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

MANANA DEWAGE BHAGYA SACHITHRANI JAYAWEEAR

2014

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