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.