Volatility index

Part of: GS Prelims and GS-III- Econo

- VIX (Volatility index) is an index used to measure the near term volatility expectations of the markets.
  - Volatility signifies the rate and magnitude of change in the stock price or index value.
- The movement in the VIX index reflects the overall market volatility expectations over the next 30 days.
- Given the nature of the index, it is also known as ‘fear gauge’ or ‘fear index’.
- The VIX index was first created by the Chicago Board Options Exchange (CBOE) and introduced in 1993 based on the prices of S&P 500 index.

India VIX

- The India VIX was launched by National Stock Exchange (NSE) in 2010 and is based on the computation methodology of CBOE though amended to align with the Indian markets.
- India VIX indicates the Indian market’s volatility from the investor’s perception.
- Volatility and the value of India VIX move parallel. i.e a spike in the VIX value means the market is expecting higher volatility in the near future and vice versa.
- India VIX also has a strong negative correlation with Nifty. i.e every time India VIX falls, Nifty rises and when India VIX rises, Nifty falls.
- VIX value is among the important parameters that are taken into account for pricing of options contracts, which are one of the most popular derivative instruments.

National Stock Exchange of India Ltd. (NSE)

- NSE is the leading stock exchange of India, located in Mumbai.
- The NSE was established in 1992 as the first dematerialized electronic exchange in the country.