Indian Economy · GS - III

Explain the significance of diversification in India’s financial markets. How can the introduction of new market indices expand investor participation?

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 22/10/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
10	~150 words

Answer Hint

Financial inclusion, market diversification, investor participation, price discovery, risk management, market regulation.

Model Answer

Introduction:

Financial market diversification involves expanding investment opportunities across different sectors, instruments and asset classes.

Main Body:

The introduction of NDEX and FINNDEX by NCDEX, as reported, reflects an effort to broaden its offerings beyond traditional commodity markets.

Significance:

1. Sectoral exposure: Investors can track agriculture-related and financial-sector stocks through specialised indices.
2. Investment opportunities: New indices may encourage the development of index-linked investment products.

3. Market diversification: A broader range of offerings can attract investors with different interests and risk preferences.
4. Transparency: Indices can help investors monitor sectoral performance and compare market trends.
5. Risk management: Sector-specific benchmarks can support portfolio analysis and investment decisions.

Challenges:

Index methodology, liquidity, investor awareness and adequate regulatory oversight remain important. An index launch alone does not guarantee higher investment or market liquidity.

Conclusion:

Diversification can strengthen India's financial ecosystem by widening investment choices, provided transparency, investor protection and sound regulation are maintained.

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