

CHAPTER 1

INTRODUCTION

1.1 Background of the Study

The dominant factor that determines the economic strength of a country is how capable the country is in utilizing its resources. The inefficient and improper utilization of the resources affects the country's development adversely (like Nepal is facing now). Mobilization of the capital is an effective tool that helps in the proper and efficient utilization of the resource and hence it affects the overall economy of the country directly.

Recently there has been great deal of interest in explaining the behavior of aggregate stock price. The simplest model of stock price determinations, which was generally accepted at least as an appropriate until a few years ago, is that the stock price equals the present value of expected future dividends, discounted at a constant rate. This model attributes stock price movements to news about future dividends and implies the percentage stock returns are unpredictable. The pioneering work on share price determinants by Collins (1957) for the US identified dividend, net profit, operating earnings and book value as the factors influencing share prices.

Prabath (2014) concluded that the internal factors, firm specific factors such as dividend per share (DPS), earnings per share (EPS) and book value per share (BVPS) affect positively and significant impact on the stock price. Following Collins (1957) there have been various attempts to identify the determinants of share prices for different markets. The other empirical studies viz. Taulbee (2005), Nawazish (2008), Al-Shubiri (2010), Sharma (2011), Khan and Amanullah (2012), Srinivasan (2012), Malhotra and Tandon (2013), Almumani (2014) among others reveal that various factors in different markets determine the share price.

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According to Jones and Charles (2004), the comparison of this analysis will give insight to the investors whether the stock price is undervalued or overvalued and it will assist the investor on making the decision. Stock prices would be determined primarily by fundamental factors. Various researchers have found important fundamental factors that determine the share prices for different markets. Viz, dividend, retained earnings, size, earning per share, dividend yield, leverage, payout ratio, and book value per share. A stock price in an efficient market provides investors

with good measures of any firm's performance and its value. Srinivasan (2012), notice that, understanding the impact of various fundamental variables on stock price is very much helpful to investors, as it will help them in making profitable investment decisions.

In an efficient market, share price should adjust randomly upwards and downwards with respect to new information. Behavior of NEPSE Index, its movement cannot be tested easily. However, by postulating some security prices behavior, one can have some idea about market efficiency. According to the history, strong and great effort have denoted in the field of financial research to investigate the movement of share price. .

The stock market is primarily the place where these companies get listed to issue the shares and raise the fund. In case of an already listed public company, they issue more shares to the market for collecting more funds for business expansion. For the companies which are going public for the first time, they need to start with the Initial Public Offering or the IPO. In both the cases market is that the market plays the role of a common platform for the buyers and sellers of these stocks that are listed at the stock market is that the market plays the role of a common platform for the buyers and sellers of these stocks that are listed at the stock market amount of assets, which the corporation has on behalf of each equity share. BV shows the net investment per share made in the business by the shareholder. It is the value at which an asset is carried on a balance sheet.

One of the major avenues of investment that has the potential of yielding considerable returns to investors is the investment in equity shares. It is also a source of finance for the capital requirements of firms. Returns from such equity investments are however subject to vary, depending upon the performance of the particular stock and movement in stock price. Fluctuation in stock prices may occur due to the supply and demand forces but there is no foolproof or perfect system that indicates the exact movement of stock prices. The factors behind the increase or decrease in the demand and supply of stock prices can be categorized into three main types: technical factors, fundamental factors and market sentiments. However, knowledge of such factors and their possible impact on share prices is highly appreciable as it would help investors make wise investment decisions and enable firms to enhance their market value.

Determining share prices is a complex and conflicting task. Shiller (1981) found that stock prices are not stable and fluctuate excessively in relation to the news about fundamentals (as dividends) primarily due to market irrationality. Thus, it is asserted that understanding the impact of various fundamental variables on stock price is very much helpful to investors as it will help them in taking profitable investment decisions.

Nepal Stock Exchange, in short NEPSE, is established under the company act, 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 licensed members are the shareholders of NEPSE.

1.2 Statement of the Problem

Stock price is determined by demand and supply. Both the qualitative factor determines the stock price, to specify exactly what factor to determine the stock is a controversial issue. The stock price fluctuates time to time and stock exchange reacts with the environmental changes. This study tries to identify the determinants of stock price and find out the degree of affection of those determinants. Determining share prices is a complex and conflicting task. Stock prices are not stable and fluctuate excessively in relation to the news about fundamentals (as dividends) primarily due to market irrationality (Shiller, 1981).

Only few investors of Nepalese share market are aware of the causing agent of share price. It means that most of the investors are unknown about the financial performance of the company but tend to invest on the company without proper financial analysis. It causes the unusual relation of the financial indicators - EPS, BVPS, DPS, P/E Ratio etc. with the market price of share. The market rumours relating the financial position of the company is the major analytical tool for the most of the Nepalese investors. In this context, the research problem of this study can be presented in following points:

Does EPS impact on stock price of sample banks?

2. Does BVPS impact on stock price of sample banks?

3. Does DPS impact on stock price of sample banks?

4. Does P/E Ratio impact on stock price of sample banks?

1.3 Objectives of the Study

The main objective of this study is to analyze the stock price determinants of commercial banks in Nepal. The specific objectives are follows:

To examine the impact of EPS on stock price of sample banks.

To examine the impact of BVPS on stock price of sample banks.

To examine the impact of DPS on stock price of sample banks.

To examine the impact of P/E Ratio on stock price of sample banks.

1.4 Significance of the Study

This study attempts to construct the relation of MPS of the Nepalese Commercial Banks to the major financial indicators like EPS, BPS, and DPS etc. The relation is hoped to show the current status of Nepalese Commercial Banks with respect to the determiners of the Share Price. These findings may be helpful to the potential investors to make the better investment decisions.

Since, the market price of share is the function of information this research will be beneficial to know how will share prices absorb information in the Nepalese capital market. In other words, this research help to know Nepalese investor react to the information disseminated to capital market. This thesis delivers essential information about the stock market of NEPSE which may be required to the further researcher. However, there are many studies already done in this topic of market price fluctuation due to the financial indicators or specific variables, but in the previous studies nobody has tried to look of the various sector companies market price of share.

The study is assumed helpful to the investors in the NEPSE.

The study provides literature to further researchers in this subject matter. This study helps to know about the stock price trend in Nepalese context. It can help the potential investor for taking good or right decision while making investment in shares.

The study is helpful to know about the factors affecting share price.

It makes investors well informed about the impact of MPS with other financial indicators by which investment analysis become simple.

1.5 Limitations of the Study

Due to the limitations of the time, cost and other resources, this study is limited to the following areas:

Among the various commercial banks, the study is based on four commercial banks listed in the NEPSE.

This study covers the recent data and information only for 5 years from 2012/13 to 2016/17.

This study focuses only on the analysis of relationship of MPS with EPS, DPS, BVPS and P/E Ratio.

The study is based on secondary data. So the validity and reliability of the data depends upon their source.

1.6 Chapter Plan

This study is organized into five Chapters.

Chapter I Introduction

Chapter I deals the major issues related to the share market of Nepal, objectives, significance and limitations of the study.

Chapter II Literature Review

This Chapter is the brief review of literature related to this study. It includes a discussion on the conceptual framework and review of the major studies. It gives an overview of the related literature done in the past related to this study.

Chapter III Methodology

Chapter III, Research Methodology, describes the different methodologies employed in this study. Sources of data are mentioned and described in this chapter.

Chapter IV Results

This Chapter presents and analysis the data obtained during the study. Different tools and techniques of data analysis have been undertaken for the purpose of analysis of data.

Chapter V Conclusions

This chapter includes the summary, conclusion and the recommendations of the study. The findings are included in this chapter along with the suggestions and their recommendations.

CHAPTER 2

LITERATURE REVIEW

This Chapter deals with the literature related to the present study. It highlights upon the existing literature on some basic literature on determinants of stock price including review of the empirical evidence of previous studies. For this, several books, articles published in journals, newspapers, reports, handouts are reviewed.

2.1 Conceptual Review

2.1.1 Stock Market

The stock market is primarily the place where the companies get listed to issue the shares and raise the fund. In case of an already listed public company, they issue more shares to the market for collecting more funds for business expansion. For the companies which are going public for the first time, they need to start with the Initial Public Offering or the IPO. In both the cases the companies have to go through the stock market. This is the primary function of the stock exchange and thus they play the most important role of supporting the growth of the industry and commerce in the country. That is the reason that a rising stock market is the sign of a developing industrial sector and a growing economy of the country. The secondary function of the stock market is that the market plays the role of a common platform for the buyers and sellers of these stocks that are listed at the stock market.

Stock market includes:

2.1.1.1 Primary Market

Primary market is the financial market in which the new issues of the securities are sold to the initial buyers by the corporation or government agencies borrowing the fund. It is the market where securities are created. It is the place where firms sell bonds or stocks to public for the first time. It is the market where the initial public offering takes place. Investment bank is the financial institution which helps to sell the securities in the primary market. Underwriting is the process to sell the securities in the primary market. The Primary market is concerned with the floatation of shares and distribution of shares to the general public. It consists of companies issuing securities to the buyer of new securities and various intermediaries that help in the disposal of new securities. Issue managers, underwriters; stockbrokers, stock exchange etc. are the important constituents of the new issue market. The Primary market is the initial market, because it is concerned with the creation of new financial claims.

There are three ways in which a company may raise capital in the primary market.

Public issue

This involves sale of securities to the public.

Right issue

This is a method of raising further funds from existing shareholders by offering additional securities to them on a preemptive basis. It involves the offer of additional shares to existing shareholders.

Private Placement

It involves selling securities privately to a single investor or to a small group of investors. That private placement is sold to a limited number of sophisticated investors who are buying for investment purposes. These right issue and private placement are primary issue but these are not public issue.

2.1.1.2 Secondary market

It is that types of market where the second hand securities are traded and secondary markets are markets in which already traded or secondary securities are traded among the investors. In the secondary market securities are sold by and transferred from one investor or speculator to another. It is therefore important that the secondary market be highly liquid.

Secondary Market is one kind of capital market where securities are traded which has already been issued in the past. The secondary market, also known as the aftermarket, is the financial market where previously issued securities and financial instruments such as stock, bond, option and futures are bought and sold. Simply, secondary markets are markets in which existing outstanding securities are traded between the investors i.e. buyers and sellers. It creates the price and allow for liquidity. Thus, Secondary Market mainly deals with previously issued shares traded through stock exchange, over the counter market or direct selling. For the efficient growth of primary market, secondary market is an essential requirement. Since, the secondary market provides liquidity to the securities; the investors are encouraged to buy the securities in the primary market. In Nepal, Nepal Stock Exchange (NEPSE) is the organized secondary market where thousands of securities are traded. New York Stock Exchange (NYSE), National Association of Securities Dealers Automated Quotations (NASDAQ) are the major exchange organization around the world.

Secondary markets can be organized in two ways:

2.1.1.2.1 Organized stock exchange

Organized Stock Exchange is the place where the buyers and sellers of the securities (or their agents or brokers) meet in one central location to conduct trades. An exchange is an organized market where the tradable securities, commodities, foreign exchange, future, options, contracts are bought and sold. The stock exchange may be private company, non-profit company or publicly traded company.

Stock Exchange is one important constituent of capital market. Stock Exchange is an organized market for the purchase and sale of industrial and financial security. It is convenient place where trading in securities is conducted in systematic manner i.e. as per certain rules and regulations. It is also called stock market or share market. The Indian Securities Contracts (Regulation) Act of 1956, defines Stock Exchange as, "An association, organization or body of individuals, whether incorporated or not, established for the purpose of assisting, regulating and controlling business in buying, selling and dealing in securities."

For example: NEPSE, NYSE, TOKYO STOCK EXCHANGE, AMERICAN STOCK EXCHANGE(AMEX), BOMBAY STOCK EXCHANGE are the some example of organization stock exchange.

2.1.1.2.2 Over-the-counter market (OTC Market)

The another method of organizing a secondary market is to have an Over-the-counter market, in which dealers at different locations who have an inventory of securities stand ready to buy and sell securities “Over the counter” to anyone who comes to them and is willing to accept their prices. Because Over-the-counter dealers are in computer contact and know the prices set by one another, the OTC market is very competitive and not very different from a market with an organized exchange.

Many common stocks are traded Over-the-counter, although a majority of the largest corporations have their shares traded at organized stock exchanges. The U.S Government bond market, with a larger trading volume than the New York Stock Exchange, by contrast, is set up as an over-the-counter market. Forty or so dealers establish a “market” in these securities by standing ready to buy and sell U.S Government bonds. Other over-the-counter market includes those that trade other type of financial instruments such as negotiable certificates of deposits, federal funds, bankers acceptances, and foreign exchange.

It is a part of secondary market. Generally, securities of those companies, which are not listed in security exchange, traded in over the counter market. A decentralized market, without a central physical location, participants trade with the means of various communication modes such as the telephone, email and proprietary electronic trading systems. An over-the-counter (OTC) market and an exchange market are the two basic ways of organizing financial markets. In an OTC market, authorized dealers act as market makers by quoting prices at which they will buy and sell a security or currency. A trade can be executed between two participants or intermediaries in an OTC market without others being aware of the price at which the transaction was effected. In general, OTC markets are therefore less transparent than exchanges and are also subject to fewer regulations. NASDAQ in the United State (US) and Over the counter Exchange India (OTCEI) in India are some the well-known examples of OTC market.

2.1.2 Common stock

Common Stock represents the ownership position in the company. The holders of common stocks are called common stockholders or shareholders and they are the legal owners of the company. Common stocks are also known as equity shares or ordinary shares. Ordinary shares have no maturity date and they are the source of permanent capital. Common stocks are variable income security, meaning that the dividend payment to the shareholder is not fixed like interest to the bondholders and dividend to the preference shareholders.

The common stocks are the permanent and vital source of capital since they do not have a maturity date. As a return to the contribution of shareholders investment, they are entitled to dividends. It means, in the case of organizational profit, the shareholders are provided a certain sum of money as dividend. The amount or rate of dividend is fixed by the Board of Directors. Hence, the common stock is a kind of variable income security. Being the owner of the company, the shareholders bear the risk of ownership. They are entitled to dividends after the claims of outsiders' are satisfied.

Features of common stock

Common Stocks have number of features. These features are described in brief below:

1. Claim on income and assets:

Common Stockholders have a residual claim. They have a claim on earnings after payment of expenses, interest, taxes and preference dividends. Similarly, they have a residual claim on assets at the time of liquidation. The final payment occurs to the common stockholders after payments are made to the creditors, preference shareholders etc.

2. Voting rights:

Common stockholders have the right to vote for directors in the election as well as to make changes in the memorandum of association.

3. Limited liability:

Common stockholders have a limited liability, i.e, only to the extent of their investment in shares.

4. Preemptive rights:

Existing shareholders have a right to purchase additional shares issued by the company at a proportion of current ownership and at subscription price.

5. Right to control:

Common stockholders are the real owners of a company; therefore, they have a control over the company through the election of the board of directors.

2.1.3 Preferred Stock

Stock issued with the first priority to receive dividend as well as to claim on assets over the common stock at the time of bankruptcy of the corporation is called preference share or preferred stock. Preferred stock has features of both equity of both and debt. Like bond holders preferred stockholders are paid fixed dividend. Therefore, it is also called fixed income security. Preferred stock dividends are fixed but do not represent an obligation of the issuer. Most preferred stock dividends are cumulative, requiring payment of all unpaid preferred dividends before common stock dividends. Some preferred stocks are perpetual, some are redeemable, some are callable and some are convertible into common stock etc.

Features:**1. Par value**

A stated value per share that will be paid at the time of liquidation and a fixed dividend per share is paid at par value.

2. Dividend rate

A fixed rate of dividend that is paid to the stockholders each year until the redemption of the stocks.

3. Cumulative and non-cumulative

Preference share dividend is not like interest on debt. Dividends not paid in any year are paid cumulatively in the coming year before paying to the common stockholders. These preference shares are called cumulative preferred stocks. Under non-cumulative preferred stock, dividends not paid in any year are not paid in the coming year.

4. Voting right

Preferred stocks have no voting right but they have a right to vote about their own right and subject matter.

5. Conversion features

They can be converted into common stocks. But a preferred stock without conversion features is called non-convertible preferred stock.

2.1.4 Stock Price

Stock price is the amount of money that one has to pay to purchase/receive a stock of a company. If 'A' buys 10 shares of NABIL bank from B, she/he pays Rs.2000 for these 10 shares, then the price of share is Rs.200 (i.e. 2000/10). Thus stock price is the amount paid by a buyer to buy one stock or the amount received by the seller a sock. The stock price is determined in stock market, by market forces, i.e. demand (buyer forces) and supply (seller's force). The demand and supply are based on the environmental forces and individuals' future expectations/assumptions. The stock (market) price is different from its par value and book value.

2.1.5 Market price per share (MPS)

The market value per share or fair market value of a stock is the price that a stock can be readily bought or sold in the current market place. In other words, the market value per share is the "going price" of a share of stock. The market price per share of stock usually termed simply "share price" is simply the amount that the investors are willing to pay for one share of the company's stock. The market price of the share is mainly determined by the forces of demand and supply of a particular security in the market (Piotrosbi D Joseph. et al. 2004). The stock market and economy changes every day and with it comes fluctuations in company stock prices. Many companies try to maintain their stock prices by issuing dividends to shareholders. A stock's market value is largely influenced by not only the economy and the company dividends as a whole but also investors' predictions and expectations.

“The market price of share gives the value of shares, and the value of the organization. The market price is that price in which shares are traded or the amount which is paid by the buyer to the seller to purchase the stock of company. Since the common stock holders are owner of organization and have least priority to claim in liquidation, the share price is highly volatile and very sensible to environmental factors. Due to the market imperfection and uncertainty, shareholders may give a higher value to the near dividends and capital gains. Thus, payment of dividend may significantly affect the market price of shares. Higher dividends increase the value of shares and low dividends reduce the value.

2.1.6 Book value per share (BVPS)

Book value of equity per share (BVPS) is a ratio that divides common equity value by the number of common stock shares outstanding. Gitman and Zutter (2012) defined book value per share, as the amount per share of common stock that would be received if all of the firm's assets were sold for their exact book (accounting) value and the proceeds remaining after paying all liabilities (including preferred stock) were divided among the common stockholders. The book value of equity per share is one factor that investors can use to determine whether a stock price is undervalued or overvalued. If a business house can increase its BVPS, investor may view the stock as more valuable, and the stock price increases.

2.1.7 Earning per share (EPS)

It refers to the ratio of the profit after tax of the company for any financial year after payment of preference dividend. Earnings per share, also called net income per share, is a market prospect ratio that measures the amount of net income earned per share of stock outstanding. In other words, this is the amount of money each share of stock would receive if all of the profits were distributed to the outstanding shares at the end of the year. Higher earnings per share are always better than a lower ratio because this means the company is more profitable and the company has more profits to distribute to its shareholders. Although many investors don't pay much attention to the EPS, higher earnings per share ratio often makes the stock price of a company rise.

2.1.8 Dividend Per Share (DPS)

Dividends per share are calculated by dividing the total dividend amount paid for the financial period by the number of ordinary shares in issue. Dividend per share (DPS) is the sum of declared dividends issued by a company for every ordinary share outstanding. Dividend is the portion of the profit after tax, which is distributed to the shareholders for their investment bearing risk in the company. How much dividend has paid by company was shown by the DPS, as well as it has a significant influence on the market price of share. The net profit after taxes belong to shareholders but the income that they really receive in the amount of earnings distributed and paid was cash dividend.

The forms of Dividend:

Cash Dividend:

Payments made in cash to shareholders are termed as cash dividends. Distribution of cash dividend causes the reduction in total assets and net worth of the company.

Stock Dividend:

Distribution of bonus shares as dividend to the stockholder is known as Stock Dividend. This increases the number of shares of the company.

2.2 Review of Previous Works

2.2.1 Review of Articles in the Journal

Irfan and Nishat (2002) identified factors exerting impact on the share prices in Karachi Stock Exchange for the period between 1981 and 2000. The study employed cross-sectional weighted least square regression and analyzed the impact of six variables viz. dividend yield, payout ratio, size, asset growth, leverage and earning volatility on share prices. Of these the payout ratio, size, leverage and dividend yield emerged as the significant factors affecting the stock market prices in Karachi. This suggests that firm specific factors have a significant impact on market price of shares.

George Tweneboah and Anokye M. Adam (2008) has conducted study on stock prices in Ghana on data from 1991 to 2006. They used T-bill rates as measures of interest rates, consumer price index as measure of inflation rate, inward foreign direct investment and exchange rate as macroeconomic factor. After applying different available models of correlation, regression and integration they concluded that the exchange rate, a macroeconomic factor, has long run relationship between the stock prices of Ghana. While the inflation rate, FDI and interest rates are the key determinants of stock prices in Ghana.

Nawazish Mirza (2008) studied book to market (B/M) ratio as key determinant of share prices. He concluded that the value and size of premium given to investor will boost up the investors to invest more in the stock as result of which the stock prices goes up. The premium is related with the Book to Market Ratio as explained in Fama and French Model for the Portfolio Return. It was also concluded that the size of the firm also play a very important role in value of stock. As market capitalization and B/M ratio is used in Fama and French to calculate the return, Nawazish said that beside these factors the environmental and economic factors can also influence the share prices.

Sunde and Sanderson (2009) provide a review on the determinants of share price with regard to the Zimbabwe Stock exchange. The interview and archival method of data collection were used in this study and the companies listed on Zimbabwe Stock Exchange were studied. This study argued that the market price of the stocks is affected by economic, political and social factors. Some micro factors which are discussed in this article are corporate earnings, management strength, lawsuits, and information about possible merger and takeover. Other factors discussed include market liquidity and stability, availability of substitutes for investment, government policy, and macroeconomic fundamentals like interest and inflation rates, investor sentiment, and technical influence and analyst reports. This article was exploratory in

nature and its major purpose was to identify and discuss the factors that might have an influence on the stock market price of Zimbabwe.

Uddin (2009) analyzed the relationship of microeconomic factors with the stock price by using multiple regression analysis. This research found a significant linear relationship among market return and some microeconomic factors such as net asset value per share, dividend percentage, earning per share of bank leasing, and insurance companies.

Somoye et al. (2009) examined the factors influencing equity prices in the Nigerian stock market for the period 2005-2007. They employed simple linear regression model to examine the impact of earning per share, GDP, interest rate, dividend per share and oil price on equity price. The empirical results showed the variable dividend per share, earning per share and GDP exerts a positive correlation to stock prices but are not significant determinants of share price.

Al-Shubiri (2010) investigated the determinants of market stock price movements of Jordanian commercial bank. The study includes the commercial bank of Amman stock exchange for the period 2005-2008. The study used simple and multiple regression analysis to investigate the determinants of market stock price. The empirical findings show highly positive significant relationship between market price of stock and net asset value per share, market price of stock dividend percentage, GDP and negative significant relationship on inflation and lending interest.

Sharma (2011) undertook to examine the empirical relationship between equity share prices and the explanatory variables; Book Value Per (BVP) share, Dividend Per Share (DPS), Earnings Per Share (EPS), price earnings ratio, dividend yield, dividend payout, size in terms of sale and net worth for the period 1993 to 1994 and 2008 to 2009 in India. Using correlation and a linear multiple regression model the results revealed that EPS, DPS and BVP had significant impact on the market price of shares with the former two being the strongest determinants.

Nirmala et al (2011) when they conducted a study on the determinants of share prices in India wherein share price was modeled as a function of firm specific variables; dividend, profitability, price-earning ratio and leverage for the period 2000 to 2009. Following the panel unit root, panel cointegration, correlation and OLS tests the results revealed that dividend, price-earning ratio and leverage are significant determinants of share prices for all sectors under consideration where dividend and price-earning ratio bear a positive relation to share price while leverage bears a negative relation. Profitability was found to be positively related to share prices in the auto sector alone.

Nirmala, Sanju and Ramachandran (2011) identified the determinants of share prices in the Indian market. The study used panel data pertaining to three sectors viz., auto, healthcare and public sector undertakings over the period 2000-2009 and employs the fully modified ordinary least squares method. They found that dividend, price-

earnings ratio and leverage are significant determinants of share prices for all the sectors under consideration. Further, profitability was found to influence share prices only in the case of auto sector.

Khan and Amanullah (2012) investigated different determinants of share prices of Karachi Stock Exchange (KSE) 100 index using Linear Multiple Regression model. A sample of 34 companies has been randomly selected from 34 sectors of KSE. Ten years' (2000-2009) data has been collected for the sample companies. The study found that rise in GDP, dividend and P/E ratio leads to rise in share prices but B/M ratio and interest rate are negatively related to share prices.

Srinivasan (2012) examined the fundamental determinants of share price in India. The study employed panel data consisting of annual time series data over the period 2006-2011 and cross-section data pertaining to 6 major sectors of the Indian economy, namely, Heavy and Manufacturing, Pharmaceutical, Energy, IT and ITES, Infrastructure, and Banking. The panel data techniques, viz. Fixed Effects model and Random Effects model have been employed to investigate the objective. The empirical results revealed that the dividend per share has a negative and significant impact on the share price of manufacturing, pharmaceutical, energy, and infrastructure sectors. Earnings per share and price-earnings ratio are being the crucial determinants of share prices of manufacturing, pharmaceutical sector, energy, infrastructure, and commercial banking sectors. Size is being a significant factor in determining the share prices of all sectors under consideration except manufacturing. Moreover, the book value per share positively influences the share prices of pharmaceutical, energy, IT & ITES, and Infrastructure.

Uwuigbe, et al. (2012) examined the determinants of share prices in the Nigerian stock exchange market. A total of 30 listed firms in the Nigerian stock exchange market were selected and analyzed for the study using the judgmental sampling technique. Also, the Nigerian stock exchange fact book and the corporate annual reports for the period 2006- 2010 were used for the study. The paper basically modeled the effects of financial performance, dividend payout, and financial leverage on the share price of listed firms operating in the Nigerian stock exchange market using the regression analysis method. The study found a significant positive relationship between firms' financial performance and the market value of share prices of the listed firms in Nigeria. Consequently, the paper concludes that firms' financial performance, dividend payouts, and financial leverage are strong determinants of the market value of share prices in Nigeria.

Malhotra and Tandon (2013) attempted to determine the factors that influence stock prices in the context of National Stock Exchange (NSE) of 100 companies. A sample of 95 companies was selected for the period 2007- 2012 and linear regression model was used. The results indicated that firms' book value, earning per share, and price-earnings ratio are having a significant positive association with firm's stock price

while dividend yield is having a significant inverse association with the market price of the firm's stock.

Almumani (2014) attempted to identify the quantitative factors that influence share prices for the listed banks in Amman Stock Exchange over the period 2005-2011 using a linear multiple regression model. There is a significant positive relationship between EPS and the MPS of the listed banks in Jordan. Moreover, moreover, there is a significant relationship between banks BVPS and MPS. Another empirical finding from the regression analysis shows a positive relationship between P/E and MPS. Empirical findings from the regression analysis on the relationship between SIZE and MPS indicate that there is an inverse relationship between S and MPS. Finally, other variables have insignificant impact on MPS. Thus from the review of literature on share price determinants, it can be observed that most of the studies have used either time-series or cross-section data. There have also been attempts to identify the share price determinants using panel data.

Obeid (2015) identified the determinants of market share prices of companies listed in the Kuwait stock exchange over the period 2008-2013. by using E-view version 8 software and ordinary regression analysis found that key determinants of share price are the one year lagged share prices, inflation, tangibility of assets, money supply, changes in growth opportunities, profitability and liquidity of firms. On the other hand, found that dividend policy, interest rate, firms size, and leveraging are not determinants of share prices.

Zeeshan et al. (2015) examined the determinants of share prices of listed Commercial Banks in Pakistan by using regression analysis found that there is significant negative relationship between books to market value ratio with share price in Pakistan.

Taimur et al. (2015) analyzed the determinants of stock price of companies listed in the Bahrain stock exchange using panel data of 41 companies for the period 2006-2010. The study primarily investigated the relationship between shares price and a number of variables. The regression results show a positive and significant association between return on equity, book value per share, dividend per share, price earnings ratio and firm's size. On the other hand dividend yield was found to have a significant negative relationship with stock prices.

2.2.2 Review of Previous Thesis

Neupane (2004) analyzed the determinants of Stock Price in Nepal Stock Exchange taking 11 sample organizations using various financial and statistical tools found that in NEPSE, DPS, BPS and EPS individually do not have consistent relationship with the market price of share, among the listed companies. The pricing behavior varies from one company to another. But EPS, BVPS and DPS, jointly have significant effect in market price shares. So there may be other major factors affecting the share price significantly.

Acharya (2008) analyzed the determinants of Stock price in Nepalese Commercial Banks with randomly selected 10 commercial banks, concluded that Share price are affected by different kinds of micro and macro variables such as EPS, DPS, information disclosed, political instability, growth rate according to respondents survey. However, interest rate, retention ratio, cost of equity, market liquidity, change in management do not significantly affect the share price in NEPSE. The major findings show in the study that the market price per share has high degree of positive relationship with EPS in all sample banks and largely depends on EPS.

Shrestha (2010) conducted a study on “Stock Price Behaviour of Nepalese Commercial Banks” taking 10 commercial banks using various statistical tools like mean, standard deviation, coefficient of variation, correlation coefficient, coefficient of determination and regression analysis. The objective of his is to find out the factors affecting stock price, relationship between MPS with EPS, DPS and BVPS. He concluded that the pricing behavior varies from one company to another. However, EPS, BPS and DPS, jointly, have significant effect in market price of shares. From the primary data analysis, factors affecting the market price of share in NEPSE are identified. Such internal factors affecting the share price are earnings, book value, dividend payment, growth rate, and risk associated with the company. Similarly, there are other environmental factors affecting the market price of share. Such environmental factors affecting the share price are government instability, information and rumors & whims.

Devkota (2016) conducted a study on “Determinants of Market price of Share of commercial bank in Nepal” using 10 years of data of 8 selected banks and analyzed using Descriptive statistical tools, correlation matrix and regression analysis. The result of correlation matrix revealed that Earning Per Share (EPS), Book Value Per Share (BVPS), Dividend Per Share (DPS) have significant positive impact on Market Price Of Share (MPS). This study suggest to regulatory body to monitor and evaluate non- financial measure which has affected the investment scenario and initiate to provide true picture of financial performance and investor should develop the target of short period holding and investment.

Thapa (2016) conducted a study on “Share Price Behaviour of Commercial Bank in Nepal” using 5 years of data over the period 2010-2015 of 4 selected commercial banks. Correlation and a linear multiple regression models have been selected to measure the individual as well as combined effects of explanatory variables on the dependent variables. The empirical findings show that, there is a positive correlation between the independent variables, EPS, DPS, BVPS. However, further empirical findings shows that, there is a significant positive relationship between DPS and MPS of the listed banks in Nepal. The results indicate that dividend per share has more influence on share prices and it has positive and significant relationship with share price.

Timsina (2016) conducted a study on “Stock Price Behavior in Nepal Stock Exchange” using 10 years of data over the period 2006-2015 of 5 selected companies. The study uses descriptive statistic and correlation analysis to test for normality; explore the type and intensity of the relationship among the hypothesized variables and to test for multi-collinearity. In addition, the study uses multiple regression analysis represented by Ordinary Least Square (OLS) to examine the relationship between share prices and to identify the determinants of market price of listed companies in NEPSE. The result revealed that, DPS has positive significant relationship to MPS although EPS and BVPS have no explanatory power toward stock price movement in the commercial banks. Likewise DPS and MPS have inverse relation although EPS and MPS have positive relation as well as BVPS has no explanatory power toward stock price movement in the development banks. Likewise in the sector of microfinance and insurance companies DPS is positively related but EPS is inversely related to MPS but BVPS has no explanatory power toward stock price movement. At last in the sector of hydropower DPS, BVPS and EPS have no explanatory power toward stock price movement. The major conclusion of the study is that, DPS and EPS are the influencing factors in determining share price but BVPS does not have influence in determining MPS.

Summary of Articles

Authors	Titles	Year	Methodology	Factor's identified
Irfan and Nishat	Impact on the share prices in Karachi stock exchange	2002	Least Square Regression	Payout Ratio, Size, Leverage, and Dividend Yield
George Tweneboan and Anokye M. Adam	Stock Prices in Ghana	2008	Correlation, Regression and Integration	Inflation, FDI, Interest rate
Sunde and Sunderson	Determinants Of Stock Price in Zimbabwe Stock Exchange	2009	Interview and Archival Method	Corporate Earnings, Management Strength, Market Liquidity, Stability
Somoye et al	Factors affecting stock price in Nigerian stock exchange	2009	Simple linear Regression	EPS,GDP,DPS,Interest rate
Uddin	Relationship of Microeconomic factor with stock price	2010	Multiple Linear Regression	Net assets value,dividend%,EPS
Al-Shubiri	Relationship of Microeconomic Factors with the Stock	2010	Simple and Multiple Analysis	MPS, NAV, Dividend

	Price			
Nirmala, Sanju, Ramchandran	Factors affecting Share Price in India	2011	Ordinary Least Square Method	Dividend, P/E Ratio, Leverage
Sharma	Determinants of equity Share Price in India	2011	Correlation and Linear Multiple Regression Model	BVPS, DPS, EPS, P/E ratio, Divident Yield, Dividend Payout, Size
Khan and Amanullah	Determinants of share Price of Karachi Stock Exchange	2012	Linear Multiple Regression Model	GDP, P/E Ratio, and Dividend
Srinivasan	Fundamental Determinants of Share Price in India	2012	Annual Time Series	EPS, P/E Ratio and DPS
Uwughe et al	Determinants of share price in the Nigerian Stock Exchange	2012	Regression Analysis	Dividend Payout, Financial Leverage
Malhotra and Tandon	Determining the factors that Influence Stock Price in Context Of Nepal Stock Exchange	2013	Linear Multiple Regression	Book Value, EPS, P/E ratio, Dividend Yield
Almumani	Quantitative Factors that influence Share Price For The Listed Bank In Ammon Stock Exchange	2014	Linear Multiple Regression	EPS, BVPS, P/E Ratio, Size
Obeid	Determinants Of Market Share Price Listed In Kuwait Stock Exchange	2015	Ordinary Regression Analysis	Inflation, Profitability, Liquidity
Zeeshan et al	Determinants Of Stock Price Of Listed Commercial Bank In Pakistan	2015	Regression Analysis	Book to Market Value Ratio
Taimur et al	Determinants Of Stock Price Listed In Bahrain stock Exchange	2015	Regression Analysis	ROE, BVPS, DPS,P/E ratio,Size

2.3 Research Gap

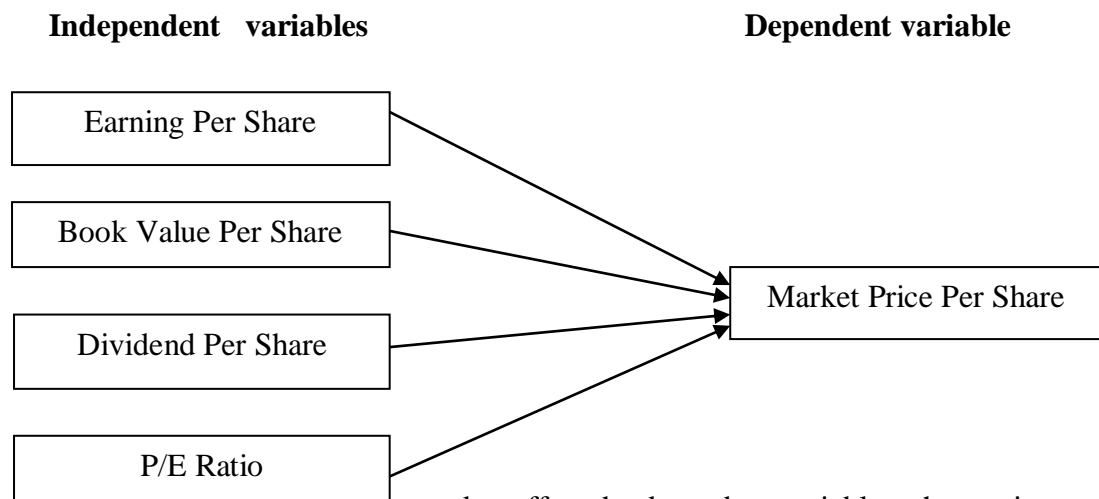
Earlier studies and researches on the determinants of stock price of commercial bank in Nepal listed in the NEPSE; it was found that they are mostly using secondary data. During the review of previous thesis, it was found that no research has been conducted by taking these sample banks and these data.

By reviewing earlier thesis it was found that researcher only analyze the market trend of MPS with other financial indicators but this study is conducted to examine the impact of market price with other financial indicators. Previous research analyzes only the qualitative factors affecting stock price but this research is based on quantitative factors affecting stock price. Researcher has conducted research on stock price movement and stock price behavior by taking secondary data. To find out the subjective facts and to fulfill the gaps the present study is conducted.

2.4 Theoretical Framework

The theoretical framework is designed to understand the factor that may affect the market price per share. The extant literature available strongly supports the movement of stock price as a consequence of firm specific factor. In view of theory and major empirical evidences it is expected that the market price per share may be influence by the theoretical framework developed to test the effect of these variables on the market price per share in this study portrayed in figure:

Figure-1.1 : Theoretical Framework



The independent variables are assumed to affect the dependent variables, share price of commercial banks. The independent variables are selected depending upon prior theoretical and empirical grounds. Closing price of stock at the end of financial year of companies has been taken to represent market price. The market price is used as dependent variable in the study. The independent variable, earning per share serve as an indicator of a company's profitability. The increasing EPS generally results in high market price. DPS has a significant influence on the market price of the share. DPS shows how much the company has paid out as dividend. The increasing DPS

generally results in high market price. P/E ratio relates with the comparison of market value with its earnings per share. Generally, it tells whether the share price of a company is fairly valued, undervalued or overvalued..

Independent variables

The brief description of independent variables for the study are as follows:

Earnings per Share (EPS)

Earnings per share refer the rupee amount earned per share of common stock outstanding. It measures the return of each equity shareholders. It is also identified to measure the profitability of the shareholders investment. The earnings per share simply show the profitability of the banks on a per share basis. The higher earning indicates the better achievements of the profitability of the banks by mobilizing their funds and vice- versa.

Book value per share

Book value of equity per share (BVPS) is a ratio that divides common equity value by the number of common stock shares outstanding. Gitman and Zutter (2012) defined book value per share, as the amount per share of common stock that would be received if all of the firm's assets were sold for their exact book (accounting) value and the proceeds remaining after paying all liabilities (including preferred stock) were divided among the common stockholders. The book value of equity per share is one factor that investors can use to determine whether a stock price is undervalued or overvalued. If a business house can increase its BVPS, investor may view the stock as more valuable, and the stock price increases.

Dividend Per Share (DPS)

Dividends per share are calculated by dividing the total dividend amount paid for the financial period by the number of ordinary shares in issue. Dividend per share (DPS) is the sum of declared dividends issued by a company for every ordinary share outstanding. Dividend is the portion of the profit after tax, which is distributed to the shareholders for their investment bearing risk in the company. How much dividend has paid by company was shown by the DPS, as well as it has a significant influence on the market price of share. The net profit after taxes belong to shareholders but the income that they really receive in the amount of earnings distributed and paid was cash dividend.

Price Earnings ratio(P/E ratio)

Price earning ratio is the relationship between the price of the share and its earning. The P/E ratio changes with the market price changes or with every new information that comes into the market. The P/E ratio suggests the sensitivity of earnings to

determine the market price. A higher P/E ratio reveals a higher market price and a higher market price can, in turn, satisfy the equity shareholders to a great extent.

CHAPTER 3

METHODOLOGY

Any systematic research requires a proper and scientific methodology to achieve the set objectives. This chapter provides the methodology followed to achieve the objective stated in this research work. This chapter contains the research design, population and sample, sources of data, Data collection procedure, data processing procedure and data analysis tools and techniques.

3.1 Research Design

The research design serves as a framework for the study, guiding the collection and analysis of the data, the research instruments to be utilized and the sampling plan to be followed.

In this study, descriptive research design is adopted to achieve the objectives of this research.

3.2 Population and Sample

The total observations are generally called population. There are 28 commercial banks at present in the market so this is the number of population. Due to the lack of time and resource factor, it is not possible to study all of them. Hence, the 4 commercial banks are selected as sample which are listed and doing share transaction in NEPSE. The sampling method used is the convenient sampling. The selected Banks include:

- Nabil Bank Limited
- Nepal SBI Bank Limited
- Standard Chartered Bank Limited
- Nepal Bangladesh Bank Limited

3.3 Nature and Sources of Data

The sources of information are generally classified as primary and secondary. This study is based on secondary data. Secondary data are used to find out the relationship between different variables like share price, earnings, dividends and book values etc. The sources of secondary data are annual report of related banks, SEBON, NEPSE, financial statistics report, journals, newspapers, internet and websites.

3.4 Data Collection and Processing Procedure

If the nature of data is different so the data collection procedures also varies. The secondary data will be collected from published materials are viewed in various spots like books, reports, journals, websites, online library, NEPSE, SEBON etc. The relevant data will be instructed in meaningful tables and figures. It helps to find out

the conclusion from the available data, with the help of various statistical as well as financial tools.

3.5 Data Analysis Tools and Techniques

The collected data has no meaning if such data are not analyzed. In this study various financial and statistical tools have been used to analyze the data. The secondary data collected from various sources lead to the logical conclusion.

3.5.1 Financial Tools

Some financial tools have also used in this research work. The major financial tools used in this study are:

1. Earnings per Share (EPS)

Earnings per share refer the rupee amount earned per share of common stock outstanding. It measures the return of each equity shareholders. It is also identified to measure the profitableness of the shareholders investment. The earnings per share simply show the profitability of the banks on a per share basis. The higher earning indicates the better achievements of the profitability of the banks by mobilizing their funds and vice- versa.

Mathematically,

$$\text{EPS} = \frac{\text{Total earnings Available to Ordinary Shareholders}}{\text{Number of Shares Outstanding}}$$

2. Book Value per Share (BVPS)

The book value per share represents the real net worth per share. It is simple the ratio Of net worth (Share capital and retained earnings, i.e. ownership capital) and the Number of existing shares.

Mathematically,

$$\text{BVPS} = \frac{\text{Net Worth}}{\text{Number of Shares Outstanding}}$$

3. Dividend per Share (DPS)

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

Mathematically,

$$\text{DPS} = \frac{\text{Total Dividend}}{\text{Number of Shares Outstanding}}$$

4. Market Price per Share (MPS)

Market price per share is the current price at which the stock is traded. Market price of common stock is the function of the current and expected future dividend of the company and the perceived risk of the stock on the part of investors.

3.5.2 Statistical Tools

1. Mean (\bar{X})

Among different measures of central location, the best known and the most widely used is the arithmetic mean, or simply the mean. The mean of a set of the sum of the values divided by their number (Freund, 1984). It can be calculated for any set of numerical data. So, it always exists. The mean can be expressed symbolically as,

$$\text{Mean} (\bar{X}) = \frac{\sum X}{Y}$$

Where,

\bar{X} = Arithmetic mean

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

N= Number of observations

2. Standard Deviation (σ)

The standard deviation (σ) measures the absolute description. If the standard deviation is greater then the magnitude of the deviations is also greater. A small standard deviation means a higher degree of true/ fact and vice-versa. Standard Deviation is given by:

$$\sigma = \sqrt{\frac{1}{N} \sum (X - \bar{X})^2}$$

Where,

σ = Standard deviations

N= number of observations

\bar{X} = Arithmetic mean

3. Coefficient of Variation (C.V.)

Coefficient of variation (C.V.) is a relative measure of dispersion, which can be obtained by expressing the standard deviation as a percentage of mean. The CV is applicable for the comparison of variability's of two or more distributions. It is relative measure and is independent of units. The greater the value of CV, the higher the variability and the smaller the value of CV, the lower will be the variability.

It is given by:

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

Where,

CV= Coefficient of Variation

σ = Standard deviations

\bar{X} = Arithmetic mean

4. Correlation Coefficient (r)

Correlation coefficient helps to measure the qualitative nature of data. This statistical tools discovers and measures the relationship. If the values of the variables are directly proportional the correlation is positive but the values of variables are inversely proportional the correlation is negative. The correlation coefficient always lies between +1 to -1.

For example,

The two variables x and y are given by:

Then,

$$r_{xy} = \frac{\text{COV}(x,y)}{\sigma_x \sigma_y}$$

$$\text{or, } r_{xy} = \frac{N\Sigma XY - \Sigma X.\Sigma Y}{\sqrt{N\Sigma X^2 - (\Sigma X)^2} \times \sqrt{N\Sigma Y^2 - (\Sigma Y)^2}}$$

Where,

r_{xy} = correlation coefficient between two variables x and y.

When r is +1 there is perfect positive correlation, and if r is -1, there is perfect negative correlation but r is zero there is no correlation.

5. Regression Analysis

This tool helps to identify the unknown value of one variable from the known value of any other variable. The variable whose value is given is known as independent variables and the variable whose value is to be predicted is known as dependent variable. So the regression analysis determines the average probable change in one variable based on a certain amount of change in another. It is used to determine the dependent variable is influenced by the given independent variable or not. So the regression analysis is mostly a useful technique for economics and business research to find out the relationship. The regression analysis can be classified into two categories which are given as follows:

- i) Simple regression analysis
- ii) Multiple regression analysis

i) Simple Regression Analysis

This analysis is used to describe the average relationship between two variables which helps to estimate the most probable value of dependent variables. On the basis of one or more independent variables. In this study following simple regression has been analyzed which is given by,

$$\text{MPS} = a + b\text{EPS} \dots \dots \dots \text{(i)}$$

$$\text{MPS} = a + b\text{DPS} \dots \dots \dots \text{(ii)}$$

$$\text{MPS} = a + b\text{VPS} \dots \dots \dots \text{(iii)}$$

$$\text{MPS} = a + b\text{P/E Ratio} \dots \dots \dots \text{(iv)}$$

ii) Multiple Regression Analysis

This is defined as a statistical device which is used to predict the most probable value of dependent variable on the basis of known value of two or more independent variables

so this is a logical extension of the simple regression analysis. In this study, following multiple regression equation is analyzed.

$$\text{MPS} = a + b_1\text{EPS} + b_2\text{DPS} + b_3\text{BVPS} + b_4\text{P/E Ratio}$$

Where,

MPS is dependent variable and EPS, DPS, BVPS and P/E Ratio are independent variables.

CHAPTER 4 RESULTS

This chapter deals with data presentation, analysis and interpretation following the research methodology presented in the third chapter. This chapter is the main body of this study. The secondary data are collected in unprocessed form. Such collected data are presented in systematic formats and analyzed using different appropriate tools and techniques in this chapter. The secondary data are collected from different sources are presented in an understandable presentation and analyzed separately using quantitative measures whenever are appropriate.

4.1 Analysis of Financial indicators and variables

4.1.1 Analysis of Market price per share Pattern (MPS)

Table 4.1

Market price per share pattern of selected banks during 2013/13-2016/17

Banks	MPS					Mean	S.D	C.V
	2012/13	2013/14	2014/15	2015/16	2016/17			
NABIL	1815	2535	1910	2344	1523	2025.4	409.63	0.20

NSBI	850	1280	887	1875	925	1163.4	433.42	0.37
SCBL	1820	2799	1943	3600	2295	2491.4	726.92	0.29
NBBL	300	700	510	860	402	554.4	226.11	0.40

Sources: Annual Report of Commercial Banks

Table 4.1 shows the descriptive statistics- mean, standard deviation, CV and value of each year Market Price per Share (MPS) associated with selected commercial banks for five year period. The table shows that average MPS of NABIL during this period of study is Rs.2025.4. The MPS of NABIL range between Rs.1815 to Rs.1523 during the study period. The standard deviation of the MPS under the period of study is 409.63 and the C.V. is 0.20. The MPS of NSBI ranges from Rs. 850 to Rs. 925 leading to average of Rs. 1163.4 whereas standard deviation and CV of NSBI is 433.42 & 0.37 respectively. The average MPS of SCBL measured at Rs. 2491.4 which ranges from Rs. 1820 to Rs. 2295 with the standard deviation of Rs. 726.92 and CV 0.29. Similarly the average MPS of NBBL is Rs. 554.4 which is range from Rs.300 to Rs. 402 with standard deviation and coefficient of variation 226.11 & 0.40 respectively.

It is seen that SCBL has highest Average price and total risk which is presented by highest Standard deviation. NBBL has highest C.V which indicates the highest variation in MPS.

4.1.2 Analysis of Earning per Share (EPS in RS)

Table 4.2

Earning price per share pattern of selected banks during 2013/13-2016/17

Banks	EPS					Mean	S.D	C.V
	2012/13	2013/14	2014/15	2015/16	2016/17			
NABIL	91.05	83.68	57.24	59.27	58.41	69.93	16.14	0.23
NSBI	32.75	34.83	34.84	34.29	30.61	33.46	1.80	0.05
SCBL	65.70	65.47	57.38	45.96	35.49	54	11.72	0.21
NBBL	38.75	36.94	33.48	39.43	28.05	35.33	4.18	0.11

Sources: Annual Report of Commercial Banks

Table 4.2 shows the earning price per share of Four listed commercial banks for the period of 2012/13 to 2016/17. It clearly shows the earning per share of NABIL which ranged from Rs. 91.05 to 58.41 with a mean of Rs.69.93. The standard deviation is 16.14 where as the coefficient of variation is 0.23. C.V shows the fluctuation in the

EPS of the company. The average earning per share of NSBI during the study period is noticed to be Rs. 33.46 with the range of EPS Rs. 32.75 to Rs.30.61 & the standard deviation of this period is Rs. 1.80 and the CV is 0.05. Similarly, the EPS of SCBL ranges from Rs. 65.70 to Rs. 35.49 with an average of Rs. 54 and the standard deviation of Rs. 11.72 & the CV is 0.21. EPS of NBBL has minimum value of Rs. 28'05 to maximum of Rs. 39.44 with mean of Rs. 35.33, the standard deviation of Rs. 4.18 and the coefficient of variation is 0.11.

4.1.3 Analysis of Book value per share (BVPS in RS)

Table 4.3

Book value per share pattern of selected banks during 2013/13-2016/17

Banks	BVPS					Mean	S.D	C.V
	2012/13	2013/14	2014/15	2015/16	2016/17			
NABIL	275	251	259	244	228	251.4	17.44	0.06
NSBI	161.26	171.15	184.62	178.19	150.15	169.074	13.67	0.08
SCBL	249	249	265	268	296	265.4	19.24	0.07
NBBL	162	169	161	151	129	154.4	15.58	0.10

Sources: Annual Report of Commercial Banks

Table 4.3 shows the book value per share of Four listed commercial banks for the period of 2012/13 to 2016/17. It clearly shows the Book value per share of NABIL which ranged from Rs. 275 to 228 with a mean of Rs.251.4. The standard deviation is 17.44 whereas the coefficient of variation is 0.06. The average BVPS of NSBI during the study period is noticed to be Rs. 169.074 with the range of Rs. 161.26 to Rs.150.15 & the standard deviation of this period is Rs. 13.67 and the CV is 0.08. Similarly, the BVPS of SCBL ranges from Rs. 249 to Rs. 296 with an average of Rs. 265.4 and the standard deviation of Rs. 19.24 & the CV is 0.07. The Average BVPS of NBBL is Rs.154.4, the standard deviation of Rs. 15.58 and the coefficient of variation is 0.10.

4.1.4 Analysis of Dividend per share (DPS in RS)

Table 4.4

Dividend per share pattern of selected banks during 2013/13-2016/17

Banks	DPS					Mean	S.D	C.V
	2012/13	2013/14	2014/15	2015/16	2016/17			
NABIL	65	65	36.84	45	48	51.96	12.57	0.24
NSBI	20	22.07	28.42	29.53	16.34	23.27	5.60	0.24
SCBL	50	51.50	44.21	35.09	105.26	57.21	27.62	0.48
NBBL	10	10	25	32	12	17.8	10.10	0.56

Sources: Annual Report of Commercial Banks

Table 4.4 shows the dividend per share of four listed commercial banks for the period of 2012/13 to 2016/17. It clearly shows the dividend per share of NABIL which ranged from Rs. 65 to Rs.48 with a mean of Rs.51.96. The standard deviation is 12.57 whereas the coefficient of variation is 0.24. The average DPS of NSBI during the study period is noticed to be Rs. 23.27 with the range of Rs. 20 to Rs.16.34 & the standard deviation of this period is Rs. 5.60 and the CV is 0.24. Similarly, the DPS of SCBL ranges from Rs. 50 to Rs. 105.26 with an average of Rs. 57.21 and the standard deviation of Rs. 27.62 & the CV is 0.48. The Average DPS of NBBL is Rs.17.8, the standard deviation of Rs. 10.10 and the coefficient of variation is 0.56.

4.1.5 Analysis of Price Earnings Ratio (P/E Ratio)

Table 4.5

Price earning ratiopattern of selected banks during 2013\13-2016\17

Banks	P/E Ratio					Mean	S.D	C.V
	2012/13	2013/14	2014/15	2015/16	2016/17			
NABIL	19.08	30.29	33.37	39.55	26.07	30.57	7.69	0.25
NSBI	25.95	36.75	25.46	54.68	30.22	34.61	12.09	0.34

SCBL	27.70	42.75	33.86	78.33	64.67	49.46	21.36	0.43
NBBL	7.74	18.95	15.23	21.28	14.33	15.50	5.17	0.33

Sources: *Annual Report of Commercial Banks*

Table 4.5 shows the price earning ratio of four listed commercial banks for the period of 2012/13 to 2016/17. It shows the P/E Ratio of NABIL which ranged from Rs. 19.08 to Rs.26.08 with a mean of Rs.30.57. The standard deviation is 7.69 whereas the coefficient of variation is 0.25. The average P/E Ratio of NSBI during the study period is noticed to be Rs. 34.61 with the range of Rs.25.95 to Rs.30.22 & the standard deviation of this period is Rs. 12.09 and the CV is 0.34. Similarly, the P/E Ratio of SCBL ranges from Rs. 27.70 to Rs. 64.67 with an average of Rs. 49.46 and the standard deviation of Rs. 21.36 & the CV is 0.43. The Average P/E Ratio of NBBL is Rs.15.50, the standard deviation of Rs. 5.17 and the coefficient of variation is 0.33

4.2 Analysis of Statistical indicator

4.2.1 Regression Analysis

The regression analysis is carried out to determine whether the dependent variables is Influence by the given independent variables or not. In this analysis MPS is dependent Variables and EPS,BVPS ,DPS and P/E Ratio are independent variables.

4.2.1.1 Simple Regression Analysis

Regression is the statistical tool, which presents the linear relationship between two or more variables. If one or more independent variables are change and then it results the change in the value of dependent variables. Statistically, such variables can be presented in mode of linear equation. This analysis is done with simple regression analysis to find out the existence and non-existence of any relationship between MPS and EPS, DPS, BVPS, P/E Ratio.

Simple regression equation can be expressed as:

$$Y = a + bx$$

Where,

Y= Dependent variable

X= Independent variable

a= Regression constant

b= Regression coefficient

Table 4.6**Regression coefficient**

MPS= a + b EPS

Banks	Regression constants (a)	Regression coefficient (b)	R ²	P-Value	Results
Nabil	1594.80	6.15	0.05	0.69	Not Significant
NSBI	1139.04	29.87	0.31	0.32	Not Significant
SCBL	3391.89	-16.67	0.09	0.62	Not Significant
NBBL	-175.83	20.66	0.18	0.47	Not Significant

Correlation is significant at 0.05 level of two tailed

The table 4.6 shows the major output of simple regression analysis of average stock price (MPS) on Earning Per Share (EPS) of commercial banks. The regression coefficient of NABIL, NSBI, SCBL and NBBL are 6.15, 29.87, -16.67 and 20.66 respectively. The regression constants of NABIL, NSBI, SCBL and NBBL are 1594.80, 1139.04, 3391.89 and -175.83 respectively. The coefficient of determination of NABIL, NSBI, SCBL and NBBL are 0.05, 0.31, 0.09 and 0.18 respectively. From the table, the impact of MPS on EPS is not significant.

Table 4.7**Regression coefficient**

MPS= a + b BVPS

Banks	Regression constants (a)	Regression coefficient (b)	R ²	P-Value	Results
Nabil	1333.03	2.75	0.01	0.85	Not Significant
NSBI	-958.87	12.55	0.15	0.50	Not Significant
SCBL	1943.43	2.06	0.002	0.93	Not Significant
NBBL	120.19	2.81	0.03	0.75	Not Significant

Correlation is significant at 0.05 level of two tailed

The table 4.7 shows the major output of simple regression analysis of average stock price (MPS) on Book Value Per Share (BVPS) of commercial banks. The regression coefficient of NABIL, NSBI, SCBL and NBBL are 2.75, 12.55, 2.06 and 2.81

respectively. The regression constants of NABIL, NSBI, SCBL and NBBL are 1333.03, -958.87, 1943.43 and 120.19 respectively. The coefficient of determination of NABIL, NSBI, SCBL and NBBL are 0.01, 0.15, 0.002 and 0.03 respectively. From the table, the impact of MPS on BVPS is not significant.

Table 4.8

Regression coefficient

$$\text{MPS} = a + b \text{ DPS}$$

Banks	Regression constants (a)	Regression coefficient (b)	R ²	P-Value	Results
Nabil	1580.42	8.56	0.06	0.66	Not Significant
NSBI	133.88	44.23	0.32	0.31	Not Significant
SCBL	2936.57	-7.78	0.08	0.69	Not Significant
NBBL	303.92	14.07	0.39	0.25	Not Significant

Correlation is significant at 0.05 level of two tailed

The table 4.8 shows the major output of simple regression analysis of average stock price (MPS) on Dividend Per Share (DPS) of commercial banks. The regression coefficient of NABIL, NSBI, SCBL and NBBL are 8.56, 44.23, -7.78 and 14.07 respectively. The regression constants of NABIL, NSBI, SCBL and NBBL are 1580.42, 133.88, 2936.57 and 303.92 respectively. The coefficient of determination of NABIL, NSBI, SCBL and NBBL are 0.06, 0.32, 0.08 and 0.39 respectively. From the table, the impact of MPS on DPS is not significant.

Table 4.9

Regression coefficient

$$\text{MPS} = a + b \text{ P/E Ratio}$$

Banks	Regression constants (a)	Regression coefficient (b)	R ²	P-Value	Results
Nabil	1139.04	29.87	0.31	0.32	Not Significant
NSBI	-67.70	35.56	0.98	0.0007	Significant
SCBL	1134.32	27.43	0.65	0.09	Not Significant

NBBL	-78.68	40.55	0.91	0.01	Significant
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Correlation is significant at 0.05 level of two tailed

The table 4.9 shows the major output of simple regression analysis of average stock price (MPS) on Price Earning Ratio(P/E) of commercial banks. The regression coefficient of NABIL,NSBI,SCBL and NBBL are 29.87,35.56,27.43 and 40.55 respectively. The regression constants of NABIL,NSBI,SCBL and NBBL are 1139.04,-67.70,1134.32 and -78.68 respectively. The coefficient of determination of NABIL,NSBI,SCBL and NBBL are 0.06,0.32,0.08 and 0.39 respectively. From the table, the impact of MPS on P/E Ratio is not significant in case of NABIL and SCBL. The impact of MPS on P/E Ratio is significant in case of NSBI and NBBL.

4.2.1.2 Multiple Regression Analysis

Multiple regression analysis is done to find out the relationship of MPS on EPS, BVPS, DPS and P/E ratio where MPS is dependent variables and EPS,BVPS,DPS and P/E ratio are independent variables.

The multiple regression equation is,

$$\text{MPS} = a + b_1 \text{EPS} + b_2 \text{BVPS} + b_3 \text{DPS} + b_4 \text{P/E Ratio}$$

Table 4.10

Multiple regression analysis

	Coefficients	Standard Error	t Stat	P-value
Intercept	-1287.58	193.50	-6.65	7.69
EPS	28.56	3.88	7.35	2.37
BVPS	1.38	1.98	0.69	0.49
DPS	-5.53	2.87	-1.92	0.07
P/E Ratio	42.90	3.42	12.51	2.43
R Square = 0.9738	Adj.R Square=0.9669	F-Value= 139.81	F(Sig)=0.00 0	

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

The R-square which is often referred to as a coefficient of determination of the variables is 0.9738. The R-square which is also a measure of the overall fitness of the model indicates that the model is capable of explaining about 97.38% of the variability in the share prices of banks. This means that the model explains about 97.38% of the systematic variation in the dependent variable. That is, 2.62% of the variations in market price of the sampled banks are accounted for by other factors not

captured by the model. This result is complimented by the adjusted R- square of about 96.69%, which is essence is the proportion of total variance that is explained by the model.

Similarly, findings from the Fishers ratio (i.e., the F- statistics) which is the proof of the validity of the estimated model as reflected in table. 4.10, indicates that, the F value is about 139.81 and a P- value or F(sig) that is equal to 0.000, this invariably suggests clearly that simultaneously the explanatory variables are significantly associated with the dependent variable. That is, they strongly determine the behavior of the market values of share prices.

Empirical finding from the regression analysis shows a positive relationship between EPS and MPS. This is evident in the t-statics value of (t-statics =7.35 and the p-value <0.05). The result can be explained as that an increase in earnings per share will invariably bring about a significant increase in the market prices of equity shares. It has been observed that earnings per share is a major determinant of stock prices.

Another empirical finding from the regression analysis shows that there is positive relationship between P/E ratio and MPS. The coefficient of P/E ratio is 42.90 which mean that when there is 1 unit increase in price to earnings ratio, the share prices will increases by Rs 42.90. The P/E ratio has a significant positive impact on share prices.

Empirical finding from the regression analysis shows that there is positive relationship between BVPS and MPS. The result basically means that with the influence of other variable held constant, as firm's BVPS will have positive impact on market price.

From the table 4.10 that DPS of bank has insignificant impact on the market price of listed commercial banks in Nepal. This is evident in the P- value (i.e. P – value $0.07 > 0.05$). This indicates that DPS has no explanatory power toward stock price movement.

4.2.2 Bivariate Correlation Analysis

The bivariate correlation analysis is used to assess the relationship between two variables. The bivariate correlation analysis results have been presented in Table 4.11.

Table 4.11

Bivariate correlation analysis

	MPS	EPS	BVPS	DPS	P/E Ratio
MPS	1				
EPS	0.552	1			
BVPS	0.829	0.706	1		
DPS	0.629	0.551	0.828	1	
P/E Ratio	0.806	-0.011	0.544	0.459	1

The highest correlation has been observed to be 0.829 between market price of share and book value per share. The market price of share is positively related to earnings per share, book value per share, dividend per share and price earnings ratio. The result shows that higher the earning per share, book value per share, dividend per share and price earnings ratio, higher would be the market price per share.

4.3 Major Findings

- i. According to market price per share analysis, SCBL has highest average price per share i.e. Rs. 2491.4 and NBBL has lowest average price per share i.e. Rs. 554.4.
- ii. According to EPS analysis, the average EPS of all commercial banks under the study are positive and consistent. The NABIL has a highest average EPS and NBBL has lowest average EPS.
- iii. According to BVPS analysis, SCBL has highest average price per share i.e. Rs265.4 and NBBL has lowest average price i.e. Rs 154.4.
- iv. According to DPS, SCBL has the highest average price i.e. Rs57.21 and NBBL has the lowest average price i.e. Rs 17.8.
- v. According to P/E ratio, SCBL has highest average price earnings ratio i.e. 49.46. It means that when there is 1 unit increase in earnings, the share prices will increase by Rs. 49.46. NBBL has lowest average price earnings ratio.
- vi. From the bivariate correlation analysis, the market price per share (MPS) of sampled banks is positively correlated with the earning per share (EPS), book value per share (BVPS), dividend per share (DPS) and P/E Ratio. It indicates that increase in EPS, BVPS, DPS and P/E Ratio of the commercial banks lead to increase in MPS of these banks and vice-versa.

- vii. There is low degree of positive correlation between MPS and EPS of commercial banks (i.e. 0.552).
- viii. There is high degree of positive correlation between MPS and BVPS of commercial banks (i.e.0.829).
- ix. There is moderata degree of positive correlation between MPS and DPS of commercial banks (i.e.0.629).
- x. There is high degree of positive correlation between MPS and P/E Ratio of commercial banks (i.e.0.806).
- xi. The multiple regressions show that the regression coefficients are positive for earning per share (EPS),book value per share(BVPS) & Price earnings ratio. Similarly, regression coefficients is negative for dividend per share (DPS).
- xii. The coefficient of determination of the equation is 0.9738. This means the variables EPS, BVPS,DPS and P/E ratio are responsible for determining stock price by 97.38 % and the rest 2.62 % are unexplained on determining the stock price.
- xiii. The tests of P-value explain that the relationship of MPS with EPS, BVPS, DPS and P/E ratio of the bank at 5% level of significant. Since the P-value of BVPS is less than 0.05 which mean that BVPS significantly affect the Market prices. And, the P- value of EPS, DPS and P/E Ratio of the banks are more than 0.05 which mean that EPS,DPS and P/E Ratio of the bank have insignificant impact on share prices of Banks.

CHAPTER 5

CONCLUSION

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

5.1 Summary

The smooth continuity of the economic development widely depends upon the adequate and steady of medium as well long term capital fund for productive investment. Capital plays highly significant role for future growth and prosperity of the organization. Nepalese Stock Market is in developing stage. Most of the general public i.e. average citizens are still unaware about it. Though Share Market plays a vital role on the mobilization of capital in national economy, in the case of Nepal, it is still crawling towards the betterment.

The objective of the study is to find out the impact of internal factors (EPS,BVPS, DPS and P/E ratio) on stock prices of commercial banks listed in NEPSE. Out of 28

commercial banks only four commercial banks are selected as sample. Descriptive research design is adopted to carry out this study. The secondary sources of data are collected during the period 2012/13-2016/17. Various statistical and financial tools are used in this study.

After performing the analysis of financial indicators, it is found that the MPS, BVPS, DPS pattern of SCBL has higher average profit margin. EPS pattern of NABIL has higher average profit margin. P/E ratio pattern of NSBI has higher average profit margin. MPS, BVPS, DPS and P/E ratio of NBBL has lower average earning profit. EPS of NSBI has lower average earning profit. MPS, BVPS and DPS of NBBL has high c.v. EPS of NABIL has high c.v. P/E ratio of SCBL has high c.v. MPS, BVPS, DPS and P/E ratio of NABIL has lower c.v and EPS of NSBI has lower c.v.

In the bivariate correlation of all selected banks, the MPS has positive correlation with EPS, BVPS, DPS and P/E ratio. In simple regression analysis, the impact of MPS on EPS, BVPS and DPS is not significant. The impact of MPS on P/E ratio of NSBI and NBBL is significant and the impact of MPS on P/E ratio of NABIL and SCBL is not significant. In multiple correlation analysis, EPS, BVPS and P/E ratio has positive relationship with MPS and DPS has negative relationship with MPS.

5.2 Conclusion

The study of determinants of share prices of commercial banks has been a subject of great interest these days. Moreover, it is a subject of immense curiosity especially a banking sector to identify the factors that influence share prices. The shares of commercial banks offer the investment opportunities to Nepalese investors because these shares are more frequently traded in the market than as compared to others in Nepalese context. Specifically, this study examined the effect of earnings per share, book value per share, dividend per share and p/e ratio on share price of banks listed on Nepal stock exchange limited.

The findings of the study over the period of 2012/13 to 2016/17 revealed that earning per share, book value per share and price earnings ratio have the significant positive association with share price while dividend per share have no explanatory power toward stock price movement. It means if earnings per share, book value per share and price earnings ratio increases, the price of share will also increase and vice-versa. But dividend per share does not affect the share price. It means if dividend per share increases there is no guarantee that the prices of share will also increase and vice-versa. The study concludes that earnings per share, book value per share and price earnings ratio are the major determinants of share price of Nepalese commercial banks.

The results of this study uncovered new evidence in Nepalese perspective, which are considered to be valuable to the market participants. Thus, findings of this study

seems to be particularly useful for equity investors and fund managers as they can watch out for these significant factors while estimating stock returns and predicting share prices.

5.3 Implications

This study has also several implications pointing to interesting avenues for future research. Some implication and suggestion for future research are discussed here:

This study examined the internal factors that affect the share price of commercial banks listed on the NEPSE. The variables chosen were firm specific variables and may not be the only variables that affect share prices. It is recommended that further research could be conducted to establish whether macro-economic variables affect stock price for firms listed in the NEPSE. This study has been conducted in the context of Nepalese commercial banks, with short period of time and with small sample size. Future studies may deal with wide area of firms with long period of time.

There is need to conduct event study on the determinants of share price for listed commercial banks at the NEPSE and by extension, on emerging markets. In addition, research could be conducted on factors affecting the market returns in Nepal. Despite a lot of literature in this area, internal factors like (EPS, BVPS, DPS and P/E ratio) are vital element of commercial banks. This thesis revealed much on the factors affecting the stock price in Nepalese commercial banks and hence has contributed immensely in the area of banking sector in Nepal.

This study acts as a guide to potential investors in Nepal to focus on the factors discussed above before making investment decisions. Nepal is an economy with lots of opportunities and it is imperative to conduct studies which will benefit the investors to make rational investors.

Since general public are unaware about the share and share market, an organised effort is necessary to aware the public about it. A separate department in NEPSE or an independent organisation is recommended which analyse, inform and create the awareness within the emerging potential investors about share and share market through different approaches like seminar, advertisement, conference or print, air media.

APPENDICES

APPENDIX - I

Nabil Bank Limited

S.N	Particulars	Indicator	2012/13	2013/14	2014/15	2015/16	2016/17
1.	MPS	Rs	1815	2535	1910	2344	1523

2.	EPS	Rs	91.05	83.68	57.24	59.27	58.41
3.	BVPS	Rs	275	251	259	244	228
4.	DPS	%	65	65	36.84	45	48
5.	P/E Ratio	Ratio	19.08	30.29	33.37	39.55	26.07

APPENDIX - II

Nepal State Bank Of India

S.N	Particulars	Indicator	2012/13	2013/14	2014/15	2015/16	2016/17
1.	MPS	Rs	850	1280	887	1875	925
2.	EPS	Rs	32.75	34.83	34.84	34.29	30.61
3.	BVPS	Rs	161.26	171.15	184.62	178.19	150.15
4.	DPS	%	20	22.07	28.42	29.53	16.34
5.	P/E Ratio	Ratio	25.95	36.75	25.46	54.68	30.22

APPENDIX - III**Standard Chartered Bank Limited**

S.N	Particulars	Indicator	2012/13	2013/14	2014/15	2015/16	2016/17
1.	MPS	Rs	1820	2799	1943	3600	2295
2.	EPS	Rs	65.70	65.47	57.38	45.96	35.49
3.	BVPS	Rs	249	249	265	268	296
4.	DPS	%	50	51.50	44.21	35.09	105.26
5.	P/E Ratio	Ratio	27.70	42.75	33.86	78.33	64.67

APPENDIX - IV**Nepal Bangladesh Bank Limited**

S.N	Particulars	Indicator	2012/13	2013/14	2014/15	2015/16	2016/17
1.	MPS	Rs	300	700	510	860	402
2.	EPS	Rs	38.75	36.94	33.48	39.43	28.05
3.	BVPS	Rs	162	169	161	151	129
4.	DPS	%	10	10	25	32	12
5.	P/E Ratio	Ratio	7.74	18.95	15.23	21.81	14.33

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