



IMPACT AND EFFECTIVENESS OF CIRCUIT BREAKER IN STOCK MARKETS



Mohinder Singh

Assistant Professor, Department Of Commerce

Govt. College Sarkaghat Distt. Mandi (Himachal Pradesh)

E-mail: mohinder_hira@ymail.com

ABSTRACT

Most financial markets in the world have imposed circuit breaker systems, in the form of price limits and trading halts, in an attempt to reduce excessive market volatility. Similar to any other regulations, circuit breakers have proponents and opponents. Effectiveness of the "Circuit breakers" is very important in the financial markets of India. Circuit breakers are trading halts triggered by sharp price movements. They could be imposed on an individual financial instrument or the market as a whole. Price limits are maximum percentages or values that a security or derivative contract could rise or fall during a trading day. There is no trading halt and trading can continue within the limit bounds. Market-wide circuit breakers, which involve closing the entire market, are less popular than price limits on individual shares or derivatives because of their disruptive nature. There is no consensus on whether circuit breakers are effective tools during crises. It believes that circuit breakers provide investors with a "cooling off" period to calm the fear and panic that may

occur when there are steep market declines. Opponents believe that they could be counter-productive as they would lead to liquidity drain and diminish market depth. "Speed bumps" or "shock absorbers" are variations of price limits. Some futures exchanges in the US have adopted speed bumps to slow down (but not to halt) the trading of stock index futures. The limits are set at levels much narrower than those of circuit breakers or price limits. Present paper is an attempt to know the role and effectiveness of the circuit breaker in the Indian Stock Exchange.

KEYWORDS

Circuit breakers, capital market, Stock Exchange, trading, NSE, BSE
