

Relationship between Macro Economic Variables and Share Prices (A Study on Colombo Stock Exchange)

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This study was done with the aim of finding the relationship between All share price index of Colombo stock exchange of Sri Lanka and the macro economic variables. Therefore, the main purpose of this study is to identify the relationship between macroeconomic variables and share prices of Colombo stock exchange. There have been 3 major macroeconomic variables under consideration namely, Interest rate – Colombo consumer price index, Exchange rate – US dollar rate and Inflation rate – three-month treasury bill rate. Monthly data has been collected and analysed in order to arrive at conclusions, which include a null hypothesis stating that above macroeconomic variables have no effect on the stock prices. This study is based on a multi regression model where there is more than one independent variable. The E-views software has been used for the analysis and to reveal all the hidden relationships. This study revealed that, all share price index has a strong relationship with exchange rate. These result is useful for potential investors, government and regulatory authorities, firms in the stock market.

Keywords: Index Terms—Interest rate, Exchange rate, Inflation rate, All share price index, Macroeconomic variables.