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Title of Thesis: Comparing Movement of Shariah Indices with Parent
Indices: A Study of Select World Market

Abstract

Islamic finance has recorded remarkable achievements by increasing assets in banking sector with an annual growth of 17.6% from 2009 to 2013. Ernst & Young has estimated a growth of 19.7% by the year 2018. The Islamic financial asset is expected to be about US\$ 3.4 trillion by 2018 (Ernst and Young, 2013) and US\$ 6.5 trillion by 2020 (Islamic Financial Services Board, 2017).

The latest entries in Islamic finance industry are some Shariah index (Islamic Index) series that have been launched in order to track the performance of Shariah funds to satisfy the needs of investors and financial managers.

Over-dependence on debt-based products in conventional financial system led to an imprudent growth of debt and easy availability of credit over the years, which in turn were among the main culprits of major financial crises in history. Shariah finance has been seen as an investment alternative in financial meltdown period. We have extensively analysed interdependency, association and relationship of Shariah indices with conventional financial system, as these two systems are inseparable. Clubbing the benefits of advantage and opportunity of conventional and Shariah financial system, this

new field can not only ensure that opportunities are identified but also exploit them in ways that investors get higher returns.

Present study attempts to find out market portfolio diversification opportunity as well as it focuses on volatility modelling of selected Shariah and parent indices of developed and developing economies over the globe in the special reference to financial crisis period.

The Aim of the study is to provide better understanding of causes of volatility and diversification alternatives among select world indices. The study has taken conventional and Shariah indices of major economies viz. USA, Asia, Africa, Europe, BRIC and GCC as sample for the period of July 2008 to October 2016. As research tools, I applied descriptive statistics, cointegration test and various univariate and multivariate GARCH family models. The results revealed that Shariah indices of USA, Africa, Asia and Europe perform comparatively better in the studied period, which includes crisis phase also. Absence of cointegration demonstrated the high opportunity of market diversification among the indices. It is also seen from the results that Volatility contagion among the indices is very high during the period of the financial meltdown. There can be two plausible reasons for this, the loss of investor confidence during the crisis period and instinctively, negative information tends to be more contagious than positive information. All the indices show persistence of volatility in long run and short run both. Utilizing these results, managers across the globe can make astute decisions about the creation of the portfolios especially indexed or market portfolio.