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.