

**RELATIONSHIP BETWEEN MACRO ECONOMIC VARIABLES
AND SHARE PRICE OF COMPANIES IN THE FINANCE
SECTOR IN SRI LANKA**

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ABSTRACT

This study investigates the relationship of macroeconomic variables on stock prices in emerging Sri Lankan stock market using monthly data for the period from January 2003 to December 2013. Researcher mainly considers three macro-economic factors. Those are Interest rate, Inflation Rate & Exchange Rate. The objectives of this research are to find out the significant relationship between interest rate and share price, to examine the relationship between inflation rate and share price and to find out the significant relationship between exchange rate and share price.

The empirical investigation is completed by utilizing monthly data. The sample period comprise on January 2003 to December 2013. The researcher collects the secondary data of Sector Price Index for whole finance sector as a proxy for share prices of the finance sector in Colombo Stock Exchange. Exchange rate expressed as the amount of Sri Lankan rupees per unit of US dollar (USD), Three months Treasury bill interest rate for interest rate and Colombo Consumers Price Index is used as inflation rates. The data evaluate through Univariate analysis and Bivariate analysis. The Correlation Analysis is selected to do the above Bivariate analysis.

Research data were collected regarding research topic was presented through tables scatter plots and Histograms. The results indicate there is appearing to be a weak negative correlation between the Treasury bill interest rate and Share Price of Banking and Finance Sector, weak negative correlation between Inflation Rate and Share Price of Banking and Finance sector and there is a moderate, positive correlation between Exchange Rate and Share Price of Banking and Finance Sector.

CONTENTS

ACKNOWLEDGEMENT.....	i
ABSTRACT.....	ii
ABBREVIATIONS.....	iii
LIST OF TABLES.....	viii
LIST OF FIGURES.....	ix
CHAPTER ONE : INTRODUCTION.....	1
1.1 Background of the study.....	1
1.1.1 Interest rate.....	1
1.1.2 Inflation Rate.....	2
1.1.3 Exchange Rate.....	2
1.2 Problem Statement.....	3
1.3 Research Questions.....	3
1.4 Objectives of the study.....	3
1.5 Significance of the study.....	4
1.6 Scope of the study.....	4
1.6 Summary.....	4
CHAPTER TWO : LITERATURE REVIEW.....	6
2.1 Introduction.....	6
2.2 Definition of a share.....	6
2.2.1 Types of stock.....	6
2.2.2 Share valuation.....	7
2.3 Factors effecting share price.....	7
2.3.1 Economical factors effecting share prices.....	7
2.3.2 Internal Factors affect to share price.....	10
2.3.3 Technical Factors.....	11

2.4 History and performance of Colombo stock exchange.....	13
2.5 Finance Sector.....	14
2.6 Review of Variables.....	14
2.6.1 Interest rate.....	15
2.6.2 Inflation rate.....	16
2.6.3 Exchange rate.....	17
2.7 Summary.....	18
CHAPTER THREE: CONCEPTUALIZATION AND OPERATIONALIZATION.....	19
3.1 Introduction.....	19
3.2 Conceptualization.....	19
3.2.1 Share price.....	20
3.2.2 Interest Rate.....	21
3.2.3 Inflation Rate.....	22
3.2.4 Exchange Rate.....	23
3.3 Operationalization.....	24
3.4 Summary.....	25
CHAPTER FOUR : METHODOLOGY.....	27
4.1 Introduction.....	27
4.2 Study Setting, Design and Method of Survey.....	27
4.3 Sample.....	28
4.4 Data Collection.....	28
4.5 Methods of Measurements.....	28
4.5.1 Share price.....	29
4.5.2 Interest rate.....	29
4.5.3 Inflation rate.....	30
4.5.4 Exchange rate.....	30
4.6 Method of data presentation.....	31

4.7.1 Univariate Analysis.....	31
4.7.2 Bivariate Analysis.....	31
4.8 Summary.....	33
CHAPTER FIVE: DATA PRESENTATION AND ANALYSING.....	34
5.1 Introduction.....	34
5.2 Univariate analysis.....	34
5.2.1 Treasury bill Interest Rate	34
5.2.2 Inflation Rate.....	35
5.2.3 Exchange Rate.....	35
5.2.4 BFI Sector Index.....	36
5.2.2 Examination of Normality of variables.....	36
5.3 Summary of the variables.....	37
5.4 Summarized Mean & Standard Deviation for all four variables in year wise.....	38
5.6 Correlation Analysis.....	39
5.6.1 Correlation coefficient between Treasury bill Interest rate and BFI Sector Index.....	39
5.6.2 Correlation coefficient between Inflation rate and BFI Sector Index.....	40
5.6.3 Scatter plot Diagrams.....	41
5.7 The correlation between the Independent variables.....	42
CHAPTER SIX: DISCUSSION:.....	44
6.1 Introduction.....	44
6.2 Banking and Finance Sector.....	44
6.3 Description of variables.....	45
6.4 Treasury Bill Interest Rate and BFI Sector Index.....	46
6.5 Inflation Rate and BFI Sector Index.....	47
6.6 Exchange Rate and BFI Sector Index.....	47
6.7 Summery.....	48
CHAPTER SEVEN: CONCLUSIONS AND RECOMMENDATIONS	49

7.1 Introduction.....	49
7.2 Conclusion.....	49
7.3 Recommendation	50
7.4 Limitations.....	51
References.....	i
Appendix.....	iii