

**IMPACT OF MACROECONOMIC FACTORS ON SHARE
RETURNS IN BANK, FINANCE AND INSURANCE
INDUSTRY IN SRI LANKA**

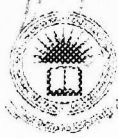


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REG: EU/IS/2013/COM/43

INDEX NO: COM 1693



FCM2236

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**A project report submitted to the Faculty of Commerce and Management,
Eastern University, Sri Lanka as a partial fulfilment of the requirement of the
Degree of Bachelor of Commerce Honours in Accounting and Finance**

**Department of Commerce
Faculty of Commerce and Management
Eastern University, Sri Lanka**

2019

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ABSTRACT

The purpose of this study is to examine the relationship between macro-economic variables on share return in bank, financial and insurance industry in Sri Lanka. The study used secondary data collected from every company listed under bank, finance and insurance sector in CSE during the period from 2010 to 2017. Public listed companies were listed at CSE representing 20 business sectors and this research mainly consider of bank, finance and insurance sector. Macroeconomic variables include exchange rate, interest rate (three months primary market treasury bill yield rate), inflation rate (web side census and statistic department) and broad money supply (M2) were collected from web side of Central Bank of Sri Lanka.

Descriptive Statistics, Augmented Dickey-Fuller test, Unit root test, Johansen co-integration and Vector error correction model are used for analyzing this research. All these tests are used so as to correlate the theories contributed by the literature by several authors with the statistical results. The co-integration test result depict that, there is a positive relationship between interest rate and money supply with TRIBFI, while exchange rate and inflation rate has negative relationship with TRIBFI. This research shows there is no significant short run causality from macro-economic factors to TRI. However it found out long run causality have positive impact with interest rate and money supply, while negative impact with exchange rate and inflation rate. Findings of this research help to make effective decision of the company investors, mangers, students, and perspective share buyers.

Keywords: Macroeconomic Variables, Total Return Indices, Johanson Co- integration, VECM, Colombo Stock Exchange, Bank, Finance and Insurance sector.

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