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A study on analyzing determinants of gold investments in Karnataka

Karishma Gajendra and J. Gajendra Naidu

Abstract

People took gold to make jewellery and currency. It is a symbol of wealth, beauty and heritage carrying memories and cultures. However, besides these, gold also makes significant contributions to a wide range of technologies.

Since ancient times, gold was accepted as a universal means of the exchange. It is considered as a safe investment and used in large quantities during festivals and ceremonies in India. Gold has been a sizeable component of the portfolios of Indian households. The gold price seems to have an upward trend throughout, even during the recession and people use gold as a status symbol. The price changes in gold affect almost every investor in India.

The study covers gold investors who invest in any forms of gold investment. Only six form of gold investment are considered for the study. Daily gold returns are consider for the period between 1979 to 2018 and for call money rate, exchange rate (USD/INR) and sensex the study period was 2005 to 2018.

Keywords: Sensex, Exchange rate, households, Anova

1. Introduction

In ancient times the value of gold had already been discovered. People took gold to make jewellery and currency. It is a symbol of wealth, beauty and heritage carrying memories and cultures. However, besides these, gold also makes significant contributions to a wide range of technologies.

Gold is considered by many, to be the best investment you can make to protect yourself during stock market declines and inflation. In fact, history shows that the performance of gold goes up in times of high inflation. However, the price of gold also has its highs and lows and you could just as easily lose money investing in gold as with any other investment. Since ancient times, gold was accepted as a universal means of the exchange. It is considered as a safe investment and used in large quantities during festivals and ceremonies in India. Gold has been a sizeable component of the portfolios of Indian households. The gold price seems to have an upward trend throughout, even during the recession and people use gold as a status symbol. The price changes in gold affect almost every investor in India.

2. Review of literature

Ghosh (2002) ^[3] confirmed that gold can be used as a long term inflation hedge. Blose (1996) compares gold fund returns with returns on gold bullion. He found that all the mutual funds have a greater standard deviation than gold Bullion. Reddy (1997) ^[6] discussed about the importance of gold in Indian system. Trivedi and Behera (2012) ^[8] provided a comprehensive review of how gold prices in India are related to macroeconomic variables. Reddy and Khatkhate (2012) focused on relationship between stock market and gold prices. Reserve Bank of India (RBI, 2013 ^[7]) states that demand for gold in India cannot be compared with other parts of the world. The 1.3 billion population of India would continue to generate demand for gold; the demand is from both investors and gold jewellery consumers.

3. Statement of the problem

Gold investment is a time tested asset. Even when the price rises, people continue to buy it. The value of gold lies on its reliable diversification return. Traditionally the investment in gold was having more importance. Nowadays there is more ways to trade in gold. Since the opportunities of gold investing are increasing due to various options of investment in the market.

This in turn has increased the demand of gold in India; hence there is disequilibrium in production and demand. The investor are totally in dilemma that where and when to invest in gold. The investors are facing lots of problem towards gold investment. Thus a research is being conducted on "A study on analyzing determinants of gold investments in Karnataka" is necessary.

At this juncture, the researchers probed the following questions

- What are the attributes to various forms of gold investments?
- What are the different external factors affect gold prices in India?
- Which is the reliable model to predict gold price in India?
- To what extent various factors influence gold investment?

4. Need for the study

Those days are gone where people use to invest on gold without analysis the attributes of gold investment. New avenues of gold investment have emerged resulting in multiple options for the investors in gold (such as gold ETFs, gold deposit scheme, etc.) to derive better return for their investment. Knowing the attributes of gold investment will help them to enhance their return with reduced risk, and how and what factor influence gold buying decision will help investor to go in right direction during gold investment.

5. Objectives of the study

The specific objectives of the present study are

1. To study history, growth and current trends of gold markets in India.
2. To Measure, Model and forecast gold prices using econometric model.
3. To analyze the impact of selected variable on gold price
4. To evaluate attributes of various forms of gold investment.
5. To ascertain the factor influencing investors toward gold investment.
6. To suggest better strategies for gold investments.

6. Hypothesis

The following are the some of the null Hypotheses has been framed to examine the determinants of gold investment in Karnataka.

H₀₁: There is no autocorrelation and Heteroskedasticity in the daily return of gold price

H₀₂: There is no significant impact of Call Money Rate, Exchange Rate and BSE Sensex on the gold prices in India.

H₀₃: There is no significant Association between the demographic factors of the respondents and their Awareness on various gold investment avenues

H₀₄: There is no significance difference between the demographic factors of respondents to their perception towards attributes of various forms of gold investment

H₀₅: There is no significance difference between the demographic factors of the respondents to the factors influencing gold investments.

7. Scope of the study

The present study aims at analyzing the investment behavior toward various forms of gold and Factors influencing while investing in gold with a geographical area limited to

Karnataka state. Hence, the scope of the present study is confined to the preferences, perceptions and behavior of gold investors of Karnataka. Any study of this sort which is essentially based on primary data would have its own limitations and the present study is not an exception.

The study covers gold investors who invest in any forms of gold investment. Only six form of gold investment are considered for the study. Daily gold returns are consider for the period between 1979 to 2018, and for call money rate, exchange rate (USD/INR) and Sensex the study period was 2005 to 2018.

8. Research Methodology

The research is descriptive in nature to analysis the volatility of the gold price arch model has been used and OLS regression model has been used to analyze the various factors affecting gold price. A structured questionnaire has designed to collect responses from gold investor to know the attributes of gold investment on various forms of gold and factor influencing gold investment. The responses of questionnaire are collected from the gold investor in Karnataka from five region of Karnataka viz. Bangalore, Mangalore, North Karnataka, Hubli-Dharwar and Malnad Region.

9. Data Collection and Analysis

Primary data

The study uses structured questionnaires for gold investor for the collection of primary data regarding the variables related to attributes of various forms of gold and factor influencing investor towards gold investment. A total of 401 samples are collected throughout Karnataka. Entire Karnataka is divided into 5 region for the study namely Bangalore Region, Mangalore Region, North Karnataka Region, Hubli-Dharwar Region and Malnad Region.

Secondary data

Secondary data will be collected through literature review and also using published material from financial analysis journals, published statistics from world gold council, RBI, trade magazines, internet resources, etc.

10. Sampling Methodology

Sampling design is the essence of sampling method and consists of descriptions about sampling

Unit, sample size and sampling technique. In order to select the required number of respondents from the population non probability Snow ball sampling technique is adopted.

Sample Area: Karnataka state

Sample Size: 401 gold investors across Karnataka state.

11. Tools used for the analysis

Analysis of determinants of gold investments is carried out through descriptive statistics and Econometric models. The various tools employed for the analysis are Ordinary Least Squares (OLS) regression, ANOVA, Chi-square, Cronbach's alpha, KMO and Bartlett's Test, ADF Test, Correlation, factor analysis, Structural Equation Modeling (SEM) have been used appropriately.

12. Limitation of the study

- The study covers only gold investment. The results obtained from the study may or may not be applicable

to other investment such as mutual funds, stock markets, etc.

- As the geographical area of the study is limited to Karnataka state; therefore the findings of the study may not reflect the entire Indian scenario.
- The findings of the study may not be applicable to the Universe.
- The responses from the respondents may not be completely free from bias.

13. Conclusion

The present study aims at analyzing the investment behavior toward various forms of gold and Factors influencing while investing in gold with a geographical area limited to Karnataka state. Hence, the scope of the present study is confined to the preferences, perceptions and behavior of gold investors of Karnataka. Any study of this sort which is essentially based on primary data would have its own limitations and the present study is not an exception.

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