

Factors affecting to the share prices: Evidence from Colombo Stock Exchange in Sri Lanka

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Abstract

Stock market plays an important role of the economy because; it promotes the growth and development of the economy through attracting domestic and foreign capital. Economic stability could be measured by macro-economic factors. Those factors are affecting to the industry condition of the country and it ultimately affect to the share price. Therefore, present study examines the factors affecting to share price with special reference to the Colombo Stock Exchange in Sri Lanka. The key objective of the present study is to identify the factors affecting to share price of the Colombo Stock Exchange (CSE) and secondary objectives were examine the relationship between share price with selected variables. The study focused on Gross Domestic Production (GDP), Inflation Rate, Interest Rate, Exchange Rate and Money Supply (M2) using monthly data for a 10 years period between April 2006 and March 2015. Necessary data are collected from secondary sources and population was all the companies listed in Colombo Stock Exchange and it has been taken as the sample of the study. Descriptive analysis, correlation analysis and regression analysis was employed to draw conclusions and test the empirical relationships and the behavior of the above variables. The regression model summary endorses a very strong combined influence of independent variables on the share price. From the results, it appears that strong variation in share price is explained by the five selected macroeconomic Factors. The main findings were that Money Supply has positive relationship with share price and Inflation Rate, Interest Rate and Exchange Rate have negative relationship between share prices. However, Gross Domestic Production does not appear to have a strong prediction of movements of stock prices in the Colombo Stock Exchange. According to above information Gross Domestic Production has been statistically insignificant and H_1 hypothesis has been rejected in present study and other hypotheses are accepted. These findings hold practical implications for policy makers, stock market regulators, investors and stock market analysts.

Keywords: *All share price index, exchange rate, gross domestic production, money supply, share price.*