the subject of present study. With the objective of examine the short term relationship, we examined the short term causal relationship between Spot return and Future return of GBP/INR traded in India from the period of February 2010 to December 2012 through Granger causality test. Before the investigation of causality, the descriptive statistical test and Unit root test for stationarity is done through ADF and PP test. The Granger causality test results revealed Spot Return does not causes the Future Return, but Future return is causes the Spot return uni-directionally. The results show clearly that there is a unidirectional causal relationship between Spot return and Future return of GBP/INR currency pair traded in India.

KEYWORDS: Short Term Relationship, GBP, Granger Causality Test