DETERMINANTS OF STOCK PRICE IN NEPAL STOCK EXCHANGE LIMITED

(With Special Reference to Commercial Banks)

A THESIS

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RECOMMENDATIONS

This is to certify that the thesis

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(With Special Reference to Commercial Banks)

has been prepared as approved by the thesis department in the prescribed format of the faculty of management. This thesis is forwarded for examination.

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VIVA-VOCE SHEET

We have concluded the viva-voce examination of the thesis

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and found that the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for Master Degree in Business Studies

Viva – Voce Committee

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DECLARATION

I hereby, declare that the work reported in this thesis entitled “Determinants of Stock Price in NEPSE" (with Special Reference to Commercial Banks**)** submitted to the Research Department of Nepal Commerce Campus, Faculty of Management, Tribhuvan University is my original work done in the form of partial fulfillment of the requirements for the Master of Business Studies. This is prepared under the supervision of Mr. Rajesh Gurung and Dr. Bihari Binod Pokharel of Nepal Commerce Campus.

…… Date: December, 2008

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ABBREVIATIONS

AD	:	Anno Domini
AGM	:	Annual General Meeting
AMEX	:	American Stock Exchange
BPS	:	Book-value Per Share
BS	:	Bikram Sambat
CV	:	Coefficient of Variation
DDM	:	Dividend Discount Model
DPS	:	Dividend per Share
EBL	:	Everest Bank Limited
EPS	:	Earning Per Share
HBL	:	Himalayan Bank Limited
IMF	:	International Monetary Fund
Ltd.	:	Limited
MBS	:	Masters of Business Studies
MPS	:	Market Price of Share
NBL	:	Nabil Bank Limited
NCC	:	Nepal Commerce Campus
NEPSE	:	Nepal Stock Exchange Ltd
NYSE	:	New York Stock Exchange
OTC Market	:	Over The Counter Market
r	:	Simple Coefficient of Correlation
Rs	:	Rupees
S & P 500	:	Standard and Poor 500
SBI	:	Nepal State Bank of India Limited
SCB	:	Standard Chartered Bank Nepal Limited
SEBO/N	:	Security Board of Nepal
TU	:	Tribhuvan University
US$	:	United States Dollar
USA	:	United States of America

CHAPTER I

Introduction

1.1 General Background

As the world has moved towards the open and market oriented economy, the strong capital market has been the encouraging factor for the growth and expansion of banking and financial system. The development of capital market has shifted the trend of investing in a business venture with the limited individual person's fund to investing in big business venture with the collective fund of investor across the globe. Accumulation of fund from the small or big investors in the form of equity or debt capital by the business organization has solidly developed the primary and secondary market, which are the important component for making investor easy to pursue their investment activities in this global economy.

Capital is the lifeblood of the business organizations. Every business enterprise requires short term, intermediate and long term capital for the smooth operation and expansion of the organizational activities. Among these types of fund, the long term funds plays highly significant role for future growth and prosperity of the organizations. Most business organizations gather long term funds from financial market.

Financial Market is the place where the financial instruments are traded. Financial instruments include share, bond, debenture etc. It is a means to transfer funds from savers to those in need of funds. Financial experts have mentioned it as a brain of the entire economic system. The failure of the financial market obstructs the progress of the whole economy.

Financial markets can be defined as the centers or arrangements, which provide facilities for buying and selling of financial claims and services. Specifically, financial market chiefly refers to money market and capital market. It facilitates the transfer of funds from the savers to those who with to invest in capital goods.

Money markets are sometimes defined as organized and unorganized money markets. The organized or formal money markets provide an institutional mechanism for the transactions

of short term securities and commercial banks, finance companies and other saving/credit unions are the players in the money market. Local merchants, indigenous bankers and relatives come under the informal or the unorganized sector.

Capital Markets also play a vital role in the national economy. Capital market facilitates the allocation of funds between the savers and borrowers. This allocation will be optimum if the capital market has efficient pricing mechanism. If the capital market is efficient, the current share price of the company fully reflect the available information and there will be no question of the share price being over or under priced. Capital market is concerned with the long term finance. The funds collected in the market are raised and traded by long term financial instruments such as equities and bonds.

Stock Exchange is a market for long term capital where both new capitals can be raised by companies and where existing shares can also be bought and sold. By providing a second hand market for investors to sell their shares, it facilitates the raising of new capital on the new issues market. The stock exchange also provides a market for government loans and securities, and increasingly involved in the buying and selling of securities in the overseas companies. On the market, the main operators are the market makers who trade in a group of share, and the stock brokers who act as agents for their clients, who are the investors who are actually buying and selling shares. New York Stock Exchange London Stock Exchange, Tokyo Stock Exchange, Paris Stock Exchange, Frank fruit Exchange , Toronto Stock Exchange are the biggest stock Exchanges of the world. Mumbai Stock Exchange is the largest stock and Nepal Stock Exchange is the only organized stock exchange of Nepal.

1.1.1 Constituent of Capital Market in Nepal

Security Board, Nepal (SEBO/N)

Security Board, Nepal was established on May 26, 1993, under the provision of the Security Exchange Act, 1983. It was established with the objectives of the promoting and protecting the interests of investors by regulating the securities market. It also assumes the responsibility of development of securities market in the country, besides the regulatory role. Security

Board has identified the policy development, legal and regulatory reform, stand arising disclosers, bringing enforcement to insure compliance and promoting broad based market as priority area to reform. The private sector has also been participating equally in establishing a sound system of security exchange. In private sector – investors, listed companies, financial and market intermediaries and in government sector – Ministry of Finance, Registrar of Companies (Ministry of Industry, Commerce and Supply), Nepal Rastra Bank, Nepal Stock Exchange, Federation of Nepalese Chamber of Commerce and Industries (FNCCI), Institute of Chartered Accountants of Nepal (ICAN) and Associations of Chartered Accountants have been playing vital role in promoting the capital market of the country.

The objectives of the Board are to promote and protect the interest of the investors by regulating the issuance, sale and distribution of securities and purchase, sale or exchange of securities, to supervise, look after and monitor the activities of the stock exchange and other related firms on securities business, and to render contribution to the development of the capital market by making securities transactions fair, healthy, efficient and responsible.

Nepal Stock Exchange

Along with the formation of Security Exchange Board, His Majesty's Government converted the Securities Exchange Centre Ltd into Nepal Stock Exchange Ltd. (NEPSE) in 1993 with a view to reform the Capital market. It is a non-profit making organization operating under Securities Exchange Act 1983. Brokers and market makers operate on the trading floor as per the Securities Exchange Act rules and bylaws of NEPSE. Nepal Stock Exchange started its trading operation on 13 January 1994 through its licensed members. The Securities Board was constituted in 1993 under Sec. 1 of the Securities Exchange Act 1983.

Its main objective is to provide essential policy direction for the systematic and regular exchange of securities and develop competitive stock exchange market by protecting and promoting the interest of the investors. Nepal Stock Exchange is a trading (operational) institution, whereas Securities Board is the regulatory body. Before the Board came into existence, the Securities Exchange Centre carried on both the functions. Though any corporate body desirous to carry out the transaction of securities can submit application to the

Board for obtaining the license, till now Nepal Stock Exchange alone is representing the securities market in the country.

At present, there are 23 valid member brokers and 1 market maker. There are146 listed companies in NEPSE. Previously NEPSE has adopted an "Open Out Cry" system. But NEPSE has adopted the electronic trading system from 15th august 2007. From June, 4 2008, the OTC market operated in NEPSE. Similarly the basic objectives of the NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating transactions on its trading floor through market intermediaries such as brokers, market makers etc. Nepal Stock Exchange (NEPSE) is the only organized stock exchange of Nepal. (www.nepal stock.com 2008)

Similarly the basic objectives of the NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating transactions on its trading floor through market intermediaries such as brokers, market makers etc. Nepal Stock Exchange (NEPSE) is the only organized stock exchange of Nepal.

1.1.2 Security Market

In simple sense, security market is the place where people buy and sell financial instruments. These financial instruments may be in the form of government bonds, corporate bonds or debentures, ordinary share, preference share etc. So far security market is concerned; it is an important constituent of capital market. It has a wide term embracing the buyers and sellers and all the agencies and institutions that assist the sell and resell of corporate securities. Although security market is concerned in few locations, they refer more to mechanism rather than to place designed to facilitate the exchange of securities. Security market can be defined as a mechanism for bringing together buyers and sellers of financial assets in order to facilitate trading. In order to allocate capital efficiently to maintain higher degree of liquidity in securities, the securities market should be efficient enough in pricing the shares solely by economic considerations based on publicly available information.

The first public floatation of shares in the securities market was initiated by Biratnagar Jute Mills Ltd. in 1937. There were very few companies in Nepal issuing shares to the general public until another company Act came into operation in 1951. In the absence of developed security market in Nepal, the government was the sole issuing authority of Development Bonds and National Saving Certificates. Therefore, the securities generally in the market were mainly the government securities. Government securities are fully traded under the management and supervision of Nepal Rastra Bank (NRB). . Institutional Development of securities market in Nepal started from the year 1976 when Securities Exchange Centre (SEC) was established under the Companies Act with the joint Capital contribution of Nepal Rastra Bank and Nepal Industrial Development Corporation. The Industrial Policy of the Government also encouraged the promotion of securities exchange activities in Nepal. The main objective of the establishment of the Centre was to mobilize public savings and encourage the people to participate in the ownership of industries and business enterprises. As a securities market intermediary, its role was to organize and provide marketing facilities of channeling securities exchange business through the centre. Its activities included the purchase, underwrite and sale, directly or through the licensed brokers or sub-brokers of the Centre, the shares, stocks and debentures of public limited companies and also Development bond as well as Treasury bills issued by the Government.

Securities market can be further categorized into two groups as Primary Market and Secondary Market.

Primary Market denotes the market mechanisms for the original sale of securities time of their initial issuance. In other words, a market for newly issued securities is called primary market. Corporate bodies issue new securities in the primary market. Securities available for the first time are offered through the primary security market. The issuer may be a brand new company or one that has been in business for years. The securities offered might be a new type for the issuer or additional amount of security – used frequently in the past. The key is that these securities absorb new funds for the coffers of the issuer.

All the securities whether in the money market or capital market, are initially issued in the primary market. This is the only market in which the corporate or government issuer is directly involved in the transaction and receives direct benefit from the issue, that is, the company actually receives the proceeds from the sale of securities.

Secondary Market is the market in which securities are traded that has been issued at some previous point of time. In other words, where outstanding securities are traded is referred to as the secondary market or more popularly known as the stock market. Share or stock is the major component of the securities market. Stock market is the medium through which corporate sector mobilizes funds to finance productive projects by issuing shares in the market. The efficient collection of small amounts of savings and transferring funds into the completive and efficient uses requires a well functioning capital market to facilitate the process. Thus, Secondary market deals with previously issued shares mainly traded through stock exchange, over the counter market or direct selling.

1.2 Focus of the Study

NEPSE is an organized stock exchange for trading stocks in secondary market. Although small investors can invest their money by purchasing shares of companies in primary market (during initial public offering) or in the secondary market, they (general public or investors) lack effective knowledge of capital market and its mechanism. The price of the stock is the function of several factors.

Investing in stock is highly risky as being ownership capital. It represents only a final claim while in liquidation. Stock price is determined by a number of factors. Some factors are quantitative whose effect can be quantified whereas other factors are qualitative whose effect on share price can't be quantified. This study focuses to the sensitivity of stock price on NEPSE with special focus to Commercial Banks towards various factors. In other words, this study intends to determine the factors affecting the price (i.e. market value) of the stock.

1.3 Statement of Problem

Basically stock price is determined by demand and supply. Both the qualitative and quantitative factors determine the stock price. However, to specify exactly what factors do determine stock price is a controversial/unpredictable issue.Share price is the function of the several factors. The stock price fluctuates time to time and stock exchanges react to the environmental changes. However, for some environmental changes, the stock exchanges have

no effect. This study will try to identify the determinants of stock and find out the degree of affection of those determinants. More specifically, this study is expected to answer the following research questions.

- What are the major determinants of the stock price in NEPSE?
- How earning and book value affect to the stock price?
- What is the effect of the dividend to the stock price?

1.4 Objectives of the Study

Investors require proper knowledge of share price i.e. how it is formed, why does it fluctuate, what factors are responsible for the determination of its price and so on. A few studies have been made regarding securities listed in NEPSE, however, most of the studies made up to present capital market are related to the financial performance evaluation, capital structure analysis, dividend policy, risk and return etc. But sufficient researches have yet not been done to provide core perspective on the determinants of stock. Thus, the present study will be very much important to the investors, planners, researchers, student and policy makers to get a deep insight into the concerned field of the study. Therefore, this study aims to identify the factors responsible for determinants of stock price and their relationship with the stock price, so that it will give a better insight into the stock price. Furthermore, this study is proposed to meet the following objectives.

- To identify qualitative as well as quantitative factors affecting the stock price in NEPSE with reference to commercial banks.
- To determine the effect of earnings and book value to the stock price.
- To determine the effect of dividend to the stock price.
- To make appropriate recommendations/suggestions for the betterment of the stock market on the basis of findings.

1.5 Significance of the Study

Now-a-days general public attitude shows that there is a high potentiality in stock investment. They are moving to invest their savings in stock market. It indicates that the high levels of saving and investment activities are increasing. To achieve high economic growth in nation,

it is necessary to increase saving and investment activities. To invest in stock market is to some extent riskier. To get the success from it, it is necessary to get proper knowledge of share price i.e. how it is formed, why it fluctuates, what factors are responsible for the determination of its price and so on.

Thus, the present study will be very much important to the investors, planners, researchers, student and policy maker to get a deep insight into the concerned field of study. the study is important to draw the attraction from. It is helpful to the financial managers of corporate firms to know about the movement and price formation of stock price with respects to change in financial position of the firm. This study is also very useful to potential investors to know the effect of price trend, volume of stock and impact of signaling factors in NEPSE

1.6 Research Hypothesis

Testing of hypothesis is one of the most important aspects of the research study. It is the quantitative statement about the population parameter. In other words, it is an assumption that is made about the population parameter and then its validity is tested. By testing the hypothesis we can find out whether it deserves the acceptance or rejection of the hypothesis. The acceptance of hypothesis means there is no any sufficient evidence provided by the sample to reject it and does not necessarily imply that it is true. The main goal of testing of hypothesis is to test the characteristics of hypothesized population parameter based on sample information whether the difference between the population parameter and sample statistic is significant or not. (Sharma & Chaudhary; 2005: p. 229)

The hypotheses formulated for this study are as follows:

The first hypothesis is based on the significance for correlation coefficient between market price of share and earnings. (T-test)

Null Hypotheses:

Ho: $p = 0$

i.e. the earning is not related to the market price of share or earning does not affect the market price of stock.

Alternative Hypothesis:

Ho: $p \neq 0$

i. e. the earning and market price of share are related to each other or earning affects the market price of stock

The second hypothesis is based on the significance for correlation coefficient between market price of share and book value of the share. (t – Test)

Null Hypothesis:

Ho: $p = 0$

i.e. Book value and the market price of share are not related or the book value does not affect the market price of the stock.

Alternative Hypothesis:

Ho: $p \neq 0$

i.e. the book value and market price of the share are related or the book value affects the market price of the stock.

The third hypothesis is based on the significance for correlation coefficient between market price of the stock and dividend. (t –test)

Null Hypothesis:

Ho: $p = 0$

i.e. the dividend is not related with market price of the share or dividend does not affect the market price of stock.\

Alternative Hypothesis:

Ho: $p \neq 0$

i.e. the dividend and market price of the share are related or the dividends affect the market price of the stock.

The test statistic is:

$$t = \frac{p}{\sqrt{1-p^2}}\sqrt{p-2}$$

i.e. t follows t- distribution with (n-2) degree of freedom, n being sample size and r is correlation coefficient between variables.

To test the significance of the effects of the qualitative factors, collected from primary sources, z-test will be carried out. Z – Test is made, since the sample size is more than 30. The test of significance of single mean for large samples (N > 30) is:

Null Hypothesis:

Ho: « = « o

i.e. the population mean has specified value « o. In other words, there is no significant difference between sample between sample mean $\left(\bar{x}\right)$ and the population mean («)

Alternative Hypothesis:

$H_{1:}$ « ≠ « *o*

i.e. population mean is not equal to « . In other words, there is significant difference between sample mean $\left(\bar{x}\right)$ and the population mean («).The test statistic, under the null hypothesis is, Ho is given by,

$$Z = \frac{\bar{x} - \mu}{S.E.(\bar{x})} = \frac{\bar{x} - \mu}{\frac{\sigma}{\sqrt{n}}}$$

Where, S.E. ($\bar{x}$) = Standard error of mean = $\frac{\sigma}{\sqrt{n}}$

In this study, the population mean (μ) will be assumed as zero, assuming that such qualitative factors does not affect market price of shares.

1.7 limitation of the Study

This study tries to explore the factors determining the stock price in Nepal Stock Exchange. Both primary and secondary data are analyzed. However, this study may face the following limitations during the course of research:

- Takes into account a few number of selected organizations [i.e. five commercial banks] among the listed companies.
- Takes into account the only latest available six years.
- The study is mainly based on primary and secondary data collected from different sources.
- Due to wide range of data deficiencies only simple technique have been used for the analysis of the data.

1.8 Organization of the Study

The whole study has been divided into five chapters. A brief outline of these chapters is as follows:

First chapter is the introduction chapter. This chapter consists of general background, focus of the study, statement of the problem, objectives of the study, significance of the study, research hypothesis, and limitations of the study and organization of the study.

Second chapter includes the review of available literatures in the field of the study being conducted. This chapter includes the conceptual framework on common stock, stock

certificate, securities as well as security market, stock price etc.except that, this chapter reviews the published book, journals, and unpublished thesis reports separately.

Third chapter is the research methodology employed to conduct the study and tools and techniques used in analysis of the data as well. This chapter includes, research design, sources of data, population and samples, method of data analysis, various financial and statistical tools.

Fourth chapter is concerned with the presentation and analysis of data through definite course of research methodology. The main working of this chapter will to analyze different financial ratios related to the selected commercial banks. Major findings of the study will be included in this chapter.

Fifth chapter is the last chapter of the study, which provides summary and conclusion, suggestions and recommendations for improving the future performance of the sample banks.

Besides these, bibliography and annexes is also presented at the end of the thesis. Similarly, acknowledgements, table of contents, list of tables, list of figures, abbreviations will be included in the front part of the thesis report.

CHAPTER II

Review of Literature

2.1 Introduction

A literature review is an essential part of all studies. It is a way to discover what other researchers have covered and left in the area. A critical review of the literature helps the researcher to develop a thorough understanding and insight into previous research works that relates to the present study. It is also a way to avoid investigation problems that have already been definitely answered. Thus a literature review is the process of locating, obtaining, reading and evaluating the research literature in the area of the student's interest. (Wolff & Pant; 2005: p.29) The purpose of literature review is to find out what research studies have been conducted in one's chosen field of study and what remains to do. The primary purpose of literature review is to learn as follows;

◦ What research has been done in the subject?
◦ What others have been done in the study?
◦ What theories have been advanced?
◦ The approach taken by the other researchers
◦ Area of agreement or disagreement
◦Whether there are gaps that can fill through the proposed research?

2.2 Conceptual Framework

Conceptual framework involves some of the technical terms, which are in frequent use in researches regarding capital market and finance. Thus, before going into the details of factors affecting stock price of Commercial Banks, some the relevant technical terms related to capital market are defined and discussed here.

2.2.1 Common Stocks

The common stocks represent ownership in a company. The holders of common stocks, called the shareholders or stockholders, are the legal owners of the company. The common stocks are the permanent and vital source of capital since they do not have a maturity date. For the capital contributed by the shareholders by purchasing commons stocks, they are entitled to dividends. The amount or rate of dividend is fixed by company's Board of Directors. The common stock is, therefore, known as variable income security. Being the owners of the company, the stockholders bear the risk of ownership; they are entitled to dividends after the claims of others have been satisfied. Similarly, when the company is wound up, they can exercise their claims on assets after the claims of the other suppliers of capital have been met. The common stocks are issued by the firms to raise ownership capital and the investors buy them with the expectation that they receive a share of profit periodically. The common stocks legally represent the equity of business firm, and the holders are the owners who share all the profits and losses of the business. They enjoy all earnings after meeting the obligation of interests on debts and dividends on preferred stocks. Thus, they enjoy all net benefits of the business by assuming the risk of losing their capital.

2.2.2 Stock Certificates

"The ownership of a firm's stock has typically been represented by a single certificate, with the number of shares held by the particular investor noted on it. Such a stock certificate is usually registered, with the name, address, and holding of the investor included on the corporation's books. Dividend payments, voting materials, annual and quarterly reports and other things are then sent directly to investor, taking into account the size of his or her holdings.

Shares of stock held by an investor may be transferred to a new owner with the assistance of either the issuing corporation or, more commonly, its designated transfer agent. This agent will cancel the old stock certificate and issue a new one in its place, made out of the new owner. Frequently, a register will make sure that this canceling and issuing of certificate has been done properly. Usually, banks and trust companies act as transfer agents and registrars. Many stock holders have chosen to avoid these rather cumbersome procedures. Instead,

depository trust companies are used which substitute computerized records for embossed certificates."(Sharpe, Alexander & Bailey; 2000: p.458)

2.2.3 Securities

When someone borrows money from a pawnbroker, he or she must leave some item of value as security. Failure to repay the loan (plus interest) interest means that the pawnbroker can sell the pawned item to recover the amount of the loan (plus interest) and perhaps make a profit. The terms of agreements are recorded via pawn tickets. When a college student borrows money to buy a car, the lender usually holds formal title to the car until the loan is repaid. In the event of default, the lender can repossess the car and sell it to recover his/her costs. In this case, the official certificate of title, issued by the state, serves as the security for the loan. A person who borrows money for a vacation may simply sign a piece of paper promising repayment with interest. The loan is unsecured, in the sense that there is no collateral, meaning that no specific assets have been promised to take the borrower to court to try to recover the amount of the loan. Only a piece of paper called a promissory note stands as evidence of such loan.

When a firm borrows money, it may not offer collateral. For example, some loans may be secured (backed) with specific pieces of property (building or equipment). Such a loan are recorded by means of mortgage bonds, which indicate the term of repayment and the particular assets pledged to the lender in the event of default. However, it is much more common for corporation to simplify pledge all of its assets, perhaps with some provision for the manner in which the division will take a place in the event of default. Such a promise is known as debenture bond.

Finally, a firm may promise a right to share in its profits in return for investor’s funds. Nothing is pledged, and no irrevocable promises are made. The firm simply pays whatever its directors deem reasonable from time to time. However, the investor is given the right to participation in the determination of who will be the members of the board of directors. The right protects the investors against serious malfunctions. The investor’s property right is represented by a share of common stock, which can be sold to someone else, who will then

be able to exercise the right. The holder of common stock is said to be as owner of the corporation and can, in theory, exercise over its operation through the board of directors.

Generally, only a piece of paper represents the investor's right to certain prospects or property and the conditions under which he or she may exercise those rights. This piece of paper, serving as evidence of property rights, is called a security. It may be transferred to another investor, and with it will go all rights and conditions. Thus everything from pawn ticket to share of GM common stock is a security.

2.2.4 Security Market

The security market is known as the market where all types of securities are traded. The security market is a broad term embracing a number of markets in which securities are bought and sold. Securities markets includes how an individual investor goes about the business of placing any order to buy or sell, how the order is executed, the process of setting the payment and transfer costs, and one hope the payment of federal personal income taxes on the profits from the transactions. (Fisher & Jordan; 1992: p. 16)

These securities include common shares, preference shares and debentures. The security market may be divided into two categories:

Primary Markets: In the primary market the original issuance of the financial instruments of the company is traded. The company should sell its approved share through the authorized issue and sales agent. The company has to register its shares in the SEBO to get the valid authority to the issuance of shares. Primary markets provides as important allocate function by channeling the funds to those who can make the best use of them – presumably, the most productive.

Secondary Markets: In the secondary market the share once issued in the primary market are traded. So, the secondary market liquidates the shares and provides the opportunity between the investor and the seller of the securities. The company must list the securities in the security market for the transaction purpose.

If the owner of 100 shares sells his/her stocks, the trade is said to have occurred in the secondary market. Thus, the market for outstanding shares or the used share is the secondary market. The company receives no new money when sales occur in this market.

In the secondary market existing securities are traded and thus enabling disposal of these securities whenever the owner wishes. An active secondary market is, therefore, a necessary condition for an effective primary market, as no investor wants to feel 'locked in' to an investment.

2.2.5 Stock Market & Stock Exchanges

"Secondary markets are those in which outstanding previously issued securities are traded. By far the most active secondary market, and the most important one to financial managers, is the stock market. It is here that price of firm's stock are established, and since the primary goal of financial management is to maximize the firm's stock price, knowledge of the market in which this price is established is essential for anyone involved in managing a business." (Weston & Brigham; 1987: p. 78)

There are two basic types of stock market – the organized stock exchanges, which include the New York Stock Exchange [NYSE], The American Stock Exchange [AMEX], and several regional exchanges, and the less formal over-the –counter markets. Since the organized exchanges have actual physical market location and are easier to describe and understand, we shall consider them first.

The organized security exchanges are tangible physical entities. Each of the larger one occupies its own building, has specially designated members, and has an elected governing body-its board of governors. Members are said to have "seats" on the exchange, although everybody stands up. These seats, which are bought and sold, give the holder the right to trade on the exchange.

2.3 Stock Price

Stock price is the amount of money that one has to pay to purchase/receive a stock of a company. If A buys10 shares of the Bank of Kathmandu from B, s/he pays Rs 2000 for these

10 shares, and then the price of share is Rs 200 [i.e. Rs 2000/10]. Thus, stock price is the amount of money paid by a buyer to buy one stock or the amount received by the seller by selling a stock. The stock price is determined in stock market, by market forces i. e. demand (buyer's force) and supply (seller's force).The demand and supply are based on the environmental forces and individuals' future expectations/assumptions. The stock (market) price is different from its par value and book value.

2.3.1 Par Value

"When a corporation is first chartered, it is authorized to issue up to a stated number of shares of common stock, each of which will often carry a specified par value. Legally a corporation may be precluded from making payments to common stockholders if doing so would reduce the balance sheet value of stockholders equity below the amount represented by the par value of outstanding stock. For this reason, the par value is typically low relative to the price for which the stock is initially sold. Some corporations issue no-par stock. [In that case, a stated value must be recorded in place of the par value]" (Sharpe & Alexander; 2000: p.461)The initial offering price of the share may vary from the par value if stocks are issued on premium or discount.

2.3.2 Earning Per Share

Accounting earnings that represent the difference between revenues and expenses, including the expenses associated with non-equity source of funds (such as interest to debt, dividend to preference shares) is also known as total earnings available for common stock. If this portion of income is divided by number of outstanding shares, we get earning per share. (Sharpe, Alexander & Bailey; 2001: p. 622)

2.3.3 Dividend Per Share

The percentage of earnings the firm pays in cash to its shareholders is known as dividend. The dividends, of course, reduce the amount of earnings retained in the firm and affect the total amount of internal financing.

Nothing is more important than dividends to shock holders. They buy shares of the firm with the hope of sharing profits earned by firms. The sole motive of stockholders is to receive return on their investment; nothing pleases them more than knowing the firm's earnings and more profits mean more dividends coming in.

Krishna man opines that of two stocks with identical earnings record and prospect, but the one paying a large dividend than the other, the former will undoubtedly command higher price merely because stockholders prefer present to future values. Stockholders often act upon the principle that a bird in the hand is worth two in the bush and for this reason that are willing to pay a premium for the stock with the higher dividend rate.

2.3.4 Net worth Per Share / Book Value Per Share

A corporation will generate income, much of which is paid out to creditors (as interest) and to shareholders (as dividends). Any remainder is added to the amount shown as cumulative retained earnings on the corporation's books. The sum of cumulative retained earnings and other entries (such as common stock and capital contributed in excess of the par value) under shareholder's equity is the book value of the equity. The book value per share is obtained by dividing the book value of the equity by the numbers of share outstanding.

The book value of the equity reflects the historical costs of – brick and meter- the physical assets of the company. A well run company with strong management and an organization that functions effectively should have a market value greater that the historical book value of its physical assets.

Cumulative retained earnings + Capital contributed in excess of par + common stock =Book value of equity.

The accounting value of share of common stock equal to the common equity of the firm (common stock plus retained earnings) divided by the number of shares outstanding. Book value is generally considered to be relatively unimportant in determination of the value of the

company, since it represents only the historical investments made in the company-investment that may have little relation to current value of price.

2.3.5 Market Price Per Share

A share of common stock can be authorized either with or without par value. Par value is the recorded figure in the corporate charter. Generally, par values of most of stocks are set at fairly low figures with compare to their market value, and the market value per share is the current price at which the stock is traded. Market value per share of common stock is the function of the current and expected future dividend of the company and the perceived risk of the stock on the part of investors.

"Common stock holders are sometimes referred as the residual owner since in essence s/he receives what is left the residual after all other claims on the firm's income and assets have been satisfied. All the companies issue common stock. Common stock holders are true owners of business firm. They invest money with expectation of getting high return.
The return from common stock is usually from the capital gain earned .If they increase in value after public buy them. That's why price for common shares can be more volatile. They move up and down due to the factors like economy and company performance."
(Gitman; 1991: p. 573)

The market price of share gives the value of shares, and the value of the organization. The market price of shares is that price in which shares are traded or the amount which, is paid by the buyer to the seller to purchase the stock of company. The market piece of shares varies from one company to other. Since, the common stock holders are the owner of the organization and have least priority to claim in liquidation, the share price is highly volatile and very sensible to environmental factors. An organization has two types of environment, i.e. internal & external. The environment within the organization is called internal environment and is somehow in control of the organization. So the organization tries to maintain the favorable environment to maximize the share price in stock market. On the other hand, external environmental factors are not within the control of the organization, but such forces highly affect the market price of share.

Since the market price of shares is very much sensitive to the environmental forces, the shares price increases if there is favorable environment and vice versa. This increase in share price is based on the market mechanism or market forces, i.e. demand and supply. If the earning and divided of an organization increases, then the investors have positive perception towards the organization and they like to buy the shares of the organization, as a result demand increases; on the other hand, the supplier like to hold the shares and supply decreases, and there is gap between demand and supply, so, the market price of the shares increase. The investors determine the share price they would like to pay for the shares of an organization and the sellers determine the price they would like to receive by selling shares based on their assumptions towards organization and future expectation. Such assumptions and expectations vary from individual to individual. Since different person analyses the same situation differently with their level of knowledge.

The index of stock gives the surrogate of market price of share. NEPSE index is the surrogate of all the listed companies in NEPSE. So, it consists one of the indicators of stock price in NEPSE. There are various indexes to analyze the stock behavior in the world's capital market. "Stock market indexes are "pure numbers" used for making comparison between index number in the same series of the index number. An index is usually a ratio tabulated from average of different securities. Typically, a time series of index number is constructed from the same base date and base value (usually set 100 or 10 or 1) to make time directly comparable. Some past year is selected as the base year from which index's base value is calculated in order to impart time perspective to index. (Francis; 1991: p. 183) The base of the NEPSE is 12thFebruary 1994.

2.4 Review of Books

In this section of Review of literature, the well-established principles for the valuation of common stock in global contexts are reviewed from various books. The share price is somehow set with the valuation of stock. The internationally set principles are viewed and the abstracts of such principles are presented here.

2.4.1 Capitalization of Income Method of Valuation

The capitalization of income method of valuation states that the "true" or "intrinsic" value of any assets is based on the cash flow that the investors expect to receive in the future from owing the assets. Because these cash flows are expected in future, they are adjusted by a discount rate to reflect not only the time value of money but also the friskiness of the cash flows.

Angelically, the intrinsic value of an asset is equal to the sum of present values of the assets expected cash flows:

Where, Ct denotes the expected cash flow associated with the asset at time t, and k is the appropriate discount rate for cash flows of this degree of risk. In this equation the discount rate is assumed to be the same for all the periods. (Sharpe, Alexander & Bailey; 2000: p. 523)

$$V = \frac{c1}{(1+k)1} + \frac{c2}{(1+k)2} + \frac{c3}{(1+k)3} + \dots\dots\dots \quad ..$$

$$= \sum_{t=1}^{\infty} \frac{ct}{(1+k)1} \dots\dots\dots\dots\dots\dots\dots\dots (2.1)$$

2.4.2 Net Present Value

At the current time (t=0), if the cost of purchasing an assets is P, then its net present value (NPV) is equal to the difference of its intrinsic value (V) and cost.

I.e. NPV = V – P

$$= \left[\sum_{t=1}^{\infty} \frac{Ct}{(1+k)1} \right] - p \dots\dots\dots\dots\dots\dots\dots (2.2)$$

Simply, NPV is the excess of present values of al the cash flows over the present values of cash outflows (investments). Positive NPV is favorable and vice versa.

2.4.3 Internal Rate of Return

IRR approach for the investment decision making is similar to NPV approach. IRR (K*) is the discount rate, which makes the NPV of the investment equal to zero.

$$I.e.\ 0 = \sum_{t=1}^{\infty} \frac{Ct}{(1+k)^t} - p \quad \text{.....(2.3)}$$

For rational decision making, the investment is viewed favorably of k* > k, and unfavorably if k* < k

2.4.4 Stock Valuation

Securities analysts study companies' earnings and their managements, the economic outlook, the firm's competition, market conditions, and many other factors. Then their research findings are used in the accepted models to estimate value of an equity share. If the security's price is less than its estimated value, ten it appears to be a good buy or at least worthy for further investigation. Such valuation models are presented here:

2.4.4.1 Single Price Valuation Model

"An investor who buys a share of the Avery Corporation's stock for $ 50 and then sold it for $55 a year later, after collecting a cash dividend of $ 2.50, earned a rate of earning of 15 percent.

$$r = \frac{(p1 - p0) + d1}{p1} = \frac{(\$55 - \$50) + \$2.50}{\$50} = \frac{\$7.50}{\$50} = 15\%$$

If the stock market is efficient, then 15% is an equilibrium rate of return for Avery's stock, the single period valuation model is given by,

$$p0 = \frac{p1 + d1}{1 + r} \text{ .....(2.4)}$$

Figuring out the risk adjusted discount rate to use in the valuation model is an important part of the valuation process.

A fundamental principle of valuation says that in perfectly efficient markets, all securities in an equivalent risk class should be priced to yield the same rate of return. This principle implies that Avery's equilibrium rate of return of 15 percent should be used as the risk adjusted discount rate to find the present value of Avery's stock." (Francis; 1991: p. 524)

Where, p1 = market price of a security at period 1
d1 = dividend per share for period of 0 to 1 year
p0 = present value of stock
r = single period rate of return

1.4.4.2 Dividend Discount Model

J. B. Williams and M. J. Gordon have developed a model relating the value of an equity share to its cash dividends. They hypothesized that the value V of a share of stock equals the present value of the infinite (t = ∞) Stream of dividend to be received by that stock's owner, this model is known as dividend discount model [DDM].

$$V = \frac{D1}{(1+k)1} + \frac{D2}{(1+k)2} + \text{.....} + \frac{D\infty}{(1+k)\infty} = \sum_{t=1}^{\infty} \frac{D1}{(1+k)1} \text{.....(2.5)}$$

Where, K is the capitalization rate, which is appropriate for the firm's risk class.

2.4.4.3 The Zero Growth Model

If the dividend amount per share paid over the past year D0 will also be paid over the next year D1 and year after D2, and the year after that D3 and so on; that is:

$$D0 = D1 = D2 = D3 = ...Dn$$

This is equivalent to assuming that the dividend growth rates are zero because if g =0, then $D_t = D_t - 1$: The present value of stock with zero –growth is (from equation 2.5)

$$V0 = D0\left[\sum_{t=1}^{\infty} \frac{1}{(1+k)1}\right] .....(2.6)$$

Using the property of indefinite series from mathematics, if K>0, then,

$$\sum_{t=1}^{\infty} \frac{1}{(1+k)1} = \frac{1}{k} ....(2.7)$$

$$So, \quad V = \frac{D}{K} .....(2.8)$$

2.4.4.4 The Constant – Growth Model

"The next type of DDM to be considered is one that assumes that dividends will grow from period to period at the same rate forever and is therefore known as the constant growth model. Specifically, the dividends per share that were paid over the previous year $D_{0,}$ are expected to grow at given rate 'g' so that the dividends expected over the next year D_1 are expected to be equal to D_0 (1+g) . The dividends the year after that are again to grow by the same rate g, meaning that D2 = D0 $(1+g)^2$ and in general:

$$Dt = Dt - 1(1+g).....(2.9)$$

$$Dt = D0(1+g)^1.....(2.10)$$

Now, in the equation (2.5) substituting D_t by D_0 $(1+g)^1$, we get,

$$V = \sum_{t=1}^{\infty} \frac{D0(1+g)^1}{(1+k)^1} ..... (2.11)$$

For zero growth models, the equation (2.12) can be simplified by noting that D_0 is a fixed dollar amount, so it can be written outside the summation sign:

$$V = D0\left[\sum_{t=1}^{\infty} \frac{(1+g)^1}{(1+k)^1}\right] \text{..... ....(2.12)}$$

If K > g, the equation (2.11) follows a property of infinite in series from mathematics.

Then,

$$\sum_{t=1}^{\infty} \frac{(1+k)^g}{(1+k)^1} = \frac{1+g}{k-g} \text{.....(2.13)}$$

Substituting the equation (2.13) into equation (2.12) results in the valuation formula for the constant growth model:

$$V = \frac{1+g}{D0(k-g)} \text{.....(2.14)}$$

Or, $$\sum_{t=1}^{\infty} \frac{(1+g)^1}{(1+k)^1} = \frac{(1+g)^1}{(1+k)^1} \text{.....(2.15)}$$

$$V = \frac{D1}{k-g} \text{.....(2.16)}$$

Because, D1 = D0 (1+g).

The equation (2.14) can be reformulated to determine the required rate of return (K) as,

$$K = \frac{D1}{P} + g \text{.....(2.17)}$$

Where, ‘V’ is substituted by ‘P’, the current price of the security.

2.4.4.4 The multiple – Growth Model

"A more general DDM for the valuing the common stock is the multiple-growth, with this model, the focus is on time in the future (T), after which dividends are expected to grow at a constant rate 'g'. Although the investor is still concerned with forecasting dividends, these dividends do not need to have any specific pattern of constant growth. The dividends up to T (D1, D2, D3, ……..D_t) will be forecast individually by the investor. Thereafter, dividends are assumed to grow by a constant rate 'g' that the investor must also forecast, meaning that:

$D_t+1 = D_t (1+g)$

$D_t + 2 = D_t+1 (1+g) = D_t (1+g)^2$

$D_t + 3 = D_t +2 (1+g) = D_t (1+g)^3$ and so on.

2.4.5 Valuation Based on Infinite Holding Period

The capitalization of income method valuation involves discounting all dividends that are expected throughout the future. But when an investor plans to sell the stock in a year, then the cash flows that the investor expect to receive from purchasing a share of stock of the are equal to the dividends expected to be paid one year from now and the expected selling price of the stocks. The intrinsic value of the stock to the investor is given by discounting these two cash flows at the required rate of return as follows:

$$V = \frac{D1}{(1+k)} + \frac{P1}{(1+k)} \text{.....(2.18)}$$

Where D1 and P1 are the expected dividend and selling price at t = 1, respectively.

"To use equation (2.18) the price of the stock at t = 1, should be expected. The simplest approach assumes that the selling price will be based on the dividends that are expected to be paid after selling date. Thus the expected selling price at t = 1 is:

$$P1 = \frac{D2}{(1+k)^1} + \frac{D3}{(1+k)^2} + \frac{D4}{(1+k)^3} + \text{.....} \sum_{t=2}^{\infty} \frac{D1}{(1+k)^{t-1}} \text{.....(2.19)}$$

Form (2.18) & (2.19) we get,

$$V = [\frac{D1}{(1+k)} + \frac{D2}{(1+k)^1} + \frac{D3}{(1+k)^2} + \frac{D4}{(1+k)^3} + ...][\frac{1}{1+k}]$$

Or, $$V = \frac{D1}{(1+k)} + \frac{D2}{(1+k)^1} + \frac{D3}{(1+k)^2} + \frac{D4}{(1+k)^3} + ... = \sum_{t=1}^{\infty} \frac{D1}{(1+k)^1} .....(2.19a)$$

This results to the equation (2.5). Thus, valuing a share of common stock by discounting its dividends up to some point in the future and its expected selling price at the time is equivalent to valuing stock by discounting all future dividends."

2.4.6 Models Based on Price Earning Ratio

In order to show the interaction of earnings, dividends, retained earnings, and the growth rate of the firm, the model can be reformulated to treat these variables explicitly. Dividends are related to earnings by defining dividends to be equal to the payout ratios of (1-f) time's earnings as in the equations (2.20) and 2.20a)

$$Dt = (1-f)Et = Corporaion's\,total\,cash\,dividends.....(2.20)$$
$$dt = (1-f)et = Cash\,dividend\ \ per\ share.....(2.20a)$$

Total corporate retained earnings of dollars are assumed to be reinvested within all equity firms to earn a rate of return of r. Since the firm we are discussing here has borrowed money, it can only grow from retained earnings period, as shown in equation (2.21), assuming no external capital is invested in the firm.

$$E1 = e0(1+g)^1 = E0(1+fr)^1 .....(2.21)$$
$$e1 = e0(1+g)^1 = e0(1+fr)^1 .....(2.21a)$$
$$d1 = (1+f)(1+fr)^1(e0).....(2.22)$$
$$d1 + (1-f)(1+g)^1 e0).....(2.22a)$$
$$d1 = (1-f)(e1).....(2.22b)$$

As long as the retention ratio is positive number, f > 0, dividend per share will change each period as indicated in equation (2.22) if no new shares are issued. When some fraction of earnings is retained and earns a return of r within the form, the present value of a share of stock is determined by substituting equation (2.22) into (2.19a) to obtain (2.23). In equation (2.23) the beginning cash dividend per share is stated in terms of the beginning earnings per share by substituting e_0 (1-f) in place of $d_{0.}$

$$V0 = \sum_{t=1}^{\infty} \frac{e0(1-f)(1+fr)^1}{(1+k)^1} \text{.....(2.23)}$$

$$or, \quad = \sum_{t=1}^{\infty} \frac{d0(1+fr)^1}{(1+k)^1} = \sum_{t=1}^{\infty} \frac{d0(1+g)^1}{(1+k)1} = \frac{d1}{k-g} \text{.....(2.24)}$$

Equation (2.23) may be written equivalently as (2.25 since g = f r. By substituting e1 (1-f) for equation (2.24) below, we get (2.26).

$$V0 = \sum_{t=1}^{\infty} \frac{e0(1-f)(1+g)^1}{(1+f)^1} \text{.....(2.25)}$$

$$or, \; V0 = \frac{e1(1-f)}{k-g} \text{.....(2.26)}$$

One advantage of the dividend valuation model is that it may be written equivalently in different forms. Equations (2.19a), (2.23), (2.24), (2.26) all are useful representation of the same model. Equation (2.23) explicitly shows the relationship of earnings *e*, dividend policy *f*, internal profitability *r*, the firms cost of capital *k* and the firm's growth rate *g* in the determination of value of stock. The model may be used to determine the value per share by defining all the variables on a per share basis as shown or the model may be used to value the entire form by using the total quantities represented by the variables in capital letters in equations (2.20) and (2.21).

2.4.7 Signaling

"A relative simple view of dividend changes is that an announced increase in dividends is a signal that management has increased its assessment of the form's future earnings. The announced increase in dividends is therefore good news and will, in turn, cause investors to raise their expectations regarding the firm's future earnings. Conversely an announced decrease in dividends is signal that management has decreased its assessment of the firm's future earnings. The announced decrease in dividends is therefore bad news and will, in turn, cause investors to lower their expectations regarding the firm's future earnings. An implication is that an announced increase in dividends will cause the firm's stock price to rise, and an announced decrease will cause it to fall." (Sharpe, Alexander & Bailey; 2000: p. 524)

There is nothing inconsistent with dividends being used as a signal and with the dividend irrelevancy argument of Miller and Modigliani. In particular, stockholders will neither better off nor worse off if the level of dividends, relative to earnings, is high or low. Changes in dividends may, however, be important because they convey information to the public about the future earnings prospects for the firm.

2.4.8 January Effect

"There is no obvious reason to expect stock returns to be higher in certain months than in others. However, in a study that looked at average monthly returns on NYSE listed common stocks, significant seasonality was found. In particular, the average return in January was higher than the average return in any other months. It appears that the average return in January has been approximately 3% higher than the average monthly returns in February through December."

2.4.9 Day-of-the-week-effect

“Studies looked at the average daily return on NYSE listed securities found that the return on Monday was quite different than returns on other days. In particular, the average return on Monday was found to be much lower that the average returns on any other day of the weak. Furthermore, the average return on Monday was negative, whereas, the other days of the weak had positive average returns.”

2.4.10 Size Effect

The past evidence suggests that the size effect also exists in Japan. The securities of Tokyo stock exchange classified into two sections, the second is less than 10% of the size of the first, measured by the market value of the examined over the period on it. Two indices were prepared and examined over the period from 1952 to 1980; they include the same stocks but are compiled differently. The equally weighted index weights the stocks by market value weighted index weights the stock by market value. Hence, the equally weighted index is influenced much more by the performance of small stocks than the value weighted index is the equally weighted index returned 5.1% more, suggesting the preference of a size effect.

2.4.11 Earnings Announcement & Price Changes

“A number of studies have shown large price changes for stocks of companies that reports earnings that differ substantially form consumers expectations. One study looked at three groups of 50 stocks. The first group consisted of the 50 stocks listed on the NYSE that expected the greatest price rise during 1970. The second group consisted of 50 stocks chosen randomly from all those on the NYSE during 1970. The third group consisted of the 50 stocks listed on the NYSE that experiences the greatest price decline during 1970. It is found that the median changes in actual earnings per share for the top , random, and bottom, groups were 21.4%, -10.5%, and -83% respectively.”

2.5 Reviews of the Previous Studies

This section includes the previous studies regarding stock markets price and organized stock exchanges both in the national as well as international contexts:

2.5.1 Foreign Context

According to www.stocksabout.com “Socks trade in an open market, where buyers and sellers agree on a price. There is no fixed price like you’ll find at convenience store, instead, prices follow the simple laws of supply and demand." Therefore, when a stock’s price rises, it means that buyers are continually willing to pay more for the stock (and sellers are demanding more before they’ll part with their shares.)

❖ What Causes Buyer Demand?

As more and more buyers flock to a stock, the supply at a lower price diminishes (partly because al the chap shares are sold out and partly because sellers realize they can raise the price.) Three main factors drive buyers demand. They are:

Company profitability
Dividend income
Speculation
Most investors value company profitability.

A business that makes money is worth purchasing for a variety of reasons. It won’t go bankrupt, it will grow, and it might be purchased by any other company. Therefore, the company becomes more valuable.

You might notice that the stock market pays attention to earnings release. These releases are the company’s proof that it is a valuable enterprise. When a company can demonstrate consistent earnings growth, it attracts more and more investors.

Dividend income is also valuable to investors. By paying a dividend, the company is sharing profits with the shareholders. Many investors like the idea of getting paid and not doing any work.

Dividend stocks can attract more and more investors just like growth stocks. If a stock has a history of always paying a heavy dividend, one can expect that history to continue. It's even better if the dividend has a history of increasing. Stock that offer constituent dividend growth will continually attract investors. Also, stocks that offer a relatively high dividend yield (dividend payment divided by share price) attract buyers.

Finally, Speculation can cause a stock's price to change dramatically. While earnings growth and attractive dividends are reasonable approaches to investigating; speculating is harder to understand.

Speculators typically don't base their buying behavior on historical performance (such as earnings growth or constituent dividend growth.) Rather, they are hoping to predict the future of a stock. The markets saw plenty of speculation in the intent boom. Buyers hoped that internet stocks would make a bundle of money, but they weren't quite sure how, some gained, some lost.

❖ What Causes Prices to Fall?

Now that you know what causes buyer demand, you can start to understand what drives prices down. When a stock becomes unattractive (due to poor earnings outlook, missed dividends payment, or speculation), shareholders want to get rid of their shares. Sellers will settle for less (because they just want to make a sale) and buyer demands are limited.
Next time somebody asks why the markets is up, you can respond with the old Wall Street joke: "More buyers than sellers" ……..but you will have a better idea why they are buying." (www.stockabout.com; 2008)

In an journal published on www.utk.edu by Debosah L. Murphy, Ronald E. Shrives and Samuel L. Tibbs entitled " Determinants of Stock Price Reaction to Allegation of Corporate Misconduct: Earning Risk and Size Effects" studied using the most extensive sample to date.

They examined the source and magnitude of market imposed penalties experienced by firms alleged to have committed illegal acts. Stratification of the sample by crime category reveals significant verification in the announcement - related wealth effects. Also examined were the linkages between the observed wealth effects and changes in reported and expected earnings, risks, firm sizes and reputation. They found the allegations of misconduct were accompanied by statically significant control firm adjusted decline in reported earnings, increased in return variability and a decline in concordance among analysts' earning estimates. The magnitude of the market-imposed penalties accompanying allegations is systematically related to the type of misconduct, firm size, and increase in uncertainty. However, the statistical relationship between earnings changes around the allegations and the wealth effects of criminal allegations was ambiguous. Their results offer the strongest evidence regarding a link between market-imposed penalties associated with allegations of misconduct and subsequent changes in the level of uncertainty of earnings.

In the journal of Financial Economics, summer 1996, entitled " Commonality in the Determinants of Expected Stock Returns " by Robert A. Haugen and Vardin L. Baker, they presented with evidence that the determinants of the cross section of expected stock return were stable in their identify and influence from period to period and from country . The determinants were related to risk, liquidity, price level, growth potential and stock price history. Out of sample predications of expected returns, using moving average values for the pay-offs to these firm characteristics were strongly and consistently accurate. Two findings, however, distinguished their paper form others in the contemporary literature. First, the stock with higher expected and realized rate of return was unambiguously of lower risk than the stocks with lower returns. Second, they found that the important determinants of expected stock returns were strikingly common to the major equity markets of the world. Given the nature of the texts, it was highly unlikely that those results may be attributed to bias or data snooping. Consequently, the result seems to reveal a major failure in the efficient market hypothesis.

In 1997 **International Monetary Fund [IMF]**, Policy Development and Review Development Division published a working paper entitled "Determinants of Stock Prices: The case of Zimbabwe". The working paper examined the general relationship between stock price and macroeconomic variables in Zimbabwe, using the revised DDM, error-correction model, and multi factor return generating model. Despite the large fluctuation in stock prices since 1991, the analysts indicated that the Zimbabwe Stock Exchange functioned quite

constituently during the period. Whereas, sharp increases in the share prices in stock prices during 1993-94 were mainly due to the shift of the risk premium that was caused by partial capital account liberalization, the monetary aggregates & market interest rates explained by the rapid increase of 1990's in stock prices.

❖ .Equity Funds - What Affects Price?

What factors influence the price of stocks, and therefore the value of equity mutual funds? There are several fundamental factors: expectations, external events, fiscal and tax policies, government spending, monetary policy, inflation, and business cycles. Technical factors include: the condition of securities markets, price movements, trading volume and supply and demand.

Fundamental factors include everything outside the security markets themselves which might influence price. Because market security prices are negotiated between buyer and seller, future expectations help determine price.

❖ What is the Impact of Research on Stock Prices?

Although the total return on the investment in research is hard to quantify, the information provided via third-party research has tangible value. Objective research provides information to the market to reduce uncertainty. Even though the nature of the stock market prevents us from isolating any one of the many variables that affects a stock price, no one can disagree that in the long run, greater available information means greater market efficiency.

❖ Stock Price Behavior in Small Emerging Markets: Tests for Predictability and Seasonality on the Bahamas International Securities Exchange

This paper presents evidence on the behavior of stock prices on the Bahamas International Stock Exchange (Bisx) over the first eighteen months of its existence (January 2 2001 to June 29 2002). The paper is unable to reject the hypothesis of randomness in the rates of return series for the majority of the seventeen stocks listed on the Bisx. One is therefore unable to

reject the notion that the Bisx is weak form efficient. The paper finds no evidence of a day of the week effect or January effect. This provides further evidence that many of the seasonal patterns in stock returns identified on developed stock markets, do not generally carry over to emerging markets. The paper also provides further evidence that stock prices are not generally drawn from a normal distribution, and that non-parametric statistics are potentially important in the statistical analysis of stock prices.

[Source: by **C.** Justin Robinson, University of the West Indies, Cave Hill Campus, and Barbados]

❖ Why the Market Rises and Fall? /What Moves the Stock Market?

That complex question has many answers. Some market movers are obvious, while others creep up on us unseen. In this and subsequent articles, I'll look at some of the economic, political, and societal issues that may cause the market to change direction or speed up or slow down its momentum.

A quick list of the obvious includes:

- Inflation
- Interest rates
- Earnings
- Oil/Energy Prices
- War/terrorism
- Crime/fraud
- Serious domestic political unrest

As you can see, many of these have serious long-term implications, while others may only cause temporary disruptions.

However, the one factor not listed above that drives the market absolutely crazy is uncertainty**.** The market cannot stand surprises and when there is the chance that something may change, it rattles the market.

❖ What Factors Influence a Share Price?

When you look at the performance of the stock market at the end of a trading day it can be hard to work out why shares have either risen or fallen in value.

Broadly speaking, share prices are influenced by news or information: new data on employment, manufacturing, directors' dealings, political events or even the weather, all kinds of news can influence the way shares move.

You will sometimes, however, see little move in share prices when, for example, interest rates shift. This is because investors try to anticipate what is going to happen in the next few months and try to move their portfolios in or out of these stocks before the rest of the market catches on. Sometimes, of course, these expectations can be wrong and if this happen, markets can move very sharply.

If you want to trade successfully in the stock market you will need to know what news other investors look at and how they will look at it. This will help you pick the best moment to buy and sell your shares. Read more about monitoring news on a company.

The economy
Company news
Analysts reports
Press recommendations
Sentiment
Technical influences

- The Economy

The health of the global economy has a fundamental influence on share prices because it is ultimately responsible for driving company profits. Broadly speaking, if the economy is growing, company profits improve and shares will become more highly valued. If the economy is weakening, company profits will fall and share prices will go down.

Investors look at a vast amount of data to try and work out what is going to happen to the economy and shift their portfolios before the events occur. This is why you will often see

markets move well ahead of an actual event occurring. You may, for example, get little reaction from the stock market when interest rates rise. This is because investors have already anticipated the shift months in advance and adjusted their portfolios beforehand.

You can usually assume that the stock market will anticipate moves in the economy by around six to nine months. So if you want to stay ahead of the game you will need to follow economic data as closely as the professionals.

The kind of information you need to play close attention to is: employment data, the reports put out by the Monetary Policy Committee (to get an idea where interest rates are headed), trade with other countries, retail sales and manufacturing. Sentiment surveys produced by trade bodies such as the Confederation of British Industry are also important indicators of where the economy is heading.

It is not only news about the UK economy that will impact on share prices. The signals coming out of other major economies, particularly the UK's major trading partners, such as the US and Europe will affect UK shares as what happens in these economies will have an impact on our own.

When looking at economic data, you need to think not only how the wider economy will be affected but whether certain areas will be more affected than others. A rise in interest rates is, for example, often bad news for house builders as people feel less confident about taking on debt. Retailers are often badly affected too as people spend less. Pharmaceutical companies are, however, usually unaffected as people's demand for drugs is not influenced by the state of the economy.

Companies whose profits are closely tied to the health of the economy are known as 'cyclical' stocks. Those businesses that aren't too affected by the economy are called 'defensive' stocks. If economic conditions deteriorate you will often see investors shift from cyclical stocks to defensives.

- Company News

The way investors interpret news coming out of companies is also a major influence on share prices. If, for example, a company puts out a warning that business conditions are tough, shares will often drop in value. If, however, a director buys shares in the firm, it may be a signal that the company's prospects are improving.

Companies put out a great deal of news and most of the major announcements are covered by the financial press. But some announcements not regarded as so important and sometimes, particularly among smaller firms that are monitored less by investors and financial journalists, indicators of the company's health can be missed.

You can stay one step ahead of the game by looking carefully at all the information sent out by companies you own, their competitors and other companies you are interested in. This information is usually available on companies' websites.

Try to think laterally about the information you are getting. If, for example, a competitor to a company you have shares in produces a revolutionary new product, it will probably hit profits at the company you own. Also think about the impact it will have on suppliers to that business. An increase in sales of mobile phones with cameras in them will not only be good for the phone company but the firms that supply the technology in the phones.

Takeovers or even rumors of takeovers also have a big influence on prices. This is because investors expect the bidder to pay a premium to shareholders.

- Analysts' Reports

Reports produced by independent analysts also influence share prices. If an analyst changes their recommendation from 'sell' to 'buy', for example, the shares will often rise in value. Analysts' reports are produced primarily by investment banks for professional investors, although some stockbrokers will make their research available to private investors. You may find summaries of some reports published on financial news websites or in newspapers and magazines. Some investment banks also publish their reports on their websites for free. You should remember that the recommendation an analyst puts on a company will affect its share price very quickly and can become irrelevant within hours. This is because the analyst will usually say a stock is a 'buy' within a particular price range. If the price moves above their

targets the improvements the analyst expects may be ‘priced in’ and so the shares not worth buying.

But analysts’ reports are always worth reading, even if the recommendation is out of date. The reports usually contain a great deal of useful information on the company and how its business is developing. They also often look at how the company rates against its competitors.

- Press Recommendations

The financial pages of most national newspapers and investment magazines usually contain share tips. Like analysts’ reports these tips can have a major influence on share prices. If a journalist recommends a share, the price will usually rise and if they write a negative story the price will fall. These moves usually happen very quickly so if you are going to follow the recommendation it often makes sense to do so as soon as possible.

- Sentiment

Investor sentiment is almost impossible to predict and can be infuriating if, for example, you have bought shares in a company that you think is a good ‘buy’ but the price remains flat. Investor sentiment is influenced by a wide variety of factors. Share prices can, for example, be flat during the summer simply because so many major investors are on holiday or attending major sporting events such as Royal Ascot and Wimbledon, hence the adages ‘sell in May and go away’.

Investor sentiment can lead to irrational buying or selling of shares and result in bull and bear markets. A bull market is when share prices rise while a bear market is when they fall. In the technology boom of the late 1990s, for example, investors paid extremely high prices for shares and ignored traditional valuation measures, such as P/E ratios. This carried on until 2000 when investors belatedly realized these shares has risen too far and resulted in a three year bear market in shares.

- Technical Influences

Share prices can rise and fall for a variety of technical reasons that may have nothing to do with the actual outlook for an individual company or the outlook for the market.

It is, for example, a common occurrence for share prices to drop back after a strong rally. This happens because investors take profits on some of the shares that have risen in value, protecting their gains just in case the shares start to slip back. Investors often refer to this as market consolidation.

Another technical reason for share prices to rise or fall is the quarterly adjustment in the FTSE 100™ index. Shares that are expected to enter the FTSE 100™ may experience a sharper rise than one would expect in the weeks beforehand while shares that leave the index can fall more sharply. This happens because funds that simply track the index have to match the composition of the index. Some professional fund managers who hold the affected stocks also adjust their portfolios as they do not want their holding to be too far above or below the company's weighting in the index.

2.5.2 Nepalese Context

There are very few independent studies in Finance in Nepalese perspective. On the core concept of capital market and determinants of the stock price in stock market, very negligible studies have been made. Such research studies are made on shareholder's democracy and dividend policy etc. Even though, these studies have been made many years ago, these can provide intellectual ground, since there are no researches made on the specific topic.

In 1993, Prof. Dr. Rahde Shyam Pradhan studied the market behavior in Nepal and concluded that*:*

Large stocks have large PE ratios; large ratios of the market value to book of equity and smaller dividends. PE ratios and dividend ratio are more variable for smaller stocks where as market value to book value of equity is more variable for the large stocks.

Large stocks also have lower liquidity, higher leverage, lower profitability, and lower assets turnover interest coverage stocks.Smaller dividends, lower profitability, lower assets turnover, and lower interest coverage for large stock may be attributed to the fact that most of the large stocks are at their initial stage of operation.Stocks with large market value to book value of equity, large PE ratios and lower dividends. PE ratios are more variable for stocks with large market value to book value ratios and dividends ratios are more variable for stocks with smaller market value to book value.

Stocks with large market value to book ratios have lower liquidity, higher leverage, lower earnings, lower turnover and lower interest coverage. However, liquidity and leverage are more variable for stocks with large market value to book value ratios while earnings, assets turnover and interests coverage are more variable for stocks with smaller market value to book value ratios.

Stock with large ratios large PE has large market value to book value of equity and smaller dividends ratios. However, their ratios of market value to book value of equity, and dividends are more variable for smaller stocks than for large stocks.Stocks with large PE ratios have lower liquidity, higher leverage, lower profitability, lower assets turnover, and lower interest coverage. However, liquidity, leverage, earning turnover, and interest coverage are all more variable for stocks with smaller PE ratios as compared to large ones.

Stocks paying higher dividends have higher liquidity, lower leverage, higher earnings and higher turnover and higher interest coverage. However, liquidity and leverage ratios are more variable for the stocks paying lower dividends while earnings, assets turnover and interest coverage is more variable for the stocks higher dividends.

The other study by Prof. Dr. Rahde Shyam Pradhan and Mr. Nabaraj Adhikari entitled "Impact of Dividends on Share price in Nepal" leads to three important conclusions. First, dividends have positive impact on share price, i.e. paying dividends can increase share price. Second, dividends have comparatively more favorable impact on the share price of the non-finance sector than to the share price of finance sector. Third, past earnings have more impact than retained earnings and dividends on share private of finance sector?

2.6 Review of Unpublished Thesis

There are numerous thesis reports for the partial fulfillment of Master of Business Administration, Master of Business Studies and Mater in Arts in Tribunal University. Among those thesis reports some are related to the capital market and vary few are related to the stock price in Nepal Stock Exchange. Some of those thesis reports are viewed here:

In 1996, Mr. B. P Bhatta made a study on **"**Dividend Decision and Its Impact on Stock Valuation." He revealed that:

- Though the stockholders have not good enough return, market price of shares are increasing due to the high expectation in future.
- If there are rational investors and stable dividend influences considerable impact on valuation of shares.
- There is positive relationship between cash dividend and valuation of shares. There are five companies out of ten, having positive coefficient of correlation between cash dividend and valuation of shares.
- The market price is considerably higher than the actual net worth. In some cases, market price of share is two or three times higher than the net worth. This certainly includes that investors do not have adequate knowledge on how to evaluate the value of shares before investing in them.

In 1999, Mr. Surya Chandra Shrestha made a study entitled "A Study on Stock Price Behavior in Nepal." The major findings were:

- The price changes of the past and present can be very helpful to forecast future price and present can be very helpful of future price changes.

- When log days increase, the mean value of serial correlation of coefficient is lower, that indicates the past price changes may have low power to predict the future price in the long run.
- The price changes in the present and the future stock market may not be independent of the price changes in the past and present respectively.
- There elitists no profitable trading rules to make greater profit than they would make the buy-and-hold strategy on past price changes.
- Nepal Stock Exchanges is not efficient in pricing shares.

Another research entitled **"**A Study of Stock Market Behavior in Nepal" by Ms. Sangita Gautam Concluded that political instability and other laws related issues are the prominent factors for the underdevelopment of security market in Nepal. She further concluded that the stockbrokers and stock market are not being much active to create investment environment in stock market. Most of the investors are influenced through media only. Information deficiency in the capital market may be one of the reasons for determination of share price by excessive speculation. The available information is of low quality and people have very little knowledge of the trading procedure and price formation mechanism in NEPSE. Lack of effective laws and effective implication of the existing laws are the contributing factors for the less development of the capitol market. She also argued that some of the major problems experienced by stock market are the poor regulatory controls and supervision by SEBO/N and NEPSE.

In 2002**,** P.K. Poudyal made a study on "A study on Share Price Behavior of Joint Venture Banks in Nepal" is undertaken by using financial and statistical tools and revealed that:

- The growth rate analysis as a stand alone may not be adequate for the analysis of share prices behavior and may not represent the bank's performance in the secondary market.
- The ordinary least square equation of the book value per share on market value per share reveals that the independent variable does not fully explain the dependant variables on the basis of above mentioned two points; Nepal Stock Exchange operated in a weak form of efficient market hypothesis, including that the market prices move randomly. The market value per share does not accommodate all the available historical information.

- Having good track record of the financial position, the market potential investors buy the shares of joint venture commercial banks. Therefore, the shares of joint venture bans emerge as a blue-chip in the Nepalese Stock Market.
- The beta coefficient, which measures the risky ness 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. The shares of publicly quoted joint venture commercial banks are less risky as compared to the other average stocks traded in the stock exchange.

In 2004, Mr. Apar Neupane 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 behavior.
- In NEPSE, DPS, BPS & EPS individually do not have constituent relationship [with the market price of the share among the listed companies. The pricing behavior varies from one company to another. But EPS, BPS & DPS, jointly have significant effect in market price of the share. So, there may be other major factors affecting the share price significantly. NEPSE is in its primary stage, adopting open out cry system for stock trading and stockbrokers lack professionalism to create investing opportunities in NEPSE.
- Commercial banking sector has dominated the overall performance of NEPSE. Manufacturing & 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) information disclosed , timely AGM, political stability, national economy, demand & supply situation, strikes, demonstrations, ceasefire and peace talks (and their outbreak) are the major factors affecting the share price in NEPSE, according to the respondent of survey. Interest rate, retention ratio, cost of equity, tax rate, gold price , value of US $, global economy, market liquidity, season, day of the weak, size of the firm, change in the management do not significantly affect the price of the share 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.

- Listed companies do not provide sufficient information (financial as well as non financial) to their shareholders and they are not able to act according to the shareholders' interests. The performance of most of the listed companies is not transparent.
- Since NEPSE is in increasing trend, in spite of unfavorable 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.
- With the existing Maoist problem, industrial development and capital market development is impossible. So, the peaceful solution of the Maoist problem is preliminary condition for capital market and economic development in Nepal.

In 2007, another researcher Mr Krishna Prasad Subedi made a research entitled "Determinants of Stock Price in NEPSE" (With Special Reference to Joint Venture Commercial Banks).he concluded that;

- Adequate knowledge and information regarding the capital market is lacking in Nepalese investors. This is precisely the reason why they are cheated by the concerned companies and the NEPSE shows rather irrational behavior.
- Most of the listed companies have not provided sufficient and timely information to NEPSE as well as their shareholders.
- From the secondary data analysis, it is revealed that pricing behavior differ company to company. Even though, DPS, BPS, and EPS jointly have significant effecting the share price. It means that there may be other major factors influencing and determining the share price significantly.
- The study concludes that the Nepalese stock market is in infancy stage. There is gap between the theory and practice of investment in Nepalese stock market due to lack of proper study of stock market.
- In spite of the several constraints, the NEPSE has been growing gradually. The commercial banking sector is the best performance among the listed companies.

CHAPTER III

Research Methodology

3.1 Introduction

Research methodology is a way to systematically solve the research problem. It refers to the various sequential steps that are to be adopted by a researcher during the course of studying the problem with certain objectives. This chapter refers to the overall research method from the theoretical aspects to the collection and analysis of data. This study covers quantitative methodology in a greater extent and also uses the descriptive part based on both technical aspects and logical aspect. This research tries to perform a well-designed quantative and qualitative research in a very clear and direct way using both financial and statistical tools. Detail research methods are described in the following headings:

3.2 Research Design

In order to make any type of research a well-set research design is necessary to fulfill the objectives of the study. Generally, research design means definite procedure and techniques which guides to study and provide ways for research viability. It is arrangements for collection and analysis of data. To achieve the objective of this study, descriptive and analytical research design has been used. Some financial and statistical tools have been applied to examine facts and descriptive techniques have been adopted to determine factors determining stock prices of commercial banks in the NEPSE.

3.3 Population & Sample

This study intends to identify the factors affecting the stock price of listed Commercial Banks in NEPSE. So, the population of the study is all the listed companies in NEPSE up to November 25, 2008 i.e. 146 listed companies. The study has taken 5 commercial banks as samples. The following Table 3.1 reflects the detail of the samples:

Table: 3.1

Serial no.	Name of the listed banks
1.	Standard Chartered Bank Ltd.
2.	Nabil Bank Ltd.
3	Himalayan Bank Ltd.
4.	Everest Bank Ltd.
5.	Nepal SBI Bank Ltd.

The secondary data of sample organizations are analyzed to determine the relationship of earning, dividend and book value with market price of shares in NEPSE. But, to identify the qualitative factors affecting the stock price in NEPSE, primary information are collected through questionnaire from the senior officers of the listed banks, SEBO/N, NEPSE, and Security Brokers.

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3.4 Sources of Data

The study will be based on both primary as well as secondary data. To show the relationship between variables (share price – earnings, share price – book value, share price – dividend), secondary data are used but to determine the factors, which affect the stock price, primary data are collected form respondent through research questionnaire. The respondents of the primary data are listed commercial banks and stock broker's etc.The Secondary data will be collected mainly from published sources like annual report, prospectus, balance sheet, newspaper, journal, Internet and other sources from the companies. For the primary data, information will be collected from developing research questionnaire.

3.5 Data Collection Techniques

The research consists of both primary and secondary data. Since the nature of these two types of data is different, the data collection procedure also varies. To collect the secondary data, published materials are viewed in various spots. Books by different authors, unpublished thesis reports, journals, magazines, internet, AGM reports of the listed companies, SEBO/N, NEPSE etc. Trading reports of NEPSE are the major source of secondary data. To collect these secondary data, the researches visited NCC library, Central library and library of SEBO/N. On the other hand, the primary data collected through questionnaire with listed commercial banks and security brokers.

3.6 Data Analysis Tools

The primary and secondary data collected from various sources leads to the logical conclusion, only if the appropriate tools and techniques are adapted to analyze such data. The collected data has been no meaning, if such data are not analyzed. To analyze the data in this research, the researcher has used some statistical and financial tools, which are explained here.

3.6.1 Statistical Tools

Statistical tools are the measures or the instruments to analyze the collected data from different sources. In statistics, there are numerous statistical tools to analyze data of various natures. In this study, the researcher has used the following statistical tools to analyze the data:

3.6.1.1 Average/Mean

An average is a single value related from a group of values to represent them in someway, a value, which is supposed to stand for whole group of which it is a part, as typical of all the values in the group. There are various types of averages. Arithmetic mean (AM, Simple & Weighted), median, mode, geometric mean, harmonic mean are the major types of averages. The most popular and widely used measure representing the entire data by one value is the

AM. The value of the AM is obtained by adding together all the items and by dividing this total by the number of items.

Mathematically:
Arithmetic Mean (AM) is given by,

$$\overline{X} = \frac{\sum X}{n} \quad \text{.....(3.1)}$$

Where, $\overline{X}$ = Arithmetic mean

$\sum x$ = Sum of all the values of the variable X

n = Number of observations

3.6.1.2 Standard Deviation

The standard deviation $(\pm)$ measures the absolute dispersion. The greater the standard deviation, the greater will be the magnitude of the deviations of the values from their mean. A small standard deviation means a high degree of uniformity of the observations as well as homogeneity of a series and vice versa.

Mathematically:

$$\pm = \sqrt{\frac{1}{n}\sum (X - \overline{X})2} \quad \text{..... (3.2)}$$

3.6.1.3 Coefficient of Variance

The standard deviation is absolute measures of dispersion; where as the coefficient of variation (CV) is a relative measure. To compare the variability between two or more series, CV is more appropriate statistical tool.

Mathematically,

$$CV = \frac{\pm}{\bar{X}} \text{ X } 100$$

…… (3.3)

3.6.1.4 Correlation Coefficient

When the relationship is quantitative nature, the appropriate statistical tool for discovering and measuring the relationship and expressing it in a brief formula is knownas correlation. If the values of the variables are directly proportional then the correlation is said to be positive. On the other hand, if the values of the variables are inversely proportional, the correlation is said to be negative, but the correlation is said to be negative, but the correlation coefficient always remains within the limit of + 1 to – 1. By Karl person, the simple correlation coefficient (between tow variables, say X and Y) is given by:

$$r_{xy} = \frac{Cov(x, y)}{\pm_x \pm_y} \text{..... .....(3.4)}$$

Where,

r_{xy} = is the correlation coefficient between two variables x & y

'r' lies between +1 to -1

When r = +1, there is perfect positive correlation

When r= -1, there is perfect negative correlation

When r = 0, there is no correlation

When r lies between 0.7 to 0.999 9 (or -0.7 to -0.999), there is high degree of positive or negative correlation

When r lies between 0.5 and 0.699, there is moderate degree of correlation

When r is less than 0.5, there is low degree of correlation.

3.6.1.5 Simple Regression

Regression and correlation analysis are the techniques of studying how the variations in one series are related to the variations in another series. Measurement of the degree of relationship between two or more variables is called correlation analysis and using the relationship between a known variable and an unknown variable to estimate the known one is termed as regression analysis. Thus, correlation measures the degree of relationship between the variables while regression analysis shows how the variables are related. Thus, regression and correlation analysis determines the nature and the strength of relationship between variables. (Sharma & Chaudhary, 2002; p.425)

The equation of regression line where the dependant variables Y is determined by the independent variable X is given by:

$Y = a + b\,x$

a = y – intercept

Where:

b = slope of the regression line (i.e. it measures the change in Y per unit X) or regression coefficient of Y on X.

3.6.1.6 Coefficient of Determination

The coefficient of determination gives the percentage variation in the dependant variable that is accounted for by the dependant variable/s. In other words, the coefficient of determination gives the ratio of expected variance to the total variance. The coefficient of determination is given by the square of the correlation coefficient, i.e. r^2

So the coefficient pf determination = $r^2 = \frac{Expected\ \text{var}\,ience}{Total\ \text{var}\,ience}$ ..... (3.7)

3.6.1.7 Test of Hypothesis

A quantitative statement about population parameter is called a hypothesis. In other words, it is an assumption that is made about the population parameter and then its validity is tested. It may or may not be found valid in verification. The act of verification involves testing the validity of such assumptions which, when undertaken on the basis of sample evidence, is called statistical hypothesis or testing of hypothesis. The main goal of testing hypothesis is to test the characteristics of hypothesized population parameter based on sample information whether the difference between the population parameter and sample statistics is significant or not. The act of verification involves testing the validity of such assumption which, when undertaken on the basis of sample evidence, is called statistical hypothesis or the testing of hypothesis.

For the test of hypothesis t-test is made in this study.

3.6.1.8 t – statistics

t –statistics is applied for the test of small sample. If the sample size is less than 30 i.e. called small sample and t-test is used.

The following formula is used to test an observed sample correlation coefficient:

$$r = \frac{r}{\sqrt{1-r^2}} \mathrm{X} \sqrt{(n-2)}$$

Where, r= simple correlation coefficient

n= number of observations

3.6.1.9 z- statistics

To test the significance of effects of the qualitative factors, collected from primary sources, z-test is carried out. Z test is made, since the sample size is more than 30. The test of significance of single mean for large samples (N>30) under Ho is:

$$z = \frac{\bar{x} - «}{S.E.(\bar{x})} = \frac{\bar{x} - «}{\frac{±}{\sqrt{n}}} \qquad 11$$

Where, S. E. ($\bar{x}$) = standard error of mean = $\frac{±}{\sqrt{n}}$

In this study, the population mean («) will be assumed zero, assuming that such qualitative factors doesn't affect market price of shares.

3.6.2 Financial Tools

Except the statistical tools, some financial tools are also used in this research work. The major financial tools used in this research are:

3.6.2.1 Earning Per Share

The earning per share [EPS] is the share of a stock on the earning of the company.
Mathematically,

$$EPS = \frac{Total\ \ Earnings\ of\ \ Company}{No.\ \ of\ \ Shares\ \ Outs\tan ding} \quad \text{.....(3.8)}$$

3.6.2.2 Dividend Per Share

The DPS is the amount paid as dividend to the holder of one share of the stock.

Mathematically:

$$DPS = \frac{Total\ \ Dividend\ \ paid}{No.\ of\ \ Outs\tan ding\ \ Shares} \quad \text{.....(3.9)}$$

3.6.2.3 Market Price Per Share

The MPS is amount in which a share of the stock is traded in the market.

Mathematically,

$$MPS = \frac{Total\ \ Market\ \ Capitalization}{No.\ of\ \ Shares\, Outs\tan ding} \quad \text{.....(3.10)}$$

3.6.2.4 Book Value Per Share

The BPS represents the real net worth per share. It is simply the ratio of net worth (share capital plus retained earnings i.e. ownership capital) and the number of existing shares.

Mathematically:

$$BPS = \frac{Net\ \ worth}{No.\ of\ \ outs\tan ding\ \ \ shares} \text{.....} \text{.....} \text{.....} \text{...(3.11)}$$

3.7 Research Variable

A variable is a symbol to which numerals or values are assigned. So, the variables can take on values. This research intends to identify the factors that affect share price in NEPSE. So, the market price of the share is the dependant variable, which is affected by many variables, such variables are regarded as the independent variables in the study. The entire factors that affect the market price of shares, such as, earnings, dividends, interest rate, liquidity, book value of share, economy of the nation, rumors and whims etc. are the independent variables.

CHAPTER IV

Data Presentation and Analysis

4.1 Introduction

This chapter is the backbone of the research. In this chapter, both the primary and secondary data are presented in systematic manner. The sources of data were company brochure, annual reports, NEPSE website, SEBO/N website and library, and banks and stock brokers (questionnaire). Those collected data are presented in systematic formats and analyzed using different appropriate tools and techniques. In this chapter, in addition to that the relationship of the variables is presented in graphs and figures. The analysis of data consists of organizing, tabulating and performing statistical analysis. In this chapter, the secondary as well as primary data, collected from different sources are presented in understandable form and analyzed separately using both qualitative and quantitative measures whichever is appropriate.

Table 4.1

Listed Companies by the End of the Fiscal Year 2064/065

S.N	Sectors	No.of Listed Companies	Company Percent
1	Commercial Bank	17	11.64
2	Development Bank	24	16.43
3	Finance Company	57	39.04
4	Insurance Company	17	11.64
5	Hotel	4	2.7
6	Mfg. & process Co.	18	12.32
7	Trading Company	4	2.74
8	Other Company	5	3.42
Total		146	100

Source: SEBO/N Annual Report 2063/064 and www.nepalstick.com.

4.1.1 Analysis of Individual Company

As mentioned earlier, the researcher has made study confined in five listed commercial banks. The summary of the financial data of the sample listed companies over the six years periods (from fiscal year 2058/5999 to 2063/64 i.e. 2001/02 to 2006/07) including variables such as market price of share [MPS], earning per share [EPS], dividend per share [DPS] and book value per share [BPS] and market capitalization have been shown in annex VII.

4.2 Relationship Between EPS, DPS & BPS to MPS

To analyze the relationship of DPS, BPS and EPS to MPS, it is assumed that the market price of share is influenced with the changes in DPS, BPS and EPS. So, MPS is the dependant variable; whereas DPS, BPS & EPS are independent variables. Here in this section, relationship of DPS, BPS & EPS with MPS is determined separately to each of the sampled listed companies. The correlation analysis is performed to determine the relationship of EPS, DPS, & BPS with MPS. To determine the effect of DPS, BPS & EPS on MPS, simple correlation as well as their coefficient of determination are calculated. For the test of hypothesis of simple coefficient; calculated t-value are compared with the tabulated t-value at 95 % level of significance. To determine the magnitude of the effects of the independent variables to the dependant variable, simple regression analysis are made and the magnitude is identified after determining the regression equations.

4.2.1 Correlation & Regression Analysis of SCB

Table 4.2 (a) summarizes the financial performances of SCB over last 6 six years and Table 4.2(b) shows the relationship (correlation) of DPS, BPS and EPS to MPS along with the significance of such relationship.

Table 4.2 (a)

Summary of the Financial Performance of SCB

Year	MPS (x)	DPS (y)	BPS (z)	EPS (w)
2058/059	1,550	100	363.86	141.13
2059/060	1,640	110	403.15	149.30
2060/061	1,745	110	399.24	143.55
2061/062	2,345	120	422.37	143.55
2062/063	3,775	130	468.22	143.55
2063/064	5,900	80	512.12	167.37
Total	16,955	650	2568.96	888.45
Mean	2825.83	108.33	428.16	148.08
SD	1719.58	17.22	53.45	9.83
CV	60.85	15.90	12.48	6.64

Source: Annex VII

Table 4.2 (b)

Relationship of BPS, EPS and DPS with MPS

Variables	r	r^2	t-cal	t-table	Remarks
rxy	-0.4409	0.1944	-0.9824	2.776	Not Significant
rxz	0.9615	0.9245	6.9977	2.776	Significant
rxw	0.8220	0.6757	5.9824	2.776	Significant

Source: Annex VII

Where,

T–table value is at 95 % level of significance (n-2=6-2=4 degree of freedom)

R_{xy} = correlation coefficient of 'x' & 'y'

r^2 = coefficient of (simple) determination

SD = standard deviation

CV = coefficient of variation

Mean = arithmetic mean

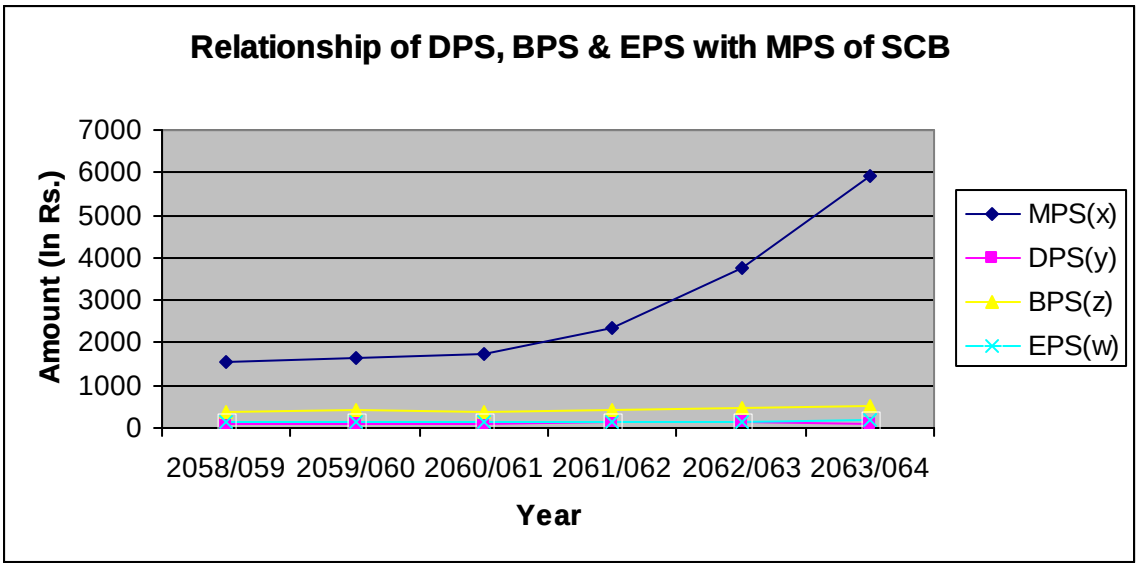
For SCB, it is found from the Table and Figure 4.2 that the BPS and EPS are in the increasing trend till the year 2059/060 and have slightly decreased in 2060/061. BPS and EPS are very less volatile with 12.48 % coefficient of variation (CV) of BPS and 6.64 % CV of EPS. In

comparison to these, MPS is more volatile with 60.85 % of CV where as DPS is little-bit volatile with 15.90 % CV in the last six years period. Looking at the simple correlation analysis, MPS of SCB is negatively correlated with DPS meaning that increasing the DPS, MPS decreases and vice versa. On the other hand, MPS is high degree of positively correlated with BPS and EPS. The coefficient of simple determination shows that 19.44 % of changes in the MPS is explained by DPS, where as only 92.45 % and 67.57 % of the changes in the MPS is explained by BPS and EPS respectively. So, MPS is affected by DPS, BPS and EPS. The degree of correlation is not significant at 95 % level of confidence for DPS. But the simple correlation of coefficient of BPS and EPS with MPS are significant at the 95 % level of significance.

Similarly, while comparing SCB with Industrial benchmark (i.e. the average performance of selected five banks) it is revealed that for MPS, MPS mean of SCB is greater (2825.83) than industrial mean of MPS (1466.53), Standard deviation of MPS is also greater (1719.58) than industrial standard deviation (938.83) and Coefficient of Variation is lesser (60.85) than industrial CV (63.32). This result shows that MPS has very good performance. For DPS, its mean is higher (108.33) than industrial average (42.54), coefficient of variation is lesser (15.89) than industrial average (101.76), and also the standard deviation is lesser (17.22) than industrial SD (42.78). For BPS, SCB mean is greater (428.16) than industrial average means (269.16); standard deviation is lesser (53.45) than industrial average SD (113.61) and Coefficient of variation (12.48) is lesser than industrial CV (42.34). It proves that SCB's BPS is satisfactory. Finally, for EPS, SCB mean is greater (148.075) than industrial average (73.139), standard deviation is lesser (9.83) than industrial average (52.59) and CV is also lesser (6.64) than industrial average (73.43). Thus, EPS has very good performance. Thus, in overall, SCB has very good performance in the last six years. [This has been shown in Annex II]

The linear relationship of DPS, BPS, EPS and MPS of SCB is presented in the Figure 4.2.

Figure 4.2



Source: Annex VII

From the simple regression analysis, the regression equations are found (MPS being dependant variable) as: [This has been shown in Annex I]

MPS on DPS

MPS = 7594.3258 – 44.0169 DPS

The regression constant 7594.3258 implies that when DPS is zero, MPS is 7594.3258. The constant for DPS negative 44.0169 implies that when DPS increases by RS 1, MPS decreases by RS 44.0169 and vice versa. The simple correlation coefficient is negative 0.4409 with 0.1944 coefficient of determination.

MPS on BPS

MPS = -10419.045 + 30.9344BPS

The regression constant negative 10419.045 implies that when BPS is zero, MPS is negative 10419.045. The constant for BPS 30.9344 implies that when BPS increases by RS 1, MPS increases by RS 30.9334 and vice versa. The simple correlation coefficient is 0.9615 with 0.9245 coefficient of determination.

MPS on EPS

MPS = -18459.5185 + 143.7471EPS

The regression constant negative 18459.5185 implies that when DPS is zero, MPS is negative 18459.5185. The constant for EPS 143.7471 implies that when EPS increases by RS 1, MPS increases by RS 143 and vice versa. The simple correlation coefficient is 0.822 with 0.6757 coefficient of determination.

4.2.2 Correlation and Regression Analysis of NBL

Table 4.3(a) summarizes the financial performances of NBL over last 6 six years and Table 4.3 (b) shows the relationship (correlation) of DPS, BPS & EPS to MPS along with the significance of such relationship.

Table 4.3 (a)

Summary of the Financial Performance of NBL

Year	MPS (x)	DPS (y)	BPS (z)	EPS (w)
2058/059	735	30.00	233.18	55.25
2059/060	735	50.00	267.30	84.66
2060/061	1,000	65.00	301.37	92.61
2061/062	1,505	70	337.16	103.45
2062/063	2,240	85	381.36	129.21
2063/064	5,050	100	418.36	137.45
Total	11,265	400	1,938.76	602.26
Mean	1,877.50	66.67	323.13	100.38
SD	1,656.23	24.83	69.78	30.12
CV	88.21	37.25	21.59	30.00

Source: Annex VII

Table 4.3 (b)

Relationship of BPS, EPS and DPS with MPS

Variables	r	r^2	t-cal	t-table	Remarks
rxy	0.8440	0.7123	3.1487	2.776	Significant
rxz	0.8718	0.7600	3.5594	2.776	Significant
rxw	0.8106	0.6570	2.7684	2.776	Not Significant

Source: Annex VII

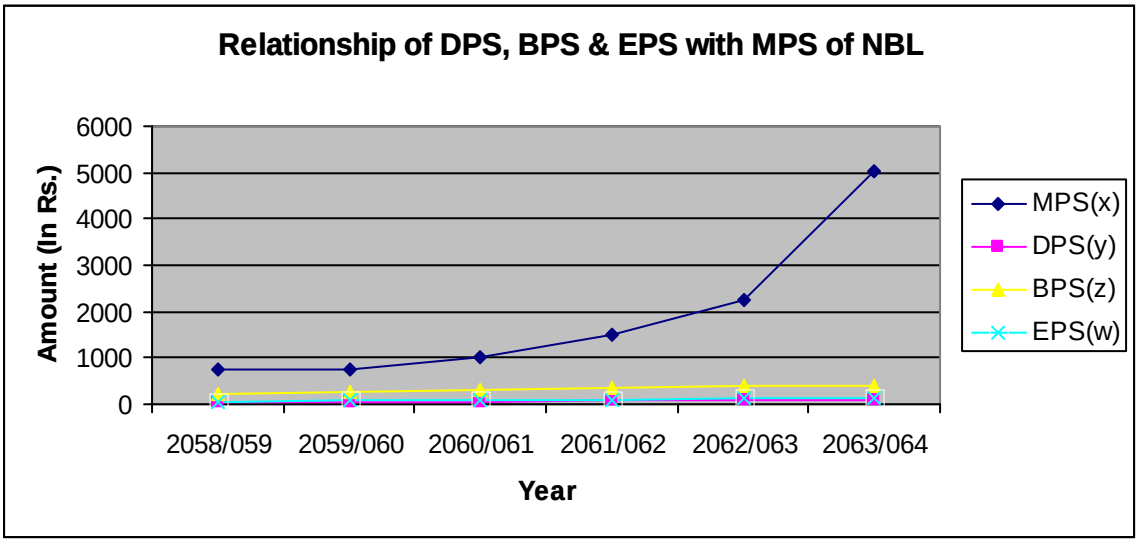
It is revealed from above Tables and Figure 4.3 that the NBL has not consistent performance over the six years period. MPS is more volatile with 88.21 % of CV. In comparison to MPS, DPS and EPS are less volatile with 37.25 % CV of DPS and 30.00% CV of EPS. On the other hand, BPS has relatively consistence performance with lower CV of 21.59 %. The simple correlation analysis revealed that the MPS is highly positive correlated with the all independent variables DPS, BPS and EPS which indicates that on increasing DPS, BPS and EPS, MPS also increases and vice versa. The coefficient of determination shows that the 71.23 % of changes in the MPS is explained by DPS, 76.00 % of changes in the MPS is explained by BPS and 65.70 % of change in the MPS is explained by EPS. The simple correlation of coefficients of DPS, BPS with MPS is significant but the EPS with MPS is not significant at 95 % level of significance.

Similarly, the comparison of NBL with industrial benchmark yields the following results:

For MPS of NBL, mean, SD and CV of MPS are higher than that of industrial average.It indicates clearly that MPS of NBL is satisfactory but it is more risky than the industrial aveage. For DPS, mean DPS is higher than industrial average; SD and CV are lesser than industrial average meaning that it is also satisfactory. For BPS, NBL has higher mean of BPS, and lesser SD and CV, so BPS can be taken as a good performer. And finally for EPS of NBL, mean EPS is greater, and SD and CV are lesser than that of industrial average, meaning that is also good. Thus, it is revealed from above analysis that NBL has good performance in last six years. [This has been shown in Annex II]

The linear relationship of DPS, BPS and EPS to MPS of NBL are presented in Figure 4.3.

Figure 4.3



Source: Annex VII

From the simple regression analysis, the regression equations are found (MPS being dependant variable) as: [This has been shown in Annex I]

MPS on DPS

MPS = -1874.939+ 56.2865 DPS

The regression constant negative 1874.939 implies that when DPS is zero, MPS is negative 1874.939. The constant for DPS 56.2865 implies that when DPS increases by RS 1, MPS increases by RS 56.2865 and vice versa. The simple correlation coefficient is 0.844 with 0.7123 coefficient of determination.

MPS on BPS

MPS = -4808.9848 + 20.693

The regression constant negative 4808.9848 implies that when BPS is zero, MPS is negative 4808.9848. The constant for BPS 20.693 implies that when BPS increases by RS 1, MPS increases by RS 20.693 and vice versa. The simple correlation coefficient is 0.8718 with 0.657 coefficient of determination.

MPS on EPS

MPS = -2598.5027 + 44.592 EPS

The regression constant negative 2598.5027 implies that when DPS is zero, MPS is negative 2598.5027. The constant for EPS 44.592 implies that when EPS increases by RS 1, MPS

increases by RS 44.592 and vice versa. The simple correlation coefficient is 0.8106 with 0.657 coefficient of determination.

4.2.3 Correlation and Regression Analysis of HBL

Table 4.4 (a) summarizes the financial performances of HBL over last 6 six years and Table 4.4 (b) shows the relationship (correlation) of DPS, BPS & EPS to MPS along with the significance of such relationship.

Table 4.4 (a)

Summary of the Financial Performance of HBL

Year	MPS (x)	DPS (y)	BPS (z)	EPS (w)
2058/059	1,000	25	220.03	60.26
2059/060	836	1.32	247.82	49.54
2060/061	840	20	246.93	49.05
2061/062	920	11.5	308.28	47.91
2062/063	1,100	30	228.72	59.24
2063/064	1,760	15	264.74	60.66
Total	1,6456	102.82	1,516.52	326.66
Mean	1,076	17.14	252.75	54.44
SD	305.89	10.23	31.41	6.19
CV	28.43	59.61	12.43	11.36

Source: Annex VII

Table 4.4 (b)

Relationship of BPS, EPS and DPS with MPS

Variables	r	r^2	t-cal	t-table	Remarks
rxy	0.1259	0.0158	0.2538	2.776	Not Significant
rxz	0.0729	0.0053	0.1462	2.776	Not Significant
rxw	0.6834	0.4671	1.8723	2.776	Not Significant

Source: Annex VII

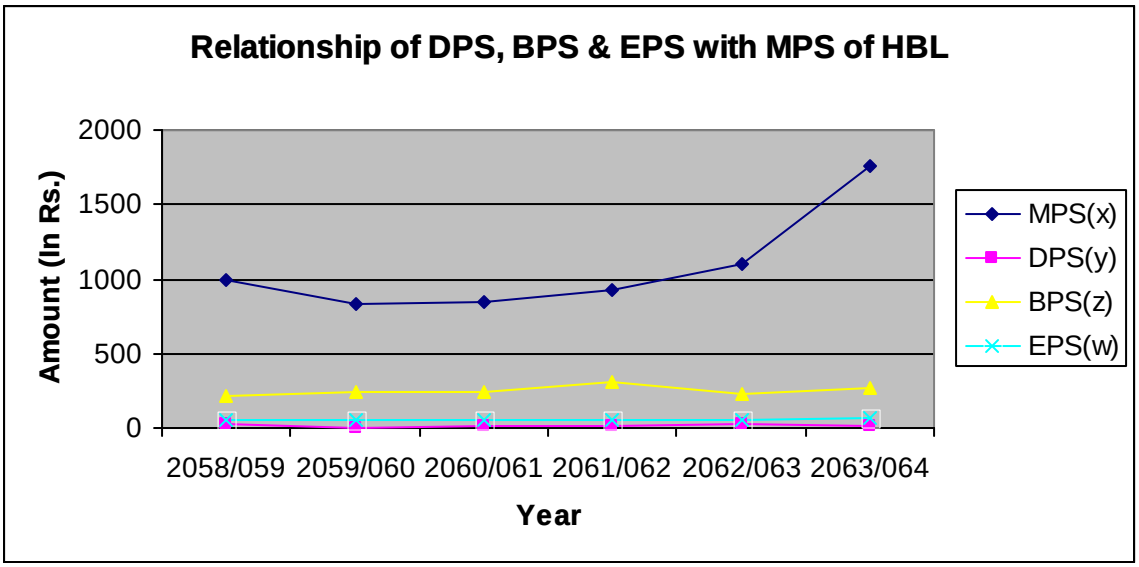
It is revealed from above Tables and below Figure 4.4 that the HBL has not consistent performance over the six years period. DPS is highly volatile with 59.61 % of CV. In comparison to DPS, MPS is less volatile with 28.43 % CV of MPS. On the other hand, BPS and EPS have relatively consistence performance with lower CV of 12.43 % of BPS and 11.36 % CV of EPS. The simple correlation analysis reveled that the MPS is positively correlated with all the independent variables DPS, BPS & EPS which indicates that on increasing DPS, BPS and EPS, MPS also increases and vice versa. MPS is a little more correlated to EPS than the DPS and BPS. The coefficient of determination shows that the 1.58 % of changes in the MPS is explained by DPS, 0.53 % of changes in the MPS are explained by BPS and this ratio to DPS is 46.71 %. The simple correlation of coefficients of DPS, BPS and EPS with MPS are not significant at 95 % level of significance.

Similarly, comparative analysis of HBL with industrial benchmark reveals the following information:

For HBL, MPS has good performance, DPS is good but mean DPS is less than industrial average. Likewise, BPS is satisfactory and its level of consistence is very low and last but not least, EPS is satisfactory as well. Therefore, HBL in overall have satisfactory performance. [This has been shown in Annex II]

The linear relationship of DPS, BPS and EPS to MPS of HBL are presented in Figure 4.4.

Figure 4.4



Source: Annex VII

From the simple regression analysis, the regression equations are found (MPS being dependant variable) as: [This has been shown in Annex I]

MPS on DPS

MPS = 1002.161 + 4.3088 DPS

The regression constant 1002.161 implies that when DPS is zero, MPS is 1002.161. The constant for DPS 4.3088 implies that when DPS increases by RS 1, MPS increases by RS 4.3088 and vice versa. The simple correlation coefficient is 0.1259 with 0.0158 coefficient of determination.

MPS on BPS

MPS = 870.8087 + 0.8118 BPS

The regression constant 870.8087 implies that when BPS is zero, MPS is 870.8087. The constant for BPS 0.8118 implies that when BPS increases by RS 100, MPS increases by RS 81.16 and vice versa. The simple correlation coefficient is 0.0729 with 0.0053 coefficient of determination.

MPS on EPS

MPS = -1028.3219 + 38.6516 EPS

The regression constant negative 1028.3219 implies that when DPS is zero, MPS is negative 1028.3219. The constant for EPS 38.6516 implies that when EPS increases by RS 1, MPS increases by RS 38.6516 and vice versa. The simple correlation coefficient is 0.6834 with 0.4671 coefficient of determination.

4.2.4 Correlation and Regression Analysis of EBL

Table 4.6(a) summarizes the financial performances of EBL over last 6 six years and Table 4.6(b) shows the relationship (correlation) of DPS, BPS & EPS to MPS along with the significance of such relationship.

Table 4.5 (a)

Summary of the Financial Performance of EBL

Year	MPS (x)	DPS (y)	BPS (z)	EPS (w)
2058/059	430	0	150.75	32.91
2059/060	445	20	150.10	29.90
2060/061	680	20	171.53	45.58
2061/062	870	20	169.15	37.54
2062/063	1,379	25	185.87	45.81
2063/064	2,430	10	371.86	78.42
Total	6,230	95	1,145.26	270.16
Mean	1,039	15.83	190.88	45.03
SD	765.72	9.17	63.67	17.59
CV	73.70	58	33.36	39.07

Source: Annex VII

Table 4.5 (b)

Relationship of BPS, EPS and DPS with MPS

Variables	r	r^2	t-cal	t-table	Remarks
rxy	-0.0009	0.000	-0.0018	2.776	Not Significant
rxz	0.9608	0.9231	6.9311	2.776	Significant
rxw	0.9523	0.9069	6.2412	2.776	Significant

Source: Annex VII

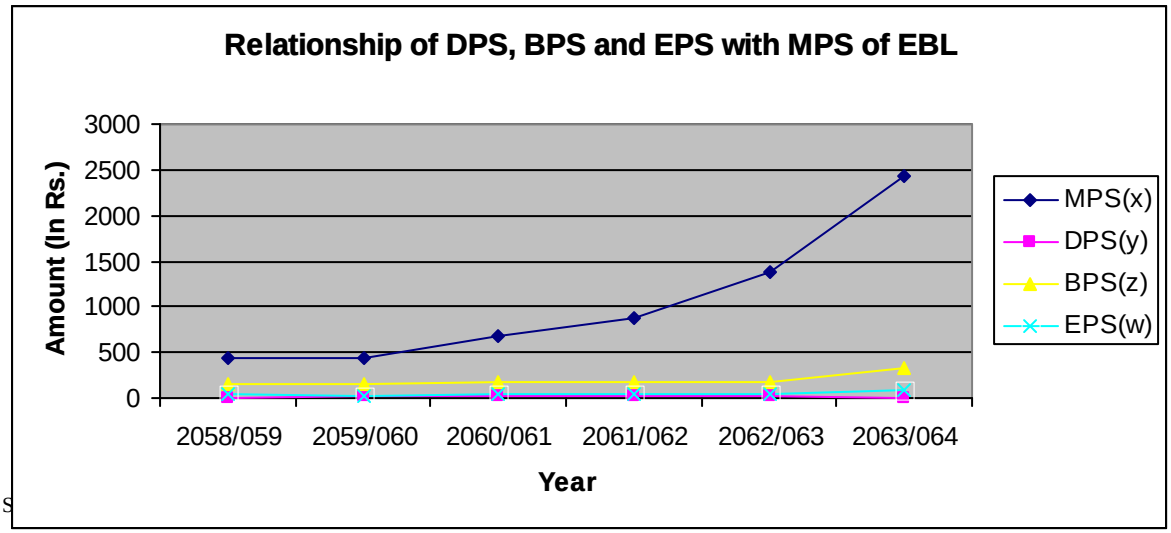
It is revealed from above Tables and Figure 4.5 that the EBL has not consistent performance over the six years period. MPS is highly volatile with 73.70 % of CV. In comparison to MPS, DPS, BPS & EPS are less volatile with 58.93 % CV of DPS, 33.36 % CV of BPS as well as 39.07 % CV of EPS. The simple correlation analysis reveled that the MPS has high degree of positive correlation with independent variables BPS & EPS which indicates that on increasing BPS and EPS, MPS also increases and vice versa. MPS is a little more correlated to BPS than the EPS whereas DPS has low degree of negative correlation with MPS. The coefficient of determination shows that the 92.31% of changes in the MPS is explained by BPS and 90.69% of changes in the MPS is explained by EPS. The simple correlation of coefficients of DPS with MPS is not significant at 95 %. But the simple correlation of coefficient of BPS and EPS with MPS are significant at 95 % level of significance.

The comparative analysis of EBL performance with industrial benchmark yields the following results:

For MPS of EBL, it's mean and SD is lesser than that of average otherwise good. For DPS, DPS mean SD and CV are lesser than industrial average. However DPS's risk level is very low than industrial average. For BPS, it has the same case as of DPS and finally, for EPS, it is also similar to DPS. Thus, in overall, the good performance of EBL is lacked by lower mean of independent variables in the last six years period.
[This has been shown in Annex II]

The linear relationship of DPS, BPS and EPS to MPS of EBL are presented in Figure 4.5

Figure 4.5



From the simple regression analysis, the regression equations are found (MPS being dependant variable) as: [This has been shown in Annex I]

MPS on DPS

MPS = 1040.126 - 0.0711DPS

The regression constant 1040.126 implies that when DPS is zero, MPS is 1040.126. The constant for DPS negative 0.0711 implies that when DPS decreases by RS 100, MPS increases by RS 7.11 and vice versa. The simple correlation coefficient is -0.0009.

MPS on BPS

MPS = -1166.5608 + 11.5549 BPS

The regression constant negative 1166.5608 implies that when BPS is zero, MPS is negative 1166.5608. The constant for BPS 1105549 implies that when BPS increases by RS 1, MPS increases by RS 11.5549 and vice versa. The simple correlation coefficient is 0.9608 with 0.9231 coefficient of determination.

MPS on EPS

MPS = -827.1963 + 41.4465 EPS

The regression constant negative 827.1963 implies that when DPS is zero, MPS is negative 827.1963. The constant for EPS 41.4465 implies that when EPS increases by RS 1, MPS increases by RS 41.4465 and vice versa. The simple correlation coefficient is 0.9523 with 0.9069 coefficient of determination.

4.2.5 Correlation and Regression Analysis of SBI

Table 4.6(a) summarizes the financial performances of SBI over last 6 six years and Table 4.6 (b) shows the relationship (correlation) of DPS, BPS & EPS to MPS along with the significance of such relationship.

Table 4.6 (a)

Summary of the Financial Performance of SBI

Year	MPS (x)	DPS (y)	BPS (z)	EPS (w)
2058/059	401	0	131.88	9.61
2059/060	255	8	134.03	11.47
2060/061	307	0	146.80	14.26
2061/062	335	0	159.54	13.29
2062/063	612	5	153.44	18.27
2063/064	1176	10	179.58	39.35
Total	3086	23	905.29	106.24
Mean	514.33	3.83	150.88	17.71
SD	347.16	4.49	17.70	11.00
CV	67.50	117.25	11.73	62.11

Source: Annex VII

Table 4.6 (b)

Relationship of BPS, EPS and DPS with MPS

Variables	r	r^2	t-cal	t-table	Remarks
rxy	0.6453	0.4165	1.6895	2.776	Not Significant
rxz	0.8150	0.6650	2.8130	2.776	Significant
rxw	0.9650	0.9312	7.3594	2.776	Significant

Source: Annex VII

It is revealed from above Tables and Figure 4.6 that the SBI has not consistent performance over the six years period. DPS is more volatile with 117.25 % of CV. In comparison to DPS, MPS, EPS &BPS are volatile in decreasing rate with 67.50 CV of MPS, 62.11 % CV of EPS and relatively low degree of volatility i.e. 11.73 % CV of BPS. The simple correlation

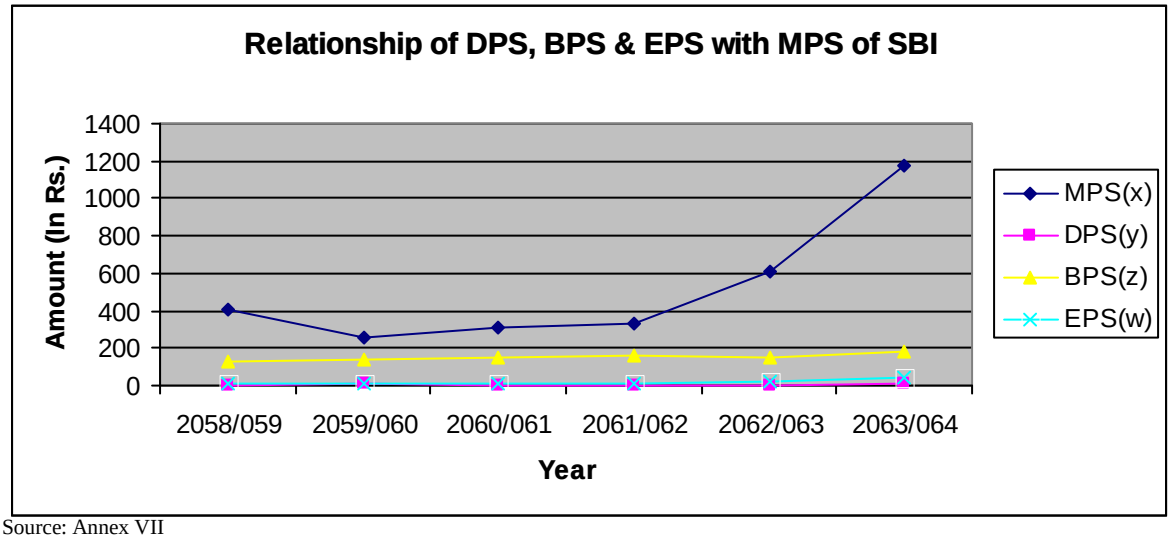
analysis reveled that the MPS is positively correlated with all independent variables DPS, BPS and EPS which indicates that on increasing DPS, BPS and EPS, MPS also increases and vice versa. There is high degree degree of correlation of DPS with MPS is moderate degree of correlation and BPS and EPS has high degree of positive correlation with MPS. The coefficient of determination shows that the 41.65 % of changes in the MPS is explained by DPS, 66.50 % of changes in the MPS is explained by BPS and this ratio to EPS is 93.12 %.The simple correlation of coefficients of BPS and EPS with MPS are significant and DPS with MPS is not significant at 95% level of significance.

The comparison of SBI with industrial Benchmark gives the following information:

For MPS of SBI, mean and level of risk are less whereas CV is higher than the industrial average meaning that MPS does not seem good. For DPS, it is similer to MPS. BPS and EPS mean SD as well as CV is lesser than industial average. Thus, in overall, the SBI does not have satisfactory performance than industrial benchmark. [This has been shown in Annex II]

The linear relationship of DPS, BPS and EPS to MPS of SBI are presented in Figure 4.6

Figure 4.6



Source: Annex VII

From the simple regression analysis, the regression equations are found (MPS being dependant variable) as: [This has been shown in Annex I]

MPS on DPS

MPS = 323.09+ 49.89 DPS

The regression constant 323.09 implies that when DPS is zero, MPS is 323.09. The constant for DPS 49.89 implies that when DPS increases by RS 1, MPS increases by RS 49.89 and vice versa. The simple correlation coefficient is 0.6453 with 0.4165 coefficient of determination.

MPS on BPS

MPS = -1898.7418+ 15.9932 BPS

The regression constant negative 1898.7418 implies that when BPS is zero, MPS is negative 1898.7418. The constant for BPS 15.9932 implies that when BPS increases by RS 1, MPS increases by RS 15.9932 and vice versa. The simple correlation coefficient is 0.8150 with 0.665 coefficient of determination.

MPS on EPS

MPS = -25.0518 + 30.4623EPS

The regression constant negative 25.0518 implies that when DPS is zero, MPS is negative 25.0518. The constant for EPS 30.4623 implies that when EPS increases by RS 1, MPS increases by RS 30.4623 and vice versa. The simple correlation coefficient is 0.9650 with 0.9312 coefficient of determination.

4.3 Analysis of Primary Data

This thesis involves primary data also which were collected through questionnaire (Annex-III). During the course of collecting primary data, the researcher visited the listed commercial banks as well as security brokers. Among the various factors affecting the share price, twenty factors were considered and primary information was collected from thirty one [ten from listed commercial banks, ten security brokers and eleven from NEPSE and SEBO] respondents. The answers of the respondents were marked with + 2 to – 2 on the basis of the degree of agreement to disagreement of the respondents. (-2 for strongly disagree, -1 for disagree, 1 for agree and 2 for strongly agree, 0 for undecided; using five degree Likert -Type Scale. The summaries of the respondent's response for each of the identified factors are

presented in this section separately. All the necessary calculations for this section are presented in Annex IV to VI with the help of MS. Excel Software.

4.3.1 Higher the EPS, Higher the Share Price

The responses of the respondents for higher the EPS affect to the market price of share were found as shown in Table 4.7

Form the primary responses it is found that 70.97 % of the respondents were agree that the increased earnings increases the share price in the market. Only, 6.45 % were disagreed and 9.68 % were undecided with the statement. So, the increase in EPS significantly increases the market price of the share and vice versa at 95 % level of significance. (This has been shown in Annex VI)

Table 4.7

Higher the EPS, Higher the Share Price

S. No.	Responses	No.	Percentage
1	Strongly Agree (A)	4	12.90
2	Agree (B)	22	70.97
3	Undecided (C)	3	9.68
4	Disagree (D)	2	6.45
5	Strongly Disagree (E)	0	0.00
	Total	**31**	**100.00**

Source: Annex IV

Form the primary responses it is found that 70.97 % of the respondents were agree that the increased earnings increases the share price in the market. Only, 6.45 % were disagreed and 9.68 % were undecided with the statement. So, the increase in EPS significantly increases the market price of the share and vice versa at 95 % level of significance. (This has been shown in Annex VI)

4.3.2 Higher the Cash Dividend, Higher the Share Price

The responses of the respondents for higher cash divident affect to the market price of share were found as shown in Table 4.8.

Table 4.8

Higher the cash dividend, higher the share price

S.No.	Responses	No.	Percentage
1	Strongly Agree (A)	5	16.13
2	Agree (B)	19	61.29
3	Undecided (C)	3	9.68
4	Disagree (D)	3	9.68
5	Strongly Disagree (E)	1	3.23
	Total	**31**	**100.00**

Source: Annex IV

Form the primary responses; it is found that 61.29.42 % of the respondents were agreeing that the increased cash dividend increases the share price in the market. Only, 9.68 % were disagreed and 9.68 % were undecided with the statement. So, the increase in cash dividend significantly increases the market price of the share and vice versa at 95 % level of significance. (This has been shown in Annex VI)

4.3.3 Higher the Interest Rate, Higher the Share Price

The responses of the respondents for the higher interest rate affect to the market price of share were found as shown in Table 4.9.

Table 4.9

Higher the interest rate, higher the share price

S.No.	Responses	No.	Percentage
1	Strongly Agree (A)	1	3.23
2	Agree (B)	15	48.39
3	Undecided (C)	6	19.35
4	Disagree (D)	8	25.81
5	Strongly Disagree (E)	1	3.23
	Total	**31**	**100.00**

Source: Annex IV

Form the primary responses it is found that 48.39 % of the respondents were agree that the increase in interest rate increases the share price in the market. Only, 25.81 % were disagreed and 19.35 % were undecided with the statement. So, the increase in interest rate does not

significantly increase the market price of the share and vice versa at 95 % level of significance. (This has been shown in Annex VI)

4.3.4 Higher the Retention Ratio, Higher the Share Price

The responses of the respondents for the higher retention ratio affect to the market price of share were found as shown in Table 4.10.

Table 4.10

Higher the retention ratio, higher the share price

S.No.	Responses	No.	Percentage
1	Strongly Agree (A)	2	6.45
2	Agree (B)	14	45.16
3	Undecided (C)	7	22.58
4	Disagree (D)	6	19.35
5	Strongly Disagree (E)	2	6.45
	Total	**31**	**100.00**

Source: Annex IV

Form the primary responses it is found that 45.16 % of the respondents were agree that the increase in retention ratio increases the share price in the market. Only, 19.35 % were disagreed and 22.58 % were undecided with the statement. So, the increase in retention ratio does not significantly affect the market price of the share and vice versa at 95 % level of significance. (This has been shown in Annex VI)

4.3.5 Stock Dividend Increases the Share Price

The responses of the respondents for the stock divident affect to the market price of share were found as shown in Table 4.11.

Table 4.11

Stock dividend increases the share price

S. No.	Responses	No.	Percentage
1	Strongly Agree (A)	2	6.45
2	Agree (B)	14	45.16
3	Undecided (C)	7	22.58
4	Disagree (D)	6	19.35
5	Strongly Disagree (E)	2	6.45
	Total	**31**	**100.00**

Source: Annex IV

Form the primary responses it is found that 45.16 % of the respondents were agree that the stock dividend increases the share price in the market. Only, 19.35 % were disagreed and 22.58 % were undecided with the statement. So, the stock dividend significantly affects the market price of the share and vice versa at 95 % level of significance. (This has been shown in Annex VI)

4.3.6 Lower the BPS, Higher the Share Price

The responses of the respondents for lower the BPS, higher the share price were found as shown in Table 4.12.

Table 4.12

Lower the BPS, higher the share price

S.No.	Responses	No.	Percentage
1	Strongly Agree (A)	0	0.00
2	Agree (B)	2	6.45
3	Undecided (C)	5	16.13
4	Disagree (D)	21	67.74
5	Strongly Disagree (E)	3	9.68
	Total	**31**	**100.00**

Source: Annex IV

Form the primary responses it is found that 6.45 % of the respondents were agreed with lower BPS causes higher the share price. Whereas, 67.74 % were disagreed and 16.13 % were

undecided with the statement. So, BPS significantly affects the market price of the share and vice versa at 95 % level of significance. (This has been shown in Annex VI)

4.3.7 Instability of the Government Affects the Share Price

The responses of the respondents for the affecting of the instability of the government to the market price of share were found as shown in Table 4.13.

Table 4.13

Instability of government affects the share price

S.No.	Responses	No.	Percentage
1	Strongly Agree (A)	3	9.68
2	Agree (B)	22	70.97
3	Undecided (C)	4	12.90
4	Disagree (D)	2	6.45
5	Strongly Disagree (E)	0	0.00
	Total	**31**	**100.00**

Source: Annex IV

Form the primary responses it is found that 70.97 % of the respondents were agreed that instability of government causes fall in the share price in market. Whereas, 6.45 % were disagreed and 12.90 % were undecided with the statement. So, instability of the government significantly decreases the market price of the share and vice versa at 95 % level of significance. (This has been shown in Annex VI)

4.3.8 Strikes and Demonstrations Affect the Share Price

The responses of the respondents for the strike, demonstration affect to the market price of share were found as shown in Table 4.14.

Table 4.14

Strikes and Demonstrations affect the share price

S.No.	Responses	No.	Percentage
1	Strongly Agree (A)	3	9.68
2	Agree (B)	23	74.19
3	Undecided (C)	2	6.45
4	Disagree (D)	2	6.45
5	Strongly Disagree (E)	1	3.23
	Total	**31**	**100.00**

Source: Annex IV

Form the primary responses it is found that 74.19 % of the respondents were agreed that strike, demonstration etc. causes fall in the share price in market. Whereas, 6.45 % were disagreed and 6.45 % were undecided with the statement. So, strike, demonstration etc. significantly decreases the market price of the share and vice versa at 95 % level of significance. (This has been shown in Annex VI)

4.3.9 Current Economic Depression can Cause Change in Share Price

The responses of the respondents for the current economic depression can cause change in price of share were found as shown in Table 4.15

Table 4.15

Current economic depression can cause change in share price

S.No.	Responses	No.	Percentage
1	Strongly Agree (A)	4	12.90
2	Agree (B)	22	70.97
3	Undecided (C)	2	6.45
4	Disagree (D)	2	6.45
5	Strongly Disagree (E)	1	3.23
	Total	**31**	**100.00**

Source: Annex IV

Form the primary responses it is found that 70.97 % of the respondents were agreed that current economic depression can cause change in share price in market. Whereas, 6.45 % were disagreed and 6.45 % were undecided with the statement. So, Cease-fire/peace talk

significantly affects the market price of the share positively at 95 % level of significance. (This has been shown in Annex VI)

4.3.10 Current Share Price is also Affected by the Changed in Government

The responses of the respondents for the current share price is affected by change in government were found as shown in Table 4.16

Table 4.16

Current share price is also afected by the changed in government

S.No.	Responses	No.	Percentage
1	Strongly Agree (A)	0	0.00
2	Agree (B)	2	6.45
3	Undecided (C)	4	12.90
4	Disagree (D)	19	61.29
5	Strongly Disagree (E)	6	19.35
	Total	**31**	**100.00**

Source: Annex IV

Form the primary responses it is found that 6.45 % of the respondents were agreed that current share price is also affected by the change in government. Whereas, 61.29 % were disagreed and 12.90 % were undecided with the statement. So, outbreak of cease-fire significantly affects the market price of the share negatively at 95 % level of significance. (This has been shown in Annex VI)

4.3.11 National Economy Environment Affect the Share Price

The responses of the respondents for the national economy environment affect to the market price of share were found as shown in Table 4.17.

Form the primary responses it is found that 67.74 % of the respondents were agreed that national economy environment affect the share price in market. Whereas, 6.45 % were disagreed and 12.90 % were undecided with the statement. So, national economy environment significantly affects the market price of the share positively at 95 % level of significance. (This has been shown in Annex VI)

Table 4.17

National economy environment affect the share price

S.No.	Responses	No.	Percentage
1	Strongly Agree (A)	4	12.90
2	Agree (B)	21	67.74
3	Undecided (C)	4	12.90
4	Disagree (D)	2	6.45
5	Strongly Disagree (E)	0	0.00
	Total	**31**	**100.00**

Source: Annex IV

4.3.12 Global Economy Environment Affect the Share Price

The responses of the respondents for global economy environment affect to the market price of share were found as shown in Table 4.18

Table 4.18

Global economy environment affect the share price

S.No.	Responses	No.	Percentage
1	Strongly Agree (A)	4	12.90
2	Agree (B)	18	58.06
3	Undecided (C)	4	12.90
4	Disagree (D)	4	12.90
5	Strongly Disagree (E)	1	3.23
	Total	**31**	**100.00**

Source: Annex IV

Form the primary responses it is found that 58.06 % of the respondents were agreed that global economy environment affect positively the share price in market. Whereas, 12.90 %

were disagreed and 12.90 % were undecided with the statement. So, global economy environment significantly affects the market price of the share at 95 % level of significance. (This has been shown in Annex VI)

4.3.13 Higher the Market Liquidity, Lower the Share Price

The responses of the respondents for the market liquidity affect to the market price of share were found as shown in Table 4.19.

Table 4.19

Higher the market liquidity, lower the share price

S.No.	Responses	No.	Percentage
1	Strongly Agree (A)	2	6.45
2	Agree (B)	9	29.03
3	Undecided (C)	7	22.58
4	Disagree (D)	10	32.26
5	Strongly Disagree (E)	3	9.68
	Total	**31**	**100.00**

Source: Annex IV

Form the primary responses it is found that 29.03 % of the respondents were agreed that higher market liquidity affect negatively the share price in market. Whereas, 32.26 % were disagreed and 22.58 % were undecided with the statement. So, higher market liquidity does not significantly affect the market price of the share and vice versa at 95 % level of significance. (This has been shown in Annex VI)

4.3.14 Larger Companies have Higher Share Price

The responses of the respondents for larger companies have higher share price were found as shown in Table 4.20.

Table 4.20

Larger companies have higher share price

S.No.	Responses	No.	Percentage
1	Strongly Agree (A)	3	9.68
2	Agree (B)	14	45.16
3	Undecided (C)	6	19.35
4	Disagree (D)	7	22.58
5	Strongly Disagree (E)	1	3.23
	Total	**31**	**100.00**

Source: Annex IV

Form the primary responses it is found that 45.16 % of the respondents were agreed with larger the companies have higher the share price. Whereas, 22.58 % were disagreed and 19.35 % were undecided with the statement. So, the larger company size significantly affects the market price of the share at 95 % level of significance. (This has been shown in Annex VI)

4.3.15 Share Price Changes with Change in Management

The responses of the respondents for share price increases with change in management were found as shown in Table 4.21.

Table 4.21

Share price changes with change in management

S.No.	Responses	No.	Percentage
1	Strongly Agree (A)	0	0.00
2	Agree (B)	5	16.13
3	Undecided (C)	18	58.06
4	Disagree (D)	7	22.58
5	Strongly Disagree (E)	1	3.23
	Total	**31**	**100.00**

Source: Annex IV

Form the primary responses it is found that 16.13 % of the respondents were agreed with share price increases with change in management. Whereas, 22.58 % were disagreed and 58.06 % were undecided with the statement. So, change in management does not significantly

affect the market price of the share and vice versa at 95 % level of significance. (This has been shown in Annex VI)

4.3.16 Share Price is Affected by Demand & Supply

The responses of the respondents for share price is affected by demand and supply were found as shown in Table 4.22.

Table 4.22

Share price is affected by demand and supply

S.No.	Responses	No.	Percentage
1	Strongly Agree (A)	4	12.90
2	Agree (B)	20	64.52
3	Undecided (C)	2	6.45
4	Disagree (D)	4	12.90
5	Strongly Disagree (E)	1	3.23
	Total	**31**	**100.00**

Source: Annex IV

Form the primary responses it is found that 64.52 % of the respondents were agreed with lower share price is affected by demand and supply. Whereas, 12.90 % were disagreed and 6.45 % were undecided with the statement. So, the fact that demand and supply of the stock significantly affects the market price of the share and vice versa at 95 % level of significance. (This has been shown in Annex VI)

4.3.17 Rumors and Whims Affect the Share Price

The responses of the respondents for share price are affected by rumors and whims were found as shown in Table 4.23.

Table 4.23

Rumors and Whims affect the share price

S.No.	Responses	No.	Percentage
1	Strongly Agree (A)	3	9.68
2	Agree (B)	17	54.84
3	Undecided (C)	6	16.13
4	Disagree (D)	3	9.68
5	Strongly Disagree (E)	2	6.45
	Total	**31**	**100.00**

Source: Annex IV

Form the primary responses it is found that 54.84 % of the respondents were agreed with share price is affected by rumors and whims. Whereas, 9.68 % were disagreed and 16.13 % were undecided with the statement. So, the fact that rumors and whims significantly affects the market price of the share and vice versa at 95 % level of significance. (This has been shown in Annex VI)

4.3.18 Listed Companies are not Serious Towards Shareholder's Interest

The responses of the respondents for listed companies are not serious about shareholders interests were found as shown in Table 4.24.

Form the primary responses it is found that 58.68 % of the respondents were agreed with the fact that listed companies are not serious about shareholders interests. Whereas, 9.68 % were disagreed and 9.68% were undecided with the statement. So, the fact that listed companies are not serious about shareholders interests is significant at 95 % level of significance. (This has been shown in Annex VI)

Table 4.24

Listed companies are not serious towards shareholder's interest

S. No.	Responses	No.	Percentage
1	Strongly Agree (A)	5	16.13
2	Agree (B)	18	58.68
3	Undecided (C)	3	9.68

4	Disagree (D)	3	9.68
5	Strongly Disagree (E)	2	6.45
	Total	**31**	**100.00**

Source: Annex IV

Form the primary responses it is found that 58.68 % of the respondents were agreed with the fact that listed companies are not serious about shareholders interests. Whereas, 9.68 % were disagreed and 9.68% were undecided with the statement. So, the fact that listed companies are not serious about shareholders interests is significant at 95 % level of significance. (This has been shown in Annex VI)

4.3.19 NEPSE and SEBO are Able to Protect Shareholder's Interest

The responses of the respondents for NEPSE and SEBO are not able to protect shareholders interests were found as shown in Table 4.25.

Form the primary responses it is found that 16.13 % of the respondents were agreed with the fact that NEPSE and SEBO are able to protect the shareholders interests. Whereas, 54.84 % were disagreed and 9.68 % were undecided with the statement. So, the fact that NEPSE and SEBO are not able to protect shareholders interests is significant at 95 % level of significance. (This has been shown in Annex VI)

Table 4.25

NEPSE and SEBO are able to protect shareholder's interest

S.No.	**Responses**	**No.**	**Percentage**
1	Strongly Agree (A)	2	6.45
2	Agree (B)	5	16.13
3	Undecided (C)	3	9.68
4	Disagree (D)	17	54.84
5	Strongly Disagree (E)	4	12.90
	Total	**31**	**100.00**

Source: Annex IV

Form the primary responses it is found that 16.13 % of the respondents were agreed with the fact that NEPSE and SEBO are able to protect the shareholders interests. Whereas, 54.84 % were disagreed and 9.68 % were undecided with the statement. So, the fact that NEPSE and SEBO are not able to protect shareholders interests is significant at 95 % level of significance. (This has been shown in Annex VI)

4.3.20 Increase in Personal Tax Rate Affect the Share Price

The responses of the respondents for the increase in personal tax rate affect to the market price of share were found as shown in Table 4.26.

Table 4.26

Increase in personal tax rate affect the share price

S.No.	Responses	No.	Percentage
1	Strongly Agree (A)	1	3.23
2	Agree (B)	7	22.58
3	Undecided (C)	7	22.58
4	Disagree (D)	14	45.16
5	Strongly Disagree (E)	2	6.45
	Total	**31**	**100.00**

Source: Annex IV

Form the primary responses it is found that 22.58 % of the respondents were agree that the increase in personal tax rate affect the share price in market. Whereas, 45.16 % were disagreed and 22.58 % were undecided with the statement. So, the personal tax rate significantly affects the market price of the share at 95 % level of significance. (This has been shown in Annex VI)

4.4 Empirical Findings of the Study

In this study both of the primary as well as secondary data are analyzed. The researcher, with the help of research questionnaire, gathered primary data which helped to identify the factors affecting stock price. Similarly, with the help of secondary data, the relationship of market

price per share with dividend, earning as well as book value was determined. Here, the empirical findings from both of the primary as well as secondary data analysis are presented separately below:

4.4.1 Findings from Secondary Data Analysis

The following findings have been drawn based on the research of samapled banks taken under study.

- From the secondary data analysis, it is found that MPS is negatively correlated with DPS where as it is positively correlated with BPS and EPS of the SCB. The relationship between MPS and DPS is not significant at 95% level of significance. But the relationship of MPS with BPS and EPS is significant at 95% level of significance. DPS, BPS and EPS are less volatile except MPS. In overall, SCB seems to be in good in its performance during last six year periods.

- MPS of NBL is positively correlated with DPS, BPS and EPS. However, the relationship MPS with EPS is not significant but the relstionship of MPS with BPS and DPS is significant at 95% level of significance. BPS and EPS has less volatile. But DPS has moderate and MPS has high volatile. It is revealed from analysis that NBL has good in its performance in last six years period.

- While analyzing secondary data of the HBL, MPS is positively correlated with DPS, BPS and EPS. The degree of correlation is very low so that these relationships are not significant at 95 % level of significance. DPS is very much consistent where as MPS, BPS and EPS are less volatile. HBL in overall seems to have satisfactory in its performance.

- For EBL, there exists high degree of positive correlation of MPS with BPS and EPS. But MPS with DPS is negative correlation. The t-test explains that these results of MPS with BPS and EPS show significant and with DPS is not significant at 95% level of significance. The performance of BPS and EPS are good. MPS and DPS

are more volatile which is not good. In overall, there is good performance of EBL in the last six years period.

- For, SBI bank, MPS has moderate degree of correlation with DPS, high degree of positive correlation with BPS and EPS. From t-test analysis, it shows that MPS with BPS and EPS is significant and MPS with DPS is not significant at 95% level of significance. BPS consistent and good where as EPS, MPS and DPS has higher volatility respectively. In overall, the SBI does not have satisfactory performance during the period of six years.

4.4.2 Findings from Primary Data Analysis

The followinig findings have been drawn on the bass of primary data analysis.

- MPS is significantly affected by company's performance such as earnings, cash dividends payment, book value at 95 % level of significance.

- When looking at the other relevant factors to share price such as interest rate, retention ratio etc. do not affect significantly whereas stock dividend significantly affects the share price at 95 % level of significance.

- The other many forces like political situations, government instability, the current economic depression, government, strike and demonstrations, economic depression, global economy environment, increase in personal tax rate etc. significantly affect the share price at 95% level of significance.

- From other factors like change in management and increase in market liquidity have insignificant impact on the share price.

- The Nepalese share price seems to be affected several factors like the size of the company, demand and supply forces, market rumors and whims etc.

- It is found that the listed companies are not serious about shareholder's interests. Because it shown that there is significant implication at 95 % level of significance.

- NEPSE and SEBO are not able to protect share holders interest has shown significant implication at 95% level of significance from the analysising of primary data.

CHAPTER V

Summary, Conclusions & Recommendations

5.1 Introduction

This is the final chapter that involves summary, conclusions and recommendations of the research work. The facts and findings from primary and secondary data analysis are presented in this chapter. Besides summarizing and concluding research work, recommendations are made to concerned persons and organizations.

5.2 Summary

The history of securities market began with the floatation of shares by Biratnagar Jute Mills Ltd. and Nepal Bank Ltd. in 1937. Introduction of the Company Act in 1964, the first issuance of Government Bond in 1964 and the establishment of Securities Exchange Centre Ltd. in 1976 were other significant development relating to capital markets.

Securities Exchange Centre was established with an objective of facilitating and promoting the growth of capital markets. Before conversion into stock exchange it was the only capital markets institution undertaking the job of brokering, underwriting, managing public issue, market making for government bonds and other financial services.

Nepal Government, under a program initiated to reform capital markets converted Securities Exchange Centre into Nepal Stock Exchange Limited in 1993. Nepal Stock Exchange, in short NEPSE, is a non-profit organization, operating under Securities Exchange Act, 1983.

The basic objective of NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through member, market intermediaries, such as broker, market makers etc. NEPSE opened its trading floor on 13th January 1994. Nepal Government, Nepal Rastra Bank, Nepal Industrial Development Corporation and members are the shareholders of the NEPSE.

After the restoration of democracy in 1990, Nepal Government initiated privatization and economic liberalization, the industrial development as well as the capital market development

process took a place. However, with the initiation of Maoist armed revolution, the industrial and capital market development process got a break. The nation has been paralyzed in terms of economic development due to the lack of peace and security. Most of the government investment has been concentrated to maintain security only. Similarly, lack of political stability and Royal take over of February 1; has added fuel in this issue.

Nepalese capital market is developing stage. Most of the citizens are not aware of the basic knowledge regarding security market. As a result they have not been able to make investment and if even invested; are being exploited in the absence of proper knowledge. Government has not been able to create basic infrastructures, sound policies and laws and their effective implementation, for the capital market development. As a result, there is not transparency in the performance of the listed companies and the capital market due to which capital market is struggling to mature.

The researcher has tried to explore the factors affecting share price in NEPSE, with special reference to commercial banks. The major objectives of the dissertation work are listed as:

- To identify qualitative as well as quantitative factors affecting the stock price in NEPSE with reference to commercial banks.
- To determine the effect of earnings and book value to the stock price.
- To determine the effect of dividend to the stock price.
- To make appropriate recommendations/suggestions for the betterment of the stock market.

To meet the desired objectives, the researcher identified the effect of quantitative factors, DPS, BPS & EPS with MPS by correlation and regression analysis of secondary data, whereas, to identify the qualitative factors affecting the share price, the researcher used the questionnaire approach.

On the one hand, from the secondary data analysis it is found that, for some companies, the correlation coefficient of MPS with independent variables (i.e. DPS, BPS & EPS) is significantly positive whereas in some other cases significantly negative at 95% level of significance. MPS is significantly positively correlated with DPS, BPS and EPS where as MPS is significantly negatively correlated to none of the factors.

Even though DPS, BPS & EPS affect the MPS positively, there are several other factors in the internal as well as external environment that affect the share price significantly. Theoretically, when earnings, dividends and book value per share increases, the market price per share also increases and vice versa. But in case of NEPSE, this theory does not seem to be true hundred percent meaning that there are various other factors too that affects the share price.

On the other hand, the qualitative factors affecting the share price are identified through the primary data analysis. Dividends, earnings, book value per share are some internal factors affecting the market price per share. Among other environmental factors affecting the share price is political instability, change in government, strikes, rumors and whims, economy environment, demonstrations, demand and supply situations. While analyzing the effects of interest rate, stock dividend, personal tax rate, market liquidity, size of the organization, change in the management etc. it is found that these factors have nominal effects of share price.

During the course of research work, it was understood that, there is not good regulatory mechanism in the NEPSE for the listed companies to protect shareholders interests. The listed companies other than banks and financial companies, are not able to conduct the AGM in time, submit their report to SEBO/N and give the detail information to the shareholders.Thus, it seems that, listed companies are not able to protect the shareholders interests properly on one hand and on the other hand, there is lack of effective watchdog to implement rules and regulations.

Talking about the listed companies in the NEPSE, most of the companies are unable to meet organizational objectives. Service industries and manufacturing industries are suffering loss in the present context. The only the satisfactory sector is banking and financial institutions.

5.3 Conclusion

Based on the above summary and findings of the research, the researcher came into the following conclusions:

- Adequate knowledge and information regarding the capital market is lacking in Nepalese investors. This is precisely the reason that the NEPSE could not take effective action to the concerned companies for making good environment to invest in capital market.

- Most of the listed companies do not provide sufficient and timely information to NEPSE as well as their shareholders. Some of the information have found contradicting with the information derived from NEPSE, Annual Report and their particular websites. This seems to attract potential investors by providing exaggerated information regarding their performances.

- From the secondary data analysis it is revealed that, pricing behavior differs company to company. DPS, BPS and EPS under jointly study have found to have significant effect on the share price; however an individual analysis showed the inconsistency in relationship with MPS.

- Summarizing the primary data analysis, with the view point of respondent, factors like company performance and othe political and economic factors have positively influence on the share price. But the interest rate, tax rate, market liquidity, size of the firm and changes in management have not shown its effect on market share price.

- In the lacking of suitable rules and regulation as well as inproper regularity mechanism shareholders are loosing their confidence in making their investment. On the other hand, capital market has not been growing as per expectation. The lack of political stability, investment environment have constrained the smooth development of security market.

- The study concludes that the Nepalese stock market is in developing stage. There is a gap between the theory and practice of investment in Nepalese stock market due to lack of proper study/analysis of stock market. Professionalism is still lacking to create investing opportunities in NEPSE.

- In spite of the several constraints, the NEPSE has been growing gradually. The commercial banking sector is the best performer among the listed companies. However it can't undermine the truth that with the presence of peace and political stability, the capital market gets far better soon.

5.4 Recommendations

Based on the research work, the researcher has reached the following recommendations:

To Investors

Lack of education and sufficient information is the main weakness of the investors. They should seek their right towards accurate and timely information, as well as for protection. Similarly, investors should be alert to exploit the opportunities through short term speculation. So, they are suggested to raise their voice and complain about the misconduct of relevant company or NEPSE, SEBON as well as of Government. They are encouraged to enrich their level of knowledge and make the investment opportunities fruitful.

To Brokers

Brokers are suggested not only to look at their interests but also be sincere and cooperate with investors. Since they have greater level of practical knowledge they should provide rational and accurate advices to their clients/investors and foster professionalism.

To SEBO/N NEPSE

Perfect markets require that all information concerning future risks and returns of securities be readily available to all investors. As there exists various market imperfections, relevant information are not easily available to the investors. They are often published in national dailies, but most of the information is highly aggregated and not reliable. Because of the lack of technical knowledge, majority of the investors is unable to analyze the available information. As such, a single buyer and a single seller can affect the price of securities. NEPSE has to insure listed companies relevant information. Similarly, NEPSE can expand its

service to regional and local level so that it gives the equal opportunity to all the potential investors. Investors should be provided with investment guidelines and relevant information through media as soon as possible. It should monitor the activities of brokers as well as listed companies.

To Listed Companies

Listed companies are requested to avail the accurate and timely information to concerned authorities as well as to investors. They should conduct timely AGM, and fulfill the requirement of concerned authorities. They should not provide gimmicks to attract the potential investors.

To Government

Government should formulate as well as implement effective rules and regulations, code of conduct, for the gradual development of capital market. For this purpose national as well as international stock experts should be consulted. Similarly, it should encourage independent rating agencies so that the investors will have a confident picture of financial health and future prospects of organizations/instruments. NEPSE should be given authority to take immediate action for wrongdoer companies. Government should encourage the concerned body to organize programs, seminars time to time to create awareness among the investors.

To Further Researcher

Research is an ongoing process. Study of security is a vast field of study. Through this research, the researcher has tried to explore the factors affecting share price of commercial banks, which is I believe more specific, the further researcher can focus their study towards more specific factors. Similarly, they can even carry out research based on primary source. The other relevant factors for example can be impact of inflation, oil/energy prices etc that affect the share price.

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Annex III

Dear Respondents,

I have been conducting a research on "Determinants of Stock Price in NPSE Ltd (with special reference to listed commercial banks). This questionnaire has been developed and presented before you as part of this study. The issues raised in this questionnaire are the key problems identified by researchers related to topic during the course of study.

I humbly request you to fill it up at the best of your knowledge. Your cooperation in this regard will be of immense value for me.

I shall be highly obliged for your prompt reponse as far as possible.

Thank you,

Researcher

Jhalak Bahadur Thapa
Roll No: 66
Level : MBS
Nepal commerce Campus
Kathmandu

Respondents

Name :
Organization :
Position :
Date :

The questionnaire has developed into five categorised for ranking purpose. You are kindly requested to indicate the extent to which you agree with the following statements by filling in each of the blank with:

A for Strongly Agree
B for Agree
C for Undecided

D for Disagree

E for strongly Disagree

[All the statements are related to NEPSE and market price of share of listed commercial banks.]

1. Higher the EPS, higher the share price._____
2. Higher the cash dividend, higher the share price._____
3. Higher the interest rate, higher the share price. ._____
4. Higher the retention ratio, higher the price of the share._____
5. Stock dividend increases the share price._____
6. Lower the BPS, higher the share price._____
7. Instability of government affects the share price._____
8. Strikes and demonstrations affect the share price. _____
9. Current economic depression can cause change in the share price. _____
10. Current share price is also affected by changed in. _____
11. National economy environmemt affects the share price. _____
12. Globle economy environment affects the share price. _____
13. Higher the market liquidity, lower the share price. _____
14. Larger companies have higher share price._____
15. Share price increases with change in management. _____
16. Share price is affected by demand and supply. _____
17. Rumors and whims affect the share price._____
18. Listed companies are not serious towards the shareholder'sinterest. _____
19. NEPSE and SEBO\N are able to protect investors' interest effectively._____
20. Increases in personal tax rate affect the share price._____