

# **CHAPTER - I**

## **INTRODUCTION**

### **1.1 Background of the Study**

Nepalese economy is in developing phase. Financial sector have crucial role to pool scattered saving for capital formation. Capital is the lifeblood of business organizations. Every business enterprise requires short term, intermediate term and long term and long term capital fund for the smooth operations and expansion of organizational activities. Long term funds plays highly significant role for future growth and prosperity of the organization. Most business organization collect long term funds from financial market. Nepal stock exchange (NEPSE) is the only organized stock exchange of Nepal. Its main objective is to provide essential policy direction for the systematic and regular exchange of securities and develop competitive stock exchange market by protecting and promoting the interest of the investors. Nepal stock exchange is a trading institution, whereas securities board is the regulatory body. Similarly the basic objectives of the NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating transaction on its trading floor through market intermediaries such as brokers, market maker etc.

Brokers and market makers operate on the trading floor as per the securities exchange act rules and by laws of NEPSE. Nepal stock exchange started its traded operation on 13<sup>th</sup> January 1994 through its licensed members. The securities board was constituted in 1993 under sec.1 of the securities exchange act 1983. At present there are 27 member brokers operating on the trading floor as per the securities exchange act, 1983.

NEPSE has recently enhanced its trading system from the open- out cry system to the new Computer Assisted Trading (CAT) system for securities trading of the listed companies through registered brokers. It means transactions of securities are conducted through the computer network. The buying broker with the highest bid will registered the price and his code number directly on online computer system, while the selling broker with the lowest offer will post the price and code number on the selling column of the

system. The market makers quote their bid and offer price on their own board before the floor starts. Once the bid and offer price match, contracts between the buying and selling brokers or between the brokers and market makers are concluded on the system.

Further stock market liquidity may influence economic development. Liquid stock market makes the investment less risky and more attractive. It encourages savers to invest in the long term projects because they can sell the securities quickly and easily if they want to get back their savings before the project matures. While at the same time, companies receive easy access to capital through new issuance of shares stock market liquidity and future ratios of economic growth capital accumulation and productivity growth.

## **1.2 Introductions of Commercial Bank**

An institution which accepts deposits, makes business loans, and offers related services. Commercial banks also allow for a variety of deposit accounts, such as checking, savings, and time deposit. These institutions are run to make a profit and owned by a group of individuals, yet some may be members of the Federal Reserve System. While commercial banks offer services to individuals, they are primarily concerned with receiving deposits and lending to businesses.

A [commercial bank](#) is a financial intermediary which collects credit from lenders in the form of deposits and lends in the form of loans. A commercial [bank](#) holds deposits for individuals and businesses in the form of checking and savings accounts and certificates of [deposit](#) of varying maturities while a commercial bank issues loans in the form of personal and business loans as well as mortgages. The term commercial bank came about as a way to distinguish it from an "[investment](#) bank." The primary difference between a commercial bank and its counterpart is that a commercial bank earns [revenue](#) by issuing primary loans from its pool of deposits while an [investment bank](#) brings [debt](#) and [equity](#) offerings to market for a fee. Among its assets, including loans, a commercial bank holds a portfolio of other securities to generate proprietary income.

## **1.2.1 Functions of Commercial Bank**

### ***1.1 Customer Deposits***

Collecting and holding customer deposits are the primary bank service offered to individual consumers. Banks will hold money saved by consumers, who may wish to withdraw this money and spend it at a later time. While holding this money, banks will lend the money to other individuals and businesses that are currently looking to make major investments.

### ***1.2***

### ***1.3 Individual Lending***

Lending money to individuals is a major portion of a bank's business. Most banks have a pre-determined budget portfolio that allows bank management to lend money. A bank's portfolio will have several types of loan categories.

### ***1.4***

### ***1.5 Business Lending***

Business banking usually has different rules for banking and lending because businesses have more money flow through the banking system. Different lending portfolios may be used in the bank since businesses require higher loan amounts for their business operations.

### ***1.6***

### ***1.7 Collect Capital***

Banks charge fees and interest to consumers and businesses for the use of the bank services. Individual and business bank accounts a small amount of interest. This interest is paid from the capital collected by the bank.

### ***1.8***

### ***1.9 Transfer Funds***

As the global marketplace has gotten smaller through the use of technology, banks have aided individuals and businesses through the electronic transferring of money.

## **Financial Market**

Financial market is the place where the financial instruments are traded. Financial instrument means share bond, debenture etc. it is a way to transfer funds from investors to those organizations which has needed of funds.

### **Money Market**

Money market can be defined as short term financial market which facilitates liquidity and market ability of securities. It is the market for short term marketable instruments having one year or less than one year maturity period. Money market refers to the network of corporation's financial institution investors and government which deal with the flow of short term capital. There are different types of money market instruments, such as commercial papers, treasury bills, certificates etc. some money market instrument are negotiable and are traded in active markets others are not.

### **Capital Market**

Capital market is concerned with the long term finance. The funds collected in the market for long terms and invest on long term financial instruments such as equities and bonds. Capital market facilitates the allocation of funds between the savers and borrowers.

### **Stock Exchange**

Stock exchange is a market for long term capital where both new capital can be raised by companies and where existing share can also bought and sold by providing secondary market for investors to sell their share, the stock exchange also provides a market for government loans and securities. On the market the main operators are the market maker who trade in a group of share and the stock brokers who act as agents for their clients, who are the investors who are actually buying and selling shares for example NEWYORK stock exchange (NYSE). Hence the stock exchange is one of the forms of secondary market where the shares of listed companies are transferred one hand to other mobilizing the funds to finance the productive sectors. It creates and enhances liquidity in the securities.

### **Primary Market**

A primary market is the place where corporations issue new securities. All securities whether in money or capital market are initially issued in the primary market. This is the only market in which the corporate or government issuer is directly involved in the transactions and received direct benefits that is the company actually receives the proceeds from the sale of securities. The term primary market and also be defined as the market in which corporations raise new capital.

### **Secondary Market**

Secondary market is the market in which securities are traded that has been issued at same previous point of time. Share or stock is the major component of the securities market. Secondary market deals with previously issued shares mainly traded through stock exchange, over the counter market or direct selling. The function of the security market is to provide liquidity for the securities purchased in the primary market. Once investors have purchased securities in the primary markets, they need a place to sell those securities, without the liquidity of the secondary market firms would have difficulty raised funds for productive purposes in the primary market (*Chaney and Moses; 1996:72*).

### **1.2.2 Security Exchange Board, Nepal (SEBO/N)**

Security board of Nepal was established on May 26<sup>th</sup> 1993, under the provision of securities exchange act 1983. the objective of the board are to promote and protect the interest of the investors by regulating the issuance sales and distribution of securities and purchase sales or exchange of securities to supervise and monitor the activities of the stock exchange and other related firms on securities business and to render the contribution to the development of the capital market by making securities transaction fair healthy, efficient and responsible (*SEBO/N; 2004:3*).

### **Board of Director of NEPSE**

The board of directors of NEPSE consists of nine directors in according with securities act 1983 A.D. Six directors nominated by NG, two from the license member and last one is General Manager of NEPSE.



**Table 1.1**  
**Board of Directors on NEPSE**

<b>SN</b>	<b>Name of Organization</b>	<b>No of directors</b>	<b>Designation</b>
1.	Ministry Of Finance	1	Chairman
2.	Security Board	2	Director
3.	Nepal Rastra Bank	2	Director
4.	Nepal Industrial Development Corporation	1	Director
5.	License Member	2	Director
6.	General Manager	1	Director

### **Trading Days and Hours of NEPSE**

NEPSE has fixed the trading days and hours during which brokers are allowed to make the transaction through Computer Assisted Trading System.

**Table 1.2**  
**Trading Days and Hours of NEPSE**

<b>Type of Trading</b>	<b>Days</b>	<b>Trading Time</b>
Regular Trading	Sunday to Thursday	12 AM to 3 PM
Odd Lot Trading	Friday	11 AM to 1 AM

### **1.3 Focus of the Study**

- ) Role of NEPSE as an organized stock exchange for trading stock in secondary. And its role in development of financial market in Nepal.
- ) This study intends to identify prime determining factors of stock determination of Nepalese commercial banks.
- ) This study focuses on the sensitivity of stock price on NEPSE with special focus to commercial banks.

### **1.4 Statement of the Problems**

Stock price is determined by demand and supply. Both the qualitative factor determines the stock price, to specify exactly what factors to determine the stock is a controversial/unpredictable issue. The stock price fluctuates time to time and stock exchange reacts with the environmental changes. This study will try to identify the determinants of stock

price and find out the degree of affection of those determinants. More specifically, this study finding the factors which affects stock price.

- ) Finding the major determinants of the stock price in NEPSE.
- ) To identify earning and book value affect on the stock price
- ) To find out the effect of the dividend on the stock price
- ) To find out the financial indicator which influence MPS of the company.

### **1.5 Objective of the Study**

- ) To identify factor affecting the stock price with focus to commercial banks.
- ) To find the effect of earning and book value to the stock price.
- ) To see the effect of dividend to the stock price.
- ) To find out the market trends of MPS with financial indicators.
- ) The find the relationship between MPS & EPS, MPS& DPS, MPS & BVPS of selected commercial banks.

### **1.6 Importance of the Study**

- ) Importance for investors, planners, researchers, students and policy makers to meet their personal and organizational objectives.
- ) To show the status of Nepalese commercial banks with respect to the determiners of share price.
- ) Important to the potential investors to make the better investment decision.
- ) To help the national economy through mobilization of idle capital in productive sector.
- ) Important to the managers of the respective banks.

### **1.7 Limitations of the Study**

- ) Time constrains
- ) Data provided by bank may not be accurate leading to erroneous results.



- ) Some of the data are based on personal interview so data may be biased i.e. varies from person to person within the same bank itself
- ) Lack of expertise of researcher in drawing data from bank.

## **1.8 Organization of the Study**

This research study basically focuses on five banks.

### **Chapter 1: Introduction**

The first chapter is the introduction chapter. The introduction chapter includes background of the study, focus of the study, statement of the problem, objective of the problem, research hypothesis, research methodology, limitation of the study.

### **Chapter II: Review of Literature**

Second chapter is the review of literature. This chapter reviews the relevant previous studies made on the stock price determinants and the principle set on stock market. This chapter includes the conceptual framework on common stock, stock certificates, securities as well as security markets, stock price etc. except that, this chapter reviews the published books, journals and unpublished thesis reports separately.

### **Chapter III: Research Methodology**

The third chapter is the research methodology. This chapter includes the details framework of study such as data collection and analysis techniques.

### **Chapter IV: Data Presentation and Analysis**

Fourth chapter of this research is concerned with the presentation and analysis of data. In this chapter, the primary and secondary data collected from different sources are presented in systematic formats(like: tables, charts, figures) and analyzed using different analytical tools for instance, average, standard deviation, coefficient of variation, correlation, regression). In addition to that, the major finding of the study is drawn out.

## **Chapter V: Summary, Conclusion and Recommendation**

Fifth chapter involves the summary, conclusions and recommendation of the study and concludes the reports with the major recommendations/suggestions to the investors, listed commercial banks and government about the stock price determination.

## **CHAPTER - II**

### **LITERATURE REVIEW**

#### **Background**

Review of literature is one of the most important parts of research. It will be better to review some fundamental aspects of relevant literature before doing analysis. In the global contexts, there are thousands of research papers, articles, books and journals relating to the market and OE (organized exchange). Some of the major determinants of the stock price in various stocks have been identified.

In this chapter various books, magazines, journals, research papers, unpublished thesis reports etc are reviewed, which determines/ affects the stock price in organized exchange and in NEPSE.

#### **2.1 Conceptual Framework**

Before getting into the core concept of factors determining the stock price, it is logical to be familiar with some technical terms, which are frequent use in researches on capital market and finance. So in this section some of the technical terms related to stock market are define.

#### **2.2 Stock Market and Stock Exchanges**

**Secondary markets are those in which outstanding previously issued securities are traded. By far the most active secondary market, and the most important one to financial managers, is the stock market. It is here that the price of firm's stocks are established, and since the primary goal of financial management is to maximize the firms stock price, a knowledge of the market in which this price is established is essential for anyone involved in managing a business.**

**There are two basic types of stock markets the organized exchanges, which include the New York Stock Exchange (NYSE), the American Stock Exchange (AMEX), and several regional exchanges, and the less formal over- the-counter markets. Since the organized exchanges have actual physical market location and are easier to describe and understand, we shall consider them first. The organized security exchange are tangible physical entitles. Each of the larger once occupies its own**

**building, has specifically designated members, and has an elected governing body its board of governors. Members are said to have “seats” on the exchange, although everybody stands up. These seats, which are bought and sold, give the holder the right to trade on the exchange (Weston and Brigham; 1987:78).**

Stock price is the amount of money that one has to pay to purchase/receive a stock company. If A buys of Bank Of Kathmandu from B, he/she pays Rs.2000 for these 10 shares, then the price of the share is Rs. 200 (i.e.2000/10). Thus, stock price is the amount paid by a buyer to buy one stock or the amount received by selling a stock. The stock price is determined in a stock market, by market forces, i.e. demand (buyers' force) and supply (sellers' force). The demand and supply are based on the environmental forces and individuals future expectations/assumptions. The stock (market) price is different from its par value and book value (Gitman; 1988).

The primary market and the secondary market have a symbolic relationship, while the primary market creates long term securities. The secondary market provides liquidity through marketability of those institutions.

Fresh capital issues are influenced by the level and trend in stock prices at the time of issue. Actually new activity in the primary market adds depth to the secondary market by enlarging the supply of instruments for trading and investment in the secondary market. Stock prices in turners are influenced by the large size and bunching of new issues. Besides, primary and secondary market is indispensable ingredients of the capital market and is the basic to meet the financial requirement of corporate bodies (Francis; 1995).

### **2.2.1 Stock Price**

Price of stock is the function of numerous factors. Numerous factors determine the value of the stock. Among these, earning is the one. Stock price is the amount of money that one has to pay to purchase/receive a stock of a company. If 'A' buys 100 shares of Nabil Bank from 'B'. 'A' pays Rs. 20,000 for these 100 shares then the price of share is Rs.200 (20000/100). Thus stock price is the amount paid by a buyer to buy one stock or the amount received by the seller by selling a stock.

The stock price is determined in stock market by market forces i.e. demand (buyer's force) and supply (seller's force). The demand and supply are based on the environmental forces and individuals' future expectations/assumptions. The stock price is different from its par value and book value (*Sharpe, Alexander and Baily; 2000*).

### **2.2.2 Market Price per Share (MPS)**

Market value per share of common stock is the function of the current and expected future dividend of the company and the perceived risk of the stock on the part of investors. A share of common stock can be authorized either with or without par value. Par value is the recorded figure in the corporate charter, generally par value of most stocks are set at fairly low figures with compare to their market values and the market value per share is the current price at which the stock is traded.

Securities prices are the function of various factors changes in any factor affect the prices of the securities. So, it can be said that the securities prices fluctuate and it is not for a short period but for over a century (*Sharpe, Alexander and Baily; 2001*).

### **2.2.3 Earning per Share (EPS)**

Accounting earning the represent the different between revenues and expenses, including the expenses associated with non-equity sources of funds ( eg interest to debt, dividend to preferences shares) is also known as total earning available for common stock. If this portion of income is dividend by number of outstanding shares, we get earning per share (EPS) (*Sharpe, Alexander and Bailey; 2001*).

### **2.2.4 Dividend Per Share (DPS)**

When a portion of the profit is paid out to the shareholders the payment known as dividend, companies that earn a profit can do one of the three things pay that profit out to shareholder reinvest it in the business through expansion debt reduction or share repurchase or both (*Thapa and Koirala;2007*).

## **2.3 Review of Previous Studies**

This part of the literature review is devoted to review of major previous studies relating to stock prices in detail.

**(a) Review of Book**

Common stock is an ownership security. It is a logical representation of an ownership position in a corporation. The holders of common stocks, called the shareholders or stockholders. It is a residual claim in the sense that creditors and preferred stockholders must be paid as scheduled before common stockholders can receive any payments. Common stock is “finance an equity share in the ownership of a company that gives the owner the right to participate in electing the board of directors and voting on other matter brought before the stockholders, in proportion to the number of shares hold (*Arora; 2001*).

“The ownership of a firm’s stock has typically been represented by a single certificate with the number of shares held by the particular investor noted on it. Such a stock certificate is usually registered, with the name, address, and holding of the investor included on the corporation’s books. Dividend payments; voting material, annual and quarterly reports and other mailings are then sent directly to the investor, taking into account the size of his or her holdings.

Shares of stock held by an investor may be transferred to a new owner with the assistance of either the issuing corporation or, more commonly, its designated transfer agent. This agent will cancel the old stock certificate and issue a new one in its place, made out to the new owner. Frequently, a register will make sure that this canceling and issuing of certificate has been done properly. Usually, banks and trust companies act as transfer agents and registrars” (*Sharpe, Alexander, Bailey; 200:457*).

Security is a legal representation of the right to receive prospective future benefits under stated conditions. In general is a piece of paper representing the investor’s rights to certain prospects or property and the conditions under which he/she may exercise these

rights? The piece of paper serving as an evidence of property rights is called a security e.g. shares certificate, bond, Treasury bill, preferred stock etc (*Mishkin;1998*).

The security market is known as the market where all types of securities are traded. In a broad term, a securities market can be defined as a place for bringing together buyers and sellers of financial assets in order to facilitate trading. Securities markets includes how an individual investor goes about the business of placing any order to buy or sell, how the order is executed the process of setting the payment and transfer costs and one hope to the payment of federal personal income taxes on the profits from the transactions. These securities include common shares, preference shares and debentures.

The security market may be dividend into two categories.

**The primary market** is the place where corporations and government issue new securities, all securities, whether money or capital markets are initially issued in the primary market.

**Secondary markets** are those in which outstanding previously issued securities are traded. By far the most active secondary market and the most important one to financial managers is the stock market. The secondary market liquidates the shares and provides the opportunity between the investor and the seller of the securities (*Sharpe, Alexander and Bailey; 2000:9-10*).

“Stock valuation can be achieved by using a simple and powerful valuation model”. Valuation approach revalues around same very simple calculations that use only addition, subtraction multiplication and division no calculation differential equations or advanced math (*Gary and Curatis; 2004*).

Stock is typically issued in the form of shares and a share ownership concisely defines what stock is. There are numerous securities that are not stocks. These generally represent debt or loans and may be issued by governmental bodies, agencies, authorities

and others as well as by corporations. The generic term for such securities is bonds (*Jewels and Bradley; 1998*).

Stocks are small pieces of businesses and we should approach picking and buying stocks as if we were purchasing a real business (*Skonieczny; 2009*).

If the patterns of future growth of dividend in logarithmic or percentage terms are expected to be the same for two stocks their prices would be proportional to their dividends. If the dividends of one stock are expected to grow faster, its price should be higher. The price of a stock for one company depends on how many shares the company decides to issue (*Gregory; 2007*).

There are large numbers of studies in foreign and Nepalese context but only few of them are briefly reviewed below.

### **(b) Foreign Context**

**International Monetary Fund (IMF)** (1997), Policy Development and Review Development Division published a working paper entitled “*Determinants of Stock Prices: The Case of Zimbabwe*”. The working paper examined the general relationship between stock prices and macroeconomics variables in Zimbabwe, using the revised DDM, error-correction, model, and model, the multi factor return – generating model. Despite the large fluctuation in stock prices since 1991, the analysis indicted that the Zimbabwe Stock Exchange functioned quite consistently during that period. Whereas sharp increases in stock prices during 1993-94 were mainly due to the shift of the risk premium that was caused by partial capital account liberalization, the movements of monetary aggregates and market interest rates explained the rapid increase of 1990’s in stock prices.

**Jennergren and Korsvold** (1975), “*The Non Random Character of Norwegian and Swedish Stock Market Prices*” examined the daily price series of 15 stocks from Oslo stock exchange (Norway) and 30 stocks from Stockholm stock exchange (Sweden) by



using serial correlations and run analysis, during 1957, and found considerable dependence in both Norwegian and Swedish stock market prices. Based on their findings, they concluded, “price changes are not dependent random variable in case of the majority of the 45 investigated Norwegian and Swedish Stocks. This implies that the random walk hypothesis is probably not a very accurate description of share price behavior on the Norwegian and Swedish stock markets.

**Dorkery** (2000), “*Some Consideration in the Governance and price Behavior of the Warsaw Stock Exchange*” examined the governance and supervision of the Warsaw Stock Exchange (WSE) and investigated the price behavior of the market using variance ratio tests and the Z test. The findings suggested that although an adequate infrastructure, both legal and physical, is in place, the behavior of the market cannot be said to follow a random walk process. The implications of such results were important not only for the institutional and private investors who may make improper portfolio choices, but also for public policymakers. Since the existence of an inefficient market that do not reflect fundamentals is likely to impede the markets ability to play its role in allocating funds to the moist productive sectors of the economy.

**Gupta** (1985) analyzed the “*Equity Share Price Behavior in India*” during the period from January 1971 to March 1976 and extensively tested indices. He employed the autocorrelation analysis, run test, and found the evidence in support of the RWH. He also concluded that the random walk model appeared to be an appropriate model even for the share price behavior (*Gupta; 1989: 53-54*).

**Miller and Modigliani** (1961), studied “*Dividend Policy, Growth and the Valuation of Shares*” has concluded that dividend payout ratio (dividend policy) does not affect the wealth of the shareholders or on the share price of the firm. It argues that the value of the firm is determined by the earning power of the firm’s assets or its investment policy, and that the manner in which the earnings stream is split between dividends and retained earnings do not matter. However, this study is based on the assumptions as mentioned below:

- J The perfect capital markets in which all investors are rational and information are available to all at free of costs, instantaneous transaction cost, infinitely divisible securities, and no investors large enough to affect the market price security.
- J An absence of flotation costs on securities by the firm.
- J A world of no taxes.
- J The firm has a fixed investment policy and is not subjected to change.
- J Perfect certainty by every investor as to the future investments and profits of the firm.

**Walter** (1963), “*Dividend Policy: It’s Influence on the Value of Enterprise*” argues that dividend policies usually affect the value of the enterprises. The investment policy of a firm cannot be separated from its dividend policy, which is just the opposite of what MM said.

The basic assumptions of the model are:

- J The firm does not use debt or equity financing.
- J The firms ‘r’ and ‘k’ are constant.
- J The firm distributes its entire earnings or retains it for investment immediately.
- J There are no change in values of earnings per share and dividend per share.

**Myron Gordon in his study “The investment, Financing and Valuation of corporation” concludes that the dividend policy of a firm affects its value. Unlike Walters model, he argues that the dividend policy affects the value of share even in a situation in which the return on investment is equal to the capitalization rate that is  $(r=Ke)$ . The basic assumptions of this model are as follows:**

- J The firm is all equity firms.
- J No existing financing is available so retained earnings will be used to finance any expansion.
- J The internal rate of return (r) and cost of capital (k) are constant.
- J The firm and its stream of earnings are perpetual.
- J The corporate taxes do not exist.

J) The retention ratio (b) once decided upon is constant. Thus, the growth rate,  $g = b \times r$  is constant.

Fama (1965), "*The Behavior of Stock Market Prices*" study on the random walk model is considered one of the best definitive and comprehensive studies conducted. He observed the daily proportionate price of each individual stock of Dow Jones Industrial Average. The time periods covered started from end of the 1957 to 26 September 1962. He employed the statistical tools such as serial correlation and run test to examine whether any dependency exists in any lag price changes. He found that the serial correlation coefficient for daily price changes were very small and average was 0.03, which is close to zero, but correlation coefficient of 11 stocks out of 30 were more than twice of their computed standard errors.. It leads either Fama to conclude that the evidence produced by the serial correlation model seems to indicate that dependence in successive price is extremely, slight or non-existent.

Fama further examined by using run test analysis to testify whether price changes were likely to be followed by more price changes in the same time. In fact, he found that the actual and expected runs are not significantly different. On the basis of tests, Fama concludes that there was little evidence, either from serial correlation or from run tests, of any large degree of dependence in the daily 4-day, 9-day and 16-day price changes.

### **(c) Review of Journal**

This paper examines the impact of the determination of stock closing prices on futures price efficiency and hedging effectiveness with stock indices futures. The empirical results indicate that the increase in the length of the batching period of the stock closing call improves price efficiency in the futures closing prices and then enhances hedging performance in terms of the hedging risks. Additionally, from a utility-maximization point of view, hedging performance does not improve after the introduction of the 5 min stock closing call, which can be explained by an improvement in price efficiency at the futures market close ([Accounting and Finance](#); 2009: 827-847).

The main thrust of the review was to establish the major determinants of stock prices in Zimbabwe. This review also highlighted the history and the importance of the ZSE. We established in our discussions that there are economic, political and social factors that determine stock prices in Zimbabwe. However, economic and political factors seem to be

the dominant factors in the determination of stock prices. It can therefore be concluded that if the stock exchange is to perform well the economic and political situation in the country has to be stable. In other words government has to take some deliberate steps to ensure that the economy of the country is well run and also that there is stability politically. During the time this review was conducted there were some political tensions in the country, especially emanating from the redistribution of land to the black Zimbabweans who were marginalized by previous racist colonial governments (*Journal of Social Sciences; 2009: 188-192*).

There are many loopholes in our stock exchange Act. Investor feels insecure here. A few years back there was a company called Nimrod Pharmaceuticals Company that floated in shares but where is it now? Similarly, it has been more than a decade that Bansbari Leather has allotted its shares, but why didn't the company list its shares in the market? It has been 5 years that Gorakhkali rubber Udhog has not called its AGM. The NRB has recently done a decision to take on liquidation of Nepal Development Bank Ltd. Government remains silent in all these cases. This is why the public as well as the institutional buyers is not feeling secure in investing in stock market (*Business Age; 2000: 25*).

Investment in the capital market now has become very uncertain, sending the investor in search of avenues of more certain returns. The equity investment is considered riskier than investment in bond preferred stock etc. the secondary market is not performing well. The NEPSE index is hovering around 208 and 215 since long. After great slump Nepal stock market in F/Y 2000/01, dissatisfaction has increased in the mind of investors. The NEPSE index on 23 Nov 2000 had reached the peak of 545, 82 and after that it is continuously on the decline (*Business Age; 2004*).

#### **(d) Review of Nepalese Context**

Investment in the capital market now has become very uncertain, sending the investor in search of avenues of more certain returns. The secondary market is not performing well. The NEPSE index is hovering around 208 and 215 since long.

A study conducted, on the title of “*Fundamentals of Stock Return*” has given some important insight regarding nature of stock return in Nepal. This study deals with fundamentals of stock returns. It examines if dividend yield, capital gain yield and total yield are related to earnings yield, size, book to market ratio and cash flow yield. The study is based on pooled, crossed, sectional data of 40 enterprises whose stocks are listed in Nepal Stock Exchange Ltd. and traded in the stock market. The study reveals that earning yield and cash flow yield have significant impact on divided yield (*Pradhan and Balampaki; 2004*).

Other main findings of the study are earning yield and cash flow yield have insignificant impact on book to market value whereas size has negative impact in dividend yield. In the case of earning yield and cash flow yield, cash flow yield have been found to be more informative than earning yield.

Capital gain yield is positively influence by earning yield and size, whereas the same is negatively influence by book to market value and cash flow yield. Book to market value has been found to be statistically strong in predicting capital gain yield. Similarly, total yield is positively determined by earning yield and size whereas the same is negatively determined by book to market value and cash flow yield. Book to market value has been found to be more informative than other variables.

A study, conducted on the title of “*Development of Stock Market and Economic Growth in Nepal*” based upon the data of ten years. The study reports that the relationship between financial development and economic growth, with focus on developmental role of stock markets has been in debate for sometimes-in past. Empirical studies suggest that financial development does not matter and stock market do spur economic growth. Unfortunately, in Nepal, despite a history of about half decade, financial sector despite, many problems have developed significantly in Nepal. However, most of the developments were confined to the banking sectors. Stock market has virtually remained stalled because of this priority in the government’s financial reform policies. Various

measures of stocks market deployment indicate that the stock market in Nepal is underdeveloped and has failed to show impact on the overall national economy. Small market size has made it vulnerable to manipulation and price rigging. Low turnover ratio and value-traded ratio to volatility, and high concentration ratio indicate that the stock market in Nepal is liquid and risky. Investors tend to avoid stock market because they do not have option to it since stock market is less reliable source of raising funds for them. Due to this, financial system of Nepal has remained bank dominated (K.C.; 2004).

### ***1.10 (e) Review of Master's Thesis***

There are some researches carried out by different researchers in this topic in Nepal. Here are some of the reviewed thesis, which can help us to understand about their objectives, used statistical tools and major findings of the study.

**Dhamala** (2004), studied on “*Determinants of Share Price in Nepalese Financial Market*” taking ten public companies i.e. 5 from commercial banks and 5 from finance companies covering relevant data and information for 5 years from 1996 to 2001. He found in his study that the Nepalese stock market is not efficient enough to determine MPS in accordance with the respective financial performance. The market price of the share in Nepal is not indicative of a company's financial performance in stock market and the share market is imperfect, is not efficient, and is liable to manipulation.

Basically, value of share price is to be determined by the future prospects of the company based on the past financial indicators.

**Neupane** (2004), conducted a study on “*Determinants of Stock Price in Nepal Stock Exchange*” taking 11 sample organizations using various financial and statistical tools like standard deviation, correlation, regression analysis, t-test, Z-test. He concluded that in NEPSE, DPS, BPS and EPS individually do not have consistent relationship with the market price of share, among the listed companies. The pricing behavior varies from one company to another. But EPS, BPS and DPS, jointly have significant effect in market price shares. So there may be other major factors affecting the share price significantly.

NEPSE is in its primary stage, adopting open outcry system for stock trading and stockbrokers lack professionalism to create investing opportunities in NEPSE. Commercial banking sector has dominated the overall performance of NEPSE. Manufacturing and processing, trading and hotel sector have weak performance. So financial intermediaries are strong but their ultimate investment is suffering.

**Dhungel** (2005), conducted a study on “*Stock Price Movement and Financial Performance of Nepalese Listed Companies*”, derive the conclusion as the invisible factors causes the ups and downs movement of monthly share Volume, price and market capitalization throughout each fiscal year, the fluctuation trends is not in order and there is no correlation between volume and price stocks.

The large stocks have the lower price earning ratios, large market value to book value ratio and lower ratio of dividend per share to market price per share, higher and less variable leverage and lower profitability.

**Dhakal** (2007), his study on “*Determinants of Share Price On Nepalese Commercial Banks*” with randomly selected 10 commercial banks, concluded that the MPS of most of the banks are found to be correlated with other individual financial indicator like BPS, EPS and DPS insignificantly. This shows that they individually rarely influences share price but they have combine effect on it.

Most banks are unknown about laws and policies regarding share market but poor rules and regulation as well as ineffective regulatory mechanism of market makers are the problem of Nepalese capital market.

Due to the inadequate knowledge of share market among Nepalese investors, capital market of Nepal has not been well developed yet. The reason why commercial banks are only the attractive sectors to invest, in the view of investors is that they are better managed and controlled, that is why they are in profit and distribute good rate of dividend.

**Acharya** (2008), his study on “*Determinants of Stock price in Nepalese Commercial Banks*” with randomly selected 10 commercial banks, concluded that Share price are affected by different kinds of micro and macro variables such as EPS, DPS, information disclosed, political instability, growth rate according to respondents survey. But interest rate, retention ratio, cost of equity, market liquidity, change in management do not significantly affect the share price in NEPSE.

The major findings show in the study that the market price per share has high degree of positive relationship with EPS in all sample banks and largely depends on EPS.

### **Research Gap**

- ) During the review of previous thesis, it is found that no research has been conducted by taking those sample companies, which the researcher has selected in this research.
- ) Researcher has taken sample from only the first class commercial banks, which also could predict the sensitive stock moment as well. Moreover, the researcher has conducted research on price behavior related to stock market efficiency by using share brokers, market analysts and individual investors as primary sources of information.
- ) Most of the above stated studies used technical method and statistical methods for analysis purpose. Few studies made use of financial indicators like EPS, DPS and BVPS, which are the most influencing factors for the MVPS. So, this study tries to analyze the relationship of these factors along with their influence on market price of the stock.
- ) It shows that there is very few research works conducted on various aspects of securities price formation of commercial banks in the field of stock market. The studies conducted in developed security markets may not be entirely relevant in the security markets of underdeveloped country like Nepal.



## **CHAPTER - III**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Research methodology is a way to systematically solve the research problem. It refers to the various sequential steps that are to be adopted by a researcher during the course of studying the problem with certain objectives. This chapter refers to the overall research method from the theoretical aspects to the collection and analysis of data. This study covers quantitative methodology in a greater extent and also uses the descriptive part based on both technical aspects and logical aspect. This research tries to perform a well-designed quantitative and qualitative research in a very clear and direct way using both financial and statistical tools. Detail research methods are described in the following headings.

#### **3.2 Research Design**

In order to make any type of research a well-set research design is necessary to fulfill the objectives of the study. Generally, research design means definite procedure and techniques which guides to study and provide ways for research viability. It is arrangements for collection and analysis of data. To achieve the objective of this study, descriptive and analytical research design has been used. Some financial and statistical tools have been applied to examine facts and descriptive techniques have been adopted to determine factors determining stock prices of commercial banks in the NEPSE.

#### **3.3 Variables**

A variable is a symbol to which numerals or values are assigned. So the variables can take on values. This research intends to identify to identify the factors that affect share price in NEPSE. So, the market price of the share is the dependant variable, which is affected by many variables, such variables are regarded as the independent variables in the study. The entire factors that affects the market price of shares, such as, earnings, dividends, interest rate, liquidity, book value of share, economy of the nation, peace& prosperity, rumors and whims etc are the independent variables.

### 3.4 Population & Sample

The total variables/observation is simply called population. There are 26 commercial banks (including government owned, private and joint ventures) at present in the market and only five banks are taken as sample of the study. The process of selecting the sample out of the population is called sampling. In this study, the population size is 26 and the sample size is 5. The sample size is 19.23% of the population size in this study, the sampling method used is he judgment sampling.

The sample of the study is as follows:

#### Sample Banks

S.N.	Bank
1.	Nepal Standard Chartered Bank Ltd.
2.	Everest Bank Ltd.
3.	Bank of Kathmandu Ltd.
4.	Nabil Bank. Ltd.
5.	Siddhartha Bank Ltd.

### 3.5 Sources & Nature of Data

The study is based on primary data as well as secondary data. To show the relationship between variables (share price- earnings, share price-book value, share price- dividend) secondary data is used but to determine the factors, which affect the stock price, primary data are collected from respondent through research questionnaire. The respondents of the primary data are listed commercial banks and stock brokers etc.

The source of secondary data are AGM reports of listed companies, SEBO/N, NEPSE and other concerned organizations, bulletins, publications, researches, journals, unpublished thesis reports, newspapers an internet.

### 3.6 Data Collection Techniques

The research consists of both primary and secondary data. Since the nature of these two types of data is different, the data collection procedure also varies.

To collect the secondary data, published materials are viewed in various spots. Books by different authors, unpublished thesis reports, journals, magazines, internet, AGM reports of the listed companies, SEBON/N, NEPSE etc. trading reports of NEPSE are the major source of secondary data. To collect these secondary data, the researches visited SDC library, NCC library, central library, NRB library of SEBO/N. on the other hand, the primary data collected through questionnaire with private commercial banks and security brokers.

Data so obtained have no meaning unless they are arranged and presented in a systematic way. Further, they need to be verified and simplified for the purpose of analysis. Moreover, data and information so gathered are to be checked, edited and tabulated in such ways that provide convenience for computation and interpretation.

The relevant data have been inserted in meaningful tables. Only the data that are relevant to the study have been presented in tabular form in the understandable way and unnecessary data excluded. It is attempted to find out the conclusion from the available data, with the help of various financial as well as statistical tools. An advanced computerized statistical program, SPSS has been widely used to provide efficiency in calculation of statistical information.

### **3.7 Data Processing**

Data so obtained have no meaning unless they are arranged and presented in a systematic way. Further, they need to be verified and simplified for the purpose of analysis. Moreover, data and information so gathered are to be checked, edited and tabulated in such ways that provide convenience for computation and interpretation.

The relevant data have been inserted in meaningful tables. Only the data that are relevant to the study have been presented in tabular form in the understandable way and unnecessary data excluded. It is attempted to find out the conclusion from the available data, with the help of various financial as well as statistical tools. An advanced

computerized statistical program, SPSS has been widely used to provide efficiency in calculation of statistical information.

### **3.8 Data Analysis Tools**

The primary and secondary data collected from various sources leads to the logical conclusion, only if the appropriate tools and techniques are adapted to analyze such data. The collected data has been no meaning, if such data are not analyzed. To analyze the data in this research the research has used some statistical and financial tools, which are explained here.

#### **3.8.1 Statistical Tools**

Statistical tools are the measures or the instruments to analyze the collected data from different sources. In statistics, there are numerous statistical tools to analyze data of various natures. In this study, the researcher has used the following statistical tools to analyze the data.

##### **3.8.1.1 Average/Mean**

An average is a single value related from a group of value to represent them in some way, a value, which is supposed to stand for whole group of which it is a part, as typical of all the values in the group. There are various types of averages. Arithmetic mean (AM, simple & weighted), median, mode, geometric mean, harmonic mean are the major types of averages. The most popular and widely used measure representing the entire data by one value is the AM. The value of the AM is obtained by adding together all the items and by dividing this total by the number of items.

Mathematically:

Arithmetic mean (AM) is given by,  $\bar{X} = \frac{\sum x}{n}$

where,

$\bar{X}$  = Arithmetic Mean

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

$n$  = Number of observations

### 3.8.1.2 Standard Deviation

The standard deviation ( ) measures the absolute dispersion. The greater the standard deviation, the greater will be the magnitude of the deviations of the values from their mean. A small standard deviation means a high degree of uniformity of the observations as well as homogeneity of a series and vice versa.

Mathematically,

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

### 3.8.1.3 Coefficient of Variance

The standard deviation is absolute measure of dispersion; where as the coefficient of variation (CV) is a relative measure. To compare the variability between two or more series, CV is more appropriate statistical tool.

Mathematically,

$$CV = \frac{\sigma}{\bar{X}} \times 100$$

### 3.8.1.4 Correlation Coefficient

When the relation is of quantitative nature, the appropriate statistical tool for discovering and measuring the relationship and expressing it in a brief formula is known as correlation. If the values of the variables are directly proportional then the correlation is said to be positive. On the other hand, if the values of the variables are inversely proportional, the correlation is said to be negative, but the correlation is said to be negative, but the correlation coefficient always remains within the limit of +1 to -1. by Karl Pearson, the simple correlation coefficient (between two variables, say X and Y) is given by:

$$r_{xy} = \frac{\text{cov}(X, Y)}{\sigma_X \sigma_Y}$$

$$r_{xy} = \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

Where,  $r_{xy}$  is the correlation between two variables X and Y,  
 'r' lies always between +1 and -1

When 'r' = +1, there is perfect positive correlation.

When, 'r' = -1, there is perfect negative correlation.

When 'r' = 0, there is no correlation.

When 'r' lies between 0.7 to 0.999 (or -0.7 to -0.999) there is high degree of positive or negative correlation.

When 'r' lies between 0.5 and 0.699, there is a moderate degree of correlation.

When 'r' is less than 0.5, there is low degree of correlation.

### 3.8.1.5 Simple Regression

Regression and correlation analysis are the techniques of studying how the variations in one series are related to the variations in another series. Measurement of the degree of relationship between two or more variables is called correlation analysis and using the relationship between a known variable and an unknown variable to estimate the unknown one is termed as regression analysis. Thus, correlation measures the degree of relationship between the variables while regression analysis shows how the variables are related. Thus regression and correlation analysis determines the nature and the strength of relationship between variables.

The equation of regression line where the dependent variable Y is determined by the independent variable X is given by:

$$Y = a + bx$$

a = y- intercept

Where: b = slope of the regression line (i.e. it measures the change in Y per unit X) or regression coefficient of Y on X.

### 3.8.1.6 Multiple Regression

Assuming that all variables are closely related, we can estimate the unknown value of one variable from the given or known values of the other variables. Multiple regression analysis is a logical extension of the simple linear regression analysis. In multiple regression analysis, instead of single independent variable, two or more independent variables are used to estimate the unknown values of dependant variables.

The multiple regression equation describes the average relationship between dependant variable and two or more independent variables and this relationship is very much useful for estimating (or predicting) the dependant variable. Thus, the multiple regression equation of  $X_1$  on  $X_2$ ,  $X_3$  and  $X_4$  is an equation for estimating a dependent variable  $X$ , from three independent variables  $X_2$ ,  $X_3$  and  $X_4$ .

The multiple regression equation of dependant variables  $X_1$  on three independent variables  $X_2$ ,  $X_3$  and  $X_4$  is given by:

$$X_1 = a + b_1X_2 + b_2X_3 + b_3X_4$$

where,

$a = x_1$  – intercept = the value of  $x_1$  when three independent variables  $x_2, x_3$  and  $x_4$  are zero.

$B_1$  = the partial regression coefficient of  $x_1$  on  $x_2$  when  $x_3$  &  $x_4$  are held constant.

$B_2$  = the partial regression coefficient of  $x_1$  on  $x_3$ , when  $x_2$  &  $x_4$  are held constant.

$B_3$  = the partial regression coefficient of  $x_1$  on  $x_4$ , when  $x_2$  &  $x_3$  are held constant.

### 3.8.1.7 Coefficient of Determination

The coefficient of determination gives the percentage variation in the dependant variable that is accounted for by the dependant variables. In other words, the coefficient of determination gives the ratio of expected variance to the total variance. The coefficient of determination is given by the square of the correlation coefficient. i.e.  $R^2 = r \times r$

### **3.9 Methods of Data Presentation**

The collected data (from both primary and secondary sources) are presented in simple and easily understandable tables. To make those data clearer and more informative such data have been presented in figures like bar diagram, trend line and pie chart whichever is relevant to explain the data more effectively, based on the nature of the data. After presenting such data in the tables and figures, are analyzed using various statistical, mathematical and financial tools and techniques.



## CHAPTER – IV

### DATA PRESENTATION AND ANALYSIS

#### 4.1 Introduction

This chapter is the main body part of this study. The data, both primary and secondary, are collected in unprocessed form. Such collected data are presented in systematic formats and analyzed using different appropriate tools and techniques, has been used in this chapter. The secondary as well as primary data, collected from different sources, are presented in an understandable presentation and analyzed separately using both qualitative and quantitative measure whichever are appropriate.

#### 4.2 Analysis of Financial Indicators

**Table 4.1**  
**Mean, S.D. & C.V. of MPS, EPS, DPS and BVPS**

Bank		MPS	EPS	DPS	BVPS
SCBNL	Mean	4119	152.364	126	440.696
	S.D.	1970.927	16.4744	10.19804	43.46895
	C.V.(%)	47.849	10.812	8.093	9.863
NABIL	Mean	3014	114.54	92	358.2
	S.D.	1799.432	16.27821	26.94439	39.58485
	C.V.(%)	59.702	14.211	29.287	11.051
EBL	Mean	1698.2	66.564	16	244.716
	S.D.	939.7711	16.6402	13.56466	54.68281
	C.V.(%)	55.339	24.998	84.779	22.345
BOKL	Mean	1060	40.942	27.022	209.968
	S.D.	746.9337	11.60298	15.17438	23.32737
	C.V.(%)	70.465	28.34	56.155	11.11
SBL	Mean	742.6667	11.482	0.79	116.696
	S.D.	431.3206	10.4353	0.387019	14.95581
	C.V.(%)	58.077	90.884	48.989	12.816
Overall Value	Mean	2247.13	77.17	59.39	262.3
	S.D.	1878.09	52.62	50.81	123.114
	C.V.(%)	83.57	68.18	85.56	46.93

Source: - Annex - 1

During the study period of Mangsir 2065 to Mangsir 2066, the mean of SCBNL is Rs. 4119 that means average MPS of SCBNL is Rs. 4119. The standard deviation of SCBNL is 1970.927 and the coefficient of variation is 47.84% .The 47.84% CV of MPS indicates that there is light fluctuation in MPS of SCBNL. The average EPS earned by SCBNL during the study period is 152.364. The standard deviation is no high risk involved in earning capacity of SCBNL.

The average DPS of this bank is Rs. 126 with the standard deviation of 10.19. The coefficient of variation is 0.0809 i.e. 8.09% which indicates that there is less fluctuation in DPS during the study period. The average BVPS is Rs. 440.69 with 43.46 standard deviation. The coefficient of variation is 0.0986 i.e. 9.86% which shows there is less fluctuation in BVPS.

SCBNL is distributing its dividend each year over the period. The industry average of CV (overall CV) of MPS, EPS, DPS, and BVPS are 83.57%, 68.18%, 85.56% and 46.93% respectively. This shows that all the financial indicators MPS, EPS, DPS and BVPS of SCBNL have low degree of CV than that of industry average. It means they are less volatile than other banks, which in fact show the more consistent in Bank's financial performance.

Under the study of Nabil, the average MPS is Rs. 3014. The standard deviation is 179.43 and the coefficient of variation is 59.7% during the study period. It indicates that there is moderate risk involved in market price of share for the investor and shareholders of this bank. The average EPS earned by this bank during the study period is 114.54. The standard deviation is 16.27 and the coefficient of variation is 0.14. This shows that there is diminutive risk involved in earning capacity of Nabil. The average DPS is Rs.92 with standard deviation of 26.94. The coefficient of variation is 29.29%, which indicates that there is moderate fluctuation in DPS of Nabil During the study period. The average BVPS is Rs. 358.2 with 39.58 standard deviation. The coefficient of variation is 11.05%, which indicates that there is less fluctuation in DPS of Nabil during the study period.

The industry average of CV (overall CV) of MPS, EPS, DPS and BVPS are 83.57, 68.18, 85.56 and 46.93 respectively. This shows that all the financial indicators MPS, EPS, DPS and BVPS of Nabil have low degree of CV than that of industry average. It means it is less volatile than other banks, which in fact show the more consistent in bank's financial performance.

Under the study of EBL, the mean MPS of analysis period is Rs. 1698.2. The standard deviation is 939.77 and the coefficient of variation is 0.55. The 55% CV of MPS explains that there is moderate risk involved in market price of share for the investor and shareholders of the bank.

The average EPS earned by this bank during the study period is 66.56. The standard deviation is 16.64 and the coefficient of variation is 0.24. The 24% CV of EPS explains that there is low risk in earning capacity of EBL. The average DPS is Rs.16 with standard deviation of 13.56. The coefficient of variation is 84%, which indicates that there is high fluctuation of DPS during the study period. The BVPS is Rs. 244.71 with 54.68 standard deviation. The coefficient of variation is 22.34%, which indicates that there is not as much of fluctuation in BVPS during the study period.

The industry average CV (overall CV) of MPS, EPS, DPS and BVPS are 83.57%, 68.18%, 85.56% and 46.93% respectively. This shows that all the financial indicators MPS, EPS, DPS and BVPS of EBL have low degree of CV than that of industry average. However, the DPS of the company involves exceptionally in high degree of risk in comparison to other indicators because of high oscillation in dividend payout. In general, bank has volatility in all indicators in comparison with whole industry. Less volatility in these indicators of this bank indicates consistency in the financial performance.

Under the study of BOKL, the average MPS is Rs. 1060. The standard deviation is 746.93 and the coefficient of variation is 70.76% during the study period. It indicates that there is high fluctuation in MPS of this bank.

The average EPS is Rs. 40.94 and the standard deviation is 11.60. The coefficient of variation is 28.35%. The CV of EPS indicates that there is not high risk involved in earning capacity of BOKL. The average DPS of the bank is Rs. 27.17 with 15.17 standard deviation. The coefficient of variation is 56.15%. The CV of DPS indicates that there is moderate fluctuation in DPS of this bank. The average BVPS is Rs. 209.96 with 23.32 standard deviation. The coefficient of variation is 11.11%, which indicates that there is light fluctuation in BVPS during the study period.

The distribution of dividend seems to be much volatile for the company with the coefficient of variation 56.15%, where as book value seems to be less volatile with the coefficient of variation 11.11%. The higher volatile in DPS is because of irregular distribution of DPS. The market price per share is moderately volatile with CV of 70.46%.

The industry average of CV (overall CV) of MPS, EPS DPS and BVPS are 83.57%, 68.18%, 85.56% and 46.93 respectively. This shows that all the financial indicators MPS, EPS, DPS and BVPS have low degree of CV than that of industry average. This means they are moderate volatile, which in fact shoe the more consistent in bank's financial performance.

Under the study of SBL, the mean MPS of analysis period is Rs. 742.667. The standard deviation is 431.32 and the coefficient of variation is 0.58. The 58% CV of MPS explain that there is moderate risk involved in market price of share for the investor and shareholders of this bank.

The average EPS earned by this bank during the study period is Rs.11.48. The standard deviation is 10.43 and the coefficient of variation is 0.9088. The 90.88% of EPS explains that there is high risk involved in earning capacity of SBL. The average DPS is Rs. 0.79 with standard deviation of 0.387. The coefficient of variation is 48.98%, which indicates that there is moderate fluctuation in DPS during the study period.

The average BVPS is Rs 116.696 with 14.95 standard deviation. The coefficient of variation is 12.82%, which indicates that there is less fluctuation in BVPS during the study period.

The industry average CV (overall CV) of MPS, EPS, DPS and BVPS are 83.57%, 68.18%, 85.56% and 46.93% respectively. This shows that all the financial indicators MPS, DPS and BVPS of SBL have low degree of CV than that of industry average. However, EPS of SBL has high degree of CV than that of industry average. It means there is high risk in earning capacity of SBL.

Thus, the above analysis shows the CV of MPS in BOKL is high among the sampled banks, which indicates that there is high risk involved in market price of share for the investors and shareholders of this bank. The CV of MPS in SCBNL is low which indicates that there is low risk involved in market price of share for the investors and shareholders of this bank.

The CV of EPS in SBL is the highest, which mean that SBL's common stocks are riskier as compared to other banks. The CV of SCBNL is lower comparing with others and it is less risky among all.

The CV of DPS of EBL is the highest and SCBNL has the lowest. The SBL has also the high coefficient of variation among the sampled banks. The CV of EBL and SBL indicates that both banks common stock are riskier as compared to other sampled banks. The least CV of SCBNL indicates that SCBNL has the highest consistency in paying dividend.

The EBL has the highest and SCBNL has the lowest CV of BVPS respectively. The CV of EBL shows that there is high fluctuation in BVPS and CV of SCBNL shows lower fluctuation among the sampled banks.

### 4.3 Correlation Analysis

The correlation analysis overall data is done to find out the relationship of different variables with MPS.

**Table 4.2**  
**Relationship of MPS with EPS, DPS & BVPS**

Bank	Variables	Correlation (r)	Co-efficient of Determination (r <sup>2</sup> )	T-value	Sig/insig
SCBNL	MPS &EPS	0.736	0.5417	-1.173	Significant(0.01 level)
	MPS&DPS	0.769	0.5414	1.708	Significant(0.01 level)
	MPS & BVPS	0.755	0.5700	1.302	Significant(0.01 level)
NABIL	MPS &EPS	0.736	0.5417	-.960	Significant(0.01 level)
	MPS&DPS	0.932	0.8686	.230	Significant(0.01 level)
	MPS & BVPS	0.980	0.9604	.845	Significant(0.01 level)
BOK	MPS &EPS	0.932	0.8686	51.303	Significant(0.01 level)
	MPS&DPS	0.769	0.5837	-15.842	Significant(0.01 level)
	MPS & BVPS	0.934	0.8724	2.109	Significant(0.01 level)
EBL	MPS &EPS	0.980	0.9604	1.080	Significant(0.01 level)
	MPS&DPS	0.935	0.8742	.624	Significant(0.01 level)
	MPS & BVPS	0.755	0.5700	-.638	Significant(0.01 level)

Source: Annex- 2

The correlation between MPS and EPS is 0.736. It shows that MPS is significantly positively correlated with EPS at 0.01 level of significance (2- tailed). It indicates that when EPS increases MPS also increases and vice-versa. The coefficient of determination is 0.5416, which indicates that nearly 54% of the total change in MPS is due to the effect of EPS and rest 46% change in MPS is due to other factors. The correlation between MPS and DPS is 0.769. It reveals that MPS is significantly highly positively correlated with DPS at 0.01 level of significance (2-tailed). It indicates that when DPS increases MPS also increases and vice versa. The coefficient of determination 0.5913 explains that nearly 59% of the total change in MPS is due to the effect of DPS and remaining 41% change in MPS is due to other factors. The correlation of MPS with BVPS is 0.755. Correlation between MPS and BVPS shows that there is also high degree of positive relationship. The coefficient of determination between MPS and BVPS is 0.5700 that

means nearly 57% variation in MPS is explained by variation in BVPS. Rest 43% is explained by other factors. The correlations of individual factors with MPS have very high degree of association with MPS. We cannot conclude that any of single factors play more vital role to fix the price of MPS. All the factors have almost equal significance in the price determination of share.

#### 4.4 Regression Analysis

The regression analysis is carried out to determine whether the dependent variable is influenced by the given independent variables or not.

##### 4.4.1 Simple Regression Analysis

###### 1. MPS on EPS

Where, MPS is dependent and EPS is independent.

**Table 4.3**  
**Regression Coefficient**  
**MPS = a + b EPS**

Bank	Regression Constant (a)	Regression Coefficient (b)
SCBNL	4061.28	0.379
Nabil	-3752.95	59.07
EBL	-2035.62	56.09
BOKL	-1485.63	62.17
SBL	-1855.74	168.65

*Source: Annex -3*

Table 4.3 shows the simple regression analysis between MPS and EPS of selected commercial banks.

The correlation of MPS and EPS of all banks are positive. The regression coefficient of SCBNL, Nabil, EBL, BOKL and SBL are 0.379, 59.07, 56.09, 62.17 and 168.65 respectively. It indicates that holding other variable constant one-rupee increase in EPS leads to an average of about Rs.0.379, 59.07, 56.09, 62.17 and 168.65 increases in stock price of SCBNL, Nabil, EBL, BOKL and SBL respectively.

The value of constant (a) is 4061.28, -3752.95, -2035.62, -1485.63 and -1855.74 of SCBNL, Nabil, EBL, BOKL and SBL respectively. The value of constant of SCBNL has positive. This shows that MPS of this bank is highly affected by other factor besides the EPS of the bank. But in contrary, negative constant of Nabil, EBL, BOKL and SBL

banks show that the MPS of respective banks are deeply depends on the EPS or earning behavior of the stocks of respective banks.

## II. MPS on DPS

Where, MPS is dependent variable and DPS is independent variable.

**Table 4.4**  
**Regression Coefficient**

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

Bank	Regression Constant (a)	Regression Coefficient (b)
SCBNL	-10850.76	118.80
Nabil	-2278.15	57.52
EBL	856.39	56.09
BOKL	275.09	29.04
SBL		

*Source: Annex -3*

Table 4.4 shows the simple regression MPS on DPS of selected commercial banks. The correlations of all the banks are positive and regression coefficient of SCBNL, Nabil, EBL and BOKL are 118.80, 57.52, 56.09 and 29.04 respectively. It indicates that holding other variable constant one-rupee increases in DPS leads to an average of about Rs. 118.80, 57.52, 56.09 and 29.04 increases in stock prices of SCBNL, Nabil, EBL and BOKL respectively. The unavailability of DPS of SBL leads no results in this regards.

**The regression constant (a) of all the selected banks except SCBNL and Nabil are positive. All banks regression constant is high which indicates the average level of dependent variable or average affect on dependent variable if all variables omitted from the model. The regression constant of SCBNL and Nabil are -10850.76 and -2278.15 respectively i.e. negative, which show that MPS of these banks are deeply related with the DPS. But the regression constant of other banks (positive constant) show that the MPS of all banks are highly affected by other factors besides DPS.**

## III. MPS on BVPS

Where, MPS is dependent variable and BVPS is independent.

**Table 4.5**  
**Regression Coefficient**

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



Bank	Regression Constant (a)	Regression Coefficient(b)
SCBNL	-2522.87	15.07
Nabil	-8040.92	30.86
EBL	-2383.44	16.67
BOKL	1921.015	-4.101
SBL	-5113.541	46.001

*Source: Annex -3*

**Table 4.5 shows the simple regression analysis between MPS and BVPS of selected commercial banks. The correlation of MPS and BVPS of all banks are positive except BOKL. The regression coefficient of SCBNL, Nabil, EBL and SBL are positive. It means the correlation between MPS and BVPS of those banks are positive. The regression coefficient of SCBNL, Nabil, EBL, BOKL and SBL are 15.07, 30.86, 16.67, -4.101 and 46.01 respectively. It indicates that holding other variable constant one-rupee increase in BVPS leads to and average of about Rs. 15.07, Rs.30.86, Rs. 16.67 and Rs. 46.01 increases in MPS in case of SCBNL, Nabil, EBL and SBL and average of about Rs. 4.10 decreases in MPS in case of BOKL.**

The value of constant (a) is -2522.87, -8040.92, -2383.44, 1921.01 and -5113.54 of SCBNL, Nabil, EBL, BOKL and SBL respectively. The values of constant of BOKL show that MPS of respective bank is highly affected by other factor besides BVPS of the bank. But in Contrary, negative constant of SCBNL, Nabil, EBL and SBL shows that the MPS of respective banks are deeply affected by BVPS besides other factors.

#### **4.4.2 Multiple Regression Analysis**

Multiple regression analysis is done to find out the relationship of MPS on EPS, DPS, and BVPS.

Where, MPS is dependent variable and EPS, DPS and BVPS are independent variables.

Regression equation

$$MPS = a + b_1EPS + b_2DPS + b_3BVPS$$

**Table 4.6**

#### **Multiple Regression Analysis of MPS on EPS, DPS and BVPS**

Bank	Regression Constant	Regression coefficient			Multiple Regression MPS = a+b <sub>1</sub> EPS + b <sub>2</sub> DPS + b <sub>3</sub> BVPS
	a	b <sub>1</sub>	b <sub>2</sub>	b <sub>3</sub>	MPS

SCBNL	-11725.12	-1.350	0.848	0.991	-11725.12 -1.35EPS + 0.848DPS +0.991BVPS
Nabil	-14557.61	-2.662	0.272	3.046	-14557.61 -2,662EPS +0,272DPS +3.046BVPS
EBL	2.893	2.427	0.584	-1.920	2.893 + 2.427EPS + 0.584DPS -1.920BVPS
BOKL	-2059.26	1.314	-0.449	0.38	-2059.26 + 1.314EPS -0.449 DPS +0.38 BVPS
SBL	13437.92	.	.	-1.00	13427.92 –BVPS

*Source: Annex- 4*

**The table shows the result of multiple regression analysis of selected commercial banks that MPS depends on EPS, DPS and BVPS.**

**As far as regression coefficient is concerned the beta coefficient  $b_1$  for EPS,  $b_2$  for DPS,  $b_3$  and for BVPS.**

Under the study of SCBNL, the regression coefficient of EPS, DPS and BVPS denoted by  $b_1$ ,  $b_2$ , and  $b_3$  are -1.350, 0.848 and 0.991 respectively. It means that Rs. 1 increase in DPS and BVPS leads to Rs. 0.848 and Rs. 0.991 increase in MPS respectively. Moreover, Rs. 1 increase in EPS leads to Rs. 1.350 decrease in MPS. The regression constant 'a' in multiple regressions that MPS on EPS, DPS and BVPS is -11725.12.

In case of Nabil, the regression coefficient of EPS, DPS and BVPS denoted by  $b_1$ ,  $b_2$ , and  $b_3$  are -2.662, 0.272 and 3.046 respectively. It means that Rs 1 increase in DPS and BVPS leads to Rs. 0.272 and 3.046 increase in MPS respectively. And Rs. 1 increase in EPS leads to Rs. 2.662 decrease in MPS. The regression constant 'a' in multiple regressions is -14557.61.

In EBL, the regression coefficient of EPS, DPS and BVPS denoted by  $b_1$ ,  $b_2$  and  $b_3$  are 2.427, 0.584 and -1.920 respectively. It means that Rs. 1 increase in EPS and DPS leads to Rs.2.427, and Rs. 0.584 increase in MPS respectively. Moreover, Rs. 1 increase in BVPS leads to Rs. 1.920 decrease in MPS. The regression constant 'a' in multiple regressions that MPS on EPS, DPS, and BVPS is 2.893.

Under the study of BOKL, the regression coefficient of EPS, DPS and BVPS denoted by  $b_1$ ,  $b_2$  and  $b_3$  are 1.314, -0.449 and 0.38 respectively. It means that Rs. 1 increase in EPS and BVPS leads to Rs. 1.314 and Rs 0.38 increases in MPS respectively and Rs. 1

increase in DPS leads to 0.449 decreases in MPS. The regression constant 'a' in multiple regressions that MPS on EPS, DPS and BVPS is -2059.26.

In case of SBL, the regression coefficient of EPS, DPS and BVPS is denoted by  $b_1$ ,  $b_2$  and  $b_3$  are 0, 0 and -1 respectively. It means that Rs. 1 increase in BVPS leads to Rs. 1 decrease in MPS. But the regression coefficient of EPS and DPS cannot be calculated due to irregular dividend and earnings. The regression constant 'a' is 13437.92.

## 4.5 Trend Analysis

Market trends of MPS for each Bank over Five year period have been presented below.

### Trend Analysis of SCBNL

Fiscal Year	Trend Value $Y=a+bX$
2003/04	1374
2004/05	2746.5
2005/06	4119
2006/07	5491.5
2007/08	6864
2008/09	8236.5
2009/10	9609

The table shows the trend value of SCBL with respect to MPS. The trend value of 2003/04, 2004/05, 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 are 1374, 2746.5, 4119, 5491.5, 6864, 8236.5 and 9609 respectively. It shows improved trend with respect MPS all over the period.

### Figure 4.1

### Trend Analysis of SCBNL

As figure shows, MPS of SCBNL was increased significantly over the period of five year from the year 2003/04 to year 2007/2008.

### **Trend Analysis of NABIL**

Fiscal Year	Trend Value $Y=a+bX$
2003/04	595
2004/05	1804.5
2005/06	3014
2006/07	4223.5
2007/08	5433
2008/09	6642.5
2009/10	7852

The table shows the trend value of NABIL bank ltd with respect to MPS. The trend value of 2003/04, 2004/05, 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 are 595, 1804.5, 3014, 4223.5, 5433, 6642.5 and 7852 respectively. It shows improved trend with respect MPS all over the period.

**Figure 4.2**

### **Trend Analysis of NABIL**

The market trend of MPS of NABIL bank had significant improvement over the period.

### Trend Analysis of EBL

Fiscal Year	Trend Value $Y=a+bX$
2003/04	405.4
2004/05	1051.8
2005/06	1698.2
2006/07	2344.6
2007/08	2991
2008/09	3637.4
2009/10	4283.8

The table shows the trend value of EBL with respect to MPS. The trend value of 2003/04, 2004/05, 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 are 405.4, 1051.8, 1698.2, 2344.60, 2991, 3637.4 and 4283.8 respectively. It shows improved trend with respect MPS all over the period.

**Figure 4.3**  
**Trend Analysis of EBL**

From the above graph, there was continuous improvement on MPS of EBL over the period.

### Trend Analysis of BOKL

Fiscal Year	Trend Value $Y=a+bX$
2003/04	49
2004/05	554.5
2005/06	1060
2006/07	1565.5
2007/08	2071
2008/09	2575.5
2009/10	3082

The table shows the trend value of BOKL with respect to MPS. The trend value of 2003/04, 2004/05, 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 are 49, 554.5, 1060, 1565.5, 2071, 2575.5, 3082 respectively. It shows improved trend with respect MPS all over the period.

#### Figure 4.4

### Trend Analysis of BOKL

MPS of BOKL had also made remarkable improvement over the period of five year.

Note: Due to insufficient data graph for SBL cannot be produced.

Overall, the market trend of MPS of all selected bank has been increased over the period of five except SBL as trend of SBL could not be produced due to the unavailability of sufficient data.

#### **4.6 Primary Data Analysis and Presentation**

Another measure applied to gather information relevant to the topic is questionnaire method. For collecting primary data a questionnaire having a set of 23 questions were prepared and presented to 50 respondents. The respondents were selected randomly from the group of share- known personalities especially form the share buyer/ purchasers in broker’s office and college students. The questions contained variety in types. The questions from 1 to 5 were of multiple choice type in which the respondent were asked to choose the best alternative from the list. Remaining question No. 6(under 1 to 18), the degree of agreement over the statement was asked to mention and according to their degree of agreement, the score was provided.

##### **4.6.1 Classification of Respondents**

A total of 50 respondents were surveyed randomly to conclude the determinants of share price of Nepalese Commercial Banks. Among these, 30 respondents were professional investors of share investment, 18 were potential investors who are willing or invest in share but have not invested yet and rests 2 were market analyzer.

**Table 4.7**  
**Classification of Respondents**

Basis of Classification	Number	Percentage
Professional Investor	30	60
Potential Investors (Management Students)	18	36
Market Analyzer	2	4
Total	50	100

*Source: Annex 6*

A number of questions were put by means of copies of questionnaire.

- I. Publication of Financial reports changes a company’s share price.



The first question asked the respondents that publication of financial reports changes a company's share price. Table 4.8 shows the result of the responses.

**Table 4.8**

**Publication of Financial Reports Changes a Company's Share Price**

	Yes	No	Don't Know	Total
Professional Investor	20	10	0	30
Potential Investors (Management Students)	10	6	2	18
Market Analyzer	2	0	0	2
Total	32	16	2	50
Percentage (%)	64	32	4	100

*Source: Annex – 6*

The above table shows the number of respondents and their percentage relating the changes a company's share price due to publication of financial reports. Majority of respondents i.e. 64% said yes to the statement that means a company's share price is changed due to the publication of financial reports.

II Financial reports of companies listed on stock exchange are only the publicly available information useful in identifying over or undervalued securities.

The following table (Table No.4.9) shows the responses against the statement that financial reports of companies listed on stock exchange are publicly available information useful in identifying over or undervalued securities.

**Table 4.9**

**Financial Reports are useful in Identifying Over or Under Valued Securities**

	Yes	No	Don't Know	Total
Professional Investor	25	5	0	30
Potential Investors (Management Students)	12	4	2	18
Market Analyzer	1	1	0	2
Total	38	10	2	50
Percentage (%)	76	20	4	100

*Source: Annex - 6*

Over or undervaluation of securities are identified by financial reports of companies listed on stock exchange. 76% of the respondents said yes, 20% said no and rest 4% respondents said do not know to this statement. This shows that financial reports of listed companies are one type of publicly available information useful in identifying over or undervalued securities.

III. Public listed companies are not serious towards shareholders interests.

**The responses of the respondents regarding the seriousness of public listed companies towards shareholders interest are summarized and presented in Table No.4.10.**

**Table 4.10**

**Public listed companies are not serious towards shareholders interests**

	Yes	No	Don't Know	Total
Professional Investor	20	8	2	30
Potential Investors (Management Students)	14	2	2	18
Market Analyzer	2		0	2
Total	36	10	4	50
Percentage (%)	72	20	8	100

*Source: Annex - 6*

72 % of the respondents said yes and 20% said no to this statements and remaining 8% said they don't know. The response shows that public/ listed companies are not serious towards shareholders interests.

IV. NEPSE and Securities Board are able to protect investor's interest effectively.

The following table (table No. 11) shows the responses against the statement that NEPSE and Securities board are able to protect investor's interest effectively.

**Table 4.11**

**NEPSE and Securities Board are able to Protect Investor's Interest Effectively**

	Yes	No	Don't Know	Total
Professional Investor	25	4	1	30
Potential Investors (Management Students)	15	2	1	18
Market Analyzer		1	1	2
Total	40	7	3	50
Percentage (%)	80	14	6	100

Only minority of the respondents agreed to the statement and the majority did not agreed. It means that NEPSE and Securities Board are not able to protect investor's interest effectively.

V. Future price changes of a given share can be predicted from historical price changes. The responses of the respondents regarding the prediction of future price changes from historical price changes are summarized and presented in table No. 4.12.

**Table 4.12**

**Future price changes of a given share can be predicted from Historical Price Changes**

	Yes	No	Don't Know	Total
Professional Investor	28	2		30
Potential Investors (Management Students)	15	3		18
Market Analyzer	2		0	2
Total	45	5		50
Percentage (%)	90	10		100

*Source: Annex - 6*

Only 20 % of the respondents said no and 90% said yes to this statement. The response shows that, Future price changes of a given share can not be predicted from historical price changes.

**The following are discovered based on the questions asked to the investors, researchers and management students (questions in Annex 6).**

**The strongly agreed statements are as follows:**

I. Higher the EPS, higher would be the share price.

The statement has high response that means in context of Nepal earning per share is the main determinant of share price. Share price is strongly affected by EPS. Increase in EPS significantly increases the market price of share and vice versa.

**Most of them agreed on the following statements**

I	Higher the DPS/ cash dividend, higher would be the share price.
II	Higher the cost of equity ( $K_e$ ) reduces the share price.
III	Share price also affected by the instability of the government.
IV	If interest/reinvestment rate( $r$ ) increases, share price also increases.
V	Information on favorable future prospect would increase market price of share.
VI	Regulation and monitoring steps of NRB influence the share price.
VII	Higher the retention ratio, better the market price of share.
VIII	Share price reacts positively/ negatively with the change in management.
IX	Annual general Meeting and the election of board of director influence the share price
X	Rumors and whims affects share price

The above statement has just only agreed that higher cash dividend would increase the share price. Increase in interest/ reinvestment rate also effects in share price. The high retention ratio also leads to the better market price. The respondents also agreed that higher cost of equity ( $k_e$ ) reduces the share price. Market price of share is strongly affected by dividends than retained earnings. The change or instability of the government also affects the share price. A company's risk also affects the share price and the information on favorable future prospect also increases the market price of share. Regulation and monitoring steps of NRB also influence the share price. Share price are mostly affected by rumors and whims. This shows that share price are affected by cash dividend, interest rate, dividends, political instability, company's risk, information regulation and monitoring steps and rumors and whims.

**The disagreed statements are as follows:**

Lower the growth rate ( $g$ ) of a company, higher would be the share price.

I. Larger companies have higher share price.

- II. Higher the book value per share, higher would be the share price.
- III. Better capital structure results higher share price.

The above statement states that the lower growth rate of a company and higher book value does not have higher share price. It also explains that larger companies do not have higher share price. It also explains that better capital structure alone do not results higher price. Thus, lower growth rate, higher book value per share, better capital structure does not affect the share price.

#### **4.7 Major Findings of the Study**

Because of the different nature of the data, the major findings of the study are presented separately for the secondary data analysis and primary data analysis.

1. The study shows that the CV of MPS in BOKL is high among the selected banks. There is high risk associated in market price of share for the investors and shareholders of this bank. The CV of MPS in SCBNL is low which indicates that there is low risk involved in market price of share.
2. The CV of EPS in SBL is the highest, which mean that SBL's common stock, are riskier as compared to other banks. The CV of SCBNL is lower comparing with others and it is less risky among all.
3. The CV of DPS in EBL is the highest and SCBNL has the lowest. The BOKL and SBL have also the high coefficient of variation. Thus, it can be concluded that EBL has higher fluctuation in DPS among all selected banks. The CV of BOKL and SBL indicates that these banks common stocks are riskier as compared to other sample banks. The least CV of SCBNL indicates that SCBNL has the highest consistency in paying dividend.
4. The EBL has the highest and SCBNL has the lowest CV of BVPS respectively. The CV of EBL shows that there is fluctuation in BVPS and CV of SCBNL shows lower fluctuation among the sampled banks.
5. The correlation analysis shows there is high degree of positive relationship of MPS with EPS among all other different variables and is significant at 0.01 level (2-tailed).

6. The simple regression analysis of MPS on EPS shows that the MPS of SBL is highly affected by EPS than the other banks and MPS of SCBNL has not affected by EPS.
7. The simple regression analysis of MPS on DPS shows that MPS of Nabil and EBL are highly affected by DPS and MPS.
8. The simple regression analysis of MPS on BVPS shows that MPS of EBL is highly affected by BVPS than other banks and MPS of SCBNL is lightly affected by BVPS.
9. The coefficient of multiple determination shows MPS of BOKL and SBL is highly (totally) influenced by the joint effect of EPS, DPS and BVPS and there is a lesser amount of variation in MPS of SCBNL.

**The findings from the survey are as follows:**

1. The primary analysis shows that financial reports of companies listed on stock exchange helps in identifying over or undervalued securities. To change the share price of a company, publication of financial report has greater value. Only minority of the respondents support the future price change of a share can be predicted from historical price changes. The majority of the respondents support the statement that public /listed companies are not serious towards shareholder's interests. Minority of the respondents support that NEPSE and Securities Board are able to protect investor's interest effectively.
2. On the specific opinion about the factors affecting the share price in commercial banks in Nepal, EPS was the most agreed observation. It means that share price is strongly affected by EPS.
3. The responses shows cash dividend, interest rate, political instability, risk of the company, information, rumors and whims, also affect the share price.

## CHAPTER - V

### SUMMARY, CONCLUSION AND RECOMMENDATION

**This chapter consists of three sections; first section provides the summary of the study, the second draws the conclusion of the study and the final section proposes recommendation to deal with the problems observed on the basis of findings.**

#### 5.1 Summary

The Nepalese capital market is in its growing stage. Average citizens and investors have not proper ideas about the capital market, share, book value, par value, market price, pricing mechanism and the factors affecting the market price of shares. They are willing to invest, but are not able to do so due to lack of knowledge, in this subject. In spite of that, the listed companies in the capital market are suffering. The policy and view of every major party who ruled the government have different towards capital market. Hence, policy and priority has also changed with changed in government. Government has not given priority for the development of capital market even though it was in the priority list in the tenth five-year plan and interim 3-year plan also. Government is not able to create implementation, for the capital market development. As a result, there is not adequate transparency in the performances of the listed companies and the capital market due to which the capital market is struggling to become matured. The stock investors have not proper education and information to speculate the share price.

The study is focused on the determinants of stock price in commercial banks. The major objectives of the study are to identify factors affecting share price, to analyze correlation among various financial indicators and to identify qualitative factors affecting the stock price listed in NEPSE.

To meet the desired objectives, the correlation of the quantitative factors, EPS, DPS, and BVPS with MPS by correlation analysis is identified. The regression of factors EPS, DPS and BVPS with MPS were employed for the analysis and interpretation of the collected secondary data. Whereas, to identify the qualitative factors affecting the market price of shares, the primary data has been used that was collected from the research questionnaire.



From the secondary data analysis it is known that there is not consistent performance in the relationship of MPS with EPS, DPS and BVPS for the 5 sampled banks.

The MPS has high correlation with EPS is significant at 0.01 level of significance (2-tailed). The MPS largely depends on EPS. The correlation of MPS with EPS, DPS, and BVPS is significant at 0.01 level of significance (2-tailed). The correlation of MPS shows the positive correlation between all the variables taken in consideration.

The simple regression analysis of MPS on EPS shows that regression coefficient (b) is positive for all sample banks. The  $r^2$  of SBL is highest and is lowest for SCBNL. This means the MPS of SBL is highly affected by EPS than the other banks.

The simple regression analysis of MPS on DPS shows that regression coefficient (b) is positive for all sample banks. The  $r^2$  of Nabil is highest which means MPS of Nabil is highly affected by DPS than other banks. The  $r^2$  of BOKL shows that MPS of BOKL is least affected by DPS.

The simple regression analysis of MPS on BVPS shows that regression coefficient (b) of SCBNL, Nabil, EBL and SBL are positive and negative for BOKL. The  $r^2$  of EBL is highest which explain that MPS of EBL is highly affected by BVPS than other banks. The  $r^2$  of SCBNL is lowest which explains that MPS of SCBNL is lightly affected by BVPS.

The multiple regression coefficients (b) of MPS on DPS and BVPS of SCBNL is positive and MPS on EPS is negative. For Nabil DPS and BVPS are positive and EPS is negative. For EBL the multiple regression coefficients (b) of MPS on EPS and DPS are positive. Regression coefficient (b) of MPS on EPS and BVPS are positive in case of BOKL. Incase of SBL regression coefficient (b) of MPS on EPS and DPS could not identified due to lack of data payout dividend. All the positive value of coefficient indicates that there is positive increment in MPS if any increment in the selected variable and negative values show there are opposite relations.

**The multiple correlations of SCNL, Nabil, EBL, BOKL and SBL are 0.920, 0.938, 0.995, 1.00 and 1.00 respectively with 0.846, 0.880, 0.990, 1.00 and 1.00 coefficient of multiple determination  $r^2$ . It shows that MPS of BOKL and SBL are highly influenced by the joint effect of EPS, DPS and BVPS in which, 100% change of total change on MPS in BOKL and SBL are due to the change in EPS, DPS and BVPS and lowest 84.6 % variation in MPS of**

SCBNL is due to the variation in EPS, DPS and BVPS.

From the primary data analysis, factors affecting the market price of share in NEPSE are identified. Such internal factors affecting the share price are earnings, book value, dividend payment, growth rate, and risk associated with the company. Similarly, there are other environmental factors affecting the market price of share. Such environmental factors affecting the share price are government instability, information, rumors and whims. NEPSE is in primitive stage and it has not significant effect of interest rate, retention ratio, and cost of equity, market liquidity, and change in management.

## **5.2 Conclusion**

This thesis paper addressed stock price determination in commercial banks in context of Nepal. It shows how share price are affected by different variables. The study is based on 5 sample commercial banks whose stocks are listed in Nepal stock exchange and traded in stock market.

The above-mentioned major findings show that the market price per share has high degree of positive relationship with EPS in all sample banks and MPS and MPS largely depends on EPS.

The simple regression analysis shows SBL is highly affected due to EPS and SCBNL is least affected by EPS besides several other factors. MPS of Nabil is highly affected by DPS and BOKL is least affected due to DPS. MPS of EBL is highly affected by BVPS and SCBNL is least affected by BVPS. In most of the cases, EPS explain the positive changes in MPS.

The multiple regression analysis shows the high degree of closeness in BOKL and SBL among the sampled banks and variation in MPS is due to the joint effect of change in EPS, DPS and BVPS. SCBNL has least variation in MPS due to the joint effect of change in EPS, DPS, and BVPS.

The risk per unit of return for investors and total risk are different in different sample banks, which have been shown by the coefficient of variation and standard deviation respectively. Earnings, book value, dividend payment, growth rate, and risk associated with the company information disclosed, political stability are the major factors affecting the share price in NEPSE, according to the respondents of the survey. Interest rate, retention ratio, cost of equity, market liquidity, change in management do not significantly affect the share price in NEPSE.

### **5.3 Recommendation**

Based on this study, the major recommendations are as follows:

1. From the research, it is known that the investors lack the education and information to analyze companies' performance and forecast price. So they are recommended to foster their frontier of knowledge to protect them from loosing, since self-protection is the best protection. They hesitate to demand adequate information from the listed companies and though cheated, accept whatever the management of the companies decides. So they are suggested to raise their voices and complain about such misconducts to SEBO/N and Ministry of Finance. They are suggested to forecast future price based on not only the company specific factors such as earnings, dividend, timely AGM etc, but also on environmental factors.
2. The Nepalese stock market (NEPSE, SEBO/N and NRB) should take some effective initiatives to control random fluctuation of MPS and establish the system of regular monitoring and evaluation of stock market, so that investors would be assured on the NEPSE, SEBO/N and NRB.
3. People in Nepal have shown the tendency to run after those companies, which have allocated higher bonus, right share, probably at the cost of future growth and

opportunities. People invest their hard money on the basis of rumors and hearsay that are spread in financial market rather than intuitive rational financing thinking. Therefore, there is need of credit rating agencies and investment banks to analyze the companies.

4. The companies should provide updated reports to the investors periodically informing actual financial position of the company.
5. There is necessity of separate body to analyze strengths and weakness of public companies, which should disclose right information and suggestions to public investors about investment risk. This will help the investors to take proper investment decision at the right time to avoid or minimize the level of risk. The NEPSE, SEBO and NRB should be able to protect investor's interest effectively.
6. Government should formulate and implement a rigid rules and regulation for further development of share market. A mechanism to take immediate action for the faulty company is to be established.
7. The ultimate objective of any firm is to maximize the wealth position of its investors, which largely depends upon the proper trends of EPS, DPS, BVPS and other dominant variables. This reality should be well imparted to the investors in order to make them rational in the field of investment for which the public companies themselves should frequently launch their well- designed awareness campaigns.

## ANNEXES

### Annex:- 1

#### Calculation of Data

#### Calculation of Mean, S.D. and CV of selected banks

##### 1. Standard Chartered Bank Ltd Nepal

Year	MPS	EPS	DPS	BVPS
2003/04	1745	143.55	110	399.25
2004/05	2345	143.14	120	422.38
2005/06	3775	175.84	140	468.22
2006/07	5900	167.37	130	512.12
2007/08	6830	131.92	130	401.51
Mean	4119	152.364	126	440.696
s.d.	1970.927	16.4744	10.19804	43.46895
c.v.	0.478497	0.108125	0.080937	0.098637

##### 2. Nabil Bank Ltd.

Year	MPS	EPS	DPS	BVPS
2003/04	1000	92.61	65	301
2004/05	1505	105.49	70	337
2005/06	2240	129.21	85	381
2006/07	5050	137.08	140	418
2007/08	5275	108.31	100	354
mean	3014	114.54	92	358.2
s.d.	1799.432	16.27821	26.94439	39.58485
c.v.	0.597024	0.142118	0.292874	0.11051

##### 3. Everest Bank Ltd. (EBL)

Year	MPS	EPS	DPS	BVPS
2003/04	680	45.6	0	171.52

2004/05	870	54.2	20	219.87
2005/06	1379	62.8	0	217.67
2006/07	2430	78.4	30	292.75
2007/08	3132	91.82	30	321.77
Mean	1698.2	66.564	16	244.716
s.d.	939.7711	16.640204	13.56466	54.6828096
c.v.	0.553392	0.249988	0.8477912	0.22345417

#### 4. Bank of Kathmandu Ltd.

Year	MPS	EPS	DPS	BVPS
2003/04	295	27.5	10	218.38
2004/05	430	30.1	15	213.6
2005/06	850	43.67	48	230.67
2006/07	1375	43.5	20	164.68
2007/08	2350	59.94	42.11	222.51
mean	1060	40.942	27.022	209.968
s.d.	746.933732	11.60297962	15.1743842	23.32736882
c.v.	0.704654464	0.283400411	0.561556665	0.111099638

#### 5. Siddhartha Bank Ltd.

Year	MPS	EPS	DPS	BVPS
2003/04	.	-8.89	.	90.74
2004/05	.	20.08	.	110.82
2005/06	360	13.05	.	120.62
2006/07	778	15.88	0.79	132.28
2007/08	1090	17.29	0.79	129.02
mean	742.6667	11.482	0.79	116.696
s.d.	431.3206	10.4353	0.387019	14.95581
c.v.	0.580773	0.90884	0.489898	0.12816



**Annex:- 2**  
**Correlations Analysis**

		MPS	EPS	DPS	BVPS	
MPS	Pearson Correlation	1.000	.736	.769	.755	
	Sig. (2-tailed)	.	.000	.000	.000	
	N	23	23	22	23	
EPS	Pearson Correlation	.736	1.000	.932	.980	
	Sig. (2-tailed)	.000	.	.000	.000	
	N	23	25	22	25	
DPS	Pearson Correlation	.769	.932	1.000	.934	
	Sig. (2-tailed)	.000	.000	.	.000	
	N	22	22	22	22	
BVPS	Pearson Correlation	.755	.980	.934	1.000	
	Sig. (2-tailed)	.000	.000	.000	.	
	N	23	25	22	25	

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



**Annex:- 3**

**Note: The calculation are done using SPSS 10 Software program**

**Simple Regression Analysis**

**1. MPS on EPS**

**A. SCBNL**

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.003	.000	-.333	2544.4433

a Predictors: (Constant), EPS

**Coefficients(a)**

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model		B	Std. Error	Beta		
1	(Constant)	4061.281	10585.335		.384	.727
	EPS	.379	69.071	.003	.005	.996

a Dependent Variable: MPS

**B. Nabil**

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.534	.286	.048	1963.4471

a Predictors: (Constant), EPS

**Coefficients(a)**

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model		B	Std. Error	Beta		

1	(Constant)	-3752.951	6240.607		-.601	.590	
	EPS	59.079	53.942	.534	1.095	.353	

a Dependent Variable: MPS

### C. EBL

#### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.993	.987	.982	140.9423

a Predictors: (Constant), EPS

#### Coefficients(a)

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
Model		B	Std. Error	Beta			
1	(Constant)	-2035.612	259.896		-7.832	.004	
	EPS	56.094	3.788	.993	14.809	.001	

a Dependent Variable: MPS

### 1.10.1 D. BOKL

#### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.966	.933	.911	249.8115

a Predictors: (Constant), EPS

#### Coefficients(a)

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
Model		B	Std. Error	Beta			
1	(Constant)	-1485.634	409.734		-3.626	.036	
	EPS	62.177	9.628	.966	6.458	.008	

a Dependent Variable: MPS

## E. SBL

### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	
1	.994	.989	.977	55.5066	

a Predictors: (Constant), EPS

### Coefficients(a)

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
Model		B	Std. Error	Beta			
1	(Constant)	-1855.747	281.875		-6.584	.096	
	EPS	168.655	18.177	.994	9.278	.068	

a Dependent Variable: MPS

## II. MPS on DPS

### A. SCBNL

### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	
1	.615	.378	.171	2006.8907	

a Predictors: (Constant), DPS

### Coefficients(a)

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
Model		B	Std. Error	Beta			
1	(Constant)	-10850.769	11125.267		-.975	.401	
	DPS	118.808	88.008	.615	1.350	.270	

a Dependent Variable: MPS

## B. Nabil

### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	
1	.861	.742	.656	1180.1561	

a Predictors: (Constant), DPS

### Coefficients(a)

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
Model		B	Std. Error	Beta			
1	(Constant)	-2278.154	1877.777		-1.213	.312	
	DPS	57.523	19.588	.861	2.937	.061	

a Dependent Variable: MPS

## C. EBL

### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	
1	.759	.577	.436	789.3388	

a Predictors: (Constant), DPS

**Coefficients(a)**

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model		B	Std. Error	Beta		
1	(Constant)	856.391	545.878		1.569	.215
	DPS	52.613	26.024	.759	2.022	.136

a Dependent Variable: MPS

**D. BOKL**

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.590	.348	.131	778.4961

a Predictors: (Constant), DPS

**Coefficients(a)**

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model		B	Std. Error	Beta		
1	(Constant)	275.096	711.046		.387	.725
	DPS	29.047	22.944	.590	1.266	.295

a Dependent Variable: MPS

**E. SBL**

**Warnings**

For models with dependent variable MPS, the following variables are constants or have missing correlations: DPS. They will be deleted from the analysis.
--

<p>For models with dependent variable MPS, fewer than 2 variables remain. Statistics cannot be computed.</p>
--

### III. MPS on BVPS

#### A. SCBNL

##### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.332	.110	-.186	2399.7753

a Predictors: (Constant), BVPS

##### Coefficients(a)

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model		B	Std. Error	Beta		
1	(Constant)	-2522.870	10933.218		-.231	.832
	BVPS	15.071	24.689	.332	.610	.585

a. Dependent Variable: MPS

#### A. Nabil

##### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.679	.461	.281	1705.5989

a Predictors: (Constant), BVPS

##### Coefficients(a)

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
Model		B	Std. Error	Beta			
1	(Constant)	-8040.924	6944.235		-1.158	.331	
	BVPS	30.862	19.269	.679	1.602	.208	

a Dependent Variable: MPS

### A. EBL

#### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	
1	.971	.942	.923	292.4504	

a Predictors: (Constant), BVPS

#### Coefficients(a)

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
Model		B	Std. Error	Beta			
1	(Constant)	-2383.442	599.735		-3.974	.028	
	BVPS	16.679	2.392	.971	6.974	.006	

a Dependent Variable: MPS

### A. BOKL

#### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	
1	.128	.016	-.311	956.3467	

a Predictors: (Constant), BVPS

#### Coefficients(a)

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
Model		B	Std. Error	Beta			
1	(Constant)	1921.015	3873.304		.496	.654	
	BVPS	-4.101	18.334	-.128	-.224	.837	

a Dependent Variable: MPS

## A. SBL

### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	
1	.756	.571	.142	339.3509	

a Predictors: (Constant), BVPS

### Coefficients(a)

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
Model		B	Std. Error	Beta			
1	(Constant)	-5113.541	5081.719		-1.006	.498	
	BVPS	46.001	39.887	.756	1.153	.455	

a Dependent Variable: MPS



#### Annex:-4

**Note: The calculation are done using SPSS 10 Software program**

#### **Multiple Regression Analysis**

#### **A. SCBNL**

#### **Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	
1	.920	.846	.386	1727.1275	

a Predictors: (Constant), BVPS, DPS, EPS

#### **Coefficients**

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
Model		B	Std. Error	Beta			
1	(Constant)	-11725.123	9998.016		-1.173	.449	
	EPS	-161.508	92.561	-1.350	-1.745	.331	
	DPS	163.872	95.946	.848	1.708	.337	
	BVPS	44.939	34.503	.991	1.302	.417	

a Dependent Variable: MPS

#### **B. Nabil**

#### **Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	
1	.938	.880	.519	1395.3759	

a Predictors: (Constant), BVPS, DPS, EPS

#### **Coefficients**

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
Model		B	Std. Error	Beta			
1	(Constant)	-14557.619	18606.638		-.782	.577	
	EPS	-294.212	306.421	-2.662	-.960	.513	
	DPS	18.145	78.820	.272	.230	.856	
	BVPS	138.474	163.893	3.046	.845	.553	

a Dependent Variable: MPS

### C. EBL

#### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	
1	.995	.990	.962	205.7136	

a Predictors: (Constant), BVPS, DPS, EPS

#### Coefficients

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
Model		B	Std. Error	Beta			
1	(Constant)	2.893	3244.382		.001	.999	
	EPS	137.076	126.867	2.427	1.080	.475	
	DPS	40.450	64.870	.584	.624	.645	
	BVPS	-33.003	51.734	-1.920	-.638	.639	

a Dependent Variable: MPS

### D. BOKL

#### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	1.000	1.000	.999	22.4470

a Predictors: (Constant), BVPS, EPS, DPS

### Coefficients

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model		B	Std. Error	Beta		
1	(Constant)	-2059.264	137.931		-14.930	.043
	EPS	84.600	1.649	1.314	51.303	.012
	DPS	-22.080	1.394	-.449	-15.842	.040
	BVPS	1.201	.570	.038	2.109	.282

a Dependent Variable: MPS

### D. SBL

### Warnings

For models with dependent variable MPS, the following variables are constants or have missing correlations: DPS. They will be deleted from the analysis.
--

### Variables Entered/Removed

Model	Variables Entered	Variables Removed	Method
1	BVPS	.	Enter

a Tolerance = .000 limits reached.

b Dependent Variable: MPS

### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	1.000	1.000	1.000	.

a Predictors: (Constant), BVPS

### Coefficients

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model		B	Std. Error	Beta		
1	(Constant)	13437.926	.000		.	.
	BVPS	-95.706	.000	-1.000	.	.

a Dependent Variable: MPS

### Annex 5:- Trend Analysis

SCBL						
Year(X)		MPS(y)	$x = x - \text{Middle of the year}$	$x^2$	$x*y$	Trend Value $Y=a+bX$
2003/04	1	1745	-2	4	-3490	1374
2004/05	2	2345	-1	1	-2345	2746.5

2005/06	3	3775	0	0	0	4119
2006/07	4	5900	1	1	5900	5491.5
2007/08	5	6830	2	4	13660	6864
		y =20595			x <sup>2</sup> =10	xy=13725

For SCBL,  $a = \bar{y} / n = 20595 / 5 = 4119$  and

$$b = \frac{\sum xy}{\sum x^2} = 13725 / 10 = 1372.5$$

NABIL						
Year(X)		MPS(y)	x = x - Middle of the year	x <sup>2</sup>	x*y	Trend Value Y=a+bX
2003/0						
4	1	1000	-2	4	-2000	595
2004/0						
5	2	1505	-1	1	-1505	1804.5
2005/0						
6	3	2240	0	0	0	3014
2006/0						
7	4	5050	1	1	5050	4223.5
2007/0						
8	5	5275	2	4	10550	5433
		y =15070			x <sup>2</sup> =10	xy=12095

For NABIL,  $a = \bar{y} / n = 15070 / 5 = 3014$  and

$$b = \frac{\sum xy}{\sum x^2} = 12095 / 10 = 1209.5$$

EBL
-----

Year(X)		MPS(y)	x = x - Middle of the year	x <sup>2</sup>	x*y	Trend Value Y=a+bX
2003/04	1	680	-2	4	-1360	405.4
2004/05	2	870	-1	1	-870	1051.8
2005/06	3	1379	0	0	0	1698.2
2006/07	4	2430	1	1	2430	2344.6
2007/08	5	3132	2	4	6264	2991
		y = 8491		x <sup>2</sup> =10	xy= 6464	

For EBL,  $a = \bar{y} / n = 8491 / 5 = 1698.2$  and

$$b = \frac{\sum xy}{\sum x^2} = 6464 / 10 = 646.4$$

BOKL						
Year(X)		MPS(y)	x = x - Middle of the year	x <sup>2</sup>	x*y	Trend Value Y=a+bX
2003/04	1	295	-2	4	-590	49
2004/05	2	430	-1	1	-430	554.5
2005/06	3	850	0	0	0	1060

2006/0 7	4	1375	1	1	1375	1565.5
2007/0 8	5	2350	2	4	4700	2071
		y= 5300			x <sup>2</sup> =10	xy=5055

For BOKL,  $a = \frac{\sum y}{n} = \frac{5300}{5} = 1060$  and

$$b = \frac{\sum xy}{\sum x^2} = \frac{5055}{10} = 505.5$$

SBL						
Year(X)		MPS(y)	x = x - Middle of the year	x <sup>2</sup>	x*y	Trend Value Y=a+bX
2003/0 4	1		-2	4	0	
2004/0 5	2		-1	1	0	
2005/0 6	3	360	0	0	0	
2006/0 7	4	778	1	1	778	
2007/0 8	5	1090	2	4	2180	

For SBL

**Note : Due to insufficient data, trend value cannot be calculated**

**Annex:- 6**

**Pro- forma of Structured Questionnaire**

**1.10.2 A survey of share price determinants in Commercial Banks**

Name (optional):.....

Position:.....

Institution.....

1. Publication of Financial reports changes a company's share price.

a) Yes.....b) No.....c) Don't Know.....

2. Public/ listed companies are not serious towards shareholders interests.

a) Yes.....b) No.....c) Don't know.....

3. NEPSE and Securities Board are able to protect investors' interest effectively.

a) Yes.....b) No.....c) Don't know.....

4. Financial reports of companies listed on stock exchange are only the publicly available information useful in identifying over or undervalued securities.

a) Yes.....b) No.....c) Don't know.....

5. Future price changes of a given share can be predicted from historical price changes.

a) Yes.....b) No.....c) Don't know.....

6. How far do you agree/ disagree with the following statements? (Please tick- mark at the appropriate number as per following scheme.

1 = Strongly agree      2= Agree      3 = Don't know

4 = Disagree              5 = Strongly disagree



S.N.	Statement	1	2	3	4	5
1.	Higher the EPS, higher would be the share price.					
2.	Higher the DPS/cash dividend, higher would be the share price.					
3.	Lower the growth rate ( $g$ ) of the company, higher would be the share price.					
4.	Higher the retention ratio, better the market price of share.					
5.	Higher the cost of equity ( $K_e$ ) reduces the share price.					
6.	If interest/reinvestment rate ( $r$ ) increases, share price also increases.					
7.	Larger companies have higher share price.					
8.	Dividends have stringer effect in market price of share					
9.	Higher the book value per share, higher would be the share price.					
10.	Higher the risk associated with a company, higher would be the share price.					
11.	Share price also affected by the instability of the government.					
12.	Information on favorable future prospect would increase market price of share.					
13.	Share price decreases with the increase in liquidity in market.					
14.	Share price reacts positively/ negatively with the change in management.					
15.	Better capital structure results higher share price.					

16.	Annual general Meeting and the election of board of director influence the share price.					
17.	Rumors and whims affects share price.					

Thank you for your time and effort.

**MAMATA BHATT**  
**Master's in Business Studies**  
**Shanker Dev Campus**  
**Roll No. 477/062**

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