Uva Wellassa University

MACRO-ECONOMIC VARIABLES AND STOCK MARKET PERFORMANCE

(With Special Reference to Colombo Stock Exchange)

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Name of the Candidate: A. I. L. Palangasinghe

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ABSTRACT

Stock market is back born of each country economy. Therefore its performance depends on macro-economic determinants in both develop and emerging stock markets. Through this study, researcher aims to fill the research gap within previous studies regarding stock market performance and macro-economic variables, since there were contradictory ideas within literature. Gross Domestic Product, interest rate, inflation and exchange rate used as independent variables and stock market capitalization as dependent variables. Apply 120 months from 2004 to 2013 for gather secondary data via Colombo Stock Exchange data library and Central Bank reports. Descriptive analysis, correlation coefficients and multiple regression analysis were used to hunt out findings in research study. The research findings reveal that, stock market performance (market capitalization) has significant impact with macro-economic variables. Moreover, stock market performance has significantly positive relationship with Gross Domestic Product, significantly negative relationship with interest rate, insignificant positive relationship with exchange rate and insignificantly negative relationship with inflation. Further, future researchers can investigate stock market performance using sector market capitalization indices, All Share price Index, Total Turnover and select more macro-economic variables such as oil prices, unemployment and money supply.

Key words: *Stock Market Performance, Macro-economic variables, Market Capitalization*