



**ANALYZING THE MACROECONOMIC
DETERMINANTS OF STOCK MARKET
DEVELOPMENT IN SRI LANKA**

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ABSTRACT

Keywords: Stock Market Development, Macroeconomic Determinants

According to the traditional theoretical arguments stock market development depends on macroeconomic determinants in both developed and emerging stock markets. Especially after civil war in Sri Lanka, stock market has played a major role in the Sri Lanka economy. Therefore it is timely important to examine the stock market development causes by the macroeconomic determinants or any other reasons. This paper is an effort to quantify the above problem descriptively and econometrically. Especially Ordinary Least Squared (OLS) method has been employed to analyze the macroeconomic determinants of stock market development, further dummy variables were included to assess the effect of exchange rate policy on market capitalization and assess the effect of war on market capitalization during the period of 1990 -2009. Mainly I used secondary data absorbed from the annual reports of central bank of Sri Lanka and reports of Colombo Stock Exchange. The results show that there is a significant effect of unemployment rate, growth rate of gross domestic product, inflation rate, nominal interest rate and real interest rate on stock market development while national savings does not prove significant. Further the results show that there is a significant effect on exchange rate policy and war effect on stock market development in Sri Lanka. This study strongly recommends that a sound macroeconomic background in order to achieve a stock market objectives.