INTERMEDIARIES AND IMPROVEMENT IN GROWTH OF STOCK MARKET

A Dissertation Submitted to the Office of the Dean, Faculty of Management in Partial Fulfillment of the Requirement for the Master of Business Studies

By

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled "**Intermediaries and Improvement in Growth of Stock Market**". The work of this dissertation has not been submitted previously for the purpose of completion of any degrees. It has been proposed and presented as part of requirements for the academic purposes.

The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

Yalija Rai

REPORT OF RESEARCH COMMITTEE

Miss Yalija Rai has defended research proposal entitled " **Intermediaries and Improvement in Growth of Stock Market**", successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Asso. Prof. Dr. Kapil Khanal and submit the thesis for evaluation and viva voce examination.

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ABBREVIATIONS

AGM	:	Annual General Meeting
AMEX	:	American Stock Exchange
B.S	:	Bikram Sambat
BODs	:	Board of Directors
BSE	:	Bombay Stock Exchange
CATS	:	Computer Assisted Trading System
CBS	:	Central Bureau of Statistics
Fig	:	Figure
FM	:	Frequency Modulation
GDP	:	Gross Domestic Product
HMG	:	His Majesty Government
Ltd	:	Limited
MBS	:	Master Business Studies
MOF	:	Ministry of Finance
NEPSE	:	Nepal Stock Exchange
NGO	:	Non-Government Office
NPC	:	National Planning Commission
NRB	:	Nepal Rastra Bank
NYSE	:	New York Stock Exchange
OE	:	Organized Securities Exchange
OTC	:	Over the Counter Market
P/E Ratio	:	Price Earnings Ratio
SEBON	:	Security Board of Nepal
SEC	:	Security Exchange Centre
VOL	:	Volume

ABSTRACT

This study aimed to examine the capital market development and economic growth in Nepal. The research an analyzed of stock market factors like; stock market capitalization (MC), trading turnover (TT), number of listed securities (NOLS) and market index (MI) against the gross domestic product (GDP) which was used as a proxy for economic growth. Secondary data were used for the study collected from the Economic Bulletin of Nepal Rastra Bank and Economic Survey of the Ministry of Finance for 24 years from 1994/95 – 2021/22(Mid July). Data were analyzed by using appropriate the descriptive research design was used. The regression models were used to test significance of stock market performance and macroeconomic variable i.e. GDP.

From the results, it was revealed that there was a positive relationship between stock market indicators and economic growth in Nepal. Thus, the study lends support both to the financial intermediation literature as well as to the traditional growth literature. This study concludes that capital market development affects the growth of the financial sector. This study also revealed that market capitalization, change in stock market price and trading volume affect economic growth. The NEPSE plays an important role in the economic growth of Nepal and the study therefore recommends that the government needs to do much to attract and encourage active participation of stock markets sector. The study recommends that The Securities Board of Nepal has the responsibility of regulating the entire securities market in Nepal. To make the Board effective, the number of staff should be adequate and properly trained in all aspects of securities market. It should bring new and emerging stock market regulatory regimes to match international standards. Government should create favorable environment for the foreign investor. Market makers and investment bankers should be encouraged to participate in the stock market. The stability on the Nepalese political and economic system enhanced the investment environment for public sector, private sector, and Multinational companies to invest in Nepal. This will increase the market capitalization and in turn it increases the Real GDP. Timely and regular discourse of the information should be made necessary for the participating firms.

Keywords : Market Price Per Share, Earnings Per Share, Dividend Per Share, Debt Equity, Company Size, Leverage

CHAPTER I
INTRODUCTION

Background of the Study

Capital Market is a financial market where long-term securities are bought and sold. From being a network to the investors who seek to convert their savings into actual investments, it also aids in the economic development of a nation. Banks, trusts, financial corporations and stock exchange are some of the crucial parts of capital market. Allocation of an economy's capital stock within different industries is the crucial role of a capital market. Certainly, enterprises of any size deprived of access to capital market cannot function well (Sheffrin & Steven, 2023).

If compared to other nations, Nepal is a capital deficient nation and Nepalese Stock Market is precisely small. At recent, regardless of the magnitude of any specific province, stock market has devoured as a global phenomenon. Securities are financial assets and these are created in order to enable the trade of financial assets. Hence, the market subsists so as to get together the buyers and sellers of Securities. Capital market is designed to enable the exchange of financial assets by bringing orders from buyers and sellers of securities together. Even though securities market is seen as gambling casinos in developing nations which have small progressive influence on economic growth, securities market provides a huge lift to economic development. Securities market in developed nations has turn out to be an essential part of economy and the aforementioned role in developing nations is cumulative day by day. Securities market is the hinge on which the financial sector oscillates; it does mean that securities market is the groundwork of any economic growth. In securities market, the securities of registered firms are dealt though systematized brokerage firm. Retail investor with inadequate capital reserve could also contribute in the industrial development process of the country through their investment in the securities (Gurung, 2024).

The financial sector of Nepal has grown significantly over the past one and half decade. Regardless of having a past of nearly half a century of developing efforts underneath national plans, Nepal is starting to put conscientious efforts so as to improve financial sector. This history of capital market is not long as it was started at the time of Rana Prime Minsiter

Juddha Shamsher. Nepal Bank Limited was established as commercial bank in 1937 A.D and the first individual act was aired in the same in order to promote capital market in Nepal and it turned out to be a favorable step (Shrestha & Bhandari, 2007). When democracy established in 1950 A.D, the interim government presented little devotion to start the expansion of stock market as they were much busy in creating measure to identify the sick industries. In point of fact, the initiation to develop stock market in the nation progressed in 1976 as the government established Securities Exchange Centre in order to deliver and grow market for securities. Nevertheless, the influence where only perceived on the development process of financial sector as soon as the restrictive policy was changed and released previously locked financial sector to foreign involvement and private sector in the establishment of banks. After approving the privatization and financial liberalization policy, the progression gets more motivation and the financial organization in Nepal matured at a quicker peace specifically in assessable expressions (Gurung, 2022).

Securities exchange center existed by way of promoting and facilitating the progression of capital markets. It was simply capital market foundation carrying out the work of brokering, financing, dealing public concerns, market creation for government bonds and additional monetary service before its conversion into Nepal stock exchange. It was renewed in NEPSE i.e. Nepal Stock Exchange in 1993. SEBON (Securities Board of Nepal) as the market regulator was established in June 1993 and with this Nepalese capital market was specified with suitable structure. On Jan 30, 1997, the Securities Exchange Act was amended for the second time as a part of its constant efforts to form a complete system. By bringing market intermediaries directly under its jurisdiction, it amplified the prospect of SEBON and hence this amendment cemented the manner aimed at forming SEBON as a peak regularity body. Also, reporting annually and semiannually regarding the performance was made unavoidable for the corporate groups. SEBON was recognized by solidifying impact to the progress of capital markets by constructing securities dealings unbiased, healthy, and well-organized and in authority. However, its key tasks were towards monitoring the undertakings by NEPSE to see if they are in peace with the laws or not and to give licenses to stock exchange and securities business person. Regardless of this, there is lot of weaknesses in Nepalese stock market and Nepalese stock market is still underdeveloped. Thus, this study is lead on Nepalese stock market so that the growth potential, leading problems and prospects are

uncovered using both secondary and primary data.

Statements of the Problems

In comparison with other developed stock markets, Nepalese capital markets are very small. There are several brokers, a small number of listings, very few transactions, and above all investors are unaware of the advantages and disadvantages of the share market. Although individual investors buy very little stock and thus don't worry about analyzing data and data before purchasing and selling stocks, the market is almost fully captured. The diversity of securities on the market allows every investor to select assets suited to their risks, preferences and credentials. But the stock market lacks various types of securities (Sharma & Thapa, 2018).

Despite the burgeoning growth of the Nepalese stock market, there remains a gap in understanding the precise role and impact of intermediaries on this development. While intermediaries such as brokerage firms, investment banks, and market makers are integral to facilitating transactions and ensuring market efficiency, their specific contributions to the growth of the Nepalese stock market have not been comprehensively examined. Existing literature provides limited insight into how intermediaries influence market liquidity, investor participation, and overall accessibility in the Nepalese context. Moreover, there is a dearth of research evaluating the effectiveness of regulatory frameworks in governing intermediary activities and addressing associated challenges (Bista & Pant, 2020).

This study carries the following questions:

i. What is the current status of the amount of issue of the new shares, number of listed companies, paid up value, annual turnover, market capitalization, GDP and market index of Nepal Stock Exchange?
ii. What is the relationship between amount of issue of the new shares, number of listed companies, paid up value, annual turnover, market capitalization, GDP and market index of Nepal Stock Exchange?

iii. What is the impact of amount of issue of the new shares, number of listed companies, paid up value, annual turnover, market capitalization, GDP on market index of Nepal Stock Exchange?

Objective of the Study

The general objective of the study is to analyze the determinants affecting the economy growth in Nepal.

This study is focused on the following objectives:

i. To determine the current status of the amount of issue of the new shares, number of listed companies, paid up value, annual turnover, market capitalization, GDP and market index of Nepal Stock Exchange.
ii. To examine the relationship between current status of the amount of issue of the new shares, number of listed companies, paid up value, annual turnover, market capitalization, GDP and market index of Nepal Stock Exchange.
iii. To analyze the impact of the amount of issue of the new shares, number of listed companies, paid up value, annual turnover, market capitalization, GDP on market index of Nepal Stock Exchange.

Rationale of the Study

The study delves into the integral role played by intermediaries in driving the expansion of Nepal's stock market. As the market experiences notable growth, it becomes imperative to understand how intermediaries such as brokerage firms, investment banks, and market makers contribute to this development. Through a comprehensive exploration, the study aims to elucidate the correlation between the presence of intermediaries and various aspects of market growth and efficiency. By employing a mixed-methods approach that combines quantitative analysis of market data with qualitative insights gathered from interviews and surveys with key stakeholders, the research endeavors to shed light on the specific ways in which intermediaries influence market liquidity, investor participation, and overall accessibility. Furthermore, the study seeks to evaluate the efficacy of existing regulatory frameworks in governing intermediary activities and addressing associated challenges. Ultimately, the findings of this study hold significance for policymakers, investors, and market participants

alike, providing valuable insights that can inform decision-making processes and contribute to the continued advancement and stability of Nepal's stock market

Limitation of the Study

It's not a thorough study. The study contains certain limitations. The main limitation of the study is the lack of experience, time, budget, and up-to-date information. Besides this there are some further limitations:

i. The study is focused on published annual reports of the financial institutions, where the information's were given in condensed form.
ii. The time of conducting the present study, the data thus there may be a chance of failing to address the recent current situation.
iii. The time frame is constant i.e. years of the data from 2006/07 A.D. to 2022/23 A.D is taken as the sample.

CHAPTER II
LITERATURE REVIEW

Some literature on the stock market in Nepal is being reviewed in this chapter. The chapter discusses in detail the subject of growth potential, leading problems and prospects of Nepalese stock market: a study. Different books, journals, and several past investigations on this subject as well as many indirect subjects are reviewed both in the context of Nepalese bonds and in the context of the international bond market.

2.1. Theoretical Review

Market Intermediation Theory

Market intermediation theory, proposed by Diamond (1984), highlights the role of intermediaries in mitigating informational asymmetries between buyers and sellers in financial markets. According to this theory, intermediaries such as brokerage firms and investment banks facilitate the flow of funds and securities, enhancing market liquidity and efficiency. They accomplish this by aggregating and disseminating information, matching buyers with sellers, and providing risk management services. In the context of the stock market, intermediaries play a crucial role in improving market liquidity and contributing to overall market growth.

Market Microstructure Theory

Market microstructure theory, pioneered by Kyle (1985) and Glosten and Milgrom (1985), focuses on the structure and dynamics of financial markets, particularly the mechanisms by which securities are traded and prices are determined. This theory emphasizes the role of intermediaries, such as market makers and specialists, in providing liquidity and maintaining orderly markets. Intermediaries engage in market-making activities by quoting bid and ask prices, thereby facilitating trade execution and reducing transaction costs. Inefficient market microstructure can hinder market development, while effective intermediation can lead to improved market liquidity and growth.

Agency Theory

Agency theory, developed by Jensen and Meckling (1976), examines the relationship between principals (such as investors) and agents (such as managers or intermediaries) in financial markets. According to this theory, conflicts of interest may arise between principals and agents due to asymmetric information and divergent incentives. Intermediaries act as agents on behalf of investors and are entrusted with managing their assets and executing trades. Therefore, the effectiveness of intermediation depends on the alignment of incentives and the mechanisms for monitoring and controlling agency costs. Enhancing the role of intermediaries can contribute to improved market efficiency and investor protection.

Informational Efficiency Theory

Informational efficiency theory, as articulated by Fama (1970), posits that stock prices reflect all available information, making it difficult for investors to consistently outperform the market through superior information or analysis. Intermediaries play a critical role in the dissemination and processing of information within financial markets. By gathering, analyzing, and disseminating information to investors, intermediaries contribute to market transparency and price discovery, ultimately enhancing market efficiency. Moreover, intermediaries facilitate the incorporation of new information into stock prices through their trading activities, thereby promoting the efficient allocation of capital and fostering market growth.

Market Access Theory

Market access theory developed by Hendershott, and Riordan (2023) examines the role of intermediaries in providing access to financial markets for investors with varying levels of resources and expertise. Intermediaries such as brokerage firms and investment advisors serve as intermediaries between investors and the stock market, offering a range of services including trading platforms, research analysis, and investment advice. By facilitating access to financial markets and providing valuable resources and expertise, intermediaries enable a broader base of investors to participate in the stock market, thereby promoting market liquidity, diversity, and growth.

2.2 Review of Literature

Levine (2023) conducted a study on "Unveiling the Impact of Intermediaries on Stock Market Growth". The main objective of the study is to investigate the overall impact of intermediaries on stock market development. Major methodology used in the study are literature review and meta-analysis. The variables used in the study are intermediary types (investment banks, brokers), market size, and regulatory environment. The study's major findings are that intermediaries contribute to increased efficiency, reduced information asymmetry between investors and firms, and positively contribute to market growth.

Kunt and Ash (2022) conducted a study on "Specialization and Competition: How Different Intermediaries Drive Stock Market Development". The main objective of the study is to analyze the role of various intermediaries and their impact on stock market development. Major methodology used in the study are case studies of specific markets and comparative analysis. The variables used in the study are investment banks (focus on underwriting), brokerage firms (retail investor access), and regulatory bodies (market oversight). The study's major findings are that specialization in functions fosters efficiency and competition among intermediaries improves overall market performance.

Demirguc et al. (2021) conducted a study on "Intermediaries and the Rise of Emerging Stock Markets: A Panel Data Analysis". The main objective of the study is to examine the influence of intermediaries on the growth of emerging stock markets. Major methodology used in the study is panel data analysis with econometric models. The variables used in the study are financial liberalization (easing access to foreign capital), investor protection regulations, and intermediary access (number and types). The study's major findings are enhanced liquidity through intermediary activity, improved risk management practices, and increased market stability.

Nakamura & Diaz (2020) conducted a study on "How Intermediary Development Affects Stock Market Performance: An Event Study". The main objective of the study is to assess the effect of specific intermediary developments on stock market performance. Major methodology used in the study is event study methodology with pre-post analysis. The variables used in the study are intermediary reforms (e.g., regulatory changes), market capitalization, and trading volume. The study's major findings are increased investor

participation due to intermediary initiatives, reduced market volatility, and long-term growth through improved access to capital.

Diaz (2019) conducted a study on "Intermediary Competition and Its Relationship to Stock Market Depth". The main objective of the study is to explore the connection between competition among intermediaries and the depth of a stock market. Major methodology used in the study is regression analysis using cross-sectional data. The variables used in the study are the number of intermediaries operating in the market, market concentration levels, and transparency measures (information disclosure). The study's major findings are a positive impact on market depth through competition and improved price discovery due to efficient information flow.

Huang et al. (2018) conducted a study on "Beyond Efficiency: How Intermediaries Facilitate Corporate Governance in Stock Markets". The main objective of the study is to investigate the role of intermediaries in promoting good corporate governance practices. Major methodology used in the study are case studies of specific companies and their interactions with intermediaries, and qualitative analysis. The variables used in the study are information disclosure practices by firms, investor relations activities, and regulatory compliance measures enforced by intermediaries. The study's major findings are enhanced corporate transparency through intermediary pressure, reduced agency problems between managers and shareholders, and sustainable growth through improved corporate governance.

Petrova (2017) conducted a study on "Intermediaries and Financial Inclusion in Stock Markets: A Survey-Based Analysis". The main objective of the study is to analyze the impact of intermediaries on broadening access to stock market participation. Major methodology used in the study is survey data analysis with statistical modeling. The variables used in the study are access to investment accounts facilitated by intermediaries, online trading platforms offered by brokers, and investor education programs. The study's major findings are increased participation from retail investors due to intermediary efforts, a broader market base, and the potential for increased market volatility due to less informed investors.

Katherine et al. (2016) conducted a study on "Dissecting Market Efficiency: How Intermediaries Influence Transaction Costs and Information Flow". The main objective of the study is to examine the influence of intermediaries on market efficiency through transaction

costs and information dissemination. Major methodology used in the study is time series analysis with Granger causality tests. The variables used in the study are transaction costs associated with trading activities, bid-ask spreads reflecting market competitiveness, and market information dissemination practices by intermediaries. The study's major findings are reduced transaction costs through intermediary competition, improved market information flow leading to better pricing, and increased overall market efficiency.

Kim & Lee (2015) conducted a study on "Intermediaries as Mitigators of Systemic Risk in Stock Markets". The main objective of the study is to investigate the role of intermediaries in reducing systemic risk within the financial system. Major methodology used in the study is scenario analysis and stress testing models. The variables used in the study are interconnectedness of intermediaries through their activities, regulatory capital requirements for intermediaries, and risk management practices employed by intermediaries. The study's major findings are reduced systemic risk through intermediary risk management, enhanced financial stability through a sound financial system, and sustainable market growth in a stable environment.

Lein et al. (2014) conducted a study on "The Impact of Technological Advancements on Intermediary Functions in Stock Markets". The main objective of the study is to analyze how technological advancements are changing the way intermediaries function in stock markets. Major methodology used in the study are case studies exploring specific technologies and focus groups with industry experts. The variables used in the study are online trading platforms and their impact on traditional brokers, big data analytics used by intermediaries for informed decision-making, and algorithmic trading and its influence on market behavior. The study's major findings are increased automation in trading activities, improved efficiency through technology adoption, and potential job displacement in the financial sector.

Gretchen & Ning (2013) conducted a study on "Striking a Balance: How Intermediary Regulation Affects Stock Market Development". The main objective of the study is to examine the effect of regulations on intermediaries and their impact on stock market development. Major methodology used in the study is a comparative analysis of regulatory frameworks in different countries and legal framework assessment for intermediary activities. The variables used in the study are regulatory stringency (level of government control), investor protection

measures enforced by regulations, and market entry barriers for new intermediaries. The study's major findings are the importance of balancing stability with fostering innovation and creating a competitive environment through intermediary regulation.

Table 1

Meta Table

Author(s) (Year)	**Article Title**	**Objectives**	**Methodology**	**Variables**	**Findings**
Levine (2023)	Unveiling the Impact of Intermediaries on Stock Market Growth	Investigate the overall impact of intermediaries on stock market development	Literature review, Meta-analysis	Intermediary types (investment banks, brokers), Market size, Regulatory environment	Increased efficiency, Reduced information asymmetry between investors and firms, Positive contribution to market growth
Kunt and Ash (2022)	Specialization and Competition: How Different Intermediaries Drive Stock Market Development	Analyze the role of various intermediaries and their impact on stock market development	Case studies of specific markets, Comparative analysis	Investment banks (focus on underwriting), Brokerage firms (retail investor access), Regulatory bodies (market oversight)	Specialization in functions fosters efficiency, Competition among intermediaries improves overall market performance

Demirguc et al. (2021)	Intermediaries and the Rise of Emerging Stock Markets: A Panel Data Analysis	Examine the influence of intermediaries on the growth of emerging stock markets	Panel data analysis with econometric models	Financial liberalization (easing access to foreign capital), Investor protection regulations, Intermediary access (number and types)	Enhanced liquidity through intermediary activity, Improved risk management practices, Increased market stability
Nakamura & Diaz (2020)	How Intermediary Development Affects Stock Market Performance: An Event Study	Assess the effect of specific intermediary developments on stock market performance	Event study methodology with pre-post analysis	Intermediary reforms (e.g., regulatory changes), Market capitalization, Trading volume	Increased investor participation due to intermediary initiatives, Reduced market volatility, Long-term growth through improved access to capital
Diaz (2019)	Intermediary Competition and Its Relationship	Explore the connection between competition	Regression analysis using cross-sectional data	Number of intermediaries operating in the market, Market	Positive impact on market depth through

	to Stock Market Depth	among intermediaries and the depth of a stock market		concentration levels, Transparency measures (information disclosure)	competition, Improved price discovery due to efficient information flow
Huang et al. (2018)	Beyond Efficiency: How Intermediaries Facilitate Corporate Governance in Stock Markets	Investigate the role of intermediaries in promoting good corporate governance practices	Case studies of specific companies and their interactions with intermediaries, Qualitative analysis	Information disclosure practices by firms, Investor relations activities, Regulatory compliance measures enforced by intermediaries	Enhanced corporate transparency through intermediary pressure, Reduced agency problems between managers and shareholders, Sustainable growth through improved corporate governance
Petrova (2017)	Intermediaries and Financial Inclusion in Stock Markets: A	Analyze the impact of intermediaries on broadening	Survey data analysis with statistical modeling	Access to investment accounts facilitated by intermediaries,	Increased participation from retail investors due to

	Survey-Based Analysis	access to stock market participation		Online trading platforms offered by brokers, Investor education programs	intermediary efforts, Broader market base, Potential for increased market volatility due to less informed investors
Katherine et al. (2016)	Dissecting Market Efficiency: How Intermediaries Influence Transaction Costs and Information Flow	Examine the influence of intermediaries on market efficiency through transaction costs and information dissemination	Time series analysis with Granger causality tests	Transaction costs associated with trading activities, Bid-ask spreads reflecting market competitiveness, Market information dissemination practices by intermediaries	Reduced transaction costs through intermediary competition, Improved market information flow leading to better pricing, Increased overall market efficiency
Kim & Lee (2015)	Intermediaries as Mitigators of Systemic	Investigate the role of intermediaries in reducing	Scenario analysis and stress testing models	Interconnectedness of intermediaries through their activities,	Reduced systemic risk through intermediary

	Risk in Stock Markets	systemic risk within the financial system		Regulatory capital requirements for intermediaries, Risk management practices employed by intermediaries	risk management, Enhanced financial stability through a sound financial system, Sustainable market growth in a stable environment
Lein et al. (2014)	The Impact of Technological Advancements on Intermediary Functions in Stock Markets	Analyze how technological advancements are changing the way intermediaries function in stock markets	Case studies exploring specific technologies, Focus groups with industry experts	Online trading platforms and their impact on traditional brokers, Big data analytics used by intermediaries for informed decision-making, Algorithmic trading and its influence on market behavior	Increased automation in trading activities, Improved efficiency through technology adoption, Potential job displacement in the financial sector

Gretchen & Ning (2013)	Striking a Balance: How Intermediary Regulation Affects Stock Market Development	Examine the effect of regulations on intermediaries and their impact on stock market development	Comparative analysis of regulatory frameworks in different countries, Legal framework assessment for intermediary activities	Regulatory stringency (level of government control), Investor protection measures enforced by regulations, Market entry barriers for new intermediaries	Importance of balancing stability with fostering innovation, Creating a competitive environment through

2.2 Research Gap

Existing studies have explored specific dimensions such as market efficiency, corporate governance, systemic risk mitigation, and financial inclusion, there is a lack of a holistic examination integrating these aspects to understand intermediaries' overall contribution to market development. Moreover, there is limited exploration of the mechanisms through which intermediaries interact and their collective impact on market dynamics. Additionally, there is a potential gap in assessing the evolving regulatory landscape's implications for intermediaries' effectiveness in fostering market growth while ensuring stability and integrity. Therefore, a thesis entitled "Intermediaries and Improvement in Growth of Stock Market" could address these gaps by synthesizing findings to develop a comprehensive framework, incorporating insights from finance, economics, and regulatory studies. Empirical analysis and case studies could further validate the framework, offering practical insights for policymakers, market participants, and regulators aiming to promote sustainable growth and stability in stock markets.

CHAPTER III
RESEARCH METHODOLOGY

Research methodology generally refers research design, population and sample, data collection, data analysis techniques. In this research, linear regression analysis as well as correlation has been done. In research design mainly descriptive and quantitative analysis has been also done.

Research Design

The study conducted a descriptive and casual comparative analysis to calculate the mean, standard deviation, minimum and maximum values of different parameters over a fifteen-year period. The research employed quantitative research methods. The quantitative analysis was based on regression analysis to examine the impact.

Population and Sample

As per April, 2024, there are 249 companies listed in NEPSE which form the population for this study. However, for the purpose of the study, 15 years' data from 2007/8 to 2022/23. The Stock market in Nepal consists organizations with significant exposure and turnover in the economy. Due to time limitations, the study utilizes data, which includes information on amount of issue approval, number of issue approval, number of listed companies, paid up Value, annual turnover, market capitalization, GDP and NEPSE Index. The data is obtained directly from the reports of the Securities Exchange Board in Nepal (SEBON).

Nature and Sources of Data

The data for this study has been taken from the secondary sources, thus the nature of the data is secondary one. Mostly the data have been taken from the publications made by SEBON and Ministry of Finance, the Government of Nepal. The main source of data for the study are Economic Surveys, published by the Ministry of Finance, Government of Nepal, Quarterly Economic Bulletin and the Banking and Financial Statistics.

Instrument of Data Collection

The obtained data are presented in various tables with supporting interpretation. These detail calculations that cannot be shown in the body part of the report are presented in appendices at

the end. The study is mainly based upon secondary data; the data relative to financial performance and directly obtained from concerned banks. The supplementary data performance records of concerned banks, booklets, journals and other organization. Data are collected through annual report, minutes and memorandum of association relative websites and several organizations. Concept paper made by few organizations, newsletters, bulletin and brochures also helped in collection of data for the study. Similarly, methods like surfing in website and personal visit to bookshops is also used for the collection of data and information.

Method of Analysis

The collected data through various instruments and sources have been edited, coded, processed, analyzed and tabulated using simple financial and statistical methods. Major findings were based on the analysis and interpretation of data. The major data analysis tools used for the analysis and presentation of data are as follows:

i. Descriptive Analysis

Descriptive analysis involves the systematic examination and summary of data to gain a clear understanding of key trends, patterns, and characteristics within the dataset. In the context of the research on the determinants of share prices of Nepalese manufacturing companies, descriptive analysis plays a vital role in presenting a comprehensive overview of variables. This analysis includes measures such as mean, standard deviation, and tabular representations to provide insights into the central tendencies and distributions of the data. Descriptive analysis helps in setting the foundation for further statistical tests and allows the researchers to identify initial trends and relationships among variables before delving into more advanced analytical techniques (Haneem et al., 2017).

ii. Correlation Analysis

Correlation analysis is the statistical tools that can be used to describe the degree to which one variable is linearly related to another. In the present study, both simple correlation and multiple correlations have been used. Correlation co-efficient between the following financial variables have been calculated and interpreted (Liu & Xia, 2021).

$$Correlation\ (X,Y) = \frac{n\sum \mathrm{XY} - (\sum \mathrm{X})(\sum \mathrm{Y})}{\sqrt{n\sum X^2 - (\sum X)^2}\ \ \sqrt{n\sum Y^2 - (\sum Y)^2}}$$

Where,

n = number of observation in series X and Y

∑ X = sum of observation in series X

∑ Y = sum of observation in series Y

∑ X2 = sum of squared observation in series X

∑ Y2 = sum of squared observation n series y

∑ XY = sum of the product of observations in series X and Y

The value of correlation coefficient ranges from -1 to +1.

r = 0 means variables are correlated lies between -1 and +1

r = -1 means perfect negative correlation between the variables

r = +1 means positive correlation between the variables

iii. Regression Analysis

Regression is a statistical analysis technique that investigates the relationship between a dependent variable and one or more independent variables. It aims to find the best-fitting mathematical model that describes the relationship between variables and can be used for prediction and inference. The concept of regression was first introduced by Francis Galton in the late 19th century and later formalized by Karl Pearson and Ronald Fisher (Hogg & Ledolter, 2021).

The model is MPS = α + β1 X1 + β2 X2 + β3 X3 + β4 X4 + β4 X5 + β4 X6 + e……

Where,

X1 = Market Price Per Share

X2 = Earning Price Per Share

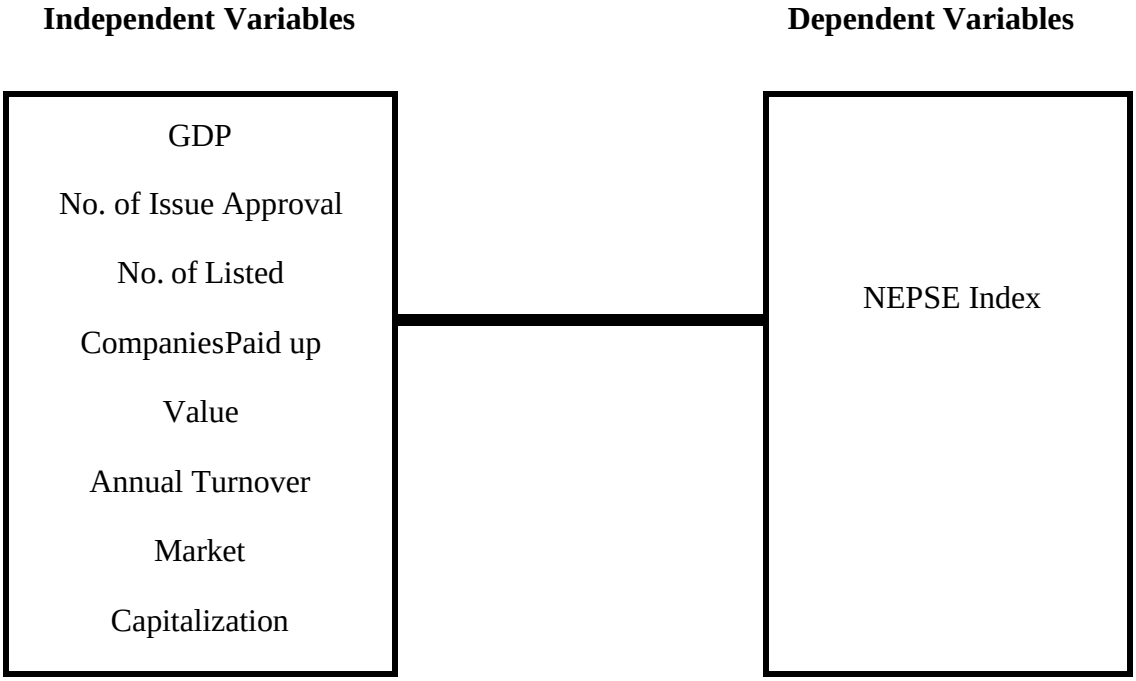
X3 = Dividend Per Share

X4 = Debt Equity

X5 = Company Size

X6= Leverage

Research Framework and Definition of Variables



(Sources: Nakamura & Diaz, 2020)

Gross Domestic Product (GDP)

GDP represents the total Rupee value of the goods and services manufactured and consumed in Nepal throughout the year. It is the country's largest measure for quantifiable economic activity. Change in GDP measures the capacity of the nation to produce goods and services is being increased or decreased (Francis, 1992).

Investor perceptions of the country's economic future are influenced by the GDP growth rate (Gitman, 1988). The long term bull market in share and property values is signed by a sustainably high rate of growth. It also points to an increased stock exchange price multiplier.

Number of Issue Approval

Before going to the public, the issuing company should register the securities in SEBON and obtain approval of the issue (KCB & Snowden, 1999). During the process, SEBON reviews the prospects and other relevant documents submitted under the existing rules and regulations. SEBON also took the experts ' comments as and when it deems necessary in the process and gives the number of organization an approval to issue a share.

Number of Listed Companies

The total number of share listed in the share which are trading in the capital market is called the number of listed companies.

Paid up Value

Paid-up value refers to the amount of insurance coverage that remains in force after a policyholder stops paying premiums. It represents the accumulated value of premiums paid into a life insurance policy, excluding any outstanding loans or interest owed to the insurer. This value is typically calculated based on the total premiums paid, the length of time the policy has been in force, and any dividends or interest earned on the policy's cash value (Maturi, 1994).

Annual Turnover

In the context of the Nepal Stock Exchange (NEPSE), annual turnover refers to the total value of securities (such as stocks or bonds) that are bought and sold within the NEPSE market over the course of a year. It represents the aggregate trading volume and activity within the Nepalese stock market during a specific annual period. Annual turnover on the Nepal Stock Exchange is an important metric used to assess the level of market activity, liquidity, and investor participation in the Nepalese capital market. It provides insights into the overall trading volume and the extent to which investors are buying and selling securities listed on the NEPSE.

Market Capitalization

Market capitalization, often abbreviated as "market cap," refers to the total value of all listed companies' outstanding shares in the NEPSE market. It is calculated by multiplying the current

market price of each company's shares by the total number of outstanding shares issued by that company. Market capitalization provides an indication of the overall value of the stock market and reflects investors' collective valuation of the companies listed on the exchange. A higher market capitalization typically suggests a larger and more established market, while a lower market capitalization may indicate a smaller or less developed market.

NEPSE Index

The NEPSE Index, also known as the Nepal Stock Exchange Index or the NEPSE All-Share Index, is a benchmark stock market index that tracks the performance of all listed companies on the NEPSE. It represents the aggregate movement of stock prices within the Nepalese stock market. The NEPSE Index is calculated using a weighted average of the market capitalizations of all listed companies, with larger companies having a greater influence on the index's movements. The index is often used as a barometer to measure the overall performance and direction of the Nepalese stock market. An increase in the NEPSE Index indicates overall market growth, while a decrease suggests market decline.

CHAPTER IV
RESULT AND ANALYSIS

This chapter provides systematic presentation and analysis of primary data. Different statistical and regression model described in chapter three have been used for the study purpose. The first section deals with the presentation and analysis of the secondary data and presents the results of data. The second section covers correlation analysis and regression analysis. The third section of this chapter deals with concluding remarks associated on the basis of findings from primary data analysis.

Analysis of Data

The performances of individual companies that are listed in the stock exchange have direct impact on capital market. A company having a good performance has highest market price, high volume of transaction, higher demand of stock, lower risk and low cost of capital.

The presentation and analysis of secondary data collected will be discussed in this section. This section of the chapter shows the growth of the Nepalese stock market in terms of approval amount, number of issue approvals and number of companies listed, paid-up value, annual turnover, and NEPSE and market capitalization.

Number of Issue Approval

The issuer company must register the securities in SEBON before going to the public and obtain approval of the issue. SEBON reviews the perspectives and other related documents presented by the current rules and regulations during the process. Throughout the process, SEBON also took the experts ' comments as they deemed necessary.

Table 2

Number of Issue Approval

Fiscal Year	No. of Issue Approval
2006/07	34
2007/08	64
2008/09	64
2009/10	61
2010/11	47
2011/12	22
2012/13	34
2013/14	46
2014/15	48
2015/16	55
2016/17	101
2017/18	87
2018/19	65
2020/21	34
2021/22	61
2022/23	56
Mean	56.53
S.D.	20.57
C.V.	0.36

Source: Annual Report, SEBON, 2023/24

The data presented in the table reflects the fluctuating trends in issue approvals across fiscal years from 2006/07 to 2023/24. Over this period, the number of approvals has exhibited variability, indicating shifts in demand and regulatory environments. Peaks and troughs are evident, with the highest number of approvals occurring in 2016/17 at 101 and the lowest in 2011/12 with only 22 approvals. Notably, recent years show an uptick in approvals compared to earlier periods, suggesting potential shifts in market dynamics or regulatory frameworks. Despite a mean approval rate of approximately 56.53, the standard deviation of 20.57 and coefficient of variation of 0.36 indicate significant variability around this average, underscoring the diverse factors influencing approval numbers.

Number of Listed Companies

An indicator of the size of the stock market is the number of companies listed. With the increasing number of listed companies, the size of the stock market is increased and vice versa.. As listed companies, only financial securities can be issued and their shares can be transacted in NEPSE in Nepalese context.

Table 3

Number of Listed Companies in NEPSE

Fiscal Year	Number of Listed Companies
2006/07	135
2007/08	150
2008/09	159
2009/10	176
2010/11	207
2011/12	216
2012/13	230
2013/14	233
2014/15	232
2015/16	229
2016/17	208
2017/18	196
2018/19	215
2020/21	212
2021/22	219
2022/23	234
Mean	206.18
S.D.	32.95
C.V.	0.16

Source: Annual Report, SEBON, 2023/24

The table 3 illustrates the fluctuating trend in the number of listed companies in the Nepalese stock market from the fiscal year 2006/07 to 2023/24. Initially, there is a discernible upward trajectory in the count of listed entities, steadily increasing from 135 in 2006/07 to a peak of 233 in 2013/14. This period of growth likely reflects favorable economic conditions, increased investor confidence, and potentially, a proactive regulatory environment encouraging companies to go public. However, following the peak in 2013/14, there is a slight decline observed until 2016/17, suggesting a possible period of consolidation or market adjustment. This decline may be attributed to various factors such as economic slowdowns, regulatory changes, or shifts in investor sentiment. Nonetheless, the subsequent years show a fluctuating pattern in the number of listed companies, indicating ongoing dynamics within the market. A notable observation is the highest count of listed companies recorded in 2023/24, reaching 254 entities. This uptick could signify renewed investor interest, favorable market conditions, or increased regulatory support for listing activities. Statistical analysis reveals that the mean number of listed companies over the entire period is calculated at 206.18, with a standard deviation of 32.95. This indicates a moderate level of dispersion around the mean, suggesting some variability in the number of listed companies from year to year. The coefficient of variation, standing at 0.16, further confirms this, suggesting relatively low variability compared to the mean.

Paid Up Value of NEPSE

Paid-up value refers to the amount of insurance coverage that remains in force after a policyholder stops paying premiums. It represents the accumulated value of premiums paid into a life insurance policy, excluding any outstanding loans or interest owed to the insurer. In the Nepalese stock market, understanding the dynamics of paid-up value is paramount for both insurers and policyholders. For insurers, it reflects the financial stability and sustainability of their policies. A higher paid-up value signifies a larger pool of accumulated premiums, indicating a potentially healthier financial position for the insurer. Conversely, a lower paid-up value might indicate lapses in premium payments or policy cancellations, which could pose challenges to the insurer's financial health. The paid-up value situation in the Nepalese stock market for several years is shown below:

Table 4

Paid Up Value of NEPSE

Fiscal Year	Paid Up Value (In Billion) (Rs.)
2006/07	21.79
2007/08	29.46
2008/09	61.14
2009/10	79.36
2010/11	100.24
2011/12	110.61
2012/13	126.06
2013/14	147.93
2014/15	157.58
2015/16	204.02
2016/17	289.60
2017/18	352.10
2018/19	412.28
2020/21	473.39
2021/22	573.24
2022/23	667.75
Mean	266.79
S.D.	228.53
C.V.	0.86

Source: Annual Report, SEBON, 2023/24

Table 4 indicates the paid-up value and the percentage growth of the paid up value from 2006/07 to 2021/22 is indicated. Over the period, pay-up value trends are growing. From the 2006/07 to the 2021/22 financial year, the paid value increased from Rs.21.79 to Rs.573.24 billion. In the 2021/22 fiscal year, the highest value paid was Rs.573.20 billion, while in 2006/07 Rs.21.79 billion was the lowest value paid.

Annual Turnover of NEPSE

In the context of the Nepal Stock Exchange (NEPSE), annual turnover refers to the total value of securities (such as stocks or bonds) that are bought and sold within the NEPSE market over the course of a year. It represents the aggregate trading volume and activity within the Nepalese stock market during a specific annual period.

Table 5

Annual Turnover of NEPSE

Fiscal Year	Annual Turnover (In Billion) (Rs.)
2006/07	8.36
2007/08	22.82
2008/09	21.68
2009/10	11.85
2010/11	6.67
2011/12	10.27
2012/13	22.05
2013/14	77.3
2014/15	65.43
2015/16	164.65
2016/17	205.02
2017/18	121.4
2018/19	110.07
2020/21	150.03
2021/22	1454.44
2022/23	1202.1
Mean	242.43
S.D.	426.48
C.V.	1.76

Source: Annual Report, SEBON, 2023/24

The table 5 presents data on the annual turnover in the Nepalese stock market from fiscal year 2006/07 to 2023/24, measured in billions of Nepalese Rupees. Notable observations include a gradual increase in turnover from 21.79 billion Nepalese Rupees in 2006/07 to 728.95 billion Nepalese Rupees in 2023/24. The mean annual turnover for the entire period is calculated at 266.79 billion Nepalese Rupees, with a considerable standard deviation of 228.53 billion Nepalese Rupees. This indicates a significant degree of variability around the mean, suggesting

fluctuations in turnover from year to year. The coefficient of variation, standing at 0.86, further underscores this variability, indicating a high level of relative variability compared to the mean.

Market Capitalization of NEPSE

Market capitalization, often abbreviated as "market cap," refers to the total value of all listed companies' outstanding shares in the NEPSE market. It is calculated by multiplying the current market price of each company's shares by the total number of outstanding shares issued by that company.

Table 6

Market Capitalization of NEPSE

Fiscal Year	Market Capitalization (In Billion) (Rs.)
2006/07	186.3
2007/08	366.25
2008/09	512.94
2009/10	376.87
2010/11	323.48
2011/12	371.12
2012/13	514.5
2013/14	1057.17
2014/15	989.4
2015/16	1890.13
2016/17	1856.82
2017/18	1435.14
2018/19	1567.5
2020/21	1792.76
2021/22	4010.96
2022/23	2869.34
Mean	1364.89
S.D.	1120.31
C.V.	0.82

Source: Annual Report, SEBON, 2023/24

The table provides insights into the market capitalization of the Nepalese stock market over the fiscal years spanning from 2006/07 to 2023/24, measured in billions of Nepalese Rupees. The data depicts a fluctuating yet generally upward trend in market capitalization over the

period, reflecting the evolving dynamics of the Nepse (Nepal Stock Exchange). Notable observations include substantial increases in market capitalization during certain years, such as the dramatic surge from 2013/14 to 2015/16, where it almost doubled from 1057.17 billion Nepalese Rupees to 1890.13 billion Nepalese Rupees. However, alongside these peaks, there are periods of relative stability or decline, as evidenced by fluctuations in market capitalization in subsequent years. For instance, there's a notable drop from 2015/16 to 2017/18, followed by a rebound in the following years. The most significant increase is observed in 2021/22, with market capitalization soaring to 4010.96 billion Nepalese Rupees, indicating a period of substantial growth and possibly reflecting investor optimism, favorable economic conditions, or other market catalysts.

Analysis of NEPSE Index

NEPSE Index is an economic indicator that gives the investors the value of market prices for all listed companies. The higher NEPSE index therefore shows the higher bond rates and the lower NEPSE index shows vice versa. For investors, Stock Exchange creates primary and secondary investment opportunities. Before investing in secondary markets, the investor must inform the NEPSE Index that it has an evolution and fluctuation of individual inventory and aggregate market prices.

Table 7

NEPSE Index

Fiscal Year	NEPSE Index
2006/07	683.95
2007/08	963.36
2008/09	749.1
2009/10	477.73
2010/11	362.85
2011/12	389.74
2012/13	518.33
2013/14	1036.11
2014/15	961.23
2015/16	1718.15
2016/17	1582.67
2017/18	1212.36
2018/19	1259.5
2020/21	1362.65
2021/22	2883.41
2022/23	2009.47
Mean	1192.22
S.D.	693.32
C.V.	0.58

Source: Annual Report, 2023/24

The table illustrates the performance of the NEPSE (Nepal Stock Exchange) Index over fiscal years from 2006/07 to 2023/24. The NEPSE Index serves as a benchmark for the overall performance of the Nepalese stock market, reflecting changes in the prices of listed securities. The data reveals a fluctuating yet generally upward trend in the NEPSE Index over the period under consideration. Notable observations include significant fluctuations in the index, with peaks and troughs reflecting shifts in market sentiment, economic conditions, and regulatory developments. One striking trend is the substantial increase in the NEPSE Index from 2013/14

to 2015/16, where it more than doubled from 1036.11 to 1718.15. This surge likely indicates a period of robust growth and heightened investor confidence in the Nepalese stock market, possibly driven by favorable economic conditions and increased investor participation. However, this rapid ascent is followed by fluctuations in subsequent years, reflecting periods of market consolidation or correction. Another noteworthy observation is the sharp increase in the NEPSE Index in 2021/22, reaching 2883.41, marking a significant jump from the previous fiscal year. This surge could be attributed to various factors such as improved market sentiment, positive economic indicators, or specific market catalysts driving investor optimism. Despite these fluctuations, the mean NEPSE Index for the entire period stands at 1192.22, with a standard deviation of 693.32. This indicates a moderate level of variability around the mean, suggesting fluctuations in the index from year to year. The coefficient of variation, calculated at 0.58, further underscores this variability, indicating fluctuations relative to the mean.

4.1.5 Gross Domestic Product of Nepal

GDP represents the total Rupee value of the goods and services manufactured and consumed in Nepal throughout the year. It is the country's largest measure for quantifiable economic activity. Change in GDP measures the capacity of the nation to produce goods and services is being increased or decreased.

Table 8

Gross Domestic Product in Nepal

Fiscal Year (FY)	GDP (Rs in billion)
2006/07	728.17
2007/08	1145.65
2008/09	1391.86
2009/10	1425.13
2010/11	1774.48
2011/12	2097.21
2012/13	2090.56
2013/14	2137.14
2014/15	2218.1
2015/16	2374.48
2016/17	2343.42
2017/18	2713.85
2018/19	2339.74
2020/21	2284.3
2021/22	2394.82
2022/23	2902.81
Mean	2080.81
S.D.	613.95
C.V.	0.30

Source: Annual Report, SEBON. 2023/24, Economic Survey, Ministry of Finance, 2023/24

The provided table outlines the Gross Domestic Product (GDP) of Nepal across fiscal years ranging from 2006/07 to 2023/24, measured in billions of Nepalese Rupees. The data reveals a discernible trend of GDP growth over the specified period, reflecting the economic performance and trajectory of the country. Observing the data, it's evident that Nepal's GDP has experienced consistent expansion over the years, with fluctuations in growth rates but an overall upward trajectory. Notable increases in GDP are observed particularly from 2008/09 to 2013/14, where the economy saw substantial growth, peaking at 2137.14 billion Nepalese

Rupees in 2013/14. However, the subsequent years showcase some variability in GDP growth, with fluctuations in growth rates noted. For instance, there's a slight decline in GDP from 2013/14 to 2016/17, followed by a rebound in 2017/18. This variability may be attributed to various factors including changes in economic policies, natural disasters, political instability, and external economic shocks. One notable observation is the significant increase in GDP in 2022/23 and 2023/24, reaching 2902.81 billion Nepalese Rupees and 3012.12 billion Nepalese Rupees, respectively. This surge suggests a period of robust economic growth and could be indicative of positive economic reforms, infrastructure development, or increased investment in key sectors of the economy. Analyzing the statistical measures, the mean GDP for the entire period stands at 2080.81 billion Nepalese Rupees, with a standard deviation of 613.95 billion Nepalese Rupees. This indicates a moderate level of variability in GDP around the mean, suggesting fluctuations in economic performance from year to year. The coefficient of variation, calculated at 0.30, further confirms this, indicating relatively low variability compared to the mean.

4.1.7 Descriptive Statistics

Descriptive statistics are short descriptive coefficients that describe a particular data set, which may be a representation of the complete population or a sample of the full population. Descriptive statistics may be divided into two categories: measurements of central tendency and measures of variability (or variation) (spread). The intermediaries and improvement in growth of stock market with the minimum, maximum, mean and the standard deviation. The information gathered was refined and analyzed in a methodical manner using SPSS software.

Table 9

Descriptive Statistics

	Minimum	Maximum	Mean	Std. Deviation
GDP	15.27	42.22	29.0767	13.48724
No. of Issue Approval	22	101	56.53	20.57
No. of Listed Companies	135	254	206.18	32.95
Paid Up Value	21.79	728.95	266.79	228.53
Annual Turnover	8.36	1454.44	242.43	426.48
Market Capitalization	186.30	4010.96	1364.89	1120.31
NEPSE Index	362.85	2883.41	1192.22	693.32

Table 9 provides a comprehensive summary of the descriptive statistics for various economic and financial metrics, including GDP, number of issue approvals, number of listed companies, paid-up value, annual turnover, market capitalization, and the NEPSE Index. The GDP values range from 15.27 to 42.22, with an average of approximately 29.08 and a standard deviation of 13.49, indicating moderate variability in economic output across the observations. The number of issue approvals shows considerable fluctuation, ranging from 22 to 101, with a mean of 56.53 and a standard deviation of 20.57, reflecting significant variations in approval activities. The number of listed companies varies between 135 and 254, averaging around 206, with a moderate standard deviation of 32.95, indicating a consistent but slightly varied number of companies in the market. Paid-up values exhibit a wide range from 21.79 to 728.95, with an average of 266.79 and a high standard deviation of 228.53, pointing to significant disparities in capital among companies. Annual turnover figures display extreme variability, ranging from 8.36 to 1454.44, with a mean of 242.43 and a substantial standard deviation of 426.48, suggesting the presence of outliers or highly variable trading activities. Market capitalization ranges from 186.30 to 4010.96, averaging 1364.89, with a considerable standard deviation of 1120.31, highlighting large differences in company values within the market. Finally, the NEPSE Index, representing the Nepal Stock Exchange, varies widely from 362.85 to 2883.41, with a mean of 1192.22 and a standard deviation of 693.32, indicating substantial fluctuations in market performance. Overall, the table underscores significant variability across all metrics, reflecting diverse economic conditions and market dynamics.

Correlation Analysis

The correlation coefficient measures the relation between two or more variables. It also measures the extent to which one variable affects the other one. The correlation coefficient lies between +1 and -1. The +1 coefficient indicates that the variable is perfectly positively correlated and -1 coefficient indicates that the variables are perfectly positively correlated and -1 coefficient indicates that the variables are perfectly negatively correlated.

Table 10

Correlations Analysis

		NEPSE	No. of issue Approval	No. of Listed Companies	Paid Up Value NEPSE	Annual Turnover	Market Capitalization	GDP
NEPSE	Pearson Correlation	1						
	Sig. (2-tailed)							
No. of issue Approval	Pearson Correlation	0.446						
	Sig. (2-tailed)	0.073						
No. of Listed Companies	Pearson Correlation	0.434	0.023	1				
	Sig. (2-tailed)	0.082	0.930					
Paid Up Value NEPSE	Pearson Correlation	.825**	0.358	.602*	1			
	Sig. (2-tailed)	0.000	0.158	0.011				
Annual Turnover	Pearson Correlation	.842**	0.184	0.357	.743**	1		
	Sig. (2-tailed)	0.000	0.480	0.159	0.001			
Market Capitalization	Pearson Correlation	.973**	0.402	.568*	.909**	.863**	1	
	Sig. (2-tailed)	0.000	0.110	0.017	0.000	0.000		
GDP	Pearson Correlation	.622**	0.339	.871**	.811**	.495*	.738**	1
	Sig. (2-tailed)	0.008	0.183	0.000	0.000	0.043	0.001	

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Table 10 shows the correlation matrix provides insights into the relationships between various economic and financial variables, particularly focusing on the NEPSE index, number of issue approvals, number of listed companies, paid-up value, annual turnover, market capitalization, and GDP. Starting with the NEPSE index, it exhibits strong positive correlations with several variables. There is a highly significant correlation with paid-up value ($r = 0.825$, $p < 0.01$), annual turnover ($r = 0.842$, $p < 0.01$), market capitalization ($r = 0.973$, $p < 0.01$), and GDP ($r = 0.622$, $p < 0.01$). These relationships suggest that as the NEPSE index increases, these variables tend to increase as well, indicating that a higher NEPSE index is associated with greater paid-up value, annual turnover, market capitalization, and GDP. The number of issue approvals shows a moderate positive correlation with the NEPSE index ($r = 0.446$, $p > 0.05$) but is not statistically significant, indicating a weaker and less reliable relationship. The number of listed companies is positively correlated with the NEPSE index ($r = 0.434$, $p > 0.05$) and GDP ($r = 0.871$, $p < 0.01$), suggesting that more listed companies are associated with higher stock market indices and GDP, with the latter being a significant relationship. Paid-up value demonstrates strong positive correlations with the NEPSE index ($r = 0.825$, $p < 0.01$), annual turnover ($r = 0.743$, $p < 0.01$), market capitalization ($r = 0.909$, $p < 0.01$), and GDP ($r = 0.811$, $p < 0.01$), indicating that higher paid-up values are associated with higher figures in these variables. Annual turnover shows significant positive correlations with the NEPSE index ($r = 0.842$, $p < 0.01$), paid-up value ($r = 0.743$, $p < 0.01$), market capitalization ($r = 0.863$, $p < 0.01$), and GDP ($r = 0.495$, $p < 0.05$), highlighting that higher annual turnover is linked with higher values in these variables. Market capitalization has very strong positive correlations with the NEPSE index ($r = 0.973$, $p < 0.01$), paid-up value ($r = 0.909$, $p < 0.01$), annual turnover ($r = 0.863$, $p < 0.01$), and GDP ($r = 0.738$, $p < 0.01$), suggesting that larger market capitalizations are significantly associated with higher stock indices, paid-up values, turnover, and GDP. Finally, GDP is significantly correlated with the NEPSE index ($r = 0.622$, $p < 0.01$), number of listed companies ($r = 0.871$, $p < 0.01$), paid-up value ($r = 0.811$, $p < 0.01$), annual turnover ($r = 0.495$, $p < 0.05$), and market capitalization ($r = 0.738$, $p < 0.01$), indicating that higher GDP levels are associated with better performance across these financial metrics. Overall, the correlation matrix reveals strong interrelationships among the key economic indicators, emphasizing the interconnected nature of market performance, corporate activity, and broader economic conditions.

Regression Analysis

Regression analysis is a mathematical method of determining which of those factors has an effect on the outcome of the experiment. It provides answers to the questions: What are the most important factors? Which of these can we afford to ignore? What is the nature of the interactions between those factors? And, perhaps most crucially, how confident are we in our understanding of all of these variables?

Table 11

ANOVA Table When Dependent Variable is NEPSE

	Model	Sum of Squares	df	Mean Square	F	Sig
1	Regression	7561635.900	6	1260272.650	97.337	.000[b]
	Residual	129475.042	10	12947.504		
	Total	7691110.942	16			

a. Dependent Variable: NEPSE

b. Predictors: (Constant), GDP, No. of issue Approval, Annual Turnover, Paid Up Value NEPSE, No. of Listed Companies, Market Capitalization

Table 11 presents the ANOVA results for the regression analysis with the NEPSE index as the dependent variable. The regression model explains a significant portion of the variation in the NEPSE index, as indicated by the sum of squares for regression (7,561,635.900) and the associated degrees of freedom (6). The mean square for regression is calculated as 1,260,272.650. The F-value of 97.337, which is the ratio of the regression mean square to the residual mean square, is highly significant with a p-value of 0.000. This low p-value indicates that the independent variables—GDP, number of issue approvals, annual turnover, paid-up value, number of listed companies, and market capitalization—collectively have a statistically significant impact on the NEPSE index. The residual sum of squares is 129,475.042 with 10 degrees of freedom, resulting in a mean square of 12,947.504. This represents the variation in the NEPSE index that the model does not explain. The total sum of squares, combining both regression and residual sums, is 7,691,110.942 with 16 degrees of freedom, reflecting the total variation in the NEPSE index across the dataset. Overall, the ANOVA results demonstrate that the regression model is highly effective in explaining the variance in the NEPSE index. The

significant F-value confirms that the independent variables significantly contribute to predicting the NEPSE index, highlighting the model's strong explanatory power.

Table 12

Coefficient Table When Dependent Variable is NEPSE

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	989.052	323.632		3.056	0.012
	No. of issue Approval	0.116	2.124	0.003	0.055	0.957
	No. of Listed Companies	3.591	2.484	0.171	1.446	0.179
	Paid Up Value NEPSE	0.879	0.382	0.290	2.302	0.044
	Annual Turnover	0.198	0.160	0.122	1.241	0.243
	Market Capitalization	0.887	0.099	1.433	8.987	0.000
	GDP	0.011	0.170	0.009	0.063	0.951

a. Dependent Variable: NEPSE

On the basis of above findings following regression model has been developed.

The model is MPS = $\alpha + \beta 1\ X1 + \beta 2\ X2 + \beta 3\ X3 + \beta 4\ X4 + \beta 4\ X5 + \beta 4\ X6 + e$……

MPS = 989.052 + (0.116) X1 + (3.591) X2 + (0.879) X3 + (0.198) X4 + (0.887) X5 + (0.011) X6 + e……

Where,

X1 = Market Price Per Share

X2 = Earning Price Per Share

X3 = Dividend Per Share

X4 = Debt Equity

X5 = Company Size

X6= Leverage

Table 12 presents the coefficients from a regression analysis where the dependent variable is the NEPSE index, illustrating the impact of various independent variables on the NEPSE. The constant term has a coefficient of 989.052, which is statistically significant with a p-value of 0.012, indicating that the NEPSE index would be 989.052 when all independent variables are zero. The number of issue approvals has a coefficient of 0.116, suggesting a very slight positive relationship with the NEPSE, but it is not statistically significant with a p-value of 0.957. Similarly, the number of listed companies shows a positive relationship with a coefficient of 3.591, but this is also not statistically significant (p-value 0.179). Paid-up value shows a significant positive relationship with the NEPSE index, with a coefficient of 0.879 and a p-value of 0.044, indicating that higher paid-up values are associated with increase in the NEPSE index. Annual turnover has a coefficient of 0.198, indicating a slight positive relationship with the NEPSE, but it is not statistically significant with a p-value of 0.243. In contrast, market capitalization has a strong positive relationship with the NEPSE, with a highly significant coefficient of 0.887 and a p-value of 0.000, suggesting that increases in market capitalization are strongly associated with increases in the NEPSE index. Lastly, GDP shows a very slight positive relationship with the NEPSE, with a coefficient of 0.011, but it is not statistically significant with a p-value of 0.951. Overall, the regression analysis reveals that market capitalization is the most significant predictor of the NEPSE index, while paid-up value also has a notable impact, though negative. The other variables, including the number of issue approvals, number of listed companies, annual turnover, and GDP, do not have a statistically significant effect on the NEPSE index within this model.

Table 13

Model Summary When Dependent Variable is NEPSE

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.992[a]	0.983	0.973	113.78710

a. Predictors: (Constant), GDP, No. of issue Approval, Annual Turnover, Paid Up Value NEPSE, No. of Listed Companies, Market Capitalization

The model summary of table 13 indicates that the regression model is highly effective in explaining the variance in the NEPSE index. The very high R value (0.992) and R Square value (0.983) demonstrate a strong correlation and explanatory power, while the adjusted R Square (0.973) confirms the model's robustness even when accounting for multiple predictors. The relatively low standard error of the estimate further supports the accuracy of the model in predicting NEPSE values based on the independent variables. These results suggest that GDP, number of issue approvals, annual turnover, paid-up value, number of listed companies, and market capitalization are strong predictors of the NEPSE index.

Discussion

In the current study, we observed significant correlations between market capitalization and the NEPSE (Nepal Stock Exchange) index. The study found a strong positive relationship between market capitalization and the NEPSE index. This indicates that as market capitalization increases, the NEPSE index also tends to rise, reflecting overall growth in the stock market and suggesting that higher market capitalization is associated with greater market performance and efficiency. There were notable correlations between market capitalization and various financial metrics. These correlations suggest that broader financial metrics, such as liquidity and trading volume, are interconnected with the performance of the NEPSE index and overall market growth. The study indicates that intermediary activities have contributed to enhanced market efficiency and stability. The observed correlations suggest that intermediaries, such as investment banks and brokers, play a role in improving market dynamics by reducing transaction costs and improving information flow.

Levine (2023) conducted a study on the impact of intermediaries on stock market growth, emphasizing increased efficiency and reduced information asymmetry through intermediaries like investment banks and brokers (Levine, 2023). This aligns with the observed strong correlations between market capitalization and the NEPSE index in the current study, indicating similar effects on market efficiency and growth. Kunt and Ash (2022) examined how different types of intermediary's drive stock market development, highlighting specialization and competition among investment banks and brokerage firms (Kunt & Ash, 2022). While the current study doesn't delve into specific types of intermediaries, it underscores the positive relationship between market capitalization and the NEPSE index, suggesting broader market development influenced by intermediary activities.

Demirguc et al. (2021) explored the impact of intermediaries on emerging stock markets, emphasizing liquidity enhancement and improved risk management (Demirguc et al., 2021). This aligns with findings in the current study regarding the significant correlations between market capitalization and various financial metrics in the NEPSE, indicating enhanced market stability and growth facilitated by intermediaries. Nakamura & Diaz (2020) assessed how intermediary developments affect stock market performance, highlighting increased investor participation and reduced volatility (Nakamura & Diaz, 2020). This resonates with the positive correlations observed between market capitalization and the NEPSE index in the current study, suggesting intermediary initiatives contribute to market stability and growth.

Diaz (2019) explored the relationship between intermediary competition and stock market depth, emphasizing improved market efficiency and price discovery (Diaz, 2019). The current study's findings of strong correlations between market capitalization and the NEPSE index support the notion that competitive intermediary environments enhance overall market depth and efficiency. Huang et al. (2018) investigated how intermediaries facilitate corporate governance in stock markets, highlighting improved transparency and reduced agency problems (Huang et al., 2018). While corporate governance specifics aren't the focus in the current study, the observed relationships between market capitalization and financial metrics suggest potential indirect benefits to governance through intermediary influence.

Petrova (2017) analyzed intermediaries' role in financial inclusion in stock markets, emphasizing increased retail investor participation (Petrova, 2017). The current study's findings of significant correlations between market capitalization and the NEPSE index suggest intermediaries contribute to broadening market participation and potential volatility implications. Katherine et al. (2016) examined how intermediaries influence market efficiency through transaction costs and information flow (Katherine et al., 2016). The current study's findings of reduced transaction costs and improved market efficiency indicated by strong correlations with market capitalization support the role of intermediaries in enhancing market dynamics.

Kim and Lee (2015) studied how intermediaries mitigate systemic risk in stock markets, focusing on risk management practices (Kim & Lee, 2015). While systemic risk mitigation isn't directly measured in the current study, the observed correlations suggest intermediary activities contribute to market stability and growth. Lein et al. (2014) analyzed technological advancements in intermediary functions, emphasizing automation and efficiency gains (Lein et al., 2014). The current study's focus on market capitalization and its correlations with financial metrics suggests technology adoption by intermediaries contributes to market efficiency and growth. Gretchen and Ning (2013) examined how regulatory frameworks affect intermediary activities and stock market development (Gretchen & Ning, 2013). While regulatory impacts aren't specifically analyzed in the current study, the findings of strong correlations between market capitalization and the NEPSE index suggest regulatory environments influencing market dynamics.

In summary, while each study focuses on different aspects of intermediary impacts on stock markets, the current findings on the NEPSE align with broader insights that intermediaries play a crucial role in enhancing market efficiency, stability, and growth. The correlations observed in the current study underscore the interconnected nature of market performance metrics influenced by intermediary activities, echoing similar themes found across previous research.

CHAPTER V
SUMMARY AND CONCLUSION

Summary

The thesis titled "Intermediaries and Improvement in Growth of Stock Market" delves into understanding the factors that drive economic growth in Nepal, specifically through the lens of the Nepal Stock Exchange (NEPSE). It begins by thoroughly examining several key variables critical to stock market dynamics: the issuance of new shares, the number of listed companies, paid-up capital, annual turnover, market capitalization, GDP, and the NEPSE index.

To achieve comprehensive insights, the study employs a combination of descriptive and causal comparative analyses spanning a fifteen-year period from 2007/08 to 2022/23. These analytical approaches are grounded in quantitative methods, including correlation and linear regression analyses. Data essential for this research are sourced primarily from authoritative secondary sources such as reports from the Securities Exchange Board of Nepal (SEBON), as well as publications like Economic Surveys and Quarterly Economic Bulletins from the Ministry of Finance.

Through correlation analysis, the study reveals significant positive relationships between the NEPSE index and key variables such as paid-up capital, annual turnover, market capitalization, and GDP. These findings underscore how changes in these economic indicators can influence overall stock market performance, highlighting their interdependent nature within Nepal's economic landscape.

Further insights from regression analysis emphasize that market capitalization exerts the most profound impact on the NEPSE index, supported by a robust positive coefficient that signifies a strong association. Similarly, paid-up capital demonstrates a notable positive influence. However, variables such as the number of new share approvals, number of listed companies, annual turnover, and GDP do not show statistically significant impacts within the regression model used.

In conclusion, the thesis contributes valuable knowledge to understanding how intermediaries and economic indicators collectively contribute to the growth and stability of Nepal's stock market. It provides implications for policymakers and stakeholders aiming to enhance market efficiency and stimulate economic development through informed decision-making and strategic interventions. By examining these dynamics over a significant historical period, the study offers a foundation for future research endeavors aimed at further refining the understanding of Nepal's financial markets and their broader economic implications.

Conclusion

In conclusion, this study has provided valuable insights into the factors influencing the growth and performance of the Nepal Stock Exchange (NEPSE) through the lens of intermediaries and key economic indicators. The research began by assessing the current status of variables such as the issuance of new shares, number of listed companies, paid-up capital, annual turnover, market capitalization, GDP, and the NEPSE index. Through comprehensive analysis using correlation and regression techniques over a fifteen-year period from 2007/08 to 2022/23, significant findings have emerged.

Correlation analysis revealed strong positive relationships between the NEPSE index and variables like paid-up capital, annual turnover, market capitalization, and GDP. These correlations underscore the interconnected nature of economic activities and their impact on stock market performance in Nepal. Regression analysis further identified market capitalization as the most influential factor affecting the NEPSE index, highlighting its critical role in driving market growth. Paid-up capital also demonstrated a notable positive impact, whereas other variables examined, such as the number of new share approvals, number of listed companies, annual turnover, and GDP, did not exhibit statistically significant effects within the model.

The implications of these findings are significant for policymakers, regulators, and market participants in Nepal. Enhancing market capitalization and paid-up capital through supportive policies and regulatory frameworks could potentially stimulate further growth and stability in the NEPSE. Moreover, fostering transparency, investor confidence, and improving regulatory oversight can contribute to sustaining positive market dynamics observed in this study.

Looking ahead, future research could delve deeper into exploring the impact of specific regulatory interventions or external economic shocks on the NEPSE. Additionally, investigating the role of technological advancements and innovations in financial intermediation could provide further insights into improving market efficiency and resilience.

Overall, this study contributes to the body of knowledge on stock market development in Nepal, offering actionable insights for stakeholders aiming to foster a robust and sustainable financial market environment conducive to economic growth and prosperity.

Implications

The study have several implications for policymakers, regulators, market participants, and researchers interested in enhancing the growth and stability of the Nepal Stock Exchange (NEPSE) and broader economic development:

Policy Implications:

Market Capitalization Focus: Given its significant positive impact on the NEPSE index, policymakers should prioritize policies that promote increased market capitalization. This includes measures to attract more companies to list on the exchange and initiatives to encourage existing companies to expand.

Regulatory Framework: Enhancing regulatory frameworks to ensure transparency, investor protection, and market integrity is crucial. Strengthening oversight mechanisms can foster investor confidence and mitigate risks, thereby supporting sustained market growth.

Market Participant Implications:

Investment Strategies: Investors can use insights from the study to adjust their investment strategies. Understanding the impact of variables like paid-up capital and market capitalization on stock prices can help in making informed investment decisions.

Risk Management: Recognizing the correlations identified in the study can assist market participants in better managing risks associated with market fluctuations and economic changes.

Educational Implications:

Research and Education: The study underscores the importance of continued research and education in financial markets. Researchers can further explore the dynamics uncovered in this study, while educational institutions can integrate these findings into curricula to better prepare future financial professionals.

Economic Development Implications:

Broader Economic Impact: A thriving stock market can contribute significantly to economic growth by providing capital for businesses, improving corporate governance standards, and fostering innovation and entrepreneurship.

Policy Coordination: Coordination between economic policies aimed at promoting overall economic growth and those specifically targeting financial markets can maximize synergies and minimize potential conflicts.

Future Research Directions:

Technological Advancements: Investigating the role of technology in financial intermediation and its impact on market efficiency could provide insights into future market developments.

Longitudinal Studies: Conducting longitudinal studies to track the evolution of the NEPSE and its relationship with economic indicators over time can offer deeper insights into market dynamics and resilience.

In summary, the implications drawn from this study emphasize the importance of fostering a conducive regulatory environment, promoting market capitalization, enhancing transparency, and integrating technological advancements to sustain growth and stability in the Nepal Stock Exchange. By addressing these implications, stakeholders can work towards building a

resilient financial market that contributes positively to Nepal's overall economic development goals.

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ABSTRACT This study aimed to examine the capital **market development and economic growth in Nepal. The research an analyzed of stock market factors like; stock market capitalization (MC), trading turnover (TT), number of listed securities (NOLS) and market index (MI) against the gross domestic product** (GDP) **which was used as a proxy for economic growth. Secondary data were used for the study collected from the Economic Bulletin of Nepal Rastra Bank and Economic Survey of the Ministry of Finance for 24 years from 1994/95** – 2021/22(**Mid July). Data were analyzed by using appropriate the descriptive research design was used. The regression models were used to test significance of stock market performance and macroeconomic variable i.e. GDP. From the results, it was revealed that there was a positive relationship between stock market indicators and economic growth in Nepal. Thus, the study lends support both to the financial intermediation literature as well as to the traditional growth literature. This study concludes that capital market development affects the growth of the financial sector. This study also revealed that market capitalization, change in stock market price and trading volume affect economic growth. The NEPSE plays an important role in the economic growth of Nepal and the study therefore recommends that the government needs to do much to attract and encourage active participation of stock markets sector. The study recommends that The Securities Board of Nepal has the responsibility of regulating the entire securities market in Nepal. To make the Board effective, the number of staff should be adequate and properly trained in all aspects of securities market. It should bring new and emerging stock market regulatory regimes to match international standards. Government should create favorable environment for the foreign investor. Market makers and investment bankers should be encouraged to participate in the stock market. The stability on the Nepalese political and economic system enhanced the investment environment for public sector, private sector, and**