CHAPTER I

INTRODUCTION

1.1. Background

The capital market is the market meant for long term securities issued by the government or a corporation. The capital markets typically involve the financial assets that have life spans of greater than one year. The capital market also can be termed as long-term borrowing and lending market too. There are various instruments or securities used in the capital market such as share of stock, bonds or debentures, debenture stocks, stock bond etc. Efficient capital market helps to mobilize the financial resources and provides efficient channel to productive investment. Development and expansion of capital market is essential for the rapid growth of the country.

The concept of capital market is neither very old nor very complex in the context of Nepal. It is still in the beginning stages and different efforts have been made for development of the capital market since 1936 to till now. But Nepalese capital market got a proper structure only in the year 1993. In this year securities Board was established as regulator and stock trading commenced through the member brokers adopting open-out-cry auction system. Stock exchange in its usual role was then expected to develop as a powerful mechanism to mobilize savings for long-term investments.

Capital market is the one of the most important part of any financial market. It is the market place for the collection of long term funds. Entrepreneurs who have ideas but do not have funds to establish, manage and operate the business can collect the required funds by mobilizing the scattered public savings. They issue tradable securities like shares, debentures and others. The market through which they make new issue or additional issue is called IPO market or primary market. The success of the issue depends upon the public response is high with over-subscription, it is called successful issue. The purchase of securities is called investment. The investors sacrifice their present consumptions for future" *(Bhattarai, 2005)*

"The nature and volume of capital need in a productive process are directly related to the nature and volume of number of components. These components include use of land, capital equipment, labor, building up of stocks and miscellaneous expenses." *(Goldschmith, 1965)*

There are two important aspects of capital market, namely, the raising of funds in the form of shares and debentures and trading in the securities already issued by companies. While the first aspect is obviously is much more important from the point of view of economic growth, the second aspect is also of considerable importance. In fact, if facilities of transfer of existing securities are abundant, the raising of new capital is considered assisted for the buyer of a new issue of security is confident that whenever he wants to get cash he can find a buyer 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. *(Bhatta, 1997)*

Securities market is recognized as an effective way of raising capital for commercial enterprises, and at the same time providing an investment opportunity for individuals and institutions. The activities of buying and selling securities in the securities markets are extremely important for the efficient allocation of capital within economies. The securities market is a requisite for the sound development of and economy because it not only provides stable long term capital for companies and an effective savings vehicle for the public, but also functions as an efficient tool for resource allocation. Mass participation in country's industrialization process is possible only through the efficient mechanism of securities markets as it promotes efficient collection of small and scattered savings from the investors and provides return to them in the form of divided. A developed securities market is the medium through which only productive firms that have better performance can easily raise capital. *(Adhikari, 2005)* In other words well developed capital market enable high quality firms to increasingly finance themselves from securities rather than form bank loans. (*Shirai 2004)* This type of behaviors of developed market enhances economic growth process by productivity growth.

Capital market is a market that enables suppliers and demanders of long-term funds make transactions or the place where long-term securities having maturity period greater than one year are traded. The instruments used in capital market are debt, stock, preferred stocks, bonds and convertible issue. The long-term debts are installment debts, commercial debts represented by acceptance bills, commercial debts and accommodation papers etc. Saving and deposits schemes, which are not securities bearings, fall under the non-securities segment of market. Capital markets are also classified as Primary Market and Secondary Markets

Primary Markets: "A primary market is the place where corporations and government issue new securities. All securities, whether in money or capital markets, are initially issued in the primary market. This is the only market in which the company or government is directly involved in the transaction and receives direct benefits from an issue- that is the company actually receives the proceeds from sale of securities. Once the securities begin to trade among individuals, business, governments, or financial institutions, savers and investors, they become a part of the secondary market". *(Nancy and Richardson, 1984)*

"The primary markets are media through which new financial assets are issued or generated. They are the media through which the demanders and supplies of today's funds, the creators and acceptors of financial claims meet. In these primary markets, financial assets are created and exchanged, satisfying in the part the financial needs of both demanders and suppliers of today's fund. At present concept, it is the market of direct issuance of government securities. The primary market of country is dominated by the government securities due to existence of insignificant new issue market for industrial securities. The primary securities market includes all transactions that result in the accumulation of financial capital by firms, government or individuals to be used in the consumption or real capital investment. The participants in this process are many and valued, but an important segment, includes the money brokers who acts as a middleman in the process of exchanging securities for funds. These brokers provided invaluable services. Their principle role is to assist in the pooling of the funds by the creation of securities forms that will appeal to the ultimate investors". *(Nancy and Richardson, 1984)*

Secondary Markets: Secondary Market is the place where already issued securities are traded. It is not the place to raise the funds/ capital for the institutions. The resell and repurchase of securities takes place in secondary market which the institutions indirectly. The types of secondary market are as follows:

Types of Secondary Market:

- Organized Securities Exchanges
- Over- the – Counter (OTC) Market
- Third Market
- Fourth Market

Organized Securities Exchanges: Organized Securities Exchanges are the physical locations where trading of securities is done under a set of rules and regulations. Investors usually purchase securities in the secondary market by calling securities brokers. In the secondary market investors buy and sell securities themselves, the issuer never gets any cash flow from the trades. Nepal Stock Exchange (NEPSE) is an example of organized stock exchange and this is the only stock exchange in Nepal. Similarly, the New York Stock Exchange (NYSE), Tokyo Stock Exchange, American Stock Exchange (AMEX), Bombay Stock Exchange (BSE) etc. are the example of organized stock exchange.

Over- the-Counter (OTC) Market: "The Over- the-Counter (OTC) exchange is not an organization but an intangible market for the purchase and sellers of securities not listed by the organized exchanges. It is not a formal exchange like organized stock exchanges. It neither requires membership for trading of securities nor listing of securities for trading, meaning that formal listing of securities are not necessary in the OTC market. A sophisticated telecommunication network links active traders in the market. The price at which securities are traded "Over- the-Counter" are determined by competitive bids and negotiation. The OTC in addition to creating a resale market for outstanding securities is a primary market in which new public issues are sold. Therefore, the OTC market competes with investment bankers and the organized exchanges because OTC dealers can operate in both the primary and secondary market" *(Gitman, 1988).*

Third Market: The third market is an OTC market where the securities listed in the organized stock exchange are also traded. More generally the term 'third market' now refers to the trading of any exchanged listed security in the over the counter markets. The trading hours are not fixed to the third market like organized stock exchange. In the third market dealers provide only execution and record services for their clients.

Fourth Market: The fourth market also exists in the over-the-counter market and here trades occur directly among investors. In other words, in this type of market the buyers and sellers deal directly with each other. This deal occurs in the exchange listed securities. Fourth market participants completely by pass normal dealers services.

"The over the counter market is broader in scope than stock exchanges. It will be recalled that stock exchange limit their activities to trading in securities already issued. In contrast, the over-the-counter market handles both securities already issued and new securities being sold to public whereas the stock exchange are auction markets, the over the counter market is primarily a negotiated markets that is buyer and seller may haggle over prices before the transaction is completed. Dealers in the over-the-counter markets buy securities with the hope of being able to resell them at a higher pries. This process resembles any merchandising activity in which the traded buys goods in the hope of reselling them at a higher price". *(Bradely, 1963)*

"Secondary markets are markets for existing assets, which are currently traded between Investors. It is market that creates the prices and allows for liquidity. If secondary markets did not exist, investors would have no place to sell their assets. Without liquidity, many people would not invest at all" *(Geoffery, 1983).*

"Secondary (Indirect) securities markets allow outstanding securities to be traded from old to new owners. The advantage of secondary market is to provide liquidity or cash and investment opportunities to investors and to make certain assets more attractive to buyers and seller secondary market comprises the stock exchange, the over-the-counter market". *(Rimal, 1994)*

"The secondary financial markets are the markets where many already outstanding financial assets are traded from old to new owners. The secondary market provides "liquidity" for financial assets making more attractive. So secondary markets is a place where are securities once sold are purchased and repurchased to provided liquidity to the government securities and the secondary market is operated by Securities Exchange Center. The trading of government securities in secondary market is very thin because of limited distribution of the securities. Securities Exchange center in order to promote the market, used to support the market even involving itself in buying and selling activities, if necessary. The secondary market ever operated in the country was on DBs. The SEC initiated the secondary markets in the fiscal year 1975-76, since then the volume traded in generally increasing year by year". *(Pradhan, 1997)*

1.1.1. Nepal Stock Exchange (NEPSE)

The concept of stock market in Nepal is very new. It is still in infancy stage though Nepal Bank Limited (NBL) and Biratnagar Jute Mills limited (BJM) began it with the issue of shares in 1937 under the company act 1936. Government Bonds were issued for the first time in 1964. The establishment of Securities Exchange Center (SEC) in 1976 was the first and most important attempt made by the government to develop the stock market. And it was established to facilitate and promote the growth of capital markets, with the initiative of the government of Nepal and Nepal Rastra Bank. It was the only capital market institution that undertook the responsibilities of brokering, underwriting, managing public issue, creating markets for government bonds and other securities. The incorporation if the securities Board Nepal (SEBON) under the Securities Exchange Act 1993 and conversion of SEC into the Nepal stock Exchange (NEPSE) under the government policy of capital market reform has greatly contributed to the development of primary as well as secondary market of the corporate securities. Security Exchange center was established with an objective of facilitating and permitting the growth of capital market. Before conversion into stock exchange it was the only capital market institution undertaking job of brokering, underwriting. Managing public issue, market making for government bonds and other financial services

Objective of Nepal Stock Exchange

- The basic objective of NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through members, market intermediaries, such as brokers, dealer's market makers etc.
- The other important objectives of NEPSE are to protect investors' rights and develop a secondary market, as prescribed at Article of Memorandum of (MOA and Article of Association (AOA) of NEPSE.

Nepal Stock Exchange limited is the only stock exchange in the country. The governing Board of NEPSE comprises 9 members representing various Government and non-government sectors. The nine member board includes, *Ministry of finance* ***security Board, Nepal Rastra Bank (NIDC) representatives of license holder stock*** *broker, general Manager of NEPSE.*

Function of NEPSE

The main function of NEPSE is to provide trading floor for trading on securities. Beside this prime function, NEPSE performs the following

- Provide trading floor for the listed securities
- Enlist corporate as well as government securities like share, preference shares, development bond and corporate bonds.
- Supervise and regulate its members.
- Provide clearing and settlement facility to traded securities
- Timely dissemination of information.
- Act as a front line regulator for members.

Table 1.1: Percentage of Share in NEPSE

S.N.	Owners	No of Shares	%
1	Nepal Government	204820	58.66
2	Nepal Rastra Bank	120805	34.6
3	NIDC	21375	6.12
4	Members	2150	0.62

Sources: (Nepal Stock Exchange Limited "An Introduction", 2011)

1.1.2. Security Board of Nepal

Securities Board of Nepal (SEBON) was established by the Government of Nepal on June 7, 1993 as an apex regulator of Securities Markets in Nepal. It has been regulating the market under the Securities Act, 2006. "SEBON is a regulatory body established by government of Nepal to regulate capital market of Nepal". *Adhikari J.* {(An interaction on Securities Data management system of Nepal (SDMSN)}. The functions, duties and powers of SEBON as per the Act are as follows.

- To offer advice to Government on matters connected with the development of the capital market.
- To register the securities of corporate bodies established with the authority to make a public issue of its securities.
- To regulate and systematize the issue, transfer, sale and exchange of registered securities.
- To give permission to operate a stock exchange to any corporate body desirous of doing so, subject to this Act or the rules and bye-rules framed under this Act.
- To supervise and monitor the functions and activities of stock exchange.
- To inspect whether or not any stock exchange is executing its functions and activities in accordance with this Act or the rules and bye-rules framed under this Act, and to suspend or cancel the license of any stock exchange which is not found to be doing so.
- To issue licenses to conduct the business of dealing in securities, subject to this Act, or the rules and the bye-rules framed under this Act, to companies or institutions desirous of conducting the business of dealing in securities.
- To supervise and monitor the functions and activities of securities-dealers.
- To grant permission to operate collective investment schemes and investment fund programs, and to supervise and monitor them.
- To approve the bye-rules concerning transactions in securities framed by stock exchanges and institutions engaged in the business of dealing in securities, and, for the purpose of making necessary provisions concerning the development of the capital market and protecting the interests of investors investing in securities, issue orders to have necessary alterations made in such bye-rules of stock exchange and institutions engaged in the business of dealing in securities.
- To systematize the task of clearing accounts related to transactions in securities.

- To supervise whether or not security dealers are behaving in the manner prescribed in this Act, or the rules and the bye-rules framed under this Act, while conducting business of dealing in securities, and suspend the license to conduct the business of dealing in securities in case any securities dealer is not found to be behaving accordingly.
- To make or ensure necessary arrangements to regulate the volume of securities transacted and the procedure of conducting such transactions in order to ensure the promotion, development and clean operation of stock exchanges.
- To make necessary arrangements to prevent insider trading or any other offenses relating to transactions in securities in order to protect the interest of investors in securities.
- To review or make arrangement for reviewing the financial statements submitted by the corporate bodies issuing securities and security dealers, and issue directives deemed necessary in that connection to the concerned corporate body.
- To systematize and make transparent the act of acquiring the ownership of a company or gaining control over its management by purchasing its shares in a single lot or in different lots.
- To establish coordination and exchange cooperation with the appropriate agencies in order to supervise and regulate matters concerning securities or companies.
- To discharge or make arrangements for discharging such other functions as are necessary for the development of securities and the capital market.

The Governing Board of SEBON is composed of seven members including one full time chairman appointed by the Government for tenure of four years. Other members of the Board include joint secretary of Ministry of Finance, joint secretary of Ministry of Law, Justice and Parliamentary Affairs, representative from Nepal Rastra Bank, representative from Institute of Chartered Accountants of Nepal, representative from Federation of Nepalese Chambers of Commerce and Industries, and one member appointed by the Government from amongst the experts pertaining to management of securities market, development of capital market, financial or economic sector. There are two sections under the Corporate Finance Department namely, Public Issue Section and Collective Investment Scheme Section. Likewise, Under the Regulation Department, there are two sections namely, Stock Exchange Regulation Section and

Market Intermediaries Regulation Section. There are also four sections under the Surveillance Department namely, Stock Exchange Surveillance Section, Market Intermediaries Surveillance Section, Trading Surveillance Section and Corporate Surveillance Section. The major financial sources of SEBON are the government grant, transaction fee from the stock exchange and registration fee of corporate securities. Other financing sources include registration and renewal of stock exchange and market intermediaries and the income from mobilization of its revolving fund.

Historical Development of Capital Market (Stock Market) in Nepal

The establishment of the Securities Exchange Centre (SEC) in 1976 was the first attempt made by the government for the institutional development of the stock market in Nepal although the flotation of shares by Nepal Bank Ltd (NBL) and Biratnager Jute Mills Ltd. (BJM) had began in 1937 under the company Act, 1936. The SEC management five public issues, important medium to allow investment opportunities to the public, made by the corporate bodies till FY 1983/84. *(SEBON, 2005)*

Stock Exchange, organized market for buying and selling of financial instruments known as securities, which include stocks, bonds, options, and futures. Most stock exchanges have specific locations where the trades are completed. For the stock of a company to be traded at these exchanges, it must be listed, and to be listed, the company must satisfy certain requirements. But not all stocks are bought and sold at a specific site. Such stocks are referred to as unlisted. Many of these stocks are traded over the counter—that is, by telephone or by computer.

Major stock exchanges in the United States include the New York Stock Exchange (NYSE) and the American Stock Exchange (AMEX), both in New York City. Far more corporations list their stock on the NYSE than on the AMEX, however. Nine smaller regional stock exchanges operate in Boston, Massachusetts; Cincinnati, Ohio; Chicago, Illinois; Los Angeles, California; Miami, Florida; Philadelphia, Pennsylvania; Salt Lake City, Utah; San Francisco, California; and Spokane, Washington. In addition, most of the world's industrialized nations have stock exchanges. Among the larger international exchanges are those in London, England; Paris, France; Milan, Italy; Hong Kong, China; Toronto, Canada; and Tokyo, Japan. These stock exchanges all

have a central location for trading. The major over-the-counter market in the United States is the Nasdaq Stock Market (formerly, the National Association of Securities Dealers Automated Quotation [NASDAQ] system). The European Association of Securities Dealers Automated Quotation system (EASDAQ) is the major over-the-counter market for the European Union (EU). Nepal has one an only stock exchange; Nepal stock exchange (NEPSE).

In Nepal, organized securities exchanges are made through Nepal Stock Exchange (NEPSE). The securities exchange center was established with an objective of facilitating and promoting the growth of capital market. Before its conversion into stock exchange it was only a capital market institution undertaking the job of brokering, underwriting, managing public issue market making for government bonds and other financial services. In 1993, the center was converted into NEPSE with the basic objective of imparting free marketability and providing liquidity to the government and corporate securities by facilitating transactions in its trading floor through market intermediaries, such as brokers market makes etc. and it is a nonprofit organization, operating under Securities Exchange Act, 1993. NEPSE opened its trading floor on 13th January 1994 through licensed members. His Majesty's Government, Nepal Rastra Bank, Nepal Industrial Development Corporation and Licensed members are the shareholders of the NEPSE.

1.2. Statement of the Problem

The problem toward which this study is directed is to identify the performance of common stocks listed in NEPSE. Now-a-days, investment in common stocks in Nepal is getting momentum due to flow of information through print media although not so adequate. A low trading volume, absence of professional brokers, early stage of growth, limited movements of share price and limited information available to the investors characterize Nepalese capital market. They are not confidence to get appropriate returns from the listed companies. In the context of Nepal, capital market was initiated in the country with the establishment of securities market center in 1976 in the Government sector, Recently Nepal stock exchange has been acting as a secondary market to promote the capital market. The performance of companies listed in NEPSE plays an important role in the development of capital market. At the early

stage of an emerging market economy, it is important that the Govt. should create the right policy, environment to facilitate the creation of a critical mass of financial instruments, issues and investors.

The investors could not identify the good and bad stock in lack of proper information and lack of not creating confidence. Several university researchers that because of the lack of sufficient support, information, and which had played significant role in share price movements identified it and that investment on common stock is based on institution, imagination, guesswork and conscious judgment based on little understood, statistical probabilities in Nepalese stock market.

Brokers are also supposed to assist in the maintenance of a fair and orderly market but they may not be able to do this job in their full capacity successfully because of the various obstacles presented in the economic environment. So the necessity to analyze the practical situation of the price formation and brokering services in Nepalese stock market is a most in present situation. There were various complaints from the investors about the performance of the brokers, such as:

- Absence from the stock market for a long period without pre-notice to the Nepal Stock Exchange, and
- The maintenance of verbal contracts with some investors by disobeying the rules and regulations.

The study period is not longer enough and other comprehensive test in short data series seems that the study was focused on the methodological study only. The study mainly has sought the answer to the following research questions.

- What is the behavior of NEPSE index?
- What are the roles of NEPSE and SEBON in the development of capital market?
- What is the current (Value, Price & Volume) trend of capital market?

1.3. Objectives of the Study

The main objective of the study will to deal with the analysis of the stock market in Nepal, which will bring revolution in the development of the capital market. Similarly,

to provide report reader information in terms of prospective current scenario of capital market

The basic of this study is to highlight of the following aspects of capital market:-

- To analyze the trend of capital market.
- To evaluate performance of NEPSE and SEBON in development of capital market.
- To provide recommendations and suggestions on the basis of major findings.

1.4. Significance of the Study

Nepalese society is unknown about the importance of NEPSE and SEBON, so this study will emphasizes the important of it in development of capital market.

Stockbrokers to evaluate the investment alternatives for the interested investors can use it. There are various factors that cause marker fluctuation of stock price in the market; mainly two factors economic and non-economic factors. The most fundamental factor in stock price fluctuation lays change in corporate earnings; interest rates and business cycle trends contribute to makeup the economic factors. Political changes, administrative changes, changes in weather and other natural conditions. The volumes of transaction, institutional investors, transactions etc directly affect the stock price. Although margin transactions increase purchase whose stock price is going up, once the price begins to fall, they become a selling factor and accelerate price decline. The listing of shares in stock exchange center and their trading in the stock market is not too long. The stock market has been providing capital for investment in industrial productive sector, financial sector, service sector and other.

1.5. Limitations of the Study

No research works are free of some shortcomings or limitations. So this research study also has some limitations. The main limitations would be mentioned below:

- This study is based on secondary sources of data.
- Various trading costs (brokerage commission & taxes excluded from the study.
- Market return is based only on NEPSE index.
- The data provided by NEPSE, SEBON and other related sources are assumed to be corrected.

1.6. Organization of the Study

This thesis report organized as required by the research department of Faculty of Management, TU. It is divided into five chapters.

Chapter 1: Introduction

Chapter 2: Review of Literature

Chapter 3: Research Methodology

Chapter 4: Presentation and Analysis of Data

Chapter 5: Summary, Conclusion and Recommendations

Chapter 1: Introduction

The first chapter of this thesis report is an introductory chapter. It provides background information of the study; it also states the objectives, problem statement, significance of the study, and limitations of the study.

Chapter 2: Review of Literature

The second chapter deals with the previous research writings and studies made by other researchers relevant to the problem being explored; it is titled as “literature review”.

Chapter 3: Research Methodology

The third chapter explains the related theoretical concept required for this thesis report. Besides, it also explains the research methodology used in the study, It includes research design, nature and sources of data, population and sampling, Method of data analysis and research variables etc.

Chapter 4: Presentation and Analysis of Data

The fourth chapter is the most important part of the study and it is the body of the thesis report. It deals with Nepal Stock exchange and securities market in Nepal. In this chapter the function of them is analyzed.

Chapter 5: Summary, Conclusion and Recommendations

The fifth chapter pulls the study together with the conclusions, recommendations of its findings, and summary of the entire research report and offers suggestion for further improvement

CHAPTER: II
LITERATURE REVIEW

Review of literature means reviewing research studies or other relevant prepositions in the related area of the study so that all the past studies, their conclusions and deficiencies may be known and further research can be conducted. This study reviews some basic academic course books, journals, articles and previous research/dissertation report on concerned area. The main reason for a full review of research in the past is to know the outcomes of those investigations in area where similar concepts and methodologies have been used successfully.

2.1. Conceptual Framework

In this section attempts have been made to review the theoretical concepts on capital market.

2.1.1. Capital Market:

The capital market is concerned with long-term finance. Broadly it consists of a series of the channels through which the saving of the community are made available for industrial and commercial enterprises and authorities. It is concerned with those private saving, individual as well as corporate, that are turned into investments though new capital issues and also new public load floated by the government, the semi-government bodies. In capital market, demand for funds comes from agriculture, industry, trade and government while the supply of funds comes from individual or corporate savings and Institutional investors and surplus of governments.

The vision of a vibrant capital market assumes that a country has respectable level of and visible progress in country's governance. Some aspects of governance like rule of law, effective tax administration, and political stability to ensure consistency and continuity of economic policies, directly impact the confidence of domestic and foreign investors in the market. The governance parameter, particularly the market related ones, should be improved so as to make a meaningful breakthrough in the capital market sector.

It is well understood that large number of intermediaries, institutions and professionals are the players and advisors active in capital market. Regulations and laws governing the capital market are diverse, numerous and complex too. At this point of time, Nepalese capital market is focusing on reforming the laws, regulations and policies, building institutional capacity, above all visualizing a dynamic capital market in order to tap the inherent potential and managing the cross border issue and trading of securities. This article intends to highlight important reform initiatives and some critical aspects of capital market development in Nepal. *(Kafle, 2007)*

"The capital market serves as a link between supplies and uses of finance. It is a mechanism for the mobilization of public savings and channeling them in productive investment. In this way, an important constituent of the capital market is the securities market. It has a wide term embracing the buyers and sellers of securities and all those agencies and institutions. Which assist the sale and resale of corporate securities". (Gupta, 1978).

"An ideal capital market where funds are available at reasonable rate of return for any proposition which offers a prospective yield sufficient to make borrowing worthwhile, given rate of return for any proposition which offers a prospective yield sufficient to make borrowing worthwhile gives the roles of interest". *(Shakespeare, 2001)*

2.1.2. Security Board of Nepal (SEBON):

SEBON was established on June 7, 1993 with its mission to facilitate the ordinary development of dynamic and competitive capital market and maintain its credibility, fairness, efficiency, transparency and responsiveness under the Security Exchange Act 1983 (SEBON, 2001). It is an apex regulator of the Securities market in Nepal. It registers the securities and approves the public issues. Moreover, SEBON frames the policies and programs required to monitor the securities market, provides license to operate stock exchange business and stock brokers and supervises and monitor the stock exchange operation and securities businesspersons *(Gurung Jas Bahadur, 2004).*

Security Board, Nepal, an apex regulator and facilitator of capital market, and Nepal Stock Exchange Ltd only a single stock market, are the main constituents of security

market in Nepal. This paper attempts to study the growth trend and analyze the performance of Neplease securities market. Likewise, the variables such as number of listed and traded companies and their securities, number of transactions, trading turnovers, paid up values, market capitalization and NEPSE index are analyzed for the secondary market (Gurung, 2004).

2.1.3. Stock Exchange:

International Stock Exchange: Exchanges started in Western Europe and then spread to other parts of the world. Some of the older exchanges, dating back as far as the 1100s, are the Paris Bourse in France; the Amsterdam Bourse in The Netherlands; the Deutsche Stock Exchange (formerly the Börse) in Frankfurt, Germany; the London Stock Exchange (LSE) in England; and the Borsa in Milan, Italy. Other European exchanges opened in the 1600s and 1700s, including those in Belgium, Spain, Portugal, and Sweden. Because stocks were uncommon before the 1800s, all of these early exchanges traded in commodities and currencies. In 1785 Amsterdam's Bourse was the first to formally begin trading in securities. By the mid-1800s, many countries outside of Europe traded in securities, including Canada and Australia. During the 19th and 20th centuries, major exchanges opened in Asia, Eastern Europe, and parts of Africa and Latin America. *(Ms Encarta Encyclopedia Delux 2004: Stock/International Stock)*

Most of the world's major exchanges have become highly efficient, computerized organizations. Each has a charter for regulating operations and some are integrated within regional economic unions. For instance, the EU was instrumental in organizing the EASDAQ and drafted its charter. In addition, exchanges now trade securities from companies around the world. Computerization has enabled brokers to instantaneously monitor activities on foreign exchanges. Many exchanges also list indexes and averages—such as the Nikkei 225 Stock Average of the Tokyo Stock Exchange (TSE) and the Financial Times Stock Exchange 100 of the LSE—that are closely followed by options and futures investors.

Nepal Stock Exchange: Nepal Stock Exchange, in short NEPSE, is a non-profit organization, operating under Securities Exchange Act, 1983. The basic objective of

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

2.2. Review of Related Studies:

This sub-section is concern with the previous research work done by the different scholars more specially; the chapter includes the conceptual framework, review of foreign research and review of Nepalese research.

2.2.1. Review of Foreign Research:

Research on the stock market and security price did not begin with the development of a theory of price formation, which was ten subjected to empirical test. It impetus for the development of the theory came from the accumulation of evidence in the middle 1950 that the behavior of common stock and other speculation of prices could be well approximated by a random walk. Much of the theory on the random walk can be traced to French mathematician Louis Bachelor whose PhD dissertation titled "The Theory of Speculation". He tested the model in commodity speculation I France was a "Fair game". He also concluded that the current price of a commodity was an unbiased estimate of its future price. After the first discovery of the random walk model by Louis Bachelor, empirical testing of the model in the stock market prices almost remained stagnate until 1960s. There are large number of studies most of which are briefly reviewed below.

Kendall (1953) made significant contribution to advance in the study of the random walk model. He tested the model on the weekly price changes of the 19 indices of British industrial shares and in the spot price series of cotton (New Youk) and wheat (Chicago). He analyzed the data by serial correlation coefficient and concluded that the subsequent stock price movement follows random walk. He showed that the successive price changes are statistically independent to its past price changes.

Kendall (1953), Roberts (1959) and Osbern (1959) also tested the model that gave rises to the theory. Then after in 1960s and onwards numerous studies were carried out in

this area validated the hypothesis while some other studies refuted this theory as a true description of the market. These researches apply various analyzing tools and mechanical rules, details of that have been presented in the following paragraphs.

Roberts (1959) he conducted simulation tests by comparing the cumulating of random numbers and the Dow-Jones Industrial Average Index (DJIAI) for about one year. He observed the first difference of two series produce the same pattern. He gave a number of methodological suggestions for testing what he calls the chance model. He suggested run analysis for testing independence of price changes. Similarly Osbern (1959) analyzed stock price from New York stock exchange (NYSE) using daily log price changes, which called Borwain Motion. He found the consistency between the Borwain Motion and share prices movements rise to support on random walk hypothesis.

Cootner (1962) analyzed weekly and 14 week interval data on 45 stocks from New York stock exchange (NYSE). He found that one-week interval stock price move as a random walk. However, he also found some dependencies in the data at 14-week interval. The average serial correlation coefficient for one week was -0.047 and for 14 was 0.131. He focused the importance of "differencing interval" while testing for randomness in stock price behavior.

Fama study (1965) on the Random Walk Model, He observed the daily proportionate prices of 30 individual stocks the Dow Jones Industrial Average. He employed the statistical tools such as serial correlation and run test to draw inference about dependence of the price series. He calculated auto-correlation coefficient for daily changes in log prices for log from 1 to 30 and found that the coefficient were almost close to zero in overall.

Dryden (1970) studied daily London all-market indices for four year, and found the serial correlation coefficient 3.30 to 0.16 that is significantly differs from zero. He suggests "sufficient divergence from the random walk hypothesis to justify a more extensive analysis of the behavior of individual share quote on the London stock exchange".

Solnik (1973) investigated the daily price of 234 common stocks of eight European countries namely, France, Italy, UK, Germany, Netherlands, Belgium, Switzerland, Sweden for the time period from March 1966 to April 1971. He calculated the returns for various interval of the each stock and studied the distribution of serial correlation coefficient. He pointed out random walk is more apparent in the European stock price behavior than in the American price behavior.

Sharma and Kennedy (1977) tested the random walk model, by run test and spectral analysis against representative stock market indices of Bombay, Network and London stock exchange during 1963. They found that the stocks on Bombay stock exchange obey random walk and are equivalent in sense to the behavior of share price in the market of developed countries.

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 two sets of time series data are 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 and another was a weekend closing price. He concluded on the basis of these test the random walk model share price behavior suggesting in the Indian stock exchange were efficient in the weak sense in pricing share.

Mahapatra (1995) tested the weakly efficient market hypothesis using rank correlation analysis bases on relative strength. The sample was end of month closing price 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.

Mobarek and Keasey (2000) The study seek evidence supporting the weak form efficient of the market using daily market return series of the listed securities on the Dhaka Stock Exchange for the period of 1988 to 1997. Empirical analyses suggest that the Dhaka Stock Market Of Bangladesh is not weak form efficient. The result of individual share returns also evidence that they are not following random walk model.

Majnoni and Massa (2001) measurement of market efficiency of the Italian Stock Market. The data used two deferent's data set on prices and returns, first on daily data then on intraday data. The analysis based on daily data that shows the strong positive correlation between price changes and trading volume is due to significant causal relationship between trading volumes and price formation. The increasing concentration of trading should not be interpreted as an indication of poor market efficiency since the component of price volatility due to the market imperfections has declined as a proportion of total volatility even for infrequently traded stocks.

Abraham, Seyyed and Alsakran (2002) the data consist of weekly index value for the three major Gulf Sock Markets of Kuwait, Saudi Arabia and Bharain for the period (October 1992 to December 1998). Random walk hypothesis and market efficiency hypothesis are assessed using the variance ratio and the nonparametric (run test) consistent with results in the literature for similar emerging markets both RWH and weak form efficiency are rejected for the Gulf Markets when the observed index levels are used. The corrected indices show that successive price changes are independent for all three markets implying weak form efficiency. Random Walk Hypothesis for the Saudi Arabia and Bahrain markets cannot reject. Kuwaiti market falls to follow a random walk even after the correlation.

Pena and Alana (2003) test it stock index price follow random walk in the Spanish Stock Market by means of variance ratios. By using daily, weekly and monthly prices return auto correlation in the Spanish Stock Market for the two indexes (IGBM and IBEX35) and for individual securities but means of variance ratio tests. They found that positive string auto correlation for both IGMB ad IBEX35 index daily returns cannot reject the random walk hypothesis for the period March 31, 1997 to 2000, significant position of auto correlation especially in daily and weekly period. The positive index auto correlation monthly returns are not significance at 5% level in any period. On the other hand, Spanish Stock Market security daily returns show weekly positive auto correlation. Even though index monthly return cross-correlation at one lag (a month) between portfolios based on size. In particular, large stock portfolios lead to the small stock ones.

Islam and Khaled (2005) carried out a test of weak-form efficiency of the Dhaka Stock Exchange use of monthly versus daily data or weak. The study uses daily, weekly, and monthly market prices and returns of the stock exchange during the year 1990 to 2001. Starting from the January 1990, the daily market price data cover the period up to 23 November 2001, while the weekly and monthly price data cover the period up to 21 November 2001 and October 2001 respectively. Data for the period 1990 to 1991 were taken from the daily price quotations. Test of weak from efficiency of the Dhaka Stock Exchange by using the autocorrelation test. Test separately for the period before July 1996 and for the period after March 1997. They concluded on the basis of these test weak-efficiency is rejected by using autocorrelation test but on the basis of hypothesis at 5% significance level in the case of monthly data. But for Weekly data and daily data the market efficiency was rejected for the pre boom period (1996) but not for the post crash.

2.2.2. Review of Nepalese Research:

Timilsina (2001) conducted a study on capital market development and stock price behavior in Nepal. The main objectives of the study was to find out the fair market prices of equalities and observe the variation of actual prices from the computed fair prices to test whether the present behavior of prices will remain stable. The study covered a period of 8 months (2002/2003). By using different statistical, mathematical and financial tools including the formulation of hypothesis was done in the study. He concluded that the market price of share depends on earning per share (EPS) as well as dividend per share (DPS), direct and immediate response in the market.

Pradhan (2003) conducted a study on stock market behavior in a small capital market. Different financial tools were used in the study period of 1986 to 1990. The sample for study was taken from 7 listed companies. The main objective of the study was the stock market behavior in a small capital market in the context of Nepal. He concluded that the larger stocks have larger price earnings ratios, larger ratio of market value to book value of equity, lower liquidity, lower profitability and smaller dividend. Larger stocks also have higher leverage, lower assets turnover and lower interest coverage but these are more variable for smaller stocks than for larger stocks. Stocks with higher

price earnings ratios have lower liquidity, higher leverage, lower turnover, lower profitability and lower interest coverage's.

Pradhan and Upadhya (2004) conducted a study on the efficient market hypothesis and the behavior of share prices in Nepal. The objective of the study was to make a comprehensive investigation of weak and other form of efficient market hypothesis. Different statistical tools were used in the study serial correlation, the run test, weighted mean, median, chi-square test and spearman's rank correlation. Twenty-three equity shares listed and actively traded in the Nepal Stock Exchange LTD. He concluded that Nepalese Stock Market might not be termed as "weakly efficient" in Pricing shares where market efficiency is defined as all historical information is reflected in security price. The main factors affecting share prices perceived by the respondents are dividends, retained earnings, bonds share and right issue. The study also found that the shareholders in high tax brackets did not prefer relined earning instead of dividends.

Gurung (2004) conducted a Study on “Growth and Performance of Securities Market in Nepal” the main objective of the study was to analyze the performance of Nepalese security market and to study the growth trend. This study is base on secondary data only. This study has covered 10 year time span-FYs 1993/94 to 2002/03. Through that study he had concluded that security market plays a pivotal role in mobilizing savings and channeling them in productive purpose and many more like providing liquidity on securities so that one can minimize the risk and maximize the returns. The study on the securities market performance reveals that there is no synchronization among different securities market performance indicators, but it is true that they almost have depicted an erratic trend during the observed period. This indicates the unstable and poor performance of securities market. Relative to the overall economy, the size of the securities market is very small and liquidity of securities a bearish situation. The growth and performance of Nepalese securities marker, even after the introduction of new mechanism in 1993/94, are not satisfactory through it is improving gradually.

Poudel, (2005) conducted study on share price behavior of listed companies in Nepal. The study was conducted with the objectives to test the daily share price behavior of

listed companies in Nepal. The sample for the study comprised of 21 companies representing from each sector listed in Nepal Stock Exchange. This, study is based on the secondary data. Different statistical tools like serial correlation and run test were used. He concluded that NEPSE index showed a steady increase in the later month of the study period, which also shows the better performance of NEPSE. Stock market performance is less in a stable position in the capital market overall in the study period. The stock market performance is steady increasing with the increase in the number of listed companies. The badly affected sectors were hotels, trading, manufacturing and processing sectors due to different reasons. The NEPSE index showed a better performance during the study period.

Bhattarai (2009) conducted a study on Impact of Automation in Nepalese Stock Market this study's aim to test the impact of automation in increasing efficiency of Nepalese secondary market and broker's performance. He could conclude that the automation has brought positive impact in the secondary market. After the automation the market liquidity has increased with the increase in number of transactions and number of share traded, though the average daily market return (growth) decreased. The automation has also increased an efficiency of brokerage firm but the NEPSE index could not increase as expected that is also due to political uncertainty and lack of investors' confidence.

K.C. (2010) conducted a study on Stock Market Development in Nepal Issue and Challenges for Reform. This study aims to highlight the issues and challenges of stock market development in Nepal. He could conclude that financial development does matter and stock markets do spur economic growth. Over the past one and half decade financial sector, despite many problems, has developed significantly in Nepal. The developments are confined to the banking sector rather than overall financial sector. The study indicates that small market size has made it vulnerable to manipulation and price rigging. Low turnover ratio and value-traded-ratio to volatility, and high concentration ratio indicate that the stock market in Nepal is highly illiquid and risky. Stock market has been less reliable source of raising funds for the Nepalese firms.

Paudyal (2010) conducted a study on Nepalese Stock Market: Development Impediments and Challenges. This study aims to highlight the development and challenges of Nepalese stock market based on general review and observation. Nepalese stock market still in its initial stage of development. Lack of clarity regarding

the direction of the development, priority in the market reform and functional autonomy of SEBON are mainly responsible. The use of information technology in SEBON and recent development of online reporting system under Securities Data Management system of Nepal can be regarded as the initial efforts for strengthening the regulatory capability of SEBON and is expected to broaden the scope for improving disclosure practices in the stock market. More recent initiatives made include strengthening institutional and regulatory capacity of SEBON and formulating five provide the functional autonomy to SEBON.

Neupane (2011) conducted a study on Security Market Performance of Nepal. The study was conducted with the objective to examine the securities market performance in Nepal, by using different statistical tools like mean standard deviation C.V. Regression etc. To evaluate the performance of security market he had taken eight different sector listed on NEPSE. From this study he concluded that Nepalese security market is in developing stage and the charm of the securities market in investors have been growing in greater extent and thus investors are paying more market price for taking the possession on shares.

Rimal (2011) conducted a study on Movements of Nepal Stock Exchange Index. The primary objective of this study was to analyze the Trends in NEPSE. In this study he had used Primary as well secondary data for analysis and interpretation. From this study he concluded that Mass participation in industrialization process is possible through the efficient securities market. Securities market promotes efficient collection of small and scattered savings and provides returns. It plays a key role in allocating capital to the corporate sector that will have real effect in the economy. Stock market is the booming sectors in Nepalese economy. Oversubscription in all the IPO, coverage in Medias & newspapers matter related to stock market, lack of other investing sectors in the country, bullish trend in NEPSE in past two years, emerging of share training institutions & portfolio managers etc. signal the booming trend of capital market in Nepal and then from Bhadra, 2009 to till date the trend has been changed to downward. Inconsistent political environments, unrest in terai, Nepal Banda are major cause for bearish trend of NEPSE.

Chaudhary (2011) conducted a study on Stock Market Development and its Behavior in Nepal. The study was conducted with the objective to examine the growth situation of the Nepalese securities market, by using different statistical tools like monthly trend analysis, bar diagram, correlation coefficient analysis, Regression analysis and paired-test etc. To examine the growth situation of security market he had taken eight different sector listed on NEPSE. From this study he concluded that stock market in Nepal is underdeveloped and has failed to show impact on the overall national economy small market size has made it vulnerable to manipulation and price rigging. Investors tend to avoid stock market because they do not have option to invest in securities according to their risk return performance. The market seems losing confidence of investors. There is poor liquidity of floating stock prevails in the market.

2.3. Research Gap

In this area like NEPSE, SEBON and Capital Market we can find many thesis and research work but, we could hardly find the research work on "Development of Capital Market in Nepal" (with reference to NEPSE and SEBON). Acharya in 2008 carry out a study in related topic (Role of NEPSE and SEBON in Development of Capital Market) but it cover only time period up to 2007/08. However this study implies technical concept but no emphasis has been given on fundamentalism. Though finding of the previous researches are equally important, I realized the necessary of the research work on this particular topic. The main focus of the research will be to analyze the performance, growth & downfalls of the capital market. This will helps to analyze whether the capital market is in increasing trend or in decreasing trend. By analyzing these aspects, focus can be set on the weakness. So that in future this weakness can be turned into the strength of the Capital Market. This will helps to make the existence of the Capital market more robust. Furthermore, by being able to career the weakness, more investors can be made to contribute for the Development of capital market.

In this study various primary data will also been observed to analyze, assess and to decide the various thoughts of the people towards the NEPSE, SEBON and Capital Market. Hence this study wills a supplement to overcome the weakness and limitation of previous studies.

CHAPTER III
RESEARCH METHODOLOGY

Research methodology is the main body of the study. Research means to search or study about a phenomenon. Generally research is an effort to search new fact, knowledge and principle in scientific ways. Research is the process of a systematic in-depth study or search or any particular topic, subject or area or investigation backed by the collection, complication, presentation and interpretation of relevant details or data. Methodology refers to the various steps that are generally adopted by a researcher in studying his research problem along with the logic behind it. So that research methodology is a systematic ways of conducting the research in an effective and practical so that it can explain how the research is done.

Therefore this chapter highlights the research methodology used for the study of A study on "Development of Capital market in Nepal (with reference to NEPSE and SEBON) ". In this regard, this chapter explains not only talk of the research methods but also consider the logic behind the methods, which are used in the context of our research.

It is known as a path from which we can systematically solve the research problem. This research tries to perform a well-designed quantitative and qualitative research in a very clear and direct way using both financial and statistical tools. Detail research methods are described in the following headings.

3.1. Research Design

In simple language, planning for research is research design. It is a purpose full scheme of action proposed to be carried out in a sequence during the process of research. Research Design is a conceptual framework within which a research is conducted. It helps the researcher to enable him to keep tack of action and to know whether he is moving the right direction to achieve his goal.

This research study is based on certain research designs. Selection of appropriate research design is necessary to meet the objective of the study. This study emphasizes on descriptive and analytical study of collective data over a period of time and it gives

suggestion on the improvement of capital market in Nepal. So this study is based on **descriptive and analytical** research designs.

A quantitative research design has been adopted to plan the activities required to be followed for carrying out the various tasks of research work such as choosing the methodology to be adopted, gathering data, analyzing data and finally writing the report. Using a quantitative approach provides richer detail for exploring viewpoints in early stages of research, allowing the researcher to gain a better initial understanding of the problem and to identify phenomena, attitudes and influences. (Reilly, Frank K. (1990).

3.2. Description of Data and Sample

Nepal stock exchange has classified the companies into nine sectors i) Commercial bank ii) Financial companies iii) Insurance companies iv) Hotel companies v) Manufacturing and processing companies vi) Trading companies vii) Development companies Viii) hydro power and iv)Others. The overall sector has been taken for the study period of 2006/07 to 2010/11 as population.

3.3. Sources and Procedures of Data Collection

This study is based completely on historical data. The data required for this research study are particularly collected from secondary sources. It will content mostly the annual reports, profit and loss account and balance sheet of concerned companies. Primary data will be taken through questionnaire method.

The data are collected from various annual reports, trading reports, and financial statements, various articles and journals available in central library and library of the SEBON. Besides, website of NEPSE was used to collect relevant data.

The supplementary data and information have been acquired from various sources like;

- Trading reports of NEPSE.
- Annual reports of SEBON.
- Nepal Rastra Bank's Economic Report.
- Previous research studies and dissertations.

- Articles and journals available in central library and library of the SEBON
- Central bureaus of statistics.
- Websites of NEPSE and SEBON

3.4. Sources of Data

The data and information in this study are collected from both primary and secondary source to achieve real and factual result. For this research, all the possible and useful data as far as possible have been collected. The major sources of data for this study are as follows:-

3.4.1. Primary Data

Questionnaires are used as the major source of primary data collected for this research. A set of structural questionnaire was made and distributed to the selected respondents in order to get the accurate and actual information with the concerned person. The questionnaires are asked to tick the best answer among the different alternatives. Data collected through questionnaire are tabulated and presented in required form to make interpretation easier.

3.4.2. Secondary Data

This research work is heavily bases on data collected through secondary source. Due to imperfect and undeveloped financial market we may not collected all the data from only NEPSE. We may not find all the related information even in published journals and reports. Therefore, searching the relevant data is an ironical challenge work. Mainly secondary data are collected from the following sources.

- Annual Reports of concerned enterprises
- Related news paper and magazines
- Annual Reports and trading Reports published by NEPSE
- Annual Report of SEBO/N

3.5 Data Collection Technique

In this study necessary data are collected from various sources, out of them only related data are considered for the study. Primary and Secondary data are collected through following method:

3.5.1. Questionnaire Method

Questionnaire method has been used to get information about the right share its various aspects. Opened, Closed and mixed questionnaire methods are used to collect the data. Yes/No question, multiple choice question and descriptive questions are designed to get the response.

3.5.2. Interview Method

Interview of some persons are taken to make the study mare reliable. Structured and unstructured interview has been used for the data collection. Formal and informal discussions with students, teachers and representatives of some companies make this study more reliable.

3.5.3. Historical Data Record Method

The main sources of the data are Historical Record Method. They are collected from various reports, prospectus of companies and newspaper. Previous data, which was used by other party, are also useful for this study. The announcement day is the day of first pubic announcement. This was the first day that the information was become public; the announcement date was confirmed or collected by reviewing each firm's official records in the SEBO/N. The shares prices collected from the official quotation, lists of NEPSE published in the National Daily Newspaper as well as trading report of SEBO/N.

3.6. Tools of Analysis

The tools used for the analysis of the data include both financial and statistical tools. Financial tools used are the formulas of returns and risks for the individual securities and the portfolios. The statistical tools used are: measures of dispersion (variance, standard deviation and co-variance)

3.7. Measurement of Risk

When analyzing investments, analysts define risk as *variability of return.* Financial analysts and statisticians prefer to use a quantitative risk surrogate called the variance of returns, denoted Var(r). The variance of an asset's rates of return for historical data is given by:

$$Var\left(r_i\right) = \frac{\sum_{i=1}^{T}\left(r_{i,t} - \bar{r_i}\right)^2}{T-1}$$

Where,

$Var(r_i)$ = variance or returns of asset i;

$r_{i,t}$= rate of return of asset i in period t; and

$\bar{r}_i$ = average rate of return of asset i.

Variance as well as standard deviation measure total risk of an asset. So standard deviation (δ), of the rates of return is given by:

$$\delta = \sqrt{Var\left(r_i\right)} = \left[\frac{\sum_{t=1}^{T}\left(r_{i,t} - \bar{r}_i\right)}{T-1}\right]^{1/2}$$

The total risk of an asset can be divided into two parts: diversifiable risk and undiversifiable risk. Therefore,

Total risk = Undiversifiable risk+ Diversifiable risk

Undiversifiable risk is that portion of total variability in return caused by market factors that simultaneously affect the prices of all securities. It is also called *systematic risk*. Changes in the economic, political, and sociological environment that affect securities markets are sources of systematic risk. The beta (β) is an index of systematic (or undiversifiable) risk that gauges how much the i^{th} asset's return typically reacts to a change in the market portfolio's return. Beta coefficients may be used for ranking the

systematic risk of different assets. The beta coefficient also measures the slope of the characteristic line. The beta coefficient is defined as:

$$\beta_i = \frac{Cov(r_i, r_m)}{Var(r_m)}$$

Where,

β_i = beta coefficient of asset I

$Var(r_m)$ = the variance of returns for the market portfolio.

$Cov(r_i, r_m)$ = the covariance of returns of i^{th} asset with the market.

$$Cov(r_i, r_m) = \left[\frac{\sum_{t=1}^{T} \left(r_i - \bar{r}_i\right)\left(r_{m,t} - \bar{r}_m\right)}{T-1} \right]$$

Systematic risk is given by,

Systematic risk $=\beta_i^2 Var(r_m)$

The percentage of total risk that is systematic risk can be measured by the coefficient of determination ρ^2.

$$\circ 2 = \frac{systematic risk}{unsystematic risk} = \frac{i^2 Var(r_m)}{Var(r_i)}$$

Diversifiable risk is that portion of total risk, which is unique to the firm that issued the securities. It is also called unsystematic risk. It is given by:

Diversifiable risk = Var (e)

Var (e) is called residual variance or standard error squared. The percentage of unsystematic risk equals $(1-\rho^2)$.

The characteristic line and CAPM provide a foundation for risk-adjusted performance analysis. The equilibrium rate of return for individual assets is given by the CAPM.

The relationship between covariance and expected return is known as security market line *(Sharpe, 2004).*

For our purpose, the ex post SML is simply the equation of the line going through the points $(0, \bar{r}_f)$ and $(1, \bar{r}_m)$. The return given by the ex post SML for an asset with a beta of β_i can be used as a benchmark return, $\bar{r}_{bi}$, for that asset. That is:

$$\bar{r}_{bi} = \bar{r}_f + (\bar{r}_m - \bar{r}_f)\beta_i$$

One measure of an asset's risk-adjusted performance is the difference between its average return ($\bar{r}_i$) and the return on its corresponding benchmark return, denoted ($\bar{r}_{bi}$). This difference is generally referred to as the asset's ex post alpha (or differential return), and is denoted α_I :

$$\alpha_i = \overline{r_i} - \overline{r_{bi}}$$

$$\therefore \alpha_i = \bar{r}_i - [\bar{r}_f + (\bar{r}_m - \bar{r}_f)\beta_i]$$

Characteristic line is a simple linear regression model expressing the relationship between the excess return on the market portfolio. [Sharpe 2004:909] The simple equation of characteristic line is given by:

$$r_{i,t} = \alpha_i + \beta_i \times r_{m,t} + \varepsilon_{i,t}$$

Where, $r_{i,t}$= total rate of return in period t.

$r_{m,t}$= rate of return for market in period t.

α_I = regression intercept

β_I = slope of characteristic line

$\varepsilon_{I,t}$ = unexplained residual return that occurs in period t.

The characteristic line is used to measure statistically the undiversifiable risk and diversifiable risk of individual assets and portfolios [Francis, 1997]. The ex-post characteristic line for performance evaluation is given by:

$$r_i - r_f = \alpha_i + \beta_i (r_m - r_f)$$

3.8. Various indexes used in Performance Evaluation

- Rate of Return
- Standard Deviation (SD)
- Coefficient of Variance (CV)
- Diagrams and Graphs

3.8.1. Rate of Return

In analyzing a common stock's performance, the holding period return on the common stock needs to be correctly calculated over the period of the evaluation. The single period rate of return is the basic random variable in investments analysis. This rate of return concept is important because it measures the speed at which the investor's wealth increases or decreases. The rate of return formula can be stated in a form appropriate for almost any investment.

$$R_t = \frac{P_t - P_{t-1} + C_t}{P_{t-1}}$$

Where,

R_t = an investment's single period rate of return

P_t = market price at the end of period t

P_{t-1} = price at the end of period t-1

C_t =cash flow income received during the t^{th} period

For common stocks, it can be simply stated as:

$$R_t = \frac{EP - BP + D_t}{BP}$$

Where,

EP = end price of stock;

BP= beginning market price of stock; and

D_t= dividend received during the period of the evaluation.

Average return or arithmetic average is the simple time-weighted average. So

$$\overline{R_t} = \frac{\sum_{t=1}^{T} R_t}{T}$$

$$= \frac{R_1 + R_2 + \ldots \ldots + R_T}{T}$$

Where,

$R_1 ... R_T$ = Returns for assets from 1 to T time periods and

T= Numbers of time periods.

3.8.2. Standard Deviation

Standard deviation is measure of dispersion, which takes into account each value of the data and also how all observation are distributed (Chandan, 200). In general, if different values of data are reasonably close to mean then there is very little variability of dispersion of data. On the other hand if values are at a considerable distance from the center of mean, the variability is said to be small. Standard deviation measures such variability and it can be computed by using following formula:

$$\pm = \left[\frac{\sum_{t=1}^{T} \left(r_{i,t} - \overline{r_i} \right)}{T - 1} \right]^{1/2}$$

Where,

$r_{i,t}$= rate of return of asset i in period t; and

$\overline{r_i}$ = average rate of return of asset i.

σ = Standard deviation

3.8.3. Coefficient of Variation (CV)

The CV is relative measure of dispersion. It is expressed as a percentage and is useful in comparing the variability of two or more set of data. Since it is a ratio, the units of measurement have no significance. The co-efficient of variation is given by:

$$CV_i = \frac{\sigma_i}{\overline{R}_i} 100$$

3.8.4. Diagrams and Graphs

Diagrams and graphs are visual aids which give a bird eye view of a set of numerical data which show the information in a way that enables us to make comparison between two or more than sets of data.

CHAPTER IV
ANALYSIS AND INTERPRETATION OF DATA

4.1. Introduction

This chapter Analysis and Interpretation of Data is basically focused upon the analysis of data collection from different secondary sources. This chapter is the major part of the study or main Body of the study. This chapter consists of presentation and analysis of secondary data and primary data related to different variables explained in the third chapter. It also consists of the secondary data, statistical tools that has been used for the analysis of the data. The basic objective of this chapter is to achieve the objectives which are set in the first chapter. In order to achieve the objective these objective the gathered data are presented, compared and analyzed with the help of different tools. Also, this chapter deals with the analysis and interpretation of the data collected from various sources and research methodology. In the courses of analysis, data gathered from the various sources have been inserted in the tabular or graphical form. Thus, this chapter is the focal part of the study which helps to analyze the role of Nepal stock exchange and security board in development of capital marker. There are three parts in this chapter, The First part Deals with the Historical Development of capital market. The second and third part deals with the sector wise listed companies, annual turnover, market capitalization, traded share quantity and the findings of the study. Hence, secondary and primary data are presented to make the topic meaningful.

4.2. Presentation and Analysis of Secondary Data

This part of the study provides analysis and interpretation of secondary data provided by the NEPSE and SEBON. Trade share quantity, market capitalization and annual turnover have been analyzed. Similarly, the signaling factors like as major events happening in the world and political instability in the country also affect the NEPSE Index and its transaction. For doing presentation and analysis of secondary data different statistical and financial tools are used.

4.3 Historical Development of Capital Market

The history of Capital market in Nepal started with the flotation of shares of Biratnagar Jute Mills Ltd. and Nepal Bank Ltd. in 1937. The first company act promulgated in 1935 A.D. the introduction of company act 2021.BS(1964A.D), the first issue of Government Bond in 1964 but there was no secondary market to provide liquidity for these bonds until the establishment of securities marketing center in 1976 were other significant development resulting to capital markets.

In 1983, His Majesty's Government Nepal under a programmer initiated to reform capital market, converted Securities Exchange Centre (SEC) in 1984. Securities Exchange Centre was established with an objective of facilitating and promoting the growth of capital markets. SEC carried primary and secondary market services for the corporate securities. Thus, the actual development of the stock market began since 1984. The remarkable changes came only after the initiation to reform the market in 1993 when the SEC was converted into Nepal Stock Exchange. Nepal Stock Exchange Centre (NEPSE) is a non-profit organization and new market mechanism was introduced. NEPSE is the only stock exchange in the country. It is owned by the Government, Nepal Rastra Bank (the central Bank) and Nepal Industrial Development Corporation. It has an ownership holding of its member also. Securities businesspersons such as stockbrokers, market makers and securities sealers, registered by Securities Exchange Board (SEBON) have to get membership from the stock for conducting securities business. The Securities Exchange Board (SEBON) is operating since 1993.

Securities market is a place where buying and selling of securities takes place in an organized way. The parties involved in securities market are investors, intermediaries and specialists. Securities markets provide options to all categories of investors and make the financial market most competitive in the developing countries. Securities Exchange Act has empowered NEPSE with the capacity of promulgating various Byelaws in order to ensure orderly and fair transactions of securities. Accordingly, the NEPSE has made and adopted the securities listing Byelaws 1996 and membership of stock exchange and transactions Byelaws 1998.

Securities markets bring together buyers and sellers of securities, they are mechanisms created to facilitate the exchange of financial assets. A market mechanism is the trading procedures of an organized market through which the listed securities are traded. So, under this mechanism the trading procedures will be determined by the stock exchange. Some countries have adopted automation and some are still managing and running open-out-cry system. NEPSE had also adopted the open-out-cry system licensing two types of members. They were market makers and member brokers. Market makers were the institutional members. They, being well-organized institutions, are considered an expert in the analyzing financial statements and controlling and regulating the market through market mechanism. So these organizations are allowed making buy and sale in and form their own account. NEPSE has licensed six organizational market makers. The number goes on decreasing. Market makers quite the job of market making of corporate securities when NRB puts investment ceilings by publishing directives. Now a day there is no market maker operating in the market.

Member brokers are the license holders who are empowered to accept the buy and sale orders from their individual and institutional clients and make transactions in trading floor organized, managed and operated by stock exchange. The rate or brokerage commission ranges from 1 to 1.5 percent. These intermediaries are not allowed to buy and sale in and from their own account.

4.4. Sector-Wise Listed Companies

Companies established under company act 1964, must be listed in Stock Exchange Ltd. Number of listed companies was 62 in the initial month of floor trading of NEPSE. Then this number increased by listing of additional companies. The number of listed companies is in increasing trend. The trend of group wise a listed company is increasing. The number of listed companies in finance group has increased at higher rate, than that of other sectors. The higher number of listed companies in finance group implies the well management, facilities provided to investors, effective securities to the investors.

Table 4.1: Distribution of Listed Companies

Sector→ Year↓	Com Bank	Finance	Insurance	Hotel	Mfg & Processing	Trading	Devt. Bank	Others	Total	% change
2006/07	16	51	15	4	17	3	18	5	129	
2007/08	17	57	17	4	18	4	24	5	146	13.18
2008/09	21	61	17	4	18	4	29	5	159	8.90
2009/10	23	62	19	4	18	4	40	6	176	10.69
2010/11	23	71	21	4	18	4	62	6	209	18.75
Mean	20	60.4	17.8	4	17.8	3.8	34.6	5.4		
S.D	1.66	3.67	1.14	0.00	0.22	0.22	8.66	0.27		
C.V	0.08	0.06	0.06	0.00	0.01	0.06	0.25	0.05		

Source: Nepal Stock Exchange Ltd. (Annual report of NEPSE 2006/07 to 2010/11

The trend of group wise listing companies is increasing. At the initial year of observed period, 129 companies are listed in NEPSE and at the end of observed period, 209 companies are listed in NEPSE. The number of listed companies in Finance, Commercial and Development Bank group has increased at higher rate than that of Hotel, Manufacturing and processing, and Other groups.

Finance group dominates over other listed companies in the terms of total number of listed companies. At the end of the observed period, the total number of companies is 71 in Finance companies where as it is a few in Hotel and Trading group. Year wise total no. of listing companies are shows the increasing in trend i.e129 companies in 2006/07, 146 companies in 2007/08, 159 companies in 2008/09, 176 companies in 2009/10 and 209 companies in 2010/11. However, the number of companies is in increasing process. So, it indicates the expansion of capital market in Nepal.

The coefficient of variation CV indicates that the fluctuation occurs in the variables during the period of observations. So, the higher CV indicates the higher volatile and lower CV indicates the lower volatile. Here the higher CV 0.25 in development bank indicates the higher change in number of listed company whose mean and SD are 34.6

and 8.66 respectively. Lowest CV 0.0 in hotel indicates that there is no fluctuation in number of listed company, it's (hotel) SD and mean is 0.0 and 4 respectively.

Fig. 4.1: Distribution of Listed Companies

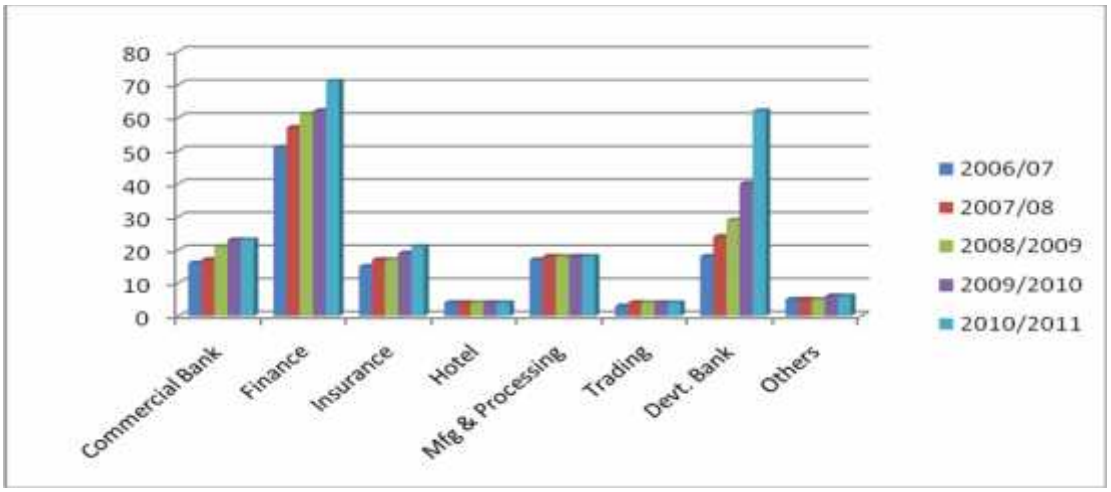


Fig.4.1 shows the number of listed companies of listing figure indicators shows that the stock market in Nepal is burning issue with rapidly growing companies i.e129 companies in 2006/07, 146 companies in 2007/08, 159 companies in 2008/09, 176 companies in 2009/10 and 209 companies in 2010/11. By seeing the fig we can say that the numbers of finance companies are in growing train with comparison of other sector. Then development banks occupy the second position which growing rate is higher with comparison of other. Increment in No. of listed company in Trading, mfg and processing and hotel sector are insignificant.

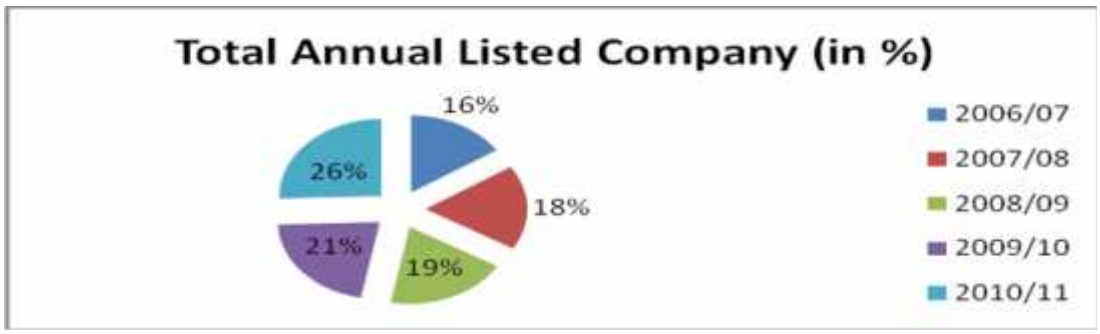
Table 4.2: Total Annual Listed Company

Year↓	**Total**
2006/07	129
2007/08	146
2008/09	159
2009/10	176
2010/11	209

Source: Nepal Stock Exchange Ltd (Annual report of NEPSE 2006/07 to 2010/11)

Here in the table the total annual listed company is given, where we can see that the no. of listing company is in increasing train. Where the total no of listed company in 2006/07, 2007/08, 2008/09 2009/2010 and 2010/11 is 129, 146, 159, 176 and 209 respectively, which is shown below in pie chart.

Fig. 4.2: Total Annual Listed Company



In the given chart total Annual listed company shown in % which is 16%, 18%, 19%, 21% and 26% in 2006/07, 2007/08, 2008/09 2009/10 and 2010/11 respectively.

4.5 Annual turnover

The most successful year so far for Nepal Stock Exchange was 2008/09 year. Whose annual turnover of the market was Rs 19438.13 million compare to other years. The drastically Increase from Rs. 8360.1 million to Rs 18781 million in 2007/08, Then its increasing train continues only up to 2008/09 which turnover is 19438 and it started to decrease from 2009/10 whose turnover decrease to 11756. Commercial Bank has dominated over other groups in the terms of amounts. Annual turnover at the end of observed year is Rs 3524.3 million which is 53.96% of the total annual turnover.

Table 4.3: Annual Turnover (Rs. in Million)

Sector→ / Year↓	Com Bank	Finance	Insurance	Hotel	Mfg. & Processing	Trading	Devt. Bank	Others	Total
2006/07	5563.5	713.57	204.97	7.04	24.27	10.42	577.56	1258.8	8360.1
2007/08	13822.1	2307.53	264.86	27.67	343.44	33.65	1981.1	0.29	18781
2008/09	12406.45	2615.4	212.8	18.86	26.08	33.49	2740.4	1384.69	19438
2009/10	7481.4	1497.22	183.47	10.15	37.74	35.43	1540.1	970.28	11756
2010/11	3524.27	730.93	377.15	151.9	363.06	27.53	891.13	465.67	6531.7
Mean	8559.544	1572.93	248.65	43.13	158.918	28.104	1546	815.946	12973
S.D	2207.74	438.72	38.90	30.68	88.81	5.16	438.89	288.47	
C.V	0.2579273	0.27892	0.156462	0.711	0.55881287	0.18371	0.2839	0.35353	

Source: Nepal Stock Exchange Ltd. (Annual report of NEPSE 2006/07 to 2010/11)

Table 4.4: Annual Turnover (Rs. in Million and in %)

Year	2006/07		2007/08		2008/2009		2009/2010		2010/2011	
Sector	**Value**	**%**	**Value**	**%**	**Value**	**%**	**Value**	**%**	**Value**	**%**
Commercial Bank	5563.5	66.548	13822.1	73.598	12406.45	63.825	7481.4	63.640	3524.3	53.96
Finance	713.57	8.535	2307.53	12.287	2615.4	13.455	1497.2	12.736	730.93	11.19
Insurance	204.97	2.452	264.86	1.410	212.8	1.095	183.47	1.561	377.15	5.77
Hotel	7.04	0.084	27.67	0.147	18.86	0.097	10.15	0.086	151.93	2.33
Mfg.& Processing	24.27	0.290	343.44	1.829	26.08	0.134	37.74	0.321	363.06	5.56
Trading	10.42	0.125	33.65	0.179	33.49	0.172	35.43	0.301	27.53	0.42
Devt. Bank	577.56	6.909	1981.05	10.548	2740.36	14.098	1540.1	13.101	891.13	13.64
Others	1258.8	15.057	0.29	0.002	1384.69	7.124	970.28	8.254	465.67	7.13
Total	8360.13	100	18780.6	100	19438.13	100	11756	100.00	6531.7	100

Source: Nepal Stock Exchange Ltd. (Annual report of NEPSE 2006/07 to 2010/11)

Tables 4.3 and 4.4 shows that the annual volume is fluctuating, The volume of trading amount from the commercial bank group has the highest stake on the total trading volume for all the year of observing period. The Total annual turnover is Rs 8360.13

million in 2006/07. In 2007/08 the annual turnover is reaches to 18780.6 in which share of commercial bank is most impressive, which is 73.598% of total turnover. Its Turnover increases up to 2008/09 and its turnover suddenly decreases to 11756 in 2009/10, Again it turnover decrease to 6531.7 in 2010/11. The share of commercial bank is high in comparison of other sector every year, which is 66.548, 73.6, 63.825 63.640 and 53.96 percent 2006/07, 2007/08, 2008/09, 2009/10, and 2010/11 respectively. The high turnover of Financing company is comes after commercial bank. Its turnover is 713.57 in 2006/07. Then its turnover started to increase and went up to 2307.53 in 2007/08 and it turnover went to 2615.4 in 2008/09. Suddenly in 2009/10 its turnover decreases to 1263.94 from 2615.4 and in 2010/11 it went to 730.93. The annual turnover of Insurance companies in 2006/07 Rs. 204.97 million (2.45%), in 2007/08 Rs. 264.86 million (1.41%),Then after it started to decrease in 2008/09 Rs. 212.8 million (1.09%), in 2009/10 Rs. 183.47 million (1.561%) and in 2010/11 it is increase to Rs 377.15 million (5.77%). The annual turnover for Hotel group was Rs. 7.04 million occupying 0.0842 percent in 2006/07 and its Turnover went up to 27.67 million covering 0.15% in total turnover. Then after its turnover unfortunately decrease to 18.86 which cover 0.1% of total turnover. Again in 2009/2010 its turnover decreases to 10.15 covering 0.09% of total turnover and it again increase to 151.93 covering 2.33% of total annual turnover. Annual turnover of manufacturing and processing is fluctuating its turnover in 2006/07 is 24.27which cover 0.29% of total turnover. In 2007/08 its turnover drastically increase to 343.65 which share is 1.83% of total turnover then its Turnover slump down to 26.08 million in 2008/09 which share in total is 0.13% in total turnover. Then its turnover walk up little bet in 2009/10 and went up 37.74 million sharing 0.34% of total turnover again its turnover drastically increase to 363.06 million securing 5.56% of total turnover. Trading sector is also in same situation its share in total turnover is 0.125, 0.18, 0.17, 0.301 and 0.42 percent in 2006/07, 2007/08, 2008/09, 2009/10 and 2010/11 respectively. Annual turnover of Development bank is also fluctuating its turnover is 577.56, 1981.05, 2740.36 1540.09 and 891.13 in 2006/07, 2007/08, 2008/09 2009/10 and 2010/11 respectively. By seeing all the data of other sector we can say that annual turnover shows the highest turnover in terms of volume in 2008/09 which is 1384.69, But by seeing the share of annual turnover its share is 15.057 in 2006/07 which is highest in comparison of other year.

Standard deviation measures the variability of the observations around the mean value. Here SD of Com. Bank is 2207.74 which is highest then other sector then its C.V is 0.257927 with comparison of other sector it is in average level. Then second Dev. Bank which S.D is 438.89 and its C.V is 0.283882 and finance sector is in third position which SD is 438.72 and C.V is 0.27892 and then other sector which SD is 288.47 and C.V is 0.3535, Mfg and Processing which SD is 88.81 and C.V is 0.55881287, same as insurance which SD is 38.9 and CV is 0.1564617 and at last trading sector its SD is 5.16 and CV is 0.18371.

Fig. 4.3: Annual Turnover

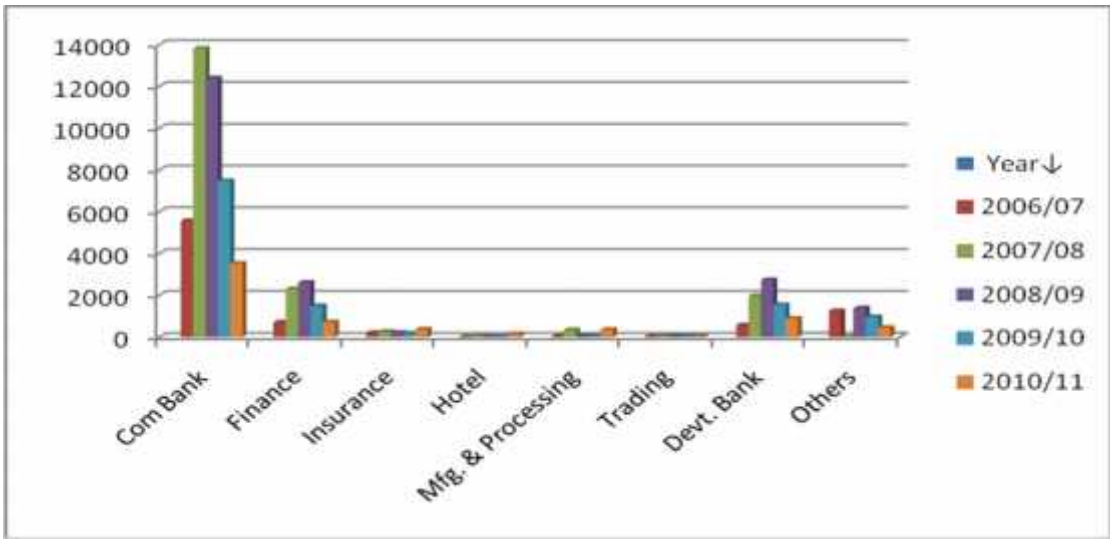


Fig 4.3 of annual turnover shows the highest turnover in the terms of volume for all the year is in com. Bank. Here also shown that the hotel and trading sector's turnover is insignificant.

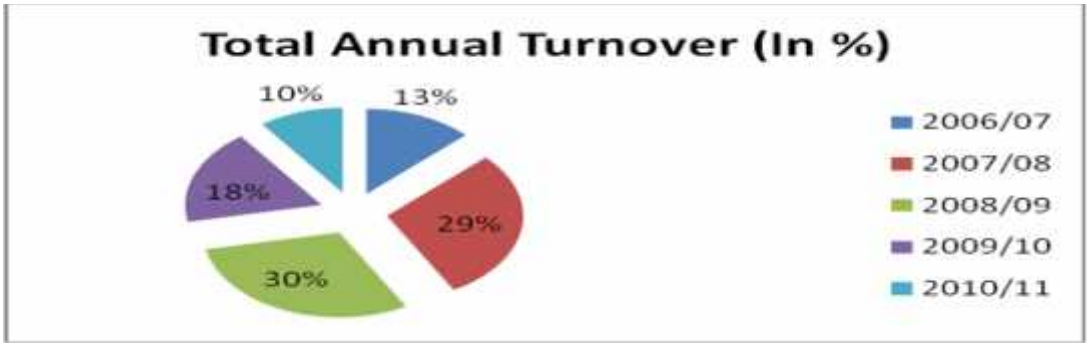
Table 4.5: Total Annual Turnover (Rs. in Millions)

Year↓	Total
2006/07	8360.13
2007/08	18780.59
2008/09	19438.13
2009/10	11755.78
2010/11	6531.67

Source: Nepal Stock Exchange Ltd (Annual report of NEPSE 2006/07 to 20010/11)

According to the above table the total annual turnover in amount is shown where highest turnover is in 2008/09 which is 19438.13. from this table we can say that the total annual turnover is moving in positive direction up to 2008/09 it means it is in increasing in process up to 2008/09 which is 19438.13, but it decrease to 6531.67 in 2010/11. It may be due to unstable political situation in Nepal.

Fig 4.4: Total Annual Turnover



Above figure shown that the highest turnover is in 2008/09 which is 32% of total turnover. The Total turnover in 2006/07, 2007/08, 2008/09, 2009/10 and 2010/11 holds 13%, 29%, 30% and 18% of total annual turnover respectively.

4.6. Market Capitalization

Market capitalization is estimated by determining the cost of buying an entire business in its current state. Market capitalization derived by multiplying the number of shares

outstanding by the current market price of shares (no. of share x MP) Market capitalization the lists of companies at the secondary market are on the continuous rise. It measures of a company's total value. The increased market value suggests the good performance of the companies that the investors are highly interested to such companies. The values of market capitalization of the listed securities are given below.

Table 4.6: Market Capitalization (Rs. in Million)

Year	2006/07		2007/08		2008/2009		2009/2010		2010/2011	
Sector	**Value**	**%**	**Value**	**%**	**Value**	**%**	**Value**	**%**	**Value**	**%**
Commercial Bank	138086.4	74.04	218264.2	70.69	302219.29	58.92	206283	54.74	199484	53.97
Finance	11491.4	6.16	27113.59	8.78	43007.13	8.38	29869.6	7.93	29850.3	8.08
Insurance	7959.78	4.27	10897.16	3.53	10537.49	2.05	9756.61	2.59	9739.97	2.64
Hotel	1935.59	1.04	3484.13	1.13	4851.95	0.95	5285.58	1.40	5285.58	1.43
Mfg & Processing	3760.28	2.02	6576.18	2.13	7706.09	1.50	7592.03	2.01	7592.03	2.05
Trading	787.4	0.42	686.73	0.22	1696.36	0.33	1617.51	0.43	1617.51	0.44
Devt. Bank	5980.8	3.21	15619.36	5.06	27137.89	5.29	27488.9	7.29	27435.1	7.42
Others	16503.02	8.85	26128.93	8.46	115782.88	22.57	88978.7	23.61	88614.2	23.97
Total	186504.7	100	308770.28	100	512939.08	100	376871	100	369618.70	100

Source: Nepal Stock Exchange Ltd (Annual report of NEPSE 2006/07 to 2010/11)

Table 4.7: Market Capitalization (Rs. in Million)

Sector→ **Year↓**	**Com. Bank**	**Finance**	**Insurance**	**Hotel**	**Mfg. & Processing**	**Trading**	**Devt. Bank**	**Others**	**Total**
2006/07	138086.4	11491.4	7959.78	1936	3760.28	787.4	5980.8	16503	186504.7
2007/08	218264.2	27113.6	10897.16	3484	6576.18	686.73	15619.4	26128.9	308770.3
2008/09	302219.29	43007.1	10537.49	4852	7706.09	1696.36	27137.9	115783	512939.1
2009/10	206282.52	29869.6	9756.61	5286	7592.03	1617.51	27488.9	88978.7	376871.4
2010/11	199484.03	29850.3	9739.97	5286	7592.03	1617.51	27435.1	88614.2	369618.7
Mean	212867.29	28266.4	9778.202	4169	6645.322	1281.1	20732.4	67201.5	
S.D	29397.7	5618.6	566.6	725.3	838.4	249.5	4843.5	21723.0	
C.V	0.1381032	0.19877	0.0579486	0.174	0.12616033	0.19473	0.23362	0.32325	

Source: Nepal Stock Exchange Ltd (Annual report of NEPSE 2006/07 to 2010/11)

Base on table 4.6 and 4.7, by reviewing the group wise market capitalization composition bank and financial institution recorded the highest of the total market capitalization in comparison of other sector every year.

From the following tables we come to know that, the percentage of market capitalization of commercial bank has highest shares as 74.0%, 70.7%, 58.92% 54.74% and 53.97% among other eight sectors of the listed companies. The commercial banks are dominating the other sectors in terms of market capitalization. Commercial banks alone have a market capitalization of Rupees 138086.4 million (74.04%) in 2006/07 followed by the other company Rupees 16503.02 million (8.85%), finance company occupied third position in term of market capitalization. The proportion of market capitalization of Hotel, Trading manufacturing and processing as well as Development Bank is lower but the proportion of market capitalization of com. Bank, insurance, Finance and Other Sectors are attractive to encourage the investors to invest in these sectors. Here the highest SD is in com bank which is 29397.7, and its C.V is 0.138103231, which represented there is high fluctuation of the market capitalization among the study period. Then after other sector is in second position which SD is 21723.0 whose C.V is 0.3233. Financial sector is in third position which S.D is 5618.6 and its C.V is 0.19877. Then after the Dev. Bank is in fourth position which S.D is 4843.5 and C.V is 0.233622 then after Mfg and Processing sector its S.D is 838.4 and C.V is 0.12616033 and Hotel, Insurance and Trading has S.D of 725.3, 566.6 and 249.5 respectively and its C.V is 0.173994, 0.057948613 and 0.19473 respectively. This is shown in figure 4.4.

Fig. 4.5: Market Capitalization

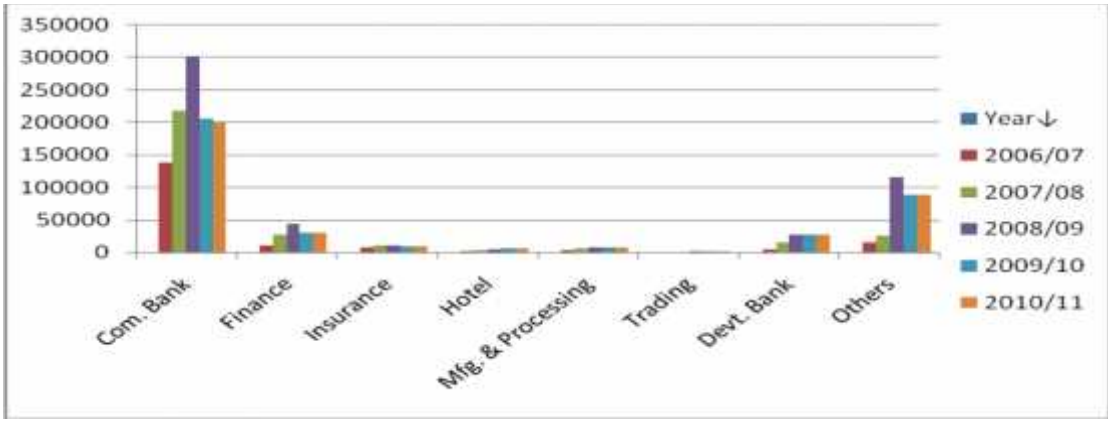


Fig 4.5 of market capitalization shows that the commercial bank dominated the trading floor. The others sector occupied the second position all over the eight listed companies like wise Finance, Development bank and insurance groups also shows the better performance than that of trading and hotel groups. Market capitalization since the commercial bank group commands a lion's share in the total NEPSE trading.

Table 4.8: Yearly Total Market Capitalization

Years↓	Total
2006/07	186504.67
2007/08	308770.28
2008/09	512939.08
2009/10	376871.38
2010/11	369618.7

Source: Nepal Stock Exchange Ltd (Annual report of NEPSE 2006/07 to 2010/11)

In this table yearly total market capitalization is shown. According to the given table we can say that the total market capitalization in 2008/09 is higher then other years which is 512939.08, whereas the lowest total market capitalization is in 2006/07 which is 186504.67. Here total market capitalization is increasing up to 2008/09 but unfortunately it is in decreasing trend since last two year. It may be due to unstable political and economical situation of Nepal.

Fig. 4.6: Yearly Total Market Capitalization

Here in the above figure same thing shown in the %. From this chart also we can say that the highest market capitalization is in 2008/09 which is 29% of total, and then 21%, 21%, 11% and 18% in 2009/10, 2010/11, 2006/07 and 2007/08 respectively.

4.7 Traded Share Quantity

Table 4.9: Traded Share Quantity ('000')

Sector → Year↓	Com Bank	Finance	Insurance	Hotel	Mfg. & Processing	Trading	Devt. Bank	Others	Total
2006/07	8700	2534.2	627.64	81.7	82.92	11.47	1360.5	4748.7	18147
2007/08	11241.4	3094.3	433.27	158.07	1655.09	14.97	2534.9	7578	26710
2008/09	13301.43	3552.01	418.49	95.89	95.12	14.65	3631.81	4242.9	25352
2009/10	10506.87	4515.09	629.9	50.28	360.68	12.01	4631.21	5199.8	25906
2010/11	8962.74	4302.36	1590.58	1584.6	1128.51	37.77	5658.51	1495.8	24761
Mean	10542.49	3599.59	739.976	394.11	664.464	18.174	3563.39	4653.1	
S.D	935.14	412.66	243.12	333.33	349.22	5.53	845.76	1089.72	
C.V	0.0887	0.1146	0.3285	0.8458	0.5256	0.3044	0.2373	0.2342	

Source: Nepal Stock Exchange Ltd (Annual report of NEPSE 2006/07 to 2010/11)

Table 4.10: Traded Share Quantity ('000')

Year	2006/07		2007/08		2008/2009		2009/2010		2010/11	
Sector	**Value**	**%**	**Value**	**%**	**Value**	**%**	**Value**	**%**	**Value**	**%**
Commercial Bank	**8700**	**47.94**	**11241.4**	**42.09**	**13301.4**	**52.47**	**10506.9**	**40.56**	**8963**	**36.20**
Finance	**2534.2**	**13.96**	**3094.3**	**11.58**	**3552.01**	**14.01**	**4515.09**	**17.43**	**4302**	**17.38**
Insurance	**627.64**	**3.46**	**433.27**	**1.62**	**418.49**	**1.65**	**629.9**	**2.43**	**1591**	**6.42**
Hotel	**81.7**	**0.45**	**158.07**	**0.59**	**95.89**	**0.38**	**50.28**	**0.19**	**1585**	**6.40**
Mfg & Processing	**82.92**	**0.46**	**1655.09**	**6.20**	**95.12**	**0.38**	**360.68**	**1.39**	**1129**	**4.56**
Trading	**11.47**	**0.06**	**14.97**	**0.06**	**14.65**	**0.06**	**12.01**	**0.05**	**37.77**	**0.15**
Devt. Bank	**1360.5**	**7.50**	**2534.9**	**9.49**	**3631.81**	**14.33**	**4631.21**	**17.88**	**5659**	**22.85**
Others	**4748.7**	**26.17**	**7578.02**	**28.37**	**4242.94**	**16.74**	**5199.83**	**20.07**	**1496**	**6.04**
Total	**18147.1**	**100**	**26710**	**100**	**25352.3**	**100**	**25905.9**	**100**	**24761**	**100.0**

Source: Nepal Stock Exchange Ltd (Annual report of NEPSE 2006/07 to 2010/11)

Table 4.9 and 4.10 presents the sector wise traded shares quantity and percentage of share traded quantity. The traded share quantity of the sector wise listed companies is increasing during the study period even the number of traded companies. The maximum share traded of 26710 shares of total shares traded in 2007/08 and lowest share traded of 18147.13 shares in 2006/07. In 2006/07 the share-traded quantity was 18143.13 then after it increases to 26710.02 in 2007/08 then after it starts to decrease to 25352.34 in 2008/09 again 22734 in 2009/10 and 24760.87 in 2010/11.

Commercial bank dominated the trading floor, as it captured the largest chunk of the total share trading. It accounted 47.94% in 2006/07, 42.09% in 2007/08, 52.47% in 2008/09, 40.56% in 2009/10 and 36.2% in 2010/11. Second position occupied the other sectors whose percentage of share traded are 26.17 in 2006/07, 28.37% in 2007/08, 16.74% in 2008/09, 20.07% in 2009/10 and 6.04% in 2010/11. The highest share traded quantity of Finance was 4515.09 in 2009/10 and lowest share traded quantity of Finance was 2534.2 in 2006/07. S.D of Com Bank, Finance, Insurance, Hotel, Mfg. and Processing, Trading, Development Bank and other has 935.14, 412.66, 243.12, 33.33, 349.22, 5.53, 845.76, and 1089.72 respectively and its C.V is 0.0887, 0.1146, 0.3285, 0.8458, 0.3044, 0.2373 and 0.2342 respectively.

The figure 4.5 of traded share quantity shows that the commercial bank dominates the other sectors. Finance, Development bank and other sector shows the better performance. Insurance hotel manufacturing and processing and trading sectors are in poor condition. From the given fig we come to know that insurance, hotel, manufacturing and processing and development bank shows the better performance in the final year of observing period.

Fig 4.7: Traded Share Quantity

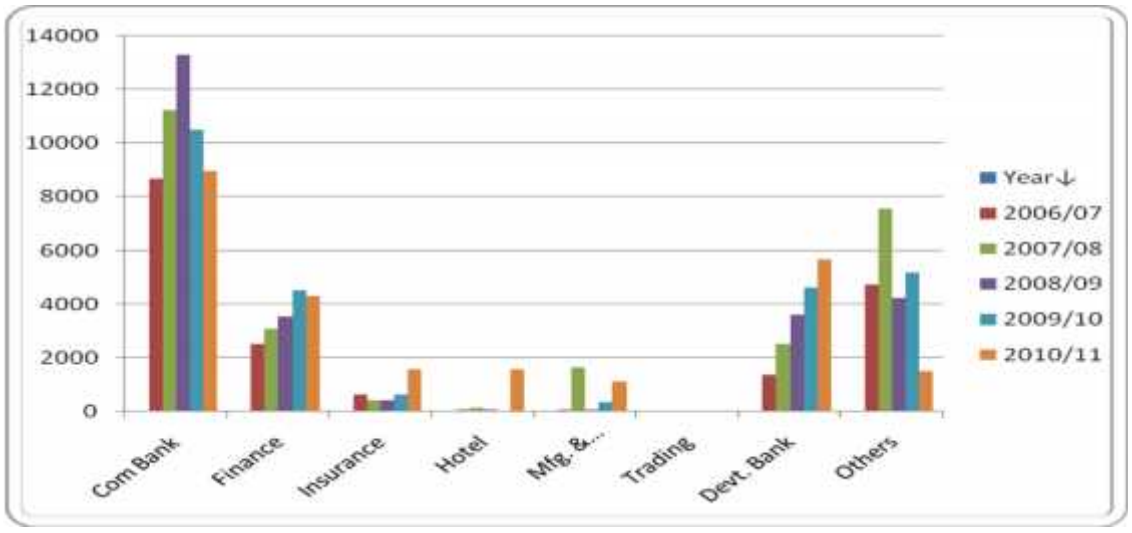


Table 4.11: Yearly Total Traded Share Quantity

Years↓	Total
2006/07	18147.13
2007/08	26710.02
2008/09	25352.34
2009/10	25905.87
2010/11	24760.87

Source: Nepal Stock Exchange Ltd (Annual report of NEPSE 2006/07 to 2010/11)

In the given table we can see that the total traded share quantity is higher in 2007/08 which is 26710.02. Traded share quantity is increasing up to 2007/08 and then it started to decrease. Minimum traded share quantity is in 2006/07 which is 18147.13.

Fig 4.8: Yearly Total Traded Share Quantity

Above figure shows the total traded share in percentage, from this figure also we can say that the higher one is 22% which is in 2007/08 and minimum is 15% which is in 2006/07. Total traded share quantity is decreasing now a day with comparison of last years. It may be due to instability in share market.

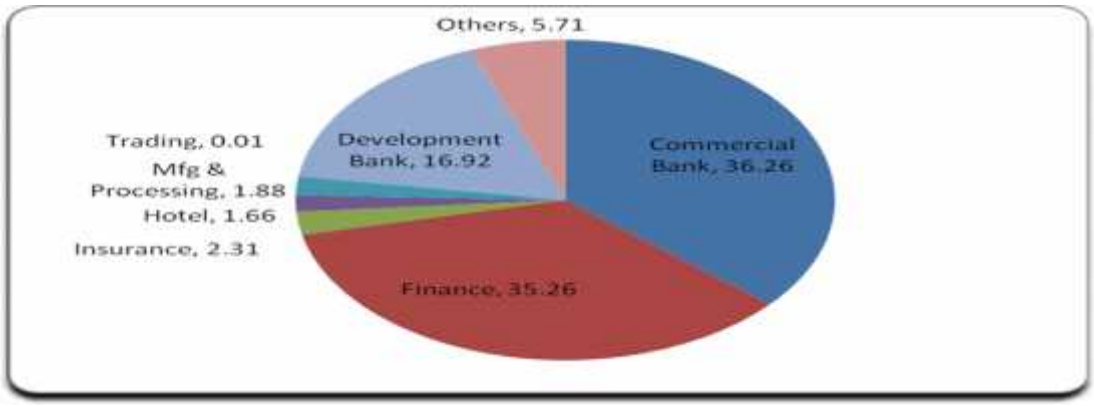
4.8 Sectors Issued Securities

Table 4.12: Sectors Issued Securities (From 1993/94 to 2010/2011)

Sectors Issued Securities	
Sector	**Percentage (%)**
Commercial Bank	36.26
Finance	35.26
Insurance	2.31
Hotel	1.66
Mfg and Processing	1.88
Trading	0.01
Development Bank	16.92
Others	5.71

Source: Annual report of SEBON, 20010/11.

Fig. 4.9: Sectors Issued Securities (From 1993/94 to 2010/2011)



This table and figure shows the percentage of issued securities in different sector from 1993/94 to 2010/2011, here commercial bank shows the highest percentage in comparison of other which is 36.26%. Then finance sector occupy second position which issue 35.26% of total securities. And then Development bank occupies the third position which has 16.92% of total securities. Then after Other, Insurance, Manufacturing and Processing, Hotel and Trading which occupy 5.71, 2.31, 1.88, 1.66 and 0.01 respectively.

4.9 Overall Behavior of NEPSE Index

NEPSE index is one of the most important indicators of secondary market which is also considered as barometer of country's economy. It is calculated by considering the entire listed share including that of promoter share s of all listed companies in NEPSE.

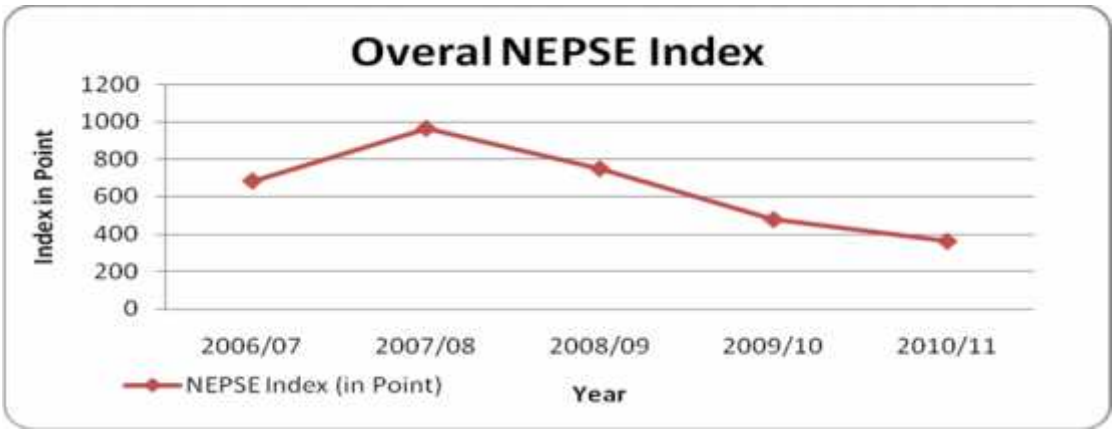
Table 4.13: Overall NEPSE Index (from 2006/07 to 2010/2011)

Overall NEPSE Index	
Years	**Index**
2006/07	683.95
2007/08	963.36
2008/09	749.1
2009/10	477.73
2010/11	362.85

Source: Annual report of SEBON, 2010/2011

Here this table and figure shows the overall NEPSE index of 2006/07 to 2010/11. According to given figure NEPSE index is increasing up to 963.36 in year 2007/08 then after it started to decrease up to observing period 2010/11. NEPSE index is 683.95, 963.36, 749.1 477.73 and 362.85 in 2006/07, 2007/08, 2008/09, 2009/10 and 2010/11 respectively. Now a day NEPSE index is in decreasing train it may be due to unstable political and economical situation of the country.

Fig 4.10: Overall NEPSE Index (From 2006/07 to 2010/2011)



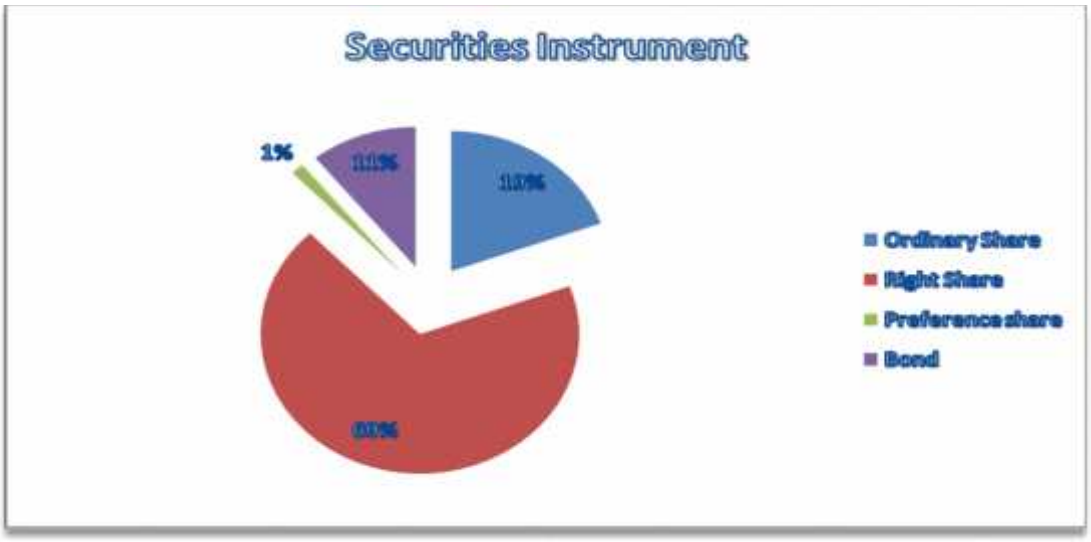
4.10 Issued Securities Instruments

Table 4.14: Issued Securities instruments (from 1993/94 to2010/2011)

Instruments	**Percentage (%)**
Ordinary Share	19.41
Right Share	68.46
Preference share	1.33
Bond	10.8

Source: Annual report of SEBON, 20010/11

Fig. 4.11: Issued Securities instruments (from 1993/94 to2010/211)



From the above figure we can say that the securities instrument are divided into four parts in Nepalese market which are ordinary share, right share, preference share and bond. Here 19% ordinary share, 59% right share, 1% preference share and 11% bond are issued up to observing period. From this chart and table we can say that preference share 1% shows that there is no contribution of preference share in capital market development. There is rapid growth in the market of right share which is 69 % of total market. Ordinary share and bond market are reasonable.

4.11. Major Findings of the Study

The major findings of this study are as follows:

- The listed companies in NEPSE have been distributed in eight sectors namely Commercial banks, Developments banks, Finance companies, Hotels, Trading, Manufacturing and Processing, Insurance and Other.
- Additional 33 companies listed in NEPSE at the end of observing period. There are altogether 209 companies listed in stock exchange. Out of these are 23 Commercial Bank, 71 Finance, 21 Insurance, 4 Hotels, 18 manufacturing and Processing, 4 Trading, 62 Development Bank and 6 others.

- The number of listed companies is in increasing trend. The number of the companies in the initial year of observing period was 129 and it went up to 209 at the end of observing period.
- The total annual turnover in amount is fluctuating; highest turnover is in 2008/09. The total annual turnover is moving in positive direction up to 2008/09, but it decrease in 2009/10. This shows that annual turnover also in decreasing trend now a day. It may be due to unstable political situation in Nepal.
- Up to 2008/09 it is in increasing trend, but unfortunately it decrease from 2009/10. It is 8360.13, 18780.59, 19438.13, 11755.78, and 6531.61 In 2006/07, 2007/08, 2008/09, 2009/10 and 2010/11 respectively.
- By reviewing the group wise market capitalization composition bank and financial institution recorded the highest of the total market capitalization in comparison of other sector every year. Market capitalization value is in erratic trend in each group in each year. Commercial bank commands a lion's share in the NEPSE trading floor.
- The total market capitalization in 2008/09 is higher then other year, Here total market capitalization is increasing up to 2008/09 but unfortunately it decrease from 2009/10, which shows that total market capitalization is decreasing now a day it may be the unstable political and economic situation of Nepal.

- In the term of traded share quantity again commercial bank captures the largest chunk of the total share trading. Trading sector has lowest share traded quantity comparing other sectors.
- Total traded share quantity is decreasing now a day with comparison of last years. It may be due to instability in share market
- The NEPSE is used as the indicator of average market performance of Nepal. NEPSE index was in increasing trend most of the time. However it reached to the highest point, in 2007/08 which is 963.36 point. Then after due to unstable political and economical situation index has dropped down to 362.85 point in 2010/11.

- Though the listed number of companies and number of share increased, sized of capital market, market capitalization, traded share quantity annual turnover and NEPSE index has decreased from last two year.

- The percentage of issued securities From 1993/94 to 2010/2011, commercial bank shows the highest percentage in comparison of other, which issue 36.26% of total securities. Then finance sector occupy second position which issue 35.26% of total securities. And then Development bank occupies the third position which has 16.92% of total securities.

- Four Securities instruments are issued in Nepalese securities markets which are ordinary share, right share, preference share and bond. Here 19% ordinary share, 69% right share, 1% preference share and 11% bond are issued up to observing period.

- From the above data and calculation we come to know most of the market indicators are in decreasing trend since last three years. Moreover the decreasing trend also shows that investors are less concerned about market in recent day. These are the serious problems in capital market which must be corrected for the future growth.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

The chapter presents the summary and the conclusion of this study. Finally, it presents recommendations and suggestion for the future study.

5.1. Summary

Capital markets are basically similar to other kinds of market. People buy and sell bargain and haggle, win and loss in this market. In capital market people buy and sell securities only through paper. Capital market is that market meant for long-term securities issued by the government or corporation. There are various instruments or securities used in the stock market like as shares of stock, bonds or debentures, etc. Efficient capital market helps to mobilize the financial resources and provides efficient channel to productive investment. So, development and expansion of capital market is essential for the rapid growth of the country. But, in the context of Nepal the concept of capital market is neither very old nor very complex. It is still in the beginning stages and different efforts have been made for the development of capital market since 1936 to till now. As started earlier, the process of stock market development in the country actually started in 1976 when the government established Securities Exchange centre to provide and develop market for securities, both the government bond and corporate securities. In 1993, Securities Board Nepal was established with the objectives to regulate, supervise and monitors the securities market. Similarly, the Securities Exchange Centre was converted into Nepal Stock Exchange Limited (NEPSE) with the objectives to provide secondary market for securities transaction. NEPSE, now, is adopting on open out-cry system, where the investors were allowed to deal in securities out through licensed brokers.

The capital market institutions are engaged in mobilization of savings into the productive investment activities. Efficient capital market is taken as the backbone of the industrial development and overall development of the country. So to develop the economy of the country an efficient and effective capital market is a vital importance.

The main aims of this study are concern to the concept of capital market in Nepal; analyze its performance and role of NEPSE and SEBON.

The second chapter presents the research review. In this chapter the further research study made on this area are presented. Research Methodology and Presentations of data deals with the methods of analysis. This chapter presents the research design of the study. This study covers five years time from 16 July 2006 through 16 July 2011. In Nepal Stock Exchange there are eight sectors listed. So, all eight sectors (1) Commercial Bank, (2) Finance Companies, (3) Insurance Companies, (4) Hotel, (5) Manufacturing and Processing (6) Trading, (7) Development Bank and (8) Others have been taken as a sample for the study. Data used for the study purpose are based on the secondary data, the major sources of data are annual report and journals publish by NEPSE and SEBON. For analysis of data, percentage method, bar diagram has been used. Calculation of standard deviation is a positive relationship between risks varies from investor to investor. A risk aversion is the approach where the investor doesn't want to bear additional risk and wants secured and safe return. The level of risk is not so easy to measure.

There are all together 209 companies are listed till now. The number of listed companies is in increasing trend every year. From finance sector Maximum no of companies are listed in SEBON.

As of June 2011 Nepal stock exchange ltd. Has 209 listed companies with market capitalization of 369618.7 million. Market capitalization was decreasing gradually from 2009/10 and reached to least on 2010/11 which is 369618.7. The proportion of market capitalization of commercial bank is highest among eight sectors.

At the end of observing period the group of development banks and finance companies remain in second and third position securing13.64% and 11.19% of total trading amount respectively. This year the trading volume of manufacturing and processing group has been significantly increase to 5.56% of total volume of total trading amount which was below 1% in the previous year.

Traded share quantity shows that the commercial bank dominates the other sectors. By observing the entire study period Finance, Development bank and other sector shows

the better performance. Though Insurance hotel manufacturing and processing and trading sectors are in poor condition by observing entire study period, In the final year of observing period insurance, hotel, manufacturing and processing and development bank shows the better performance.

The NEPSE index is used as the indicator of average market performance of Nepal. From the secondary data analysis, it is seen that NEPSE index is in fluctuating trend. It means that NEPSE is not going to increase consistently. Up to 2007/08 it is in increasing trend but unfortunately it is in decreasing from 2008/09 to observing period. The highest index for the observing period was 963.36 in 2007/08. This shows that, now a day the performance of capital market is not satisfactory.

5. 2. Conclusion

From the analysis of primary and secondary data the following conclusions have been derived.

- Capital market is a vital importance to develop the economy the country, an efficient and effective stock market. The growth of institutional, growth of primary and secondary market and increase in listed companies it implies that the capital market in Nepal is in developing process.
- Despite in the increase in the number of companies and paid-up value of the securities listed with the exchange. Most of the companies that are listed with the exchange belong to banking, finance and insurance sectors, while only few companies from the trading, hotel, manufacturing and aviation sectors are listed with the exchange, not a single company from powers information technology and construction sectors has entered organized stock exchange of the country. This indicates that firms tend to avoid stock market as alternative sources of long-term capital in Nepal. Significant increase in the number of companies registered as private limited during the last one and half decade also supports this view. This as adversely affected the liquidity and supply of securities in the stock market.

- The number of transactions, traded amount and market capitalization suggest that the Banks and Finance companies as companies as compared to others are in better position. They look less affected than the performance of Hotel and Other companies.
- Indicators reveal that the share of commercial banks has a dominant role in determining the key indictors of the Nepalese Stock Exchange. It is thus unsurprising that commercial banks have continued to appear as the most attractive investment alternatives since the opening of the floor. Then finance company is in second position which market is in increasing trend and then Development Banks are also in developing trend.
- NEPSE index is on of the most important indicator of secondary market which is also considered as barometer of country's economy.
- Market performance of NEPSE index shows the decreasing trend and no any sigh of improvement of NEPSE index are shown here. Overall NEPSE index up to the end of fiscal year is 683.95 in 2006/07, 963.36 in 2007/08, 749.1 in 2008/09, 477.73 in 2009/10, and 362.85 in 2010/11which shows that the overall NEPSE index is in decreasing trend.
- Though there are fluctuating in NEPSE indexes, Investors are ready to assume more risk in obtaining a higher expected monetary value. So investors are encouraged to invest in manufacturing and processing and finance sector too.
- Though no. of listed company is in increasing trend, almost all the other indicator of capital markets shows the poor performance as compare to the previous year. The unending political transition period, directionless economic policy, liquidity crisis in financial sector and many other factors have contributed for such decreasing trend.
- From all the analysis we can conclude that in Nepal the capital market is developing. But since last two year it shows poor performance. The NEPSE and SEBON play the vital role in the development of capital market, through which all the trading, supervising and monitoring activities are done.

5.3 Recommendations

The Nepalese capital market has grown in the country as an important base for the collection, mobilization and utilization of needed funds in the listed public companies. Still now, the numbers of listed companies in the NEPSE are not enough in comparison of other developing countries. To increase the number of listed companies in the NEPSE and improve the behavior of the individual investors towards the investment in the securities, the following recommendations are made on the basis of findings and conclusion.

- In ordered to make the capital market more efficient, market participants and academic institutions should provide training and education on different aspects of the stock market, jointly promote and undertake more research and market analysis activities.
- There should be need of Investment protection Act that helps to investors confidence and secured.
- The representation of investors in Securities Board is necessary to represent common investor's interest. Moreover, there should be investor's representation in NEPSE Board.
- The performance of commercial bank, finance companies and manufacturing and processing companies is better than the other sectors so it is recommended to the investors to invest there investment in these sectors also.
- It is also recommended to the concerned regulatory body to carry out or helps to carry out further research on the specifics of market efficiency to develop an efficient capital market.
- NEPSE has to open stock exchange in out-sided the Kathmandu valley to provide the opportunity to all investors and facilitate and promote public transactions. In other words there should expand securities exchange facilities in other places of the country considering its feasibility for the savers residing there.
- Statistical tools like serial correlation and run test, filter rules technique is not carried in this study so the up-coming researchers are suggest carrying out study by applying these tools.

- There should develop clear regulatory benchmarking of SEBON and NEPSE.
- False financial statement of listed companies should be properly identified by concern authority.
- The performance of capital market is not satisfactory. For the development of capital market, there is necessary to make a better information disclosure system. Listed companies should submit their financial transactions reports timely. There should transparency in the performance of the listed companies. Listed companies should disclose the information timely and frequently on the basis of actual performance by means of communication and information technology to the stockbrokers. Listed companies should also organize their Annual General Meeting (AGM) and audit within specified time. Further this; there should be the stable political and economic situation of the country.

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APPENDICES:

Distribution of Listed Company

Annex 1: Calculation of S.D of Yearly Listed commercial Bank and finance company

Commercial Bank					Finance				
Years ↓	X	Mean($\bar{x}$)	$(x-\bar{x})$	$(x-\bar{x})^2$	Year↓	X	Mean($\bar{x}$)	$(x-\bar{x})$	$(x-\bar{x})^2$
2006/07	16	20	-4	16	2006/07	51	60.4	-9.4	88.36
2007/08	17	20	-3	9	2007/08	57	60.4	-3.4	11.56
2008/09	21	20	1	1	2008/09	61	60.4	0.6	0.36
2009/10	23	20	3	9	2009/10	62	60.4	1.6	2.56
2010/11	23	20	3	9	2010/11	71	60.4	10.6	112.36
Total				44	Total				215.2
SD				1.66	SD				3.67

Annex 2: Calculation of S.D of Yearly Listed Insurance & Hotel

Insurance					Hotel				
Years ↓	X	Mean($\bar{x}$)	$(x-\bar{x})$	$(x-\bar{x})^2$	Year↓	X	Mean($\bar{x}$)	$(x-\bar{x})$	$(x-\bar{x})^2$
2006/07	15	17.8	-2.8	7.84	2006/07	4	4	0	0
2007/08	17	17.8	-0.8	0.64	2007/08	4	4	0	0
2008/09	17	17.8	-0.8	0.64	2008/09	4	4	0	0
2009/10	19	17.8	1.2	1.44	2009/10	4	4	0	0
2010/11	21	17.8	3.2	10.24	2010/11	4	4	0	0
Total				20.8	Total				0
SD				1.140	SD				0

Annex 3: Calculation of S.D of Yearly Listed Mfg & Processing & Trading

Mfg & Processing					Trading				
Years ↓	X	Mean($\bar{x}$)	$(x-\bar{x})$	$(x-\bar{x})^2$	Year↓	X	Mean($\bar{x}$)	$(x-\bar{x})$	$(x-\bar{x})^2$
2006/07	17	17.8	-0.8	0.64	2006/07	3	3.8	-0.8	0.64
2007/08	18	17.8	0.2	0.04	2007/08	4	3.8	0.2	0.04
2008/09	18	17.8	0.2	0.04	2008/09	4	3.8	0.2	0.04
2009/10	18	17.8	0.2	0.04	2009/10	4	3.8	0.2	0.04
2010/11	18	17.8	0.2	0.04	2010/11	4	3.8	0.2	0.04
Total				0.8	Total				0.8
SD				0.22	SD				0.2236

Annex 4: Calculation of S.D of Yearly Listed Development Bank and others

Development Bank					Others				
Years ↓	X	Mean($\bar{x}$)	$(x-\bar{x})$	$(x-\bar{x})^2$	Year↓	X	Mean($\bar{x}$)	$(x-\bar{x})$	$(x-\bar{x})^2$
2006/07	18	34.6	-16.6	275.56	2006/07	5	5.4	-0.4	0.16
2007/08	24	34.6	-10.6	112.36	2007/08	5	5.4	-0.4	0.16
2008/09	29	34.6	-5.6	31.36	2008/09	5	5.4	-0.4	0.16
2009/10	40	34.6	5.4	29.16	2009/10	6	5.4	0.6	0.36
2010/11	62	34.6	27.4	750.76	2010/11	6	5.4	0.6	0.36
Total				1199.2	Total				1.2
SD				8.6574	SD				0.2739

Annex 5: Calculation of S.D of Annual Turnover of commercial Bank

Commercial Bank				
Years ↓	**X**	**Mean($\bar{x}$)**	**$(x-\bar{x})$**	**$(x-\bar{x})^2$**
2006/07	5563.5	8559.544	-2996.044	8976279.65
2007/08	13822.1	8559.544	5262.556	27694495.65
2008/09	12406.45	8559.544	3846.906	14798685.77
2009/10	7481.4	8559.544	-1078.144	1162394.485
2010/11	3524.27	8559.544	-5035.274	25353984.26
Total				77985839.82
SD				2207.739792

Annex 6: Calculation of S.D of Annual Turnover of Finance

Finance				
Years↓	**X**	**Mean($\bar{x}$)**	**$(x-\bar{x})$**	**$(x-\bar{x})^2$**
2006/07	713.57	1572.93	-859.36	738499.6096
2007/08	2307.53	1572.93	734.6	539637.16
2008/09	2615.4	1572.93	1042.47	1086743.701
2009/10	1497.22	1572.93	-75.71	5732.0041
2010/11	730.93	1572.93	-842	708964
Total				3079576.475
SD				438.7180526

Annex 7: Calculation of S.D of Annual Turnover of Insurance

Insurance				
Years↓	**X**	**Mean($\bar{x}$)**	**$(x-\bar{x})$**	**$(x-\bar{x})^2$**
2006/07	204.97	248.65	-43.68	1907.9424
2007/08	264.86	248.65	16.21	262.7641
2008/09	212.8	248.65	-35.85	1285.2225
2009/10	183.47	248.65	-65.18	4248.4324
2010/11	377.15	248.65	128.5	16512.25
Total				24216.6114
SD				38.90421844

Annex 8: Calculation of S.D of Annual Turnover of Hotel

Hotel				
Years↓	**X**	**Mean($\bar{x}$)**	**$(x-\bar{x})$**	**$(x-\bar{x})^2$**
2006/07	7.04	43.13	-36.09	1302.4881
2007/08	27.67	43.13	-15.46	239.0116
2008/09	18.86	43.13	-24.27	589.0329
2009/10	10.15	43.13	-32.98	1087.6804
2010/11	151.93	43.13	108.8	11837.44
Total				15055.653
SD				30.6753698

Annex 9: Calculation of S.D of Annual Turnover of Mfg & Processing

Mfg & Processing				
Years↓	**X**	**Mean($\bar{x}$)**	**$(x-\bar{x})$**	**$(x-\bar{x})^2$**
2006/07	24.27	158.918	-134.648	18130.0839
2007/08	343.44	158.918	184.522	34048.36848
2008/09	26.08	158.918	-132.838	17645.93424
2009/10	37.74	158.918	-121.178	14684.10768
2010/11	363.06	158.918	204.142	41673.95616
Total				126182.4505
SD				88.805423

Annex 10: Calculation of S.D of Annual Turnover of Trading

Trading				
Years↓	**X**	**Mean($\bar{x}$)**	**$(x-\bar{x})$**	**$(x-\bar{x})^2$**
2006/07	10.42	28.104	-17.684	312.723856
2007/08	33.65	28.104	5.546	30.758116
2008/09	33.49	28.104	5.386	29.008996
2009/10	35.43	28.104	7.326	53.670276
2010/11	27.53	28.104	-0.574	0.329476
Total				426.49072
SD				5.162912937

Annex 11: Calculation of S.D of Annual Turnover of Development Bank

Development Bank				
Years↓	**X**	**Mean($\bar{x}$)**	**$(x-\bar{x})$**	**$(x-\bar{x})^2$**
2006/07	577.56	1546.038	-968.478	937949.6365
2007/08	1981.05	1546.038	435.012	189235.4401
2008/09	2740.36	1546.038	1194.322	1426405.04
2009/10	1540.09	1546.038	-5.948	35.378704
2010/11	819.13	1546.038	-726.908	528395.2405
Total				3082020.735
SD				438.8921234

Annex 12: Calculation of S.D of Annual Turnover of Development Bank

Others				
Years↓	**X**	**Mean($\bar{x}$)**	**$(x-\bar{x})$**	**$(x-\bar{x})^2$**
2006/07	1258.8	815.946	442.854	196119.6653
2007/08	0.29	815.946	-815.656	665294.7103
2008/09	1384.69	815.946	568.744	323469.7375
2009/10	970.28	815.946	154.334	23818.98356
2010/11	465.67	815.946	-350.276	122693.2762
Total				1331396.373
SD				288.4653763

Annex 13: Calculation of S.D of Traded Share Quantity of Commercial Bank

Commercial Bank				
Years↓	**X**	**Mean($\bar{x}$)**	**$(x-\bar{x})$**	**$(x-\bar{x})^2$**
2006/07	8700	10542.488	-1842.488	3394762.03
2007/08	11241.4	10542.488	698.912	488477.9837
2008/09	13301.43	10542.488	2758.942	7611760.959
2009/10	10506.86	10542.488	-35.628	1269.354384
2010/11	8962.74	10542.488	-1579.748	2495603.744
Total				13991874.07
SD				935.1428391

Annex 14: Calculation of S.D of Annual Turnover of Insurance

Insurance				
Years↓	**X**	**Mean($\bar{x}$)**	**$(x-\bar{x})$**	**$(x-\bar{x})^2$**
2006/07	627.64	739.976	-112.336	12619.3769
2007/08	433.27	739.976	-306.706	94068.57044
2008/09	418.49	739.976	-321.486	103353.2482
2009/10	629.9	739.976	-110.076	12116.72578
2010/11	1590.58	739.976	850.604	723527.1648
Total				945685.0861
SD				243.1158528

Annex 15: Calculation of S.D of Traded Share Quantity of Finance Company

Finance				
Years↓	**X**	**Mean($\bar{x}$)**	**$(x-\bar{x})$**	**$(x-\bar{x})^2$**
2006/07	2534.2	3599.592	-1065.392	1135060.114
2007/08	3094.3	3599.592	-505.292	255320.0053
2008/09	3552.01	3599.592	-47.582	2264.046724
2009/10	4515.09	3599.592	915.498	838136.588
2010/11	4302.36	3599.592	702.768	493882.8618
Total				2724663.615
SD				412.6638777

Annex 16: Calculation of S.D of Traded Share Quantity of Hotel

Hotel				
Years↓	**X**	**Mean($\bar{x}$)**	**$(x-\bar{x})$**	**$(x-\bar{x})^2$**
2006/07	81.7	394.106	-312.406	97597.50884
2007/08	158.07	394.106	-236.036	55712.9933
2008/09	95.89	394.106	-298.216	88932.78266
2009/10	50.28	394.106	-343.826	118216.3183
2010/11	1584.59	394.106	1190.484	1417252.154
Total				1777711.757
SD				333.3271439

Annex 17: Calculation of S.D of Traded Share Quantity Mfg & Processing

Mfg & Processing				
Years↓	**X**	**Mean($\bar{x}$)**	**$(x-\bar{x})$**	**$(x-\bar{x})^2$**
2006/07	82.92	664.464	-581.544	338193.4239
2007/08	1655.09	664.464	990.626	981339.8719
2008/09	95.12	664.464	-569.344	324152.5903
2009/10	360.68	664.464	-303.784	92284.71866
2010/11	1128.51	664.464	464.046	215338.6901
Total				1951309.295
SD				349.2231821

Annex 18: Calculation of S.D of Traded Share Quantity of Trading

Trading				
Years↓	**X**	**Mean($\bar{x}$)**	**$(x-\bar{x})$**	**$(x-\bar{x})^2$**
2006/07	11.47	18.174	-6.704	44.943616
2007/08	14.97	18.174	-3.204	10.265616
2008/09	14.65	18.174	-3.524	12.418576
2009/10	12.01	18.174	-6.164	37.994896
2010/11	37.77	18.174	19.596	384.003216
Total				489.62592
SD				5.5318731

Annex 19: Calculation of S.D of Traded Share Quantity of Development Bank

Development Bank				
Years↓	**X**	**Mean($\bar{x}$)**	**$(x-\bar{x})$**	**$(x-\bar{x})^2$**
2006/07	1360.5	3563.386	-2202.886	4852706.729
2007/08	2534.9	3563.386	-1028.486	1057783.452
2008/09	3631.81	3563.386	68.424	4681.843776
2009/10	4631.21	3563.386	1067.824	1140248.095
2010/11	5658.51	3563.386	2095.124	4389544.575
Total				11444964.7
SD				845.7601867

Annex 20: Calculation of S.D of Traded Share Quantity of Other

Others				
Years↓	**X**	**Mean($\bar{x}$)**	**$(x-\bar{x})$**	**$(x-\bar{x})^2$**
2006/07	4748.7	4653.06	95.64	9147.0096
2007/08	7578.02	4653.06	2924.96	8555391.002
2008/09	4242.94	4653.06	-410.12	168198.4144
2009/10	5199.83	4653.06	546.77	298957.4329
2010/11	1495.81	4653.06	-3157.25	9968227.563
Total				18999921.42
SD				1089.722482

Annex 21: Calculation of S.D of Market Capitalization of commercial Bank

Commercial Bank				
Years↓	**X**	**Mean($\bar{x}$)**	**$(x-\bar{x})$**	**$(x-\bar{x})^2$**
2006/07	138086.4	212867.288	-74780.888	5592181210
2007/08	218264.2	212867.288	5396.912	29126659.14
2008/09	302219.29	212867.288	89352.002	7983780261
2009/10	206282.52	212867.288	-6584.768	43359169.61
2010/11	199484.03	212867.288	-13383.258	179111594.7
Total				13827558895
SD				29397.6603

Annex 22: Calculation of S.D of Market Capitalization of Finance

Finance				
Years↓	**X**	**Mean($\bar{x}$)**	**$(x-\bar{x})$**	**$(x-\bar{x})^2$**
2006/07	11491.4	28266.398	-16774.998	281400557.9
2007/08	27113.59	28266.398	-1152.808	1328966.285
2008/09	43007.13	28266.398	14740.732	217289179.9
2009/10	29869.59	28266.398	1603.192	2570224.589
2010/11	29850.28	28266.398	1583.882	2508682.19
Total				505097610.9
SD				5618.594191

Annex 23: Calculation of S.D of Market Capitalization of Insurance

Insurance				
Years↓	**X**	**Mean($\bar{x}$)**	**$(x-\bar{x})$**	**$(x-\bar{x})^2$**
2006/07	7959.78	9778.202	-1818.422	3306658.57
2007/08	10897.16	9778.202	1118.958	1252067.006
2008/09	10537.49	9778.202	759.288	576518.2669
2009/10	9756.61	9778.202	-21.592	466.214464
2010/11	9739.97	9778.202	-38.232	1461.685824
Total				5137171.743
SD				566.6332446

Annex 24: Calculation of S.D of Market Capitalization of Hotel

Hotel				
Years↓	**X**	**Mean ($\bar{x}$)**	**$(x-\bar{x})$**	**$(x-\bar{x})^2$**
2006/07	1935.59	4168.566	-2232.976	4986181.817
2007/08	3484.13	4168.566	-684.436	468452.6381
2008/09	4851.95	4168.566	683.384	467013.6915
2009/10	5285.58	4168.566	1117.014	1247720.276
2010/11	5285.58	4168.566	1117.014	1247720.276
Total				8417088.699
SD				725.305483

Annex 25: Calculation of S.D of Market Capitalization of Mfg & Processing

Mfg & Processing				
Years↓	**X**	**Mean($\bar{x}$)**	**$(x-\bar{x})$**	**$(x-\bar{x})^2$**
2006/07	3760.28	6645.322	-2885.042	8323467.342
2007/08	6576.18	6645.322	-69.142	4780.616164
2008/09	7706.09	6645.322	1060.768	1125228.75
2009/10	7592.03	6645.322	946.708	896256.0373
2010/11	7592.03	6645.322	946.708	896256.0373
Total				11245988.78
SD				838.375989

Annex 26: Calculation of S.D of Market Capitalization of Trading

Trading				
Years↓	**X**	**Mean($\bar{x}$)**	**$(x-\bar{x})$**	**$(x-\bar{x})^2$**
2006/07	787.4	1281.102	-493.702	243741.6648
2007/08	686.73	1281.102	-594.372	353278.0744
2008/09	1696.36	1281.102	415.258	172439.2066
2009/10	1617.51	1281.102	336.408	113170.3425
2010/11	1617.51	1281.102	336.408	113170.3425
Total				995799.6307
SD				249.4744013

Annex 27: Calculation of S.D of Market Capitalization of Development Bank

Development Bank				
Years↓	**X**	**Mean($\bar{x}$)**	**$(x-\bar{x})$**	**$(x-\bar{x})^2$**
2006/07	5980.8	20732.404	-14751.604	217609820.6
2007/08	15619.36	20732.404	-5113.044	26143218.95
2008/09	27137.89	20732.404	6405.486	41030250.9
2009/10	27488.87	20732.404	6756.466	45649832.81
2010/11	27435.1	20732.404	6702.696	44926133.67
Total				375359256.9
SD				4843.547621

Annex 28: Calculation of S.D of Market Capitalization of Other

Others				
Years↓	**X**	**Mean($\bar{x}$)**	**$(x-\bar{x})$**	**$(x-\bar{x})^2$**
2006/07	16503.02	67201.54	-50698.52	2570339930
2007/08	26128.93	67201.54	-41072.61	1686959292
2008/09	115782.9	67201.54	48581.34	2360146596
2009/10	88978.67	67201.54	21777.13	474243391
2010/11	88614.2	67201.54	21412.66	458502008.3
Total				7550191218
SD				21722.95908