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Obviously, this can be suggested as a good reference book for present and future learners and researchers in the respective subjects as this can enlighten their perceptions and also, empower them to play their vital role when commerce changes the fate and genius of Nations."

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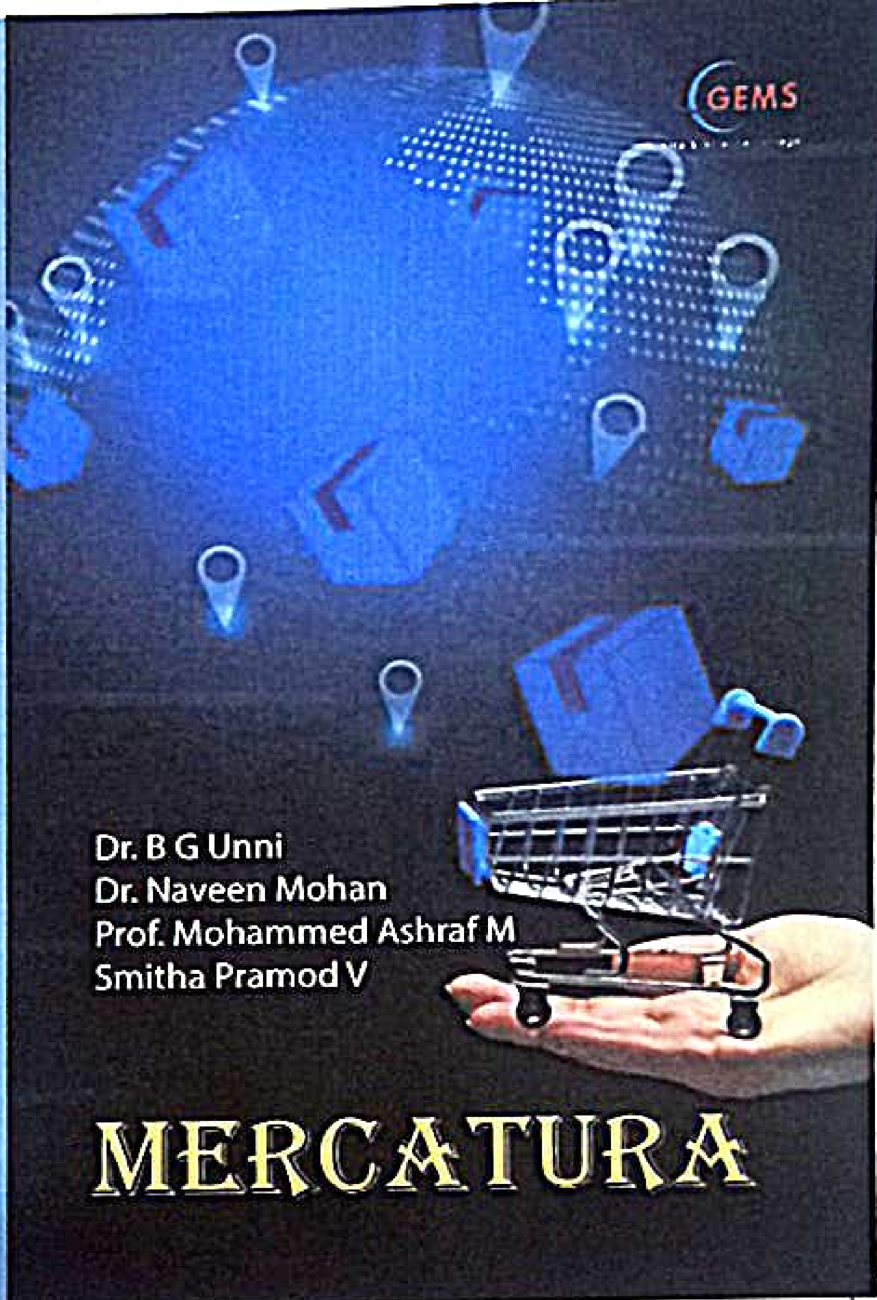

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Preface

This book titled "Mercatura" is a beautiful combination of commerce related articles of eminent faculties of GEMS Arts & Science College which can lead the readers to new horizons of knowledge enriched with the reflections of latest developments in this ever growing subject – Commerce. This inculcates among students, teachers and researchers to be a front runner in the respective field by applying suitable modern strategic tools which can contribute wonderful results.

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UNRAVELLING THE DISPARITY
Different Prices of the Same Stock in Bombay Stock Exchange (BSE) and National Stock Exchange (NSE)

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ABSTRACT

Discrepancies in the prices of identical stocks listed on different stock exchanges have been a persistent and intriguing phenomenon in financial markets. This paper examines the underlying causes of price disparities between stocks trading on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) in India. It delves into the factors, both structural and behavioural, contributing to these disparities and explores their implications for investors and market efficiency.

INTRODUCTION

The Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) are the two primary stock exchanges in India, playing a crucial role in the country's capital market. While both exchanges facilitate the trading of the same stocks, it is not uncommon to observe price discrepancies for the same stock listed on the BSE and the NSE. In this article, we delve into the reasons behind these divergences and explore the implications for investors and traders.

Understanding the Price Disparities

Price differences between the BSE and NSE for the same stock stem from a variety of factors, including:

- Market Microstructure: Each stock exchange has its own market microstructure, including order matching mechanisms, trading rules, and regulations. These differences can result in variations in price discovery and order execution, leading to divergent prices.

- Liquidity and Trading Volumes: Liquidity, the ease of buying or selling a stock without significant price impact, plays a crucial role in price formation. Differences in liquidity levels and trading volumes between the BSE and NSE can contribute to divergent prices, particularly for stocks with lower trading volumes.

- Arbitrage Opportunities: Price disparities between the BSE and NSE create opportunities for arbitrage traders to profit from the discrepancies. Arbitrageurs exploit the price differences by simultaneously buying the stock on the exchange with the lower price and selling it on the exchange with the higher price, gradually narrowing the gap.

- Information Asymmetry: Differences in the dissemination of information between the BSE and NSE can lead to temporary price divergences. If market-moving news or corporate announcements are disseminated on one exchange before the other, it can result in a lag in price adjustment and cause prices to vary.

Implications for Investors and Traders:

- Trading Strategies: Price disparities between the BSE and NSE provide opportunities for traders to capitalize on short-term price discrepancies. Traders can employ strategies such as arbitrage or statistical analysis to profit from the temporary gaps, although execution speed and transaction costs must be carefully considered.

- Liquidity Considerations: Investors and traders should pay attention to liquidity levels on both exchanges when executing trades. Lower liquidity on one exchange may result in limited order matching and potentially higher transaction costs, impacting overall trade execution.

- Risk Management: Price divergences between the BSE and NSE introduce risks for investors and traders. Fluctuations in prices may affect the performance of trading strategies and increase exposure to market volatility. Adequate risk management measures, such as stop-loss orders or position sizing, should be employed to mitigate these risks.

Efforts to Reduce Discrepancies:

Regulatory bodies and exchanges in India have implemented measures to reduce price divergences between the BSE and NSE. These include:

- Co-location Facilities: Exchanges offer co-location services that allow market participants to place their trading servers in proximity to the exchange's trading infrastructure. This helps reduce latency and promotes fairer access to market data and execution

- Integration of Trading Systems: Initiatives have been undertaken to integrate the trading systems of the BSE and NSE, enabling efficient order routing and reducing the time lag in price dissemination.

CONCLUSION

Price disparities for the same stock between the BSE and NSE are a common occurrence in the Indian capital market. While these discrepancies present opportunities for traders, they also raise challenges and risks. Understanding the factors that contribute to the divergences and staying abreast of market developments and trading strategies can help investors and traders navigate this dynamic landscape effectively.

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