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**IMPACT OF MACROECONOMIC FACTORS ON STOCK PRICE
(WITH REFERANCE TO LISTED BANK FINANCE AND INSURANCE COMPANIES
IN SRI LANKA)**

*This dissertation is submitted as a partial fulfillment of the degree of Bachelor of Business
Management in Entrepreneurship and Management*

UWU/ENM/10/0031

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Year 2014

ABSTRACT

This study investigates the effects of macroeconomic variables on stock prices in listed bank finance insurance sector using monthly data for the period from January of 2002 to June of 2013 covering up a period of 138 Months. 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 bank finance and 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.

Multiple regression model and Correlation coefficient analysis were 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, exchange rate has a negative affect and interest rate has negative affect on stock prices. The regression model is significant at 95% confidence level where it has 63% of 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, Interest rate