

CHAPTER- I

INTRODUCTION

1.1 Background of the study

The smooth continuity of the economic development widely depends upon the adequate and steady of medium as well as long- term capital funds for productive investments, which is concerned with finance. The finance is directly concerned with conversion or accumulation of capital funds to meet the financial needs of various institutions. Financial market is a place where all financial securities or instruments and financial services are transacted or exchanged and serviced. Business firms, as well as individuals and government units often needs to raise capital. On the other hand, some individuals and firms have income, which are greater than their current expenditure. So they have funds available to invest. People and organization wanting to borrow money are brought together with those having surplus funds in financial market. There are great many financial markets. Each one deals with a somewhat different type of instrument, in terms of the instrument's maturity and the assets backing it. Also, different market serves different sets of customers of operates in different parts of the country. Financial market deals with stocks, bonds, notes, mortgages and other claims on real assets. These markets are such a mechanism, which brings lenders and borrows together. Financial markets are engaged in mobilization of savings from surplus units and deploy funds into the deficit units for productive investment.

The development of the economy requires the productive activities, which in turn is the result of the investment venture in productive enterprises, the establishments of these enterprises need a huge amount of funds. There are mainly two sources of financing which are internal and external sources. The internal financing has limited scope because the limited resources and risks associated with the investment. So now a days, the external financing, the method of financing an enterprise through the financial market, has come the most important and popular sources of financing for fostering the productive activities in the economy. Thus, the stock market, the most important component of the financial market (market for financial assets), is a must for the development of an economy. In the Nepalese context, the external financing has the limited scope because of the least developed financial market in the economy, which is one of the discouraging factors for the rapid growth of investment in productive activities.

Money markets and capital markets are both financial markets, but they differ in the type and maturity of the securities involved. Money markets are the markets for debt securities with maturity less than one year. The New York money market is the world's largest, and it is dominated by the major U.S, Japanese and European banks. London, Tokyo and Paris are the major money market centers. Capital markets are the markets for long term debt and corporate stock.

Capital market is an organized market through which buyer and seller of long-term capital are met these to the function of buying and selling takes place. Capital market is place for long term securities having maturities greater than one year. The complex or institution through which public saving are mobilized in the profitable project refers the capital market. In other words, it is the mechanism to invest public savings in industrial and business enterprise. The instruments used in capital market are debt, stock, preferred stock, bond and convertible issues. "Capital market plays a crucial role in mobilizing a constant flow of saving and channeling these financial resources for expanding productive capacity in the countries". (Kui, 1989; 44).

To develop the economy of the country an efficient and effective capital market is a vital importance. The growth of the capital market in a country depends upon the amount of saving available, proper organization of financial intermediary, to bring the investor and business ability together for mutual interest. The trading of share of stocks takes place in the stock market. Nepal, the capital deficient economy, requires the huge amount of investment in production activities for the rapid economic development .stock market can play the vital role by encouraging and canalizing the saving to provide the entrepreneurs for investment in profitable projects in the Nepalese capital market. It is an institutional arrangement with in which a number of institutional bodies like Securities Board Nepal (SEBON), Nepal Stock Exchange (NEPSE), Register of Company (ROC), Shareholders Association Nepal (SAN), and listed companies are in existence. In Nepalese capital market twenty seven brokers, ten market intermediaries and one organized stock exchange center are currently in operation. Nepalese Stock Market in infancy stage but it is growing slowly. The market is mostly concentrated over commercial banks and finance companies only. Banks, non-banking financial companies and insurance company occupy almost 90% of total market capitalization.

Capital markets are also classified as primary market and secondary market primary markets are the markets in which corporation raise new capital and in which newly issued securities are involved. If we were to sell a new issue of common stock to raise capital, there would be a primary market transaction. Secondary markets are markets in which existing, outstanding securities are traded among investors. Secondary markets also exist for mortgaged, various types of loans and other financial asset.

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 the financial managers is the stock market. It is here that the price of firm's stocks are established and since the primary goal of financial management is to maximize the firm's stock price, a knowledge of the market in which the price is established is essential for any one involved in managing the business.

The stock price efficiency occupies an important place in financial management. If there are certain imperfections in the stock markets, wise investor attempts to utilize them to achieve a better return. This perception has no rational significance in a world where shares are efficiently priced. In an efficient market, share price should adjust randomly upward and downward with respect to the new information. Stock market efficiency cannot be tested directly. However, by postulation some security price behavior, one can have some idea about market efficiency. History indicates that much time and effort have been devoted in the field of financial research to investigate the movement of share prices. Thus study has been directed towards studying price movement of Nepalese shares.

The investors in Nepal have shown their growing interest to invest in shares of the public limited companies banks and financial institutions. At the same time their interest to the price volatility has increasing day by day. On the other hand many public limited companies in Nepal are successful in flotation the shares in securities market these days. The rising investment consciousness is the direct outcome of the keen interest shown by general public. Whenever the public limited companies issue new shares the stock market gets busy with crowds of share applicants (Shrestha, 1992).

After the establishment of the Nepal Stock Exchange Ltd. (NEPSE) in 1991, the concept of capital market had emerged and grown rapidly within a very short span of time period. The

number of listed companies with the NEPSE reached to the shares of these companies play a vital role in the overall NEPSE index. The efficient market hypothesis (EMH) states that three forms of stock markets prevail in theory. They are strong, semi-strong and weak.

The forms of markets are determined on the basis of how publicly available information is reflected in the market price of shares. The Nepalese Stock Exchange Market is a weak form of market because of the reason that the investors do not thoroughly analyze the financial indicators of the public limited companies listed with the NEPSE and the lack of investor's awareness towards the portfolio behavior. The market rumors have significant role in share price movements.

Though the efficient market hypothesis focuses on historical information to determine the market price of shares, different countries might have different set of regulations regarding the behavior of the stock exchange and trading of securities. In our context, the Securities Exchange Board of Nepal has issued a directive, which specifies that the first transaction price of any day should be within the band of 10 percent of the closing price of the day before the transaction takes place. Similarly, any subsequent trading of shares should be priced within the band of 5 percent of the price fixed in the latest transaction.

1.1.1 The Stock Market in Nepal: An Overview

1.1.2 Historical Development and Present Position

Stock market in Nepal is a recent phenomenon. It is still in early stage of development. Though it was begun with the public issue of shares by Biratnagar Jute Mill and Nepal Bank Limited in 1937, the development of stock market started in 1976 after the establishment of Securities of Exchange Center (SEC) as a public sector undertaking with the objective of development of securities market in the country. Initially, the SEC Ltd's functions confined to trading of the government stocks. Except government stocks, SEC also carried out primary and secondary market services for the corporate securities. The remarkable changes came only after the initiation to reform the market in 1993, when the SEC was converted into Nepal Stock Exchange Ltd (NEPSE) and new market mechanism was introduced providing membership to market intermediaries allowing to participate in the transaction of securities.

The organized and systematic trading of securities at the Stock Exchange took place only after the restoration of democracy in the country. All these were possible because of the liberalized policy of the government. Then, the government has established Securities Board of Nepal (SEBO/N) as an apex regulatory body under the Securities Exchange Act, 1983.

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. 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 Association 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 (NEPSE):

Along with the formation of Security Exchange board (SEBO/N), Nepal Government converted the Securities Exchange Centre Ltd. (SEC) 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 rules and by laws of NEPSE. NEPSE started its trading operation on 13 January 1994 through its licensed members. The SENON was constituted in 1993 under sec.1 of the Securities Exchange Act 1983.

NEPSE is a trading (operational) institution, where as SEBO is the regulatory body. Before the Board came into existence, the Securities Exchange Centre (SEC), 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 Ltd. alone is representing the securities market in the country.

At present there are 34 valid member brokers (227 listed companies). NEPSE has adopted a “computerized” system. It means, transactions of securities are conducted on the open auction principle on the trading floor- where the price is determined when bid and offer price match. The rate of brokerage on equity transactions ranges from 1 to 1.5 % depending on the traded amount.

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. only corporate securities are traded in the NEPSE. However, so far, the government securities are not allowed to trade in NEPSE. The corporate securities traded on the NEPSE represented a paid up value of Rs. 45580.0 million at the end of 2008. It is considered to be of great importance from the viewpoint of individuals and also that of the economy.

Broadly, these securities are of two types: first are the proprietorship securities and second are the creditorship securities. The former indicate both type of shares of a public limited company whereas the latter involve bond or debenture of such companies. In Nepal, under the company Act, 1997, a public company can issue both equity and preference shares however, it is the equity shares that constitute the largest category of corporate securities traded on the NEPSE.

Table 1.1
Pattern of listed companies

Year	2003/4	2004/5	2005/6	2006/7	2007/8
No. of listed companies	114	125	135	154	227
Paid-up value (Rs. in million)	13404.9	16771.9	19958.0	21799.0	45580
Market capitalization (Rs. in million)	41424.3	61365.89	96763.74	186301.28	429486.31
Annual turnover (Rs. in million)	2144.3	4507.68	3451.43	8360.07	14939.9738
NEPSE Index (points)	222.04	286.67	386.83	683.95	617.34
Securities issue (Rs. in million)	1027.5	1626.8	2443.3	2295.5	

Source: <http://www.nepalstock.com>

1.1.3 Regulatory Bodies and Disclosure of Information

Nepal Stock Exchange, Securities Board Nepal, Nepal Rastra Bank, registrar of companies and government is the major regulators of the market. NEPSE operates exchange floor with the licensing of broker and capital makers. Securities exchange board systematizes and regulates the securities transactions and protects the interest of the shareholders. Corporate and market information's system are organized through stock exchange and issue of prospectus while insuring securities. Nepal Rastra Bank regulates financial intermediaries who are also member in the stock exchange. NRB regulates the interest rate in case of debt instruments issued by corporate bodies. Similarly, registrar of the company regulates company by registering the mind registering the prospects. However, the government is the ultimate authority who formulates securities exchange regulations.

Provisioning of information's disclosure has been made on acts, its rule and regulations, by laws and directives related to securities market in Nepal. The provisioning on disclosure of information's that pertinent in determination of transaction price of the security is for safety

investment. So that securities prices defines detail information in the market. Regulation regarding disclosure of information, which significantly affects the price of securities.

Companies are required to carryout their annual general meeting within one year from its approval to start the operation and then after the regular Annual General Meeting is to be conducted within six months after completion of fiscal year. They are required to publish the notice, starting place, date and agendas for discussion and resolution to carryout its AGM at least before 21 days. In the AGM, it has to submit the audited annual reports inclusive of details of balance sheet and profit and loss account, board of director's reports, distribution of the income to the shareholders, appointments of directors, auditor and their remuneration solution, corporate bodies have to previously inform the issuance of bonus shares to the office of the company's registrar and the proposal should be approved through special proposal in the AGM.

Companies are required to make listing by them in the stock exchange before making transaction of such securities. The companies have to submit the memorandum, articles of association, prospectus, either audited or projected profit and loss account and balance sheet of three years along with application for listing. They have to make the progress reports of the operation and plan and opinion on the future strategy. Further corporate bodies are liable to conclude an agreement with the stock exchange to list their securities. In such agreement, the commitment of the corporate bodies needs to be clearly stated that the concerned organizations will forth- with give the notice or information that affects transaction prices of securities to the stock exchange so that the information or notice could be disseminated in the market.

1.2 Statement of the Problem:

Nepalese capital is very small in comparison with other efficient developed stock market. There are few numbers of brokers, limited no. of listed companies, very few transactions and most importantly investors are unknown about the pros and cons of the market.

The stage of development of capital market in any country and its effective growth is depended upon the aggregate economic condition, saving and investment of private sector in the capital market helps reinforcing the market would ultimately yield better results. The development of corporate culture is must for the development of capital market. The

Nepalese capital market has been passing through a transitionally phase over the past few decades. A break through was achieved in the development of stock market in Nepal when the security transaction center was converted into Nepal Stock Exchange (NEPSE) in 1994. Market makers and stockbrokers were engaged to transact business through a trading floor provided by NEPSE under atmosphere of competition. The stock market has not become mature; still it is in the transitional period. Now a day, the trend of stock price becomes too very high because of the poor performance of listed companies. Companies are not in the position to distribute dividends to the shareholders. Few numbers of listed companies commercial banks, insurance companies and trading companies are able to pay dividends regularly to its shareholders.

The problems, which have to face by the stock market, can be given as following points:

- Low amount of capital formation is one of the reasons responsible for the slow growth of capital market in Nepal.
- Illiterate masses are also one of reason hampering the development of capital market in Nepal.
- Several legal formalities to be undertaken while marketing of securities. Likewise the frequent changes in government economic policies are also main problem of slow movement of stock market.
- Lack of confidence while investing in securities is another reason for the slow growth of capital in Nepal. Lack of information about stock market, people does not indent to invest in stock.
- Lack of appropriate policy for the development of the stock market.

In the countries of developed economy, an organization publishes updated information, periodically informing to the public about its economic condition. It means the people of developed country are well informed about the economic condition. In Nepal there is not management of processing the information provided by the companies to understand easily by the investors. Many listed companies do not make produce timely financial statement or annual reports to the investors. The dubious and hazardous movement of share prices has no sound fundamental backing of analysis and relationship to past results revealed in limited calculated dividend yield, net worth and price multiples, the investors conclude that there has been a foul play using inside information. The reaction is based on the assumption of strong

from the market efficiency. The security exchange act strictly prohibits the misuse of inside information but the regulating authorities can make no advance notice of how there is the use of inside information” (Subedi, 2002; 56).

It denotes that every investor should be well aware of the degree of risk in which they are investing or going to invest their saving funds. There are very few practices of analyzing this aspect in the Nepalese context. Most of the investors are investing their funds haphazardly without considering risk involved in their investments.

The study mainly deals with the following issues.

- Does the market share indicator of different sector explain the share price movement?
- Do economic and non- economic factors affects the share prices of financial and non-financial sector differently?
- What are the decision-making tools and models that financial manager use to increase the value of their company and their shareholder’s investment?
- How and what variables play role in stock price fluctuation.

As we previously mentioned the concept of capital market had emerged and grown rapidly within a very short span of time period after the establishment of the Nepal Stock Exchange ltd. (NEPSE) in 1991. The number of listed companies with the NEPSE reached to more than 145. The shares of these listed companies play a vital role in the overall economic territory.

The forms of markets are determined on the basis of how publicly available information is reflected in the market price of shares. In the real world, the first form of market does not exist. To say more, precisely, the Nepalese Stock Exchange Market is a weak form of market because of the reason that the investors of the pubic limited companies listed with the NEPSE. The market rumors are the strong determinants of the share price. The investors are confused which stock is good and which stock is bad.

1.3 Objectives of the Study:

The objectives of this study are as follows:

- To analyze the mobility (fluctuation) of market share prices through analyzing the factors affecting the share price of the Nepalese Stock Market.
- To examine the relationship of MPS with EPS, DPS, NPAT and Net worth.
- To examine the performance of the stocks in Nepalese Stock Market.

1.4 Significance of the Study:

The significances of this study are given as:

- The research will be very useful for further research.
- The research will be very useful for university students who are new generation.
- The research will be very useful for financial manager and analyst.
- The research will be very useful to analysis for investor in secondary market.

1.5 Limitations of the Study:

The limitations of this study are as below:

- The research will be based upon the data provided by the NEPSE from its official records. Thus the data are not verified.
- The reality of the study fully depends on secondary sources of data.
- Due to the shortage of time, volume and budget new method may not be developed.
- Certain period data 2003/04 to 2007/08 will be taken for the analysis; result will based on this data. This data can not be verified.
- The study covers only the period for last five year of the company.

1.6 Scheme of the Study:

The research study will be divided into five broad chapters.

- Chapter one will deal with the introduction of the stock market, along with the evolution of stock exchange in Nepal, statement of the problem, objective of the study, and limitation of the study.
- Chapter two will concentrate on the outcomes of the literature review. The book, journals and other research study previously done in Nepal as well foreign will be reviewed.
- Chapter third goes around the methodology basically focus on research design, nature of data, data collection and analysis tools and techniques.
- Chapter fourth would be the core area of the study, which highlights the study finding such as comprehensive analysis of stock price movement of listed companies in stock exchange limited by using various tools and techniques.
- The final chapter will present summary and recommendations of the study.

CHAPTER- II

REVIEW OF LITERATURE

Overview

During the last three decades a number of studies have been conducted to examine and to test the efficient market hypothesis in its weak and semi-strong form in developed stock market. Efficient market hypothesis cannot be directly tested. However, one can do it by postulating some security price behavior that is implied by market efficiency. Over the years professional and experts have been concerned with development and testing model of price behavior. The past price variation in general market of share will or will not be meaningful information in forecasting the future behavior of price variation. Various theories were developed in the past to handle the above-mentioned problem. The basic concern of the study is to focus on the pricing behavior of the stock of the companies listed in Nepalese Stock Exchange. So, in this chapter, an attempt is made to review some of the literature on share price movement concerning theories including review of the empirical evidence of previous studies.

2.1 Conceptual Framework of Financial Market

2.1.1 Capital Market

In Capital Market long term borrowing takes place. The primary instruments of the capital market are equity share, bond and debt. There fore it includes both the new issue market and the old market. Capital market is concerned with long term finance: widely it consists of series of channels through which the saving of the community are made available for industrial and commercial enterprises and authorities. It is concerned with that private saving, individual as well as corporate, that are turned into investment through new capital issue and also new public loan floated by government and semi government bodies. In capital market demands for fund comes from agriculture, industry, trade and government while the supply of funds comes from individual or corporate savings, institutional investors and surplus of government.

The history of capital market is not so old for Nepalese context. The Capital Market was developed by the establishment of Security Exchange Center on 2033 B.S. the number of listed companies and their trading were very negligible until the government of Nepal has made economic reforms along with broad financial policy in the process of economic

liberalization. The privatization of public entities has been started and various banking and finance companies as well as other companies in the private sector are being established with local and foreign investments. As they were established as public companies, these companies have to issue some of their share of the general public. So, the development of this security market in Nepal takes its pace only the establishment of these banking and finance companies.

2.1.2 Security Market

Security market interchangeably known as the integral part of capital market is in fact basis of the economy of country. The most effective use of idle and surplus resources can be brought into practice only by means of market mechanism. Security market, a structural network of savers and users of fund, is such a market mechanism which mobilized the fund of savers to the users and thus this financialiation boosts the industrialization and trading activities, which will bring the positive result to the economy as a whole. (Sharma, 2002; 16).

There are two important functions of securities market, namely the raising of funds in form of shares and debentures and trading in the securities already issued by companies. While the finest aspect is obviously much more important from the point of view of economic growth, the second aspect is also considerably important. In fact, if facilities for transferring of existing securities are abundant, the raising of new capital is considered assisted as the buyer of a new issue of security become confident that whenever he wants to get cash he can find a buyer of the security without much difficulty. This aspect is called the liquidity of the stock market. Thus the liquidity of the stock market affects the raising of new capital from the market. (Levine, 1992; 23).

Security market sets a price for the securities it trades and makes it easy for people to trade them. Securities market facilitates the sale and resale of transferable securities. The security market can be defined as a mechanism for bringing together buyer and sellers of financial assets to facilitate trading. Securities market is classified into two: the market in which new securities are sold is called the primary market and the market in which existing securities are resold is called the secondary market. Secondary markets are created by brokers, dealers and market makers. Brokers bring buyer and seller together with themselves actually buying or

selling: dealers set price at which they themselves are ready to buy and sell (bid and ask price respectively). Broker and dealer come together organized market or in stock exchange. (Gitman, 1992; 457).

2.1.3 Stock Exchange

The stock exchange is an institution where quoted securities are exchanged between buyer and sellers. The stock exchange provides market in wide range of traded securities, generally of medium to long-term maturities, issued by companies, government and public organizations. (Winfield, 1985; 22).

Most of the investors are attracted to the equity shares because of its marketability and liquidity. One may like to buy more shares or selling existing shares from time to time when he is in need of money or when he wants to shuffle this portfolio. Since the stock exchange is a place where a large number of buyers and sellers congregate, one can, by and large, easily find his counterpart for sale or purchase of shares. The investor can convert his shares into cash at the prevailing market price readily. The existence of stock exchange facilitates all these functions without which it is almost impossible to do so.

The key function of securities exchange is to create a continuous market for securities at a price that is not very different from the price at which they were previously sold. The continuity of securities market provides the liquidity necessary to attract investor's funds. Without exchanges, investors might have to hold debt securities to maturity and equity securities indefinitely. It is doubtful that many people would be willing to invest under such conditions. A continuous market also reduces the volatility of security prices further enhancing liquidity. (Gitman, 1992; 458).

The securities exchanges help to allocate scarce fund to the best uses. That is by disclosing the price behavior of securities and requiring the disclosure of certain corporate financial data; they allow investors to assess the securities risk and return and to move their fund into the promising investments. An efficient market is one that allocates fund to most productive uses. Along with this, there is lot of functions of security exchange such as ready market and continuous market, evaluation of securities, safety of transactions, canalization of savings and

widening the share ownership etc. however, besides these function, there are three things as security exchange must do:

- Determine a fair price for the securities it trades or price discovery function.
- Enable transaction to be made at as low cost as possible or minimization of transaction cost.
- Enable transaction to be made at this price quickly and easily or provision for liquidity.

Main Function of Stock Exchange: Price Discovery

Security is a legal representation of the right to receive future benefits under conditions. Its value depends on expectation of the amount of those benefits and evaluation of risk involved. Expectation and evaluation reflect both the information available and conclusions people draw from that information. Since the market may quite big, no single buyer or seller can influence the price of a share to any significant extent.

Price discovery is the processes of arriving at fair prices for securities. Fair price indicates the compromise between fair offer price (lowest price at which any well informed trade willing to sell) and fair bid price (highest price any well informed buyer is willing to pay).different markets do this in different way and different ways of organizing a market affect how closely the market approaches the ideal of fair prices. However, a very important fact that should not be forgotten is the concept of ideal market or market efficiency, which also the necessary pre-condition for approaching to the fair price. In an ideal market value of securities equal its price of securities and prices reflects all available information about the market.

In the securities market there is a great importance of demand and supply for price fixation. The price of a given stock is determined exclusively by the interaction forces of supply and demand converging on such stock at a given time, that the price and volumes if it's past transaction are meaningful indications of the probable relationship of the future and demand pressure it is likely to encounter in the market and that such relationship is the most important element in determine the probable direction the price movements. (Ackerman, 1980; 85).

The stock exchange produces through its continuous process of evaluation, prices of securities as close as possible to investment value based on present and future income

yielding prospects of various enterprises, capitalized at national rate of interest the rate which will prevail if and when all the liquid savings are employed into productive purposes. (Gupta, 1982; 148).

2.1.4 Price Determination

The share price is determined in the floor by the interaction of market forces i.e. demand and supply. The price is determined by the point of equilibrium between supply and demand, the shifting of this balance results in incessant adjusting of price in search of the ever changing new equilibrium. Then market price moves upward and downward. There are many other reasons that causes the stock price fluctuation major of them are economic, non-economic and market factors.

Dividend is the most important factors on the determination of stock price. Dividends are strongly influenced by the earnings power of the firm. There is a very close correlation between corporate earnings and dividends. Earning power, intern, is strongly influenced by interest rates. In this way, the most fundamental factor in stock price fluctuation lies in changes in corporate earnings, which together with interest rates and business cycle trends, contribute to making up the economic factors influencing stock price.

The next influencing factors are non economic factors including changes in political conditions, such as administrative changes, change in the weather and other natural conditions, and changes in cultural conditions, such as technological advance and the like. Similarly the other influencing factors are market factors, or internal factors of the market, considering to eh tone of the marked and supply-demand relations, may be cited as the third category, that influences the stock prices, besides these factors the stock prices are influenced by the corporate performance of the company's policy regarding the capitalization of earnings as well as government rules and signaling effect of the market.

2.2 Theoretical Framework

There are numerous reasons that cause the share price fluctuation. Of them are economic, non-economic and other factors. “The prices of securities are typically very sensitive, responsive to all the events both real and imagined that cast light into the murky future”. (Cootner, 1964; 85).

2.2.1 Technical Analysis Theory

Technical analysis theory involves the study of the past volume and price data of the stocks to predict future price fluctuations. This approach studies various graphs and charts of the past share prices and deduces from the analysis about future price movement. “The chartist seeks to predict future movements by seeking interpret past pattern on the assumption that history tends to repeat itself”. (Kean, 1983; 10). Technical analysis is the study of the internal stock exchange information as such the word “technical” implies a study of the market itself and not of those external factors which are reflected in the market.

The technician usually attempts to predict short-term price movement and thus makes recommendations concerning the timing of purchase and sales of either specific stocks or groups of stocks (such as industrial) or stock in general. “It is sometimes said that technical analysis is designed to answer the question ‘when?’” (Sharpe, Alexander and Bailey, 2003; 223). Most technical analysts rely on chart of stock prices and trading values. Early studies found little evidence showing technical analysis to be useful in enabling investors to “beat the market” (Eugene F. Fama, 1970)

The underlying philosophy of technical analysis is that the price of a stock depends on supply and demand in the market and has little relationship to intrinsic value, as fundamentalists believe it to be. Thus, technical analysis tools are designed to measure supply and demand.

The basic assumptions of the technical analysis theory are:

- Price is determined by the interaction of demand and supply.
- Demand and supply are governed by various factors both rational and irrational.
- Series of prices contain trends that persist for appreciable length of time.
- The changes in trends caused by shift in demand and supply are detachable in the analysis of past price and value data.
- The pattern tends to repeat itself.

“In statistical terminology the stock market technician relies upon the dependence of successive price changes”. (Levy, 1966; 168). That is they assume that the historical behavior of a security price is rich in information concerning its future behavior.

The most important part of technical analysis is based on charts and graphs. “Some charts are used to predict the movement of single security. Others are used to predict the movement of market index. Some of these charts are also used to predict the fluctuations in the price of a commodity a foreign exchange or a rate of interest “. (Fisher, DE. and Jordon. R.S, 1995). “The existence of Technical Analysis in Nepal may be still doubtful”-This was revealed in our conversation with the stockbrokers from Nepal Stock Exchange Ltd. and some institutional and individual investors.

2.2.2 Fundamental Analysis Theory

One very important theory in the investment management appraisal scene is that of fundamental (intrinsic value) analysis. The fundamentalist makes a judgment of the stock value with a risk return framework based upon earning power and the economic environment.

In the fundamental approach, the security analyst or prospective investor is primarily interested in analyzing factors such as economic influences, industry factor and pertinent company information. Such as product demand, earnings, dividend and management in order to calculate an intrinsic value of the firm's security. It is sometimes said that fundamental analysis is designed to answer the question ‘what’? (Sharp, Alexander and Bailey, 2003; 239).

Fundamentalist claims that at any point in time, an individual security has an intrinsic value, which should be equal to the present value of the future cash flow from the security discounted at appropriate risk-related rate. “The value of the common stock is simply the present value of all the future income which the owner of the share will receive”. (Francis, 1980).

It is further believed that intrinsic value can be discovered by analysis of financial information. “If the intrinsic value is below the market price, the security should be sold before its price drops. Under priced stock are purchased until their prices are bid to equal their value and over priced stocks are sold, which drives the price down until it equals the value”.(Francis, 1980). The fundamentalist attempts to estimate the real worth of a security

by considering economic and financial variables (Among them the major ones are: dividend earning, debt-equity mix and company size) and then decide as to what investment action is called for in a given stipulations depending whether the actual price is below or above its intrinsic value.

For fundamental analysis to work successfully requires a number of assumptions:

- That a business has an intrinsic value;
- That this can be determined by analysis of company generated information;
- That this value may go unrecognized by the market in the short term;
- That it will eventually be recognized by the market in long term.

The concept of investment value was originated by John B. Williams (1938) who had also presented an actual formula for determining the intrinsic value of stock. Several other researchers have suggested further development in theory.

Fundamental security analysts estimate the intrinsic value of a security. In contrast, technical analysts seek to predict security prices rather than values. But, in an efficient stock market price always their values. Both the conventional theories to securities valuation and price behavior assume that the pricing of the share in the market is not efficient. Therefore, while making investment action, technical analysis theory suggests for proper time of buying and selling whereas Fundamental Analysis theory advice for the suitable securities". Fundamentalists or prospective investors in Nepal, however, use some of the analytical tools either directly or indirectly but earning per share (EPS) and price earning ratio (P/E ratio) seems to be popular".(This was expressed in the discussion with some stock broker from NEPSE and some institutional and individual investors).

2.2.3 Random Walk-Efficient Market Theory

The theory involves the study of random walk or efficient market hypothesis. "In 1900, a French mathematician, Louis Bachelier wrote a scientific paper suggesting that day-to-day security price fluctuation were random. His idea is known as the random walk theory". (Paul H. cootneer, 1962).

But interest in the model did not begin until the publication of two papers. One by Robert and the other by Osborne in 1959. the Random Walk-Efficient Market Theory is in completely at variance with the technical and fundamental analysis theory. A number of empirical

researches have been done on varied set of data for different time periods to test the random walk efficient model for describing share price behavior.

2.2.3.1 The Random Walk Hypothesis (RWH)

The random walk hypothesis (RWH) states that successive price changes are independent, and hence produces a random walk in price levels” (Alexander G. Kemp and Gavin C. Reid, 1971). The random walk hypothesis and the recent behavior of equity price in Britain. In the simplest form, it states that price changes cannot be predicted from historical changes in any ‘meaningful’ manner. The history of stock price movements, and the history of stock trading volume, does not contain any information that will allow the investors to do consistently better than a buy-and-hold strategy in managing the portfolio” (Fisher Black, 1971). “The fundamental beliefs at the back of the RWH are that successive price changes of an individual stock are independent over time and that its actual price fluctuates freely over time about its intrinsic value. Fama called this model an intrinsic value random walk-market”. (Fama, 1965).

But in contrast to this model, random walk theory denies that the existence of any kind of ‘trends’ or ‘patterns’. Hence, past price contains no useful information to predict future price behaviors. As Fama advocates, random walk theory implies the future path or the price level of the security is no more predictable than the path of a series of accumulated random numbers. This means that at a given point in time the size and direction, of the next price changes is random. The random walk model in prices actually involves two main hypothesis.

- Successive price changes are independent, and
- Price changes conform to some probability distribution “statistical independence means the probability distribution for the price change during time period T is independent of the sequence of price changes during previous periods”. (Fama, 1965, 18).

The left side of the equation is the conditional probability that the price changes will take the value of X conditional upon knowledge of previous etc. The right side of the equation is the unconditional probability that price changes in t will take the value of X the stock market is always subjected to a steady flow of information, which will have an effect on the set of anticipation that determine price of a particular security.

Out of two hypothesis of the random walk theory, independence of successive price change is strong and most important one to make theory valid. The second one is price changes conforms to some probability distribution but its shape or form of distribution need not to be specifies i.e. any distribution is consistent with the theory as long as it correctly characterizes the process generating the price changes. However, the parameter of the distribution should be stationary but not so strongly imposed. Moreover, still the form of distribution of price changes is important from investment decision, academic and research point of view. (Fama, 1965, 19).

2.2.3.2 The Efficient Market hypothesis (EMH)

The efficient market hypothesis (EMH) is not properly understood by a large segment of financial community. The development of EMH could be traced into the random walk theory of stock market price behavior. Later, when empirical phenomenon showed that changes in stock price were largely random, endeavors were made to clothe the empirical results with economic contents, which lead to the advancement of efficient market theory. Market efficiency may be in the context of:

- Operational efficiency
- Informational efficiency
- Allocation efficiency

However, in this study, it is concerned only with the informational efficiency in pricing shares. A stock market is said to be efficient if all currently available information is rapidly reflected in stock prices. The main assumptions of market efficiency are:

- All investors have costless access to currently available information about the future.
- All investors are good analysts,
- All investors pay close attention to market prices and adjust their holdings appropriately. (Summer N. Levin, Ed, 1975).

The EMH says that the market rapidly incorporates all information affecting the value of a security. Tests of market efficiency require a model showing the impact of information upon share prices. The EMH can be broken down into three sub-hypothesis, which differ according to the type of information

Form of efficiency	Set of information reflected in security prices
Weak	Previous prices of securities
Semi-strong	All publicly available information
Strong	All information, both public and private

The weak form efficient market hypothesis (WEMH) assumes that all past information is reflected in security prices. This means that there is no relationship between the past and the future price fluctuations. Consequently, investors are unable to make profit from studying trend or pattern of past prices. The semi-strong efficient market hypothesis (SSEMH) holds that security prices adjust rapidly to all publicly available information, e.g. the announcement of annual earnings, stock splits, etc. This implies that using publicly available information, investor will not be able to earn above-average return. The strong form efficient market hypothesis (SEMH) assumes that all information affecting stock prices, both public and private, is reflected security prices. Thus, in such a condition even those who have access to private information cannot consistently excess returns.

The fundamental ides behind the efficient market theory are that in a stock market, the prices of financial assets should reflect all publicly available information and that these prices should adjust very rapidly to new information. In an uncertain world, however, the intrinsic value of a security cannot be exactly determined. Hence, one would expect differences of opinion among market participants as to the value of each share. As a result, the actual prices move randomly around the intrinsic value. “If enough buyers and sellers have received an accurately measured all information on a stock and have acted rationally, prices always will be in lien with intrinsic value”. (Drean, 1977).

The main job of fundamentalist of to find out overvalued securities. Furthermore, in a dynamic economy intrinsic value can change them as a result of new information. The intrinsic value of a given securities depends on the earning prospect of the company which is related to economic, political and company’s specific factor. In some cases, new information is not rapidly known to the market participants, security price changes with display dependence. However, if the adjustment to new information is “instantaneous” successive price changes will be independent (Lorie 1973; 4).

The SSEMH and SEMH cannot test directly; one can do so indirectly by accumulating evidence, which contradicts these hypotheses. Thus, the SSEMH tested by examining whether share price react accurately to new available fundamental information. If the SSEMH is true, then accounting information has no value and only a few insiders trading on valuable information can earn a higher profit. "In SSEMH, degree of variance between price and value security is relatively low. SEMH can be tested by determining whether any investor appears to have gained and use superior information". (Michael Firth, 1977). It is difficult to test the SEMH because private information cannot be examined directly. In SEMH, variance between price and value is zero.

2.3 A Review of Related Studies

This section is devoted to the review of major previous studies concerning movements of share price. All of the empirical works on efficient markets can be considered within the context of general expect return or "fair game" model. Indeed, in the early literature, discussion of the efficient market model were phrased in terms of even more special random walk model through most of the early authors were in fact concerned with more general version of the "fair game" model. There are large number of studies most of which are briefly reviewed below.

Research on the security prices did not begin with the development of theory of price formation, which was then subjected to empirical test. The impetus for the development of the theory came from the accumulation of evidence in the middle 1950s that the behavior of common stock and other speculation prices could be well approximated by a random walk. Much of the theory on the random walk can be traced to French mathematician Louis Bachelier whose PhD dissertation titled "The theory of Speculation" (1900) included some remarkably insights and commentary. He came to the conclusion that "The mathematical expectation of the speculator is zero or constant" and he described this condition as a "fair game". Unfortunately his insights were so far ahead of times that they went largely unnoticed for over 50 years until his paper was rediscovered and translated into English and published in 1974".-<http://www.investorhome.com/emh.htm>.

In 1953, kendall examined the behaviors of weekly changes in 19 indices of British industrial share prices and in spot price of cotton (New York) and wheat (Chicago). He found no

relationship between share price changes in the current week and the previous week and most of the distribution of the price changes are leptokurtic that is there are too many values near the mean and too many out in the extreme tails. In his own words after extensive analysis of serial correlation he suggested in quite graphics terms:

“The series looks like a wandering one, as if once a week the demon of chance drew a random number from a population of fixed dispersion and added it to the current price to determine the next week’s price”.

Thus, share prices move randomly and past behavior has no predictive content, Kendall’s conclusion has, in fact, been suggested long before by Halbrok Working (Halbrok, 1934), though his suggestions lacked the force provide by kendall’s empirical results. In his writing of 1934 he said:

“It has several times been noted that time series possess commonly in many respects characteristics of series of cumulated random numbers. The separate items in such time series are by no means random in characters, but the changes between successive items tends to be largely random. This characteristics has been noted conspicuously in sensitive commodity prices.....king has concluded that stock prices reasonable cumulation of purely random changes even more strongly than do commodity prices”.

“The modern concept on the random walk did not begin until 1959. Roberts (1959) conducted simulation tests by comparing the cumulation of random numbers and the Dow Jones Industrial Average (DJIA) for 52 weeks starting from December 30, 1955 to December 28, 1956. He also found that the first differences of artificial generated series seemed very much like the first differences of the stock price series. Thus, he showed that probably all the classical patterns of technical analysis can be generated artificially by a suitable random number table. His work was important in that he gave a number of methodological suggestions for testing what he calls the chance model. In particular he suggested run analysis for testing independence of price changes.

But the suggestions by Kendall, working and Roberts that series of speculative prices may be well described by random walks and based on observation. None of these authors attempt to provide much economic rationale for the hypothesis, and indeed, Kendall felt that economy will generally reject it. Osborne suggested market conditions, similar to these assumed by

Bachelier that would lead to a random walk. But in his model, independence of successive price changes derives from the assumption that the decisions of investors in an individual security are independent from transaction, which is little in the way of an economic model

Whenever economist (prior to Mandelbrot and Samuelson) tried to provide economic justification for random walk, their arguments usually implied a “fair game”. Alexander states: if one were to start out with the assumption that a stock or commodity speculation is a “fair game” will equal expectation of gain or loss or more accurately, with an expectation of zero gain, one will be well on the way to picturing the behavior of speculative prices as a random walk (Sidney S. Alexander, 1961). “Similarly Cootner (Cootner, 1962) analyzed weekly and 14 weeks interval data on 45 stocks from New York Stock Exchange (NYSE) and tested for their randomness by means of a mean. Square successive differences test (Von Neuman ratio). He found that one week interval stock prices moves as random walk. However he founds some trends in the same data at 14 weeks interval. The average serial correlation coefficient for one week was -0.047 and for 14 weeks was 0.131. Essentially, he focused the importance of “differencing interval” while testing for randomness in stock price behavior. He contended that there was no one random walk model, but one for every definition of “past” and “future”.

“At the same time, Moore studied weekly price changes of randomly selected vs. stock for 1951-58 and found an average correlation coefficient -0.06. The value was extremely low and indicated that the weekly changes data were of no value in predicting future prices changes. Note that Moore was the first to look at the serial correlation between successive price changes of individual stocks”. (A.B. Moore, 1962). “In 1963 Granger and Morgenstern applied spectral methods to a number of price series from NYSE. They found that short run movements in stock prices followed a simple random walk model. However, they reported that the long run movements are not adequately explained by the model”. (Clive W.J. Granger and Oskar Morgenstern, 1963).

Fama’s study (Fama, 1965) on the random walk model is considered one of the most definitive studies. He analyzed the daily proportionate price of 30 blue chip stocks in the (DJIA) Dow for the period of late 1957 to 1962. He followed standard statistical tools such as serial correlation and run test to examine whether any dependency exists in lagged price changes. He found that the serial correlation coefficients for daily price changes were very

small and average was 0.03, which is very close to zero. But 11 correlation coefficient stocks out of 30 stocks were more than twice their computed standard errors. He calculated serial correlation coefficient for differencing intervals stronger evidence of dependence. Thus this lead Fama to conclude that evidence produced by the auto-correlation model seems to indicate that dependence in successive price changes in either extremely slight or non-existed.

Fama further examined by run analysis to testify whether price changes were likely to be followed by more price changes of the same sign. In fact, he found that the actual and expected runs are not significantly different. The largest difference exists for daily chances but the differences were not significant. However, the difference for the 4-day 9-day and 16-day intervals is very small. In any case the departure from randomness was negligence. On the basis of these tests, Fama concludes there is little evidence, either from the serial correlation or from the various runs tests, of any large degree of dependence in the daily four day, nine day, and sixteen day prices changes.

“King (1966) investigated the monthly price changes from 1927 to 1960 of 63 US stocks and found them to obey the random walk model. The estimated average autocorrelation coefficient was 0.018, which is close to zero”.

“In an endeavor to meet the challenges of the chartists, Alexander (1961) inverted “filter techniques” based on price changes to see whether an above normal return could be obtained by using such rules. Filter rules generally include the following features”. A filter of $z\%$ is selected that will lead to trading profit; the size of the filter is determined by the trader to maximize the trading profit.

- A position is taken; either long or short, in stocks that have increased or decreased by $z\%$.
- Stop-loss orders may be used in conjunction with filter.

Alexander (1961) reported empirical results of the filter technique for filter ranging in size from 5 to 50 % .His test covered different time period from 1897 to 1929 and involved closing prices from 2 indices. The Dow- Jones industrial Average (DJIA) from 1887 to 1929 and Standard and Poor industrial average (S and P) from 1929 to 1959. In general, he indicated that filter rules produced more than those earned by a simple buy and hold policy. This

led him, to conclude that the independence assumption of the random walk model was not upheld by this data.

Thus, according to Fama (1965) "If the daily closing price of a particular security moves up at least $x\%$, buy and hold security until its price moves down at least $x\%$ from a subsequent high, at which time simultaneous sell and go short. The short position is maintained until the daily closing price rises at least $x\%$ above a subsequent low, at the time, one should simultaneously cover and buy moves less than $x\%$ in either direction are ignored".

The study conducted by Yin-Wong Cheung and Lilian K. NG (1992) to examine and characterize the cross-sectional and temporal relations between stock price dynamics and firm size. As a result, it documented that the sampled AMEX-NYSE stock price and future stock volatility, a phenomenon commonly attributable to the leverage effect. Results show that small firm's stock volatility tends to be more responsive to changes in their stock prices. Further, conditional variances of stock returns on average have become less sensitive to changes in stock prices.

Fama and Blume (1966) used the filter technique to overcome the shortcomings of Alexander's mechanical rules. They employed filters ranging from 0.5% to 50% and compared the profitability with buy and hold records of each stock of Dow-Jones shares. Ignoring transaction costs, only two out of thirty is superior to buy and hold policy, when commissions are taken into consideration only four out of thirty have positive return and are not comparable with buy and hold return.

Thus, this result supports the evidence for the conclusion previously drawn from statistical method.

"In one of the studies of comparatively smaller stock market, Niarchas (1972), studies in individual stocks and two indices from the Athens stock exchange (Greece) from January 1957 to December 1968 which found an average value of 0.036 for the first order serial correlation coefficient for the individual stock price series. The coefficients of individual stocks were close to zero, one index out of two followed random walk model. Additionally, run test also supports the autocorrelation outcomes".

Dryden's study (1970) concluded that the share price movements were non-random. However, in a later study (1970), he used serial correlation and run's analysis to examine the daily closing prices of 14 individual stocks of U.K. market and supported the independence hypothesis of successive price change.

In another study of British stock market, Kemp and Reid (1971) used non-parametric test on daily closing prices of 51 individual equity shares and one financial times (FT) industrial index for period from October 28, 1968 to January 10, 1969. They reported that the share price movements were conspicuous non-random over the period considered.

Many of the authors who examine correlation also examined runs. The actual number of runs in each case was almost exactly equal to the expected number. In summery, correlation and run test seems to show some small positive relationship between successive price changes (or log price changes or returns) but it is very small, on average and frequently negative for individual securities.

Jennergren and Karsvald (in Elton and Gruber, 1975) examined daily closing price of stocks, 15 from Oslo Stock Exchange (Norway) and 30 from Stockholm Stock Exchange (Sweden), during January 1967 to 1971 by means of auto correlation and runs tests, found considerable dependence in both the Norwegian and Swedish stock market prices.

In 1973, Conerd and Juttner analyzed the daily closing prices of 54 German stocks during January 1968 to April 1971. They used both serial correlation and run test and found that the random walk theory is inappropriate to describe the recent share price behavior in Germany.

The review of above mention studies carried out in western country shows many interesting finding on price behavior. However, question arises as to what extent these findings are pertinent for Nepal. They all may not be applicable for Nepal where the stock market is small and undeveloped. The more pertinent studies would be the studies conducted in India. Since Nepalese and Indian companies are operating under similar conditions. Hence, the following section attempts to analyze the studies conducted in the content if India.

2.4 A Review of Indian studies

“In the Indian context, the study conducted by Rao and Mukherjee (1971) applied spectral analysis to weekly prices for the sixteen years from 1955 to 1971 of an aluminum company's share and found no evidence contrary to random walk model”.

Sharma and Kennedy (1977) tested the random walk model, a run test and spectral analysis, against representative stock market indices of Bombay (BVDISI), New York (S and P 425) and London (F.T.-500) Stock Exchanges during 1963-73. They found that the stocks on the Bombay Stock Exchange obey random walk and are equivalent in sense to the behavior of share prices in the market of developed countries.

The study conducted by Gupta (1985) found out comprehensive test of the random walk hypothesis by employing serial correlation and run analysis in two sets of time series data. The first was the economic time index, number of daily share prices and financial express index number of equity prices on a daily and other weekly series. Another was a weekend closing price of 39 equity shares. Statistical results from both the methods confirm the random walk hypothesis. He concluded on the basis of these tests that the random walk model appeared to be an appropriate model even for the less developed country like India to describe share prices behavior suggesting that the Indian stock exchange was efficient in the weak sense in pricing share.

Pandey and Bhat (1988) market participant's attitude and perceptions in the understanding and acceptance of EMH. They sent the questionnaire to 600 persons who were divided into four groups:

- The Chief Financial Executive
- Academicians
- Chartered accountants
- Cross section of investors and brokers

Only 160 questionnaires were returned duly filled in by the respondents. Their analysis denied the existence of market efficiency in any of its three forms.

Rao (1988) employed the autocorrelation analysis runs test and filter rule to the weekend closing prices of 10 blue chip stocks over the period 1983-1987. His study supported to Random Walk Hypothesis.

Mahapatra (1995) tested the WEMH using rank correlation analysis based on relative strength. His sample consisted of month end closing prices of 26 stocks from Bombay Stock Exchange during the period January 1989 to December 1992. He argued that the Indian Stock Market is less efficient in the short run but more efficient in the long run.

2.5 A Review of Nepalese Studies

The stock market of Nepal has been less subjected to investment research than their counterparts elsewhere. Most of the researches that are concerned with the investigation of effect of certain financial variables on the equity share prices. No specific research studies have been available regarding the impact of stock market on economic development and vice-versa in Nepalese context. However, some articles books. Dissertation etc related to stock market are consulted and reviewed.

Prof. M. K. Shrestha (Shrestha, 1992) expressed that development of capital market isn't an easy game of gossip and statement but matters important is popular political goodwill and mutual support and mutual support formula that determine a lot in the revitalization of capital market. For this effort to integrate the total financial system at national level by HMG's of positive official attitudes including the willingness of financial institutions to play dynamic intermediary role is all the same very important, apart from that, the rise of entrepreneurial class with courage to take calculative risk by managerial insight and forecast is vital to top funds from capital market to bring better return on investors funds.

Prof. R. S. Pradhan (Pradhan, 1993) addressed "stock market behavior in small capital market". In an attempt to assess the Stock Market Behavior in Nepal, it specifically examines the relationship of market equity, market value to book value, price-earnings and dividends with liquidity, profitability, and leverage assets turnover and interest coverage. The study is based on pooled cross sections data of 17 enterprises whose stocks are listed in stock exchange center and traded in the stock market. The result revealed the following: larger stocks have larger price earning ratio. Larger ratios of market value to book value of equity

and smaller dividends. Large stocks also have higher liquidity, higher leverage, and lower profitability, lower assets turnover and lower interest coverage but these are more variable for smaller stocks than for larger stocks. Stocks with larger market value to book value of equity have larger price-earnings ratios and lower dividends. Stocks with larger market value to book value ratios have lower liquidity, higher leverage, lower earnings, lower turnover and lower interest coverage. Stocks paying higher dividends have higher liquidity, lower leverage, higher earnings, and higher turnover and higher interest coverage.

Later, in 1994, he studied stock market behavior in Nepal, which concluded that the positive relationship between the ratios of dividend per share to market per share and interest coverage.

The study conducted by N.H. Sharma (Sharma, 1996), that securities market in Nepal is witnessed a sharp growth during the past couples of years. The volume of trading has increased. The size of the market has been widened. The number of investing population has grown up in aggregate. The tendency of raising capital from general public is rising, most importantly; the market consciousness has been developed. So that, investors have begun to think about risks, return and availability of timely corporate information regarding the investment. He concluded that the movement of degree of response in new issue market is significantly and positively related with the movement in price, liquidity and cost of capital in the secondary segment of the market.

The study conducted by Prof.M.K.Shrestha (1996) that the downfall of share market is mainly due to the unfair share market practices that went undetected for a long period in Nepal's share market. There has been growing tendency to sell worthless and fraudulent securities since promoters were not questioned regarding their moral standing and honest integrity of professionalism. moreover, investors are losing faith on the preference of share market. Since companies are not providing timely and adequately disclosure of information to them. The continuing violation of shareholder's rights by company management has also been responsible for losing faith of shareholders to buy and sell shares of such companies.

The study conducted by Joshi, M.R. (Joshi, 1996) that share price is a function of information, and the continuous flow of information is a precondition for the orderly function of the market. The price, turnover of stocks increased tremendously after the opening of

trading floor. Even prices of stocks with huge accumulated losses and the companies established only a couple of month back went up and up which is not conducive for the healthy growth of market. Such unnatural high prices are accounted for the poor transparency and the poring of large number of people without having a minimum knowledge on shares in the market.

Jagadish Agrawal (2000) point out the reasons of low value trading on stock market:

- The first reason is the limitation to freely transect the shares held by promotions of a company and also by directors, auditors, manager, accounting staff etc. The section 153 of company act, 2053 is very much restrictive to move the market.
- The second reason may be the complete absence of active mutual fund in the market.
- The third reason is the high dependence of the market on financial sector, and about 80% to 90% of the total traded volume consists of the financial sector, and about 80% of the financial sector trading is of the banking sector only.
- The fourth reason may be the lack of information with regard to economic health of an organization and also with regard to trading procedures in NEPSE.
- The last but not least important of the reasons for low volume of trading is lack of infrastructure. So urgently required for smooth running of a stock exchange.

2.6 Review of Articles and journals

People have been studying the way security prices fluctuate over a century. In 1841, Charles Mackay assembled a book of earnings about Tulip mania and some equally famous market “Bubble” which had a self-explanatory title: extraordinary popular delusions and the madness of crowd.(Macay:1980).

In contrast to Mackay’s astonishing stories, in 1900 a French mathematician named louis Bachelier set forth formal models in which security prices were random outcomes that had probabilities attached to them. (Cootner, Pau, 1964, 235).

Bachelier was one of the first’s to study security price movements mathematically. Then, in 1936, the famous economist John Maynard Keynes has suggested the following scenario. (John ,Maynard Keynes, 1936),”most of these persons are, in fact , largely concerned, not with making superior long range forecasts of the probable e yield of an investment over its

whole life, but with forecasting changes in the conventional bases of valuations, a short time ahead of the general public. they are concerned, not with what and investment is really worth to a man who buys it “for keep” but with what the market will value it at, under the influence of mass psychology, there months of a year hence for it is not sensible to pay 50 for an investment of which you believe the prospective yield to justify a value of 40, if you also believe that the market will value of at 30 there months hence. Thus, the professional investor is forced to concern himself with the anticipation

Of impending changes, in the mews of in the atmosphere, of the kind by, which experience shows, that the mass psychology of the market is most influenced”.

Thinking took another turn during the 1950s when an econometrician named Holbrook working and his Colleagues articulated the notion the security prices fluctuated around their intrinsic value. (Holbrook Working: May 1958)

The shares price is determined in the floor by the interaction of market forces i.e. demand and supply. The price is determined by the point of equilibrium between supply and demand, the shifting of this balance results in adjusting of price in search of the ever- changing new equilibrium. The market price moves upward and downward independently. There are many reasons that causes the stock price fluctuation, major of them are economic, non-economic and market factors.

One basis for the determination of stock prices is dividends. Dividends are strongly influenced by the earning power of the enterprises. There is a very close correlation between corporate earnings and dividends. Earning power, in turn, is strongly influenced by changing economic trends, which are closely related to interest rates. In this way, the most fundamental factor in stock price fluctuations lies in changes in corporate earning, which together with interest rates and business cycle trends, contribute to making up the economic factors influencing stock price.

SEBON states that it has made some attempts to address the issues through issuance of guidelines directives and disclosure formats to the market participants, codes of conduct for the stock brokers etc. it has also prepared a draft for the new securities exchange act which was presented to the Ministry of Finance in 1980 to initiate the necessary legislative process. However, it is still to be enacted by parliament. Even though SEBON has made attempts to

solve the problems, they are still there. It cannot escape of its duty to explain the present state of the market and deficiencies existing in the system. Taking necessary support from the government should take the required step to better coordinate the market participants to develop a healthy capital market in the country. Moreover it is important to discipline the market participants and educate them of their moral duty to comply and make other comply with the prevailing rules and regulation only this can create the atmosphere where scandals like this one are repeated. (Business Age, April 2003).

Share marketplace plays a fundamental role in channeling economy of an individual and a corporate region. On that account, it is a prolific one of a country's financial system. In other words, share market is an important component of financial sector that provides and facilitates an ordinary exchange of long-term economic allegations. The concept of provincial market has also emerged in the stock exchange. If we can't move with the universal expansion we should at least consider the regional components. Establishing Credit Rating Agency (CRA) and Central Depository System (CDS) of securities' is another challenge. The ADB has clearly stated in its report that CRA and CDS are essential for the successful operation of the capital market. (The Rising Nepal, January 20, 2003).

Nepalese secondary market for the month of September remained unsatisfactory to the investors. True to the saying 'morning shows the day' the initiation of the market for the month was bad and remained so for the whole month. The first transaction for the month was made only on September 7 because of the public outrage of September 1 and its aftermath.

The market at the end August had turned bullish after the call-off the indefinite blockade of the valley by the Moist but the bullish trend could not continue in the month of the September and in the first day of the transaction the market fell by 1.82 points. This trend continued and the NEPSE index dropped to 229.99 points on September 14. The index rose suddenly on the 15th September when the market sent that the moist were calling off the indefinite closure of come 50 industries very soon. This bullish trend continued on the following two days as the industries opened on September 16 and the index reached 237.22 on September 17. But from September 18 onwards the index declined continuously until September 28 due to political demonstration of four parties and two days Moist called strike in September end. The market gained marginally in the last two days of the month. (New Business Age, October 2004).

2.7 Review of Dissertations

In the Nepalese context, the research conducted by B.P. Bhatta on “dynamic of stock market in Nepal” concluded that the stock market and economic activities move in similar direction. They influence each other. The development of the farmer is reflected in the latter. The stock market rises and mobilizes the investment resources of finance the long-term large project in the economy.

The investors are interested to invest their resources in the shares of corporate sector through the stock market in the Nepalese economy. It is necessary to develop the entrepreneurship and encourage the entrepreneurs to start the productive venture as soon as possible. The development of the manufacturing sector is the backbone of the economy, which is bare, assists to faster the banking and finance and insurance sectors. Unfortunately the manufacturing sector doesn't have a good performance in the Nepalese economy.

Moreover the stock market isn't also functioning well in Nepal. There is almost no liquidity in the stock market for shares except that banking and some finance and insurance sectors (Bhatt B.P. 1997).

The research conducted by Mukti Aryal (1965) on “The general behavior of the stock market prices”, revealed that fundamentally, substantial degree of positive dependence implies, actual market prices of securities doesn't reflect their true intrinsic-values, most of securities are overvalued. In economic terms, a securities actual market price doesn't represent their equilibrium prices. Thus, this means, securities, in the past, were incorrectly priced either over or under valued. Intrinsic values also changes across the information arrival in capital markets accordingly. If they are incorporated with the market prices of securities appropriately. But dependence of successive changes in loge price of daily differences is not considered with a market for securities. Where given the available information, actual prices at every point in time represent best estimates of intrinsic values, called as an efficient market, information ally. So that, the searching of incorrectly priced securities will be fruitful economic activities by investors both individual and institutional. This is a situation in the stock market where sample of securities are incorrectly adjusted those part information to the present market prices.

He further adds that there is lack of a sufficient financial and market analysis, who are sophisticate and superior in analyzing the general market fluctuations, predicting the occurrence of future political events and their eventual effects on price series.

Neupane, (2004), made a research entitled “Determinants of stock price on 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 and 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, and DPS, jointly have significant effect in market price of the share. So there may be other major factors affecting the share price significantly.

- Commercial banking sector has dominated the overall performance of NEPSE. Manufacturing and processing, trading and hotel sectors have weak performance. So, financial intermediaries are strong but their ultimate investment is suffering
- 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 shareholder’s interest. 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.
- 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.

Adhikari, (2004), “share price behavior of Joint Venture Banks in Nepal”.

- To analyze the market share price behavior of joint venture banks in Nepalese stock market.
- To examine how safe or risky to invest on joint ventures bank’s share.
- To analyze the sensitivity of the shares in relation to the market with the help of beta coefficient.

Conclusions:

- The market share and growth rates of different banking indicators used are not completely captured by the market value of these banks.
- NEPSE operates in a weak form of efficient hypothesis indicates by that the market price more randomly.
- Most of the banks are offering each dividend every year which may not applicable to others types of non- banking files.

Dahal, (2002), conducted a research on “Stock Market Behavior of listed joint stock companies in Nepal”. The study aims to find out the behavior of stock market in Nepal on the basis of secondary as well as primary data.

- To study and analyze stock price and trend and volume of stock traded on the secondary market.
- To study analyze companies and maintenance of listed companies in Nepal Stock Exchange Ltd.
- To study and analyze the investors views regarding the decision on stock investment.
- To study and examine the signaling factors impact on stock price with the help of NEPSE index.

Findings:

- Most of the investors were asked for their preference of investment sector major portion of them said that they were attached with banking sectors for investment.
- On analyzing primary data it was found that the stock market in Nepal is in developing stage, as investors are not well aware about the stock market.
- It was found that investors in the stock market take the investment decision on the basis of market price of shares.

- While analyzing the rate of listing of new companies showed that increasing trend from the year 1997 to the year 2001.
- Volume of stock traded in stock exchange during the study period was found in increasing trend but in last year it was in decreasing trend.

Thus different authors studied the share price behavior and concluded differently. However, the results of the study largely depend on the size of the sample and the methodology used. Now a day's stock market is becoming the glaring issues in the context of Nepalese market. So this study is conducted.

CHAPTER- III

RESEARCH METHODOLOGY

Overview

Before presenting, analyzing and interpreting data, research methodology is to be described, in its absence; the result derived may be misunderstood. Research methodology is a way to systematically solve the research problem (Kothari; 1990, 10). Why a research study has been undertaken, how research problem has been defined, what data have been located and what particular method has been adopted, why particular technique of analyzing data has been used and a host of similar other questions are usually answered by research methodology concerning a research problem or study (Kothari, 1990; 11). This chapter explains the methodology employed. The chapter has been divided into six sections. Section one describes the research design employed in the study. Section two and three explains the nature and sources of data and selection of enterprises respectively. Section four and five explain the methods of data analysis and brief introduction to financial parameters. Finally section six explains the limitation of the study.

3.1 Research Design

Research design is a plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance (Kerlinger, 1986; 275). Research design is purposeful scheme of action proposed to be carried out in a sequence during the process of research focusing on the management problem to be taken (Michael, 2000; 26). In fact, the research design is the conceptual structure within which research is conducted; it constitutes the blueprint for the collection, measurement and analysis of data (Kothari, 1990, 39). The research design refers to the entire process of planning and carrying out research study (Wolf and Pant, 2000; 53). The required data have been collected from various sources covering five-period beginning from 2004 to 2008. The main source is website of NEPSE Ltd: <http://www.nepalstock.com>. 6 companies out of 25 listed 'A' grade commercial banks are selected as sample.

The basic aim of this study is to examine the fluctuation of share price of the listed 'A' grade commercial bank, the reason of such fluctuations, the factors affecting the share price of the Nepalese Stock Market. The specific objective of such study to analyze the mobility

(fluctuation) of market share prices through analyzing the factors affecting the share price of the Nepalese stock market, to examine the relationship of MPS with EPS, DPS, NPAT and Net worth and finally to examine the financial performance of the stock in Nepalese stock market.

Keeping in view the nature of study, analytical cum descriptive research design is more appropriate because it implies to examine the existing situation of the Nepalese share market and its movement. Being a descriptive cum analytical study the researches will mainly be based on the secondary data and information, which will be obtained from various publications and web-site of Nepal stock exchange. The study has attempted to give a picture of share markets and share price fluctuations in Nepalese stock market. On the basis of the qualitative and quantitative information the analytical framework will be drawn. After the evaluation of these information the interpretation will be presented as an outcome, which it assumes to be applicable in practice.

3.2 Nature and Sources of Data

The required data for study are collected from secondary source. Most of required data are provided by the NEPSE Ltd for study. The website of NEPSE Ltd: <http://www.nepalstock.com>. And its annual reports are source of secondary data. Other necessary needed secondary data and information have been collected from balance sheet and profit and loss account of selected listed 'A' grade companies. Other major sources of secondary data are:

- Annual report of Security Board Nepal Limited.
- Public issue of security, security board Nepal limited.
- Quarterly Economic Bulletin, Nepal Rastra bank.
- Website of Nepal Stock Exchange, <http://www.nepalstock.com>
- Previous Research Studies, article, journal, thesis and other sources related to subject matter.

3.3 Selection of Enterprise

There are 227 companies and out of that 71 'A' grade companies are listed in Nepal Stock Exchange Limited on fiscal year (FY) 2007/08. Out of 71 'A' grade companies 25 commercial banks are listed, which are taken as size of population and 6 selected companies among them are taken as sample tentatively. It is beyond capacity to include all the companies to study. The selection is made on judgmental sampling. The sample is taken according to listing date..

3.4 Classification of Listed Companies

As per the provision of "Securities Listing Byelaws, 1996", the listed companies that have profit track record for the last three consecutive years, book value higher than paid up value, submitted their financial statements to NEPSE within six months of the expiry of fiscal year, paid up capital at least Rs. 20 million, and has at least 1000 shareholders can be categorized in group 'A' and remaining of the listed companies can be categorized in group 'B'. Bank & financial institution are shown in table 3.1

Table 3.1
No. of Banks & Financial Institution:

Bank & Financial Institution	2006	2007
Commercial Bank	20	25
Development Bank	38	58
Finance Company	74	78
Insurance Company	21	25

Source: 2008 Sep. 11, Kantipur Daily

Selection of Sample from the Total Listed 'A' Grade Commercial Banks

Sectors	N	n
Commercial Bank	25	6

The study is made considering the study period of 2004 to 2008. The observations made are shown in table 3.2

Table 3.2
Observation of the Studies

S. No.	Name of Companies	Years
1.	Nabil Bank Ltd.	2004/05/06/07/08
2.	Standard Chartered Bank Ltd.	2004/05/06/07/08
3.	Nepal SBI Bank Ltd.	2004/05/06/07/08
4.	Everest Bank Ltd.	2004/05/06/07/08
5.	Machhapuchhare Bank Ltd.	2004/05/06/07/08
6.	Kumari Bank Ltd.	2004/05/06/07/08

3.5 Statistical Tools and Methods of Data Analysis

After the collection of necessary and useful secondary data from the different sources, we are going to analyze by the help of different statistical tools, which provide us result. The following statistical tools been applied to analyze the data for best result.

3.5.1 Mean

Mean is the simplest and commonly used statistical tool. It defines the average value of distribution. It gives us clear figure about the analysis. It can be express as symbolically.

$$\bar{X} = \frac{\sum X}{N}$$

Where,

$\bar{X}$: Mean or Average

$\sum X$: Summation of Variable $X_1 + X_2 + \dots + X_N$

N : Number of Values

3.5.2 Correlation Coefficient (Karl Pearson's Correlation Coefficient)

Correlation coefficient deals with the statistical technique, which measures the degree of relationship or association between the variables. The Karl Pearson's coefficient of correlation measured the degree of association between the two variables.

This is the most widely used in practice to test the independence assumption which provides us correlation coefficient for time series data whether they are independent or not statistical tools of correlation; we use Karl Pearson's correlation coefficient.

$$r = \frac{\sum XY}{\sqrt{\sum X^2 \sum Y^2}}$$

Where,

r : Coefficient of correlation (or rxy)

X : $X - \bar{X}$

Y : $Y - \bar{Y}$

$\sum X^2$: Variance of x variable

$\sum Y^2$: Variance of y Variable

$\sum XY$: Covariance of x and y Variable

Alternatively,

$$R = \frac{Cov.(x, y)}{\sqrt{Var.x} \sqrt{Var.y}}$$

The result of serial correlation is always ranged between +1 to -1. If the computed coefficient of correlation is close to zero, then there is no correlation at all or it is an indication of independence i.e. today's price change is an unbiased outcome of yesterday's price change. There is no association between successive price changes. If the computed coefficient of correlation is one then, there is perfect positive relationship. If the computed result is -1 then there is perfect negative correlation between the observations.

3.5.3 Coefficient of Variation

The Co-efficient of variation (C.V.) is the relative measure based on the standard deviation and defined as the ratio of the standard deviation to the mean expressed in percentage. By symbolically we can express as:

$$C.V. = \frac{S}{\bar{X}} \times 100\%$$

C.V. measures independently the variation of observations. So the coefficient of variation is a suitable measure for comparing variability of two series or observations. Result with smaller C.V. is said to be less variable or more consistent or more homogeneous or more uniform or more stable than other and the series greater C.V. is said to more variable than other.

3.5.4 Standard Deviation and Variance

It is the popular frequently used statistical tools to measure of dispersion. The square root of mean squared deviation from the arithmetic mean and is denoted is denoted by (s)

$$s = \frac{\sqrt{(x - \bar{x})^2}}{N}$$

3.6 Brief Introduction to Financial Parameters

The financial parameters help us to measure the financial status of the organization. These only guides to the analysis of financial statement and are not end in themselves. The parameter is found from the balance sheet and such financial disclosure. The possible following parameters are going to be used on our analysis.

3.6.1 Return in Shareholder's Equity (ROSE)

The ROSE expresses the profitability of a firm in relation to the funds supplied by the creditors and owners taken together while ROSE measures the return on the owner's funds only.

Return on shareholder's equity (both ordinary and preference)

$$= \frac{\text{Net Profit After Tax}}{\text{Net Worth}} \times 100\%$$

Where,

Net Worth = (Ordinary Share Value + Preference Share Value + Reserve and Surplus + Profit & Loss a/c + Retained Earning – Debit balance of Profit & Loss a/c)

3.6.2 Dividend per share (DPS)

A part of net profit after tax belonging to the common equity holders is retained in the company for company's expansion purposes basically and the balance is paid to them as dividend. The dividend paid to them on per share basis is termed as dividend per share (DPS).

$$DPS = \frac{\text{Net Profit after Interest \& Preference Dividend}}{\text{No. of Outstanding Common Equity Holders}}$$

The DPS would be a better indicator than EPS because DPS show what exactly is received by the owners after retaining profit for company's growth.

3.6.3 Earning per Share (EPS)

Equity measures the profit available to the equity shareholders on a per share basis, i.e. the amount that they can get on every share held by them.

$$EPS = \frac{\text{Net profit tax available to equity holders}}{\text{No. of ordinary shares Outstanding}}$$

EPS helps in determining the market price of the equity shares of the company. A comparison of EPS of the company with another will also help in deciding whether the equity share capital is being effectively used or not. It also helps in estimating the company's capacity to pay dividend to its equity shareholders.

3.6.4 Price Earning Ratio (P/E Ratio)

This ratio is related closely with earning price ratio or earning yield ratio. This ratio reflects the price currently being paid by the market for each rupee of currently reported EPS.

Generally, the higher the P/E ratio, it is better for the owners. This ratio helps security analysis to assess a firm's performance as expected by the investors.

$$\text{PE Ratio} = \frac{\text{Market Price Per Share (MPS)}}{\text{Earning Per Share (EPS)}}$$

3.6.5 Earning Yield and Dividend Yield Ratio

These ratios are closely related with the EPS and DPS. As the EPS and DPS are based upon the book value per share, the yield is expressed in terms of the market value per share. Hence the earning yield may be defined as the ratio of EPS to the market value per common share (MPS).

$$\text{Earning Yield Ratio (EYR)} = \frac{\text{EPS}}{\text{MPS}}$$

$$\text{Dividend Yield Ratio (DYR)} = \frac{\text{DPS}}{\text{MPS}}$$

These ratios evaluate the shareholder's return in relation to the market value of the share.

CHAPTER- IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Overview

This chapter deals with the main body of the study i.e. presentation and analysis of the collected data primary as well as a sample of 6 selected companies from Nepalese Stock Market. We will elaborate the data on the basis of various statistical and financial tools like: trend analysis (Movement of MPS), Karl Pearson correlation co-efficient (simple correlation between MPS & EPS, MPS & DPS, MPS & NPAT and MPS & Net worth) and percentage change in MPS etc. in this chapter, we will deeply analyze the collected useful and essential data to draw the main conclusion regarding the Stock Price Movement of Nepalese Stock Market.

Table 4.1

Listed ‘A’ grade commercial bank by the end of the Fiscal Year 2007/08

S. No.	Commercial Banks
1	Nepal Bank Ltd.
2	Rastriya Banijya Bank Ltd.
3	Agriculture Development Bank Ltd.
4	NABIL Bank Ltd.
5	Nepal Investment Bank Ltd
6	Standard chartered Bank Nepal Ltd
7	Himalayan Bank Ltd
8	Nepal SBI Bank Ltd
9	Everest Bank Ltd
10	Bank of Kathmandu Ltd
11	Nepal Credit & Commerce Bank Ltd
12	Nepal Industrial & Commercial Bank Ltd.
13	Machha Puchhare Bank Ltd
14	Laxmi Bank Ltd.
15	Kumari Bank Ltd
16	Siddhartha Bank Ltd.

17	Lumbini Bank Ltd.
18	Global Bank Ltd.
19	Prime Commercial Bank Ltd.
20	Bank Of Asia Nepal Ltd.
21	Citizen Bank International Ltd.
22	Nepal Bangladesh Bank Ltd.
23	Kist Bank Ltd.
24	Sunrise Bank Ltd.
25	Mega Bank Nepal Limited.

4.1.1 Analysis of individual company

From among the listed ‘A’ grade companies, the researcher has chosen 6 commercial banks that listed in NEPSE. The summary of the financial data of the sample listed companies of the study are presented with 5 years data (from fiscal year 2003/04 to 2007/08) including Market Price Per Share(MPS), Earning Price Per Share(EPS), Dividend Per Share(DPS), and Net Worth in the table.

Table 4.2
Position of MPS

Yr/Bank	Nabil	Standard Chartered	Nepal SBI	Everest	Machha puchhare	Kumari
2003/04	740	1640	255	445	100	-
2004/05	1000	1745	307	680	125	-
2005/06	1505	2345	335	870	256	369
2006/07	2240	3775	612	1379	320	443
2007/08	5050	5900	1176	2430	620	830

Sources : AGM report of the listed Banks, NEPSE and SEBO/N

Table 4.3

Position of EPS

Yr/Bank	Nabil	Standard Chartered	Nepal SBI	Everest	Machha puchhare	Kumari
2003/04	84.66	149.3	11.47	29.9	2.81	3.26
2004/05	92.61	143.55	14.26	45.6	8.49	9.74
2005/06	105.49	143.14	13.29	54.2	15.43	17.58
2006/07	129.21	175.84	18.27	62.8	18.74	16.59
2007/08	137.08	167.37	39.35	78.4	9.02	22.7

Sources : AGM report of the listed Banks, NEPSE and SEBO/N

Table 4.4

Position of DPS

Yr/Bank	Nabil	Standard Chartered	Nepal SBI	Everest	Machha puchhare	Kumari
2003/04	50	120	8	20	-	-
2004/05	65	110	-	20	-	-
2005/06	70	120	-	20	-	-
2006/07	85	140	5	25	15.79	21.05
2007/08	140	130	47.59	40	-	21.05

Sources : AGM report of the listed Banks, NEPSE and SEBO/N

Table 4.5

Position of NET Worth

Yr/Bank	Nabil	Standard Chartered	Nepal SBI	Everest	Machha puchhre	Kumari
2003/04	267	403.15	134.03	150.10	92.20	112.25
2004/05	301	399.25	146.80	171.52	100.77	114.03
2005/06	337	412.38	159.54	219.87	115.95	141.11
2006/07	381	466.92	151.78	217.67	130.22	149.22
2007/08	418	512.12	178.04	292.75	121.74	148.69

Sources : AGM report of the listed Banks, NEPSE and SEBO/N

4.2 Correlation Coefficient Analysis

Correlation analysis is the relationship between dependent variables so it is called constant variable also. Correlation is denoted by 'r' and ranges from +1.0 indicating perfect positive correlation to -1.0, indicating perfect negative correlation. If the correlation coefficient is zero, then the factors are independent or un-correlated.

In this chapter, correlation between MPS &EPS, MPS&DPS, MPS&NPAT and MPS &NET worth have been calculated. Then results have analyzed and interpreted and then significance of correlation has been tested using Karl Pearson's correlation of co-efficient.

Interpretation of correlation co-efficient

- It lies always 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, (-0.7 to -0.999) there is a high degree of positive or negative correlation
- When r lies between 0.5 to 0.6999, there is moderate degree of correlation.
- when r is less than 0.5, there is a low degree of correlation.

Probable Error

- If $r < 6 \text{ P.E}$, then the value of 'r' is not significant.
- If $r > 6 \text{ P.E}$, then the value of 'r' is definitely significant.
- If the other situations happen, nothing can be concluded with certainty.

4.2.1 Correlation Coefficient Analysis between MPS & EPS

This show the relationship between MPS & EPS. It is know that the correlation coefficient helps to determine if any relationship exists among variables and this test the significant of correlation coefficient.

Table 4.6
Correlation Coefficient analysis between MPS & EPS

S. N.	Name Of Company	Correlation Coefficient(r)	Probable Error ($\sigma P.E$)
1	Nabil Bank Ltd..	0.8767	0.4187
2	Standard Chartered	0.7642	0.7530
3	Nepal SBI Bank	0.9854	0.0524
4	Everest Bank Ltd	0.9432	0.1998
5	Machhapuchre Bank Ltd.	0.2671	1.6807
6	Kumari Bank Ltd.	0.9268	0.2551

Source: Appendix 1

4.2.2 Correlation Coefficient analysis between MPS & DPS

This show the relationship between MPS & DPS. It is know that the correlation coefficient helps to determine if any relationship exists among variables and this test the significant of correlation coefficient.

Table 4.7
Correlation Coefficient analysis between MPS & DPS

S. N.	Name Of Company	Correlation Coefficient(r)	Probable Error ($\sigma P.E$)
1	Nabil Bank Ltd..	0.9949	0.0183
2	Standard Chartered	0.6786	0.9765
3	Nepal SBI Bank	0.9251	0.2609
4	Everest Bank Ltd	0.9693	0.1093
5	Machhapuchre Bank Ltd.	0.0959	1.7932
6	Kumari Bank Ltd.	0.8102	0.6219

Source: Appendix 2

4.2.3 Correlation Coefficient analysis between MPS & NET worth

This show the relationship between MPS & NET worth. It is know that the correlation coefficient helps to determine if any relationship exists among variables and this test the significant of correlation coefficient.

Table 4.8
Correlation Coefficient analysis between MPS & NET worth

S. N.	Name Of Company	Correlation Coefficient(r)	Probable Error (σP.E)
1	Nabil Bank Ltd..	0.9016	0.3386
2	Standard Chartered	0.9940	0.0215
3	Nepal SBI Bank	0.38546	0.4879
4	Everest Bank Ltd	0.9535	0.1642
5	Machhapuchre Bank Ltd.	0.7150	0.8845
6	Kumari Bank Ltd.	0.8921	0.3694

Source: Appendix 3

4.3 Regression Analysis

Multiple regression analysis is the basis for this chapter because the analysis part is fully covered by multiple regression analysis. Under this analysis, influences of independent variables upon dependent variable is measured and evaluated. In other words, multiple regression analysis helps to establish the functional relationship between dependent and independent variables and there by provides a mechanism for estimation. The purpose of multiple regression analysis in this study is to analyze the combined effect of EPS, BVPS and DPS on MVPS of the sampled companies. Further more, how the selected variables influence equity price, is also being tested using regression model. As stated earlier, multiple regression analysis is the best way to project or estimate the value of dependent variable on the basic of independent variables. This chapter presents the estimated MVPS with respect to the selected financial indicators.

Company-wise regression model is presented so that the behavior of individual stock can be visualized. Because of some serious limitations, the results in some where are irrelevant. However, this can be treated as symptoms of the existing situations. Nonetheless, regression model is the basic theme of this study.

Null Hypothesis() that is population correlation coefficient is zero. In other words, the variable are insignificantly correlated in the population i.e. 'r' is not significant of correlation in the population. $H_0: \rho = 0$

Alternative Hypothesis() $H_1: \rho \neq 0$ that is population correlation coefficient is not zero. In other words, the variable are significantly correlated in the population i.e. 'r' is significant of correlation in the population.

4.4 Analysis of Primary Data

Investors' Response Towards the Change of Stock Price Services in NEPSE

To find out the investors attitude toward the pricing of the securities and the relevant information regarding the prices of stocks services in NEPSE different types of questionnaires has been prepared and distributed to different sectors respondents. To collect the relevant data the questionnaires have been distributed to the respondents on stratified random sampling basis. All together 75 sets of questionnaires were presented in front of the respondents. To get the quick and full response all the questions were objective types. Out of 75 questionnaires 52 were responded.

4.4.1. Investment Pattern in Shares of Listed Companies

The first question was asked regarding the investment pattern of shares of listed companies. Out of 52 respondents 40 which are 76.90% have given their positive answer i.e. yes that means they have invested in the shares of the listed companies. And 12 which are 23.08% have given their negative answered i.e. No.

Table 4.9
Investment Pattern

Response	No. of Investors	Percentage (%)
Yes	40	76.92
No	12	23.08
Total	52	100

4.4.2. Investors Interest in Sector Wise Investment

Similarly in researcher second question was about the investors' opportunity on different sectors wise investment. For this question has been prepared with two sectors i.e. Security Sector and Non-Security Sector. Of them in security sectors weight is 76.92% and non-security sectors weight is 23.08%. On which in security sector 21 which is 52.50% respondents out of 52 said better opportunity in banking sector and least 1 which is 2.5% of the respondents said least opportunity in manufacturing and hotel sector. Based on the present economic and political situation and unsatisfactory performance of tourism sector the respondents have given the minimum weight for the manufacturing and hotel sector. Similarly, the distributed by banking sector as well as better performance of banking sector are the major causes for the respondents to choose it.

Similarly in non-security sector most of investor 6 i.e. 50% said for fixed assets investment and least 1 i.e. 8.33% investors said for business venture and others. By analyzing the present political as well as economical situation of the country, respondents are not interested to invest for business venture and others. So, only 1 of the total respondents prefers for business venture. The summarized results can be presented in following table.

Table 4.10
Investors Interest in Different Sector

Response	No. of Response	Percentage (%)	Weighted
Security Sector			76.92%
Bank	21	52.50	
Finance Company	7	17.5	
Insurance Company	6	15	
Manufacturing	1	2.5	
Trading	2	5	
Hotel	1	2.5	
Others	2	5	
Total	40	100	
Non Securities Sector			
Bank Fixed Deposit	4	33.34	

Fixed Assets	6	50	23.08%
Business Venture	1	8.33	
Others	1	8.33	
Total	12	100	
Grand Total	52		100%

4.4.3. Trading of Shares in the Secondary Market

Investors were asked if they have ever sold their shares in secondary market or not. Out of 40 respondents who have invested in shares 14 of them i.e. 35% of the respondents have sold their shares in secondary markets and 26 i.e. 65% of the respondents have never sold any shares in secondary market they have owned

Table 4.11
Investors Trading in Secondary Market

S. No.	Response	No. of Investors	Percentage (%)
1	Yes	14	35
2	No	26	65
Total		40	100

4.4.4. Reasons for Selling Shares

Again the investors were asked for the reasons for selling shares they owned and the option for their response was a) for personal need b) to buy other stocks c) expectation of price fall d) no payment of dividend by the company and e) current price appreciation. Of the total 40 investors who sold their shares in secondary market, 15 which are 37.50% have sold their shares to fulfill their emergency personal needs. Similarly 5 which is 12.50% each of investors who sold their shares in secondary market sold their shares to buy other securities and expectation of future price fall. It was found that the cause to sell the securities to buy other securities and expectation of future price fall is equal.

In the same ground 4 which is 10% were sell their securities due to no payment of dividend by the company. Majority of the respondents sold their shares because of current price appreciation. The no. of respondents is 11 i.e. 27.50%.

Table 4.12
Reasons for Selling Shares

S. No.	Response	No. of Investors	Percentage (%)
1	Emergency Personal Needs	15	37.50
2	To Buy Other Stocks	5	12.50
3	Expectation of Future Price Fall	5	12.50
4	No Payment of Dividend by the Company	4	10
5	Current Price Appreciation	11	27.50
Total		40	100

4.4.5. Investors Purchasing Shares from Secondary Market

The next question for the investors was if they have bought shares from secondary market. Of the total 40 investors who invest their money in securities, 12 i.e. 30% have purchased shares from secondary market and 28 i.e. 70% of them have not purchased shares from secondary market. This result has been expressed in the following table.

Table 4.13
Investors Purchasing Share from Secondary Market

S.No.	Response	No. of Investors	Percentage (%)
1	Yes	12	30
2	No	28	70
Total		40	100

4.4.6. Causes for Investing in Secondary Market

Similarly, the respondents were asked for the reasons to purchase shares from secondary market and their available options as answers were a) high rate of dividend b) expected price appreciation c) to invest excess money and d) speculative purpose. Of the 40 investors who have purchased shares from secondary market. 13 that is 32.50% purchased the shares to get the higher rate of dividend declared by the company. Similarly 16 which is 40% of them invested their money in shares through secondary market because of the future expected price gain. Only one which is 5% of the respondents answered that he/she purchases the shares from secondary market to utilize excess money he/she holding. 9 which is 22.50% of the investors who purchased shares from secondary market for speculative purpose.

Table 4.14
Causes for Investing in Secondary Market

S.No.	Causes for Investment	No. of Investors	Percentage (%)
1	For High Rate of Dividend	13	32.50
2	Expected Price Appreciations	16	40
3	To Invest Excess Money	2	5
4	Speculative Purpose	9	22.50
Total		40	100

4.4.7. Investors Interest on Price of the Shares

To know the interest of investors towards their shares price one question presented as how often the investors seek the prices of securities they have purchased. Of the total 40 respondents 8 which is 20% of the total investors told that they look for the price of their securities daily. Similarly, 16 which is 40%, 2 i.e. 5%, 13 i.e. 32.50% and 1 i.e. 2.50% of the investors seek the price of their shares weekly, monthly, seldom and never respectively. The result of this question is presented in the following table.

Table 4.15**Investor's Interest on Price of the Shares**

S.No.	Investor's Interest	No. of Investors	Percentage (%)
1	Daily	8	20
2	Weekly	16	40
3	Monthly	2	5
4	Seldom	13	32.50
5	Never	1	2.5
Total		40	100

4.4.8. Factors Affecting Price of Shares

Regarding the influencing factors for price fluctuation of share in capital market different investors gave different views and their own ideas. 17 of the total 52 respondents i.e. 32.69% gave their views as dividend as the influencing factors, 12 i.e. 23.08% said earning per share, 7 i.e. 13.46% said political stability of the country, 9 which is 17.31% said economical growth of the country, 3 i.e. is 5.77% said world wide trend, 1 which is 1.92% of the respondents said volume of transactions and 3 which is 5.77% said rumors. Theoretically, DPS and EPS are the major factors to influence the share price of a company which is also reflected in the respondents view.

Table 4.16**Factors Affecting Price of Shares**

S.No.	Factors	No. of Investors	Percentage (%)
1	Dividend	17	32.69
2	Earning Per Shares	12	23.08
3	Political Stability	7	13.46
4	Economic Growth	9	17.31
5	World Wide Trend	3	5.77
6	Volume of Transactions	1	1.92
7	Rumors	3	5.77
Total		52	100

4.4.9. Investors Views Regarding the Returns from their Investment

To find out how much the investors are satisfied from the returns from their investments question was presented to the respondents as the level of return from the investment presently getting in comparison their expectation. None of the respondents replied that they are getting very high return however 4 out of 40 which is 10% replied that they getting high level of return, similarly 13 i.e. 32.50% said moderate, 14 i.e. 35% low and 9 i.e. 22.50% very low. The result is presented in the following.

Table 4.17
Satisfaction from the Return of Shares

S.No.	Degree of satisfaction	No. of Investors	Percentage (%)
1	Very High	0	0
2	High	4	10
3	Moderate	13	32.50
4	Low	14	35
5	Very Low	9	22.50
Total		40	100

CHAPTER – V

SUMMARY CONCLUSIONS & RECOMMENDATIONS

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.

5.1 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 in 1993. Nepal Stock Exchange, in short NEPSE, is a non-profit organization, operating under Securities Exchange Act, 1983.

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 pace. 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.

Capital market plays a vital role in developing the nation's economy. The trading of share of stocks takes place in the stock market. Nepalese capital market is still in primary 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. In spite of poor condition of the security market in Nepal,

government of Nepal has not given priority in its current tenth five year plan. 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.

Market price of the stock moves daily in the NEPSE. The securities market is essential, cause of price change may be signaling effect, low return and high risk, lack of knowledge, low income of the investors and high price of the stock. Price of the stock is determined by the demand and supply, this situation is in the security market or not. There are burning issues regarding stock price determining of secondary market in Nepal.

This phenomenon, in Nepalese context, is the primary focus of this study. The study will primarily look into the movement of stock price of selected companies listed in NEPSE with secondary objective of major financial performance indicators which are generally considered important for investors like EPS, DPS & MPS. Efforts will be made to analyze the stock price in relation to these indicators. The researcher has tried to explore the determinants of share price of listed companies in NEPSE.

Second chapter is based on the literature survey on the area of the study on which conceptual review and review of related studies. Due to many limitation or restriction researchers have taken six commercial banks. The study is based on secondary data from the fiscal year 2003/04 to 2007/08. The data are collected from annual reports of concerned banks and related companies, financial statement, official records, journals and bulletins, various published reports and relevant unpublished master's thesis and newspaper

For the fulfillments of the objectives of the study many analyses have been done. Both financial as well as statistical tools have been used to analyze and interpret the facts and information. Financial & statistical tools are used to reckoning and secondary data were compiled, processed and tabulated for better presentation. Questionnaires were distributed and interviews were made to gather information. Information was tabulated and presented as per requirement of the study. From which various finding have shown in above chapter from that finding conclusion have been drawn which are presented as below.

5.2 Conclusion

The corporate environment plays vital roles on improving the capital market of the nation. People invested in companies through primary market. They represent their fractional ownership of the company through their investment proportions. In general demand and supply set the prices of securities are influenced by various factors. One of the major factors is corporate performance. The company alone cannot do any super performance. 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 do not provide sufficient and timely information to NEPSE as well as their shareholders. And even the supplied information does not have similarity among NEPSE, Annual Report and their particular websites. Meaning that they try to attract potential investors by providing exaggerated information regarding their performances.

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 do not provide sufficient and timely information to NEPSE as well as their shareholders. And even the supplied information does not have similarity among NEPSE, Annual Report and their particular websites. Meaning that they try 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. Even though, DPS, BVPS and EPS jointly have significant effect on the share price, individually they do not have consistent relationship with MVPS. It means that there may be other major factors influencing and determining the share price significantly.

Whereas analysis of primary data (from view point of respondents) summarizes, company performance (EPS, book value, DPS), information disclosed, timely AGM, other political and economic factors such as political stability, national economy, peace, strikes/bandhas, demand and supply situation of the share, cease-fire etc. are the some important factors having significance influence on the share price. Similarly, other relevant factors, interest rate, tax rate, seasonal factors, day of the week effect, gold price, global economy, value of US\$, cost of equity, market liquidity, size of the firm and change in management do not have significant effect . Due to poor rules and regulations as well as effective regularity mechanism, one the one hand, shareholders are not confident enough to invest in the share whereas on the other hand, capital market has not been growing as per expectation. Similarly,

lack of political stability, peace and Maoist revolution has constrained the smooth development of security market.

If stocks are under priced, their demand in stock market heavily mounts up. Insufficient supply of stocks caused price to rise. At present, this situation is prevailing in Nepalese stock market due to which equity price of banking sector has approached to maximum point without having any concrete financial reason. It can be concluded that signaling factors played a volatile role in determining NEPSE index value. From the major four events analysis on table showed that signaling factors had certain relation for NEPSE index.

In Nepal, the dynamism of stock market has been reduced by the domination of shareholders who invest in the shares with the hope of increasing their wealth. Even though it was found from the responses given by the investors that they prefer ownership transfer, it is their intention to prefer the shares having higher liquidity to earn capital gains when the time comes but actually most of them hold the shares for long period. This was realized during the direct observation during the observation period at NEPSE floor and the brokerage offices.

This can be justified by number of shares that were traded on the stock market. Even though it reduces the dynamism of the stock market, the investor has very few investment alternatives rather than investing in the shares. The rationality of the Nepalese Investors was found to be at low level. They have very knowledge of the trading procedure and the price setting mechanism at NEPSE. People, in Nepal, simply invest in shares because they have very little alternatives for investment. They are not well aware of the fact that investing in shares involves risk. So, the concerned bodies should feel more responsible to provide sufficient and reliable information about investment in shares, though they are doing right now. So, that the rationality could be upgraded and the price setting may become effective.

Thus, it can be concluded that four financial indicators EPS, DPS and MPS, heavily determine the equity price. Other extraneous factors also caused equity price to fluctuate. Investors must look after all factors, which explicitly or implicitly affect equity price so that they can arrive at rational decision.

5.3 Recommendations

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

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. The existing manual method of security trading should be replaced with computerized method to ensure the accuracy and systematic. Investors should be provided with investment guidelines and relevant information through media. It should monitor the activities of brokers as well as listed companies.

- 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.
- NEPSE Index plays a major role for creating investment opportunity. So for removing stock markets difficulties such transaction facilities, investor's interest and investment facilities should be management in effective way by formulation investor's protection policies.
- It is apparent that, seeing the investment priority of investor majority was found attached with banking sectors, diversification of investment in other sector should be done by taking action against lower trading industries such as manufacturing, trading, insurance and other. The companies, which are not performing their activities, should be removed from the list of Nepal security exchange limited. So that the unproductive sectors gives the productive results by running efficient way.
- Signaling factors should be analyzed by the member of NEPSE as well the industries, so that future movements of price can be predicted from the side of analyst and from the side of investors.

- The stock market lacks the existence of sophisticated investors. It is recommended to regulatory bodies to carry out programs using various media and spot program to inform and attract the investors in investing into shares.
- As per the study, it has been found out that EPS, DPS, BVPS and price appreciation are the foundation upon which equity price built. So investors are recommended for the detail study of the financial indicators before investing and trading stocks of any company.
- The Nepalese Stock market should take some effective to control; random fluctuations of MPS and establish the system of regular monitoring and evaluation of Stock market.
- As objective of the newly reformed Republic of Nepal, the galloping growth will only be possible if we have sufficient capital to invest so there is a must need for the capital formation.
- 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, financial companies, insurance and manufacturing companies but study is only on some companies so, 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 CEO charisma, Research, inflation, oil/energy prices etc that affect the share price.

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QUESTIONNAIRE

I am Rajendra Pudasaini, student of Masters of Business Studies (MBS) at Shankar Dev College, Faculty of Management, Tribhuwan University. I am conducting a thesis in the topic “Stock price fluctuation of commercial Bank in NEPSE” in partial of the requirement of the Degree of Master of Business Studies (MBS). I would like to request you to answer the following questions related to my study topic which help me to get the research objectives. I assure that your response will be kept strictly confidential.

Optional:

Name:

Address/ Company:

Position:

1. Have you ever invested in shares of the listed companies?

☐☐

2. In which Sectors do you think public have better opportunities for investment?

Securities investment sector

☐

Banking sector

☐

Finance sector

☐

Insurance sector

☐

Manufacturing sector

☐

Trading sector

☐

Hotel sector

☐

Others

Non securities investment sector

☐

Bank Fixed Deposit

☐

Fixed assets

☐

Business venture

☐

Other

3. Have you ever sell any number of shares in the secondary market?

☐ Yes

☐ No

4. If yes, then reasons for selling the shares.....

☐ For personal need

☐ To buy other stocks

☐ Expectation of price fall

☐ No payment of dividend by the company

5. Have you ever purchase stock from secondary market?

☐ Yes

☐ No

6. If yes then reasons for buying stocks in secondary market is

☐ To invest excess money

☐ For high rate of dividend

☐ Price Appreciation

☐ Speculative purpose

7. Which of the following is the most influencing factor to contribute to the price change of stock according to your experience? (Rank in number)

☐ Dividend

☐ Earning per share

☐ Political stability

☐ Economic growth of the country

☐ Rumors

☐ World wide trend

☐ Volume of transaction

Appendix – 1

Correlation – Coefficient between MPS & EPS

Nabil Bank Ltd.

F/Y	MPS	EPS	
2003/04	740.00	84.66	
2004/05	1000.00	92.61	
2005/06	1505.00	105.49	
2006/07	2240.00	129.21	
2007/08	5050.00	137.08	
R			0.8767
r²			0.7687
P.E			0.0698
6 P.E			0.4187

Standard Chartered Bank Ltd.

F/Y	MPS	EPS	
2003/04	1640.00	149.30	
2004/05	1745.00	143.55	
2005/06	2345.00	143.14	
2006/07	3775.00	175.84	
2007/08	5900.00	167.37	
R			0.7642
r²			0.5840
P.E.			0.1255
6 P.E.			0.7530

Nepal SBI Bank Ltd.

F/Y	MPS	EPS	
2003/04	255	11.47	
2004/05	307	14.26	
2005/06	335	13.29	
2006/07	612	18.27	
2007/08	1176	39.35	
R			0.9854
r²			0.9710
P.E			0.0087
6 P.E			0.0524

Everest Bank Ltd.

F/Y	MPS	EPS	
2003/04	445	29.9	
2004/05	680	45.6	
2005/06	870	54.2	
2006/07	1379	62.8	
2007/08	2430	78.4	
R			0.9432
r²			0.8896
P.E			0.0333
6 P.E			0.1998

Machha Puchhare Bank Ltd.

F/Y	MPS	EPS	
2003/04	100	2.81	
2004/05	125	8.49	
2005/06	256	15.43	
2006/07	320	18.74	
2007/08	620	9.02	
R			0.2671
r²			0.0713
P.E			0.2801
6 P.E			1.6807

Kumari Bank Ltd.

F/Y	MPS	EPS	
2003/04	0	3.26	
2004/05	0	9.74	
2005/06	369	17.58	
2006/07	443	16.59	
2007/08	830	22.7	
R			0.9268
r²			0.8590
P.E			0.0425
6 P.E			0.2551

Appendix 2

Correlation between MPS & DPS

Nabil Bank Ltd.

F/Y	MPS	DPS	
2003/04	740	50	
2004/05	1000	65	
2005/06	1505	70	
2006/07	2240	85	
2007/08	5050	140	
R			0.9949
r²			0.9899
P.E			0.0030
6 P.E			0.0183

Standard Chartered Bank Ltd.

F/Y	MPS	DPS	
2003/04	1640	120	
2004/05	1745	110	
2005/06	2345	120	
2006/07	3775	140	
2007/08	5900	130	
R			0.6786
r²			0.4605
P.E			0.1627
6 P.E			0.9765

Nepal SBI Bank Ltd.

F/Y	MPS	DPS	
2003/04	255	8	
2004/05	307	0	
2005/06	335	0	
2006/07	612	5	
2007/08	1176	47.59	
R			0.9251
r²			0.8559
P.E			0.0435
6 P.E			0.2609

Everest Bank Ltd.

F/Y	MPS	DPS	
2003/04	445	20	
2004/05	680	20	
2005/06	870	20	
2006/07	1379	25	
2007/08	2430	40	
R			0.9693
r²			0.9396
P.E			0.0182
6 P.E			0.1093

Machha Puchhare Bank Ltd.

F/Y	MPS	DPS	
2003/04	100	0	
2004/05	125	0	
2005/06	256	0	
2006/07	320	15.79	
2007/08	620	0	
R			0.0959
r²			0.0092
P.E			0.2989
6 P.E			1.7932

Kumari Bank Ltd.

F/Y	MPS	DPS	
2003/04	0	0	
2004/05	0	0	
2005/06	369	0	
2006/07	443	21.05	
2007/08	830	21.05	
R			0.8102
r²			0.6564
P.E			0.1037
6 P.E			0.6219

Appendix -3

Correlation between MPS & NET worth

Nabil Bank Ltd.

F/Y	MPS	NET worth	
2003/04	740	267	
2004/05	1000	301	
2005/06	1505	337	
2006/07	2240	381	
2007/08	5050	418	
r			0.9016
r²			0.8129
P.E			0.0564
6 P.E			0.3386

Standard Chartered Bank Ltd.

F/Y	MPS	NET worth	
2003/04	1640	403.15	
2004/05	1745	399.25	
2005/06	2345	422.38	
2006/07	3775	466.92	
2007/08	5900	512.12	
r			0.9940
r²			0.9881
P.E			0.0036
6 P.E			0.0215

Nepal SBI Bank Ltd.

F/Y	MPS	NET worth	
2003/04	255	134.03	
2004/05	307	146.80	
2005/06	335	159.54	
2006/07	612	151.78	
2007/08	1176	178.04	
r			0.8546
r²			0.7304
P.E			0.0813
6 P.E			0.4879

Everest Bank Ltd.

F/Y	MPS	NET worth	
2003/04	445	150.10	
2004/05	680	171.52	
2005/06	870	219.87	
2006/07	1379	217.67	
2007/08	2430	292.75	
r			0.9535
r²			0.9093
P.E			0.0274
6 P.E			0.1642

Machha Puchhare Bank Ltd.

F/Y	MPS	NET worth	
2003/04	100	92.20	
2004/05	125	100.77	
2005/06	256	115.95	
2006/07	320	130.22	
2007/08	620	121.74	
r			0.7150
r²			0.5113
P.E			0.1474
6 P.E			0.8845

Kumari Bank Ltd.

F/Y	MPS	NET worth	
2003/04	0	112.25	
2004/05	0	114.03	
2005/06	369	143.11	
2006/07	443	149.22	
2007/08	830	148.69	
r			0.8921
r²			0.7959
P.E			0.0616
6 P.E			0.3694

