CHAPTER – I

INTRODUCTION

1.1 Background

Securities market facilitates the exchange of financial assets by bringing together buyers and sellers of securities. The market provides an effective way of raising money for business enterprise and government. At the same time it also provides an investment opportunity for individuals and institutions. Securities markets have both theoretical and practical perspectives. The market provides value and significance to the financial assets. Practically, the activities of buying and selling securities, markets are extremely important for the allocation of capital within economies. The securities markets serve as a reliable guide to the performance of companies, and thereby promoting efficiency.

The relationship between stock market development and economic growth has received renewed attention of academicians and policy makers in the present decade both in the developed and developing countries. This is the result of the emerging equity market phenomenon and of the need to provide liquidity for privatization- linked equity issues. The growing importance of stock markets in the developing countries has opened up many avenues for research in the relationship between financial development and economic growth, with focus on developmental role of stock markets.

The process of stock market development in the country actually started in 1976 when the then government established Securities Exchange Centre (SEC) to provide and develop market for securities, both the government bonds and corporate securities. In 1993, Securities Board Nepal (SEBO) was established with the objectives to regulate, supervise, and monitor the securities market. Similarly, the SEC converted into Nepal Stock Exchange (NEPSE) Limited with the objectives to provide secondary market for securities transactions. A computerized trading system has been carried out and the investors are allowed to deal in securities only through licensed brokers. At present NEPSE has started computerized trading system.

Over the past 14 years the stock market of Nepal has made significant progress. For example, between the fiscal year 1993/94 and 2006/07, the number of listed companies in NEPSE increased more than two-fold and the market capitalization rose from Rs.14 billion to Rs.300 billion. Likewise, during the same period the number of securities listed with the exchanged increased more than four times from 43 million to 226.54 million and the number of annual transactions increased from 9 thousands to 97 thousands. During this period NEPSE index jumped from its base value of 100 to more than 1000. Despite these progresses stock market in Nepal is still at a developing stage and has to make visible impacts on the economic growth of the country.

1.2 Statement of problem

The stock market fluctuates with the information that the market perceives. Over the period the Nepalese stock market faced a number of ups and down. Stock market is highly sensitive with various factors like company's income, management, countries economic and political condition, international political changes, government policies, interest rate, gold and oil prices etc.

These various factors have positive as well as negative impact in the stock market. Positive information has positive effect and vice versa. For example, the monetary policy brought by Nepal Rastra Bank (NRB) in July 2007 became a black period in the history of Nepalese stock market. At the time the stock market crashed by more than 40 points within a short span of time. Similarly the market capitalization slumped by 10 billion within the same period. A similar significant change in the market can be observed at the time when companies declare large cash and stock dividend. The effect can be observed in October 2006 when Standard Chartered Bank Nepal (SCBNL), Bank of Kathmandu (BOK), Nepal Investment Bank Limited (NIBL) declared dividend. Nepse index increased by 5.03 points in the following day of the SCBNL's dividend declaration and the index jumped by 10.99 points in following day of BOK's 30 percent stock and 18 percent cash dividend.

The stock market also shows a varied response in the political changes. Doepke & Pierdzioch (2004) found that there is no higher return during liberal than during conservative government in Germany. Brooks, Davidsons and Faff (2004) found a change in stock market volatility in Johannesburg Stock Exchange (JSE) after when President de Klerk announced to the world that South Africa would undergo a fundamental change to its political structure. Before the announcement South Africa was the subject of extreme economic and political isolation. A similar isolation faced by Nepal when King Gyandra took over the country's administrative power on 19 Magh, 2061. But when king Gyanendra reinstated the parliament on 24 April 2006 the country realized a historic change in the politics. A similar change occurred in the Maoist activities. They entered into the political main stream and joined in the government. After the every change in the politics, it was expected that the country's economy as well as the stock market will have a positive impact. The overall economic condition of the country before and after the 24 April 2006 is not so significant different. But the stock market has been continued to increase since before and after 24 April 2006.

In this background, it is felt to make a research that whether the daily transaction amount, number of transactions and market return has witnessed effects of King's announcement on 24 April 2006. Is there significant difference in the stock market performances before and after the *Loktantra?*

1.3 Research Hypothesis

H_0:   There is no significant difference in the stock market movement and performance before and after the king's announcement

H_1:   There is significant difference in the stock market movement and performance before and after the king's announcement

1.4 Objectives of the study

The major objective of the study is to analyze the impact of political development in Nepali stock market. The other specific objectives are as follow.

1. To analyze the effect of political change in the stock market volatility
2. To analyze the stock market performance before and after the political change
3. To analyze the impact of political development in different sectors as categorized by the NEPSE

1.5 Limitations of the Study

The study is made for the partial fulfillment of Master in Business Studies (MBS) program of Tribhuvan University. So, this study focused to analyze certain aspects of stock market in Nepal. The result obtained from this study can be generalized to explain only in the effect of political changes in the stock market. Similarly the time and resources constraints are other limitation.

1.6 Organization of the Study

Chapter I Introduction

Chapter one deals with introduction, problem of the study, objective of study, limitation of study and organization of the study.

Chapter II Review of literature

Chapter two consists of review of literature. This chapter is subdivided into various sections such as conceptual framework, review from different studies, review from journal, article and magazine and review from master's thesis for the concerned topic.

Chapter III Research methodology

Chapter three present methodologies adopted for the research. It comprises research design, sources of data method of analysis and its descriptive presentation.

Chapter IV Data presentation and analysis

Chapter four deals with the techniques used in analyzing the collected data and its presentation in the descriptive and analytical manner.

Chapter V Conclusion

Chapter fifth consists of summary, conclusion and recommendation.

CHAPTER - II

REVIEW OF LITERATURE

This chapter will be devoted to review some of the existing literature concerning the stock market in Nepal. In this regard, various books, journals and articles concerned to this topic have been reviewed.

2.1 Conceptual Review
2.1.1 Capital Market

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

An ideal capital market where funds are available at reasonable rate of return for any proposition which offers a prospective yield sufficient to make borrowing worthwhile, given rate of return for any proposition which offers a prospective yield sufficient to make borrowing worthwhile gives the roles rates of interest (Shakespeare, 2001: 97-99).

The capital market serves as a link between supplies and uses of finance. It is a mechanism for the mobilization of public savings and channelizing them in productive investment. In this way, an important constituent of the capital market is the securities market. It has a wide term embracing the buyers and sellers of securities and all those

agencies and institutions, which assist the sale, and resale of corporate securities (Gupta, 1978: 325).

2.2   Securities Markets

Holders of stocks and bonds may decide to obtain cash for their investments by selling their securities to other investors. Similarly, others in the economy have cash to invest and are desirous of buying stocks and bonds. The problem is to bring together the order of prospective sellers and prospective buyers so that an exchange of securities for cash may take place. An efficient system whereby investors can convert their securities into cash quickly and at or near the current market price makes investors more ready to put their savings into stocks and bonds (Bradley, 1963: 303).

So far as securities market is concerned, it is important constituent of capital market. It has a wide term embracing the buyers and sellers of securities and all the agencies and institutions that assist the sale and resale of corporate securities (Rugh, 1966: 50).

Securities are traded in a market called securities markets. Although securities markets are concentrated in few locations, they refer more to mechanism, rather than to place, designed to facilitate the exchange of securities by bringing buyers and sellers of securities together. In other words, people and organizations wanting to borrow money are brought together with those having surplus funds in the securities markets. Securities, such as equities, short and long-term debt instruments, derivatives etc. are the products that are traded in the markets, institutions such as investment bankers and securities firms, securities issuing institutions such as government and corporate bodies and participants of the securities markets. Securities markets' major function is to provide line between savings and investment thereby facilitating the creation of new wealth (Baral, 1999: 8-9).

Nepal stock exchange has defined the securities market like, securities market is the place where a large number of financial securities (shares, bonds, debentures etc) is traded according to prescribed rules (Investors Guide, 1978: 11).

2.2.1 Primary Market

The primary markets are media through which new financial assets are issued or generated. They are the media through which the demanders and suppliers of today's funds, the creators and acceptors of financial claims meet. In these primary markets, financial assets are created and exchanged, satisfying in the part the financial needs of both demanders and suppliers of today's fund. At present concept, it is the market of direct issuance of government securities. The primary market of country is dominated by the government securities due to the existence of insignificant new issue market for industrial securities.

The primary securities market includes all transactions that result in the accumulation of financial capital by firms, government or individuals to be used in the consumption or real capital investment. The participants in this process are many and valued, but an important segment, includes the money brokers who acts as a middleman in the process of exchanging securities for fund. These brokers provide invaluable services. Their principal role is to assist in the pooling of the funds by the creation of security forms that will appeal to the ultimate investors (Nancy and Richardson, 1984: 147).

Primary markets are distinguished by the flow of funds between the market participants. Instead of trading between investors as in the secondary markets, participants in the primary market buy their assets directly from the source of the asset. Once the securities begin to trade among individuals, business, government or financial institutions, savers and investors, they become part of the secondary market (Nancy and Richardson, 1984: 146).

2.2.2 Secondary Market

The secondary financial markets are the markets where many already outstanding financial assets are traded from old to new owners. The secondary market provides "liquidity" for financial assets making them more attractive. So secondary market is a place where the securities once sold are purchased and repurchased to provide liquidity to the government securities and the secondary market is operated by Securities Exchange Centre. The trading of government securities in secondary market is very thin because of limited distributors of the securities. Securities Exchange Centre in order to promote the market, used to support the market even involving itself in buying and selling activities, if necessary. The secondary market ever operated in the country was on DBs. The SEC initiated the secondary market in the fiscal year 1975 – 76, since then the volume traded in generally increasing year by year (Pradhan, 1997: 5).

Secondary markets are markets for existing assets, which are currently traded between Investors. It is this market that creates the price and allows for liquidity. If secondary markets did not exist, investors would have no place to sell their assets. Without liquidity, many people would not invest at all (Geoffrey, 1983: 25).

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

The over-the-counter (OTC) exchange is not an organization but an intangible market for the purchasers and sellers of securities not listed by the organized exchanges. A sophisticated telecommunication network lists active traders in this market. The prices at which securities are traded "over-the-counter" are determined by competitive bids and negotiation. The OTC, in addition to create a resale market for outstanding securities, is a primary market in which new public issues are sold (Gitman, 1988: 30).

The over-the-counter market is broader in scope than stock exchanges. It will be recalled that stock exchanges limit their activities to trading in securities already issued. In contrast, the over-the-counter market handles both securities already issued and new securities being sold to the public whereas the stock exchanges are auction markets, the over-the-counter market is primarily a negotiated markets that is, buyer and seller may haggle over prices before the transaction is completed. Dealers in the over-the-counter market buy securities with the hope of being able to resell them at a higher price. This process resembles any merchandising activity in which the trader buys goods in the hope of reselling them at a higher price (Bradley, 1963: 310).

Securities with the following characteristics tend to be traded in the over-the-counter market: securities of companies with a small capitalization; securities of companies which are owned by a few holders; securities of governments and their subdivisions; and securities which are purchased in large blocks (such as government securities) by banks, life insurance companies, and other large investors (Bradley, 1963: 311).

2.3   Stock Brokers

A broker acts as a middleman who matches buying and selling order, thereby securing both buyers and sellers. A broker does not take title to the securities involved in the transaction. A commission is charged by the broker for his assistance in consummating the transaction (Bradley, 1963: 304).

A stockbroker, as a member of stock exchange and sub-broker as any person who acts on behalf of stock broker as an agent or otherwise assisting the investors in buying, selling on dealing in securities through such brokers (Bhatta, 1997: 23).

Conditions for granting of certificates to stockbrokers:

The rules stipulate the registration is necessary for acting as broker or sub-broker. The conditions for grant of a certificate of registration to act as stock brokers are:

a) He holds the membership of a Stock Exchange Act.

b) He shall abide by the rules, regulations and buy-laws of the Sock Exchange of which he is a member.

c) He shall pay the amount of fees for registration.

A stockbroker is expected to maintain high standards of integrity, promptitude, and fairness in the conduct of his business. He is expected to exercise due to skill, diligence, and comply with statutory requirements and not to indulge in manipulations and practices.

) **Commission Broker:**

Almost all members act as commission brokers. The commission broker executes on the floor of the exchange buying and selling orders placed by his constituents to whom he renders contracts containing a charge for commission at rates not exceeding the official scale of brokerage.

) **Floor Broker:**

The floor brokers, not large in number, are officially attached to other member. The floor broker executes order for any members and receives as his compensation a share of the brokerage charge by the commission broker to his constituents.

Floor brokers may be described as brokers. They are simply members of the exchange not brokers for a member firm. At peak activity periods, they will accept orders from other broker, execute them, and receive part of the commission in return. Floor brokers are useful in that they present backlogs of orders, and they allow many firms to operate with fewer exchange memberships than would be needed without their services.

∫ Security Dealer:

A dealer buys securities at one price and expects to sell them at a higher price (Bradley, 1963: 304).

Dealers trade solely for themselves and are prohibited from handling public orders. Since dealers have access on the floor and can own securities on their own name. They benefit from buying at low and selling at high prices. The benefit of the dealers to the market is that their buy and sells actions added up liquidity of the securities.

Obviously, when an OTC broker receives an order for a security in which a market is not maintained, they may act as both broker and dealer in executing the trade. However, this does not eliminate the obligation to obtain the best price for the customer (Raju, 2000: 66).

∫ Market Makers

Market makers, also known as specialists, facilitate the trading of securities by maintaining inventory in particular securities. They are similar to dealer in many ways except that they always stand ready to buy and sell securities at their bid and asked price for which they are market makers (Joshi, 2001: 28).

The market maker is any company or corporate body which deals in securities at the Stock Exchange in its own name or under its name on the basis of a pledge to provide liquidity to the securities issued by NG, as well as to the securities listed at the Stock Exchange by concluding necessary contracts with the concerned corporate bodies or to the securities of at least three corporate bodies, and not to let to occur improper instability in the prices of such securities, shall be granted membership of securities market maker.

2.4   Price and Trading Procedure

The shares price is determined in the floor by the interaction of market forces i.e. demand and supply. The price is determined by the point of equilibrium between supply and demand, the shifting of this balance results in incessant adjusting of price in search of the ever-changing new equilibrium. Then market price moves upward and downward independently.

There are many reasons that causes the stock price fluctuation, major of them are economic, non-economic and market factors.

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

The next major influencing factors are non-economic factors, including changes in political conditions, such as war or administrative changes, changes in the weather and other natural conditions, and changes in cultural conditions, such as technological advances and the like.

Market factors, or internal factors of the market, consisting of the tone of the market and supply – demand relations, may be cited as the third category that influences the stock prices. The tone of the market is a phenomenon of excessive expectations which takes the form of over-estimating the intrinsic value of stock when stock price is high because of business prosperity while underestimating its value at the time of market decline. The relationships of supply-demand are reflected directly in the volume of transactions, but there is also considerable effect from the actions of institutional investors, margin

transactions, etc. Although margin transactions increase purchases when stock price is going up, once the price begins to fall they become a selling factor and accelerate price decline. The practice of margin finance has not been introduced, so far, in Nepal (Sharma, 1996: 64).

The buying and selling of securities takes place through computerized system the floor of the Nepal Stock Exchange (NEPSE) Limited. The transactions are carried out only through licensed brokers and market makers. However, brokers cannot transact shares in their own account. Market makers are not allowed to do transaction on behalf of other investors. Each broker representative should be present in the floor and participate through written bids and offers. The trading reports are published after the floor is closed (Sharma, 1996: 64).

2.5   Stock Exchange

The stock exchange provides an organized market place for the investors to pay and sell securities freely. The market for these securities is an almost perfectly competitive one because a large number of sellers and buyers participate. The shares listed, however, are not really, homogeneous like a commodity in a perfectly competitive market (Joshi, 2002: 33).

In the stock exchange, there is an active bidding and a two-way auction trading takes place. The bargains that struck the fairest price are determined by the basic laws of supply and demand. The stock exchange provides an auction market in which numbers of stock exchange participate to ensure continuity of the price and liquidity to investors (Panta, 2000: 93).

In contrast to the bond market, the stock market is basically a securities market. The aggregate amount of new common stock issued by co-operations every year is small compared to the trading on the organized exchanges – Nepal Stock Exchange, New York

Stock Exchange, The American Stock Exchange, The Regional Exchanges and the over-the-counter market.

Stock exchange is the most highly centralized and visible institution where already issued securities are brought and sold for investment and speculative purpose. It provides facilities of trading of listed financial securities.

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

Only form 1984, the floor was opened for secondary trading of shares to provide the liquidity for the already issued shares. It availed the liquidity to the shares of 16 stocks with paid up capital of Rs. 307.32 million, market capitalization of Rs. 318.67 million and 9852 shareholders till FY 1985/86.

Securities Exchange does not directly buy or sell securities; rather, they provide trading floors on which a continuous auction market is conducted. To transact business on the trading floor of an exchange, an individual must be member, that is, a seat on the exchange must be purchased. Individual or institutional investors who place orders to buy or sell the securities listed on an exchange may not be present when their orders are executed. Rather, they must be transmitting their orders to an exchange member – usually a commission broker, - who sees that they are carried out (Jacob, 1984: 155).

The stock market is the only institution to mobilize substantial portion of public activity and the public share volume in other markets. This suggests that individual investors recognized the opportunities in these other markets and pursue them. Also, in some cases, institutional investors are restricted from these markets because the stock is often too

small to meet their criteria or legal requirements. As will be seen in other markets, - the AMEX and the over-the-counter market have out performed the NYSE in recent years in New York. Individual investors may know exactly what they are doing by not being the major force on the NYSE.

Some parallels exist between the stock market and the bond market in terms of trading. As we know that although the market for U.S. government and the agency bonds are active, liquid markets, the corporate and the municipal sectors are much less so, at least, for the average investors. In case of stocks, the New York Stock Exchange (NYSE) is a very active, liquid market, with trades occurring smoothly within a carefully monitored framework. Prices may fluctuate sharply as a result of changes in investors expectations, but such changes are orderly and investors can buy or sell with reasonable confidence that the prices are "fair" (i.e. represent orderly transactions within a monitored environment).

The American Stock Exchange is designed to imitate the NYSE, and thus has similar trading procedures. The role of specialist is initially the same as on the NYSE, although the capital requirements are smaller. Active stocks are usually assigned to specialist firm that may have several partners at the post to handle orders. Certain trading policies are different because of the relatively "thin" supply of shares for many AMEX stocks.

In over-the counter market, the corporations being traded may range from very large (e.g. Food Lion Supermarkets and Coors Bell) to very small firms unknown to most investors; the market for particular shares may be very active or very inactive. Bid – ask spreads may range from 1/8 points or more. The small investors can trade in the OTC market more easily than in the corporate or municipal bond markets, investing only a few hundred dollars or less. The OTC market is of increasing importance and continues to enhance its position relative to the organized exchanges. But in Nepal, OTC is not practiced yet.

The extent of active stock market trading by individual investors should depend on several factors. One is their knowledge. Do they understand how stock is valued, traded and managed? A second factor is their belief about the relationship between a security value and its price. Are the two usually identical, and if not, can a typical investor expect to the difference? And the third factor is the trade-offs to be made between direct investing and indirect investing through the purchase of investment company share.

2.6   Review from past studies

Borsworth (1953-1975) in his study, *Industrial Production and Prices of common stock,* has revealed that the stock market and economic activities move in similar cyclical patterns. This fundamental relationship shows that stock prices are meaningful in the sense of reflecting real economic variables.

Kimpton (1985) in his study, *Stock prices and the business cycle*, has found that the general correspondence between stock prices and business cycle, where weighted moving average of a stock price index is mapped against the peaks and troughs of business cycle since 1948. The market has reflected the recessions in the economy since 1948

The indicators of stock market development reflect the development of an economy. It is important to predict the course of the national economy because economic activity affects corporate profits, investor attitudes and expectations and ultimately security prices. The key for the analyst is that overall economic activity manifests itself in the behaviour of stock price or the stock market. This linkage between economic activities and the stock market is critical (Fisher and Jordan, 1990: 125).

There are two important aspects of capital market, namely, the raising of funds in the form of shares and debentures and trading in the securities already issued by companies. While the first aspect is obviously is much more important from the point of view of economic growth, the second aspect is also of considerable importance. In fact, if facilities for transfer of existing securities are abundant, the raising of new capital is

considered assisted for the buyer of a new issue of security is confident that whenever he wants to get cash he can find a buyer without much difficulty. This aspect is called the liquidity of the stock market. Thus, the liquidity of the stock market affects the raising of new capital from the market (Kunt & Levine, 1996: 89).

A number of studies on the relationship between stock prices and the national economy have found that changes in the stock market tend to precede changes in business conditions by an average of about four months. As a result, the stock price index is major component of the index of leading economic indicators, which consistently provides a warning about changes in economic activity (Lorie, 1985; Dodd, 1985; Kimpton, 1985: 78).

Fama and Schhwert (1975) made a joint study that government bonds, Treasury bills and real estate compensate somewhat for unexpected inflation. The surprising result, however, is that common stock returns are negatively correlated with both expected and unexpected inflation. Rather than being compensated for inflation, investors in common stocks have been penalized.

Levine (1996) mentioned in his article that stock markets may affect economic activity through the creation of liquidity. Many profitable investments require a long-term commitment of capital, but investors are often reluctant to relinquish control of their savings for long periods. Liquid equity markets make investment less risky – and more cheaply if they need access to their savings or want to alter their portfolios. At the same time, companies enjoy permanent access to capital raised through equity issues. By facilitating long-term, more profitable investments, liquid market improves the allocation of capital and enhances prospects for long-term economic growth. Further, by making investment less risky and more profitable, stock market liquidity can also lead to more investment.

Levine in his same study has found that stock market liquidity rather than stock market size and volatility of the stock market matters for growth. He has shown that with taking

examples of 38 countries with more liquid stock markets in 1976 grew faster than those economics with less liquid stock market in 1976 between 1976 and 1993. Thus, stock market liquidity helps to forecast economic growth. He has used three measures of stock market liquidity, viz. value traded ratio turnover and the value-traded ratio divided by stock price volatility. The study has revealed that countries that had more liquid stock markets in 1976 enjoyed both faster rates of capital formation and greater productivity over the next 18 years, because liquid stock markets encourage more investment .

Doodha (1962) has shown the causal connection between deficit finance, money supply, and the general level of price and the share prices. The relationship being positive and in the same direction, it can be deducted that, ceteris paribus, if the deficit finance is low, money supply increase will be small, the general price level will be little and, therefore, the growth in stock market prices will be small.

However, there are various researches performed on the stock market liquidity and its effect on long-term economic growth. Levine & Zeroos (1996) have mentioned in his article that increased liquidity can deter growth through at least three channels. First by increasing the returns to investment, greater stock market liquidity may reduce saving rates through income and substitution effects. Second, by reducing the uncertainty associated with investment, greater stock market volatility may reduce saving rates because of the ambiguous effects on uncertainty on savings. While less uncertainty makes an investment more attractive to risk-averse agents, less uncertainty also lowers demand for precautionary savings. Thus, the ultimate impact of lower uncertainty on saving rates produced by greater stock market liquidity is uncertain. Third, stock market liquidity may adversely affect corporate governance; very liquid markets may encourage investor myopia. Because, more liquid markets make it easy for dissatisfied investors to sell quickly, liquid markets weaken investor's commitment and reduce investor's incentives to exert corporate control by overseeing managers and monitoring firm performance and potential. According to this view, enhanced stock market liquidity may actually hurt economic growth.

Kunt and Levine (1996) find that across countries the level of stock market development is positively correlated with the development of financial intermediaries. Thus, stock markets and financial institutions are generally complements; they grow simultaneously .

Levine and Zeroos (1996) examine the empirical relationship between measures of stock market development and long-run growth rates. After controlling for the initial level of GDP per capita, initial investment in human capital, political stability, the level of banking development and measures of monitory, fiscal and exchange rate policy, the predeterminal component of stock market development remains positively and significantly with long-run economic growth.

Fischer and Jordan (1990) have distinguished investment from speculation in SM by the time horizon of the investors; and often by the risk-return characteristics of the investment. The true investor is interested to seek a good rate of return for a relatively long period of time. The true speculator seeks opportunities of very large returns to earn rather quickly. Thus, the same stock can be purchased as a speculation or as investment, depending on the motivation of purchaser.

Donald and Jordan further say that investments generally involve real assets and financial assets, real assets are tangible while financial assets are pieces of paper representing an indirect claim on real assets held by someone else. Financial assets are liquid, so that they can be sold to acquire real assets. Thus they encourage investment in financial assets through the stock market.

Common stock represents an ownership position. The holders of common stock are the owners of the firm, have the voting power that among other things elects the board of directors, and have a right to the earnings of the firm after all expenses and obligations have been paid but they also run the risk of receiving nothing if earnings are insufficient to cover all obligations.

Shrestha (1992) in his book "Shareholder's Democracy and AGM Feedback" has focused various issues related to protection of shareholder's expectation. "Success of company directly depends on the protection of their owners. But how can this be accomplished is main question. Thus, it is necessary to develop a possible guidance for enhancing the efficiency for public limited companies to contribute directly in the growth of national economy on one hand and ensuring handsome return to the shareholders on the other hand to make their investment meaningful and worthwhile. At present, the overall shareholders' democracy in terms of the protection of their interest is basically focused on the payment of satisfactory dividend and the maximization of shareholders' wealth by appreciating the value of shares they hold.

The movement of degree of response in new issue market is significantly and positively related with the movement in price, liquidity and cost of capital in the secondary segment of the market (Sharma, 1996: 36).

Share price is a function of information; the continuous flow of information is precondition for the orderly function of the market (Joshi, 1996: 38).

The prices, turnover of stocks increased tremendously after the opening of the trading floor. Even prices of stocks with huge accumulate losses and the companies established only a couple of month back went up and up which is not conducive for the healthy growth of market. Such unnatural high prices are accounted for the poor transparency and the pouring of large number of people without having a minimum knowledge on shares in the market (Joshi, 1996: 39).

It may be appropriate to mention at this stage that the expansion and the growth of the stock market have a direct correlation with the overall growth and expansion of the private sector in the Nepali Economy. If the private sector is to assume a lead role in future economic development, it is necessary to provide a ready source of capital to sustain such efforts. An important component of the capital markets is the stock

exchange, which performs a pivotal role in channelling individual as well as industrial savings in the private sector (Peiris, 1992: 131).

Mahat ((1981) in his book "Capital Market, Financial Flows and Industrial Finance in Nepal states that there is absence of secondary market to ensure liquidity to the securities on demand. Any attempt to stimulate investment in industrial sources would naturally depend on the extent to which the securities are saleable in the market. Only the existence of a Stock Exchange can enable the security holders to sell their securities for cash and purchase alternate securities if they wish. In Nepal, in the absence of such a stock market, an industrial security is an illiquid form of asset, even more illiquid than the real estate for all practical purpose.

The investors are losing faith on the performance of share market since companies are not providing timely and adequate disclosure of information and the continuous violence of shareholders' rights by the company management. This is responsible for losing faith of general public to buy and sell shares of such companies (Shrestha, 1996: 32).

James H. Lorie, Peter Dodd and Mary Hamilton Kimpion has stated in their book "The Stock Market: Theories and Evidence" by mainly two points about the stock prices markets and investors are following:

1. The first that it is relatively easy for the individual investors to make substantial returns by investing according to some simple rules so that he can make prediction about the market mechanism and its growth prospects.
2. The second point is that the individual investors is manipulated or exploited by the financial institutions to such extent that investing in the common stock is intolerably hazardous. This means, the simple rules regarding the prediction of market mechanism whether it is growing or not, for investments cannot be expected to produce extra ordinary returns. Nor is the small individual investor at substantial disadvantage as compared with the professional investors or the financial institutions.

This book helps to evaluate the security price in primary and in secondary market. The use of formal models and empirical inquiry has provided new knowledge and has cost light on the validity of some old and new theories of securities valuation in the recent market condition. So that one can show the condition either the market is in growth form or in declining stage and the share price condition in the point of simple investors are clearly analyzed.

Henderson (1951) has analyzed in his book "New issue market and finance for industry" that the new issue market has three important functions; they are origination, understanding, underwriting and distribution. The NIM (New Issue Market) facilitates the capital market to raise long-term funds. Industries, new issues are further classified as "initial" issues and "further" issues. Initial capital can be raised only through equity or preference shares. When existing companies raise issues it is called "further" capital. Such organization can raise debentures. The interplay of these functions helps to transfer resources form the resource of surplus funds to those who require these funds in ultimate users of these funds.

According to the journal of SEBO named as "Meeting the Challenges ahead (2054-2069): clearly defined the policy development regarding to the growth of the market. As a regulatory body for the Nepalese Securities Market, securities board has adopted following set of strategies policies to handle the strategic issues that are inhibiting the growth and development of the market. These policies consist of:

☞   Improvement in the statutory and regulatory framework of the capital market.
☞   Development of widely participated capital market. Improvement in the securities bond's institutional capacity.

SEBO has also made some improvements in the statutory and regulatory framework of the capital market. Such improvements contribute to the development of capital market in the following ways:-

☞ Bring clear demarcation in the role and responsibilities borne by the securities board and other regulatory agencies i.e. stock exchange, NRB, ORC etc.

☞ Reduce the duplication in the role and responsibilities of Board and other regulatory agencies.

☞ Show the ways of coordination between the services Board and other regulatory agencies.

☞ Promote public confidence in the regulatory system and market structure.

☞ Introduce a system of recognizing self-regulatory bodies by encouraging them to share and take responsibilities in certain areas.

☞ Establish securities board as a central market regulator and rest in with wider investigation and enforcement power.

☞ Empower the securities board to audit the registered corporate bodies, mutual funds, as custodians and clearing houses in relation to their financial reporting issues.

☞ Promote the development of 'full-survive' securities house and,

☞ Gives focused attentions for the establishment and up grading of necessary legislative infrastructure to address on going needs.

Nepalese capital market offers a wide range of financial services and instruments. It also has to provide the opportunity for a large number of investors to participate directly or though mutual savings schemes. While implementing this policy the securities board:

☞ Advises the government regarding the development of a secondary market for government securities and the opening of foreign portfolio investment.

☞ Coordinates with NRB to formulate prudential standards for the primary issue as well as secondary trading of government bonds.

☞ Studies the possibility of introducing as over the counter exchange system and brings in the concept of introducing broker in order to facilitate easy entry and exit process for the benefit of investors.

Timilsina (2001), In his article Capital market Development and Stock Price Behaviour in Nepal, concluded that, expected values of a share of individual companies are computed by solving regression equations both on the basis of earning per share as well as dividend per share. The results are statistically tested and found to have their close relationship with observed values. Expected market prices of share are also computed capitalizing the EPS of individual company by the risk adjusted cost of capital. It has been found that the market price of share depends on EPS as well as on DPS. But DPS is more prices sensitive and it will have direct and immediate response in the market. However market values of share computed on the basis of EPS are near to the observed values therefore the observed market prices of equity share reveal that the stock market is not inconsistent.

The market value of share is the function of various financial and economic variables as well as internal and external factors. The company's financing and investment po9licy product development market expansion policy and competition would largely determine the value of its share. Macro economic variables like monetary and fiscal policies money supply rate of inflation and GDP growth rate would determine the economic growth of nation. The upward swings in the economy would help to push up the market value shares. On the other hand the downward swings in the economy would suppress the market value of shares.

The world has been launching towards economic integration and globalization. The economic depression in one corner of the glove can spread its impact all over the world. As such, not only the domestic factors, but also the external factors to a larger extent, and responsible in affecting the equity prices. It is practically impossible in inefficient market environment to anticipate in advance all the future opportunities equity investment and the risks associated with it. Changes in some of the variables shares prices immediately changes in other variables can affect share prices and time lag. Further, some factors impose direct impact while other factors affect prices indirectly. The money supply and bank credits, however indulge a direct impact in capital market. When money supply

increases the interest rate may fall causes prices to move upwards but inflation may also creep up side by side as reaction increase of capital gain is neutralized. Money supply could become the leading factor in the short period, but it is only a coincident indicator tho helps further growth. Market reacts to the dissemination of such news whether good or bad, which effects investors risk and return in the immediate future; may it be capitalization of individual company, issue of bonus share and issue of right shares, declaration of high dividend, change in the market interest rates availability of alternative opportunities or publication of the auditors report regarding the bad financial position of the company.

2.7   Review of thesis

There are many theses written by various researchers in past years. Among them some dissertations are reviewed here for analysis of literature.

Timilsina (1997) has conducted research on a topic of "Dividend and Stock Price". The study was carried out by the data for 16 enterprises from 1990 to 1994.

The objectives of the study were as follows:

➢   To test the difference between dividends per share and stock prices.
➢   To determine the impact of dividend policy on stock price
➢   To identify whether it is possible to increase the market value of the stock changing dividend policy or payout ratio.

To explain the price behaviour, the study used simultaneous equation model as developed by Friend and Puckett (1964). The main findings of his study were as follows:

➢   The difference between dividend per share and stock prices is positive in the sample companies.
➢   Dividend per share affects the share prices variedly in different sectors.

- Changing the dividend policy or dividend per share might help to increase the market price of share.
- The difference between stock prices and retained earnings per share is not prominent.
- The difference between stock prices and lagged earnings ratio is negative.
- Though there were above-mentioned studies in the context of Nepal, it has overcome necessary to find out whether their findings are still valid.

- Timilsina's study was based on 45 observations. The number of companies included in the sample was only 16, which is quite low. Studies on dividends conducted in the context of Nepal are based on secondary data only. No study has been conducted on dividends by using primary data as yet. There is a need to conduct a survey of financial executives in order to find out more qualitative facts on dividends which can not be determined though the use of secondary data.

Bhatta (1997) conducted a research on the topic "Dynamics of Stock Market in Nepal", the objectives of the research were as follows:

- To analyze the trend of the Nepalese stock market.
- To diagnose and compare sector-wise financial status of the stocks in Nepalese stock market.
- To analyze the market share prices of Nepalese stock market.
- To find out the impact of secondary on primary market and vice versa.
- To recommend for the improvement of stock market in Nepal.

The major findings of his study were:

The stock market and economic activities move in similar direction. They influence each other. The development of the former is reflected in the latter. The stock market raises and mobilizes the invest-able resources to finance the long-term large projects in the economy. The stock market, therefore, can be regarded as a heart of economy.

The investors are interested to invest their resources in the shares of corporate sector through the stock market in the Nepalese economy. It is necessary to develop the entrepreneurship and encourage the entrepreneurs to start the productive venture as soon as possible. Management capability of the entrepreneurs is a key for better performance of the firms. Government should launch programs to enhance management capability of the entrepreneurs, which may contribute to raise the return from the investment.

Development of the manufacturing sector is the backbone of an economy, which, in turn, assists to foster banking, finance and insurance sectors. Unfortunately, the manufacturing sector does not have a good performance in Nepalese economy. Almost all firms in this sector have a sustained loss.

The secondary aspect of the stock market is not also functioning well in Nepal. There is almost no liquidity in the stock market for shares except that of banking and some finance and insurance sector.

Although it has become late to take steps to overcome such problems of the Nepalese stock market in order to make it active and supportive, the stock market has good prospect for the resource mobilization to finance the productive enterprises in Nepalese economy.

Shrestha (1999) conducted research on "Stock Price Behavior in Nepal"; this study aims to examine the efficiency of the stock market in Nepal.

The specific objectives of the study were:
➢ To examine the serial correlation of the successive daily price changes of the individual stocks.
➢ To determine whether the sequence of price changes is consistent with changes of the series of random numbers expected under the independent Bernoulli process.
➢ To determine the efficiency of the stock market through the theoretical model of efficient market hypothesis in the Nepalese stock market.

> ➢ To provide feedback policy input towards institutional development of efficient market.

The major findings of the study were:

The serial correlation coefficients of the daily price changes for 1 and 2 lag days, and runs of the series of daily price changes lead to conclude that the successive price changes are not independent random variable for the 30 sample stocks listed in the Nepal stock exchanges ltd. (NEPSE). Therefore, the random walk theory is not a suitable description for the stock market price behaviour in Nepal.

The dependence in the series of price changes observed imply that the price changes in the future market will not be independent from the price changes of the previous days. It implies that the information of the past price changes is helpful in predicting future price changes in a way that the speculation through technical analysis can make higher expected profit than they would be under native buy-and-hold policy (i.e. average market return). Therefore, opportunities are available to sophisticated (both institutional and individual) investors to earn higher return in the market. The existence and participation of the sophisticated investors have not been realized from the findings of this study. It is realized that mostly the native investors have dominated in the market that can cause prices to diverge significantly from intrinsic values because the very existences of the sophisticated traders cause to erase the opportunities of persistence in prices which establish independence of successive price changes.

He analyzed 30 listed companies' stock price and found that the successive price changes are dependent. He finally concluded that he NEPSE is not efficient in pricing shares even in its weak form. Shrestha too had used autocorrelation and run test to detect the dependence among the stock price series. The outcomes of both the models were found to be similar and rejecting the null hypothesis that the successive price changes is independent. Though his research was not based on the total market return movement, the result drawn from analyzing the movement of major stocks traded in the market can be generalized for efficiency level of overall NEPSE. Moreover this research work with the

analysis of total market return and baking sector stock return will be useful to verify his findings as well.

Sherpa (2001) has conducted research on "Corporate Information Disclosure and its Effect on Share Price". The primary objectives of this study were to obtain an insight on corporate information disclosure with special reference to Nepalese stock market and its listed companies. To attain the mentioned objectives, the following specific objectives were set.

➢   To highlight the corporate disclosure practice in Nepal.
➢   To identify the extent of disclosure of each of the item of information and to develop the information disclosure index.
➢   To check the quality of corporate disclosure of Nepalese listed companies measured by company characteristic namely asset size, number of shares outstanding and earning margin.
➢   To see the relationship between corporate information disclosure and stock prices.

His research study began with the construction of disclosure index for which he collected 59 informational items, classified according to their importance and calculated mean value after the collection of primary data. Thereafter, he selected 33 listed companies, used their annual reports and calculated disclosure scores, which was followed by use of various statistical tools like regression, correlation etc. to attain the mentioned objectives.

From the detail analysis, he found that most of companies do not disclose adequate and qualitative information on their annual reports, and most of disclosed information consisted of only relationship between disclosure scores and variables like earning margin, asset size etc. The important finding of his research is that there is positive relationship between market price of share and disclosure score. In other words, the company having greater disclosure score had the higher prices of stock.

Adhikari (1999) has conducted research on "Corporate Dividend Practices in Nepal". The general objectives of the research were to assess corporate dividend practices in Nepal. However, he also attempted to examine the relationship between dividend and stock prices. Hence, it becomes clear that he used dividends as informational variable to see the effect of it to share price.

The study of relationship between dividends and stock prices was accomplished by collecting data on market price per share, dividend per share, retained earning per share and lagged earning price ratio of 22 companies for the period of 1992 to 1997. Out of 22 companies, 13 companies were from finance sector and remaining 9 companies were from non-finance sectors. Using regression model made the analysis of data.

His research analysis revealed that there is a positive relationship between dividends and stock prices in the sampled companies. Overall, the study suggested that the relationship between dividend and stock prices is in conformity with the relation as assumed in the developed capital markets.

Shrestha (1981) conducted research on "The Role of securities Marketing Centre (SMC) in the Economic Development of Nepal", asserts that the industrialization is the foundation of the economy. In the absence of it, the economy cannot live on its own foot. To the need of long-term finance occurs sharply to accelerate industrialization. In this respect, the securities market is an important constituents and core of capital market.

No doubt, industrialization is core of the economy, which sustains in the financial and money market along with the productive use of available sources. Thus, the study of securities market should be delimited to primary and secondary market merely indicates the future repercussions of securities market.

Shrestha fails to highlight on the problems of his research work. It is the general principle of the research work that what problems he has observed and why he is interested to pick up the topic to be explored so as to find the remedial measures of the problem. Shrestha

states that there is the lack of necessary books, bulletins and other materials concerned to the topic. No adequate information about the stock exchange operation is available due to the absence of organized stock exchange. Basically, two behavioural aspects of securities market i.e. primary and secondary are studied while conducting research on this topic, and problems related to this aspect should be considered.

As Shrestha indicates that the sole objective of the study is to know how far SMC has succeeded in educating public about the investment in securities. This is particularly a cognitive attitude of the investors and many more qualitative elements should also be taken into account for evaluation of investment and disinvestments of securities on the part of investors. But nowhere in the study, has Shrestha thus explained the investment attitude of the potential investors. Furthermore, Shrestha's statement in relation to measure the success in educating public about investment does not hold true partly because no tremendous transactions were performed during the preliminary day of stock exchange and partly because there was not response of the entire public to the securities market. As a result public awareness as to the securities was premature of the assessment.

Similarly, Shrestha attempts to highlight how far the security marketing center has helped to increases the transactions of securities investment. In other to support this logic, he has maintained that financial intermediaries are contributing to the development of securities market in Nepal. At present the SMC has been examining the possibility of trading in corporate securities as soon as possible. It has already started dealing in government bonds and treasury bills.

The condition of primary market is very miserable. It is also due to the lack of fiscal and other incentives we know that primary market is the main foundation on which the secondary market is based. So, without the proper development of primary market, the secondary market would not be effective.

Shrestha arrives at the conclusion that the performance of existing companies is not satisfactory; thus, the potential investors are not willing to invest in the present securities.

More importantly, now the securities market is functioning independently as primary and secondary market.

Panta (2000) analyzed in her thesis "Current Problems and Prospects of Securities Market in Nepal", the trend of the Nepalese stock market and present state of primary and secondary market as well as problems and prospects of Nepalese stock market.

The major findings of her study were:
➢ The development of stock market primarily depends on program and their implementation.
➢ In Nepal, the overall policy environment has not been conductive to the development of stock market. Therefore, it is difficult to develop more efficient secondary market, trading system for both equity and debt security.
➢ Lack of investor's confidence in stock market since many listed companies resulted not trading on regular basis or hold AGM.
➢ Restriction on foreign portfolio investment hindered market development.
➢ NEPSE does not have appropriate policies, memberships and fee structure to attract member outside the Kathmandu.
➢ In Nepal, banks dominate primary market in government debt instruments, OTC trading is not permitted; therefore, secondary market is totally inactive.
➢ Lack of necessary provisions in the laws and regulation for the privatization and automatics of stock exchange as well as for the establishment of central depository of securities (CDS).

She did point out the transparency and openness of transaction, quality professional services, in adequate corporate financial disclosures and improved legal, regulatory, and supervisory framework are the urgent needs of Nepalese stock market. Therefore, it is important that the basic assumption in any effort for protecting investors interest or boosting their confidence or developing the stock market is that business, which should be enable to operate in an environment that remains conductive to growth and expansion

but complete replication of any tailor made model, as applied anywhere, may not work because the specific in Nepalese stock market is different from other developed market.

Regarding political instability, she was absent to indicate the Maoist activities which have made the status / condition of country very poor. These activities have not only affected the political environment but also have affected the tourism; hotel management etc. or we can say that all financial as well and non-financial activities within the country are very poor.

Mr. R.S. Mahat in his report "Future Prospects of NEPSE in Capital Mobilization" is able to analyze the situation in Nepal where the industrial sector has very little access to private saving. Also, indicates the availability of industrial securities is nearly absent the development of financial institutions that links the surplus spending units with the deficit spending ones is in the rudimentary stage.

His study also demonstrated, relatively, very limited financial contribution or other financial institutions to this sector, but he does not indicate those factors, which help to uplift the financial contribution to the other sectors like, provident fund and NIC etc.

It is acknowledged that a greater use of resources available in the financial system of the industrial development of the country may not be very smooth and easy. He also specified the growth and potential measures of security market, capital market specified the growth and potential measures of security market, capital market regarding primary and secondary market. He just shows the preliminary and basic problems of industrial sector but not in broad way. So, according to his topic, the sufficient future prospects / measures are not available in his study but can find in basic context. There is not indication in the relations of primary and secondary market with economic condition of the country in his study.

Aryal (1999) has conducted research on "The General Behaviour of Stock Market ". The specific objectives of this study were:

- To discuss theoretically the movements of stock market prices as predicated by the random walk model.
- To develop the empirical probability distribution of successive price changes of an individual common stock and a stock market as a whole.
- To examine whether the successive price changes of stocks market are independent to each other or not.

The major findings of his study were:

- On the basis of run tests and serial correlation, it seems that the independent assumption of random walk model in stock prices is rejected by the collected sample data of 21 companies at least as a description of price behaviour in Nepal Stock Exchange.
- The stock price changes are dependent on each other.
- The random walk of security speculative price behaviour has been refuted at least in the Nepalese context, which clarifies that the knowledge of the past becomes useful in predicting the future movements of stock market price.
- The securities in the past were incorrectly priced either over or under valued, as actual market prices of securities do not reflect their intrinsic value. In other words, in case of sample securities, they are incorrectly adjusted those past information to the present market prices.
- There exists frequent persistence than reaction in the general stock market climate because of the investors' irrational behaviour that causes the irrational movement of prices of stock.
- The general stock market of Nepal for the initial period appeared to the inefficient in incorporating the possible appearance of information into the successive price changes. Therefore, the investing publics are not aware of the information available publicly, appropriate in adjusting with the actual market price.

His research revealed NEPSE to be an inefficient market. He performed a test of weak form efficiency by examining whether the stock price behaviour follow a random walk or

not. He concluded that the knowledge of past is useful in predicting the future movements of stock market prices. Therefore, investors on the floor of the exchanges for securities can make higher than expected profits in the future based solely on the historical prices series under the existing trading mechanisms than they would be under buy and hold strategy.

Shrestha (2000) has concluded in her study that the NEPSE is efficient in its weak form hypothesis. But her study report itself is contradictory. At the same time she has also stated. It is possible to beat the market by using technical analysis in NEPSE (p.73). Since the weak form efficient market is defined in terms of usefulness of technical tools to beat the market. If it is possible to beat the market by using technical tools of analyses, the market never could be ascertained as efficient even in weak form.

Bhattarai, (1990) on his research analyzed stock price, paying greater attention on dividend policy, generalized that the many companies were paying less cash dividend than expected by investors. In average, most companies were under-rating the expectations of investors and thereby resulting the low marketability of shares on the trading floor of stock exchange. He has also stated that the calculated price could not reflect the quoted price of share. This also support that the market not to be efficient in which stock price reflects the true value of the investment or intrinsic value.

Pramesh (1991) in his study of dividend policy of joint venture banks in Nepal concluded that the market value per share are significantly fluctuated and traded on high price.

Pradhan (1993) has conducted a research, "Stock Market Behaviour in Small Capital Market: A Case of Nepal". For the study, he collected the data of 17 enterprises from the year 1986 to 1990. His research study was carried out to meet the following objectives.
➢ To assess the stock market behaviour in Nepal.
➢ To examine the relationship of market equity, market value to book value, price earnings and dividends with liquidity, profitability, leverage, assets turnover and interest coverage.

After using statistical tools like regression model, he presented the following findings:

➢ The stock with larger ratio of dividend per share to market price per share have lower leverage ratio.

➢ The leverage ratio of dividends per share to market price per share has higher liquidity.

➢ The liquidity position of stock paying lower dividends is also more variable as compared to the stock paying higher dividends.

➢ The stock with larger ratio of dividend per share to market price per share has higher earnings.

➢ There is positive relationship between the ratios of dividends per share and interest coverage.

➢ The dividend per share and market price per share are positively correlated.

➢ The dividend payout and profitability has positive relationships.

➢ There is a positive relationship between dividend payout and turnover ratios.

➢ Assets turnover, earning and interest coverage are more variable for the stocks paying higher dividends.

Kunwar (2001) has conducted a research, "Dividend Policy: A Comparatively Study between Nepal Insurance Company Ltd. and National Life and General Insurance Company Ltd." He aimed to analyze the dividend policy adopted by two Nepalese insurance companies for the periods of 1994 to 1999. However, he also attempted to examine the influence of financial indicators on share price.

The study was solely based on the analysis of secondary data. He accomplished his research analysis by using the statistical tools like multiple regression, correlation etc. The findings of his study were not consistent since he found negative relationship between MPS and DPS for one sampled company and positive relationship for the next. Similarly, the relationship between EPS and MPS was also contradictable. Furthermore, it is found that an increase in return on shareholders equity leads to increase in the market price of the shares.

Joshi (2001) has conducted research on "Role of Nepal Stock Exchange in the secondary Market". The main objectives of this study were:

➢ To assess the past and present behaviour of business operation in the Nepal Stock Exchange Market.

➢ To forecast the future trends of business and economic activity in the NEPSE in terms of quality, value and volume.

➢ To prescribe ways and means by which secondary market would be more effective and meaningful.

The main recommendations in her study were:

➢ NEPSE should introduce digital technology and online marketing in its trading procedure.

➢ The rules and regulations should be up to date.

➢ Privatization process needs to be carried out effectively in order to develop Nepalese stock market.

➢ Tax system should be reformed which should encourage and stimulate capital formation.

Khanal (2002) in shi study "Growth and prospects of Stock Markets" has concluded that transparency and openness of transaction, quality professional services, adequate corporate financial disclosures and improved legal, regulatory and supervisory framework are the urgent needs of Nepalese stock market.

Dr. Manohar K. Shrestha has indicated why the share market is inactive and what problems are the main causes for inactiveness and what measures should be done etc. are carefully defined. Similarly, how the securities frauds and manipulations have occurred and to what extent they can be overcome would be highlighted to draw adequate feedback to the regulating and controlling authorities to devise suitable laws to prevent such frauds and minimize manipulation in share price.

The downfall of share market is mainly due to the unfair share market practices that went indicted for a long period in Nepal's share market. There has been a growing tendency to sell worthless and fraudulent securities since promoters were not questioned regarding their moral standing and honest integrity of professionalism. In practice, a handful of Banniya traders (Canny people) began to dominate the share market as they are very little exposed to the managerial and institutional culture of managing share market activities by honest and fair dealings.

Overall, the previous studies in stock market support the idea that Nepalese stock market is not efficient even in the weak form hypothesis. Nepalese investors are not efficient enough to recognize potential for excess return.

2.8   Research Gap:

There have been several researches done before in stock market. All of those researches have many useful findings and their own limitations. Like, Aryal conducted a study in 1995 in share price behavior based on twenty-one sample stocks. The time period was only eight months from the beginning day of organized stock market for eight months period. Till date market has experienced many ups and downs. Likewise, Shrestha in 1999 carried out a study based on data of randomly selected thirty stocks out of all listed securities mostly started from the commencing day of organized trading system on NEPSE. His study covers the period from 13th January 1994 to Mid July 1998. However, his study implies technical concept but not emphasis has been given on fundamentalism. His study remains silent to say whether the trading with the help of past information could earn profit in both bull and bear market. Likewise, Upadhyaya has carried out another study in Share price behaviour in 2001. Though his study attempted to cover the limitations of previous studies but yet it is not enough to say is it either DPS or EPS to influence market price of stocks i.e. which of the variables (DPS and EPS) has more effect on share prices. EPS and DPS hit the physiology of investors in greater extent and hence they are the most important factors so as to attract public interests. Shrestha conducted another study on "Role of SMC in Economic Development of Nepal" in 1981.

He arrives at the conclusion that the performance of existing companies is not satisfactory; thus, the potential investors are not willing to invest in the present securities. Again he failed to highlight the problems of the research work. The literature shows that there is a clear gap of studies about impact of political changes in the stock market. So, the current study is a supplement to overcome the weakness and limitations of previous studies.

These researches are helpful in different areas. The findings of pervious researches are equally important. But no researches have been made in the impact analysis. The main focus of the research will be to analyze the impact of political development in the Nepalese stock market.

CHAPTER – III

RESEARCH METHOLODGY

This chapter is a plan for the fulfillment of objectives set in the first chapter. It includes research design, population and sample, nature of data, data gathering procedure and data processing procedures.

3.1 Research Design

This study is particularly based on the secondary data. Only the past data are used in this study to find the effect of political development, so it is analytically as well as descriptively based.

3.2 Population and Sample

The population of the study is the total transaction period of Nepse after its establishment and to fulfill the objective of the study, three major periods have been selected as sample of the study. The first period is February 2, 2004 to January 31, 2005 (Known as before king's period or post king's period), Second period is February 1, 2005 to April 24, 2006 (known as King's active ruling period) and the third period is April 25, 2006 to April 25, 2007(known as after King's active period). The research uses 750 days daily aggregate and sector wise NEPSE index collected from Nepal Stock Exchange (NEPSE) Ltd. Out of 750 days, period one includes 237 transaction days, period two includes 280 transaction days and period three includes 233 transaction days.

3.3 Sources and Collection of Data

This study fully depends upon the secondary sources of data. Secondary data had been collected from published trading reports of NEPSE and its official website.

3.4 Presentation and analyses of data

The collected data are presented in tabular form and interpreted accordingly. Detailed calculations are presented in appendices.

3.5 Analytical Tools

Descriptive statistics and analysis of variance (ANOVA) at five percent level of significance have been used. Descriptive statistics includes maximum, minimum, range; mean and standard deviation are also used to analyze the data collected to fulfill the objective.

3.5.1 Range

Range is calculated to describe the distance of the data acquired from a source. The higher range describe that the response is highly scattered while the lower range describe that there is unity between the responses regarding that question.

3.5.2 Arithmetic Mean

Arithmetic mean is the sum of all the observations divided by the number of observations.

The arithmetic mean is denoted by ($\overline{X}$). It is computed as:

Arithmetic Mean $= \dfrac{fx}{N}$

CHAPTER – IV

PRESENTATION AND ANALYSIS OF DATA

This chapter presents the data and their analysis. Nepse indexes of the selected period are presented and their detail analysis has been done. The presentation and analysis of data consists of organizing, tabulating and assessing statistical results.

4.1 Aggregate NEPSE index

Table 4.1

Aggregate NEPSE index

Period	Number of observations	Minimum	Maximum	Range	Mean	Std. Deviation
1	237	195.14	247.41	52.27	222.945	14.801
2	280	246.94	343.28	96.34	296.604	19.863
3	233	338.54	538.53	199.99	438.605	61.733
Total	750	195.14	538.53	343.39	317.443	94.611

Table 4.1 presents the aggregate scenarios of Nepse index over the study period. The minimum indexes over the three periods are 195.14, 246.94, and 338.54 respectively. The data shows that the maximum, minimum and the range of index over the three periods are the highest in the third period. Similarly the mean and fluctuation in the index that is shown by the standard deviation are also the highest in the same period. The main reason behind to be the highest all the computed figures in the third period is a continuous bullish market since the first period of the study.

4.2 Daily fluctuation in Nepse index

Daily fluctuation in Nepse index refers to the change in Nepse index over the previous day.

Table 4.2

Daily fluctuation in NEPSE index in three periods

Period	Number of observation	Mean	Standard deviation
1	236	0.154	1.304
2	280	0.302	1.839
3	233	0.733	4.657
Total	749	0.389	2.929

Table 4.2 presents the mean and standard deviation of fluctuation in Nepse index over the study period. The mean value shows that the highest fluctuation in the index is in the third period and lowest in the first period as the result shown in the table 4.1. Similarly the variability in the change is also the highest in the same period. The main reason behind to be the highest figures in the third period is a continuous bullish market since the first period and higher rate of change in the daily index in the last period of the study.

4.2.1 Daily fluctuation in Nepse index: Hypothesis testing

Table 4.3

Test of significance of daily fluctuation of NEPSE index in three periods

Source	Sum of Squares	d f	Mean Square	F	Sig.
Between Groups	42.71	2	21.36	2.50	0.08
Within Groups	6373.50	746	8.54		
Total	6416.21	748			

Table 4.3 presents the test of significance of the differences in the fluctuation at 5 percent level. The result shows that the difference in the mean values of daily change in the Nepse index among the three periods is insignificant.

4.3   Daily Nepse return

Daily Nepse return here means the percentage change in Nepse index over the previous day's index.

Table 4.4

Daily Nepse return

Period	N	Minimum	Maximum	Range	Mean	Std. Deviation
1	236	-0.041	0.020	0.061	0.001	0.006
2	280	-0.033	0.026	0.059	0.001	0.006
3	233	-0.032	0.054	0.086	0.002	0.011
Total	749	-0.041	0.054	0.095	0.001	0.008

Table 4.4 presents the minimum, maximum, range, mean and standard deviation of daily percentage change in Nepse index over the study period. The data shows that the minimum value of rate of decrease is the index is the highest in the first period and lowest in the third period among the study periods. But the maximum, range, mean and standard deviation of daily Nepse return over the three periods are the highest in the third period. The range of Nepse return in the second period is higher as compared to the first period.

The values show that investors in the third period have earned highest daily average return in the market by taking highest risk among the period.

4.3.1 Daily Nepse return: Hypothesis testing

Table 4.5

Test of significance of daily NEPSE return in three periods

	Sum of Squares	d f	Mean Square	F	Sig.
Between Groups	0.000	2	0.000	1.291	0.276
Within Groups	0.047	746	0.000		
Total	0.047	748			

Table 4.5 presents the test of significance of the differences in the daily Nepse return at 5 percent level. The result shows that the difference in the mean values of daily Nepse return among the three periods is insignificant.

4.4   Sector wise NEPSE index

Table 4.6

Sector wise NEPSE index

Sector	No of Days	Range	Minimum	Maximum	Mean	Std. Deviation
Com. Banking Index	750	421.68	181.75	603.43	344.59	111.84
Dev. Banking Index	750	365.76	185.78	551.54	271.26	97.01
Finance Company Index	750	263.41	193.03	456.44	247.53	62.93
Insurance Index	750	411.53	230.21	641.74	330.03	102.04
Mfg. Company Index	750	150.95	223.02	373.97	285.71	24.11
Hotel Index	750	67.30	172.30	239.50	183.98	11.88
Trading Index	750	58.50	94.30	152.80	124.18	22.47

Table 4.6 presents the sector wise Nepse index over the study period. Over the total study period commercial banking index changes in the highest range of 421.68 and which followed by insurance company index. The trading sector index has changed in a lowest range of 58.50 points. Similar result has shown by the mean index as well. But the variability is little different among the sector. The highest fluctuation in the index over the time is of the commercial bank and lowest is in the hotel sector.

4.5   Sector and period wise Nepse Index

Table 4.7

Sector and period wise Nepse Index

Period	Sector	N	Range	Minimum	Maximum	Mean	Std. Deviation
1	Commercial Banking	237	77.56	181.75	259.31	230.57	21.51
	Mfg. Company	237	51.37	223.02	274.39	262.12	10.44
	Hotel	237	22.70	172.30	195.00	184.06	4.50
	Other Sector	237	192.14	140.31	332.45	148.39	28.62
	Trading	237	4.60	94.30	98.90	96.48	2.05
	Insurance	237	15.85	230.21	246.06	237.10	3.98
	Financial Company	237	17.13	193.03	210.16	201.08	6.24
	Development Bank	237	57.88	185.78	243.66	202.64	17.47
	Aggregate	237	52.27	195.14	247.41	222.94	14.80
2	Commercial Banking	280	128.74	255.29	384.03	320.80	25.83
	Mfg. Company	280	127.54	246.43	373.97	282.22	11.38
	Hotel	280	11.30	172.30	183.60	178.19	2.70

		N					
	Other Sector	280	64.66	290.01	354.67	333.61	12.00
	Trading	280	49.20	98.90	148.10	127.04	13.37
	Insurance	280	108.43	238.06	346.49	310.36	30.93
	Financial Company	280	142.03	206.12	348.15	230.49	15.52
	Development Bank	280	93.55	198.63	292.18	234.71	19.83
	Aggregate	280	96.34	246.94	343.28	296.60	19.86
3	Commercial Banking	233	226.82	376.61	603.43	489.15	64.48
	Mfg. Company	233	68.08	279.68	347.76	313.90	15.12
	Hotel	233	61.10	178.50	239.50	190.87	18.39
	Other Sector	233	364.68	338.79	703.47	514.72	127.89
	Trading	233	6.70	146.10	152.80	148.92	1.44
	Insurance	233	298.87	342.87	641.74	448.19	95.60
	Financial Company	233	211.41	245.03	456.44	315.27	72.76
	Development Bank	233	283.55	267.99	551.54	384.98	100.95
	Aggregate Index	233	199.99	338.54	538.53	438.61	61.73

Table 4.7 presents the sector and period wise Nepse index over the study period. Over the first period the range and variability of other sector index is the highest and the lowest of the trading sector. The highest change in the index over the period is due to the price change in the hydro power share.

Over the second period the result is different from the first period. The range of movement of share price in the finance company sector is the highest and lowest in the hotel sector whereas the variability in the index is the highest in the insurance sector and lowest in the hotel sector.

The third period result shows that the range of movement of share price in the insurance company sector is the highest and lowest in the trading sector whereas the variability in the index is the highest in the other sector and lowest in the trading sector

4.6 Commercial Banking index return

Table 4.8

Commercial Banking index return

Period	N	Minimum	Maximum	Range	Mean	Std. Deviation
1	236	-6.416	7.476	13.892	0.088	1.145
2	280	-5.011	3.459	8.470	0.132	0.856
3	233	-4.542	7.105	11.647	0.177	1.491
Total	749	-6.416	7.476	13.892	0.132	1.173

Table 4.8 presents the minimum, maximum, range, mean and standard deviation of daily percentage change in commercial banking index over the study period. The data shows that the range of percentage change in index is the highest in the first period and lowest in the second period among the study periods. But the mean return is the highest in the third period and the variability in the return is also the highest in the same period.

The values show that investors in the third period have earned highest daily average return in the banking sector by taking highest risk among the period

4.6.1 Commercial Banking index return: Hypothesis testing

Table 4.9

Test of significance of commercial banking index daily return in three periods

	Sum of Squares	d f	Mean Square	F	Sig.
Between Groups	0.92	2	0.46	0.334	0.716
Within Groups	1028.465	746	1.379		
Total	1029.385	748			

Table 4.9 presents the test of significance of the differences in the daily commercial banking index return at 5 percent level. The result shows that the difference in the mean values of daily commercial banking index return among the three periods is insignificant

4.7 Manufacturing sector daily index return

Table 4.10

Manufacturing sector daily index return

Period	N	Minimum	Maximum	Range	Mean	Std. Deviation
1	236	-16.133	13.126	29.259	0.024	1.649
2	280	-26.740	36.500	63.240	0.064	3.058
3	233	-2.928	2.321	5.249	0.056	0.543
Total	749	-26.740	36.500	63.240	0.049	2.106

Table 4.10 presents the minimum, maximum, range, mean and standard deviation of daily percentage change in manufacturing index over the study period. The data shows that the range of percentage change in index is the highest in the second period and lowest in the third period among the study periods. But the mean return is the highest in the second period and the variability in the return is also the highest in the second period.

The values show that investors in the second period have earned highest daily average return taking highest risk among the period.

4.7.1 Manufacturing sector daily index return: Hypothesis testing

Table 4.11

Test of significance of manufacturing index daily return in three periods

	Sum of Squares	d f	Mean Square	F	Sig.
Between Groups	0.225	2	0.112	0.025	0.975
Within Groups	3316.357	746	4.446		
Total	3316.581	748			

Table 4.11 presents the test of significance of the differences in the daily manufacturing index return at 5 percent level. The result shows that the difference in the mean values of daily index return among the three periods is insignificant.

4.8   Hotel sector daily index return

Table 4.12

Hotel sector daily index return

Period	N	Minimum	Maximum	Range	Mean	Std. Deviation
1	236	-6.366	5.748	12.114	-0.026	0.695
2	280	-1.144	0.801	1.945	0.018	0.220
3	233	-2.369	2.159	4.527	0.105	0.451
Total	749	-6.366	5.748	12.114	0.031	0.485

Table 4.12 presents the minimum, maximum, range, mean and standard deviation of daily percentage change in hotel sector return over the study period. The data shows that the

range of percentage change in index is the highest in the first period and lowest in the second period among the study periods. But the mean return is the highest in the third period. The variability in the return is the highest in the first period.

The values show that investors in the third period have earned highest daily average return taking comparatively lower risk.

4.8.1 Hotel sector daily index return: Hypothesis testing

Table 4.13

Test of significance of hotel index daily return in three periods

	Sum of Squares	d. f.	Mean Square	F	Sig.	
Between Groups	2.084	2.000	1.042	4.464	0.012	significant
Within Groups	174.157	746.000	0.233			
Total	176.241	748.000				

Table 4.13 presents the test of significance of the differences in the daily hotel sector index return at 5 percent level. The result shows that the difference in the mean values of daily index return among the three periods is significant. This result has shown that the political development has affected in the hotel sector.

4.9   Other sector daily index return

Table 4.14

Other sector periodic index return

Period	N	Minimum	Maximum	Range	Mean	Std. Deviation
1	236	-0.954	50.994	51.947	0.414	3.645
2	280	-11.781	5.886	17.667	0.024	1.676
3	233	-4.641	7.610	12.252	0.296	1.342
Total	749	-11.781	50.994	62.775	0.232	2.410

Table 4.14 presents the minimum, maximum, range, mean and standard deviation of daily percentage change in other sector return over the study period. The data shows that the range of percentage change in index is the highest in the period one and lowest in the period three that is the period after the king's active period. Similarly, the mean return is

the highest in period one and lowest in period two that is the king's active period. The variability in the return is the highest in the first period lowest in the third period.

The values show that investors in the first period have earned highest daily average return taking comparatively higher risk.

4.9.1 Other sector daily index return: hypothesis testing

Table 4.15

Test of significance of other index daily return in three periods

	Sum of Squares	d f	Mean Square	F	Sig.	
Between Groups	20.843	2.000	10.421	1.798	0.166	insignificant
Within Groups	4323.904	746.000	5.796			
Total	4344.747	748.000				

Table 4.13 presents the test of significance of the differences in the daily other sector index return at 5 percent level. The result shows that the difference in the mean values of daily index return among the three periods is insignificant. This result has shown that the political development has not affected in the other sector.

4.10 Trading sector daily index return

Table 4.16

Trading sector periodic index return

Period	N	Minimum	Maximum	Range	Mean	Std. Deviation
1	236	-2.661	3.887	6.548	0.020	0.383
2	280	-4.321	6.096	10.417	0.147	0.988
3	233	-1.748	2.896	4.644	0.005	0.324
Total	749	-4.321	6.096	10.417	0.063	0.669

Table 4.16 presents the minimum, maximum, range, mean and standard deviation of daily percentage change in trading sector return over the study period. The data shows that the range of percentage change in index is the highest in period two and lowest in period three that is the *loaktantrik* period. Similarly the mean return is the highest in the second period and lowest in the third period. The variability in the return is the highest in the second period and lowest in the third period. From this analysis it is found that the second

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period that is the king's active period was the most risky period to the investor to invest in this sector.

The values show that investors in the second period have earned highest daily average return taking comparatively lower risk.

4.10.1 Trading sector daily index return: Hypothesis testing

Table 4.17

Test of significance of trading index daily return in three periods

	Sum of Squares	d f	Mean Square	F	Sig.	
Between Groups	3.206	2	1.603	3.611	0.028	significant
Within Groups	331.177	746	0.444			
Total	334.383	748				

Table 4.17 presents the test of significance of the differences in the daily trading sector index return at 5 percent level. The result shows that the difference in the mean values of daily index return among the three periods is significant that is the political development has affected in the trading sector.

4.11   Insurance sector daily index return

Table 4.18

Insurance sector periodic index return

Period	N	Minimum	Maximum	Range	Mean	Std. Deviation
1	236	-3.391	1.699	5.091	0.006	0.379
2	280	-3.689	3.396	7.085	0.133	0.633
3	233	-3.484	8.157	11.642	0.237	0.959
Total	749	-3.689	8.157	11.846	0.125	0.699

Table 4.18 presents the minimum, maximum, range, mean and standard deviation of daily percentage change in insurance sector return over the study period. The data shows that the range of percentage change in index is the highest in the third period and lowest in the first period. The mean return is also the highest in the third period lowest in the first period. In the same way the variability in the return is the highest in the third and lowest in the first period.

The values show that investors in the third period have earned highest daily average return taking highest risk.

4.11.1 Insurance sector daily index return: Hypothesis testing

Table 4.19

Test of significance of insurance index daily return in three periods

	Sum of Squares	d f	Mean Square	F	Sig.	
Between Groups	6.307	2	3.153	6.554	0.002	significant
Within Groups	358.937	746	0.481			
Total	365.244	748				

Table 4.19 presents the test of significance of the differences in the daily insurance sector index return at 5 percent level. The result shows that the difference in the mean values of daily index return among the three periods is significant which means that the political development has affected insurance sector.

4.12 Finance sector daily index return

Table 4.20

Finance company sector periodic index return

Period	N	Minimum	Maximum	Range	Mean	Std. Deviation
1	236	-1.263	1.219	2.482	0.026	0.260
2	280	-28.499	40.576	69.075	0.101	2.985
3	233	-1.915	3.222	5.137	0.238	0.682
Total	749	-28.499	40.576	69.075	0.120	1.870

Table 4.20 presents the minimum, maximum, range, mean and standard deviation of daily percentage change in finance company sector return over the study period. The data shows that the range of percentage change in index is the highest in the second period and lowest in the first period. But the mean return is the highest in the third period. The variability in the return is the highest in the second period and lowest in the first period.

The values show that investors in the third period have earned highest daily average return taking comparatively lower risk.

4.12.1 Finance sector daily index return: Hypothesis testing

Table 4.21

Test of significance of finance company index daily return in three periods

	Sum of Squares	d f	Mean Square	F	Sig.	
Between Groups	5.463	2	2.732	0.781	0.458	insignificant
Within Groups	2609.724	746	3.498			
Total	2615.188	748				

Table 4.21 presents the test of significance of the differences in the daily finance company sector index return at 5 percent level. The result shows that the difference in the mean values of daily index return among the three periods is insignificant which means that the political development has not affected in the finance company sector.

4.13 Development bank sector daily index return

Table 4.22

Development bank sector periodic index return

Period	N	Minimum	Maximum	Range	Mean	Std. Deviation
1	236	-0.209	0.019	0.228	-0.001	0.014
2	280	-0.114	0.053	0.168	0.001	0.011
3	233	-0.038	0.067	0.105	0.002	0.014
Total	749	-0.209	0.067	0.276	0.001	0.013

Table 4.22 presents the minimum, maximum, range, mean and standard deviation of daily percentage change in development bank sector return over the study period. The data shows that the range of percentage change in index is the highest in the first period and lowest in the third period. The mean return is the highest in the third period and lowest in the first period. The variability in the return is the same in the first and third period and lowest in the second period.

The values show that investors in the third period have earned highest daily average return taking same risk.

4.14 Development bank sector daily index return: hypothesis testing

Table 4.23

Test of significance of development bank index daily return in three periods

	Sum of Squares	d f	Mean Square	F	Sig.	
Between Groups	0.001	2	0.0005	2.8998	0.0557	insignificant
Within Groups	0.132	746	0.0002			
Total	0.133	748				

Table 4.23 presents the test of significance of the differences in the daily development bank sector index return at 5 percent level. The result shows that the difference in the mean values of daily index return among the three periods is insignificant which means that the political development has not affected in the hotel sector.

4.15 Major findings

⌡ Due to continuous bullish market since the first period of the study, the maximum, minimum and the range of index over the three periods are the highest in the third period that is in the loaktantrik period. Similarly the mean and fluctuation in the index that is shown by the standard deviation are also the highest in the same period.

⌡ The fluctuation in the index is highest in the third period and lowest in the first period. Similarly the variability in the change is also the highest in the same period.

⌡ The difference in the mean values of daily change in the Nepse index among the three periods is insignificant at 5 percent level of significant.

⌡ The minimum value of rate of decrease in the index is the highest in the first period and lowest in the third period. But the maximum, range, mean and standard deviation of daily Nepse return over the three periods are the highest in the third

period. The values show that investors in the third period have earned highest daily average return in the market by taking highest risk among the periods.

꘡ The difference in the mean values of daily Nepse return among the three periods is insignificant at 5 percent level of significant.

꘡ Over the total study period commercial banking index changes in the highest range of 421.68 and which followed by insurance company index. The trading sector index has changed in a lowest range of 58.50 points. Similar result has shown by the mean index as well. But the variability is little different among the sector. The highest fluctuation in the index over the time is of the commercial bank and lowest is in the hotel sector.

꘡ Over the first period the range and variability of other sector index is the highest and the lowest of the trading sector. The highest change in the index over the period is due to the price change in the hydro power share.

Over the second period the result is different from the first period. The range of movement of share price in the finance company sector is the highest and lowest in the hotel sector whereas the variability in the index is the highest in the insurance sector and lowest in the hotel sector.

The third period result shows that the range of movement of share price in the insurance company sector is the highest and lowest in the trading sector whereas the variability in the index is the highest in the other sector and lowest in the trading sector

꘡ The range of percentage change in the index is highest in the first period and lowest in the second period . But the mean return is the highest in the third period and the variability in the return is also the highest in the same period. The values show that investors in the third period have earned highest daily average return in the banking sector by taking highest risk among the period

꘡ The difference in the mean values of daily commercial banking index return among the three periods is insignificant at 5 percent level.

꘡ The range of percentage change in index is the highest in the second period and lowest in the third period in manufacturing sector. But the mean return is the highest in the second period and the variability in the return is also the highest in

the second period. The values show that investors in the second period have earned highest daily average return taking highest risk among the period.

) The difference in the mean values of daily index return among the three periods is insignificant at 5 percent level.

) The range of percentage change in index is the highest in the first period and lowest in the second period in the hotel sector. But the mean return is the highest in the third period. The variability in the return is the highest in the first period. The values show that investors in the third period have earned highest daily average return taking comparatively lower risk.

) The difference in the mean values of daily index return among the three periods is significant at 5 percent level. This result has shown that the political development has affected in the hotel sector.

) The range of percentage change in other sector index is the highest in the period one and lowest in the period three that is the period after the king's active period. Similarly, the mean return is the highest in period one and lowest in period two that is the king's active period. The variability in the return is the highest in the first period lowest in the third period. The values show that investors in the first period have earned highest daily average return taking comparatively higher risk.

) The difference in the mean values of daily index return among the three periods is insignificant at 5 percent level. This result has shown that the political development has not affected in the other sector.

) The range of percentage change in trading sector index is the highest in period two and lowest in period three that is the *loaktantrik* period. Similarly the mean return is the highest in the second period and lowest in the third period. The variability in the return is the highest in the second period and lowest in the third period. From this analysis it is found that the second period that is the king's active period was the most risky period to the investor to invest in this sector. The values show that investors in the second period have earned highest daily average return taking comparatively lower risk.

- The difference in the mean values of daily index return among the three periods is significant at 5 percent level that is the political development has affected in the trading sector.

- The range of percentage change in insurance sector index is the highest in the third period and lowest in the first period. The mean return is also the highest in the third period lowest in the first period. In the same way the variability in the return is the highest in the third and lowest in the first period. The values show that investors in the third period have earned highest daily average return taking highest risk.

- The difference in the mean values of daily index return among the three periods is significant at 5 percent level which means that the political development has affected insurance sector.

- The range of percentage change in finance company sector index is the highest in the second period and lowest in the first period. But the mean return is the highest in the third period. The variability in the return is the highest in the second period and lowest in the first period. The values show that investors in the third period have earned highest daily average return taking comparatively lower risk.

- The difference in the mean values of daily index return among the three periods is at 5 percent level insignificant which means that the political development has not affected in the finance company sector.

- The range of percentage change in development bank sector index is the highest in the first period and lowest in the third period. The mean return is the highest in the third period and lowest in the first period. The variability in the return is the same in the first and third period and lowest in the second period. The values show that investors in the third period have earned highest daily average return taking same risk.

- The difference in the mean values of daily index return among the three periods is at 5 percent level insignificant which means that the political development has not affected in the hotel sector.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATION

On 24th April 2006, King Gyanendra made a historic announcement for the freedom of the Nepalese people. Before the announcement or during the king's active period, the country was politically and economically isolated from the international community. Over the period, the country's economic indicators had also been deteriorated continuously. After 24 April 2006, it was expected to improve in the country's economic activities, political conflict and better return in the stock market. This study is focusing special analysis of stock market movement (volatility) and return among three periods: (i) one year before the King's active period, (ii) king's active period and (iii) one year after the king's active period with the objective of testing the effect of political development in the stock market return and volatility.

Having identified problem, the major objective of this study is to test the effect of political development in the stock market return and volatility.

The study period has been divided into three periods. The first period is February 2, 2004 to January 31, 2005 (Known as before king's period or post king's period), Second period is February 1, 2005 to April 24, 2006 (known as King's active ruling period) and the third period is April 25, 2006 to April 25, 2007(known as after King's active period). The research uses 750 days daily aggregate and sector wise NEPSE index collected from Nepal Stock Exchange (NEPSE) Ltd. Out of 750 days, period one includes 237 transaction days, period two includes 280 transaction days and period three includes 233 transaction days. Descriptive statistics and analysis of variance (ANOVA) at five percent level of significance have been used. Descriptive statistics includes maximum, minimum, range, mean and standard deviation.

The result showed that the mean of aggregate NEPSE index in period one is the lowest (222.94) and the highest (438.60) in period three. A similar result can be found in range analysis. The standard deviations of the aggregate NEPSE index are in increasing trend

over period one, two and three due to increasing NEPSE index over the study period. The test statistics (ANOVA analysis) shows volatility in the NEPSE index is insignificant among the study periods. Similarly the rate of fluctuation in daily NEPSE index in three periods is also insignificant. Daily average returns in period one, two and three are in increasing trend however there is not significant difference among the periods. Daily NEPSE index return ranges -0.04 percent to 0.02 percent in period one, -0.03 percent to 0.03 percent in period two and -0.04 to 0.05 in period three respectively and the mean of daily index returns are 0.00069, 0.00107 and 0.00184 percent in period one, two and three respectively.

Sector wise results show that the mean return of commercial banking index over three periods are increasing but the volatility in the return in the king's period is lowest as compared to pre and post king's period. But the difference in the returns among the three periods is insignificant. Manufacturing sector return varied from 5 to 63 percent in these three periods. The range and mean return are highest in the king's period. It is due to 45 days strike called by the Maoist in this period. In the post king period the volatility in the return has decreased significantly. However the test statistics shows insignificant difference in the mean return among the periods.

The mean return of other sector is highest (0.42%) in period one and lowest (0.02%) in period two. The volatility in the return is lowest in the King's period and highest (3.65%) in post king's period. The result of test statistics shows that the difference in the mean return among the periods is insignificant. Similarly the daily return in trading sector fluctuated in highest range (10.41%) in the king's period and the mean return also highest (0.147%) in the same period. The test statistics shows a significant effect in the trading sector's return due to the political development. The insurance sector also shows a similar result. There is significant difference in the mean return among the three periods. The difference is due to the increasing price of two companies, Nepal life insurance Company and Life Insurance Company in the post king's period. The hotel sector is also highly affected by the political development and there is significant difference in the mean returns among the periods. The mean return is lowest in the king's period as compared to

other periods and has increased in the post king period. The mean return in the post king's period is highest due to the peace process initiated by the new government after 24 April 2006.

The mean return of the Finance sector is the highest (0.238%) in the post king period but volatility in the return is highest in the king's ruling period. But the test statistics show that there is not significant difference in the mean return among the three periods. Similarly the development banks sector's return also shows an insignificant result among the period.

CONCLUSION

The main objective of the study was to analyze the impact of political development in the stock market. From the statistical analysis the following conclusions have been drawn:
(i) Political development has impact particularly on insurance, trading and hotel sectors among the eight sectors categorizes by the NEPSE in the listed companies. (ii) Instability in the country's political situation affected the tourism sector and it further affected hotel industry as well. (iii) Similarly the political development has effect on the trading sectors, which means that political development also affects the consumption habit of the people that affects the trading business. (iv) Insurance sector is also affected by the political development in the country.

RECOMMENDATION

Insurance company, hotel and trading sectors have affected by the change in the political development. So, investors investing in these sectors should be very careful from political change in the country. But all other sectors are not affected by the political development so investors should not be worried about political change.

Annexes

Commercial Banking periodic index return

Period	N	Minimum	Maximum	Range	Mean	Std. Deviation
1	236	-6.416	7.476	13.892	0.088	1.145
2	280	-5.011	3.459	8.470	0.132	0.856
3	233	-4.542	7.105	11.647	0.177	1.491
Total	749	-6.416	7.476	13.892	0.132	1.173

Test of significance of commercial banking index daily return in three periods

	Sum of Squares	d. f.	Mean Square	F	Sig.	
Between Groups	0.92	2	0.46	0.334	0.716	insignificant
Within Groups	1028.465	746	1.379			
Total	1029.385	748				

Manufacturing sector periodic index return

Period	N	Minimum	Maximum	Range	Mean	Std. Deviation
1	236	-16.133	13.126	29.259	0.024	1.649
2	280	-26.740	36.500	63.240	0.064	3.058
3	233	-2.928	2.321	5.249	0.056	0.543
Total	749	-26.740	36.500	63.240	0.049	2.106

Test of significance of manufacturing index daily return in three periods

	Sum of Squares	d. f.	Mean Square	F	Sig.	
Between Groups	0.225	2	0.112	0.025	0.975	insignificant
Within Groups	3316.357	746	4.446			
Total	3316.581	748				

Hotel sector periodic index return

Period	N	Minimum	Maximum	Range	Mean	Std. Deviation
1	236	-6.366	5.748	12.114	-0.026	0.695
2	280	-1.144	0.801	1.945	0.018	0.220
3	233	-2.369	2.159	4.527	0.105	0.451
Total	749	-6.366	5.748	12.114	0.031	0.485

Test of significance of hotel index daily return in three periods

	Sum of Squares	d.f.	Mean Square	F	Sig.	
Between Groups	2.084	2.000	1.042	4.464	0.012	significant
Within Groups	174.157	746.000	0.233			

Total		176.241	748.000			

Other sector periodic index return

Period		N	Minimum	Maximum	Range	Mean	Std. Deviation
	1	236	-0.954	50.994	51.947	0.414	3.645
	2	280	-11.781	5.886	17.667	0.024	1.676
	3	233	-4.641	7.610	12.252	0.296	1.342
Total		749	-11.781	50.994	62.775	0.232	2.410

Test of significance of other index daily return in three periods

	Sum of Squares	d.f.	Mean Square	F	Sig.	
Between Groups	20.843	2.000	10.421	1.798	0.166	insignificant
Within Groups	4323.904	746.000	5.796			
Total	4344.747	748.000				

Trading sector periodic index return

Period		N	Minimum	Maximum	Range	Mean	Std. Deviation
	1	236	-2.661	3.887	6.548	0.020	0.383
	2	280	-4.321	6.096	10.417	0.147	0.988
	3	233	-1.748	2.896	4.644	0.005	0.324
Total		749	-4.321	6.096	10.417	0.063	0.669

Test of significance of trading index daily return in three periods

	Sum of Squares	d.f.	Mean Square	F	Sig.	
Between Groups	3.206	2	1.603	3.611	0.028	significant
Within Groups	331.177	746	0.444			
Total	334.383	748				

Insurance sector periodic index return

Period		N	Minimum	Maximum	Range	Mean	Std. Deviation
	1	236	-3.391	1.699	5.091	0.006	0.379
	2	280	-3.689	3.396	7.085	0.133	0.633
	3	233	-3.484	8.157	11.642	0.237	0.959
Total		749	-3.689	8.157	11.846	0.125	0.699

Test of significance of insurance index daily return in three periods

	Sum of Squares	d.f.	Mean Square	F	Sig.	

	Sum of Squares	d.f.	Mean Square	F	Sig.	
Between Groups	6.307	2	3.153	6.554	0.002	significant
Within Groups	358.937	746	0.481			
Total	365.244	748				

Finance company sector periodic index return

Period	N	Minimum	Maximum	Range	Mean	Std. Deviation
1	236	-1.263	1.219	2.482	0.026	0.260
2	280	-28.499	40.576	69.075	0.101	2.985
3	233	-1.915	3.222	5.137	0.238	0.682
Total	749	-28.499	40.576	69.075	0.120	1.870

Test of significance of finance company index daily return in three periods

	Sum of Squares	d.f.	Mean Square	F	Sig.	
Between Groups	5.463	2	2.732	0.781	0.458	insignificant
Within Groups	2609.724	746	3.498			
Total	2615.188	748				

Development bank sector periodic index return

Period	N	Minimum	Maximum	Range	Mean	Std. Deviation
1	236	-0.209	0.019	0.228	-0.001	0.014
2	280	-0.114	0.053	0.168	0.001	0.011
3	233	-0.038	0.067	0.105	0.002	0.014
Total	749	-0.209	0.067	0.276	0.001	0.013

Test of significance of development bank index daily return in three periods

	Sum of Squares	d.f.	Mean Square	F	Sig.	
Between Groups	0.001	2	0.0005	2.8998	0.0557	insignificant
Within Groups	0.132	746	0.0002			
Total	0.133	748				

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