

The Factors Affecting to the Share Price Volatility: Reference to Listed Commercial Banks in Sri Lanka

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Abstract

The study on share price volatility has grown as an important topic in the literature because of more integrated and volatile stock market around the world. In addition, policy makers often use, and rely on, the estimate of financial volatility as an indicator of financial market and economic vulnerability. Thus, the purpose of this study is to investigate the factors that affect to the share price volatility with special reference to commercial banks in Sri Lanka. Despite the fact that numerous studies have been conducted on this topic, there is no definitive answer regarding the relationship between the factors and share price volatility specially regards with the Sri Lankan context. In addition, mixed results were shown as positive, negative, and no relationships, which also increased the willingness to conduct the study. The sample consists of ten commercial banks listed on the Colombo Stock Exchange in Sri Lanka and was drawn using a convenience sampling method. The study used secondary data over a period of ten years from 2010 to 2019 and used descriptive statistics, a correlation and a regression analysis to establish relationships between variables. Three company specific factors named; dividend payout ratio, earnings per share, market capitalization and three economic factors named; Gross Domestic Product (GDP), interest rate, and exchange rate were the six independent variables used in the study. The dependent variable of the study was share price volatility. The study's findings revealed that all three company specific factors have a negative significant impact on share price volatility. However, interest rate and exchange rate have a negative insignificant impact on share price volatility, while GDP has a positive insignificant impact. The findings of this study may be useful in assisting investors in developing risk mitigation strategies. Furthermore, policymakers may also use the findings of this study to formulation of micro and macro level policies.

Keywords: Colombo Stock Exchange, commercial banks, share price, share price volatility