

**IMPACT OF MACROECONOMIC FACTORS ON
STOCK PRICES**

**(With Special Reference to Insurance Companies Listed on
Colombo Stock Exchange)**

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Abstract

Over the past few decades, determining the effects of macroeconomic variables on stock prices and investment decisions has preoccupied the minds of economists and various researchers identified contradict findings relevant to this topic. Since, there are less number of researchers had been addressed such issues in Sri Lankan context, this study is conducted to fill that research gap regarding insurance companies which listed in Colombo Stock Exchange. Aim of this study is identify the relationship between macroeconomic variables on stock prices and identify the impact of macroeconomic variables on stock prices of listed insurance companies in Sri Lanka.

With the use of secondary data, the study was carried out by using monthly data for the period from 2007 to 2011. Multiple regression model was run using four macroeconomic variables namely money supply, exchange rate, inflation rate, and interest rate for each individual stocks. Research findings were emphasized that the money supply has a positive effect and exchange rate has a negative affect the entire insurance companies' stock prices. Inflation rate and interest rate do not appear to have any significant affect on stock prices of insurance sector. The regression model is significant at 95% confidence level where it has 91.9% of higher explanatory power. These findings hold practical implications for policy makers, stock market regulators, investors and stock market analysts.

Key words: *Stock market, Exchange rate, Money supply*