

# RELATIONSHIP BETWEEN INTEREST RATE AND RETURN ON SHARES OF SRI LANKAN COMPANIES



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## ABSTRACT

Stock market plays an important role in the economic development of a country. Numbers of studies have been investigated relationship between interest rate and return on shares. But in the context of Sri Lanka, not many studies can be found in this area. The main purpose of this research study is to find out the relationship between interest rate and return on shares of Sri Lankan companies. To test this assertion, this study looks into the nature relationship and impact.

Here theoretical perspectives include such 91 day Treasury bill interest rate, 182 day Treasury bill interest rate and 364 day Treasury bill interest rate dimensions. Each of these interest rate variable dimensions was operational using sub indicators. For major research objective, which is related to the specific research objectives and three major research questions were developed and tested. A survey was conducted to gather secondary data by selecting 25 listed companies in Sri Lanka and that data was analyzed using Univariate Analysis and Bivariate Analysis. The Correlation Analysis and regression Analysis selected to do the above bivariate analysis.

The results indicate there is appearing to be a weak negative correlation between the Treasury bill interest rate and return on shares, weak negative correlation between over rate interest rate and return on shares. In this study interest rate has a negative significant regression coefficient on return on shares. Finally, the researcher has given suggestions to overcome the research problem. Considering the previous studies the results is similar with (Fama, 1981), (Hamrita & Abd-el-Kader, 2011), (Ishfaq, Ramiz, Rehman & Awais, Raouf 2010).

Key words: 91 day Treasury bill interest rate, 182 day Treasury bill interest rate, 364 day Treasury bill interest rate, Return on shares.

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