Indian Economy · GS - III

Explain how transparency, market liquidity and regulatory credibility influence foreign investment in emerging economies. Discuss the measures required to strengthen investor confidence in India’s financial markets.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 20/10/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
10	~150 words

Answer Hint

Foreign portfolio investment, market transparency, free float, corporate governance, market manipulation, regulatory credibility, investor protection, capital-market reforms.

Model Answer

Introduction

Foreign investment can support capital formation, market liquidity and economic growth. However, international investors assess not only potential returns but also the transparency, accessibility and reliability of financial markets.

Factors Influencing Investor Confidence

- **Transparency:** Clear disclosure of ownership, financial performance and material information reduces information asymmetry.
- **Market liquidity:** Adequate free float allows investors to buy and sell securities efficiently.
- **Corporate governance:** Independent oversight and accountability reduce risks arising from conflicts of interest.

- **Regulatory credibility:** Consistent enforcement against manipulation strengthens confidence.
- **Market accessibility:** Predictable rules and efficient settlement systems facilitate participation by global investors.

Measures for India

India should strengthen disclosure standards, enforce regulations against market manipulation, improve corporate governance and ensure predictable regulatory procedures. Investor grievance mechanisms and market surveillance should also remain effective.

Conclusion

Sustained foreign investment depends on credible institutions and well-functioning markets. Strong governance, transparency and investor protection are essential for maintaining confidence and supporting long-term economic development.

BECOME IAS
AI POWERED UPSC PREP