

DO MACRO-ECONOMIC VARIABLES INFLUENCE STOCK PRICES IN SRI LANKAN STOCK MARKET?

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ABSTRACT

The purpose of this study is to investigate the effect of macroeconomic variables on stock prices in the Sri Lankan stock market. The relationship between stock prices and macroeconomic variables is well documented for Sri Lanka and other major economies. The monthly data on inflation rate, interest rate, money supply, exchange rate and stock price are taken from the period of January 2005 to June 2018. The correlation and multiple regression analysis were used to determine whether there was a statistically significant relationship between stock market prices and macro factors as an independent variable. The alternative hypothesis which states that selected macroeconomic variables are impacting on stock price accepted at 0.05 level of significance in all stocks. The results showed that the higher R Square value is 86%, which justifies higher explanatory power of macroeconomic variables in explaining stock prices. The findings revealed that money supply, inflation rate and exchange rates had a significant positive effect on stock market returns; however, interest rates had a significant negative effect on stock market returns. Have verified the findings of this research, combined with the actual situation of Sri Lanka's economic development process and then analyze and discuss the feasibility of high specific policy proposals, such as policy formulation in line with current inflation and future trends, respect for objective facts and reasonable policies to improve investment decisions, thus increasing the net worth of this economy in Sri Lanka.

Keywords: Inflation Rate, Interest Rate, Money Supply, Exchange Rate and Stock Price