STOCK PRICE VOLATILITY AND ITS IMPACT ON NEPALESE SHARE MARKET

A THESIS

Submitted By:

Sanjib Ghimire

T.U. Regd. No.:- 7-2-39-331-2003

Campus Roll No.:- 396/064

Exam Roll No.: 393894/068

Shankar Dev Campus

Submitted To:

Office of the Dean

Faculty of Management

Tribhuvan University

In the partial fulfillment of the requirements for the degree of

Master's in Business Studies (M. B. S.)

Putalisadak, Kathmandu

August, 2012

RECOMMENDATION

This is to certify that the thesis

Submitted by:

Sanjib Ghimire

Entitled:

"STOCK PRICE VOLATILITY AND ITS IMPACT ON NEPALESE SHARE MARKET"

has been prepared as approved by this campus in the prescribed format of the Faculty of Management, Tribhuvan University. We recommend this thesis for acceptance and forwarded for examination.

(Shree Bhadra Neupane)	(Prof. Bishweshor Man Shrestha)	(Associate Prof. Prakash Singh Pradhan)
Thesis Supervisor	Head, Research Department	Campus Chief

(Sitaram Dhakal)
Thesis Supervisor

VIVA- VOCE SHEET

We have conducted the Viva – Voce examination of the thesis

Presented by:
Sanjib Ghimire

Entitled

“STOCK PRICE VOLATILITY AND ITS IMPACT ON

NEPALESE SHARE MARKET”

and found the thesis to be original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for the degree of Master’s in Business Studies (M.B.S.).

Viva – Voce Committee

Chairperson, Research Department:________________________________

Member (Thesis Supervisor): _________________________________

Member (Thesis Supervisor): _________________________________

Member (External Expert): __________________________________

Date:…………………….

DECLARATION

I hereby declare that this thesis entitled, **"STOCK PRICE VOLATILITY AND ITS IMPACT ON NEPALESE SHARE MARKET"** submitted to Shankar Dev Campus, Faculty of Management, Tribhuvan University is my original work done in the form of partial fulfillment of the requirements for the Master Degree in Business Studies (M.B.S.) under the guidance and supervision of **Shree Bhadra Neupane** and **Sitaram Dhakal of** Shankar Dev Campus, Tribhuvan University.

....

Sanjib Ghimire

T.U. Regd. No.: 7-2-39-331-2003

Roll No.:396/064

Shankar Dev Campus

ACKNOWLEDGEMENTS

This research "**STOCK PRICE VOLATILITY AND ITS IMPACT ON NEPALESE SHARE MARKET**" is a partial fulfillment of the requirement for Master Degree of Business Studies (MBS). This specially focused on the movement of the share price behavior in Nepalese context, which is the matter of the general concern today. I hope this thesis is helpful to those who are involved in the field of security market.

I owe a deep gratitude to **Shree Bhadra Neupane** and **Sitaram Dhakal**, Shankar Dev Campus, Tribhuvan University, Kathmandu for their constant encouragement, patient guidance and valuable supervision at every stage of my work. This work would not have been materialized in the present form without their incisive observations and intellectual direction in the course of completion.

Thanks are also due to a large number of staffs from different offices, who co-operated with this work by providing available data and information. Special mention should be made of NEPSE., SEBON, Shankar Dev Campus Library and Tribhuvan University Central Library Kritipur, Kathmandu. I wish to express the sincerest thanks to all my friends and well-wishers who provided valuable co-operation in my efforts.

Last but not least, I am thankful to Mr. **Deepak Sharma**, Librarian of SEBON and Mr**. Suresh Sapkota** for helping me in every steps of this thesis writing process.

Sanjib Ghimire

Roll No: 396/064
Shankar Dev Campus

TABLE OF CONTENTS

Recommendation

Viva Voce Sheet

Declaration

Acknowledgements

Table of Contents

Lists of Tables

Lists of Figures

Abbreviations

	Page No.
CHAPTER – I INTRODUCTION	**1-8**
1.1 General Background of the Study	1
1.2 Focus of the Study	5
1.3 Statement of the Problem	5
1.4 Objectives of the Study	6
1.5 Significance of the Study	7
1.6 Limitations of the Study	7
1.7 Organization of the Study	7
CHAPTER – II REVIEW OF LITERATURE	**9-22**
2.1 Theoretical Framework	9
2.1.1 Technical Analysis Theory	9
2.1.2 Fundamental Analysis Theory	12
2.1.3 Efficient Market Theory	14
2.2 Reviews of Journals and Articles	20
2.3 Reviews of Thesis	16
CHAPTER – III RESEARCH METHODOLOGY	**23-26**
3.1 Introduction	23
3.2 Nature & Sources of Data	23

3.3 Population & Sampling 23
3.4 Method of Analysis 24
3.4.1 Trend Analysis 24
3.4.2 Chi-Square test 25

CHAPTER – IV PRESENTATION AND ANALYSIS OF DATA 27-52
4.1 Data Presentation 27
4.2. Secondary Data Analysis 27
4.2.1. Trend Analysis 28
4.3 Presentation and Analysis of Primary Data 42
4.4 Major Findings of the Study 51

CHAPTER- V SUMMARY, CONCLUSION & RECOMMENDATIONS 53-55
5.1 Summary 53
5.2 Conclusion 54
5.3 Recommendations 54

BIBLIOGRAPHY
ANNEX 1
ANNEX 2

LIST OF TABLES

		Page no.
Table 4.1	Yearly End Index: during (FY 2057-2068)	28
Table 4.14	Volume of Stock Traded in NEPSE Pre-agreement from 2057-2062	37
Table 4.15	Volume of Stock Traded in NEPSE Pre-agreement from 2063-2068	38
Table 4.16	Volume of Stock Traded amount in NEPSE Pre-agreement from 2057-2062	41
Table 4.17	Volume of Stock Traded amount in NEPSE Pre-agreement from 2063-2068	41

LIST OF FIGURES

Page no.

Figure 4.2	Nepse Index Trend of year 2057	28
Figure 4.3	Nepse Index Trend of year 2058	29
Figure 4.4	Nepse Index Trend of year 2059	29
Figure 4.5	Nepse Index Trend of year 2060	30
Figure 4.6	Nepse Index Trend of year 2061	30
Figure 4.7	Nepse Index Trend of year 2062	31
Figure 4.8	Nepse Index Trend of year 2063	31
Figure 4.9	Nepse Index Trend of year 2064	32
Figure 4.10	Nepse Index Trend of year 2065	32
Figure 4.11	Nepse Index Trend of year 2066	33
Figure 4.12	Nepse Index Trend of year 2067	33
Figure 4.13	Nepse Index Trend of year 2068	34

ABBREVIATIONS

E T	=	Economic Times
F E	=	Financial Express
M P S	=	Market Price Share
N B BANK	=	Nepal Bangladesh Bank
N C C	=	Nepal Credit and commercial Bank
NEPSE	=	Nepal Stock Exchange
N R B	=	Nepal Rastra Bank
P V	=	Present Value
R W H.	=	Random Walk Hypothesis
SEBO/N	=	Securities Exchange Board of Nepal
S E C	=	Security Exchange centre
S E M H	=	Strong Efficient Market Hypothesis
S M L	=	Security Market Line
S P A	=	Seven Party Alliance
S S E M H	=	Semi Strong Efficient Market Hypothesis
TFA	=	Total Fixed Assets
U S A	=	United State of America
WC	=	Working Capital
W E M H	=	Weak Efficient Market Hypothesis

CHAPTER –I
INTRODUCTION

1.1 General Background of the Study

The land lock with rugged mountainous topography is an irreversible accomplishment for Nepal. It is one of the least developed countries in the world of economy. It totally dominated by agricultural sector. About 90 percent of people out of total population of the country live in rural areas. More than 38 percent of the people of Nepal are below the absolute poverty line.

As a developing country, Nepal is trying to develop and modernize rapidly on rational and social desired footings. But the structure of economy is still in preliminary agricultural with a very small industry base. So, to diverse and to modify agro based economy, Nepal Government (NG) has adopted mixed economic policy model with an objective to help the state and private sector economy that complement each other in the development process from very inception of economic planning process back in 1956. Since then substantial initiative has been taken in promoting, protecting, and developing. The role of private sector cannot be denied in the process of economic development in an under-developed country like Nepal. The main responsibility for planned economic development ultimately rests on public sector and government sector. It is the best instrument for ensuring an equitable social economic system, erecting basic infrastructure for economic development, and guiding the nation towards a new economic direction. It is believed that in order to achieve security, stability and high standard of living, the countries must be industrialized. The most important reason for embarking on a performance of industrialization is to increase the national income.

Nepal is an economically poor country, lies between two big countries (economically as well as in territory) China and India. China and India are in pace in its economic growth but Nepal is still facing low economic growth rate. It is due to the past political instability in Nepal. The growth of the GDP at constant 1994/95 prices fluctuated over the past six years from the peak of 6.0 percent recorded in FY 1999/2000, to the lowest level of -0.4 percent in FY 2001/02. The high growth rate achieved in the FY1999/2000 resulted from an encouraging growth in the agriculture and non-agriculture sector of 4.9 percent and 6.8 percent respectively. The GDP growth rate declined to 4.8percent in 2000/01 and further dipped to -0.4 percent in the following FY 2001/02. The low growth rate recorded in the agriculture sector due to drought and double digit negative growth rate in manufacturing and trade, hotel and restaurant sub-sectors were attributed to the negative growth in that year.

The economy rebounded by 3.0 percent in the FY 2002/03 and was stagnant at 3.5 percent in FY 2003/04.The overall performance of the economy in FY 2004/05 decelerated to 2.3 percent growth due to unfavorable weather, negative growth recorded in trade, restaurant and hotel sectors due mainly to the slackness observed in trade and tourism and slowed public and private investment, which finally decline the expansion and growth of banking sector and others financial institution. In 2006 and 2007 again it decreased to 3.4 percent, in 2008 it was increased to 6.1 percent but again in 2009 it was decreased to 4.4 percent, in 2010 it was 4.6 percent and in 2011 it was 3.5 percent. But now there are rays of hope that Nepal will develop in rapidly in bullish trend after the peace accord between Nepal government and Maoist insurgent. Because Nepal is not poor in its resources, it is only lack of the good environment for the capital investment. Recently the Maoists enter into the interim parliament by doing the peace accord with Nepal government after the 11 years people's war. It provides the good environment to the investors. It definitely facilitates for the capital investments. It facilitates the capital market's function properly. Consequently the capital market would be developed. 'The capital market development is essential as it is the indicator of the corporate development in the country'. Capital market plays a crucial role in mobilization of saving & changing financial resources for expanding productive capacity of the country as well. For the economic development increase in saving as required and channeled to corporate sector through financial institutions. The transfer of surplus fund to the user is facilitated by capital market or the development of capital market is essential in transferring saving to investment'. Capital market can be classified into security market and non security market.

The place where the securities are transacted is called security market. It is a mechanism created to facilitate the exchange of financial assets. Security market exists in order to bring together buyer and seller of securities, meaning that they are mechanism created to facilitate the exchange of financial assets.

Common stock is a kind of security. Common stock certificates are legal documents. Each common stock certificate represents a share of ownership (of equity) in a company that is legally organized as a corporation. Common stock holders have a residual claim on the earnings and the assets of their corporation. Common stocks are generally “full paid and non assessable”, meaning that common stock holders may lose their investment but not more. It is a legal representation of any equity (ownership) position in a corporation.

Common stock is traded in the stock market. Common stock holders will get the return from common stocks. People buy the common stocks expecting to earn dividends plus capital gain when they sell their share at the end of some holding period. (Here in this study, stocks and shares are used interchangeably).

Stock market can be classified in several ways. On the basis of economic functions, Security market can be classified into primary and secondary market. Primary market is the place where corporation issue new securities. It denotes the original sale of the security by an issuer to public. ‘The primary market for the security is the one in which new issues of bonds, preferred stocks and common stocks are sold by various economic to acquire new capital’. ‘The primary market itself can be divided into seasoned and unseasoned new issues. A seasoned new issue refer to the offering of an already existing security, where as unseasoned new equity issues are often referred to as initial public offering. The market where the existing & developed securities are traded is called the secondary market. Secondary market provides the liquidity to the purchaser of the security in primary market. The secondary market involves trading securities initially sold in the primary market. Therefore, the secondary market provides liquidity to individuals who acquire securities in the primary market.’ Nepal stock exchange (NEPSE) is the only a secondary market in Nepal.

The security exchange centre (SEC) was established in 1983 with an objective of facilitating and promoting the growth of capital markets. In 1993 , the SEC was converted into Nepal stock exchange (NEPSE) with the basic objective of imparting free marketability and providing liquidity to the corporate securities and government securities by facilitating transactions in its trading floor through market intermediaries, such as brokers, market makers etc it is a non profit organization, operating under securities exchange act 1983.So,the history of Nepal Stock Exchange is very short that it is still in developing stage. Security board, Nepal (SEBO/N) is there as an apex regulatory body to facilitate the orderly development of a dynamic and competitive stock market and maintains its credibility fairness, efficiency, transparency and responsiveness. Nepal stock exchange Ltd (NEPSE) formulated policies, rule and regulation for the smooth operation of the market. Despite this Nepalese security market still looks in developing stage and says rumors plays a vital role in price fluctuation. So it is need to conduct a study to know the behavior of share price movement in Nepal Stock Exchange (NEPSE).

For the economic development of the country, there should be good environment for the establishment of corporation in the different sector of economy. For the economic development increase in saving as required and channeled to corporate sector through financial institutions. The transfer of surplus fund to the user is facilitated by capital market or the development of capital market is essential in transferring saving to investments'. The capital market efficiency occupies the important place in establishment of corporation or financial management or capital investments. An efficient capital market is a market that will channel liquid capital quickly to wherever it will do the most good. Any investors attempt to achieve better return plus capital gain from their investment. So, to know the price movement of share price is essential factors to any investors. History indicates that many research and investigation have been made regarding the share price behavior and movements.

Historically there have been essentially two theories concerning the valuation of security and price behavior; the technical analysis and fundamental analysis theory. The technical analysis theory suggests that by plotting the market price of share on chart over a period of time, one can obtain certain patterns which tend to repeat themselves. In this approach, different charts and diagrams are used. Therefore, such analyst is also called chartist. The technician believes that knowledge of past share price movement can help to predicts its possible future price movement. 'Typically the technical analysis designed to record historical financial data on chart study there charts in an effort to find meaningful patterns, and use these patterns to predict future price'. A technical analyst usually attempts to predict the short term price movement. The fundamental analysis theory suggests that the market value of the share is based on certain intrinsic or fundamental factors as earning, future dividends, Company's potential growth, company's capital structure etc.

A market is said to be efficient if the current market price fully reflect all relevant available information. In the efficient market price always correct one, any past trading information is already reflected in the price of the stock and, therefore, any analysis to find undervalued security is useless.

1.2 Focus of the Study

Share Price Movements of various listed Companies in Nepalese Stock Market has already been noted as one of the burning issues. It is talked that

1. Instability exists in Nepalese economy
2. Low level of share transaction.
3. Small size of capital market.
4. Market penetration by handful of businessman.
5. Limited number of market makers and intermediaries.

Are the contributing variables, which led Nepalese Stock Market to inefficiency?

In this scenario, this study intends to analyze the problems and causes that led the market to inefficiency. In this context, some corrective measures are required to be initiated so the market certainty is to be ensured and interest of the investor can be protected.

1.3 Statement of Problems

Various studies have examined regarding the share price movement. Numerous theories were developed in the past regarding the share price behavior. Among them various tools of technical analysis theory are used on the one hand, and on the other hand the random work of efficient market theory is used.

The technical analysis theory assumes that the historical behaviors of a securities price is rich information hence future price movement can be predicted. The technical analysts focused on the chart of the share price and assumed that one can obtain certain pattern which tends to repeat themselves. The another type of security analysis is the fundamental analysis which attempt to estimate the intrinsic value of the security by considering key economics and financial variables and decide whether the market price of share is above or below its intrinsic value . Both the theories are included the convential security analysis theory. Their view about the stock market has been the price generally fails to reflect the real worth of the securities.

The second main theory consisted of attempts to analysis statistically the underlying share price behavior. There are forms of efficient market. Weak form of efficient market hypothesis (WEMH) popularly known as random walk hypothesis (RWH) implies that historical price changes cannot be used to predict the future price. It supports that the security prices changes are independent but the technical analysis supports that they are dependent. Thus the WEMH or RWH is directly odd with the technical analysis. Similarly, the fundamental analysis supports that the value of common stock is simply the Present Value of all the future income which the owner of the share will receive. However in real world, the intrinsic value of security couldn't be determined exactly. RWH supports that the successive price changes are uncorrelated over the time and its actual price move randomly. Evidence in support of RWH and WEMH varied a crossed the different stock market. The semi strong and strong form of EMH can be tested indirectly. It can be tested by examining whether the security price react appropriately to new items of publicly available information.

Different empirical studies on share price movement and efficiency have been done in developed and big stock market. But finding of these studies of developed and big stock market may not be applicable in the context of developing stock market like Nepal stock exchange (NEPSE). Nepalese stock market is still at developing stage though this study focuses in the degree to which the stock market is efficient in pricing shares. Different studies have been done on stock price movement in past in the Nepalese context. But the finding of the past studies is still relevant in present context. Though this study is the part of same effort, it deviates significantly from the past studies because it would be conducted after the peace accord between the Nepal government and the Maoist in the politically transitional phase of the country. This study would be based on both the primary as well as the secondary information. This study tries to answer the following frequently raising questions:

1) Does the share price over the short period change randomly?
2) Is it possible to predict the future price movement of the share from its past record or can the past price movement be valuable information to forecast the future price movement?

3) Does the share price movement shows any systematic patterns or shows the random walk?
4) What are the impacts of peace accord between Nepal government and Maoist insurgent on share price movement and share trading volume? Or to study the impact of the signaling factors on stock price and trading volume?

1.4 Objectives of the Study

The major objective of this study is to assess the pattern of equity share price movements in Nepal. The following are the specific objectives.

1) To analyze the current share price volatility in Nepalese security market.
2) To test the level of market efficiency of Nepalese stock market using primary data.
3) To analyze the trend of stock price and trading volume of equity share price before and after the peace accord in Nepal.
4) To analyze the problems and prospects of Nepalese stock Market..

1.5 Significance of the Study

This study may be important and beneficial to all the parties who involve in the stock market.

1) This study may be relevant literature for the future research on share prices movements and price behavior.
2) It may be guidelines to the investor to know the future price fluctuations and market efficiency.
3) It may be helpful to the financial managers of corporate firms to know about the movement of the share price with respect to know the financial position of the firm.

1.6 Limitations of the Study

This study is going to be done for the partial fulfillment of MBS program with core subjects of finance. This study has the following limitation:

1) For the purpose of the study, only the ordinary shares are taken.
2) There may be limitation of source of data or required data.
3) The available data may not be in verified and in systematic manner.
4) Only the short listed companies are taken as a sample for the study, so its conclusion may

have some error.

1.7 Organizations of the Study

The study would be organized into five chapters which are as follows:

Chapter I: Introduction:

It includes general introduction of study, statement of the problem, objectives of the study, significant of the study, limitation of the study and organization of the study.

Chapter II: Review of Literature:

This chapter describes the conceptual framework of share price behavior and review of related available literature (journals, recommendations and articles etc.

Chapter III: Research Methodology:

It covers the nature and sources of data, population and sampling, methods of data analysis, etc.

Chapter IV: Data Presentation and Analysis:

It attempts to analysis and evaluates the data with the help of analytical tools and interprets the results obtained.

Chapter V Summary, **Conclusion and Recommendations:**

It sums up the results obtain through analysis, recommendations and some suggestions.

Bibliography

Annex: 1

Annex: 2

CHAPTER-II

REVIEW OF LITERATURE

In the past, number of studies has been conducted regarding the share price movements in developed stock market. Professional and experts have been concerned with development & testing the model of stock price behavior. The past price fluctuation in market of shares can or cannot be meaningful information in forecasting the future price fluctuation. What are the factors affecting the share price movements? What is the degree of randomness with which stock price fluctuated? Various theories were developed to handle these questions.

The objective of this chapter is to review some of basic literature on share price behavior concerning theories including the review of related articles, journals and previous studies.

This chapter has been divided into three sections. The first section includes a brief description on theoretical framework of the share price behavior. It contains the technical analysis, fundamental analysis or intrinsic value analysis and efficient market theory. Second section briefly reviews journals & articles related with the share price. And third section describes a brief review of previous studies in the context of Nepal.

2.1 Theoretical Review

There are various reasons and causes that affect the share price movements. There are economic and non economic factors which causes the share price fluctuation. The prices of share securities are typically very sensitive, responsive to all events, both real and imagined, that cast light into the Murky future. (Cootner; 1964). Though all factors affect the share price movement, it would be very hard to find out completely accepted price formation theory. Generally there are three theories concerning in determination of stock's markets price. They are:

- Technical Analysis theory
- Fundamental Analysis theory
- Efficient market theory.

2.1.1 Technical analysis theory:

Technical Analysis is a method of evaluating securities by analyzing the statistics generated by market activity, such as past prices and volume. Technical analysts do not attempt to measure a security's intrinsic value, but instead use charts & other tools to identify patterns. 'Typically technical analysts designed to record historical financial data on charts, study these charts in an effort to find meaningful patterns, and use these patterns to predict future price. Some charting techniques are used to predict the movements of single security; some are used to predict the movement of market index; & some are used to predict both the actions of individual securities and the market actions.' (Francis, 1983,p.434). Technical analysis assumes that market psychology influences trading in a way that enables predicting when a stock will rise or fall. It can help to predict the short term future market trends 'Technical analysts seek to estimate security prices rather than intrinsic value; that is, they try to forecast short run shifts in supply demand that will affect the market price of one or more securities. They tend to ignore such factors as the firms risks & earning growth in favor of concentrating on various barometers of supply & demand that they have desired' (Francis, 1983,p.435). The field of the technical analysis is based on the following assumptions:

I. Market value is determined solely by the interaction of supply & demand. Supply & demand are governed by numerous factors both rational & irrational.

II. Price moves in trends: in technical analysis, price movements are believed to fallow trends. This means that after a trend has been established, the future price movement is more likely to be in the same direction as the trend than to be against it.

III. History tends to repeat itself: technical Analysis assumes that history tends to repeat itself, mainly in terms of price movements.

2.1.2 Fundamental Analysis Theory

Fundamental analysis forecast stock market on the basis of economic, industry and company statistics. The principal decision variables ultimately take the form of earning and dividends. The fundamentalist makes a judgement of the stock’s with risk return framework based upon earnings power and the economic situation of the country. Some of the way to go through with the fundamental analysis may be following:

a. **Top Down Versus Bottom Up Forescating**

   Under top down analysis approach the analysis is down by making forecast for the economy, industries and companies. The industries forecast are based on the forecast for the economy and a company's forecast are based on the forecasts for both its industries and the economy likewise while doing bottom up forecasting estimation of the prospects for the companies is down and then only estimation of the prospects for the industries in carried out and ultimately the economy's prospects is conducted. The assumptions under this approaches is often employed.

b. **Econometric Model**

   It is a statistical of model that provides a means of forecasting the level of certain variables known as endogenous variables. In order to make this forecast the model relies on assumption that have seen made in regard to the levels of certain other variables supplied by the model users known as exogenous variables.

c. **Probabilistic forecasting**

   Probabilistic forecasting often focuses on economy wide forecasts, as uncertainty at level is of the greatest importance in determining the risk and expected return of well-diversified portfolio. A few alternative economic sceneries may be forcast along with their this probability of occurance. Then accompanying projection are made of the prospects for industries, companies and stock prices. Such exercise provides an idea of the likely sensitive if different stocks to surprises concerning the economic and hence it sometimes referred to as what if analysis

.

d. **Financial Statement Analysis**

   A company's financial statement can be regarded as the output of a model of a firm. Many analysis do study financial statement to predict the future. Financial statement analysis can help an analysist to understand company's current situation where it may be going, what factors affect it and how these factors affect it. To fully understand a company and comparing this with other financial statements are required to analyze carefully to determine the value of the firm. Once, learning ration of the company is determined s/he of the share can be accessed. The price of the share can be estimated by examining the ratio of earning after tax to the book value of the equity.

2.1.3 Efficient Market Theory

'A stock market is said to be efficient if all the currently available information is rapidly reflected in stock prices' (Fama,1970,p.383-417). Prof. Eugene F. Fama made the first attempt to synthesize the theory and organize the numerous empirical studies in 1970, Journal of finance article the initial presentation of the efficient market theory in terms of the 'fair game' model' (Reilly,1986,p.347). Fama divided the overall Hypothesis (Efficient Market hypothesis, (EMH) into sub hypothesis depending upon the information set is involved. They are:

I. Weekly form Efficient Market Hypothesis (WEMH)

II. Semi-strong form Efficient Market Hypothesis (SSEMH)

III. Strong form Efficient Market Hypothesis (SEMH)

I. Weekly form Efficient Market Hypothesis (WEMH) states that all past information is already included in current market price. The weak form Efficient Market hypothesis assumes that current stock price fully reflect all stock market information, including the historical sequence of prices, price changes, value data and any other market- generated information such as odd- lot sales & specialist activity (Reilly, 1986,p.167) This means that the past & future price fluctuations is uncorrelated. So the technical analysis can't predict the future price movements. Since the study of past price movement will provide no insight it's future movement, investor would be unable to make profit from the analyzing of past price trend & volume. Weakly Efficient Markets are market in which past prices provide no information about future prices that would allow a short-term trader to earn a return above what could be attained with a naïve buy and hold strategy (Francis, 1983,p.465)

II Semi Strong from Efficient Market Hypothesis: - This hypothesis states that all publicly available information quickly reflects in the stock prices," Semi strong efficient markets are markets in which all relevant publicly available information is fully reflected in security prices, so that nothing that will lead to profitable trade can be gained from public sources (Francis,1983,p.470) This hypothesis asserts that security prices adjust rapidly to the release of all new information i.e. all market information i.e. dividend announcement, stock split, economic use, political news etc.

III Strong Form Efficient Market Hypothesis: - This hypothesis assumes that all information affecting stock price, both public & private is reflected in security prices. Strongly Efficient Market is markets in which all information (Not just publicly available information) is reflected in security prices. (Francis,1983,p.475) Since the stock price full reflects all the information (Public and Private) no group of investors has monopolistic access to information relevant to formation of stock prices." Therefore, no groups of investors should be able to derive above average profits consistently." (Reilly,1986,p.167)

Week Form Efficient Market hypothesis popularly known as Random walk theory or Random walk hypothesis. According to this theory, the paths that the market price follow is random walk" that cannot be determined from historical price information. Market Price follow a random path up & down, without any influence by past price movement. "Random walk theory implies the future path of the price level of a security is no more predictable than the path of a series of accumulated random numbers. The series of price changes has no memory that is; the past cannot be used to predict the future in any meaningful way" (Fama, 1970,p.38).

Kendall (1953) examined the behavior of weekly in nineteen indices of British industrial share price and in spot price for cotton (New York) and wheat (Chicago). After extensive analysis of serial correlation, he suggests, in quite graphic terms: the series looks like a wandering one, almost as if once a week the Demon of chance drew a random number from a symmetrical population of fixed dispersion & added it to the current price to determine the next week's price."

Moore (1964) studied weekly price changes of 30 randomly selected US stock for 1951-1958 and found an average serial correlation coefficient 0.06. The value was extremely low & indicated that the weekly changes data were of no value in predicting future price changes.

Fama (1965) analyzed the daily proportionate price changes of 30 blue-chips stock in DJIA for the period of 1957-1962. He followed standard statistical tools such as serial correlation & Run test to examine whether any dependency exists in lagged price changes. He found that the serial correlation coefficient for daily price changes were very small & average. But out of 30, 11 autocorrelation coefficients were more than twice which shows lagged price changes shows some degree of dependence. Fama further examined the run tests. And, he found that actual & expected number of runs not significantly different. He concluded that although there exists slight dependencies in the series; the departure from randomness is negligible and the evidence is strong support for the independence.

Gupta (1985) analyzed the equity share price behavior in India during Jan 1971 to 1976 March and tested the RWH by using weekly prices of 39 individual shares & two indices The Economic Times (E.T.) index & Financial Express (F.E.) Index. He found the evidence in support of RWH. He concluded that the random walk model appeared to be an appropriate model appeared even for the less developed country like India to describe share price behavior.

2.2 Reviews of Journals and Articles

This section is devoted to the review of some Journals & articles related to share price movement and capital market in the context of Nepal to make more relevant and to add input in this study, which are as below:

Agrawal (2005) published an article on "*Stock watch 15 may -14 June 2005*" reported speech "In the commercial Banks, share of Nepal Investment Bank ltd experience the highest fluctuation the month with. In the Finance sector Annapurna Finance Ltd had the highest fluctuations. In the insurance sector share of Rastriya Beema Sansthan fluctuated in higher rate. In the development Bank Sector the share of Development Bank fluctuated higher whereas in manufacturing and processing sector the share of Unilever Nepal ltd fluctuated higher. Fron this article it is known that the share price fluctuated in every sector in Nepalese security market but the degree of fluctuation may differ to each other sectors.

Bhattarai(2004) on the topic "History Repeats" supports the technical analysis on share price movement. He said "price of almost all companies' stocks confirmed to rise". He gave the examples of Machhapuchhre Bank which share price was around face value for long time before crossed Rs140 and share price of Kathmandu Bank ltd was hovering are Rs. 200 for long time which crossed Rs 300.Similarly he also gave the example of virtually insolvent Necon Air ltd which share price was stagnant for long period cross Rs 30. He plotted the NEPSE index in graph which shows the index is up and down but in increasing trend. He said bullish trend has aroused a hope in the investors that the history definitely will repeat itself in the stock market. He further says "Stock market is very much unpredictable but the movement can somehow be forecasted on the basis of past patterns of price movement through the trend analysis's and behavior analysis"

Bhattarai (2006), on the topic "*Rumor led the market*." from its topic that Nepalese security market led by the Rumor and speculation. Investors invest their fund due to rumor rather than due to change in fundamentals. According to him the NEPSE index upped higher after the agreement signed between SPA (Seven Party Alliance & the Maoist on Nov 8. Similarly, NEPSE index increased by higher point with the peace accord week after on Nov 21. Bhattarai further wrote, "The regular speculators were trying to cash in on the political agreement by spreading rumors of a better economy in the future" which build a confidence to the investors of receiving better return in future.

Bhattarai gave the examples of speculations spreading about Nepal Bangladesh Bank (NB Bank) & Nepal Credit & Commerce Bank (NCC Bank) According to him, Speculators spreads the propaganda about NB banks future prospects after its management was taken over by the Nepal Rastriya Bank (NRB). NB Bank's shares price reached Rs 335 after the NRB took over Bank's management however banks Book value at the end of fiscal year 2004/05 was only Rs. 65 per share. Just before NRB's takeover, depositors had withdrawn over Rs.3.5 billion from the bank drastically reducing it's business capacity. From this fact it is known that the market price was over priced. According to him "this was quite unjustified on the basis of banks fundamentals."Similarly, negative information has been flowed about the NCC bank. According to him, "The banks deteriorating performance and the decreasing credit worthiness of its promoters had led it into a liquidity crunch in recent days but in rumor that a Japanese company would invest in the bank pushed the market price up by almost Rs 90 per share between late November & early December." He further wrote: "Investors were blindly attracted to buy the bank shares because of this rumor."

Ghimire(2007), published an article on the topic "Risk of instability in share market" supports that there is a instability and fluctuations in share market, and any investor who invest without knowledge can loose more. He viewed that price rise and falls is reasonable in organized and competitive market. He further says "In Nepalese capital market there are less investors who invest by analyzing the company's conditions and competition.

2.3 Review of Thesis

This section attempts to the review of some available previous studies, research & empirical works related to share price movement and capital market in the context of Nepal as far as possible to make more relevant and to add input in this study, which are as below:

There are some studies have been done by different researcher related to stock price of Nepalese capital market. Some of available studies are reviewed as below:

Bhatta's, (1997), study on *"Dynamic of stock market in Nepal"* reveal that resource mobilization has a vital role in the developing economy like Nepal .the development of the stock market is a must for the resource mobilization. There are various problems of Nepalese stock market, which have checked the resources mobilization in the economy. In his research work, Mr. Bhatta set the following objectives

- To analyze the trend of the Nepalese stock market.
- To diagnose and compare the sartorial financial status of the stock in Nepalese stock market
- To analyze the market share price of the stock market
- To find the impact of the secondary or primary market and vice versa.

In his conclusion, he try to show that although it has become late to take steps to overcome such problems of the Nepalese stock market in order to make it active and supportive, the stock market has a good prospect for the resource mobilization to finance the productive enterprises in the Nepalese economy.

Dahal's (2002), study on *"Stock Market Behavior Of Listed Joint Venture Company in Nepal"* described about the Nepalese stock market. The main objectives of his research study were to study, examine and analyze the stock market behavior. The specific objectives were:

- To study and analyze stock price trend and volume of stock traded on the secondary market.
- To study and analyze the rate of listing of new companies and maintenance of listed company in Nepal stock exchange ltd.
- To study and examine the signaling factor ' impact on stock prices with the help of NEPSE index.
- To suggest the abstract to the interested parties related to stock market.

In his conclusion, Mr. Dahal says that stock market is the backbone of investment sector of the country. So by promoting the stock market is sizeable economic sector gives rise the economic development by mobilizing swing in to productive sector by making suitable investment of making suitable investment for making suitable investment environment different elements like price trend NEPSE index, volume, of stock traded, rate of listing. Signaling factors should be analyzed.

Stock market was not properly analyzed for smooth operation of secondary market. It shows gap between theory and practice of investment. In Nepalese stock market, the study of market behaviors a very useful subject matter if properly analyzes for the development of stock market.

Nepal stock exchange limited is analyzing stock market behavior in very little area regarding the stock market. So experts should be recruited and analyzed market behavior in efficient way so that all parties interested with stock market can get benefit from this. The data analyzed showed that Nepal stock exchange is not providing facilities for investors such as general awareness about investment, investment procedure for general public and government stock trend in different periods and their causes are not explained. Most of the investors are complained that the market makers, brokers and NEPSE staff are making coalition for fraudulent activities towards investors. So, NEPSE should clear this type of charge for the development of stock market.

The role of market players of market should be made effective in promoting capital market in the country by giving proper training and adopting changes environment with modern tools and technique.

Investment is the lifeblood of economic development. It is evident that stock exchange has continued to fulfill their vital functions in the national economy .so long as private enterprises exist; we know that the stock exchange is the place where stock and share are bought and sold. The substantial competition in innumerable buyer and seller determines the prices with a measure of precision that cannot be obtained in other unorganized market. So, stock market is the proper market for the development of the national economy.

The development of stock market in Nepal is both challenging and difficult. Share transition, public interest toward stock market, trend of the price movement and information system indicates the low performance of stock market. The problem like lack of strong professional analysis, independent buyer and seller, well-trained manpower and management delay in transfer of shares, rational investors exist from the Nepalese stock market. Moreover, there are many other attraction that stock market will be the strong market for the unemployment young generation to build their career in capital market; i.e.. It has a lot of prospect of development.

Finally, no comprehensive research has been conducted in relation to the development of the market in Nepal, major problems faced by Nepalese stock market and expectation of future growth. Thus the stock market further requires timely research to explore details of the problem and prospects of stock market in Nepal.

Poudel (2003), conducted a research on *“A study on share price movements of Joint Venture*

Commercial Banks in Nepal" by using financial and statistical tools with the following objectives:

- To examine Nepal Stock Exchange Market and to judge whether the market shares of different banking indicators.
- To examine how risky the investments in commercial banks' share are.
- To explain the share price movements.
- To analyze the scenario why the shares of selected banks emerge as blue-chips to the potential investors and to make a conclusion on the basis of financial ratios analysis.

The major findings of the study were:

- The market share and growth rates of different banking indicators used are not captured by the market shares of these banks.
- The market value per share does not accommodate all the available historical information.
- The beta coefficient, which measures the riskiness of individual security in relative term, suggests that none of the shares of eight sampled banks are risky. Therefore, even a risk averter can go for making an investment in shares of these banks.

Yadav (2007) conducted a research on *"Dividend Policy and its Impact on Market Price of Stock"* with the following objectives :

- To study the prevailing practices and effort made in dividend policy among the firms.
- To find the impact of dividend policy on market price of stock.
- To analyze the uniformity among DPS, EPS, MPS and DPR.

This thesis indicates the following findings:

- There is not any consistency in the dividend policy of the sample firms.
- The majority of Nepalese firms give first priority to "earning" to get into the decision of dividend.
- The second priority goes to the cash availability and third priority is given to past dividend.
- The MPS is more or less dependent with DPS in the efficient capital market.

Neupane (2007), made a research entitled *"Determinants of Stock Price in NEPSE"* and tried to explore the factors that have significant influence on the stock price in NEPSE. He concluded his study by quoting:

- Nepalese investors have not adequate education about the capital market. They do not have good knowledge and information to analyze the scenario and to forecast share price. Perhaps due to this reason stock price in NEPSE rather shows irrational behaviour.
- In NEPSE, DPS, BPS & EPS individually do not have constituent relationship with the market price of the share among the listed companies. The pricing behaviour varies from one company to another. But EPS, BPS & DPS jointly have significant effect in market price of the price of the share. So, there may be other major factors affecting the share price significantly.
- Commercial banking sector has dominated the overall performance of NEPSE. Manufacturing and processing trading and hotel sectors have weak performance. So, financial intermediaries are strong but their ultimate investment is suffering.
- Companies performances (earning, dividend, book value, risk etc.), political stability, national economy, demand & supply situation are the major factors affecting the share price in NEPSE.
- There is deficiency of proper laws and policies regarding the capital market. Shareholders are feeling unsecured to invest in security markets due to poor regulatory mechanism to protect shareholders interests. The implementation of existing laws is weak.
- Since NEPSE is in increasing trend, in spite of unfavourable environment for investment, Nepalese citizens have a huge amount of scattered fund remained unproductive, which can be used in the industrial development through capital market to accelerate the economic growth of the nation

Shrestha (2008), made a research entitled *"An Analysis on the factors of volatility of Share Price in Nepalese Stock Market"* with the following objectives:

- To analysis of share price volatility factors with different listed companies in NEPSE.

- To determine the effect of earning, dividend and net worth to the stock price.
- To examine sensitivity relationship of MPS with various financial indicators like EPS, DPS and NWPS.

- To highlight about the various factors which is responsible for share price fluctuation in Nepalese share market.

From his research he concluded by quoting:

- There is gap between the theory and practice of investment in Nepalese stock market due to the lack of proper analysis of stock market for the smooth operation of the secondary market.
- All Nepalese investor have not adequate education about the capital market. They don't have good knowledge and information to analyse the scenario and to forecast share price.
- Price of stock don't reflect the real value of stock in almost all cases.
- In NEPSE, EPS, DPS and NWPS individually don't consistent relationship with the market price of share, among the listed companies. The pricing behaviour varies from one company to another. But EPS, DPS and NWPS jointly have significant effect in market price of shares. So there may be other major factors affecting share price significantly.
- There is deficiency of proper law and policies regarding the capital market.Share holders are feeling unsecure to invest in security market due to poor regulatory mechanism to protect share holder interest. The implementation of existing law is week.

Bhusal (2010), conducted a research *"An Analysis of Stock Price Volatility in Nepalese Stock Market"* with the following objectives:

- To analyze major elements resulting the change in stock price and their relationship with it.
- To examine group wise overall behaviour of NEPSE index.
- To analyze and examine the signalling factor's impact on the stock price with the help of NEPSE index.

- To assess the randomness of share price.

The major findings of the study were:

- There is a gap between the theory and practice of investment in Nepalese stock market due to lack of proper analysis of stock market for the smooth operation of the secondary market.
- The market is growing day by day and the future is full of opportunity from investor point of view.
- Professionalism is still lacking in the service of investors and investment management.
- There is hand of signalling factors to play role for fluctuating NEPSE index.

Dhungel (2010), made a research entitled *"Stock Market Volatility and Investor's Behavior"* with the following objectives.

- To identify the trend and volume of stock market volatility.
- To indentify an analyse the investor's behaviour regarding the decision on stock investment according to different companies listed in NEPSE.
- To examine sensitivity relationship of MPS with various financial indicators like EPS, DPS and NWPS.

Under her study, she concluded that the volatility of the stock price in NEPSE are identified from the primary data analysis. Such internal factors affecting the share price are earnings, dividend paid, net worth and risk associated with the company. Environment factors affecting share price are Nepal Rastra Bank's guidelines, price trend, information, demand and supply, political stability etc for the sensitivity of the stock price in NEPSE. NEPSE is in nascent stage and it has not significant effect of tax rate, stock dividend, global economy, market liquidity whereas these factors have simple effects in stock pricing so there is existence of law order social dependence, which may be enough a certain extend to increase investor's expected profit.

Research Gaps

Since the above reviewed studies on Nepalese stock market offered some limited findings in past. Adjustment of time period & other variables are needed to be more conclusive about the efficiency of Nepalese stock market.

Most of the above mentioned studies are based on secondary data. Though few studies collect the primary information, they are incomplete and might be irrelevant in present context. So there need to be updated primary data collection. Therefore this study conducts the questionnaire survey to find out the facts about the share price movements.

Most of the studies were based on randomly selected sample stocks. Basu dev Uppadhya studies was based on 23 stocks tried to select from all the sectors, but the findings of the study might not be relevant in present context because many changes taking places in Nepal and in Nepalese capital market. Similarly, all the above mentioned studies are based on either overall NEPSE index or sample stocks. This study tries to consider from both i.e. overall NEPSE index as well as some sample stock to measure the movement of share price in Nepalese stock market. Earlier studies on share price movement need to be updated. This study attempt to consider and adjust different variables related to present context. This study based on both secondary and primary data.

CHAPTER-III
RESEARCH METHODOLOGY

3.1 Introduction

This study is based on both primary and secondary sources of information. Secondary sources of information were used to measure the signaling effect on share price as well as to test independence of share price change while the basic purpose of primary sources of information analysis is to survey the opinions of the investors on share price movement.

This chapter describes the following aspects of research methodology:

- Nature & sources of data
- Populations and sampling
- Method of analysis

3.2 Nature & Sources of Data

The data employed in this study consists of two sets. The first set consists of secondary data & the second set consists of primary data of respondents opinions on share price movement. The necessary secondary data are collected from different sources i.e. annual report of security board Nepal, other publications of security board of Nepal, official publications of Nepal stock exchange, annual reports and publications of different companies, different news paper and magazines.

The primary sources of information are collected from field survey. The field survey is based on questionnaire as well as unstructured dialogues with investors while visiting them Respondent/ Investors to distribute & collect the questionnaire. 8 questions are asked to 60 respondents to collect their view. The study was done on the trading floor of Nepal Stock Exchange with investors before trading time (12-3pm).

3.3 Population & Sampling

All the companies listed in the Nepal Stock Exchange are considered as the total population. To measure the current market trend, signaling effects (i.e. impact of peace accord) on share price movements in Nepalese Secondary Market, NEPSE index is taken to analysis because index measured the general market trends. So, all the companies that were existence and doing share transaction on NEPSE during (2061-68) were considered as sample first. But as index is no more than a measure of general market trends, it may give the false impression of the extent of price fluctuations in individual markets. Hence the use of individuals share price series is also appropriate to measure the share price fluctuations. So another sample (2nd sample) is considered to draw the conclusion more reliable. However, some methods logical problems arise in the application of individual share price for example; a) The choice of the time interval over which prices should be recorded and b) the selection of equity shares to be included in the sample. Since it is difficult & impracticable to present the daily index to measure the general market trend, monthly NEPSE index were used. Similarly the daily closing price & week-end closing prices were not available for some of the sample shares either because there was 'no trading' in those shares. Hence the monthly end closing price was considered as appropriate for selected samples shares for this study.

Seventeen company’s shares are actively traded in the Nepal Stock Exchange Ltd. during 2061 to 2068 constitute the sample for this study while selecting the sample adequate case has been from all sectors. "55.86%" of total securities issues covered by commercial banking sectors ", Sector wise chart, (Annual Report, SEBON, 2005/06). Presently around 72% of financial claims in the Nepal Stock Exchange are from commercial banking." **(**Pant; 2007**) .** By considering these facts 8 samples was taken from commercial banking sectors out of seventeen samples.

Similarly since the second highest total securities issues covered by finance company sector. (Annual Report, SEBON, 2005/06). 3 Samples was taken from finance sectors. To cover all the sectors one sample was taken from rest of the sectors i.e. from manufacturing & processing sectors, one from hotel sectors, one from insurance sectors, one from development banking sectors, one from trading sectors & one from other sectors.

3.4 Method of Analysis

The method of analysis employed in this study includes the use of

i) Trend analysis. ii) Chi-Square test.

3.4.1 Trend Analysis

Trend analysis is one of the suitable statistical tools to measure the price trend stock volume trend during the selected period. It is useful to compare the price trend as well as stock volume before & after the peace accord between Nepal government & Moist. It is appropriated to measure the signaling effect on share price movement, Stock trading volume. For analyzing signaling factors effects on NEPSE index, four major events i.e. Political change of Magh19, 2061 (Feb 1, 2005), People's movement 2062/063 & Peace accord between Nepal Government and Maoist (Kartik 22, 2063), Government lead by the Maoist from Bhadra 2065 are considered, Government lead by the CPN(UML). Tabular as well as graphical measures are considered for presenting & analyzing the data.

3.4.2 Chi-Square test

Chi-square test is a non-parametric test because it depends only on the set of observed nod expected frequencies and degree of freedom. Since chi-square test does not make any assumption about population parameters, it is also called a distribution free test. Chi-square test is a test, which describes the magnitude of difference between observe frequencies and expected (theoretical) frequencies under certain assumptions.

In another words, it describes the magnitude of the discrepancy between theory and observation. It is defined as, Chi-square = Sum of (O-E) 2/E

Where,

O= Observed frequencies

E= Expected frequencies

To achieve the research objectives from chi-square techniques the following steps has been developed and tested. (Hypothesis test)

1st step: Ho: There is no significant difference in the opinion made by the different groups of respondents.

2nd step: H1: There is significant difference in the opinion made by different groups of respondents.

3rd Step; Test statistics

Chi-square = Σ (O-E) 2 /E

4th Step; Find out Critical Value

The tabulated values (critical Value of Chi- Square for (n-1) d.f. at alpha level of significance usually 5%).

5th Step: Decision

Make decisions by comparing the calculated value of chi- square with tabulated of chi-square. If calculated chi-square is less than the tabulated chi-square, it is not significant and Ho: is accepted otherwise it is rejected.

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Data Presentation

Data presentation & analysis is one of the most important parts of the study. After collecting raw data, these data should be presented in simple way or process to analyze & deliver meaningful conclusion & meet the objective of the study. A report of the study becomes worthless if the presentation & analysis of data are faulty even the valid & reliable date have been collected. So, this chapter focused on the presentation and analysis of the available data in a proper way to meet the objectives of the study made earlier.

The main purpose of this study is to examine the behavior share price movement in Nepalese stock market. It focuses the price trend & volume of share traded in a Nepalese stock market before and after the peace accord between Nepal government & Moist. Beside this to measure impact signaling factor on share price movement in Nepalese stock market during the 2057 to 2068 with the help of NEPSE index concerning the major event happened in Nepal during the period. It further tries to measure the independence of successive price change by using statistical tools.

As stated earlier in the previous section, this chapter consists of both the primary as well as secondary data analysis. Secondary data have been collected from already published; monthly, annual report of Nepal stock exchange, Security Board of Nepal & other concerned companies. Similarly, primary data have been collected through the questionnaire method both the primary & secondary data are presented & analyzed with the help of different tools.

4.2 Secondary Data Analysis

The purpose of this section is to carry out secondary Data Analysis. This section is exclusively devoted for the analysis of share price movement.

4.2.1 Trend Analysis

I. NEPSE Index

Index is known as the indicator of the movement of the overall security prices in the secondary market. It measures the general market trend. Thus NEPSE index trend analyzed here to measure the overall security market. Here, Monthly and Yearly Index (Month end Index and Year end Index) have been taken to analyze from year 2057 to 2068.

The following table presents the yearly end NEPSE index from FY 2057/058 to 2067/068 (B.S.)

Table 4.1

Yearly end Index: during (FY 2057/058-2067/068)

Fiscal Year	Yearly end Index
2057/058	348.43
2058/059	227.54
2059/060	204.86
2060/061	222.04
2061/062	286.67
2062/063	386.83
2063/064	683.95
2064/065	963.36
2065/066	749.10
2066/067	477.73
2067/068	362.85

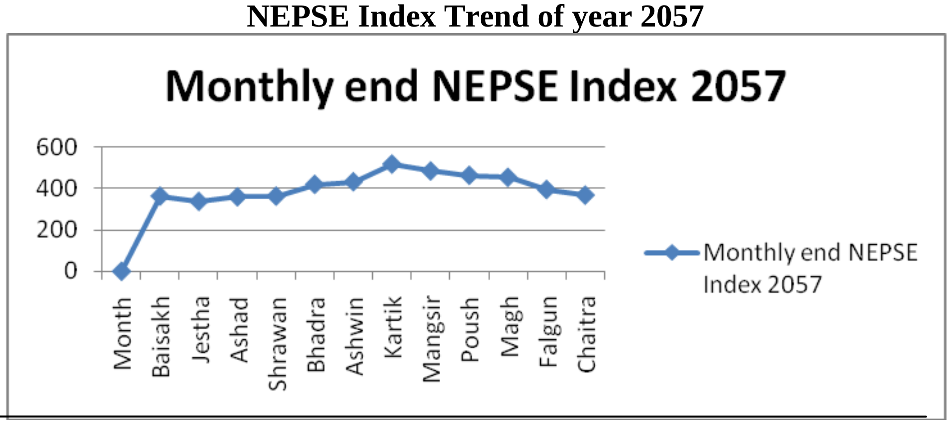
(Source: Annual report of NEPSE)

The NEPSE index trend is presented analyzed by plotting the trends on paragraph for each year separately. On the Y axis of the figure present the NEPSE index points while X axis shows the twelve months. They are presented as follows:

The presentation and analysis of the NEPSE Index trends of year 2057 is presented as below:

Figure: -4.2

NEPSE Index Trend of year 2057

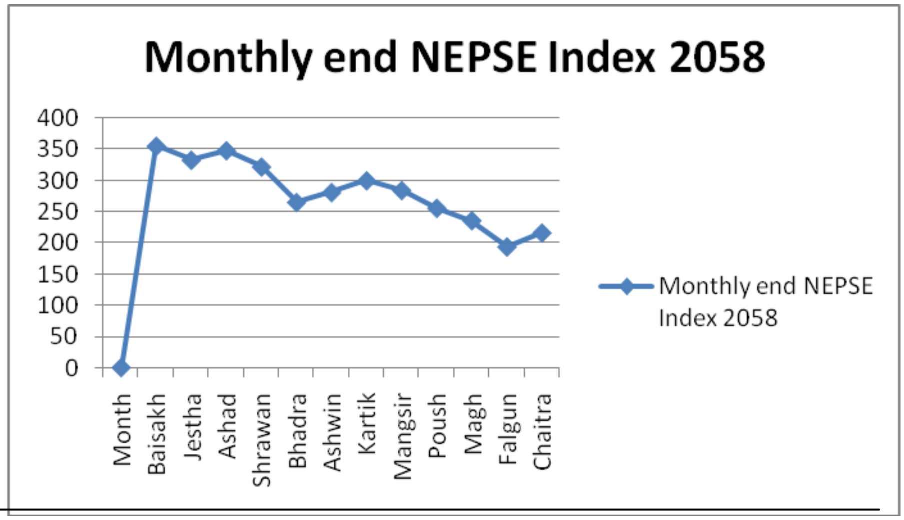


Source: Annex 1

From the figure 4.2, it can be seen that the NEPSE index began from the points near 370 and end at near the points of 380 at the end of year 2057. The trend shows increasing trend till kartik and then turn to decreasing trend till to the end of the year.

Figure: -4.3

NEPSE Index Trend of year 2058

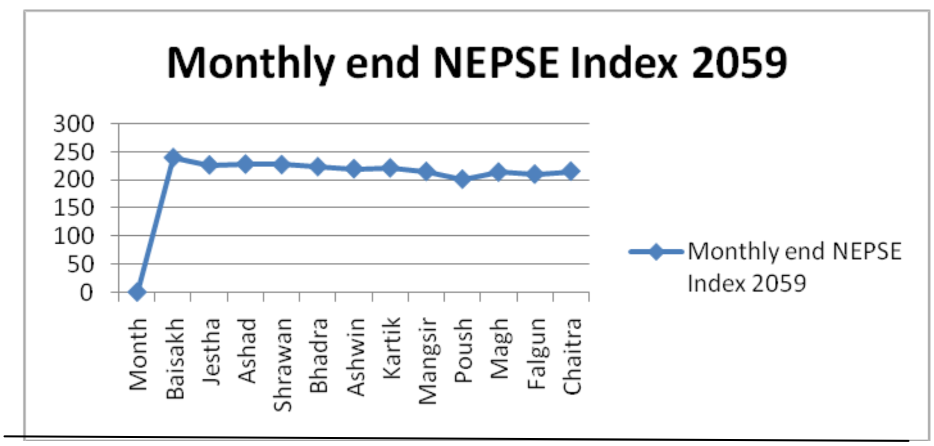


Source: Annex 1

From the figure 4.3, it can be seen that the NEPSE index began from the points near 350 and end at the near the points of 210. In the year 2058 overall NEPSE index fluctuated. Till Bhadra NEPSE index is in decreasing till while from kartik to till falgun it is in increasing trend.

Figure: -4.4

NEPSE Index Trend of year 2059

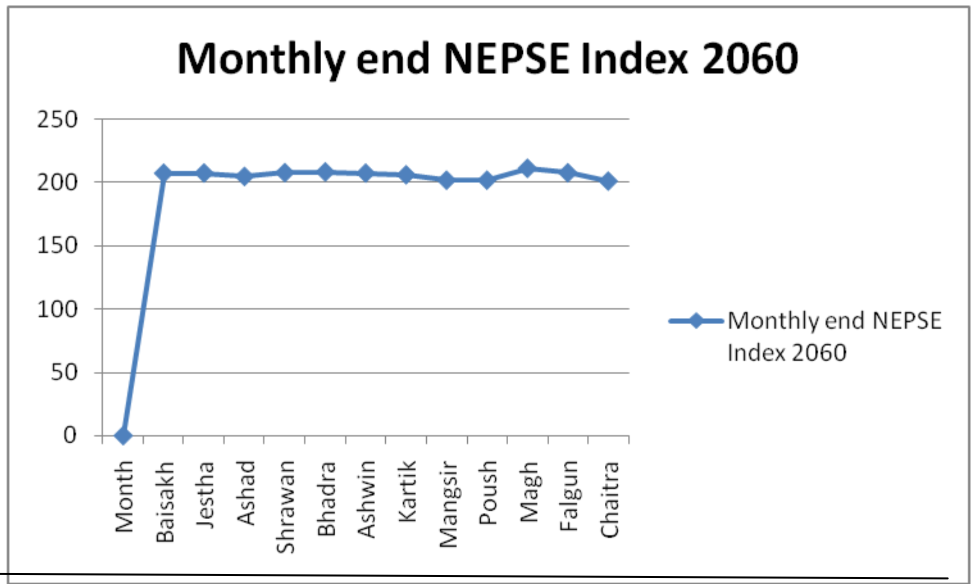


Source: Annex 1

From the figure 4.4, it can be seen that the NEPSE index began from the points near 240 and end at the near the points of 210 at the end of year 2059. The trend shows in decreasing trend in all the months of the year.

Figure: -4.5

NEPSE Index Trend of year 2060

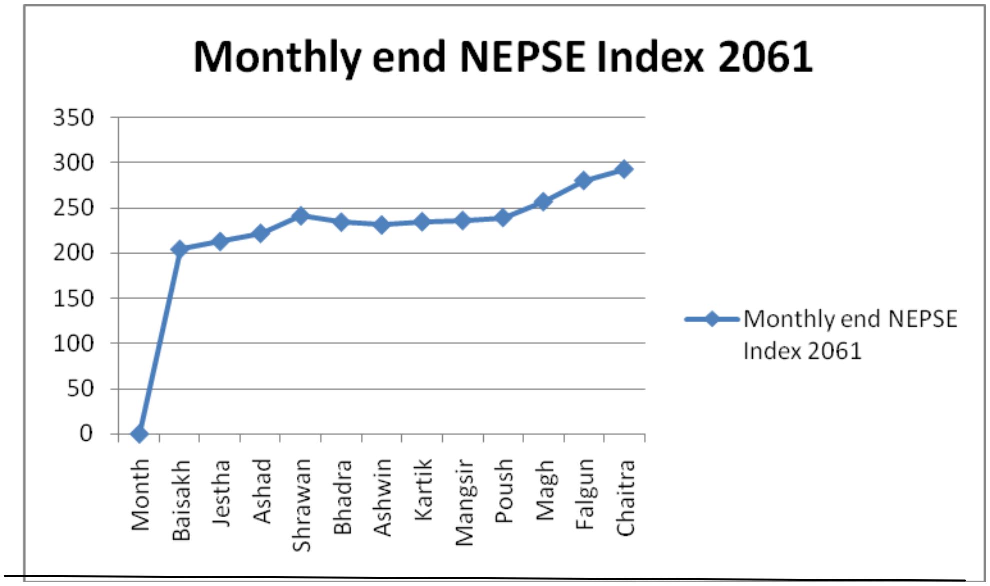


Source: Annex 1

From the figure 4.5, it can be seen that the NEPSE index began from the points near 200 and end at the near points of 200 at the end of year 2060. In overall the NEPSE index was at constant during the year.

Figure: -4.6

NEPSE Index Trend of year 2061

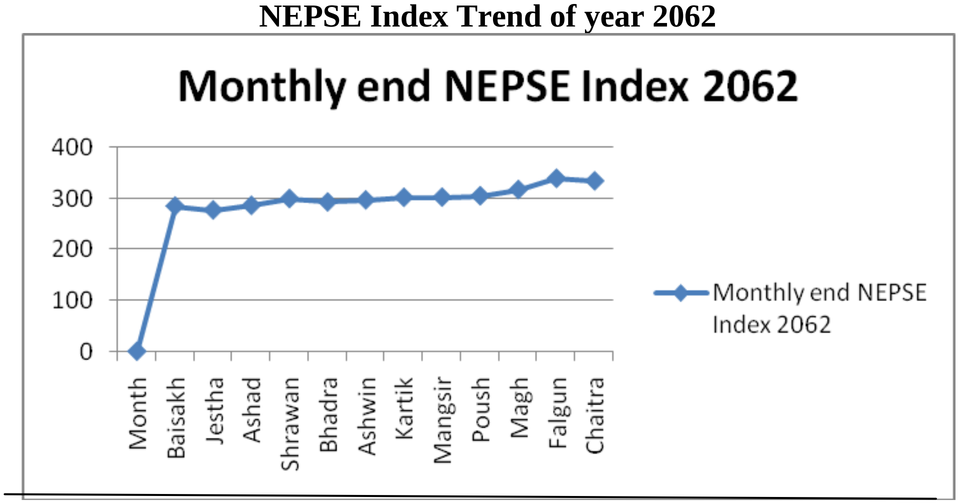


Source: Annex 1

From the figure 4.6, It can be seen that the NEPSE index began from the points near 200 & end at near the points of 300 at the end of year 2061. The trend shows increasing trend till shrawan & then turn to decreasing trend for few months & again increasing trend at the end of year 2061.

Figure: -4.7

NEPSE Index Trend of year 2062

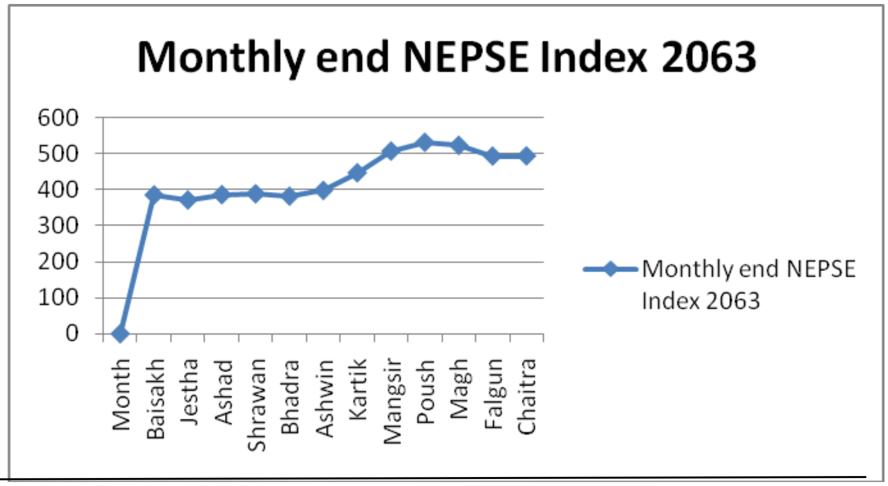


Source: Annex 1

From the Figure 4.7, it can be seen that the NEPSE index began from below the point of 300 on year 2062. NEPSE index began on decreasing trend for one month & slightly upto shrawan. After that index turned to slightly decreasing trend & again turned to decreasing trend for 1 month & then started to increase at low rate upto Falgun & turned to decreasing trend at the end of yr 2062 at the low rate. The trend seems more flatter in compare to other years.

Figure: -4.8

NEPSE Index Trend of year 2063

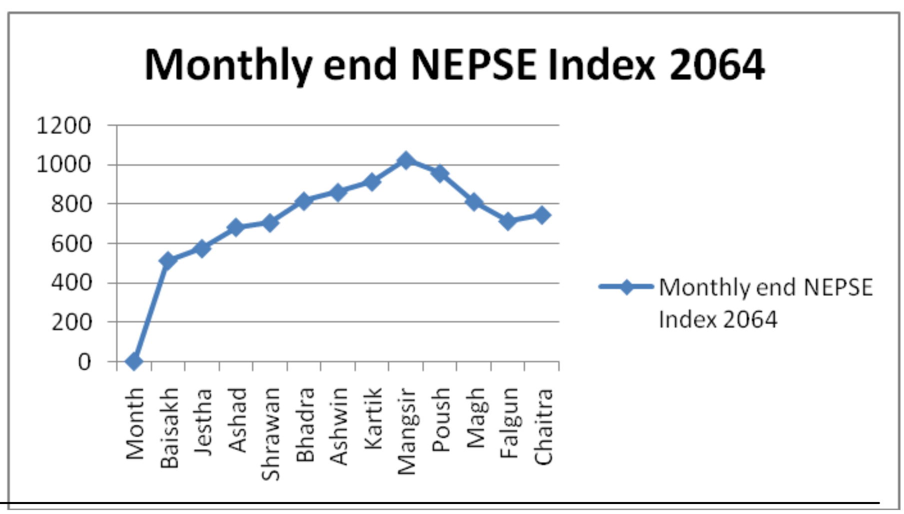


Source: Annex 1

From the figure 4.8, it is seen that NEPSE index began from the below the points of 400 & ended at near the 400 points on year 2063. The trend seems normal until the month of Aswin of the year and turned to bullish trends up to Poush by crossing the 500 points then again turned to bullish trend till the end of the year by reaching the line near the points of 400. It seems more fluctuation on the year.

Figure: -4.9

NEPSE Index Trend of year 2064

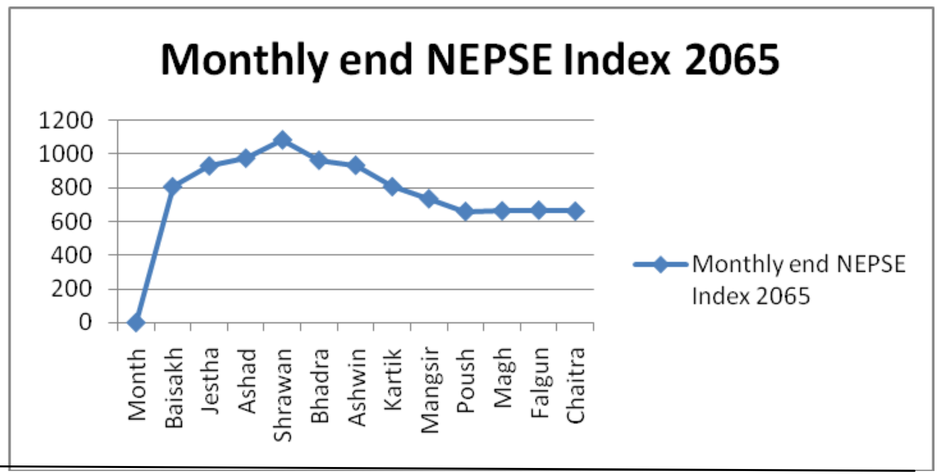


Source: Annex 1

From the figure 4.9, It can be seen that the NEPSE index began from the points near 500 and end at near the points of 750 at the end of year 2064. The trend shows increasing trend till Mangsir and then turn to decreasing trend for few months and again increasing trend at the end of year 2064.

Figure: -4.10

NEPSE Index Trend of year 2065

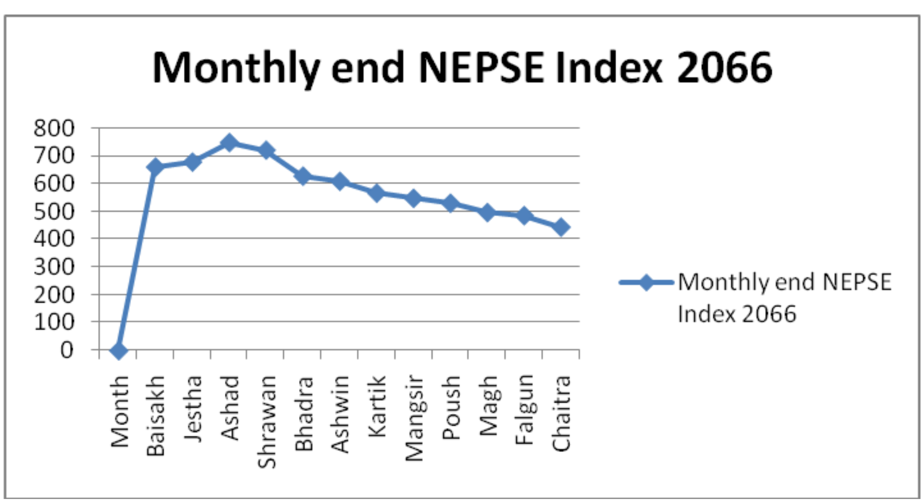


Source: Annex 1

From the figure 4.10, it is seen that NEPSE Index began from near the point of 800 and end at above the 600 points on year.2065. The trend shows increasing trend till Shrawan and then turn to decreasing trend upto Magh. Then it slightly increase in Falgun and ended at chaitra by decreasing.

Figure: -4.11

NEPSE Index Trend of year 2066

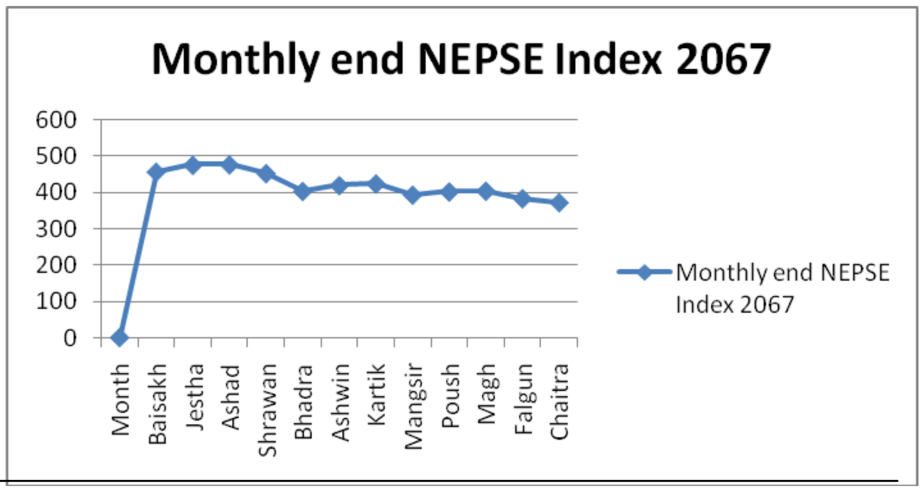


Source: Annex 1

From the figure 4.11. it can be seen that the NEPSE Index began from the points near 650 and end at the near points of 450 at the end of year 2066. The trend shows fluctuating trend for first 4 months and heavy falls during remaining months.

Figure: -4.12

NEPSE Index Trend of year 2067

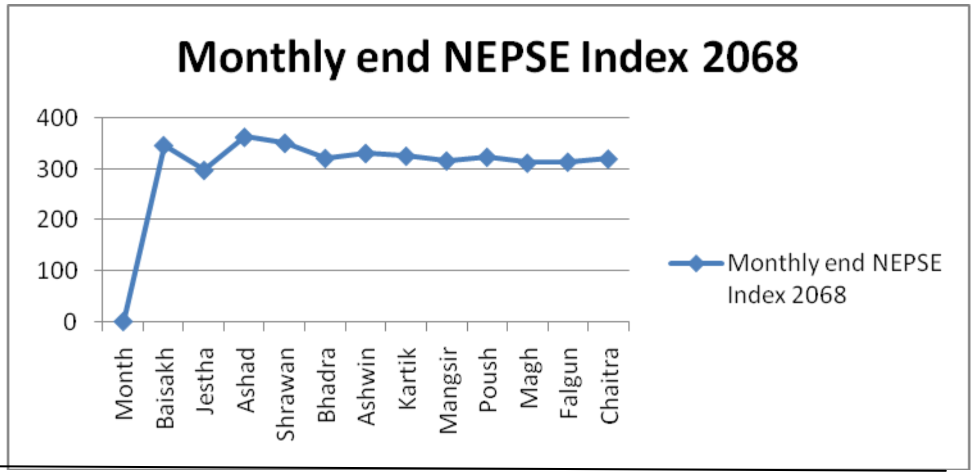


Source: Annex 1

From the figure 4.12, it can be seen that the NEPSE Index began from the ponts near 400 and end at near the points of 350 at the end of year 2067. The trend shows rise in Index for first 1 month and then turn to decreasing trend for few months upto Aswin, again in Kartik it rises but then after for whole year it was in bearish trend.

Figure: -4.13

NEPSE Index Trend of year 2068



Source : Annex 1

From the figure 4.13, it can be seen that the NEPSE Index began from the points near 350 and end at near 300 at the end of Magh 2068. The trend decreased in Jestha but it increased for next two months and then turn to decreasing trend for 2 months till Aswin. Again for 1 month Kartik it was increased but slightly in decreasing trend for remaining months.

From the above Graphs, it is known that NEPSE Index was at 364.22 at beginning (Baisakh, 2057) & ended at 369.05 (End of Chaitra). NEPSE index was in increasing trend for the first 7 months except in Jestha & turned to decreasing trend for the remaining months of the year 2057.In the month of Kartik NEPSE was increased by 85.41 points. Similarly NEPSE index was at 355.6 in the beginning (Baisakh, 2058) and ended at 216.21 (end of Chaitra, 2058) on the year 2058. NEPSE was in fluctuating trend for the whole year. On Falgun NEPSE index was 193.83 which is the least NEPSE index for the whole year. Due to Darbar Hatyakanda, people were afraid of change in political scenario, hence trend of NEPSE was in fluctuating trend.

NEPSE index was at 239.09 in beginning (Baisakh,2059) and ended at 214.9 (Chaitra, 2059). During the year, index was not more fluctuating. Somehow it remained constant for the whole year. In poush, NEPSE index was at 200.8 which is the least index for the year 2059. It may be due to all the companies had declared and distributed dividends and bonus. In year 2060, NEPSE index was at 207.45 in beginning (Baisakh, 2060) and ended at 201.22 (end of chaitra, 2060).Same as 2059, it was found that NEPSE index was somehow constant for the whole year

2060.It may be due to any major political changes and rules regarding Stock exchanged were not formulated.

NEPSE index was 204.35 at Beginning (Baisakh 2061) & ended at 293.20 (End of Chaitra 2061) on the year 2061. NEPSE Index was in increasing trend for first 4 months of 2061 & turned to decreasing trend for next 2 months (Bhadra & Ashoj). After that NEPSE Index turned to bullish trend rest of the years. NEPSE Index was 239.60 at the end of Poush reached 257.20 at the end of Magh, 280 & 293 at the end of Falgun & Chaitra accordingly. Here, NEPSE Index increased by 17.6 points at the end of Magh month. Similarly, 23.4 points increased at the end of Falgun with compare to end of Magh. A gain of 23.4 points in a month is definitely a high growth. However there wasn't any fundamental reason behind it because many companies have already held AGMs and distributed dividend. According to Rabindra Bhattarai, the existing bullish trend was guided by a gambling instinct. The change in the political environment may have improved the investors' confidence (Mr. Bhattarai, Rabindra; New Business Age, April 2005). From this we can conclude that there is a major role of signaling factors. When the political change of Magh 19 (Feb-1) happened, there was developed confidence in investors in the hope that there would be political stability in Nepal. But it was proved their (Investors Analysis) was wrong. Because After that event, seven parties alliance stepped forward for full fledged democracy. They began movement against Gyanendra for democracy. Due to political instability, movement for democracy, NEPSE Index decreased by 7.8 points to the end of Baishakh of 2062 in compare to Chaitra of last year.

NEPSE Index was at 285.40 in Beginning (Baisakh 2062) and ended at 334.77 (End of Chaitra 2062) on the year 2062. NEPSE Index was in fluctuating trend for first 5 months of 2062 and from Ashwin NEPSE Index turned to increased trend and reached at 339.79 points at the end of the falgun. But again decreased to 334.77 points to next months. It was because of people movement for democracy. There was no any trading in NEPSE for 5 days during the chaitra month of the year 2062 due to the curfew. After that, NEPSE reached to 385.89 points at the end of Baishakh of the Next year (2063). NEPSE Index increased by 51.12 points at the last of Baishakh in compare to a month ago. A gain of 51.12 points in a month is definately a high growth in Nepal Stock Exchange. There might have different reasons behind it. Among them, the success of peoples' movement 2062/63 is one of the major influencing factors. But NEPSE Index fluctuates randomly after that. Movement in Terai is one of the variables behind the instability in NEPSE Index till Bhadra. NEPSE Index turned to bullish trend reaching 447.43 points at the end of kartik, 2063. NEPSE index continued to increase in bullish trend & reached at 508.01 points at the end of Mangsir, 2063. NEPSE index increased by 60.58 points at the end of mangsir in compare to the month ago of the year. A gain of 60.58 points in a month is an abnormal and perhaps a record high growth in Nepal stock exchange. We can tell that the peace accord of Kartik 22, 2063 (November 8, 2006) is one of important factors. The bullish trend remained continue upto end of Poush with NEPSE index 532.33 points. Again there was heavy falls on NEPSE Index & turned to bearish trend reaching 494.59 at the end of Chaitra 2063. There might be the reason of falls on international share market in Asia (China, Philippines) & Europe during that period. Beside it, strict in margin lending policy adopted by NRB is also a one of the important factors behind it. In 2064 NEPSE Index was at 513.45 at beginning (Baisakh 2064) and ended at 746.69 (End of Chaitra 2064) on the year 2064. NEPSE Index was in increasing trend for first eight months and reaches highest to 1025.91 and after it turned to decreasing trend for next three months (Poush, Magh and Falgun) and in Chaitra it increase to 746.69.Similarly In 2065, NEPSE Index was at 806.26 at the beginning (Baisakh 2065) and ended at 661.27(End of chaitra 2065) on the year 2065. NEPSE Index was in increasing trend for first four months and reaches highest to 1084.76. After it turned to decreasing trend for next seven months from Bhadra to Magh and then it slightly increases in Falgun and again it decreases at the end of the chaitra and reaches to 661.27.It is increasing trend at the beginning but when the moaist lead the government then after the share market move into the boom stage. That was the main causes of leading the government by anti capitalism party.

NEPSE Index was at 660.96 in beginning (Baisakh, 2066) and ended at 444.76 (End of Chaitra, 2066) on the year 2066. NEPSE Index was in fluctuating trend for first 4 months of 2066 and from Bhadra NEPSE Index turned to decreased trend to end of Chaitra. It was because of the strict margin lending policy of NRB. Investors were afraid of investing in stock market due to unstable political situation. After the NEPSE Index increased from 457.81 to 477.73 in Asar 2067 but it cannot continued for the remaining months. For the whole year, NEPSE Index was in bearish trend. At the end of Chaitra 2067, NEPSE Index was at 373.2. One of the major reason behind fall in NEPSE is that political parties couldnot choose common Prime Minister and Acting Prime Minister Madhav Kumar Nepal lead the government for about 6 months even after his resignation. Similarly in 2068, NEPSE Index was at 346.44 at the beginning (Baisakh, 2068) and 319.95 at the end of Chaitra, 2068. During this time, NEPSE Index was in fluctuating trend. There was decreased in NEPSE Index in Jestha whereas again it rises from 297.62 to 362.85 in Ashad and 351.01 in Sharwan. But again it decreased in Bhadra and Aswin, then it increased in Kartik. But increasing trend was only remain for 1 month. Again for three months it was in decreasing trend. Eventhough Baburam Bhattarai who was believed to lead peace process successfully, lead the country, the behavior and their speak contradict with each other, investors could not believe the government so there is fall in NEPSE Index and fluctuated during the year 2068.

II. Analysis of Volume of Stock Traded

NEPSE Index indicates the overall security prices. It is a price index. It is equally important to analyze the value of stock traded in NEPSE to know the impact of signaling factors. So, this study comparative analyzed the monthly volume of stock traded in NEPSE from Baishak 057 to Magh 068 for 12 years before and after peace accord.

Table 4.14
Volume of Stock Traded in NEPSE pre-peace agreement from 2057-2062

Source: Annual Report of NEPSE

Table 4.15

Years	**2057**	**2058**	**2059**	**2060**	**2061**	**2062**
Months	No. of shares Traded (in '000)					
Baisakh	1250.28	184.34	1038.48	312.62	2862.09	644.28
Jestha	234.98	147.22	212.56	190.09	870.82	1459.48
Ashad	486.21	1809.06	305.14	345.54	393.09	2733.79
Shrawan	323.65	1153	146.07	195.32	843.19	886.60
Bhadra	350.53	213.85	188.7	194.37	6322.83	698.28
Ashwin	165.65	190.52	69.8	121.57	707.46	397.49
Kartik	433.63	240.94	83.81	130.35	178.45	476.63
Mangsir	421.88	270.93	186.64	211.36	595.59	1354.86
Poush	243.29	202.52	239.79	272.42	2212.4	533.22
Magh	175.11	184.55	237.02	284.39	565.54	673.31
Falgun	356.05	173.51	233.68	192.79	1123.19	722.45
Chaitra	375.46	154.25	180.64	343.77	858.5	784.04
Total	**4816.72**	**4924.69**	**3122.33**	**2794.59**	**17533.15**	**11364.43**

Volume of Stock Traded in NEPSE post-agreement from 2063-2068

Years	2063	2064	2065	2066	2067	2068
Months	No. of shares Traded (in '000)					
Baisakh	913.85	1289.84	3494.98	1750.56	1385.77	1990.70
Jestha	3973.71	2032.09	2593.96	2627.81	2670.08	1966.35
Ashad	836.33	3833.04	3327.88	4062.24	1575.75	3514.10
Shrawan	716.818	2817.26	3497.56	3498.52	1534.20	4264.34
Bhadra	1067.533	1812.24	2974.83	4007.87	2295.73	2195.19
Ashwin	454.427	2727.69	2331.22	2581.13	2055.92	2674.15
Kartik	1366.611	946.62	3187.55	1889.13	2043.40	3679.74
Mangsir	1782.251	3138.82	2493.96	2354.96	3467.88	4260.85
Poush	1895.34	2394.62	29310.19	2092.17	2182.92	3509.80
Magh	1184.52	1540.09	1816.61	1762.05	1753.58	1846.89
Falgun	1486.11	219.11	1762.05	1231.96	1743.06	1871.28
Chaitra	1225.26	159.00	1476.88	1385.57	2021.84	2598.22
Total	**16902.76**	**22910.42**	**58267.67**	**29243.97**	**24730.13**	**34371.61**

Source: Annual Report of NEPSE

Tables no-4.14 and 4.15 show the No. of shares traded during the different months of the 12 years from 2057 to Magh 2068.There was the highest trading volume ie, 1250280 shares during the month of Baisakh in 2057. There was the least trading volume in the month of Ashwin ie, 165650 shares. There was fluctuation trend in the no. of shares during the year 2057.

Similarly, 1809060 shares were traded on Asar 2058 which was the highest trading volume and 147220 shares were traded on Jestha which was the least trading volume of the share in the year. In comparision to Jestha, 1661840 more shares were traded in Asar. In Asar, volume of share was in bullish trend.

There was the highest trading volume ie, 1038480 shares traded on Baisakhof 2059 which was the highest trading volume of the year whereas only 69800 shares were traded on the month Aswin which was the least traded volume during the year. The volume of share traded is in bearish trend upto Kartik while it is in bullish trend till the month of Falgun.

There was the highest trading volume ie, 345540 shares on the month of Asar of 2060 while 121570 shares were the least volume of share traded during the year which was traded on the month Aswin. Somehow during the year, there is no more fluctuation in the volume of share is found in comparision to other years.

There was the highest trading volume i.e. 6322830 shares during month of Bhadra in 2061. There was the least trading volume in the month of kartik of the year where only 178,450 shares were traded in NEPSE. similarly, 565,540 shares were traded on the mont of magh while 1,123,190 shares were traded in next month. There was increased in share trading volume by 5565000 shares in Falgun in compare to Magh. Change in political enviroment On magh 19 is a reason behind it because investors thought that there would be political stability in Nepal.

There was the highest trading volume i.e. 2,733,090 shares traded on Ashad of 2062. 397,490 shares were traded on Ashwin of 2062 which was the least trading volume of the year. similarly 644,280 shares were traded on beginning (Baisakh) of the year 2062 & raised to 1,459,480 shares on Jestha & 2,733,710 shares on Ashad of the year. In this way, there was bullish trend on to Ashad of 2062.

Similarly 3,973,710 shares were traded on Jestha 2063, which was the highest trading volume & 454,427 shares traded on Aswin 2063 which was the least volume of share traded of the yr 2063(Baishakha to Poush 2063). There was increased in share trading volume in Jestha by 3,154,840 shares in compare to previous month. The success of people's movement 2062/063 was the one of the important factors behind it. Because investors have confidence of their investment secure. Similarly, 1,366,611 shares were traded on Kartik & reached 1,782,251 shares to Mangsir of 2063. 415,640 shares increased in a month. Here also, the signaling factor played the role to increase the investors for the investment. The peace accord of Kartik 22, 2063 is the major influencing factors behind it.

Similarly in 2064, 1289840 shares traded at the beginning of Baisakh and 159000 shares traded at the end of the Chaitra. The volume of shares was in fluctuating trend for first eight months and reaches to 3138820 shares on Mangsir which was the highest trading volume for this year. And, then after the volume of shares moves to the decreasing trend and reaches to 159000 shares at the end of Chaitra.

Similarly in 2065, 3494980 shares traded at the beginning of Baisakh and 1476880 shares traded at the end of the chaitra.3497560 volume of shares on Shrawan was the highest trading volume for this year. The volume of shares was in fluctuating trend for first nine months and reaches to 29310190 shares on Poush. and then after the volume of shares moves to the decreasing trend and reaches to 1476880shares at the end of Chaitra.

There was the highest trading volume ie, 4062240 shares traded in Asar of 2066. 1231960 shares were traded on Falgun of 2066 which was the least trading volume of the year. Similarly 1750560 shares were traded on beginning (Baisakh) of the year 2066 and increased for the first 4 months and decreased in Aswin. Again afterward in Mangsir it was increased to 2354960 but then it fluctuated during the remaining months.

Similarly, 3467880 shares were traded on Mangsir, 2067 which was the highest trading volume and 13850570 shares were traded on Jestha, 2067 which was the least trading volume. Durimg the year 2067, share volume was fluctuated.After jestha share volume was in decreasing trend for 2 month while after that it was in increasing trend for next five months.

1990700 was the beginning shares volume traded on Baisakh, 2068. On Shrawan, 4264340 shares were traded which was the highest trade volume whereas 1846890 shares traded on Magh, 2068 which was the least trade volume during the year 2068. The share volume was fluctuated in overall period of the year due to the instability of political situation the the country.

III. Analysis of Volume of Stock Traded Amount

Only the no. of shares traded in Nepal Stock Exchange does not give the real picture of market trend and growth because there are some shares which have the very high market price; many times more than par value, some are trading at par value some are trading at below the par. Consequently, it affects the market growth and market capitalization. So it is better to analyze the volume of trading amount in NEPSE to know the market trend before and after peace accord

Years	**2057**	**2058**	**2059**	**2060**	**2061**	**2062**
Months	Volume of share traded amount (in 'Million)					
Baisakh	139.24	95.04	639.51	56.29	1278.37	233.56
Jestha	99.90	85.15	68.79	45.88	147.61	277.67
Ashad	283.68	128.04	80.9	64.45	254.37	198.02
Shrawan	162.72	213.73	38.09	45.06	676.27	289.32
Bhadra	249.41	95.92	44.76	44.33	1796.02	198.18
Ashwin	103.94	82.14	22.93	24.70	200.81	108.61
Kartik	387.47	55.31	27.93	30.56	55.16	175.59
Mangsir	409.68	74.24	61.35	59.44	156.36	326.87
Poush	146.2	60.94	57.93	55.72	165.55	183.92
Magh	156.97	57.38	57.59	67.20	145.72	222.37
Falgun	242.01	72.47	53.22	50.17	306.89	329.03
Chaitra	177.54	51.36	45.55	85.59	295.5	282.52
Total	**2558.76**	**1071.72**	**1198.55**	**629.39**	**5478.63**	**2825.66**

separately.

Table 4.16

Volume of Share Traded Amount in NEPSE pre-agreement from 2057-2062

(Source: Annual Report Of Nepal Stock Exchange)

Table 4.17

Volume of Share Traded Amount in NEPSE post-agreement from 2063-2068

Years	**2063**	**2064**	**2065**	**2066**	**2067**	**2068**
Months	Volume of share traded amount (in Million)					
Baisakh	453.19	527.82	1920.74	1069.77	448.49	618.54
Jestha	618.25	894.29	2227.93	2153.26	954.14	411.47
Ashad	327.92	1432.06	2648.24	1475.23	586.43	913.03
Shrawan	342.523	1717.64	2982.14	1889.23	609.73	1440.68
Bhadra	374.407	1441.56	3053.88	2158.20	633.15	479.41
Ashwin	245.83	2024.45	1927.94	957.75	635.97	396.03
Kartik	712.03	921.02	2614.24	1028.44	456.11	639.96
Mangsir	1006.46	2732.37	1873.61	1140.59	654.50	785.51
Poush	1081.67	3030.79	1403.95	928.48	502.98	664.87
Magh	607.75	1181.93	1003.58	664.08	388.57	386.11
Falgun	716.42	1876.38	1160.64	664.08	408.11	484.11
Chaitra	510.23	1081.25	1108.41	565.25	469.08	516.76
Total	**6996.68**	**18861.6**	**23925.3**	**14694.4**	**6747.26**	**7736.48**

(Source: Annual Report Of Nepal Stock Exchange)

Here in this study we try to

analyze the volume of monthly trading amount from Baisakh 2057 to Magh 2068. In the table, the highest share traded amount in 2057 is 409.68 million and in 2058 is 213.73 million. Similarly in 2059 the highest share traded amount is in the month of Baisakh which is 639.51 million, in 2060, 85.59 million is the highest share traded amount on the highest share traded amount in 2061 is 1796.02 million and in 2062 is 329.03 million. Similarly in 2063 the highest share traded amount is in the month of Poush which is 1081.67 million, in 2064, 3030.79 million is the highest traded share amount on Poush and in 2065, 1927.94 million is the highest traded share amount on Ashwin. Also in 2066 the highest share traded amount is in the month of Bhadra Which is 2158.20 million and in 2067, 954.14 million is the highest traded share amount on the month Jestha and in 2068, 1440.68 million is the highest traded share amount on the month Shrawan.

Comparing to the yearly basis the total volume of share traded in 2057 is 2558.76 million, in 2058 is 1071.72 million, in 2059 is 1198.55 million, in 2060 is 629.39 million, 2061 is 5478.63, in 2062 is 2825.66 million , in 2063 is 6996.68 million, in 2064 is 18861.56 million and in 2065 is 23925.30 million, in 2066 is 15237.52, in 2067 is 6843.43, during 10 months of 2068 is 6818.58 which is highly increasing trend comparing to each other. It seems the higher increasing trend because the number of financial institution has been rapidly growing day by day.

4.3 Presentations and Analysis of Primary Data

This investigation deals with the study of opinions of respondent with respect to the major aspects of share price movement in Nepal. This study is based on questionnaire survey of the opinion of 60 investors. Some important questions are seted & provided to the investors at trading floor of Nepal stock exchange. The proforma of structured questionnaire are presented in Appendix 1and the calculated part of their questions are shown in Appendix 2. The responses of Investors to the questionnaires have been analyzed as below:

a) Impact of peace Accord on Nepalese Security Market:

Ques.1 What is the impact in Nepalese Stock Market after peace accord?

I Increase in share trading volume.
II Decrease in Share trading volume.
III Increase in share price.

IV No any impact

Number	Observed Value(O)	Expected Value(E)	O-E	(O-E)^2	(O-E)^2/E
I	10	15	-5	25	1.67
II	30	15	15	225	15.00
III	10	15	-5	25	1.67
IV	10	15	-5	25	1.67
				Σ(O-E)^2/E =	**20.00**

Step 1st: H_o: There is no significant difference between observed frequency and expected frequency. In other words Nepalese Stock market has faced various problems after peace accord.

Step 2nd: H_1: There is significant difference between observed frequency and expected frequency. In other words Nepalese Stock market has not faced various problems after peace accord.

Step 3rd: Test statistics Under H_o (Null Hypothesis), the test statistics is,

Chi-square = $\Sigma (O-E)^2/E$

Where,

O = Observed Frequency

E = Expected Frequency

H_o: Null Hypothesis

H_1: Alternative Hypothesis

Calculated Chi square = $\Sigma (O-E)^2/E = 20.00$

Degree of freedom (d.f.) = n-1= 4-1= 3

The tabulated value of chi-square at 5% level of significance for 3 d.f. is 7.815.

Conclusion:

Since, calculated value of Chi- Square is greater than the tabulated value of chi- square.

Therefore, H1: is accepted ie, Nepalese Stock market has not faced various problems after peace accord.

b) Impact of major influence factors to change the stock price.

Ques.2 What are the major influences factors to change the stock price?

I Company Performance.
II Due to dividend.
III Due to R/E.
IV Due to signaling factor.

Number	Observed Value(O)	Expected Value(E)	O-E	(O-E)^2	(O-E)^2/E
I	10	15	-5	25	1.67
II	5	15	-10	100	6.67
III	5	15	-10	100	6.67
IV	40	15	25	625	41.67
	60			**Σ(O-E)^2/E =**	**56.67**

Step 1st: H_o: There is no significant difference between observed frequency and expected frequency. In other words, the impact of major influence factors to change the stock price.

Step 2nd: H_1: There is significant difference between observed frequency and expected frequency. In other words, the impact of the major influence factors do not change the stock price.

Step 3rd: Test statistics Under H_o (Null Hypothesis), the test statistics is,

Chi-square = Σ (O-E)^2/E

Where,

O = Observed Frequency

E = Expected Frequency

H_o: Null Hypothesis

H_1: Alternative Hypothesis

Calculated Chi square = Σ (O-E)^2/E = 56.67

Degree of freedom (d.f.) = n-1= 4-1= 3

The tabulated value of chi-square at 5% level of significance for 3 d.f. is 7.815.

Conclusion:

Since, calculated value of Chi- Square is greater than the tabulated value of chi- square.

Therefore, H1: is accepted ie, the impacts of the major influence factors do not change the Stock price.

c) Effect of publicity in Share Price:

Ques.3 Does the publicity bring the change in Share Price?

I Yes
II No
III Don't Know

Number	Observed Value(O)	Expected Value(E)	O-E	(O-E)^2	(O-E)^2/E
I	21	20	1	1	0.05
II	18	20	-2	4	0.20
III	21	20	1	1	0.05
	60			**Σ(O-E)^2/E =**	**0.30**

Step 1^{st}: H_o: There is no significant difference between observed frequency and expected frequency. In other words, the publicity available information brings the change in share price.

Step 2^{nd}: H_1: There is significant difference between observed frequency and expected frequency. In other words, the publicity available information does not bring the change in share price.

Step 3^{rd}: Test statistics Under H_o (Null Hypothesis), the test statistics is,

Chi-square = Σ $(O\text{-}E)^2/E$

Where,

O = Observed Frequency

E = Expected Frequency

H_o: Null Hypothesis

H_1: Alternative Hypothesis

Calculated Chi square = Σ (O-E)^2/E = 0.30

Degree of freedom (d.f.) = n-1= 3-1= 2

The tabulated value of chi-square at 5% level of significance for 3 d.f. is 5.991

Conclusion:

Since, calculated value of Chi- Square is less than the tabulated value of chi- square.

Therefore, Ho: is accepted ie, the publicity available information brings the change in share price.

d) Usefulness of inside information:

Ques. 4 **Do You think that the inside information can be used to beat the market in Nepal?**

I Yes

II No

III Don't Know

Number	Observed Value(O)	Expected Value(E)	O-E	(O-E)^2	(O-E)^2/E
I	25	20	5	25	1.25
II	17	20	-3	9	0.45
III	18	20	-2	4	0.20
	60			**Σ(O-E)^2/E =**	**1.90**

Step 1st: H_o: There is no significant difference between observed frequency and expected frequency. In other words, the inside information can be used to beat the Nepalese Stock market.

Step 2nd: H_1: There is significant difference between observed frequency and expected frequency. In other words, the inside information cannot be used to beat the Nepalese Stock market.

Step 3rd: Test statistics Under H_o (Null Hypothesis), the test statistics is,

Chi-square = Σ (O-E)^2/E

Where,

O = Observed Frequency

E = Expected Frequency

H_o: Null Hypothesis

H_1: Alternative Hypothesis

Calculated Chi square = Σ (O-E) ^{2} /E = 1.90

Degree of freedom (d.f.) = n-1= 3-1= 2

The tabulated value of chi-square at 5% level of significance for 3 d.f. is 5.991

Conclusion:

Since, calculated value of Chi- Square is less than the tabulated value of chi- square. Therefore, Ho: is accepted ie, the inside information can be used to beat the Nepalese Stock market.

e) Randomness of share price changes:

Ques.5 In your view randomness of share price changes in Nepalese Stock market exixt or not?

I Yes

II No

III Don't Know

Number	Observed Value(O)	Expected Value(E)	O-E	(O-E)^2	(O-E)^2/E
	Value (O)	Value (E)	O-E	(O-E)^2	(O-E)^2/E
I	30	20	10	100	5.00
II	15	20	-5	25	1.25
III	15	20	-5	25	1.25
	60			**Σ(O-E)^2/E =**	**7.50**

Step 1st: H_o: There is no significant difference between observed frequency and expected frequency. In other words, randomness of share price changes exists in the Nepalese Stock market.

Step 2nd: H_1: There is significant difference between observed frequency and expected frequency.

In other words, randomness of share price changes does not exist in the Nepalese Stock market.

Step 3rd: Test statistics Under H_o (Null Hypothesis), the test statistics is,

Chi-square = Σ (O-E)^2/E

Where,

O = Observed Frequency

E = Expected Frequency

H_o: Null Hypothesis

H_1: Alternative Hypothesis

Calculated Chi square = Σ (O-E)^2/E = 7.50

Degree of freedom (d.f.) = n-1= 3-1=2

The tabulated value of chi-square at 5% level of significance for 3 d.f. is 7.815.

Conclusion:

Since, calculated value of Chi- Square is greater than the tabulated value of chi- square.

Therefore, H0: is accepted ie, randomness of share price changes exists in the Nepalese Stock market.

f) Purpose of holding share:

Ques.6 Why the most of the investors hold the share in stock market?

I Social Status

II Income

III For dividend

IV To Utilize the available fund.

Number	Observed Value(O)	Expected Value(O)	O-E	(O-E)^2	(O-E)^2/E
I	15	15	0	0	0.00
II	30	15	15	225	15.00
III	5	15	-10	100	6.67
IV	10	15	-5	25	1.67
	60			**Σ(O-E)^2/E =**	**23.33**

Step 1st: H_o: There is no significant difference between observed frequency and expected frequency. In other words, investors hold the share in Nepalese Stock market.

Step 2nd: H_1: There is significant difference between observed frequency and expected frequency. In other words, investors do not hold the share in Nepalese Stock market.

Step 3rd: Test statistics Under H_o (Null Hypothesis), the test statistics is,

Chi-square = Σ (O-E) ^{2} /E

Where,

O = Observed Frequency

E = Expected Frequency

H_o: Null Hypothesis

H_1: Alternative Hypothesis

Calculated Chi square = Σ (O-E) ^{2} /E = 23.33

Degree of freedom (d.f.) = n-1= 3-1= 2

The tabulated value of chi-square at 5% level of significance for 3 d.f. is 7.815.

Conclusion:

Since, calculated value of Chi- Square is less than the tabulated value of chi- square.

Therefore, H1: is accepted ie, investors do not hold the share in Nepalese Stock market.

g) Factors that effect in Decision Making

Ques.7 What factors play the role in decision making to invest in share market?

I Current market price.
II Company's Performance .
III Expert advice.
IV Own analysis.

Number	**Observed Value(O)**	**Expected Value(E)**	**O-E**	**(O-E)^2**	**(O-E)^2/E**
I	15	15	0	0	0.00
II	30	15	15	225	15.00
III	5	15	-10	100	6.67
IV	10	15	-5	25	1.67
	60			**Σ(O-E)^2/E =**	**23.33**

Step 1^{st}: H_o: There is no significant difference between observed frequency and expected frequency. In other words, various factors play the role in decision making to invest in Nepalese Stock market.

Step 2^{nd}: H_1: There is significant difference between observed frequency and expected frequency. In other words, various factors do not play the role in decision making to invest in the Nepalese Stock market.

Step 3^{rd}: Test statistics Under H_o (Null Hypothesis), the test statistics is,

Chi-square = Σ (O-E) ^{2} /E

Where,

O = Observed Frequency

E = Expected Frequency

H_o: Null Hypothesis

H_1: Alternative Hypothesis

Calculated Chi square = Σ (O-E) ^{2} /E = 23.33

Degree of freedom (d.f.) = n-1= 3-1= 2

The tabulated value of chi-square at 5% level of significance for 3 d.f. is 7.815

Conclusion:

Since, calculated value of Chi- Square is greater than the tabulated value of chi- square.

Therefore, H1: is accepted ie, various factors do not play the role in decision making to invest in the Nepalese Stock Market.

h) Usefulness of current market price in future period.

Ques. 8 What are the usefulness of the current market price in Future?

I. To predict the future price.
II. To identify the bad of good share.
III. To predict the future return.

IV. To make buy or sell decision.

Number	Observed Value(O)	Expected Value(E)	O-E	(O-E)^2	(O-E)^2/E
I	16	15	1	1	0.07
II	14	15	-1	1	0.07
III	14	15	-1	1	0.07
IV	16	15	1	1	0.07
	60			**Σ(O-E)^2/E =**	**0.27**

Step 1st: H_o: There is no significant difference between observed frequency and expected frequency. In other words, usefulness of current market price in future in Nepalese Stock market.

Step 2nd: H_1: There is significant difference between observed frequency and expected frequency. In other words, there is no usefulness of current market price in future in Nepalese Stock market.

Step 3rd: Test statistics Under H_o (Null Hypothesis), the test statistics is,

Chi-square = Σ (O-E) ^{2} /E

Where,

O = Observed Frequency

E = Expected Frequency

H_o: Null Hypothesis

H_1: Alternative Hypothesis

Calculated Chi square = Σ (O-E) ^{2} /E = 0.27

Degree of freedom (d.f.) = n-1= 3-1= 7.815

The tabulated value of chi-square at 5% level of significance for 3 d.f. is 5.991

Conclusion:

Since, calculated value of Chi- Square is less than the tabulated value of chi- square.

Therefore, H1: is accepted ie, , there is no usefulness of current market price in future in Nepalese Stock market.

4.4 Major Findings of the Study

The findings of the primary and secondary data analysis are discussed below:

- The investors were asked about the impact of peace accord on Nepalese Secondary Market; Most of the respondents viewed the positive impacts. They viewed that there are increased in share trading volume & share price after the peace accord. So, it is found that investors felt secure in their investment after the peace accord.
- With respect to influencing factors of stock price, investors gave the first priority to the signaling factors & second priority to company performance. However, with the help of informal dialogues with different investors on this aspect, it is found that announcement of right & bonus share also plays the important role in stock price movement.
- With respect to usefulness of publicly available information the absolute majority of the respondents were of the view that the publicly available information is useful in identifying consequently. It (Publicly available information) brings the changes in share prices.
- Regarding the useful of inside information to beat the market, it is found that major respondents believes that the inside information can used to "beat the market". 30% investors believed that it cannot be used to "beat the market" but 28.33% does not know about it. From this we can know that there are few investors who doesn't know about the inside information.
- With respect to randomness in day to day price change majority (i.e.50%) respondents viewed the price change followed the randomness. Equal percentage i.e. 25% respondents says no and don’t know.. It shows that there is not uniformity among investors in Nepalese secondary markets.
- With regard to the purpose of holding shares, major portions of the respondents i.e.50% invest their money for the future income, 25% invest their money for the social status, 16.67% of total respondents are using their excess fund (Available fund) in shares and 8.33% respondents invest for dividend. It shows that there are four types of investors. First types of investors invests their fund for the future income so they are more

conscious about stock market & different events and the investors who are using their excess money, are not more conscious about their shares and share trading on secondary market.

- Regarding the decision making for investments, there seems four type of investors. One type of investors who investor on the basis of current market prices trend. Next type of investors who invests their fund by analyzing the company current performance. It shows that there are technical analysts who invest their fund on the basis of current market price trend in the hope of capital gain by raising the market price in future. Next type of investors who adopt the fundamental analysis who invests their fund by analyzing the company's current performance.
- Regarding the useful of current trading price of share, major respondent rank first to the point "to predict the future price" and “To make buy or sell decision”. It shows that major investors who analyze the share on current trading price rather than fundamental analysis which shows that still a huge portion of investors are not full aware of the market
- From the trend analysis, overall trend of NEPSE index is increasing just after peace accord.
- NEPSE index fluctuates randomly, some time it turns to bullish trend and some time turns in bearish trend.
- From the data analysis it came to know that share price movements in Nepalese security market is affected by political movements, signaling factors, peace accord, NRB Lending policy etc.

CHAPTER – V

SUMMARY, CONCLUSION & RECOMMENDATIONS

5.1 Summary

For the economic development, for overall development of the country, there should be well environment for the establishment of corporations in the different sectors of economy. The capital market efficiency occupies the important role in capital investment. From the literature review, it is known that there are numerous studies and research have been done on the developed market to measure the level of market efficiency. In Nepal, there are also some research work have been done. But the adjustment of time period & other variables are needed to be more conclusive about the efficiency of stock market in Nepal. Efficiency of market reflected in share price movement. So studies on share price movement are very important. So this study attempts to analyze the Nepalese capital market with reference to the present conditions and current happenings. This study mainly aims to assess the behavior of share price fluctuations in Nepal Stock Exchanges and test the hypothesis that share price changes are independent. Besides these this study aims to measure the signaling impact on share price. Its specific objectives are (i) To analyze the current market or share price trend with the help of price index. (ii) To examine the successive price changes are independent or dependent for each other (ii) To measure the impact of signaling factors on share price movement and (iv) To conduct the opinion survey of investors regarding various aspects of share price movement in Nepalese Security Market.

This study is based on secondary as well as primary data. All the companies listed in NEPSE are taken as populations and all the actively traded companies in NEPSE are taken as samples one to analyze the general market trend and impact of signaling factors on share price movement on Nepalese Security Market. Yearly and Monthly closing price is considered for the study. The period covered by the study is from Baishakh, 2057 to Chaitra, 2068. Primary data was collected from field survey. Field survey was conducted through the questionaire & collected the opinions of 60 concerned respondents on different aspects of share price movement.
Different statistical techniques are used for analyzing the data. Trend analysis used to analyze the

NEPSE index trend, trend of volume of share traded in Nepal stock exchange. Chi square test computed to measure the significant impact on share price movement of different major events happened in Nepal or signaling factors and it was tested at 5 % level of significance.

In order to study the opinion of investors regarding the various aspects on share price movement, a questioner survey of 60 respondents was carried out. Different questions stated on questionary was analyzed after getting the responses from the respondent one by one. After presenting & analyzing the data, the findings were presented and interpreted. On the basis of finding, conclusion will be drawn of some recommendation would be given at the end of study.

5.2. Conclusion

From the findings of the data presentation and analysis, this study concludes that there is a high share price fluctuation in Nepalese Security Market. From the trend analysis of NEPSE Index & volume of stock traded and the traded amount in Nepal stock exchange, Nepalese stock market moves randomly. With the help of chi-square test and trend analysis, it can be concluded that Nepalese stock market is very sensitive to the signaling factors. So, it can be said that Nepalese stock market is efficient in the sense of pricing share but there might be some error to say Nepalese stock market is 'efficient' since the market efficiency is defined as all the relevant information is reflected in share price.

Another conclusion can be drawn that there was increasing trend in share price and share trading volume after the peace accord of Kartik 22, 2063 and political movement of 2065 and most of the investors felt it positively impact on share market but does not think it as a major influencing factors on share price movements. Lastly, we can conclude that Nepalese stock market is not an efficient market but slightly exists the weak form efficient market hypothesis.

5.3. Recomendations

Based on this study some recommendations are given. They are as follows:

- Since the non random share price changes are observed, it is recommended that the investor should be aware of the fact that above averages return is possible to some extent from the past trend of pattern.

- It is recommended that speculations on the basis of rumour regarding the current market price fluctuations should be stopped. So it would be better to publish the working result of listed companies at least on quarterly basis.
    - It is recommended that the market makers should give the attentions to the small investors and not only to the huge investors.
    - It is recommended that the false information's or rumor flower should be punishable.
    - It is very positive factors that Nepal Rastra Bank stricted the margin lending policy which gives the chances to the small investors too.
    - It is recommended that the regulatory body should be more active so that the inside trader should be minimize.

BIBLIOGRAPHY

Books

Bhattarai, Rabindra. (2005), *Investment Theories and Practices*, Buddha Academic Publishers and Distributers

Cheney, John M & Edward, A. Mosses (1992), *Fundamental of Investment,* Paul / USA: West Prakashan.

Francis, Jack Clark (1997), *Investment Analysis and Management*, New York: MC Graw Hill Book Company.

George, A. Chrity and Clendix, John C. (1982), *Introduction to Investment*, MC Graw Hill Book Company.

Manandhar K.D, (2065), *Corporate Finance*, Ishowari Books and Stationary, Minbhawan, Ktm.

Pradhan, Dr. Radhe Shyam (2004), *Financial Management,* Budddha Academic Enterprises, Kathmandu.

Reilly, Frank K.(1986), *Investment*, The Dydren Press, CBS Publishing Japan Ltd, Japan.

Journal Periodicals/Annual Reports

Bhattarai, Rabindra (2007), *Speculative Boom, New Business Age,* Kathmandu. New Business Age Pvt. Ltd 4(11):46

Fama, Eugene (1965), *Stock Market Price Behaviour*, Journal of Business, Chicago:

University of Chicago Press, XXXVII: 36.

Ministry of Law and Justice (2063), *Company Act 2063*, Nepal Law Books Management Board, Kathmandu.

Securities Board, Nepal (1998), *A Five Year Performance* (1993-1998), Kathmandu.

Securities Board Nepal (1998), *Ten years of Securities Board in Nepal*, Kathmandu.

Thesis

Bhatta, Bharat Prasad (1997) : *"Dynamic of Stock Market in Nepal"*, Kathmandu: Shanker Dev Campus, T.U.

Dahal, Bachhu Ram (2001): *"Stock Market Behavior Of Listed Joint Venture Company in Nepal"*, Kathmandu : Nepal Commerce Campus, T.U.

Dhungel, Udipa (2010): *"Stock Market Volatility and Investor's Behavior":* Kathmandu : Shanker Dev Campus, T.U.

Poudel, Shekhar (2003): "*A Study of Movement of Stock Price of Joint Venture Commercial Bank*, Kathmandu : Shanker Dev Campus, T.U.

Shrestha, Rebati Kumar (2008): *"An Analysis on the factors of volatility of Share Price in Nepalese Stock Market"* : Kathmandu : Shanker Dev Campus, T.U.

Yadav, Vijay Kumar (2007): *"Dividend Policy and its Impact on Market Price of Stock"*, Kathmandu : Shanker Dev Campus, T.U.

Websites

www.google.com (August, 2012)

www.nepalstock.com (August, 2012)

www.nrb.com (August, 2012)

ANNEX.1

Monthly End NEPSE Index from Year 2057-2060

Month	Monthly End NEPSE Index 2057	Month	Monthly End NEPSE Index 2058
Baisakh	304.22	Baisakh	355.6
Jestha	338.76	Jestha	333.18
Ashad	360.7	Ashad	348.45
Shrawan	364.15	Shrawan	322.13
Bhadra	421.48	Bhadra	295.32
Ashwin	433.92	Ashwin	281.21
Kartik	519.33	Kartik	300.15
Mangsir	486.05	Mangsir	284.48
Poush	464.76	Poush	255.92
Magh	455.34	Magh	236.01
Falgun	395.85	Falgun	193.83
Chaitra	369.05	Chaitra	216.21

Month	Monthly End NEPSE Index 2059	Month	Monthly End NEPSE Index 2060
Baisakh	239.09	Baisakh	207.45
Jestha	226.04	Jestha	207.6
Ashad	227.54	Ashad	204.86
Shrawan	226.59	Shrawan	207.92
Bhadra	222.98	Bhadra	208.46
Ashwin	219.26	Ashwin	207.54
Kartik	220.73	Kartik	206.21
Mangsir	214.57	Mangsir	201.94
Poush	200.8	Poush	201.95
Magh	213.31	Magh	211.31
Falgun	209.66	Falgun	207.8
Chaitra	214.9	Chaitra	201.22

Monthly End NEPSE Index from Year 2061-2064

Month	Monthly End NEPSE Index 2061	Month	Monthly End NEPSE Index 2062
Baisakh	204.35	Baisakh	285.4
Jestha	213.12	Jestha	277.7
Ashad	222.04	Ashad	286.6
Shrawan	224.24	Shrawan	300
Bhadra	231.8	Bhadra	293.22
Ashwin	231.2	Ashwin	297.34
Kartik	233	Kartik	302.39
Mangsir	236.3	Mangsir	302.78
Poush	239.6	Poush	305.5
Magh	237.2	Magh	317.69
Falgun	280.6	Falgun	339.79
Chaitra	293.2	Chaitra	334.77

Month	Monthly End NEPSE Index 2063	Month	Monthly End NEPSE Index 2064
Baisakh	385.89	Baisakh	513.45
Jestha	372.01	Jestha	575.04
Ashad	386.83	Ashad	683.95
Shrawan	389.23	Shrawan	705.96
Bhadra	382.56	Bhadra	817.08
Ashwin	398.44	Ashwin	861.35
Kartik	447.43	Kartik	915.38
Mangsir	508.01	Mangsir	1025.91
Poush	533.33	Poush	958.91
Magh	523.94	Magh	814.43
Falgun	494.06	Falgun	714.76
Chaitra	494.59	Chaitra	746.69

Month	Monthly End NEPSE Index 2065	Month	Monthly End NEPSE Index 2066
Baisakh	806.26	Baisakh	660.96
Jestha	930.65	Jestha	678.74
Ashad	976.01	Ashad	749.1
Shrawan	1084.76	Shrawan	721.95
Bhadra	963.36	Bhadra	628.34
Ashwin	933.97	Ashwin	609.55
Kartik	806.9	Kartik	566.94
Mangsir	734.85	Mangsir	548.61
Poush	659.81	Poush	530.96
Magh	663.52	Magh	497.24
Falgun	667.2	Falgun	486.25
Chaitra	661.27	Chaitra	444.76
Month	**Monthly End NEPSE Index 2067**	**Month**	**Monthly End NEPSE Index 2068**
Baisakh	457.81	Baisakh	346.44
Jestha	476.69	Jestha	297.62
Ashad	477.73	Ashad	362.85
Shrawan	453.7	Shrawan	351.01
Bhadra	404.43	Bhadra	321.18
Ashwin	420.3	Ashwin	330.99
Kartik	424.93	Kartik	325.61
Mangsir	394.17	Mangsir	316.27
Poush	402.75	Poush	323.62
Magh	405.03	Magh	311.88
Falgun	384.17	Falgun	313.92
Chaitra	373.2	Chaitra	319.95

Monthly End NEPSE Index from Year 2065-2068

ANNEX: 2

Dear Sir / Madam,

To complete the Master degree in Management Faculty thesis writing is necessary. So, now a day I am writing a thesis about the "**STOCK PRICE VOLATILITY AND ITS IMPACT ON NEPALESE SHARE MARKET**". I have arisen a different question about this topic. Please give a tick mark in your choice's answer.

I hope you will be helpful to the researcher for the completion of thesis writing.

Thank you.

Questions for Primary data.

Name:

Occupation:

Address:

Telephone no:

1) What is the impact in Nepalese Stock Market after peace accord?
   a) Increase in share trading volume.
   b) Decrease in share trading volume.
   c) Increase in share price.
   d) No any impact.

2) What are the major influences factors to change the stock price?
   a) Company performance.
   b) Due to dividend.
   c) Due to R/E.
   d) Due to signaling factor.

3) Does the publicity bring the changes in Share price?
   a) Yes

b) No
c) Don’t know

4) Do you think that the inside information can be used to beat the market in Nepal?
   a) Yes
   b) No
   c) Don’t know.

5) In your view randomness of share price changes in Nepalese Stock Market exists or not?
   a) Yes
   b) No
   c) Don’t know

6) Why the most of the investors hold the share in stock market?
   a) Social status.
   b) Income.
   c) For Dividend.
   d) To utilize the available fund.

7) What factors play the role in decision making to invest in share market?
   a) Current market price.
   b) Company’s performance.
   c) Expert advice.
   d) Own analysis.

8) What is the usefulness of the current market price in future?
   a) To predict the future price.
   b) To identify the bad or good share.
   c) To predict the future return.
   d) To make buy or sell decision.