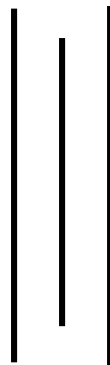


**FACTOR AFFECTING THE SHARE PRICE IN
NEPALESE COMMERCIAL BANKS LISTED IN NEPSE**

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Faculty of Management
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*In partial fulfillment of the requirement for the Degree of
Master of Business Studies (M.B.S)*

Kathmandu, Nepal
December, 2008

RECOMMENDATION

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DECLARATION

I hereby declare that the work reported in this thesis entitled “**FACTOR AFFECTING THE SHARE PRICE IN NEPALESE COMMERCIAL BANKS LISTED IN NEPSE**” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master’s Degree in Business Study (M.B.S.) under the supervision of **Dr. Geeta Pradhan, Associate Professor and Mr. Rishi Raj Gautam** of Shanker Dev Campus.

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Researcher

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ABBREVIATIONS

a	=	Coefficient of Regression (Constant)
b	=	Coefficient of Regression (Slope)
BOK	=	Bank of Kathmandu
BVPS	=	Book Value Per Share
d.f.	=	Degree of Freedom
D_1	=	Expected Dividend
DPS	=	Dividend per Share
D_t	=	Dividend Per Share at Time 't'
EBL	=	Everest Bank Ltd.
EPS	=	Earning per Share
HBL	=	Himalayan Bank Ltd.
HPR	=	Holding Period Return
IPO	=	Initial Public Offering
K_e	=	Cost of Equity
MBL	=	Machhapuchhre Bank Ltd.
MVPS	=	Market Value Per Share
N	=	Number of Observation
NABIL	=	NABIL Bank Ltd.
NEPSE	=	Nepal Stock Exchange
NIBL	=	Nepal Investment Bank Ltd.
NRB	=	Nepal Rastra Bank
O. P.	=	Overpriced
P.E.	=	Probable Error
P/E	=	Price Earning Ratio
P_0	=	Value of Stock
r	=	Coefficient correlation
r^2	=	Coefficient of Determination
R_f	=	Risk Free Rate
R_m	=	Annual Market Return
\bar{R}_m	=	Average Market Return
SCBNL	=	Standard Chartered Bank Nepal Ltd.

SEBON = Security Board of Nepal
t = t-statistics
U.P. = Underpriced
= Beta Coefficient

CHAPTER – I

INTRODUCTION

1.1 General Background of the Study

The smooth continuity of the economic development widely depends upon the adequate and steady of medium as well as long term capital funds for productive investment, which is concern with finance. The finance is directly concerned with conversion or accumulation of capital funds to meet the financial needs of various institutions. For efficient mobilization of financial resources, the financial market is an important intermediary through which effective bridging of deficit units and surplus can be ensured. Financial markets are engaged in mobilization of saving from surplus and deploy funds into the deficit units for productive investment. "Capital market plays a crucial role in mobilizing a constant flow of saving and channeling these financial resources for expanding productive capacity in the countries" (Khan, 1999: 44).

Capital is the lifeblood of the business organizations. every business enterprises requires short term intermediate and long term capital for the smooth operation and expansion of the organizational activities. Among these types of fund, the long term funds plays highly significant role for future growth and prosperity of the organization. Most business organizations gather long term fund from financial market. (Van Horn, 2000: 488).

Financial Market is the place where the financial instruments are traded. Financial instruments include share, bond, debenture etc. It is a means to transfer funds from savers to those in need of fund. It provides a forum in which suppliers and demanders

of funds can transact business directly. Financial experts have mentioned it as a brain of the economic system. The failure of the financial market obstructs the progress of the whole economy. Financial market can be defined as the centers or arrangements which provide facilities for buying and selling of financial claims and services. Financial market constitutes money and capital market.

Money Market can be defined as short term financial market, which facilitates liquidity and marketability of securities. It is the market for short term marketable instruments having less than one year maturity period.

Money Markets are sometimes defined as organized and unorganized money market. The organized or formal money markets provide an institutional mechanism for the transactions of short term securities and commercial banks, finance companies and other saving/credit unions are players in the money market. Local merchants, indigenous bankers and relatives come under the informal or the unorganized sector. The development of efficient market require the development of institutions, instruments and operating procedure that aids widening and deepening of the market and allocation of short term resources with minimum transaction costs and delays.

Capital Market also plays a vital role in the national economy. Capital market facilitates the allocation of funds between the savers and borrowers. This allocation will be optimum if the capital market has efficient pricing mechanism. If the capital market is efficient the current share price of the company fully reflect the available information and there will be no question of the share price being over or under priced. Capital market is concerned with long term finance. The fund collected in the

market are raised and traded by long term financial instruments such as equities and bonds.

Stock Exchange is a market for long term can be raised by companies and where existing shares can also be bought and sold. By providing of second hand market for investors to sell their shares, it facilitates the raising of new capital on the new issues market. The stock exchange also provides a market for government loans and securities and increasingly involved in the buying and selling of securities in the overseas companies. On the market, the main operators are the market markets who trade in a group of share and stock brokers who act as agents for their clients, who are the investors who are actually buying and selling shares (Collins Gem, 2000: 20).

New York stock exchange (NYSE), London Stock Exchange, Tokyo Stock Exchange, Paris Stock Exchange, Frank Fruit Exchange and Toranto Stock Exchange are the biggest stock exchange of the world. Mumbai Stock Exchange is the largest stock and Nepal Stock Exchange (NEPSE) is the only organized stock exchange of Nepal.

The development of the economy requires the productive activities, which in turn is the result of the investment venture in productive enterprises. The establishments of these enterprises need a huge amount of fund. There are mainly two sources of financing which are internal and external sources. The internal financing has limited scope because the limited resources and risks associated with the investment. So nowadays, the external financing, the method of financing an enterprises through the financial market, has come the productive activities in the economy, now all economic units including the household and government have rely external financing.

Thus, the stock market the most important component of the financial market is a must for the development of an economy. In the Nepalese context the external financing has the limited scope because of the least developed financial market in the economy, which is one of the discouraging factors for the rapid growth of investment in productive activities.

Capital Market plays a vital role in developing the nation's economy. The trading of share of stocks takes place in the stock market. Nepal, the capital deficient economy, requires the huge amount of investment in production activities for the rapid economy development. Stock market can play the vital role by encouraging and canalizing the saving to provide the entrepreneurs for investment in profitable projects in the Nepalese capital market, it is in institutional arrangement with in which a number of institutional bodies like Securities Board Nepal (SEBO-N), Nepal Stock Exchange (NEPSE), Register of Company (ROC), Shareholders Association Nepal (SAN) and listed companies are in existence. In Nepalese Capital market twenty-seven brokers, ten market intermediaries and one organized stock exchange center are currently in operation. Only few listed companies listed to NEPSE and most of listed companies are inactive and rarely their share is traded on the floor. Nepalese stock market in infancy stage but it is growing slowly. If we take the size of the market we can compare it with a person suffering from a disease, due to which his height has not increasing but it gaining its weight only. However, there is also a marginal market development. It is so because market is mostly concentrated over commercial bank and finance companies only. Nepalese capital market is very small as compared to other neighboring countries. Banks, non-banking financial companies and insurance company occupy almost 90% of total market capitalization (Annual Report, 2059/060 SEBO-N:12).

As a first financial institution in Nepal, Tejaratha Adda was established in 1993 B.S. from government side. But it only provided loan in favor of government employee with minimum interest rate. Although Nepal Bank Limited was established in 1984 B.S. it could not generate enough funds for business and industrial purpose. It only provided short term for individual and business institutions by pledging as collateral. After the establishment of Nepal Rastra Bank in 2013, as a central bank of the country, it was founded as a base of capital market. It was also authorized to issue government securities (like government bonds, treasury bills, National saving certificates etc.) to collect the national debt. Without participating in private sectors capital market could not be development appropriately. Considering this, Nepal industrial development corporation (NIDC) was established in 2016 B.S. the basis function of NIDC was to encourage private sector for industrial activities. It also helps for the improvement and modernization of private sectors by providing economic and technical subsidies. The contribution of employee provident fund (2019), Rastriya Bima Sasthan and agriculture development bank (2024) can not be able to minimize the development of securities and sale of securities. However, it could not help the institutional development of security exchange because the basis objective of these institutions was not related to securities exchange activities. Thus, to provide the investment opportunities to potential investors and collection and mobilizing of funds for industrial purpose, the need of organized institution has been felt at that time. Considering this, for the development of well functioning secondary market securities the basic objectives of these institutions was established in 2033 B.S. it was permitted to work as secondary market after the establishment of SEC is to accelerate the pace of industrial growth in the national economy and also to create security exchange activities.

The basis function of stock market is still to provide and allocate capital fund to firms with profitable investment opportunities and to offer an avenue of liquidity for individual to invest current income for borrow against further income and thereby achieve their preferred time pattern of consumption because investing involves uncertainty, capital market also provide a means for transferring risk among the parties to these transaction. The stock market and economy activities move in similar cyclical patterns. In the Nepalese economy, the demand and supply of funds for investment in productive enterprise is low due to the absence of mechanism for transferring risk which, in turn, may be attributed to the absence of well developed stock market.

In Nepal, some financial institution involved in capital market are Nepal Rastra Bank, Commercial Banks, Agriculture Development Bank, Nepal Industrial Development Corporation, Employees Provident Funds, Citizen Investment Trust, Co-operative, five rural development banks, Securities Board, NEPSE, Rastriya Beema Sasthan,¹⁷ insurance companies, 79 financial institutions, twenty five non government organization, some hotels, manufacturing, hydropower company and trading agencies etc. these institutions play a vital role in the development of capital market. Nepalese capital markets are also classified into two organized sector like government agencies and other institutions, they provide long term fund for the development of agriculture, industrial and commercial sector by investing in stock, debenture and government bonds.

1.1.1. Introduction and Development of Commercial Bank in Nepal

Bank undertaking business with the objective of earning profit are commercial bank. Commercial Banks pool scattered fund and channel it to productive use. Commercial Bank can be of various forms such as Deposit Banks, Saving Bank, Industrial Banks, Mixed Banks, Exim Banks etc. Commercial Banks render a variety of services. In the absence of commercial Banks, it will be impossible to meet the financial needs of the country. Commercial Bank Act 1994 “A Commercial Bank means bank which deals in exchanging currency, accepting deposits, giving loans and doing commercial transaction”

The development of commercial bank history is recent compared to other developed country. Nepal Bank Ltd is the first and oldest bank in the modern bank history of Nepal, which was established in 1937 A.D. (30th Kartik 1994) with 51% government equity capital. In 2013 B.S. Nepal Rastra Bank was established under the Nepal Rastra Bank Act 2012 B.S. it is central bank of Nepal. It provide regulatory framework to other bank and financial institution. Rastriya Banijya Bank is the second commercial bank of Nepal which was established in 1995A.D. to promote the industrial and commercial sector. When government has focused on liberalization in economy then the joint venture and other commercial bank were established. The first joint venture commercial bank was Nepal Arab Bank. But it is converted as NABIL Bank. Now twenty six commercial banks are operating the Nepal but only 15 banks are listed in NEPSE.

The role and important of the commercial bank is highly above and it has its own contribution in the economy development of the country. They are regarded as the

main body of financial system because it accepts the deposits of large number of people business unit and make funds available borrowers, individuals, and business firms establishment. It maintains economic confident of various segments and extends credit to people

1.1.2. Securities Market

In simple sense, securities market is the place where people buy and sell financial instruments. These financial instruments may be in the form of government bonds, corporate bonds or debenture, ordinary share, preference share etc. so far security market is concerned, it is an important constituent of capital market. It has a wide term embracing the buyers and sellers and all the agencies and institutions that assist the sell and resell of corporate securities (Ragh, 1996: 9).

Securities market exists in order to bring together buyers and sellers of securities, meaning that they are mechanisms created to facilitate the exchange of financial assets (Francis, 1991:9).

Although security market is concerned in few locations, they refer more to mechanism rather than to place designed to facilitate the exchange of securities. Security market can be defined as a mechanism for bringing together buyers and sellers of financial assets in order to facilitate to maintain higher degree of liquidity in securities the securities market should be efficient enough in pricing the shares solely by economic considerations based on publicly available information.

An efficient market is one where current price of the shares gives the best estimate of its true worth. Thus, the securities market is a place where share of listed companies

are traded or transferred from one to another a fair price through the organized brokerage system. The major function of securities market is a competitive price thereby, importing future market ability and liquidity.

“Securities markets must function well for the sustainable economic growth. Well functioning securities markets are integral part of any financial system. They act as financial intermediaries for debt and equity instrument, ensuring greater competition among financial resources resulting in greater efficiency” (Kafle, 2005:25).

It is a medium through which scattered saving and scarce resources are transferred to productive areas that ultimately help in the economic development and industrialization of the nation.

Security market can be classified in many ways. One way is by maturity of the security trade in the market. The money market is made up of securities that mature in one year or less. Securities that mature in more than a year are securities market can be further categorized into two groups as primary market and secondary market.

Primary Market denotes the market mechanisms for the original sale of securities time of their initial issuance. In other words, a market for newly issued securities is called primary market. Corporate bodies issue new securities in the primary market. Securities available for the first time are offered through the primary securities market. The issuer may be a brand new company or one that has been in business for years. The securities offered might be a new type for the issuer or additional amount of security used frequently in the past. The key is that these securities absorb new funds for the coffers of the issuer.

All the securities whether in the money market 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 transaction and receives direct benefit from the issue, that is, the company actually receives the proceeds from the sale of securities.

Primary market is that market whereby the corporation acquires the needed capital by initial public offering IPO and through right issue. “it allows issuance of new securities helping the issuer companies to raise fund for starting new enterprise for expansion and diversification of the existing ones” (SEBON Journal, 2005:10).

Secondary Market is that place where securities one issued by the corporations in the market are traded. So, secondary market plays vital role in liquidating shares.

“Secondary market in simple sense, are markets in which existing already outstanding securities are the price and allow for liquidity. If secondary market did not exist the investors would have no place to sell their assets without liquidity many people would not invest at all. The corporations whose securities are being traded are not involved in the secondary market transaction and thus, don’t receive any funds from such a sale” (Bringham, Gapenski and Ehrharat, 2000: 115).

Thus, secondary market deals with previously issued shares mainly traded through stock exchange, over the counter market or direct selling. The main objectives of the securities market is to create opportunity for the public to get benefit from the return obtained by directing the cost-cutting gauge in the direction of the prolific division and through mobilizing the length tenure capital (The Rising Nepal, 2003).

1.1.3 Development of Securities Market in Nepal

The history of securities markets began with the floatation of shares to the general public by Biratnagar Jute Mills Ltd and Nepal Bank Ltd in 1937. However, the development of securities market could not be national policy for a long time. Then the industrial policy of Nepal led to the development of securities markets with the establishment of securities marketing center (SMC) in 1976. Before the establishment of SMC, there were no institutional arrangements to undertake and to manage the new issues of securities. Initial public offering (IPO's) had to be made as per the provision of company act 1936, which were not adequate and relevant. The act had not even included preference share as corporate security. It was recognized as corporate security only by company act 1964.

SMC started secondary trading of securities in 1981, which was restricted to government bonds. T-bill 1983, the concept of well structured secondary market had evolved in Nepal no separate Act existed to regulate the trading of securities. The securities exchange act 1983 was enacted in 1983. The restricted the exchange of unlisted securities.

The SMC was renamed securities exchange centre in 1984 with an objective of facilitating and promoting the growth of capital markets. It was the only institution at that time managing and operating primary and secondary markets of long term government and corporate securities.

The first amendment in Securities Exchange Act 1983 made in 1983 paved the way for the restructuring of securities market in Nepal. This led to the establishment of securities board of Nepal (SEBO-N) on June 7, 1993 with a mandate to regulate and

develop the securities market. The first amendment in the act also led to conversion of SEC into Nepal Stock Exchange limited with the basic objective of free market ability and providing liquidity to the corporate and government securities by facilitating the transaction in its trading floor through market intermediaries such as broker, market makers.

The second amendment in securities exchange act 1983 was made in 1997. The amendment made provision for registering securities business persons in SEBO as per the provision of the securities business persons in 1997. The amendment made mandatory provision for listed companies to submit annual and semi annual reports to SEBO. The amendment also required securities business persons to submit annual reports incorporating the securities transaction carried out by them to SEBO.

Now securities exchange ordinance 2062 is the main law to regulate the securities market in Nepal. Nepal Stock Exchange has just entered into automation or computerized trading system. During Fiscal Year 2064/065, there are 23 Stockbrokers, 2 Security dealers, 9 issue managers, one stock exchange and 143 listed companies in the Nepalese Securities market.

1.1.4 Constituents of Securities Markets in Nepal

A. Securities Board of Nepal [SEBO-N]

Security Board, Nepal was established on May 26, 1993, under the provision of the Security Exchange Act, 1983. It was established with the objectives of the promoting and protecting the interests of investors by regulating the securities market. It also assumes the responsibility of development of securities market in the country, besides

the regulatory role. Security Board has identified the policy development, legal and regulatory reform, stand arising disclosers, bringing enforcement to insure compliance and promoting broad based market as priority area to reform. The private sector has also been participating equally in establishing a sound system of security exchange. In private sector – investors, listed companies, financial and market intermediaries and in government sector- ministry of finance, registrar of companies, Nepal Rastra Bank, Nepal Stock Exchange, federation of Nepalese Chamber of Commerce and Industries (FNCCI), Institute of Chartered Accountants of Nepal (ICAN) and Associations of Chartered Accountants have been playing vital role in promoting the capital market of the country.

As per the securities act, 2006, the major objectives of SEBO-N are to regulate issue and trading of securities and market intermediaries, promote the market and protect investor's right, the major functions, duties, responsibilities and power of SEBO-N are as follows.

- Register securities and approve prospectus of public companies.
- Provide license to operate stock exchange.
- Provide license to operate securities businesses.
- Give permission to operate collective investment schemes and investment funds.
- Draft regulations, issue directives and guidelines, and approve by laws of stock exchanges.
- Supervise and monitor stock exchange and securities business activities.
- Take enforcement measures to ensure market integrity.
- Review reporting of issuer and listed companies and securities business persons.
- Conduct research study and awareness programmers regarding securities market.

- Coordinate and cooperate with other domestic as well as international regulators.
- Formulate policies and programs relating to securities markets and advise the government of Nepal in this regard.

B. Nepal Stock Exchange

In Nepal, the common stocks of the corporations are traded at NEPSE, which is the only secondary market of the nation. It is a non-profit organization, which is operating under securities exchange act 1983. it commenced its operations on 13th January 1994 with ownership of the exchange divided between government of Nepal, Nepal Rastra Bank, NIDC and licensed members.

The basic objectives of NEPSE is to impart free marketability and liquidity to the corporate securities by facilitating transactions in its trading floor through market intermediaries such as brokers and market makers etc. There were listed 15 commercial banks ,One Agriculture Development Bank , NIDC, Employee Provident Funds, Citizen Investment Trust,Co-operative Agencies ,5 Rural Development Banks, 22 Insurance Companies, 79 Finance institutions 47 Non –Government organizations, Some Hotels Manufacturing and Trading Agencies etc. To days the main aim of NEPSE is to upgrade the infrastructure of the exchange so as to handle the increased activities more efficiently by modernizing the trading, clearing and settlement, surveillance procedures. Recently, automated trading system started with the completion of trading floor automation of Nepal Stock Exchange Ltd. SEBON drafted Stock Exchange Regulation 2007 to promote and regulate the secondary market.

1.2. Statement of Problem

There are no any sectors far from their own problem. Every issue has cause hidden behind this issue. Nepalese Capital market is not properly and efficiently developed due to different problem faced like as limited mobility of investors in investment of stock, lack of appropriate knowledge of stock market, inseparable part of liberal economy, economic imbalance, political instability, ineffective implementation of liberal economic police etc. The price of stock especially common stock has been rapidly volatile over the past few years to till now. Price volatility of the stock is a prominent issue in Nepalese Commercial Bank. Basically stock price is determined by interaction between demand and supply. Both the qualitative and quantitative factors determine the stock price. However to specify exactly what factors affect the stock price is controversial/unpredictable issue. Share price is function is the function of the several factors. The stock price volatile time to time and stock exchanges react to the environmental changes. However, for some environmental changes, the stock exchange have to identify the major factors of affection the share price in Nepalese commercial bank and its degree of factors affection to more specifically this study is expected to answer the following research question.

- Do the major financial indicators (like EPS, DPS, MVPS) significantly effect the market price per share?
- Is there specific relationship of MVPS with fundamental indicators?
- Are the common stocks of sampled bank's equilibrium price?
- How much the informational and other factor affected the share price on Nepalese commercial banks?
- Is the investors' awareness affecting the share price?

1.3. Objectives of the Study

The study is mainly focused in to the evaluate the major factors affecting the share price of the Nepalese commercial bank with this regard the main objectives are;

- To explore the effect of major financial indicators and its relationship with MVPS.
- To identify whether the stock of sample banks are over price, under price and equilibrium price.
- To study informational and other factors affecting the share price of the Nepalese commercial bank.
- To analyze the investor awareness regarding the share price of Nepalese commercial bank.

1.4. Focus of the Study

NEPSE is an organized stock exchange for trading stocks in secondary market. Although small investors can invest their money by purchasing share of companies in primary market (during initial public offering) or in the secondary market, they (general public or investors) lack effective knowledge of capital market and its mechanism. The price of the stock is the function of several factors. Investing in stock is highly risky as being ownership capital. It represents only a final claim while in liquidation. Stock price is determined by a number of factors. Some factors are quantitative whose effect can be quantified whereas other factors are qualitative whose effect on share price can't be quantified. This study focused to the sensitivity of stock price on NEPSE with special focus to commercial banks toward various factors. In other words, this study intends to determine the factors affecting the price of the share in Nepalese commercial banks.

1.5. Significance of the Study

This study is important for the followings groups and individuals.

- This research is very useful for further researcher.
- The research is very useful for university graduate students who are new generation.
- This research is very useful for financial manager, NEPSE activities (i.e. brokers, financial intermediaries, advisors)
- This is very useful for Nepal government concerned department, NGOs and INGOs.
- This research is very useful for individuals, investors, and people who are interested with share market of Nepalese commercial banks.
- It is very useful for all other interested individuals.
- The general investors who are unknown about stock price and the factors affecting it.
- This research is very useful for Nepalese commercial banks.

1.6. Limitation of the Study

Present study might be a milestone in the exploratory study in searching the factor affecting the share price in Nepalese commercial bank. Finding up the study are very useful for both academicians as well as researcher. However, the present study suffers from many limitations. Basically, the study is done for partial fulfillment of master of the business studies. Time constraint, financial problem and the lack of the research experiences will be the primary limitations and other limitations are as follows:

- The study is confined to the stock formation in NEPSE.
- This study is made on common stock.

- Primary data regarding investors awareness view are collected from the brokers, market makers, NEPSE, SEBO-N, listed company and investor view are not captured.
- This research study is mainly based on secondary data which have been collected from books, financial statements, report and companies authorized websites and other publication.
- The dependent variable is only market value per share of common stock.
- The calculation of the study is fully dependent on the accuracy of the data provide by the organization and questions are filled by respondents.
- The non-availability of references and researcher also kept as a constraint.

1.7. Organization of the Study

This study has been conducted into five chapters. Each of these chapters of this study is briefly mentioned here.

Chapter-I: Introduction

Chapter-II: Review of literature

Chapter-III: Research Methodology

Chapter-IV: Presentation and Analysis of Data

Chapter-V: Summery, Conclusion and Recommendations

The first chapter entitled “**Introduction**” introduces the subject, present the research problem, reasons for studying, objectives of the study along with limitations.

The second chapter entitled “**Review of Literature**” concerned with the study of stock price have been reviews and presented. It contains the conceptual framework,

past researches, literatures on stock price and different factors of stock market.

The third chapter deals with the **Research Methodology** to be adopted for the study consisting research design, sources of data, data collecting procedure, population and sample, research variable and data processing procedure.

The fourth chapter deals with **Data Presentation and Analysis**. It contains testing of hypothesis, analysis of questionnaires and analysis of open in opinion and major findings of the research.

The last chapter covers **Summary, Conclusion and Recommendations**.

CHAPTER – II

REVIEW OF LITERATURE

2.1 Introduction

Review of literature is one of the most significant parts of research. Review of literatures means reviewing research studies or other relevant propositions in the related area of the study so that all the past studies, their conclusions and deficiencies may be known and further research can be conducted. The main reason for a full review of research in the past is to know the outcomes of those investigations in area where similar concepts and methodologies had been used successfully.

In the global contexts there are thousands of research papers, articles, books and journals relating to the securities market. Similarly, some of the major determinants of the stock price in various stock exchanges have been identified. Even though the capital market is not well developed in Nepal, these are various researches made on it. It is being very infancy, the factor which affect the stock price of Nepalese commercial bank large may varies from that of NEPSE. But some of the common factors are worldwide. In this chapter various books, magazines, journals, research papers, unpublished thesis reports etc. are reviewed, which affects the stock price in Nepalese commercial banks listed in NEPSE. The first section of this chapter is attempted to present brief glimpses on the common stock as well findings of the related previous studies. This section includes the studies conducted in the foreign context as well as Nepalese context.

2.2. Conceptual Framework

Conceptual framework involves some of the technical terms, which are in frequent

use in researches regarding capital market and finance. Thus, before going into the details of factors affecting share price of commercial banks, some the relevant technical terms related to capital market are defined and discussed here.

2.2.1. Common Stocks

A firm can collect funds required, by issuing shares and debentures as long term sources of fund. Common stocks are ownership capital where as debentures are creditor ship capital. In between of ownership and creditor ship capitals, preference share capital also exists, which is regarded as a hybrid source of financing 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 director and voting on other matter brought before the stockholders, in proportion to the number of shares hold” (Webster Dictionary).

“A corporate chapter of company specifies the number of authorized shares of common stocks” (Van Horne, 2000: 245).

“The common stock represents equity or an ownership position in a corporation. 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. In bankruptcy common stockholders are in principle entitled to any value remaining after all other claimants have been satisfied (However, in practice courts sometimes violate this principal).

The great advantage of the corporate firm of organization is the limited liability of its owners. Common stocks are generally “fully paid and non assessable” meaning that

common stockholders may lose their initial investment but not more. That is the corporation fails to meet its obligations, the stockholders cannot be forced to give the corporation the funds that are needed to pay off the obligations. However, as a result of such a failure, it is possible that the value of a corporation's share will be negligible. This outcome will result in the stockholders having lost an amount equal to the price paid to buy the shares (Van Horne & Wachowicz, 2000: 246).

“Common Stock has one important investment characteristic and one important speculative characteristic. Their investment value and average market price tend to increase regularly but persistently over the decades as their network builds through the reinvestment of undistributed earnings however, most of the time common stocks are subject to irrational and excessive price fluctuation in both directions, as the consequence of the ingrained tendency of most people to speculate or gamble, i.e. to give way to hope, fear, and greed” (P. Chand, 1995:98).

2.2.1.1. Classification of common stock on the Basis of their features

- a) On the basis of meeting the special needs.
- b) On the basis of their features.

The explanations are as under

a) On the basis of Meeting the Special Needs

Though, most of the firms have only common stock, in some instances classified stock is used to meet the special needs of the company. Generally, when special classification of common stock is used, one type is designated class A and another class B and so on.

Class A: small and new established company seeks to obtain funds from outside sources frequently used different types of common stock. This stock had no voting for

five years.

Class B: the organizers of the company retained it. It had full voting right for five years, but the legal terms stated that dividends couldn't be paid on the class B stock until the company had established its earning power by building up retained earnings to designated level. Because of the use of classified stock in a conservatively financial growth company without sacrificing income while the founder retain absolute control during the crucial early stages of the firm development. At the same time, outside the original owners protect investors against excessive withdrawals of funds. As is often the case in such situations, the class B stock was also called founders shares. (Weston and Brigham, Ninth Edition: 779).

b) On the basis of their Features

Common stock can be classified on the basis of their features among them some important are briefly explained as under.

Blue chip Stocks: stock of very large, well established corporation have been dominated positions, strong sheet and size are called blue chip stock for example stocks of IBM, Microsoft, American Express company etc.

Growth Stocks: stocks whose grows with the growth of corporation's earnings and dividends with a comparatively higher growth than the average price appreciation.

Speculative Stocks: stocks, which are viewed by investors with some speculative motives, are called speculative stock.

Small stocks: A stock depending upon the capitalization horns is generally known as small or even blue chip stocks.

Cyclical and Defensive Stocks: stock which are influenced by economic and industrial cycles are called cyclical stocks, where as stocks which are less susceptible to economic to economic cycles are called defensive stocks.

Treasury Stocks: if a corporation decides to buy back its stocks, the acquired stocks are called treasury stocks (Chency and Mosses, 1997:230). In Nepal, growth stocks, income stocks and speculative stocks are generally seen in practice enjoyed by common stockholders.

Income Stocks: stocks having stable cash dividends record are often called as income stocks.

2.2.1.2 Stock Certificates

“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 the assistance of issuing corporation or mare 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. Many stockholders have chosen to avoid these rather

cumbersome procedures. Instead, depository trust companies are used, which substitute computerized records for embossed certificates” (Sharp, Alexander & Bailey, 2000:458).

2.2.2. Securities

When someone borrows money from a pawnbroker, he or she must leave some item of value as security. Failure to repay the loan (plus interest), interest means that the pawnbroker can sell the pawned it to recover the amount of the loan (plus interest) and perhaps make a profit. The terms of agreements are recorded via pawn tickets. When a college student borrows money to buy a car, the lender usually holds formal title to the car until the loan is repaid. In the event of default, the lender can repossess the car and sell it to recover his/her costs. In this case, the official certificate of title, issued by the state, serves as the security for the loan. A person who borrows money for vacation may simply sign a piece of paper promising repayment with interest. The loan is unsecured, in this sense that there is no collateral meaning that no specific assets have been promised to take the borrower to court to try to recover the amount of the loan. Only a piece of paper called a promissory note stands as evidence of such loan. When a firm borrows money, it may not offer collateral. For example some loans may be secured (backed) with specific pieces of property (building or equipment) such a loan are recorded by means of mortgage bonds, which indicate the term of repayment and the particular assets pledged to the lender in the event of default. However, it is much more common for corporation to simplify pledge all of its assets, perhaps with some provision for the manner in which the division will take a place in the event of default. Such a promise is known as debenture bond.

Finally, a firm may promise a right to share in its profits in return for investor's funds. Nothing is pledged, and no irrevocable promises are made. The firm simply pays whatever; the investor is given the right to participation in the determination of who will be the members of the board of directors. The right protects the investors against serious malfunctions. The investor's property right is represented by a share of common stock, which can be sold to someone else, who will then be able to exercise the right. The holder of common stock is said to be owner of the corporation and can in theory, exercise over its operation through the board of directors.

Generally, only a piece of paper represents the investor's right to certain prospects or property and the conditions under which he or she may exercise those rights. This piece of paper, serving as evidence of property rights is called a security. It may be transferred to another investor and with it will go all right and conditions. Thus every thing from pawn ticket to share of GM common stock is security.

2.2.3. Security Markets

Security market exists in order to bring together buyers and sellers of securities, meaning that they are mechanisms created to facilitate the exchange of financial assets. There are many ways in which security markets can be distinguished. One way is primary and another is secondary market. Here the key distinction is whether the securities are being offered for sale by issuer. Interestingly, the primary market itself can be subdivided into seasoned and unseasoned new issues. A seasoned new issue refers to the offering of an additional amount of an already existing security; whereas an unseasoned new issue involves the initial offering of a security to the public. Unseasoned new equity issues are often referred to as initial public offerings or IPO's.

Another way of distinguishing between security markets considers the life span of financial assets. Money markets typically involve financial assets that expire in one year or less where as capital markets typically involve financial assets with life spans of greater than one year.

2.2.4. 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 firms’ stocks are established, and since the primary goal of financial management is to maximize the firm’s 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 entities. Each of the larger ones occupied 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”.

2.2.5. Stock Price

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

Par Value

“When a corporation is first chartered, it is authorized to issue up to a stated number of shares of common stock, each of which will often carry a specified par value. Legally a corporation may be precluded from making payments to common stockholders if doing so would reduce the balance sheet value of stockholders equity below the amount represented by the par value of outstanding stock. For this reason the par value is typically low relative to the price for which the stock is initially sold. Some corporations issue no par stock. In that case, a stated value must be recorded in place of the par value” (Weston and Brigham, 1987: 78). The initial offering price of share may vary of its par value of stocks are issued on premium or discount.

Earning Per Share (EPS)

Accounting earning that represents the different between revenues and expenses including the expenses that associated with non-equity source of funds (such as interest to debt, dividend to preference share) are also known as total earnings

available for common stock. If this portion of income is divided by number of outstanding shares, we get earning per share (Sharpe, Alexander & Bailey, 2000: 622).

Dividend per Share (DPS)

The percentage of earnings the firm pays in cash to its shareholders is known as dividend. The dividends, of course, reduce the amount of earnings retained in the firm and affect the total amount of internal financing.

Nothing is more important than dividends to stockholders. They buy shares of the firm with the hope of sharing profits earned by firms. The sole motive of stockholders is to receive return on their investment; nothing pleases them more than knowing the firm's earning and more profits mean more dividends coming in.

Forms of Dividend

Cash Dividend: payments made in cash to stockholders are termed cash dividend. For which, a firm needs to have enough cash in its bank account. When cash dividend is declared, the cash account and reserves amount of the firm will be reduced in case of distribution of cash dividend.

Bonus Share (Stock Dividend): an issue of bonus share represents a distribution of shares in addition to cash dividend (known as stock dividend in USA) to the existing stockholders. This practice has the effect of increasing the number of outstanding shares of the company, which are distributed proportionate ownership of the company.

Book Value per Share

With the passage of time, a corporation will generate income much of which is paid out to creditors (as interest) and to stockholders (as dividend). Any remainder is added to the amount shown as cumulative retained earnings and other entries (such as “Common Stocks” and “Capital Contributed in excess of par value”) under stockholders’ equity is the book value of the equity:

Cumulative Retained Earnings + Capital Contributed in Excess of Par + Common Stock = Book Value of Equity

“The book value per share is obtained by dividing the book value of the equity by the numbers of shares outstanding” (Sharpe, Alexander & Bailey, 2000:461 to 462).

Market Price of Share/Market Value

Market value in the secondary markets is determined by the demand and supplies factors and reflects the consensus opinion of investors and traders concerning the “VALUE” of the stock. The Market Value is influenced by many factors including economic and industry conditions, expected earnings and dividends, and market company risk consideration (Chency and Mossess, 1995: 248).

Generally, market price share of common stock is greater than par value. Market value per share is determined is organized stock exchange. The market price of share gives the value of shares, and the value of the organization. The market price of shares is that price in which shares are traded or the amount, which is by the buyer to the seller to purchase a stock of a company. The market price of shares varies from one company to another since the common shareholders are the owner of the organization and have least priority to claim in liquidation, the share price is highly

volatile and very sensitive to the environmental factors. An organization has two types of environment, i.e. internal and external. The environment within the organization is called internal environment and is somehow in control of the organization. So the organization tries to maintain the favorable environment to maximize the share price in the stock market. On the other hand external environmental forces are not within the control of the organization, but such forces highly affect the market price of shares. So the firm tries to adjust themselves according to the changing environmental forces, and such adjustments are intended to maximize the share price or the value of the firm.

Since the market price of share is very much sensitive to the environmental forces, the shares price increases if there is favorable environment and vice versa. This increase in share price is based on the market mechanism or market forces, i.e. demands and supply. If the earning and dividend of an organization increases, then the investors has positive perception towards the organization and they like to buy shares of that organization, as a result demand increases; on the other hand the suppliers like to hold the shares and supply decreases, and there is gap between demand and supply so the market price of shares increases. The investors determined the price, they would like to pay for the shares of an organization and the sellers determine the price, they would like to receive by selling shares based on their assumptions towards the organization and future expectations. Such assumption and expectations vary from individual to individual. Since different person analyses the same situation differently with their limited knowledge.

2.2.6. Stock Valuation

Securities analysts study companies' earnings and their management, the economic outlook, the firm's competition, market conditions, and many other factors, then their research findings are used in the accepted models to estimate value of an equity share. If the security's price is less than its estimated value, then it appears to be a good buy or at least worthy for further investigation.

2.2.6.1. Stock Valuation Model

There are three basic valuation models. All these three models often offer different answer.

1. Net Assets Model (NAV)

The NAV is the value of total assets less current liabilities and long-term debt, which is financed by shareholders' net worth. The shareholders net worth of paid up capital, shares premiums, accumulated profit and other free reserves, which belong to shareholders. The NAV per share, which is also the book value per share, is computed by dividing the total NAV by number of share outstanding.

2. Dividend Valuation Model (DVM)

The DVM states that the value of a share now is the sum of stream of future discounted dividends plus the value of share as and when sold in some future year. Therefore the value of a share today is a function of the cash inflows expected by the investors and the risk associated with cash inflows.

$$P_0 = D_1(1+K_e)^1 + D_2(1+K_e)^2 + \dots + D_n(1+K_e)^n$$

$$P_0 = D_1(1+K_e)^t$$

The equation stated above assumes that dividend will grow at a given rate and amount of dividend will be different years. The earning valuation model takes into account the P/E ratio for the purpose of valuation of common stock. These ratios vary with the market price changes. The value of share is then calculated by multiplying the P/E ratio and the EPS.

3. Earning Valuation Model (EVM)

In this model the value of share will change with changes in EPS and P/E ratio. An alternative approach to this model is earning capitalization model. Although DVM has some drawbacks, this is one of the best available methods of valuing shares.

2.2.7. Market Prices of Shares as the Output of the Demand and Supply

Stocks and shares mostly trade in the security market are one of the assets into which money can be invested. The investment further is more alternative to majority of individuals because it is also liquid in character. But what is the most influencing factor in determining the price of the stocks is interaction of demand and supply in relation to the interacting forces of demand and supply, Ackerman opines that, “the price of a given stock is determined exclusively by the two forces demand and supply, converting one such stock at a given time that the prices and volumes of its past transaction are meaningful indication of profitable relationship of future supply and demand pressure, it is likely to encounter in the market that such relationship is the most important, element determining the probable direction of price movement. These are the short conceptual frameworks about the theories of stock price behavior.

The share price is determined in the floor by the interaction of market forces i.e. demand and supply. The price is determined by the point of equilibrium between

supply and demand, the shifting of this balance results in incessant adjusting of price in search of the ever-changing new equilibrium. This market price moves upward and downward. There are many reasons that cause the stock price fluctuation, major of them are economic, non-economic and market factors. One the basis of the determination of stock price is dividend. Dividend is strongly influenced by the earning power of the enterprises. There is a very close correlation between corporate earnings and dividend. Earning factor in stock price fluctuations lies in changes in corporate earnings, which together with interest rates and business cycle trends, contribute to making up the economic factors influencing stock price. The next influencing factors are non-economic factors, including changes in political conditions, such as war or administrative changes, changes in the weather and other natural conditions and changes in cultural conditions, such as technological advance and the like. Market factors or internal factors of the market, consisting of the tone of the market and supply and demand relations may be cited as the third category that influences the stock prices. The tone of market is form of over-estimating the intrinsic value of stock when stock price is high because of business prosperity while underestimating its value at the time of market decline. The relationships of supply-demand are reflected directly in the volume of transaction increase purchase when stock price is going up, once the price begins to fall they become at selling factor and accelerate price decline. The practice of margin in finance has not been introduced, so far, in Nepal” (Sharma, 1996: 56).

Securities market in Nepal is witnessed a sharp growth during the past couples of years. The volume of trading has increased. The size of the market has been widened. The number of investing population has grown up in aggregate. The tendency of raising capital from general public is rising. Most importantly the market

consciousness has been developed so that investors have begun to think about risks, return and availability or timely corporate information regarding the investment. The market seems losing confidence of investors. There is poor liquidity for stocks prevail in the market. Professionalism is still lacking in the service of investors and investment prevailed, where the primary motive is to derive benefit from short term price fluctuation. It appears that a very small fraction of transaction represents purchase/sales by genuine investors. The rest are driven mainly by the speculative motive. The corporate sector is still reluctant on dissemination information timely. The kinds of securities trading in the market are confined only to ordinary and preference shares. These are various major problems observed in the market.

2.2.8. Theory of Price Behavior

The forces of supply and demand interact to determine a stock market price. If demand is high and supply is low then the price of stock goes up and vice versa. There are two theories of stock price behavior, conventional approach and efficient market theory. Conventional approach includes fundamental theory and technical analysis theory. Under efficient market theory, there are three forms of efficient market hypothesis. Conventional theory assumes that the market is efficient i.e. market efficiency is the key factor for both the approach. "Prior to the development of the efficient market theory investors were generally divided into two groups, fundamentalists and technician" (Reilly Frank, 1986:128).

2.2.8.1. Conventional Approach/ Inefficient Market Theory

One of the major divisions in the ranks of financial analysis is between those using fundamental analysis (also known as fundamentalists or fundamental analysis) and

those using technical analysis (technicians). Conventional approach includes technical analysis and fundamental analysis.

2.2.8.1.1. Technical Analysis Theory

The technical analysis theory is the study of past price and volume data of stocks to forecast further price movements. It is an alternative approach to predicting stock price behavior in literatures of investment management. Technical analysis is market-oriented philosophy and it can concentrate on the force of supply of and the demand for shares as reflected in the actions of market rather than the intrinsic worth of share. The analysis or prospective investors who analyze the security to predict the price movement in the past are known as technical analysts.

Technical analysts maintains that the price of a share at anytime present time is the balance struck by buyers and seller at a point in time price movements take place on account of change in buying the selling pressures. This occurs in account of diverse internal and external factors (profit, political environment, predictions and the likes). Prices stabilize when equilibrium between buyers and sellers is achieved. They believe that a record of price movement over a period of time in the past as whole theory is based on the assumptions that history repeats itself. That human nature does not change and that man is likely to repeat his patterns of past movements will repeat themselves in the future” (Raghu, 1991: 172).

The technician tends to look backward. The technician thinks little (if at all) about future earning and dividends. The technician usually attempts to predict short term price movements and thus makes recommendations concerning the timing of purchase

and sales of either stocks or groups of stocks designed to answer the question “when” (Sharpe, Alexander and Bailey, 1999: 456).

Technical analysts discern past pattern or trends which they believe to repeat in the future and recommend for the timely holding and disposing mechanism, which is profitable or that recommend for short term speculation based its forecast of profitable pattern. The technical analysts estimate prices instead of values. They largely ignored the fundamental facts such as the firm’s risks and earning growth rates in favor of concentration on various barometers of supply and demand that they have devised (Dahal, 2002: 30).

The main assumptions of the technical analysis are;

1. Price is determined by the interaction of demand and supply.
2. Demand and supply are governed by various factors both rational and irrational.
3. Series of prices contain trends that persist of appreciable length of time.
4. The change in trend caused by shifts in demand and supply are detectable in the analysis of price and volume data and,
5. The patterns trend to repeat it.

In other words, technical analysis believe that past patterns of market action will recur in future and can therefore be used for predictive purchase (Robert A. Levy, 1996:348).

2.2.8.1.2. Fundamental Analysis Theory

Fundamentalists forecast stock prices on the basis of economic, industry and company statistics. The principle decision variables ultimately take the form of earnings and dividends. The fundamentalists make a judgment of the stock's value with a risk return framework based upon earning power and economic environment.

Fundamental analysis approach involves working to analyze different factors such as economic influence industry factors, government action, firm's financial statements, its competitor and pertinent company information line product, demand, earnings, dividends and management in order to calculate an intrinsic value for firm's securities. The analyst who believes on fundamental facts to determine the intrinsic value of stock is popularly known as fundamental analysis or fundamentalist.

A fundamentalist claims that at any point of time an individual stock has an intrinsic value, which equal to present value of the future cash flow from the security discounted at appropriate risk adjusted discount rate. The value of the common stock is simply the present value of all future income which the owner of the share will receive" (Jack Clark Francis,1986: 398).

The actual price should reflect intrinsic value of the stock i.e. good anticipation of cash flows and capitalization rate corresponding to future time period. But in practice first it is not known in advance what the appropriate discount rate should be for a particular stock. Therefore fundamentalist estimate their intrinsic value by studying in details all matters that are relevant to company. "The study would involve examining its sales earnings, profit margins, dividends, management proficiency, industrial and

business outlook labor competence and factor that would have a bearing on its performance in the future” (Raghu, 1991: 167).

“Fundamental analysis use different models like top down versus bottom up forecasting, probabilistic analysis etc. to estimate the value of security. On the basis of such a study fundamentalist project a company ought future profit and earning a company’s share ought to be. This estimated price is termed as intrinsic value. The intrinsic value of the stock is generally away from its present market value. Thus there is difference a gap between them fundamentalist reaches and investment decision by comparing this value with current market value, it is believed that price will rises. In this situation, fundamentalists will acquire share as this make a profit. Alternatively, if the intrinsic value is lower than the market value, the shares is overpriced and is an indication to the fundamentalists to sell. Following this rule, they believe above average returns can be attained, given that market is inefficient in pricing the shares” (Dahal, 2002: 27).

2.2.8.2. Efficient Market Theory

In a competitive market the equilibrium price of any goods or services at a particular movement in time is such that the available supply is equated to the aggregate demand. This price represents a consensus of the members trading in the market about the true worth of the goods or service, based on all publicly available information. As soon as a new piece of relevant information becomes available, it is analyzed and interpreted by the market. The result is a possible change in the existing equilibrium price. The new equilibrium price will hold until yet another bit of information is available for analysis and interpretation. “The role of information is two-field a) to aid

in establishing a set of security price. Such that there exist an optimal allocation of resources among firms and an optimal allocation of securities among investors, and b) to aid the individual investor, who faces a given set of prices in the selection of an optimal portfolio of securities” (Sharma, 2000: 27).

The word “Efficiency” as applied to securities market has unfortunately been used to represent a variety of logically distinct concepts. In particular it means: a) exchange efficiency b) production efficiency c) information efficiency. In this study, it is concerned only with informational efficiency. “In an efficient market security prices “fully reflect” available information” (Fama, 1976:133). Regardless of the form of information, it is the key to the determination of stock prices; therefore, it is the central issue of the efficient market concept. An efficient market can exist if the following events occur.

- A. A large number of rational, profit maximizing investors exist who actively participate in the market by analyzing, valuing and trading stocks. These investors are price takers: that is, one participant alone can not affect the price of a security.
- B. Information is free of cost and widely available to market participants at approximately the same time.
- C. Information is generated in a random fashion such that announcements are basically independent of one another.
- D. Investors react quickly and accurately to the new information, causing stock price to adjust accordingly. (Charles ,1943: 425)

In an efficient market, market participants, acting in their own self-interest use available (higher returns certifies paribus) portfolio position. In doing so they

collectively ensure that price movements in response to new information are instantaneous and unbiased and will “fully reflect” all relevant information. Competition among participants to secure useful information will drive security price form are equilibrium level to another so that the change in price in response to new information will be independent of the prior change in price. Price change will be random walk in response to the information.

“In an idle efficient market, every one knows all possible-to-know information simultaneously interprets it similarly and behaves rationally” (Bhalla, 1986: 2). In such a word, the only price change that would occur is due to the result from new information. “An initial and very important premise of an efficient market is that there are large number of knowledgeable and profit maximizing investors adjust the information rapidly” (Reilly, 1986: 166). “The degree of market efficiency has important implications for the economy and for the investment decision makers. In an economic sense, it is important that security prices provide accurate signals that can be used to allocate signals that can be used to allocate capital resources correctly miss-priced security results in incorrect allocation of capital” (Chency, 1997: 746).

In such a market, all prices are correctly stated and there are no “bargains” in the stock market. “Efficiency in this context means the ability of the capital markets to function so that the prices of securities react rapidly to new information. Such efficiency will produce prices that are appropriate in terms of current knowledge, and investors will be less likely to make unwished investment. A corollary in that investor will also be less likely to discover great bargains and thereby each extraordinary high rates of returns” (Bhalla, 1986: 3).

One set of test of market efficiency examines the informational efficiency of security prices. Existing model of efficient markets imply that all relevant information regarding given stock is reflected in its current market price. This notion of market efficiency can be divided into three categories based on type of information used in making market decisions. They are explained as follows.

- a) **Weak form Market Efficiency:** “Weak form market efficiency hypothesizes that today’s security prices fully reflect all information contained in historical security prices. This implies that no investor can earn excess returns by developing trading rules based on historical price or return information” (Weston and Copland, 1996:94).
- b) **Semi-strong Market Efficiency:** It says that security prices fully reflect all publicly available information. Thus, no investors could earn excess return using publicly available resources such as corporate annual reports, NEPSE price information or published investment advisory reports. It contains all publicly available data such earnings, dividends, stock split announcement, new products development, financing difficulties and accounting changes. A market that quickly incorporates all such information into prices is said to be semi-strong efficient. “If the semi-strong hypothesis is true then only a few than what could be earned by using a have buy-and-hold strategy” (Francies, 1986: 608).
- c) **Strong form Market Efficiency:** “The most stringent form of market efficiency is the strong form, which asserts that prices fully reflect all information, public and non-public.” (Jones, 1943: 429). In such kind of market, no group or investors should be able to earn, over a reasonable period of time, excess rates of return by using publicly available information in a superior manner. An extreme version of

the strong form holds that all non public information, including information that may be restricted to certain groups such as corporate insiders and specialists on the exchanges is immediately reflected in prices. On effect this version refers to monopolistic access to information by certain market participants.

These are three hypothesis are not mutually exclusive; they differ only in the degree of market efficiency. It is notable point that a semi-strong efficient market encompasses the weak form of the hypothesis because price and volume data are part of the larger set of all publicly available information. Strong-form efficiency encompasses the weak and semi-strong forms and represents the highest level of market efficiency. It is necessary for the weak form hypothesis to be true in order to the semi-strong and strong form hypothesis to be true.

2.9. Signaling

“A relative simple view of dividend changes is that an announced increase in dividends is a signal that management has increased its assessment of the firm’s future earnings. The announced increase in dividends is therefore good news and will, in turn, cause investors to raise their expectations regarding the firm’s future earnings. Conversely an announced decrease in dividends is a signal that management has decreased its assessment of the firm’s future earnings. The announced decrease in dividends is therefore bad news and will, in turn, cause investors to lower their expectations regarding the firm’s future earnings. An implication is that an announced increase in dividends will cause the firm’s stock price to rise and an announced decrease will cause it to fall” (Sharpe, Alexander & Bailey, 2000: 567).

There is nothing inconsistent with dividends being used as a signal and with the dividend irrelevancy argument of Miller and Modigliani. In particular, stockholders will neither be better off nor worse off if the level of dividends, relative to earnings, is high or low. Changes in dividends may, however, be important because they convey information to the public about the future earnings prospects for the firm.

2.2.10. January Effect

There is no obvious reason to expect stock return to be higher in certain months than in others. However, in a study that looked at average monthly return on NYSE-listed common stocks, significant seasonality was found. In particular, the average returns in January were higher than the average return in any month it appears that the average return in January has been approximately three percent higher than the average monthly return in February through December.

2.2.11. Day-of-the-week Effect

Studies looked at the average daily return on NYSE-listed securities found that the return on Monday was quite different from return on other days. In particular, the average return on Monday was found to be much lower than the average return on any other day of the week. Further more, the average return on Monday was negative, whereas the other days of the week had positive average return.

2.2.12. Size of Effect

The past evidence suggests that the size effect also exist in Japan. The securities of Tokyo stock exchange classified into two sections, the second is less than ten percent of the size of the first measured by the market value of the examined over the period

on it. Two indices were prepared and examined over the period from 1952 to 1980; they include the same stocks by market value weighted (VW) index weights the stock by market value. Hence the EW index is influenced much more by the performance of small stocks than the VW index is. The EW index returned 5.1% more, suggesting the preference of a size effect.

2.3. Review of Related Studies

This section includes the previous studies regarding stock markets price and organized stock exchanges both in the national as well as international contexts.

2.3.1. Foreign Context

According to www.stocksabout.com “Stocks trade in an open market, where buyers and sellers agree on a price. There is no fixed price like you will find at convenience store, instead, prices follow the simple laws of supply and demand. Therefore, when a stock’s price rises, it means that buyers are continually willing to pay more for the stock (and sellers are demanding more before they will part with their shares).

What Causes Buyer Demand?

As more and more buyers flock to a stock, the supply at a lower price diminishes partly because all the shares are sold out and partly because sellers realize they can raise the price. Three main factors drive buyers demand. They are;

- Company profitability
- Dividend income
- Speculation
- Most investors value company profitability

A business that makes money is worth purchasing for a variety of reasons. If won't go bankrupt, it will grow, and it might be purchased by any other company. Therefore, the company becomes more valuable.

You might notice that the stock market pays attention to earnings release. These releases are the company's proof that it is a valuable enterprise. When a company can demonstrate consistent earnings growth, it attracts more and more investors.

Dividend income is also valuable to investors. By paying a dividend, the company is sharing profits with the shareholders. Many investors like the idea of getting paid and not doing any work.

Dividend stocks can attract more and more investors just like growth stocks. If a stock has a history of always paying a heavy dividend, one can expect that history to continue. It's even better if that dividend has a history of increasing. Stock that offer constituent dividend. Growth will continually attract investors. Also, stocks that offer a relatively high dividend yield (dividend payment divided by share price) attract buyers. Finally, speculation can cause a stock's price to change dramatically. While earnings growth and attractive dividends are reasonable approaches to investigating; speculating is harder to understand.

The basis idea is that you stock because you think somebody else will pay more for it future. The reason for the price increase does not really matter (after all, any profit in the stock market is a good profit. All the matters are the belief that these will be an increase. Speculators typically don't base their buying behavior on historical performance (such as earnings growth or constituent dividend growth). Rather they

are hoping to predict the future of a stock. The markets saw plenty of speculation in the internet boom. Buyers hoped that internet stocks would make a bundle of money, but they weren't quite sure how, some gained, some lost.

What Causes Price to fall?

Now that you know what causes buyer demand, you can start to understand what drives price down. When a stock becomes unattractive (due to poor earning outlook, missed dividends payment, or speculation), shareholders want to get rid of their shares. Seller will settle for less (because they just want to make a sale and buyer demands are limited).

Next time somebody asks why the markets are up, you can respond with the old Wall Street joke: "more buyers than sellers" but you will have a better idea why they are buying (www.stocksabout.com).

Why the Market Rises and falls? Or What Moves the Stocks Market

That complex question has many answers. Some market movers are obvious, while other creep up on us unseen. In this and subsequent articles, I'll look at some of the economic, political, and societal issues that may cause the market to change direction or speed up or slow down its momentum. A quick list of the obvious includes:

- Inflation
- Interest rates
- Earnings
- Oil/energy prices
- War/terrorism
- Crime/fraud Serious domestic political unrest

As you can see many of these have serious long term implications, while other may only cause temporary disruptions.

However, the one factor not listed above that drives the market absolutely crazy is uncertainty. The market can not stand surprises and when there is the chance that something may change, it rattles the market (Source: www.stocksabout.com).

Equity Funds – What Affects Price?

What factors influence the price of stocks and therefore value of equity mutual funds?

There are several fundamental factors: expectations, external events, fiscal and tax policies, government spending monetary policy, inflation, and business cycles, technical factors include the condition of securities market, price movements, trading volume and supply and demand.

Fundamental factors include every thing outside the security markets themselves which might influence price. Because market security price are negotiated between buyer and seller, future expectations help determine price (Source: www.fiscalagents.com).

What is the Impact of Research on Stock Prices?

Although the total return on the investment in research is hard to quantify, the information provided via third party research has tangible value. Objective research provides information to the market to reduce uncertainty. Even though the nature of the stock market prevents us from isolating any of the many variables that affects a stock price; no one can disagree that in the long run, greater available information means greater market efficiency (Rick Way man/www.investopedia.com/articles/analyst/03/070903.asp).

Stock Price Behavior in Small Emerging Markets: Tests for predictability and Seasonality on the Bahamas International Stock Exchange (BISX) over the first eighteen months of its existence (January, 2- 2001 to June 29-2002). The paper is unable to reject the hypothesis of randomness in the rates of return series for the majority of the seventeen stocks listed on the BISX. One is therefore unable to reject the notion that the BISX is weak form efficient. The paper finds no evidence of a day of the week effect or January effect. This provides further evidence that many of the seasonal patterns in stock returns identified on developed stock markets do not generally carry over to emerging market. The paper also provides further evidence that stock prices are not generally drawn from a normal distribution, and that non-parametric statistics are potentially important in the statistical analysis of stock prices (Robinson, Journal of University of the West Indies, 2000).

What Factors Influence a Share Price?

When you look at the performance of the stock market at the end of a trading day it can be rose or fallen in value. Broadly speaking share price are influenced by new or information new data on employment, manufacturing, directors dealings, political events or even weather, all kinds of news can influence the way shares move. You will sometimes, however, see little move in share prices when for example, interest rates shift. This is because investors try to anticipate what is going to happen in the next few months and try to more their portfolios in or out of these stocks before the rest of the market catches on. Sometimes, of course, these expectations can be wrong and if this happen, markets can move very sharply. If you want to trade successfully in the stock market you will need to known what news other investors look at and how they will look at it. This will help you pick the best moment to buy and sell your shares.

Read more about monitoring news on a company.

- The economy
- Company news
- Analysts' reports
- Press recommendations
- Sentiments
- Technical influences

[Sources: www.londonstockexchange.com]

In an article published on “The Journal of finance” by John Kraft and Arthur Kraft entitled “**Determinant of Common Stock Price**”: A time series analysis about the common stock prices. The relationship between the money supply and stock prices discovered by sprinkle seems to assign an important role to the money supply in determining common stock prices. The results indicate no causal relationship between the money supply, percentage change in the money supply, and Mody's AAA Corporate bond rate and common stock prices. Indeed the results help to explain the poor forecasting ability of the recent econometric evidence used to explain common stock prices. It appears that further econometric studies of stock prices must seek out new determinants of stock prices if these studies are to forecast variations in stock price based in changes insignificant causal variables. On the other hand, if one believes market are efficient, then any attempts to explain stock prices based on current and past information will be fruitless (Kraft and Authur,1977: 417-425).

The volatility of Stock Market Prices

If the volatility of stock market prices is to be understood in terms of the efficient markets hypothesis, then there should be evidence that true investment value changes.

Three indicators of change in true investment value of the aggregate stock market in the United States from 1871 to 1986 are considered: changes in dividends, in real interest rates, and in a direct measure of inter temporal marginal rates of substitution. Although there are some ambiguities in interpreting the evidence, dividend changes appear to contribute very little toward justifying the observed historical volatility of stock prices. The other indicators contribute some but still most of the volatility of stock market prices appears unexplained (Shiller, 1987: 33-37).

In a Journal published on the quarterly Journal of Economics by F.W. Tausig entitled **“Is market Price Determinant?”** about effect of demand & supply in price and quantity? The conditions of market fluctuations and market prices are supposed also to be indicated. As supply (quantity offered) increases, price falls; but as price falls, that very increase in quantity offered the demand (in the accurate sense of quantity demanded) becomes larger. A lower price drives some seller from the market, but attracts additional buyers. A new equilibrium is established new, but under the same conditions of interacting supply and demand. Such is said to be the course of grain prices in an ordinary market; such the equilibrium of daily or weekly prices on any exchange or in any market. Lowered price ensues when a larger quantity is offered in a market; but that lowered price means also that a larger number of bids will be attracted and the fall in price checked (Tausig, 1921:394).

2.3.2. Nepalese Context

In an article published on New Business Age by Rabindra Bhattarai entitled **“Big Bull Bang & Banks”** about of the market price share of Nepalese commercial bank? The past few months of the market reveals that the stock price are going up and making

new highs every couple of days. One brake has already been in the market by the book closure of the commercial banks. Now the NABIL shares will not cause the market to increase by so many points as before in the rest of the year. The book closure of the Big Banks like Standard Chartered, Nepal Investment, Everest Bank, Himalayan Bank will put other brakes in the market and will turn to the bearish area. Due to the announcement about the capital requirement many series of declaration of dividend, bonus share and right shares has been declare by commercial bank to meet this requirement that made the increasing expectations of the investors towards the bonus and right shares from commercial are pushing the market every day (Bhattarai, Rabindra , Oct-2007: 216, New Business Age).

Supply Pressure Yet Overpriced

The investor these days are extremely attracted towards IPO's evident from the oversubscription of NDEP's shares. This has resulted in the liquidity crisis, a topic of concern among the investors these days. Nevertheless the uncertainly prevailing in the market has left the investors trembling. This has resulted in the supply pressure- and demand crunch hence dragging the share price downwards. Another major factor dipping the market down is rise in market interest rate by financial institutions detracting investor from stock market. This reality has contributed in the downfall of the NEPSE and other sub indices as well. Moreover, initiative taken by SEBO-N these days to detract unnatural forces prevailing in the market and the addition of brokers in NEPSE planned after CA election would establish natural forces in the market. (New Business Age- April 2008: 65).

Making it or Breaking it on the Stock Market

Investor should not confuse investing and creating wealth with gambling's zero sum game still it should be kept in the mind that investing is not a zero-sum game only if the motive of investment is not short term gain. If you invest for the long term, even if you lose some money on a few stocks this year you will on some other. Interestingly, all other investors are also making profit since prices in the stock market are continuously rising over the long term.

The best way to grow your money stock you like and sit on them for as long as you can. You can't beat the stock market, so you might as well just wait it out (New Business Age, A.R. Bhattarai May 2008: 58).

Baral and Shrestha (2006) in their research paper on "Daily Stock Price Behavior of Commercial Banks in Nepal" attempts to analyze the stock price behavior of commercial banks in Nepalese markets using the data set on daily stock prices during the fiscal year 2005/06 (July 16, 2005 through July 16, 2006) the study finds that there is a large variation in their stock prices of sampled banks in the fiscal year 2005/06. They are not doing well in Nepalese stock market. Most of the serial coefficients are significantly deviated from zero and statistically insignificant. It signifies that the successive price changes are dependent. Therefore, the Nepalese stock market is inefficient in pricing the shares. Runs test results also show that the percentage of deviation between the observed and actual number of runs in the series of prices changes is significant. It is obvious that the successive price changes are not random. The results of serial correlation and run test conclude that the proposition of Random Walk Hypothesis (RWH) in Nepalese stock markets does not hold true. This

conclusion corroborates with the conclusions of the past studies carried out in Nepalese context.

The other study by Pro. Dr. Rahde Shyam Pradhan and Mr. Nabaraj Adhikari entitled “Impact of Dividends on Share Prices in Nepal” leads to three important conclusions. First, dividends have positive impact on share price, i.e. paying dividends can increase share price. Second, dividends have comparatively more favorable impact on the share price of the non-finance sector. Third, past earnings have more impact than retained earnings and dividends on share price of finance sector. Share market place plays a fundamental role in channeling economy of an individual and a corporate region. On that account, it is a prolific zone of a country’s financial system. In other words, share market is an important component of financial sector that provides and facilitates an ordinary exchange of long term economic allegations. The concept of provincial market has also emerged in the stock exchange. If we can’t move with the universal expansion we should at least consider the regional components. Establishing Credit Rating Agency (CRA) and central Depository System (CDS) of securities is another challenge. The ADB has clearly stated in its report that CRA and CDS are essential for the successful operation of the capital market. (The Rising Nepal: Jan-20, 2003).

Likewise the main objectives of the mini research prepared by Khagendra Prasad Ojha (2000) entitled “Financial Performance and Common Stock Pricing” were;

- To study and examine the different of financial performance and stock price.
- To examine the relationship of dividend and stock price.
- To explore the signaling effect on stock price.

The findings presented on behalf of the given objectives were:

- Nepalese stock market is in infancy stage. In general it is very new and just started to develop.
- Dominance of banking sector is prevalent in the market due to other industries including finance- companies, insurance and manufacturing is not encouraging.
- Due to the lack of the proper investment opportunity most of the investors have directed their savings towards the secondary stock market.
- Corporate firm with long history have a relatively stable profitability. Parameters than the firm established after the economize liberalization of 1990.
- Older firms have been issuing bonus share more times than the new one.
- Dividend per share is relatively more stable than dividend pay out ratio. That's why pay out ratio and dividend yield has been highly fluctuating.
- There is significant positive correlation between the dividend paid and stock prices of banking and manufacturing industries. All other industries have no the prices perfect correlation between the dividend paid and stock price.

2.3.3. Review of Thesis

Adhikari, (2004), "Share Price Behavior of Joint Venture Banks in Nepal"

- To analyze the market share price behavior of joint venture banks in Nepalese Stock Market.
- To examine how safe or risky to invest on joint ventures bank's share.
- To analyze the sensitivity of the shares in relation to the market with the help of beta coefficient.

The study aims to find out the share price Behavior of joint venture Banks in on the basis of secondary as well as primary date, and five joint venture banks are sample

banks on the study both the financial and statistical tools are used for analyzing the data.

Conclusions:

- The market share and the growth rate of different banking indicator used are not completely captured by the market value of these banks.
- NEPSE operates in a weak form of efficient hypothesis indicates by the the market price more randomly.
- Most of the banks are offering each dividend types of non-banking firms.
- In the security market line analysis it study are still under priced hence the potentially of each bank in beating the market still remains same.
- The average realized rate of return of all these banks are not the same over the sample period. Therefore the coefficient of variation can be preferred over the standard deviation as measurement of risk on the basis of co-efficient variation NSBIL shares can be considered as more risky where as NBL share can be considered as less risky.

Paudel (2003) conducted a research on “the Movement of Stock Price Analysis of Joint Venture Commercial Banks”. To examine the movement of stock price in relation to Nepal joint venture commercial banks are either dependent or independent to historical prices of stocks.

- To evaluate return and risk proportion of investments on stock of joint ventures commercial banks.
- To study group wise overall behavior of NEPSE index.
- To recommend for the improvement of stock market in Nepal.

The study aims to find out the movement of the stock price analysis of joint venture Commercial Banks on the basis of secondary data, and eight joint venture Commercial banks are taken as sample banks on the study only statistical tools are used for analyzing the data.

Major Findings of the Study

- Trade off relationship exists between the risk and return i.e. higher the risk higher the return and vice versa.
- There isn't an extreme relationship exists between MPPS with EPS and DPS.
- The variation of MC highly depends up on the PC and investment made by the banks.
- P-E ratio explains the investors' attitude of paying.
- Investors are not much aware of risk and return portfolio of the investment. They are added their funds on the basis of assumption of expectations rather than analysis.
- A risk aversion investor prefers secured and safe return by bearing of less risk, whereas a risk taking investor could like bearing of addition risk to maximize his return.
- The stocks of all sampled companies are under priced since their expected rate of return is higher than the respective required rate of returns. Since the stocks are under priced therefore it is better to buy and hold the stock.

Neupane (2004) made a research entitled "Determinants of Stock Price in NEPSE" and tried to explore the factors that have significant influence on the stock price in NEPSE. He concluded his study by quoting; Nepalese investors have not adequate education about the capital market. They do not have good knowledge and

information to analyze the scenario and to forecast share price. Perhaps due to this reason stock price in NEPSE rather shows irrational behavior. In NEPSE, DPS, BPS & EPS individually do not have constituent relationship with the market price of the share. So, there may be other major factors affecting the share price significantly. NEPSE is in its primary stage, adopting open out cry system for stock trading and stock brokers lack professionalism to create investing opportunities in NEPSE.

2.4 Research Gap

There have been several researches done before in the topic factors affecting the share price in NEPSE. All of those researches have many useful findings and their own limitations.

Study on factor affecting the share price was started sine 1990 in Nepal. But at that time the capital market in Nepal is very small. Nepal's. Stock exchange was still is an underdeveloped stage. The studies performed by different researcher have their weakness and drawbacks. This study is a supplement to overcome the weakness and limitations of previous studies. This study will analyze the factors affecting the share price in Nepalese commercial Bank. Usually the price of common stock in primary market is par value. But in secondary market in may be any i.e. more, less or equal to par value. Major factors affecting in the share price in Nepalese Commercial Bank is the main issue of the study. The price of the stock is largely influence by the market related factors. Therefore here the studies are signaling factors that are the major causes of the market price share is fluctuated.

The study in based on stock price determination of the listed commercial Bank in NEPSE and deals with annual changes in market price.

The past researcher has conducted research on whole stock market and some sector but this research has conducted only commercial Banking sector. In this research some more event are taken in signaling factor analysis.

CHAPTER – III

RESEARCH METHODOLOGY

3.1 Introduction

Research Methodology refers to the various sequential steps to be adopted by researcher in studying a problem for the sake of attaining certain research objective. In other words, it is a systematic way to solve the research problem. This chapter refers to the overall research methods from the theoretical aspects to the collection and analysis of data. Its focus is made on the application of the technique and procedure to analyses the relevant variables to see the basic relationship between relevant topics. To achieve the basis objectives both financial and statistical tools has been adopted.

3.2 Research Design

Generally, research design is the plan, structure and strategy of investigation conceived so as to obtain answer to research questions and to control variance. It is arrangement 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 affecting share price of commercial banks in the NEPSE. To determine the affect of EPS, BVPS and DPS on stock price, historical research design is adopted along with correlation and regression analysis and secondly this study includes exploratory and analysis approach to identify the qualitative factors affecting share price of the exact scenario of the Nepalese stock market.

3.3 Research Variables

A Variable is a symbol to which numerals or values are assigned. [Ibid-p-300] so the variables can take on values. This research intends to identify the factors that affect share price in Nepalese commercial bank. So the market price of the share is the dependent 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, book value of share, interest rate, liquidity, economy of the nation, peace and prosperity, rumors and whims international events, political factors and other signaling factors are independent variables.

3.4 Population and Sample

This study intends to identify the factors affecting the stock price of Nepalese commercial bank listed in NEPSE. So the population of the study is all the listed commercial bank in NEPSE to July 16, 2008 i.e. 15 listed banks. In this study eight sample organizations representing the private commercial banks falls in group “A” are taken into sample. The following table 3.1 reflects the detail of the samples.

Table 3.1
Sample Banks

S. No.	Name of Sample Banks
1	Standard Chartered Bank Nepal Ltd.
2	NABIL Bank Ltd.
3	Himalayan Bank Ltd.
4	Everest Bank Ltd.
5	Nepal SBI Bank Ltd.
6	Bank of Katmandu Ltd.
7	Nepal Investment Bank Ltd.
8	Machhapuchhre Bank Ltd.

The secondary data of sample organizations are analyzed to determine the relationship of earning, dividend and book value with market price of shares in Nepalese commercial banks. But, to identify the qualitative factors affecting the share price in Nepalese commercial bank, primary information are collected through questionnaire and interview from the senior officers of the listed bank, SEBE-N, NEPSE and security brokers.

3.5 Nature and Sources of Data

The study is based on primary data as well as secondary data. To show the relationship between market price per share with earnings, book value and dividend, secondary data are used but to determine the factors which affect the stock price. Primary data are collected from respondent through research questionnaire and the observation of researcher. A variety of questions were asked to the respondent in order to identify which factors affect the share price. The respondent of the primary data are listed commercial banks, stock brokers, SEBO-N, NEPSE etc.

The sources of secondary data are AGM reports of listed companies, SEBO-N, NEPSE and other concerned organizations, bulletins, publication, researches, journals, articles, unpublished thesis reports, newspapers, books, authorized websites and 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, the researcher has visited the different libraries, concerned companies, NEPSE, SEBO-N and other useful book stores, and collection related

publications and periodicals. Official websites were searched in order to collect required information. Furthermore, secondary data related to common stocks of concerned companies have been downloaded from the official website of NEPSE, (www.nepalstock.com)

On the other hand, the primary data collect through questionnaire with private commercial bank, security brokers, SEBO-N and NEPSE. Questionnaire are distribution in random sampling basis. Questionnaire are distributed in following way.

Table 3.2
Questionnaire Collation

Organization	Total Organization	Sample Taken	Total Staff	Questionnaire Provided	Responses
SEBON	1	1	50 (Approx)	10	10
NEPSE	1	1	100 (Approx)	15	13
Commercial Banks	15	8	120 (Approx)	16	14
Broker	27	3	24 (Approx)	4	4
Issue Manager	9	2	20 (Approx)	5	4
Total				50	45

3.7 Data Analysis Tools

The 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 researcher has used some statistical and financial tools which are explained here.

3.7.1 Financial Tools

Except the Statistical tools, some financial tools are also used in this research work.

The major financial tools used in this research are.

3.7.1.1 Earning Per Share

The earning per share (EPS) is the share of a stock on the earning of the company.

$$\text{EPS} = \frac{\text{Total Earning of Company}}{\text{No. of Shares Outstanding}}$$

3.7.1.2 Dividend per Share

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

$$\text{DPS} = \frac{\text{Total Dividend Paid}}{\text{No. of Shares Outstanding}}$$

3.7.1.3 Market Price Per Share

The MPS is amount in which a share of the stock is traded in the market.

$$\text{MPS} = \frac{\text{Total Market Capitalization}}{\text{No. of Shares Outstanding}}$$

3.7.1.4 Book Value Per Share

The BPS represents the real net worth per share. It is simply the ratio of net worth (share capital plus retained earnings i.e. ownership capital) and the number on existing shares.

$$\text{BPS} = \frac{\text{Net Worth}}{\text{No. of Shares Outstanding}}$$

3.7.1.5 Holding Period Return

Generally, single period return or holding period return is represented by HPR and expressed in terms of percentage basis. It is calculated as;

$$\text{HPR} = \frac{\text{Ending price} - \text{Begining} + \text{Cash Dividend}}{\text{Begining Price}}$$

Symbolically,

$$\text{HPR} = \frac{P_t - P_{t-1} + D_t}{P_{t-1}}$$

Where, P_t = Price of a stock at time t

P_{t-1} = Price of stock at time t-1

D_t = Dividend per share at time

Risk and Return Analysis of Market

Return on Market

Annual return on market is the average return of market based on the index of market. It is denoted by R_m . Under this study, NEPSE index will be used. It is a value weighted index and comprises of all the stocks listed in NEPSE. The NEPSE index is used for the study.

$$\text{Annual Market Return } (R_m) = \frac{\text{Ending NEPSE index} - \text{Begining NEPSE index}}{\text{Begining NEPSE index}}$$

$$\text{Average Market Return } (\bar{R}_m) = \frac{\sum R_m}{N}$$

Where, $\sum R_m$ = Summation of annual market return

N = Number of observations.

Risk of Market Return

Risk of market return is also measured by the standard deviation of the return of market. The standard deviation of market return is computed as;

$$\text{Standard deviation } (\delta_m) = \sqrt{\frac{\sum(R_m - \bar{R}_m)^2}{N - 1}}$$

3.7.2 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.

Correlation Coefficient

When the relationship is of quantities 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 said to be negative, but the correlation coefficient always remains within the limit of +1 to -1.

By Karl Pearson, the simple correlation coefficient (R) is;

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

Where, r_{xy} = the correlation coefficient between two variables X & Y

r lies between +1 to -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 and 0.999, there is high degree of positive or negative correlation.

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

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

Probable Error (P.E.)

The probable error denoted by P.E. is used to measure the reliability and test of significance of correlation coefficient. Significance of relationship has been tested by using the probable error (P.E.) and it is denoted by the following model:

$$\text{Probable Error (P.E.)} = 0.6745X \frac{1 - r^2}{\sqrt{n}}$$

Where, r = the value of correlation coefficient

n = number of pairs of observations

if $r < \text{P.E.}$, it is insignificant, i.e. there is no evidence of correlation

if $r > 6 \text{ P.E.}$, it is significant

if $\text{P.E.} < r < 6 \text{ P.E.}$, nothing can be concluded

Simple Regression

The analysis used to describe the average mathematical between two variables is called simple linear regression analysis. Here, simple means, only one independent variable and linear because the relationship between the independent and dependent variables is assumed to be a linear. The regression line is the line, which gives the best estimate of one variable for any given value of the other variable. In case of two variables X and Y , we will have two regression lines i.e. lines is called the regression

equation and also estimating equations. Since there are two regression lines, there are two regression equations.

X and Y are the independent and dependent variable respectively.

Regression equation of Y on X

The regression equation is expressed as;

$$y = a + bx$$

We shall get the normal equation for estimating “a” and “b” as.

$$X = Na + b \sum Y$$

$$\sum XY = a \sum Y + b \sum Y^2$$

Where,

X = the value of independent variable

Y = the value of dependent variable

a = Y-intercept

b = slope of the trend line/coefficient of regression

N = number of pairs of observations.

$$a = Y - bX$$

Coefficient of Regression

The coefficient ‘b’ which is the slope of line of regression of y on x is called the coefficient of regression of y on x. It represents the increment in the value of the dependent variable y for a unit change in the value of the independent rate of change.

The convenient way to calculate the variable of ‘b’ is as;

$$b = \frac{n \sum XY - \sum X \sum Y}{n \sum Y^2 - (\sum Y)^2}$$

Multiple Regressions

Multiple Regressions are defined as the statistical device, which is used to estimate for the value of one dependent variable when the values of two or more independent variable are given. It means it is the statistical technique to find out the relationship between one dependent variable and two or more that two independents variables at the same time.

Multiple regression equation describes the average relationship between one dependent variables with other two and more than independent variable which is used to forecast the value of dependent variable.

Here, $X_1 = a + b_1 X_2 + b_2 X_3 \dots \dots \dots [1]$

Where

X_1 is dependent variable.

X_2 and X_3 are impendent variable and it is called the regression equation of X_1 on X_2 and X_3

$A =$ value of X_1 when $X_2 = 0$ and $X_3 = 0$

(i.e. intercept made by regression plane)

$b_1 =$ Partial regression coefficient of X_1 on X_2 when X_3 is constant

$b_2 =$ Partial regression coefficient of X_1 on X_3 when X_2 is constant

Note that a , b_1 and b_2 are the parameter of the equation whose values are to be determine.

To determine the value of a , b_1 and b_2 the following three normal equations are solved simultaneously,

$$X_1 = Na + b_1 X_2 + b_2 X_3 \dots \dots \dots (a)$$

$$X_1 X_2 = a X_2 + b_1 X_2^2 + b_2 X_2 X_3 \dots \dots \dots (b)$$

$$X_1 X_3 = a + b_1 X_2 + b_2 X_3^2 \dots \dots \dots (c)$$

Where, N is number of observation taking in the calculation.

Coefficient of multiple Determination (R)²

The coefficient of determination gives the percentage variation in the dependent variable that is accounted for by the dependent 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. R².

$$\text{Coefficient of Determination (R}^2\text{)} = \frac{\text{Explained Variation}}{\text{Total Variation}}$$

Test of Regression Coefficient by t-Test

It was developed for the significant contribution in the theory of sampling applicable in case of small samples. When population variance is not known, the test is commonly known as student’s t-test, and is based on the t-distribution. As the sample size gets larger, the shape of the t-distribution loses its flatness and becomes approximately equal to the normal distribution.

For applying t-test in context of small samples, the t-value is calculated first of all and than compared with table value ‘t’ at certain level of significance for given degree of freedom. If the calculated value of ‘t’ exceeds the table value say (t_{0.05}) it infers that the difference is significant at 5% level but if ‘t’ is less than the concerning table value of ‘t’ the difference is not treated as significant. The t-test is used when two conditions are fulfilled.

I: the sample size is less than 30.

II: the population standard deviation must be unknown.

In using t-test we assume the following:

1. That the population is normal approximately normal.
2. That the observations are independent and the samples are randomly draw samples
3. That in case of two samples, population variance is regarded as equal if equality of the two populations means is to be tested.

t-Test for significance of an observed sample Correlation Coefficient

Let r be the observed sample correlation coefficient a sample of n pairs of observations from bi-veriate normal population. In order to test whether the sample correlation coefficient is significant of any correlation between the variables in the population, t-test for significance of an observed sample correlation coefficient is applied. The steps for testing of significance of an observed sample correlation coefficient are as follows.

Step-1 Null Hypothesis (H_0): $\rho=0$: that is population correlation coefficient is zero. In other words, the variables are insignificantly correlated in the population i.e. r is not significant of correlation in the population.

Alternative Hypothesis (H_1): $\rho \neq 0$: that is population correlation coefficient is not zero. In other words, the variables are significantly correlated in the population i.e. r not significant of correlation in the population.

Step-2 Test statistic, under H_0 , the test statistics is;

$$t = \frac{r}{\sqrt{1-r^2}} \times \sqrt{n-2}$$

t_{n-2} i.e. follows, t-distribution with (n-2) d.f., n being the sample.

r = simple correlation coefficient

Step-3 Obtained the tabulated value of t for (n-2) d.f. at level of significance according as whether the alternative hypothesis is one tailed or two tailed test.

Step-4 Decision: Make a decision by comparing the calculated value of t with tabulated value of t, it is not significant and it is accepted otherwise, it is rejected.

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter is the main part of the body of this study. The basic objectives of this chapter are to analyze and elucidate the collected data following the conversion of unprocessed data to an understandable presentation. The data, both primary and secondary, are collected in unprocessed form. Such collected data are presented in systematic formats and techniques. The analysis of data consists of organizing tabulating and performing statistical analysis. In this chapter the secondary as well as primary data, collected from different sources, are presented in an understandable presentation, analyzed and interpreted separated using both qualitative and quantitative measures whichever are appropriate.

This chapter presents the analysis and result of issues relating to the market price volatility in Nepalese commercial banks. Present chapter investigate on potential responsible factors in the price of commercial banks, instructions responsible for present market status of commercial banks, potential factors affecting the share price and some potential strategies to make the better stock market practices by the commercial banks.

In the some way, the study try to check the impact of signaling effect on fluctuation of stock price with the help of different major events during the different time. The study also wants to explore investors awareness by taking primary data with field survey filled by different interested with stock market is considered. To see the relationship

between EPS, DPS, & BVPS with MVPS after correlation has to be tested. After calculating correlation, it can be found that there is positive or negative correlation of EPS, DPS, and BVPS with MVPS by help of R, R², PER, test statistic and impact of signaling factor on market price with help of pair t-test. Questionnaire is presented in required table and analysis with help of Ranking and Percentage basis.

Classification of Listed Companies

The total number of listed companies reached 148 in the first eleven months of FY 2007/08; it was just 134 in the same period last year. At the end of review period 15 companies were listed under commercial banks group. Similarly, there were 24 companies in development bank group, 37 companies in finance group. 17 companies in insurance group, 21 manufacturing and progressing group, 4 hotel group, 5 in trading group and two in other group. Out of 134 companies only 8 commercial banks are taken for the study.

Table 4.1

Listed Commercial Banks Under Study

S. No.	Name of sample banks
1	Standard Chartered Bank Nepal Ltd.
2	NABIL Bank Ltd.
3	Himalayan Bank Ltd.
4	Everest Bank Ltd.
5	Nepal SBI Bank Ltd.
6	Bank of Katmandu Ltd.
7	Nepal Investment Bank Ltd.
8	Machhapuchhre Bank Ltd.

4.1.1 Analysis of Individual Commercial Bank

From among the listed companies, the researcher has chosen eight listed private

commercial banks that falls in group 'A'. the summary of the financial data of the sample listed banks of the study are presented with 5 years data (from FY 2002/03 to 2006/07) including market value per share (MVPS), Earning per share, dividend per share and book value per share in the table 4.3

Table 4.2

Analysis of Individual Commercial Banks

Standard Chartered Bank Nepal Ltd.

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
EPS	149.30	143.55	143.14	175.84	167.35
DPS	120	110	120	140	130
BVPS	403.15	399.25	422.37	468.22	512.12
MVPS	1640	1745	2345	3775	5900

NABIL Bank Ltd.

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
EPS	84.66	92.61	105.49	129.21	137.08
DPS	50	65	170	85	140
BVPS	267.30	301.37	337	381	418
MVPS	740	1000	1505	2240	5050

Himalayan Bank Ltd.

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
EPS	49.45	49.05	47.91	59.24	66.66
DPS	20	20	31.58	35	40
BVPS	246.93	246.93	239.59	228.72	264.74
MVPS	840	840	920	1100	1740

Everest Bank Ltd

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
EPS	29.90	45.58	54.22	62.8	78.40
DPS	20	20	20	25	40
BVPS	150.10	171.52	219.88	217.67	292.75
MVPS	445	680	870	1379	2430

Nepal SBI bank Ltd.

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
EPS	11.47	14.26	13.29	18.27	39.35
DPS	8	0	0	5	47.59
BVPS	134.03	146.3	159.54	151.78	178.04
MVPS	225	307	335	612	1176

Bank of Katmandu Ltd.

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
EPS	17.72	27.50	30.10	43.67	162.81
DPS	5	10	15	30	20
BVPS	192.52	218.38	213.60	230.37	162.81
MVPS	198	295	430	850	1375

Nepal Investment Bank Ltd.

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
EPS	29.90	45.58	54.22	62.80	78.40
DPS	20	20	20	25	40
BVPS	150.10	171.52	219.88	217.67	292.75
MVPS	795	940	800	1260	1729

Machhapuchhre Bank Ltd.

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
EPS	2.81	8049	15.43	18.74	9.02
DPS	0	0	0	15.79	10.52
BVPS	92.20	106.76	115.95	130.22	121.74
MVPS	100	125	256	320	620

Source: AGM Report OF listed Bank, NEPSE and SEBON

4.2 Correlation Coefficient Analysis

In this chapter, correlation between MVPS and EPS, DPS and BVPS have been calculated. The result have analyzed and interpreted and then significance of correlation coefficient has been tested using Karl Pearson's correlation of coefficient with the help of probable error .Correlation coefficient test by using Probable Error.

4.2.1 Correlation Coefficient Analysis Between MVPS and EPS

This table is present to show the relationship between MVPS and EPS. It is know that the correlation coefficient helps to determine if any relationship exists among variables and this test the significant of correlation coefficient and than significance of relationship has been tested by using the probable error. The statistical table 4.3 clear demonstrates that the degree of relationship between MVPS and EPS to all sampled banks.

Table 4.3

Correlation Coefficient Analysis between MVPS and EPS

S. No.	Name of Banks	r	6 P.E.
1	Standard Chartered Bank Nepal Ltd.	0.764	0.753
2	NABIL Bank Ltd.	0.877	0.418
3	Himalayan Bank Ltd.	0.833	0.5540
4	Everest Bank Ltd.	0.943	0.200
5	Nepal SBI Bank Ltd.	0.985	0.054
6	Bank of Katmandu Ltd.	0.925	0.261
7	Nepal Investment Bank Ltd.	0.904	0.331
8	Machhapuchhre Bank Ltd.	0.267	1.681

Source: Annex-I

From the above table 4.3 we can clearly see that the correlation of MVPS with EPS 0.764, 0.877, 0.833, 0.943, 0.985, 0.925, 0.504, 0.267 respectively in SCBNL, NABIL, HBL, EBL, SBI, BOK, NIBL, MBL respectively. Thus, there is exists high degree of positive correlation in case of MBL. But MBL has low degree positive correlation. Such an increasing value of MVPS with EPS is healthy indicator of the financial activities of companies in the least development countries like Nepal.

All Banks except the MBL Null Hypothesis is rejected. Because $r > 6$ P.E and calculation of test statistics is higher than tabulated value. It means there is a significant positive correlation between the EPS and MVPS. But the value of 'r' is less than six times P.E. ($R < 6$ P.E.) in case of MBL and calculated of test statistics is less than tabulated value or "r". So we accept the null hypothesis. It means there is no significant positive correlation between the EPS and MVPS.

Simple correlation with the independent variables EPS which indicates that on increasing EPS also increase in value of MVPS and vice versa.

4.2.2 Correlation Coefficient Analysis between MVPS and DPS

This table is present to show the relationship between MVPS and DPS. It is know that the correlation coefficient helps to determine if any relationship exists among variables and this test the significant of correlation coefficient and than test the significant of correlation coefficient and than significance of relationship has been tested by using the probable error.

Table 4.4

Correlation Coefficient Analysis between MVPS and DPS

S. No.	Name of Banks	r	6 P.E.
1	Standard Chartered Bank Nepal Ltd.	0.679	0.9773
2	NABIL Bank Ltd.	0.995	0.0181
3	Himalayan Bank Ltd.	0.833	0.5540
4	Everest Bank Ltd.	0.969	0.1086
5	Nepal SBI Bank Ltd.	0.925	0.2610
6	Bank of Katmandu Ltd.	0.697	0.930
7	Nepal Investment Bank Ltd.	0.540	1.283
8	Machhapuchhre Bank Ltd.	0.660	1.023

Source: Annex-I

The statistical table 4.4 clearly demonstrates that the degree of relationship between MVPS and DPS seems to be significant in all the banks. It reveals that there is positive correlation between DPS and MVPS.

From the above table 4.3 we can clearly see that the MVPS with DPS 0.679, 0.995, 0.833, 0.969, 0.925, 0.697, 0.540, 0.660 respectively in SCBNL, NABIL, HBL, EBL, SBI, BOK, NIBL, MBL respectively. Thus, there exists high degree of positive correlation of NABIL, HBL, EBL, SBI. There is moderate degree of correlation of SCBNL, BOK, NIBL and MBL. Such an increasing value of MVPS with DPS is healthy indicator of the financial activities of companies in the least development countries like Nepal.

But the value of 'r' is less than six times P.E. ($r < 6P.E.$) in case of SCBNL, BOK, NIBL and MBL. This states that there is no significant correlation between MVPS with DPS in these banks. But the value of 'r' is more than six times P.E. in case of NABIL, HBL, EBL and SBI. So we accept the alternative hypothesis, this states that there is significant correlation or relationship between MVPS and DPS.

Simple correlation with the independent variables DPS which indicates that on increasing EPS also increase in value of MVPS and vice versa.

4.2.3 Correlation Coefficient Analysis between MVPS and BVPS

This table is present to show the relationship between MVPS and BVPS. It is known that correlation coefficient helps to determine if any relationship exists among variables and this tests the significance of correlation coefficient and then tests the

significant of correlation coefficient and than significance of relationship has been tested by using the probable error.

Table 4.5

Correlation Coefficient Analysis between MVPS and BVPS

S. No.	Name of banks	Correlation Coefficient (r)	6 P.E.
1	Standard Chartered Bank Nepal Ltd.	0.993	0.025
2	NABIL Bank Ltd.	0.902	0.338
3	Himalayan Bank Ltd.	0.619	1.12
4	Everest Bank Ltd.	0.954	0.165
5	Nepal SBI Bank Ltd.	0.855	0.489
6	Bank of Kathmandu Ltd.	0.517	1.33
7	Nepal Investment Bank Ltd.	0.494	1.3682
8	Machhapuchhre Bank Ltd.	0.715	0.8850

Source: Annex-I

Correlation Coefficient Analysis between MVPS and BVPS. This table is present to show the relationship between MVPS and BVPS. It is know that correlation coefficient helps to determine if any relationship exists among variables and this test the significant of correlation coefficient. The statistical table 4.4 clear demonstrates that the degree of relationship between MVPS and BVPS seems to be significance in all sample banks.

From the above table 4.5 we can clearly see that the correlation of MVPS with BVPS 0.993, 0.902, 0.619, 0.954, 0.855, 0.517, 0.494, 0.715 respectively in SCBNL, NABIL, HBL, EBL, SBI, BOK, NIBL and MBL respectively . Thus, there exists high degree of positive correlation in SCBNL, NABIL, EBL, SBI and MBL. There is moderate degree of correlation in HBL and BOK. And NIBL has low degree of

correlation between MBPS and BVPS is healthy indicator of the financial activities of companies in the least development countries like Nepal.

But the value of 'r' is less than six times P.E. ($r < 6 \text{ P.E.}$) in case of HBL, BOK, NIBL and MBL. So in this case we accept the null hypothesis. This means there is no significant correlation between MVPS and BVPS or this states that there is no significant of 'r'. SCBNL, NABIL, EBL. SBI the value of 'r' is greater than 6 P.E. ($r > 6 \text{ P.E.}$) in this case we accept the alternative hypothesis. This means there is significant of correlation coefficient. In other words, Simple correlation with the independent variables DPS which indicates that on increasing BVPS also increase in value of MVPS and vice versa.

4.3. Regression Analysis

4.3.1 Regression Equation of Market Price on EPS by using the method t-Test

Null Hypothesis (H₀): $P=0$ that is population correlation coefficient is zero. In other words, the variable are insignificantly correlated in the population i.e. 'r' is not significant of correlation in the population.

Alternative Hypothesis (H₁): $P = 0$ that is population correlation coefficient is not zero. In other words, the variable are significantly correlated in the population i.e. 'r' is significant of correlation in the population

Table 4.6

Regression Equation of Market price on EPS by using the method of t-Test

(MVPS = a + b EPS)

S. No.	Name of Banks	Regression Coefficient		r^2	Calculated Value	Tabulated value	Results
		Constant (a)	Slope (b)				
1	SCBNL	-11231.26	91.842	0.583	2.050	3.182	Insign.
2	NABIL	-5269.680	67.177	0.769	3.157	3.182	Insign.
3	HBL	-1659.986	51.522	0.695	2.613	3.182	Insign.
4	EBL	-1053.367	40.867	0.890	4.915	3.182	Sign.
5	SBI	-99.361	32.926	0.971	10.034	3.182	Sign.
6	BOK	209.562	7.453	0.855	4.209	3.182	Sign.
7	NIBL	-559.404	32.891	0.817	3.658	3.182	Sign.
8	MBL	186.496	18.496	0.435	0.480	3.182	Insign.

Source: Annex-I

Table 4.6 depicts the major output of simple regression between market price and EPS of the sampled Banks by using the method of t-test. The regression coefficient (b) of all sample commercial Banks are positive. They indicate that there exists positive relationship between MVPS and EPS.

The prediction of MVPS is strong for all sampled bank because the coefficient of determination (r) are 0.583, 0.769, 0.695, 0.890, 0.971, 0.855, 0.817 and 0.435 respectively for SCBNL, NBL, HBL, EBL, SBI, BOK, NIBL and MBL which indicates that the change in MVPS is due to change of EPS are 58.35%, 76.90%, 69.50%, 89.00%, 97.10%, 85.50%, 81.70% and 43.50% respectively and the remaining variables is due to the effect of other factors.

In case of t-Test, the calculated value of $t <$ tabulated value of t in case of SCBNL, NABIL, HBL and MBL, which indicates that the relationship is not statistically significant of at 5% level of significantly correlated such a situation is not a healthy indicator for the commercial banking sector in the country.

An exceptional case is recorded in case of EBL, SBI, BOK and NIBL where the calculate value $t >$ tabulated value of t at 0.05 level of significance and their H_1 (Alternative hypothesis) is accepted. It shows that MVPS and EPS are significantly correlated which can be identify or recognized a positive indicator of the development of the commercial banking sector in our country.

4.3.2 Regression Equation of Market Price on DPS by using the method of t-Test

(MVPS = a + b DPS)

Table 4.7

Regression Equation of Market Price on DPS by using the method of t-Test

(MVPS = a + b DPS)

S. No.	Name of Banks	Regression Coefficient		r^2	Calculated Value	Tabulated value	Results
		Constant (a)	Slope (b)				
1	SCBNL	-10136.92	106.596	0.460	1.600	3.182	Insign.
2	NABIL	-1982.474	49.872	0.990	17.159	3.182	Sign.
3	HBL	-122.545	39.905	0.694	2.606	3.182	Insign.
4	EBL	-1045.45	88.250	0.940	6.832	3.182	Sign.
5	SBI	323.54	17.615	0.856	4.221	3.182	Sign.
6	BOK	66.486	35.195	0.486	1.685	3.182	Insign.
7	NIBL	780.111	12.135	0.291	1.111	3.182	Insign.
8	MBL	186.872	18.496	0.435	1.521	3.182	Insign.

Source: Annex-I

Table 4.7 depicts the major output of simple regression between market price and DPS of t-Test. The regression coefficient (b) of all the sample banks are positive. They indicate that there exists positive relationship between market price and DPS. If market price increases by this percentage then heads to increase DPS by 100% and vice versa.

The prediction of MVPS is strong for the all sampled banks because the respective coefficient of determination (r^2) are 0.46, 0.99, 0.694, 0.94, 0.856, 0.486, 0.291, 0.435 which indicates that the change in MVPS is due to change of DPS are 46%, 99%, 69.4%, 94%, 85.6%, 48.6%, 29.1% and 43.5% respectively and the remaining variables is due to the effect of other factors.

In case of t-Test, the calculated value of $t <$ tabulated value of t in case of SCBNL, HBL, BOK, NIBL and MBL which indicates that the relationship is not statistically significant of at 0.05 level of significance and their H_0 is accepted. The acceptance of Null Hypothesis shows that MVPS and DPS are not significantly correlated such a situation is not a healthy indicator for the commercial banking sector in the country. In the case of NABIL, EBL and SBI where the calculated value $t >$ tabulated value of t at 0.05 level of significance and their H_1 is accepted. The acceptance of alternative hypothesis shows that MVPS and BVPS are significantly correlated which can be recognized as a positive indicator of the development of this sector in the country.

4.3.3 Regression Equation of Market Price on BVPS by using the method of t-Test (MVPS = a + b BVPS)

Table 4.8
Regression Equation of Market Price on BVPS by Using the Method of t-Test
(MVPS = a + b BVPS)

S. No.	Name of Banks	Regression Coefficient		r^2	Calculated Value	Tabulated value	Results
		Constant (a)	Slope (b)				
1	SCBNL	-13166.085	36.840	0.986	14.505	3.182	Significant
2	NABIL	-6774.392	26.050	0.813	3.617	3.182	Significant
3	HBL	-3298.725	17.861	0.383	1.364	3.182	Insignificant
4	EBL	-1718.292	13.685	0.909	5.481	3.182	Significant
5	SBI	-2555.342	20.075	0.730	2.851	3.182	Insignificant
6	BOK	2552.973	-9.450	0.267	-1.046	3.182	Insignificant
7	NIBL	-1202.745	10.139	0.244	0.983	3.182	Insignificant
8	MBL	-795.679	9.627	0.511	1.772	3.182	Insignificant

Source: Annex-I

Table 4.8 deficits the major output of simple regression between market price and BVPS of the sampled banks by using the method of t-Test. The regression coefficient (b) all sampled banks except the BOK are positive. They indicate that there exist positive relationship between market price and BVPS. If market price increases then heads to increase BVPS by 100% and vice versa.

But increase of BOK, the value of 'b' is negative i.e. -9.450 which means that there exist negative relationship between market price and BVPS which demonstrates that if BVPS (independent variable) decrease then leads to increase MVPS by 100% and vice versa. In case of slope if one variable increase than other variable decrease.

The prediction power of MVPS is strong only for SCBNL, NBL, HBL, EBL, SBI,

BOK and MBL and weak for NIBL because the respective coefficient of determination (r^2) are 0.986, 0.183, 0.383, 0.909, 0.730, 0.267 and 0.511 which indicates that the change in MVPS is due to change of BVPS are 98.60%, 18.30%, 38.30%, 90.90%, 73.00%, 26.70% and 51.10% respectively and remaining variables is due to the effect of other factors.

In case of t-Test, the calculated value of $t <$ tabulated value of t in case of HBL, SBI, BOK, NIBL and MBL which indicates that the relationship is not statistically significant of t at 0.05 level of significance and there H_0 is accepted. The acceptance of Null Hypothesis shows that MVPS and BVPS are not significantly correlated such a situation is not a good or healthy indicator for the entire sector in the country. In the case of SCBNL, NABIL and EBL where the calculated value $t >$ tabulated value of t at 0.05 level of significance and their H_1 (alternative hypothesis) is accepted. It shows that MVPS and BVPS are significantly correlated which can be recognized as a positive indicator of the development of the Nepalese commercial banking sector in the country.

4.3.4 Multiple Regression Analysis

Multiple regression analysis is the basis for this chapter because the analysis part is fully covered by multiple regression analysis. Under this analysis, influence of independent variables upon dependent variable is measured and evaluated. In other words, multiple regression helps to establish the functional relation between dependent and independent variables and by provides a mechanism for estimate. The purpose of multiple regression analysis in this study is to analyze the combined effect of EPS, DPS and BVPS on MVPS of the sampled Banks. Further more, how the

selected variables influence equity price, is also being tested using regression model. As stated earlier, multiple regression analysis is the best way to project or estimate the value of dependent variable on the basis of independent variables. This chapter presents the estimated MVPS with respect to the selected financial indicators.

Standard Chartered Bank Ltd.

MVPS on EPS, DPS, BVPS of SCBNL

$$\text{MVPS} = -11905.86 + 7.55 \text{ EPS} - 35.520 \text{ DPS} + 41.302 \text{ BVPS}.$$

The equation implies that the multiple regression constant (a) is -11905.862 suggest that when the value of EPS, DPS, and BVPS is zero, MVPS would be negative 11905.862. But this could not be practical because the value of MVPS can not go down to the zero level. The constant for EPS (b_1) is Rs.7.55 implies that when EPS increase by RS 1 MVPS increase by RS 7.55 by keeping DPS and BVPS constant. The regression coefficient DPS (b_2) is -35.520 which imply that increase of one rupee in DPS decrease in MVPS by rupees 35.520 on average if other factors remain constant. The regression coefficient of BVPS (b_3) is Rs.41.302 which implies that an increase of one rupee in BVPS increases MVPS by rupees RS 41.302 on average if other factor EPS and DPS remain constant. But estimate of a, b_1 , b_2 , b_3 varies by 214.443, 4.345, 4.990, and 0.708 respectively as indicated by standard error. The analysis shoes that multiple coefficients is 1 and coefficient of multiple determination is 1 which shows that 100% due to variation by EPS, DPS and BVPS has been explain by the regression model with 39.00776 standard error of estimate. The multiple correlation coefficients are significant at 95% level of significance.

NABIL Bank Ltd.

MVPS on EPS, DPS and BVPS

$$\text{MVPS} = -793.889 + 33.90\text{EPS} + 55.192\text{DPS} - 15.685\text{BVPS}.$$

The equation implies that the multiple regression constant (a) is -793.889 suggest that when the value of EPS, DPS, and BVPS is zero, MVPS would be negative 793.889. But this could not be practical because the value of MVPS can not go down to the zero level. The constant for EPS (b_1) is Rs.33.90 implies that when EPS increase by RS 1 MVPS increase by RS 33.90 by keeping DPS and BVPS constant. The regression coefficient DPS (b_2) is 55.192-which imply that increase of one rupee in DPS decrease in MVPS by rupees 55.192 on average if other factors remain constant. The regression coefficient of BVPS (b_3) is Rs.-15.685 which implies that an increase of one rupee in BVPS decrease MVPS by rupees RS 15.685 on average if other factor EPS and DPS remain constant. But estimate of a, b_1 , b_2 , b_3 varies by 1759.716, 47.045, 10.781, and 20.610 respectively as indicated by standard error. The analysis shoes that multiple coefficients is 0.997 and coefficient of multiple determination is 0.994 which shows that 99.4% due to variation by EPS, DPS and BVPS has been explain by the regression model with 278.27309 standard error of estimate. The multiple correlation coefficients are significant at 95% level of significance.

Himalayan Bank Ltd

MVPS on EPS, DPS and BVPS

$$\text{MVPS} = -4210.63 + 25.332\text{EPS} + 20.219\text{DPS} + 13.584\text{BVPS}$$

The equation implies that the multiple regression constant (a) is -4210.63 suggest that when the value of EPS, DPS, and BVPS is zero, MVPS would be negative 4210.63. But this could not be practical because the value of MVPS can not go down constant

for EPS (b_1) is Rs.25.332 implies that when EPS increase by RS 1 MVPS increase by RS 25.332 by keeping DPS and BVPS constant. The regression coefficient DPS (b_2) is 20.219-which imply that increase of one rupee in DPS increase in MVPS by rupees 20.219 on average if other factors remain constant. The regression coefficient of BVPS (b_3) is Rs 13.589 which implies that an increase of one rupee in BVPS increase MVPS by rupees RS 13.589 on average if other factor EPS and DPS remain constant. But estimate of a , b_1 , b_2 , b_3 may varies by 975.303, 13.063, 10.113, and 3.703 respectively as indicated by standard error. The analysis shoes that multiple coefficients is 0.992 and coefficient of multiple determination is 0.984 which shows that 98.4% due to variation by EPS, DPS and BVPS has been explain by the regression model with 95.83 standard error of estimate. The multiple correlation coefficients are significant at 95% level of significance.

Everest Bank Ltd

MVPS on EPS, DPS and BVPS

$$\text{MVPS} = -1203.73 + 20.842\text{EPS} + 55.989\text{DPS} - 0.782\text{BVPS}.$$

The equation implies that the multiple regression constant (a) is 1203.73 suggest that when the value of EPS, DPS, and BVPS is zero, MVPS would be negative 1203.73. But this could not be practical because the value of MVPS can not go down to the zero level. The constant for EPS (b_1) is Rs.20.842 implies that when EPS increase by RS 1 MVPS increase by RS 20.842 by keeping DPS and BVPS constant. The regression coefficient DPS (b_2) is 55.989 which imply that increase of one rupee in DPS increase in MVPS by rupees 55.989 on average if other factors remain constant. The regression coefficient of BVPS (b_3) is Rs-0.782 which implies that an increase of one rupee in BVPS decrease MVPS by rupees RS -0.782 on average if other factor

EPS and DPS remain constant. But estimate of a , b_1 , b_2 , b_3 may varies by 182.111, 7.652, 9.127, and 2.977 respectively as indicated by standard error. The analysis shoes that multiple coefficients is 0.999 and coefficient of multiple determination is 0.998 which shows that 99.8% due to variation by EPS, DPS and BVPS has been explain by the regression model with 73.023 standard error of estimate. The multiple correlation coefficients are significant at 95% level of significance.

Nepal SBI Bank Ltd

MVPS on EPS, DPS, BVPS

$$\text{MVPS} = 21.780 + 45.702\text{EPS} - 6.212\text{DPS} - 1.901\text{BVPS}.$$

The equation implies that the multiple regression constant (a) is 21.7803 suggest that when the value of EPS, DPS, and BVPS is zero, MVPS would be positive 21.780.. The constant for EPS (b_1) is Rs.45.702 implies that when EPS increase by RS 1 MVPS increase by RS 45.702 by keeping DPS and BVPS constant. The regression coefficient DPS (b_2) is - 6.212 which imply that increase of one rupee in DPS decrease in MVPS by rupees 6.212 on average if other factors remain constant. The regression coefficient of BVPS (b_3) is Rs-1.901 which implies that an increase of one rupee in BVPS decrease MVPS by rupees RS 1.901 on average if other factor EPS and DPS remain constant. But estimates of a , b_1 , b_2 , and b_3 may varies by 1006.384, 29.130, 12.569 and 8.660 respectively as indicated by standard error. The analysis shoes that multiple coefficients is 0.988 and coefficient of multiple determination is 0.977 which shows that 97.7% due to variation by EPS, DPS and BVPS has been explain by the regression model with 116.49377 standard error of estimate. The multiple correlation coefficients are significant at 95% level of significance.

Bank of Katmandu Ltd

MVPS on EPS, DPS and BVPS

$$\text{MVPS} = 565.99 + 4.871\text{EPS} + 25.645\text{DPS} - 3.052\text{BVPS}.$$

The equation implies that the multiple regression constant (a) is **565.99** suggest that when the value of EPS, DPS, and BVPS is zero, MVPS would be positive 565.99. The constant for EPS (b_1) is Rs 4.871 implies that when EPS increase by RS 1 MVPS increase by RS 4.871 by keeping DPS and BVPS constant. The regression coefficient DPS (b_2) is 25.645 which imply that increase of one rupee in DPS increase in MVPS by rupees 25.645 on average if other factors remain constant. The regression coefficient of BVPS (b_3) is Rs-3.052 which implies that increases of one rupee in BVPS decrease MVPS by rupees RS 3.052 average if other factor EPS and DPS remain constant. But estimates of b_1 , b_2 , b_3 may varies by 228.129, 0.523, 2.136 and 1.128 respectively as indicated by standard error. The analysis shoes that multiple coefficients is 1 and coefficient of multiple determination is 1 which shows that 100% due to variation by EPS, DPS and BVPS has been explain by the regression model with 116.49377 standard error of estimate. The multiple correlation coefficients are significant at 95% level of significance.

Nepal Investment Bank Ltd

MVPS on EPS, DPS, BVPS

$$\text{MVPS} = 1121.65 + 53.52\text{EPS} - 4.443\text{DPS} - 11.457\text{BVPS}$$

The equation implies that the multiple regression constant (a) is 1121.65 suggest that when the value of EPS, DPS, and BVPS is zero, MVPS would be positive 1121.65. The constant for EPS (b_1) is Rs 53.52 implies that when EPS increase by RS 1

MVPS increase by RS 53.52 by keeping DPS and BVPS constant. The regression coefficient DPS (b_2) is -4.443 which imply that increase of one rupee in DPS decrease in MVPS by rupees 4.443 on averages if other factors remain constant. The regression coefficient of BVPS (b_3) is Rs-11.457 which implies that increases of one rupee in BVPS decrease MVPS by rupees RS11.457 average if other factor EPS and DPS remain constant. But estimates of b_1 , b_2 , b_3 may varies by 1260.490, 16.174, 7.086, and 7.577 respectively as indicated by standard error. The analysis shoes that multiple coefficients is 0.973 and coefficient of multiple determination is 0.974 which shows that 97.4% due to variation by EPS, DPS and BVPS has been explain by the regression model with 39.00776 standard error of estimate. The multiple correlation coefficients are significant at 95% level of significance.

Machherpuchhre Bank Ltd

MVPS on EPS, DPS, BVPS

$$\text{MVPS} = -2831.86 - 51.007\text{EPS} - 15.804\text{DPS} + 33.48\text{BVPS}$$

The equation implies that the multiple regression constant (a) is -2831.86 suggest that when the value of EPS, DPS, and BVPS is zero, MVPS would be negative 1121.65. But this could not be practical because the value of MVPS can not go down to the zero level. The constant for EPS (b_1) is -51.007 implies that when EPS increase by RS 1 MVPS decrease by RS 51.007 by keeping DPS and BVPS constant. The regression coefficient DPS (b_2) is -15.804 which imply that increase of one rupee in DPS decrease in MVPS by rupees 15.804 on average if other factors remain constant. The regression coefficient of BVPS (b_3) is Rs 33.48 which implies that increases of one rupee in BVPS increase MVPS by rupees RS 33.48 average if other factor EPS and DPS remain constant. But estimates of b_1 , b_2 , b_3 may varies by 215.610, 3.845, 3.108

and 2.347 respectively as indicated by standard error. The analysis shows that multiple coefficients is 0.999 and coefficient of multiple determination is 0.997 which shows that 99.7% due to variation by EPS, DPS and BVPS has been explain by the regression model with 21.64 standard error of estimate. The multiple correlation coefficients are significant at 95% level of significance.

4.4 Price Situations of the Stock of Listed Sampled Commercial Banks

Under this topic, we examine the pricing status of common stock i.e. whether common stocks are overpriced or under priced or equilibrium priced. The pricing status of stocks of particular firm is evaluated by comparing the require rate of return with actual realized rate of return. This chapter presents calculations of actual rate of return that a particular security has provided during the study period and its corresponding required rate of return. Comparison between the actual realized rate of return and required rate of return gives the way which classification of stocks whether overpriced or under priced is possible, to analyze the stock market sensitivity, beta coefficient has been used in this study since beta is considered as a measure of undiversified risk. The greater the beta of a security, greater will be the risk and the greater the expected return required. Like wise, the lower the beta, lower will be the risk, the more valuable it becomes and the lower the expected return required. The beta coefficient, risk premiums and required rate of return on the stocks of listed commercial bank have been summarized in table 4.9 required calculations have been shown in Annex- II

Table 4.9**Price Situation of Common Stock of Listed Commercial Banks**

Name of Banks	Beta Coefficient ()	R_f	R_m	Risk Premium	Required Rate of Return	Average Rate of Return	Status of the Stock
SCBNL	0.64	5.9906%	27.86%	21.87%	20%	38.08	U.P.
NABIL	1.29				34.20	59.74	U.P.
HBL	0.87				25.02	15.50	O.P.
EBL	0.60				19.11	47.67	U.P.
SBI	1.44				37.48	34.70	O.P.
BOK	0.85				24.58	50.16	U.P.
NIBL	0.37				14.08	22.29	U.P.
MBL	0.65				20.21	62.26	U.P.

Source: Annex-II

From table 4.9 it has been observed that the overall average market return is 27.86%. the Treasury bill rate in 364 days is 5.9906%. The risk premium for the stocks of all the commercial bank in the market is the difference between risk free rate and market rate of return i.e. 21.87%.

In the commercial banking sector, Actual Rate of Return of SCBNL, NABIL, EBL, BOK, NIBL, MBL are 38.08%, 59.74%, 47.67%, 50.16%, 22.29% and 62.26% respectively where as required rate of return during the study period are 20%, 34.20%, 19.11%, 24.58%, 14.08% and 20.21% SCBNL, NABIL, EBL, BOK, NIBL & MBL respectively which are below than actual rate realized rate of return. But, stock of HBL & SBI banks required rate of return is greater than actual average rate of return . During the study period is undervalued or under priced. Similarly comparing actual return with required return, it is clearly viewed that Actual return are for below to

require return hence the stock of HBL and SBI are over priced.

Beta coefficient of SCBNL, HBL, EBL, BOK, NIBL and MBL stocks are 0.64, 0.87, 0.60, 0.85, 0.37 and 0.65 respectively, which are less than 1, which suggests that stock of these banks are defensive. Since, the beta coefficient of these banks are less than 1, it is considered that its risk adjustment factor is less than the risk adjustment factor for the market. But the beta coefficient of NABIL and SBI are 1.29 and 1.44 respective, which are more than 1 which suggests that stock of NABIL and SBI are aggressive. Since, the beta coefficient of NABIL and SBI are greater than 1, so it is considered that its risk adjustment factor for the market.

Thus, in conclusion, it was found that the total sample banks six were under priced and two are overpriced. And stocks of six banks are defensive and other are aggressive.

Some of the sampled banks were not found reasonably priced during the study period. The main reason behind the under valuation of the stocks of the sampled banks is that the price of the stock had approached the highest point without having any concrete financial causes yielding remarkable price appreciation during the study period.

However, NEPSE index did not follow the same pattern and also the rate of return on Treasury bill issued by NRB rapidly decrease forcing it to limit within a lower level. In this way capital gain and market risk premium are bare minimum. Therefore, actual returns of some sampled banks are significantly higher than required rate of return. If our stock market really appraises financial information bidding practice and signaling effects surely discouraged which eventually reflects real actual return. In addition to it, too short study period is another reason of such irrelevant result. Nevertheless, this

study has focused the existing status of stocks Nepalese commercial banks.

4.5 The Impacts of Signaling Factors

Nepalese Stock market is not perfect. It was seen that there was lack of the knowledge or awareness in investors, lack of the proper rules and regulations and government policies and manipulated activity of broker in stable politics has directly affected the stock market. Sometimes, national and international signaling factors may be the price determining factors of Nepalese Securities market.

For seeing signaling effect pure hypothesis tools paired t-Test is done for the data for analyzing the impact of signaling factors on NEPSE Index with reference to selected four major events of that time with the help of NEPSE Index before and after the events are analyzed with the help of paired t-test with the help of following working formula t-statistic is calculated and interpreted as follows;

$$t = \frac{d\sqrt{n}}{s}, S = \frac{1}{n-1} [\sum d^2 - \frac{(\sum d)^2}{n}]$$

where, t = paired t-test

S = Standard error/deviation

N = no. of observation

D = difference between two data

For analyzing the impact of signaling factors on commercial banking index during this period of 2004 to 2008 with reference to selected four major events of this period.

1. Public movement 2062/063
2. NRB Directive on 05-09-2062
3. Peace pact between Maoist and government (Comprehensive Peace Agreement)
4. Constitution Assembly Election

Hypothesis between major event of the country and commercial banking index are made to find out the result for the purpose, null hypothesis and alternative hypothesis is the base of the study.

Null Hypothesis - H_0

1. There is no significant difference in commercial banking index before and after the public movement 2062/063,
2. There is no significant difference in commercial banking index before and after NRB Direction on 05-09-2062.
3. there is no significant difference in commercial banking index before and after peace pact between Maoist and government.
4. There is no significant difference in commercial banking index before and after constitution assembly election constitution assembly election.

Alternative Hypothesis (H_1):

1. There is significant difference in commercial banking index before and after the public movement 2062/063,
2. There is significant difference in commercial banking index before and after NRB Direction on 05-09-2062.
3. There is significant difference in commercial banking index before and after peace pact between Maoist and government.
4. There is significant difference in commercial banking index before and after constitution assembly election constitution assembly election

Table 4.10

The Result Obtained by Using t-test Can be Presented as Follows in the Table.

Events	Tabulated values at 14 d.f. and 5% level of significance	Calculated value at 14 d.f. and 5% level of significance	Remarks
1. Public movement 2062/063	1.761	10.4929	Accepted Alternative Hypothesis
2. NRB Directive on 05-09-2062	1.761	1.2988	Accepted Null Hypothesis
3. Peace Pact between Maoist & Government	1.761	5.22	Accepted alternative hypothesis
4. Constitution Assembly Election	1.761	7.2764	Accepted alternative hypothesis

Source: Annex-III

From above table it is cleared that paired t test tabulated value of t-test at 14 degree of freedom at 5% level of significant is 1.76 where as the calculated values are different according to the events happened during different period. If the calculated value of t-test is lower than tabulated value, in such situation alternative hypothesis is accepted.

So it is clear that signaling factor affects the stock price which is explained as under.

After public movement 2062/063, it brought some sort of peace in that time. By that favorable event environment inside the country become suitable for investors. All investors were started to invest in stock and thinking positively, so commercial banking index rises after the period of public movement. This is also verified by paired t-test as null hypothesis were rejected at 14 degree of freedom at 5% level of significance.

After announcement of Nepal Rastra Bank Directive 05-09-2062, related to banking sector, commercial banking index of NEPSE index of commercial banking sector decreased. So for banking sector tabulated values of t-test is greater than the calculated value at 14 d.f. at 5% level of significance and null hypothesis is accepted. Peace pact between Moist and government some hopeful investment environment in Nepalese stock market from that favorable environment most of the investors and other environment inside the country become suitable. That peace pact bring positive economic environment and peace in the country so the Moist investors become positive towards stock market and NEPSE index of commercial banking sector rose. It was also verified by paired t-test that have null hypothesis was rejected i.e. these were difference in commercial banking index before and after the Peace Pact at 5% level of significance at 14 d.f.

After the constitution Assembly Election, it brought hopeful investment environment in Nepalese economy. People hope this election will form good constitution in country. All the investor have positive attitude toward the new making constitution because that will provide good investment environment for them. So it leads stock market positively and index rose. It was also verified by paired t-test that the null hypothesis was rejected, this means, there is significant difference between commercial banking index before and after constitution assembly election.

Finally, it can be concluded that signaling factors played major role in determining NEPSE index and other index value from the four major political and non political events on above table should that signaling factor had certain relation for determining the share price.

4.6 Analysis of Primary Data

This thesis involves primary data also which were collected through questionnaire (Annex- IV.). During the course of collecting primary data, the researcher visited the private commercial banks, security brokers, issue manager, SEBO-N, SEPSE. This investigation deals with the study of opinions of respondent with respect to the factors affecting the share price in Nepalese commercial bank. To collect the relevant data the questionnaires have been distributed to the respondents on stratified random sampling basis. All together 50 sets of questionnaires were presented to the respondents. To get the quick and full response all the questions were objective types. Out of 50 questionnaires 45 were responded.

1. Impact of New Political change in the Stock of Nepalese Commercial Banks

Table 4.11

No. of Respondents Regarding the Questions Of Impact Of New Political Change

S. No.	Research Variable	No. of respondent	% of Respondent
A	Increase in share trading volume	15	33.33
B	Decrease in share trading volume	0	0
C	Decrease in share price	6	13.33
D	Increase in share price	18	40
E	No any impact	6	43.33
	Total	45	100

Source: Field Survey

From the primary response it is indicated that 40% of the respondents were viewed increase in share price after the new political change happened in country.

Similarly 33.33% respondents viewed there are increased in share trading volume after the change. There is no any impact according to 43.33% of respondents viewed in after new political change (See above table 4.11).

2. Factors Affecting Share Price

Table 4.12

Factors Affecting Share Price

S. No.	Research Variables	Ranking order
1	Financial indicators	I
2	Political Situation	II
3	Companies Performance and management	III
4	Change in Rule and Regulation	IV
5	National Economic Situation	V
6	Investors attitude toward company	VI
7	Rumors and whims	VII

Source: Field Survey

The major influencing factor in share price Nepalese commercial bank different respondents gave different ranks and their own ideas. They provided 1st Rank the financial indicators then presented in the above table.

Theoretically, EPS, DPS and MVPS are the major factors to influence the share price of the commercial bank which is also reflected in the respondent provided rank order.

3. Basic of Investor Makes Decision to Invest on Share

Table 4.13

Decision Making Factors

S. No.	Research Variable	No. of Respondent	% of Respondent
A	Rumor	6	13.33
B	Current market price	15	33.33
C	Bank's current performance	12	26.67
D	Expert's Advice	0	0
E	Own Analysis	6	6.67
F	High rate of Dividend	9	20

Source: Field Survey

From the above Table No 4.13, it is shows that 33.33% investor invest on the basis of current market price while 26.67% investors make decision on the basis of bank's current performance while 20.00% investors take decision with expectation of high rate of dividend while 13.33% investor invests on rumor flare in the market and 6.67% investors invest through their own analysis.

4 Investors Awareness Analysis

Table 4.14

Investors Aware about their Investment

S. No.	Research Variable	No. of respondent	% of respondent
A	Yes	15	33.33
B	No	30	66.67
C	Don't know	0	0
Total		45	100

Source: Field Survey

From the above Table No 4.15 reveals that different respondents are viewed that only 33.33% of investors are aware, and 66.67% of the respondents replied that investors in investment are not aware. It shows that most of the investors are not aware to take their investment.

5 Investor awareness effect on price of share

Table 4.15

Investor Awareness Effect on Price of Share

S. No.	Research Variable	No. of respondent	% of respondent
1	Very High	6	13.33
2	High	18	40
3	Moderate	15	33.33
4	Low	3	6.67
5	Very low	3	6.67
Total		45	100

Source: Field Survey

From the above Table No 4.15 reveals that different respondents are viewed investors awareness affects the share price in the Nepalese share market 40% said that high effect, only few 6.67% replied that low and very low effect. Remaining 33.33% and 13.33% asked that moderate and very high effect on price of share. From above research we can ask the awareness of investor highly affect the share price.

6. Usefulness of Inside Information

Table 4.16

Usefulness of Inside Information

S. No.	Research Variable	No. of respondent	% of respondent
1	Yes	33	73.33
2	No	9	20
3	Don't know	3	6.67

Source: Field Survey

In the question, do you think that the inside information can be used to beat the market in Nepal? From the above table no. 4.16 it is indicates that the majority of the respondent i.e. 73.33% viewed that the inside information can be used to beat the market in Nepal while 20% respondent opined that the inside information can not be used to beat the market in which 6.67% respondents stated that they have no idea about it.

7. Effectiveness of Current Regulatory Mechanism in Secondary Market

Table 4.17

Effectiveness of Current Regulatory Mechanism in Secondary Market

S. No.	Research Variable	No. of respondent	% of respondent
1	Most effective	3	6.67%
2	Effective	9	20
3	Less effective	21	46.67
4	Non-effective	12	26.66
Total		45	100

Source: Field Survey

From the primary responses it is found that 46.67% of the respondent were viewed regard current regulatory mechanism of in secondary market less effective. Where as

26.66% were asked non-effective of current regulatory mechanism and 20% of respondent viewed regulatory system is effective and only 6.67% of respondent said it is most effective. So, the fact the secondary market is not well developed due to poor regulatory mechanism

8. Effectiveness of Current Regulatory Mechanism in Secondary Market

Table 4.18

Purpose of Investors Buys the Share

S.No	Research Variable	No. of respondent	%of respondent
1	To invest excess money	6	13.33
2	For high rate of dividend	12	26.61
3	Price appreciation	15	33.33
4	Social status	0	0
5	Speculative purpose	12	26.67
Total		45	100

Source: Field Survey

From the above Table No.4.18 reveals that 33.33% of respondents opinions that they want to buy the share for expectation on price appreciations while 26.67% investors for dividend, in this connection 13.33% respondent opinions they want invest in excess money .Where as 26.67% respondent viewed that investor who purchase shares from secondary market is for speculative purpose.

9. Reasons for Selling the Share

Table 4.19

Reasons for Selling the Share

S. No.	Research Variable	No. of respondent	% of respondent
1	For the personal need	9	20
2	To buy the other stock	12	26.67
3	Expectation of price fall	21	46.67
4	Non payment of the dividend by the co.	3	6.67
	Total	45	100

Source: Field Survey

Above Table No represents that 26.67% of respondent opinions that investor take decision to sell the share for buying the other stock. And some of investor group sell the share for the personal need and only 6.67% of respondent asked that they sell the share with non payment of dividend by the company while 46.67% of respondents viewed that investors sell the stock on the basis of expectation of price fall.

10. Investors Interest on Price of the Share

Table 4. 20

Investors Interest on Price of the Share

S. No.	Research Variable	No. of respondent	% of respondent
1	Daily	12	26.67
2	Once a week	18	40
3	Once a month	3	6.67
4	Seldom	9	20
5	Never	3	6.67
	Total	45	100

Source: Field Survey

To know about how often the investors seek information about price of the stock after purchase it. Of the total 45 respondent 12 which is 26.67% of the total respondent told that investor look for the price of their securities daily while 40% of respondent viewed that investor seek the information on price of shares in weekly whereas 20% of the respondent asked that investor gives interest on price of stock once a month, never and seldom respectively.

11. Respondents' views regarding investors return from their Investment

Table 4.21

Investors' Return from Share Investment

S. No.	Research Variable	No. of respondent	% of respondent
1	Very High	0	0
2	High	18	40
3	Moderate	21	46.67
4	Low	6	13.33
5	Very Low	0	0
Total		45	100

Source: Field Survey

From above Table indicates that none of the respondents replied that investors getting very high return however 18 out of 45 which is 40% replied that they getting high level of return, similarly 21 i.e.46.67% said moderate 13.33% low and 0% very low. The result is presented in above table.

4.7. Empirical Finding of the Study

In this study both of the primary as well as secondary data are analyzed. The researcher with the help of research questionnaire gathered primary data which helped to identify the factors affecting share price. Similarly, with the help of secondary data

the relationship of market price per share with dividend, earning as well as book value per share was determined. Here, the empirical findings from both of the primary as well as secondary data analysis are presented separately below.

4.7.1 Empirical Findings from Secondary Data Analysis

- According to correlation coefficient analysis, relationship between MVPS and other selected financial indicator of all sampled banks are positive. Hence positive correlation coefficient throw lights the fact that the movement of MVPS and selected financial indicators is similar. That is positive fluctuation shall bring positive change in MVPS.
- The regression coefficient (b) of all taking sampled commercial banks that there exist positive relationship between market price and EPS. In case of t-test, the calculated value of $t <$ tabulated value of t in case of SCBNL, NABIL, HBL and MBL which indicates that the relationship is not statistically significant of t at 0.05 level of significance their alternative hypothesis is accepted in this case of EBL, SBI, BOK and NIBL. It shows that MVPS and EPS are significantly correlated which can be recognized as a positive indicators of the development of the commercial banking sector in the country.
- The regression coefficient (b) of all sample banks is positive. They indicate that there exists positive relationship between market price and DPS. In case of t-test, the calculated value of $t <$ tabulated value of t in case of SCBNL, HBL, BOK, NIBL and MBL which indicates that the relationship is not statistically significant at t at 0.05 level of significance. An exceptional case is recorded in the case of NABIL, EBL, and SBI. It shows that MVPS and DPS are significantly correlated.

- The regression coefficient (b) of SCBNL, NBL, HBL, EBL, SBI, NIBL and MBL are positive. They indicate that there exists positive relationship between MVPS and BVPS. But increase of BOK, the value of 'b' is negative, which means that there exists negative relationship between market price and BVPS. In case of slope if one variable increases then other variable decreases. In case of t-test, the calculated value of $t <$ tabulated value of t in case of HBL, SBI, BOK, NIBL and MBL which indicates that the relationship is not statistically significant of t at 0.05 level of significance. It shows that MVPS and BVPS are significantly correlated.
- For analysis from multiple regression all most bank market price is determined by three financial indicators. There are positive significance relationship between MVPS and financial indicators according to t- test.
- Pricing status analysis of the stocks of sampled banks has shown that SCBNL, NABIL, EBL, BOK, NIBL and MBL were under priced during the study period because actual returns were remarkably higher than required rate of return. But HBL and SBI are over priced during the study period because actual returns were lesser than required rate of return. Treasury bill's discount rate is decreasing rapidly because of high liquidity available in the market. Present situation of our country has heavily prohibited new investment opportunity, which ultimately supports to increase the degree of liquidity. This T-bill rate is considered as the risk free rate. In the same way, few banks among the listed companies in NEPSE are performing satisfactorily. The level of market return is lower. Thus, there all are the key reasons due to which required return is significantly lower during the study period.
- Though beta coefficients are calculated to assign required return, these

coefficient tell the nature or behavior of stocks whether individual stock is aggressive or defensives. The stock of SCBNL, HBL, EBL, BOK, NIBL, and MBL are defensive because their beta coefficients are less than 1. so these stocks is considered that its risk adjustment factor is less than the risk adjustment factor for the market where as stock of NABIL and SBI are aggressive because their beta is greater than 1. thus these stocks are considered that its risk adjustment factor is greater than the risk adjustment factor for the market. Defensive stocks indicate that they are less volatile in compression to market where as aggressive stock are more volatile than that of market return.

- In the event of the public movement of 2062/063, comprehensive peace agreement between moist, government and constitution assembly election banking index should increase but the paired t-test showed that the alternative hypothesis is accepted at 14 d.f. as 5% level of significance. The table suggests that there event affect the share price or index in this sector.
- In case NRB Directive issue the NEPSE index should decrease, but the paired t-test showed that the null hypothesis is accepted at 14 d.f. at 5% level of significance. The table suggests that there is not any type of different before and after the NRB Directive.
- Finally it can be concluded that signaling factors played vital role in determining share price or NEPSE index value from the major four events analysis on table showed that signaling factors have curtained relations for NEPSE Index or certain sector index.

4.7.2 Empirical Finding from Primary Data Analysis

On the other hand, the analysis of primary data reveals the following results.

- The respondents were asked about the impact of new political change in the

stock of Nepalese commercial banks. Most of the respondents viewed the positive impacts. They viewed that there are increased in share trading volume and share price after the new political change held in Nepal. So, it is found that investors felt secure in their investment after the new political change.

- With respect to influencing factors of share price in Nepalese commercial bank, the respondents give the first priority to the financial indicator and second priority to political situation. However with the help of their ranking different respondent on this aspect, it is found that companies' performance and management, economic condition of nation, investor attitude towards company, rumors and whims and change in rules and regulation etc also play vital role in determining the price of share.
- It is found that investors of Nepalese stock market take decision on the basis of current market price, current performance of bank and expectation of high rate of dividend to invest in share in Nepalese commercial banks.
- According to the field survey in Nepalese stock markets; it is found that investors are not aware about in the investment in this sector.
- According to respondents are viewed regarding investors awareness effect on the share price, it is found that it is highly affecting factor in determining the share price.
- It is found that the inside information negatively leads the stock market.
- The responses of the respondent for Nepalese secondary market are not well developed due to poor effective regulatory mechanism in Nepal.
- An evident find out from the study is that Nepalese stock market has the lack of professional investors. According to the respondent view, it seems that investors buy the stock only for price appreciation and dividend. They are also

interested on speculative motive. Some of investors are only buying the stock to invest in excess money but they are not invested in share with the purpose of social status. So, Nepalese security market has the shortage of professional investors.

- They have sold their shares to expect the price fall each of investors who sold their shares in secondary market sold their shares to buy other securities and expectation of future price fall. And some investors sold their shares to fulfill their emergency personal needs. So, it was found that the cause to sell the securities to expectation of future price fall and than to buy other securities. Minority of the respondent sell their securities due to no payment of dividend. Majority of the respondent sold their shares because of current price appreciation.
- To know the interest of invest of investors towards their share price one question presented as how often the investors seek the price of securities they have purchased. According to the respondent views, most of the investors collect the information about stock price on once a week, and then 26.67% of the investors look for the price of their securities daily. Similarly 6.67% each and 20% of the investors seek the price once a month, never and seldom respectively. So majority of the investor are not sensitive on making their investment.
- To find out how much the investor are taking return from their investments question was presented to the respondents as the level of return from the investment presently getting in comparison their expectation. None of the respondent replied that they are getting very high return and very low return. Most of investor getting the high and moderate level of return.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter deals with the summary of the study, conclusions and recommendation based on the major finding of the study. All these are presented separately after summarizing and concluding the research work, recommendations are made to concerned persons and organization on the basis of major finding of the research.

5.1 Summary

The smooth continuity of the economic development widely depends upon the adequate and steady of medium as well long term capital fund for productive investment. Capital plays highly significant role for future growth and prosperity of the organization.

Industrialization and economy prosperity of a nation heavily depend upon effective mobilization of saving. Stock markets are the corner stone for the mobilization of people's saving, equity or common stock in Nepalese commercial banks the largest category of security listed with the Nepal stock exchange. It has predominance both quantity and value. Meanwhile the Nepal Stock Exchange (NEPSE) and commercial banks have to play enormous role with respect to the capital formation and it's effective development the development of the country.

Securities market price refers to the buying and selling price of the stock, bond, share and debt. The development of the modern day economy. The history of securities market began with floatation of share by Biratnager Jute Mills Ltd. and Nepal Bank

Ltd in 1937. Introduction of the company act in 1964, the first issuance of Government Bond in 1964 and the establishment of Securities Exchange Centre Ltd in 1976 were other significant development relating to capital markets.

Securities Exchange Centre was established with an objective of facilitating and promoting the growth of capital markets. Before conversion into Stock Exchange in 1993, Nepal Stock Exchange, short NEPSE is a non-profit organization operating under security Exchange Act. 1983. The basis objective of NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating transaction in its trading floor through member, market intermediaries, such as broker, market makers etc. NEPSE opened its trading floor on 13th January 1994. Automated trading system started with the completion of trading floor automation of NEPSE in present.

The regulatory and controlling Body of Security Market. The Security Board of Nepal was established on May 26, 1993 with the basic objective of the promoting and protecting the interest of investors by regulating securities market. Currently SEBO-N is operating under securities act, 2006.

Nepalese Capital Market is still in primary 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 share. They are willing to invest but are not able to do so due to the lack of knowledge in this subject. In spite of poor condition of the security market in Nepal, government of Nepal has not given priority in its current three years interim plan. Government has not been

able to create basic infrastructures, sound policies and laws and their effective implementation, for the capital market development. As a result, there is not transparency in the performance of the listed companies and the capital market due to which capital it is struggling to mature.

Market price of the stock moves daily in the NEPSE. The securities market is essential; cause of price change may be signaling effect, low return and high risk, lack of knowledge, low income of the investors and high price of the stock. Price of the stock is determined by the interaction between demand and supply, this situation is in security market or not. These are burning issues regarding stock price determining of secondary market in Nepal.

The researcher has tried to explore the factors affecting share price in Nepalese commercial banks. The main objectives of this research is to examine and study impact of signaling factors on commercial banking index and share price and to measure the relationship of financial indicators (EPS, DPS & BVPS) with the market value per share (MVPS) and then other qualitative factors affecting the share price in Nepalese Commercial Banks.

Second Chapter is based on the literature survey on the area of the study on which conceptual review and review of related studies.

Due to many limitation or restriction researcher have taken eight commercial banks as the sample. As per the nature of the study, secondary as well as questionnaire of survey type of study is followed with analytical and descriptive way. The study is

based on secondary data from the fiscal year 2002/03 to 2006/07. Secondary data were collected from annual report of NEPSE, SEBO-N, annual reports of concerned banks, daily newspaper and Journal. Which ever is necessary Questionnaires were distributed to gather information? Information's are tabulated as per requirement of study for the fulfillment of the objectives of the study many analysts have been done. Both financial as well as statistical tools have been used to analyze and interpret the facts and information. Mainly, the researcher identified the effect of quantitative factors, EPS, DPS and BVPS with MVPS by correlation and regression analysis of secondary data where as, to identify the quantities factors affecting the share price the researcher used the questionnaire approach for primary survey.

Analysis of financial indicator has shown that Nepalese Commercial banks still is not good financial performance. EPS, DPS and BVPS are not much more stable. But potential investors are highly attracted in commercial banking sector.

To analysis the signaling effect researches set the hypothesis and used the pair t-test. Stock market is backbone to development for the nation. The corporate environment plays vital roles on improving the capital market of the nation. People invested in companies through primary market they represent there fractional ownership through their investment proportions. Investment in common stock of a corporate firm neither ensures an annual return nor ensures the return of principal. Therefore investment in common stock is very sensitive on the ground of risk. Price of common stock especially commercial banking sectors is affecting different factors. In general demand and supply set the prices of common stocks are influenced by various factors. One of the major factors is corporate performance. Adequate knowledge and

information regarding the capital market is lacking in Nepalese investor. Some environment changes bring unpredictable issues in the stock market. This is precisely the reason the Nepal Stock Exchange shows rather irrational behavior. Lack of investors awareness, they are cheated by the concerned companies. Most of the listed commercial banks do not provide sufficient and timely information to NEPSE as well as their shareholders. And supplied information does not have consistent in provided area. It means that they try to attract information regarding their performance.

5.2 Conclusion

The correlation coefficient analysis, relationship between MVPS and other selected financial indicators (EPS, DPS and BVPS) of all sampled banks are positives. That can be concluded if independent variables (EPS, DPS and BVPS) increase then it causes to increase dependent variable (MVPS) by 100% in case of positive correlations. Such an increasing value of MVPS with EPS, DPS and BVPS is healthy indicator of the financial activities of companies in the least development countries like Nepal. It can be concluded that commercial bank sectors have good financial environment in Nepal.

The regression coefficient (b) of all sampled banks that these exist positive relationship between MVPS and selected financial indicators except BVPS of BOK with market is significantly negatively relationship. The majority of indicators have positive relationship with the market price in all sampled banks. In case of slope if one variable increases then other variable increase where as positive relationship is exists and vice versa. Most of bank's financial indicators, healthy indicators for the entire sector in the country. But the acceptance of alternative hypothesis significantly

correlated which can be recognized as positive indicators of the development of the entire sector in the country. The mix result getting from the t-test, some banks have positive relationship with indicators and some have negative relationship.

Pricing status analysis most of sampled banks price were under priced during the study period because actual return were remarkably higher than the required return. But the stock of HBL and SBI are over priced. From the price status, investor can take investment decision individual stock should purchase or buy in the market. Investor can sell the over price stock and purchase the under price stock in short period of time.

T-bill's discount rate is decreasing rapidly because of high liquidity available in the market. Present situation of our country has heavily prohibited new investment opportunity, which ultimately support to increase the degree of liquidity. One year T-bills rate is considered as the risk free rate. Market return is also lower rate. Thus, these all are the key reasons due to which required return is significantly lower during the study period.

If stocks are under priced, their demand in stock market heavily mounts up. Insufficient supply of stocks caused price to rise. At present, this situation is prevailing in Nepalese stock market due to which equity price of commercial Banking sector has appropriated to maximum point without having any concrete financial reason.

Though, betas coefficients are calculated to assign required return, these coefficients tell the nature or behavior of stocks whether individual stocks are aggressive or

defensives. The stock of SCBNL, HBL, EBL, BOK, NIBL and MB are defensive because their beta coefficients are less than one where as stock of NABIL and SBI is aggressive because their beta coefficient are more than one. Defensive stock indicate that they are less volatile in compression to market where as aggressive stock are more volatile than the market return.

Beta coefficient is a measure of systematic risk, which is define by market. Beta shows mixed result, some of the Banks are sensitive to the market where as other are not sensitive. Hence, it can be concluded that the overall market is sensitive which proved that the market affected by any external change in the economy.

The study concludes that signaling factors play major role for determining share price and NEPSE index value.

Whereas analysis of primary data (from view point of respondents) summarizes, financial indicators, company performance& management, political& economic factors such political stability and national economy, peace, strikes, demand and supply situation of the shares, changes in rules and regulation, investors attitude and awareness, inside information, rumors and whims, liquidity and marketability etc are some important factors having significance influence on the share price.

Similarly, other relevant factors, interest rate, tax rate, seasonal factors, day of the week effect, gold price, global economy, size of firm, value of US dollars, international environment, cost of equity do not have significant effect.

After new political change in Nepal investors hope brings good investment environment in Nepalese Commercial Banks. Most of the investors take decision

investment in stock of Commercial Banks on the basis of current market prices and Bank performance.

Adequate knowledge and information regarding the securities market lacking in Nepalese investors. Small group of aware investors are only getting high level of return from investment but irrational investors suffering the loss and also cheated by concerned companies. The professional investor are lacking in Nepalese stock market. Due to poor rules and regulation as well as effective regularity mechanism, the Nepalese securities market is difficult to develop so the shareholders are not confident enough to invest in the share. After this change happened in our country, we hope better development in entire sectors.

In spite of the several constraints, the NEPSE has been growing gradually. Commercial Banking group has the cover around 60% contributions in market capitalization, no of share trade and turnover in NEPSE. SO, the commercial banking sector is the best performer among the other groups listed in NEPSE.

Thus, it can be concluded that three financial indicators EPS, DPS & BVPS heavily determine the common stock price. Other extraneous factors also caused equity price to fluctuate. Investors must look after all factors, which explicitly or implicitly affect common stock price so that they can arrive at rational decision.

5.3 Recommendations

Based on the research work, the researcher has reached the following recommendations. Perfect markets require that all information concerning future risks and returns of securities be readily available to all investors. As there exists various market imperfection relevant information are not easily available to the investors. They are offer published in national dailies, but most of the information is highly aggregated and not reliable. Because of the lack of technical knowledge, majority of the investors is unable to analyze the available information. As such a single buyer and a single seller can affect the price of securities. NEPSE has to insure listed companies relevant information. Similarly can expand its service to regional and local level so that it gives the equal opportunity to all the potential investors after adopting automatic trading system, it should provide regarding information to investors. Investors should be provided with investment guidelines and relevant information through. It should monitor the activities of brokers as well as listed companies

- Every investor should read the monthly journal as well as daily newspapers. It provides extensive statistical data, financial news and even a bit of rumor.
- They should always be aware of the daily stock price and volume traded figures of stock price record published by NEPSE.
- Investors are suggested to raise their voice and complain about the misconduct of relevant company or NEPSE, SEBO-N as well as of government. They are encouraged to enrich their level of knowledge and make the investment opportunities fruitful.
- Investor should be alert to exploit the opportunities through short term speculation.

- Signaling factors plays major role for making investment decision , so investors should analyzed impact of signaling factors before making investment decision.
- Commercial banks should diversify their investment in difference productive sectors.
- Banks should hire financial experts.
- The commercial Banks group should comminute timely real financial statement and non financial information to the concern group.
- Government should provide better environment to develop Nepalese securities market.
- SEBON should control the leak out the inside information from companies.
- Nepal stock exchange should analyze the controversial factors which determine the share price
- NEPSE index plays a major role for creating investment opportunities. So for removing stock markets difficulties such transaction facilities investor's interest and investment facilities should be managed in effective way by formulating investor's protection policies.
- It is recommended to SEBON should operate investors awareness program regarding stock market and share investment decision
- It is recommended to SEBON should operate investors awareness program It is recommended to SEBON should operate investors awareness program regarding stock market and share investment decision
- The security Board of Nepal is an apex body for monitoring and regulating the Nepal stock exchange regularly regimes up to international standard.
- As per the study, it has been found out that EPS, DPS, BVPS and price appreciation are the foundation upon which equity price built. So investors are

recommended for the details study of the financial indicators before investing and trading stock of any Banks and they should not rush over the rumors.

- Research is an ongoing process. Study of security is a vast field sector. Through this research has tried to explore the factors affecting share price of commercial banks, which is I believe more specific the future researcher can even carry out research based on primary survey .This study might not cover all sectors due to time constrains and other related factors. Therefore searchers are advice to cover up role of economic factors role of internal and external environment of the listed companies to ward the stock market in their research.

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Annex-I

Summary of Simple Correlation and Regression analysis SCBLN

Relationship	Correlation Coefficient	Coefficient of Determination	Standard Error of Estimate	MPS Intercept	Variable Intercept	t-cal	Tabulated Value
MPS on EPS	0.764	0.583	1334.76	-11231.259	91.842	2.050	3.182
MPS on DPS	0.679	0.460	1519.08	-10136.92	106.596	1.60	3.182
MPS on BVPS	0.993	0.986	245.22	13166.085	36.840	14.505	3.182

NABIL

Relationship	Correlation Coefficient	Coefficient of Determination	Standard Error of Estimate	MPS Intercept	Variable Intercept	t-cal	Tabulated Value
MPS on EPS	0.877	0.769	967.39	-5269.68	67.177	3.157	3.182
MPS on DPS	0.995	0.990	201.990	-1982.47	49.872	17.159	3.182
MPS on BVPS	0.902	0.813	868.64	-6774.39	26.050	3.617	3.182

HBL

Relationship	Correlation Coefficient	Coefficient of Determination	Standard Error of Estimate	MPS Intercept	Variable Intercept	t-cal	Tabulated Value
MPS on EPS	0.833	0.695	242.64308	-1656.968	51.522	2.613	3.182
MPS on DPS	0.833	0.694	243.03907	-122.545	39.905	2.606	3.182
MPS on BVPS	0.619	0.383	344.99074	-3298.725	17.861	1.364	3.182

EBL

Relationship	Correlation Coefficient	Coefficient of Determination	Standard Error of Estimate	MPS Intercept	Variable Intercept	t-cal	Tabulated Value
MPS on EPS	0.943	0.890	302.60737	-1053.367	40.867	4.915	3.182
MPS on DPS	0.969	0.940	223.72904	-1045.450	88.250	6.832	3.182
MPS on BVPS	0.954	0.909	274.33025	-1718.292	13.685	5.481	3.182

BOK

Relationship	Correlation Coefficient	Coefficient of Determination	Standard Error of Estimate	MPS Intercept	Variable Intercept	t-cal	Tabulated Value
MPS on EPS	0.925	0.855	213.25669	209.562	7.453	4.209	3.182
MPS on DPS	0.697	0.486	401.65042	66.486	35.195	1.685	3.182
MPS on BVPS	0.517	0.267	479.68871	2552.973	-9.450	1.046	3.182

NIBL

Relationship	Correlation Coefficient	Coefficient of Determination	Standard Error of Estimate	MPS Intercept	Variable Intercept	t-cal	Tabulated Value
MPS on EPS	0.904	0.817	194.13929	-559.404	32.891	3.658	3.182
MPS on DPS	0.540	0.291	381.87833	780.111	12.135	1.111	3.182
MPS on BVPS	0.494	0.244	394.51697	-1202.745	10.139	0.983	3.182

SBI

Relationship	Correlation Coefficient	Coefficient of Determination	Standard Error of Estimate	MPS Intercept	Variable Intercept	t-cal	Tabulated Value
MPS on EPS	0.985	0.971	75.25523	-99.361	32.926	10.034	3.182
MPS on DPS	0.925	0.856	167.96141	323.540	17.617	4.221	3.182
MPS on BVPS	0.855	0.730	229.70800	-2555.342	20.075	2.851	3.182

MBL

Relationship	Correlation Coefficient	Coefficient of Determination	Standard Error of Estimate	MPS Intercept	Variable Intercept	t-cal	Tabulated Value
MPS on EPS	0.267	0.071	232.15778	187.197	8.901	0.480	3.182
MPS on DPS	0.660	0.435	181.03084	186.872	18.496	1.521	3.182
MPS on BVPS	0.715	0.511	168.40682	-795.679	9.627	1.772	3.182

Summary of Multiple Regression Analysis

Name of Banks	Correlation Coefficient (r)	Coefficient of Determination(r^2)	Standard Error of Estimate (Se)	MPS Intercept (a)	EPS Intercept (b1)	DPS Intercept(b3)	BVPS(b3)	t-cal	t-table
SCBNL	1	1	39.00776	- 11905.862	7.547	-35.52	41.302	-	3.186
NABIL	0.997	0.994	278.27309	-793.889	33.900	55.19	-15.685	22.29	3.186
HBL	0.992	0.984	95.82606	-4210.63	25.332	20.22	13.584	13.58	3.186
EBL	0.999	0.998	73.02345	-1203.73	20.842	55.989	-0.782	13.68	3.186
SBI	0.988	0.977	116.49397	21.780	45.702	-6.212	-1.901	11.39	3.186
BOK	1.00	1.00	17.69652	565.99	4.871	25.645	-3.052	-	3.186
NIBL	0.973	0.947	180.73680	1121.65	53.52	-4.443	-11.457	7.32	3.186
MBL	0.999	0.997	21.63768	-2831.86	-51.007	-15.80	33.48	31.59	3.186

Annex- II

Calculation of Market Return (R_m)

Fiscal Year	NEPSE Index	Annual Return (R_m)	$(R_m - \bar{R}_m)$	$(R_m - \bar{R}_m)^2$
2001/02	227.54	-	-	-
2002/03	204.86	-9.97	-37.83	1431.11
2003/04	222.04	8.39	-19.47	379.08
2004/05	286.67	29.11	1.25	1.56
2005/06	386.83	34.94	7.08	50.13
2006/07	683.95	76.81	48.95	2396.10
		$R_m = 139.28\%$	$(R_m - \bar{R}_m)^2 = 4257.98$	

$$R_m = \frac{NI_{t+1} - NI_t}{NI_t}$$

Where, NI_{t+1} = NEPSE index at year t +1

NI_t = NEPSE index at year t

$$\text{Average Market Return } (\bar{R}_m) = \frac{\sum R_m}{N} = 139.28$$

$$\text{Variance of Market Return } (\sigma_m^2) = \frac{\sum (R_m - \bar{R}_m)^2}{N - 1} = \frac{4257.98}{5 - 1} = 1064.50\%$$

$$\uparrow_m = \sqrt{\sigma_m^2} = \sqrt{1064.50} = 32.63\%$$

Calculation of Actual Rate of Return (R_j) and Required Rate of Return E(R) of SCBNL

Year	Closing Price	Dividend (Cash Dividend)	Annual Return (R _j)%	R _m - \bar{R}_m	R _j - \bar{R}_j	(R _m - \bar{R}_m) (R _j - \bar{R}_j)
2001/02	1575	100	-	-	-	-
2002/03	1640	110	11.11	-37.83%	-26.97	1020.28
2003/04	1745	110	13.11	-19.47%	-24.97	486.17
2004/05	2345	120	41.26	1.25%	3.18	3.981
2005/06	3775	130	66.52	7.08%	28.44	201.36
2006/07	5900	80	58.41	48.95%	20.33	995.15
R _j = 190.41%				(R _m - \bar{R}_m) (R _j - \bar{R}_j) = 2706.94		

$$\text{Average Actual Rate of Return } (\bar{R}_j) = \frac{\sum R_j}{N} = \frac{190.41}{5} = 38.08\%$$

$$\text{Co-variance, Cov } (R_m, R_j) = \frac{2706.94}{5-1} = 676.74\%$$

$$\text{Beta Coefficient } () = \frac{\text{Cov}(R_m, R_j)}{\text{Var}(R_m)} = \frac{676.74}{1064.5} = 0.64$$

$$\text{Required rate of Return } E(R) = R_f + (\bar{R}_m - R_f) \beta = 5.9906 + (27.86 - 5.9906)0.64 = 20\%$$

Calculation of Actual Rate of Return (R_j) and Required Rate of Return E(R) of NABIL

Year	Closing Price	Dividend (Cash Dividend)	Annual Return (R _j)%	R _m - \bar{R}_m	R _j - \bar{R}_j	(R _m - \bar{R}_m) (R _j - \bar{R}_j)
2001/02	700	-	-	-	-	-
2002/03	740	50	12.86%	-37.83%	-46.88	-1773.47
2003/04	1000	65	43.92	-19.47	-15.82	308.02
2004/05	1505	70	57.50	1.25	-2.24	-2.80
2005/06	2240	85	54.49	7.08	-5.25	-37.17
2006/07	5050	100	129.91	48.95	70.17	3434.82
R _j = 298.68				(R _m - \bar{R}_m) (R _j - \bar{R}_j) = 5476.30		

$$\text{Average Actual Rate of Return } (\bar{R}_j) = \frac{\sum R_j}{N} = \frac{298.68}{5} = 59.74\%$$

$$\text{Co-variance, Cov } (R_m, R_j) = \frac{5476.30}{5-1} = 1369.08\%$$

$$\text{Beta Coefficient } () = \frac{\text{Cov}(R_m, R_j)}{\text{Var}(R_m)} = \frac{1369.08}{1064.5} = 1.29$$

$$\text{Required rate of Return } E(R) = R_f + (\bar{R}_m - R_f) \beta = 5.9906 + (27.86 - 5.9906)1.29 = 34.20\%$$

Calculation of Actual Rate of Return (R_j) and Required Rate of Return E(R) of HBL

Year	Closing Price	Dividend (Cash Dividend)	Annual Return (R _j)%	R _m - \bar{R}_m	R _j - \bar{R}_j	(R _m - \bar{R}_m)(R _j - \bar{R}_j)
2001/02	1000	25	-	-	-	-
2002/03	836	1.32	-16.27	-37.83	-31.77	1201.86
2003/04	840	-	0.48	-19.47	-15.02	292.44
2004/05	920	11.58	10.90	1.25	-4.60	-5.75
2005/06	1100	30	22.83	7.08	7.33	51.90
2006/07	1740	15	59.55	48.95	44.05	2156.25
R _j = 77.49 %				(R _m - \bar{R}_m)(R _j - \bar{R}_j) = 3696.70		

$$\text{Average Actual Rate of Return } (\bar{R}_j) = \frac{\sum R_j}{N} = \frac{77.49}{5} = 15.50\%$$

$$\text{Co-variance, Cov (R}_m, R_j) = \frac{3695.70}{5-1} = 924.18\%$$

$$\text{Beta Coefficient } (\beta) = \frac{\text{Cov}(R_m, R_j)}{\text{Var}(R_m)} = \frac{924.18}{1064.5} = 0.87$$

$$\text{Required rate of Return E(R)} = R_f + (\bar{R}_m - R_f) \beta = 5.9906 + (27.86 - 5.9906) 0.87 = 25.02\%$$

Calculation of Actual Rate of Return (R_j) and Required Rate of Return E(R) of EBL

Year	Closing Price	Dividend (Cash Dividend)	Annual Return (R _j)%	R _m - \bar{R}_m	R _j - \bar{R}_j	(R _m - \bar{R}_m)(R _j - \bar{R}_j)
2001/02	405	-	-	-	-	-
2002/03	445	20	14.81	-37.83	-32.86	1243.09
2003/04	680	20	57.30	-19.47	9.63	-187.50
2004/05	870	0	27.94	1.25	-19.73	-24.66
2005/06	1379	25	61.38	7.08	13.71	97.07
2006/07	2430	10	76.94	48.95	29.27	1432.77
R _j = 238.37				(R _m - \bar{R}_m)(R _j - \bar{R}_j) = 2560.77		

$$\text{Average Actual Rate of Return } (\bar{R}_j) = \frac{\sum R_j}{N} = 238.37 / 5 = 47.67\%$$

$$\text{Co-variance, Cov (R}_m, R_j) = 2560.77 / 5 - 1 = 640.19\%$$

$$\text{Beta Coefficient } (\beta) = \frac{\text{Cov}(R_m, R_j)}{\text{Var}(R_m)} = 640.19 / 1064.5 = 0.60$$

$$\text{Required rate of Return E(R)} = R_f + (\bar{R}_m - R_f) \beta = 5.9906 + (27.86 - 5.9906) 0.60 = 19.11\%$$

Calculation of Actual Rate of Return (R_j) and Required Rate of Return E(R) of SBI

Year	Closing	Dividend (Cash	Annual	R _m - \bar{R}_m	R _j - \bar{R}_j	(R _m - \bar{R}_m)
------	---------	----------------	--------	------------------------------	------------------------------	---------------------------------

	Price	Dividend)	Return (R _j)%			(R _j - \bar{R}_j)
2001/02	401	0	-	-	-	-
2002/03	255	8	-34.41	-37.83%	-69.11	2614.43
2003/04	307	0	20.39	-19.47%	-14.31	278.62
2004/05	335	0	9.12	1.25%	-25.58	-31.98
2005/06	612	5	84.18	7.08%	-49.48	350.32
2006/07	1176	12.59	94.21	48.95%	59.51	2913.01
			R _j = 173.49%	(R _m - \bar{R}_m)(R _j - \bar{R}_j) = 6124.4		

Average Actual Rate of Return (\bar{R}_j) = $\frac{\sum \bar{R}_j}{N} = \frac{173.49}{5} = 34.70\%$

Co-variance, Cov (R_m, R_j) = $\frac{6124.4}{5-1} = 1531.10\%$

Beta Coefficient () = $\frac{Cov(R_m, R_j)}{Var(R_m)} = \frac{1531.10}{1064.5} = 1.44$

Required rate of Return E(R) = R_f + (\bar{R}_m -R_f) = 5.9906 + (27.86-5.9906)1.44 = 37.48%

Calculation of Actual Rate of Return (R_j) and Required Rate of Return E(R) of BOK

Year	Closing Price	Dividend (Cash Dividend)	Annual Return (R _j)%	R _m - \bar{R}_m	R _j - \bar{R}_j	(R _m - \bar{R}_m)(R _j - \bar{R}_j)
2001/02	254	10	-	-	-	-
2002/03	198	5	-20.08	-37.83%	-70.24	2675.18
2003/04	295	10	54.04	-19.47%	3.88	-75.54
2004/05	430	15	50.85	1.25%	0.69	0.8625
2005/06	850	18	101.86	7.08%	51.70	366.04
2006/07	1375	20	64.12	48.95%	13.96	683.342
			R _j = 250.79%	(R _m - \bar{R}_m)(R _j - \bar{R}_j) = 3631.88		

Average Actual Rate of Return (\bar{R}_j) = $\frac{\sum \bar{R}_j}{N} = \frac{250.79}{5} = 50.16\%$

Co-variance, Cov (R_m, R_j) = $\frac{3631.88}{5-1} = 907.97\%$

Beta Coefficient () = $\frac{Cov(R_m, R_j)}{Var(R_m)} = \frac{907.97}{1064.5} = 0.85$

Required rate of Return E(R) = R_f + (\bar{R}_m -R_f) = 5.9906 + (27.86-5.9906)0.85 = 24.58%

Calculation of Actual Rate of Return (R_j) and Required Rate of Return E(R) of NIBL

Year	Closing Price	Dividend (Cash Dividend)	Annual Return (R _j)%	R _m - \bar{R}_m	R _j - \bar{R}_j	(R _m - \bar{R}_m)(R _j - \bar{R}_j)
2001/02	760	0	-	-	-	-
2002/03	795	20	7.24	-37.83%	-15.05	569.34
2003/04	940	15	20.13	-19.47%	2.16	42.06
2004/05	800	12.5	-13.56	1.25%	-35.85	-44.81
2005/06	1260	20	60	7.08%	37.71	266.99
2006/07	1729	5	37.62	48.95%	15.33	750.40
R _j = 111.43%				(R _m - \bar{R}_m)(R _j - \bar{R}_j) = 1583.98		

Average Actual Rate of Return (\bar{R}_j) = $\frac{\sum \bar{R}_j}{N} = \frac{111.43}{5} = 22.29\%$

Co-variance, Cov (R_m, R_j) = $\frac{1583.98}{5-1} = 396\%$

Beta Coefficient () = $\frac{Cov(R_m, R_j)}{Var(R_m)} = \frac{396}{1064.5} = 0.37$

Required rate of Return E(R) = R_f + (\bar{R}_m - R_f) = 5.9906 + (27.86 - 5.9906)0.37 = 14.08%

Calculation of Actual Rate of Return (R_j) and Required Rate of Return E(R) of MBL

Year	Closing Price	Dividend (Cash Dividend)	Annual Return (R _j)%	R _m - \bar{R}_m	R _j - \bar{R}_j	(R _m - \bar{R}_m)(R _j - \bar{R}_j)
2001/02	-	0	-	-	-	-
2002/03	100	0	-	-37.83%	-	-
2003/04	125	0	25	-19.47%	-37.26	725.45
2004/05	256	0	104.8	1.25%	42.54	53.18
2005/06	320	0.79	25.31	7.08%	-36.95	-261.61
2006/07	620	0.52	93.31	48.95%	31.65	1549.27
R _j = 249.02%				(R _m - \bar{R}_m)(R _j - \bar{R}_j) = 2066.29		

Average Actual Rate of Return (\bar{R}_j) = $\frac{\sum \bar{R}_j}{N} = \frac{249.02}{4} = 62.26\%$

Co-variance, Cov (R_m, R_j) = $\frac{2066.29}{4-1} = 688.76\%$

Beta Coefficient () = $\frac{Cov(R_m, R_j)}{Var(R_m)} = \frac{688.76}{1064.5} = 0.65$

Required rate of Return E(R) = R_f + (\bar{R}_m - R_f) = 5.9906 + (27.86 - 5.9906)0.65 = 20.21%

Annex - III

Pair t-test

Public Movement

Before	After	$d=y-x$	$d-\bar{d}$	$(d-\bar{d})^2$
378.32	383.29	4.79	-48.08	2311.68
378.41	410.17	31.76	-21.29	453.26
378.75	431.85	53.1	0.05	0.0025
379.36	428.07	48.71	-4.34	18.83
378.34	420.27	41.93	-11.12	123.65
377.98	419.26	41.28	-11.77	138.53
377.42	422.11	44.69	-8.36	69.88
376.92	425.16	48.24	-4.81	23.13
375.90	431.92	56.02	2.97	8.82
374.97	433.46	58.49	5.44	29.59
374.90	439.42	64.52	11.47	131.56
373.68	445.80	72.12	19.07	363.66
371.03	449.79	78.76	25.71	661.04
369.91	448.71	78.8	25.75	663.02
370.83	443.14	72.31	19.26	370.94
		$d=795.7$	$(d-\bar{d})^2=5367.6561$	

NRB Directive on 05-09-2062

Before	After	$d=y-x$	$d-\bar{d}$	$(d-\bar{d})^2$
327.31	327.67	0.36	-1.23	1.51
327.14	326.56	-0.58	-1.01	1.02
327.62	327.33	-0.29	-1.88	3.53
321.27	328.12	6.85	5.26	27.67
320.47	328.31	7.84	6.25	39.063
322.87	329.06	6.19	4.6	21.16
324.10	330.12	6.02	4.43	19.62
323.86	330.92	7.06	5.47	29.92
325.42	330.98	5.56	3.97	15.76
327.95	329.42	1.47	-0.12	0.014
329.32	329.12	-0.2	-1.79	3.20
330.63	329.49	-1.14	-2.73	7.45
331.93	329.26	-2.67	-4.32	18.66
334.30	329.02	-5.28	-6.87	47.20
336.52	329.23	-7.29	-8.88	78.85
		$d=23.90$	$(d-\bar{d})^2=314.65$	

Comprehensive Peace Agreement

Before	After	$d=y-x$	$d-\bar{d}$	$(d-\bar{d})^2$
452.12	517.39	65.27	19.86	394.42
469.29	531.00	61.71	16.30	265.69
472.67	539.12	66.45	21.04	442.68
478.33	550.86	72.53	27.12	735.49
485.14	517.45	86.31	40.90	1672.81
504.08	562.00	-57.92	-103.33	10,677.09
517.28	553.28	36.00	-9.41	88.55
522.45	548.43	25.98	-19.43	377.52
508.51	545.15	36.64	-8.77	76.91
510.02	541.85	31.83	-13.58	184.42
509.21	544.87	35.66	-9.75	95.06
508.20	550.18	41.98	-3.43	11.76
509.45	556.71	47.26	1.85	3.42
506.20	567.87	61.67	16.26	264.39
507.84	577.66	69.82	24.41	595.85
		d=681.19	$(d-\bar{d})^2=15886.06$	

Constitutional Election

Before	After	$d=y-x$	$d-\bar{d}$	$(d-\bar{d})^2$
688.89	704.74	15.85	-22.68	514.38
697.94	692.50	-5.44	-43.97	1933.36
696.50	728.39	31.89	-6.94	48.16
692.95	739.60	46.65	8.12	65.93
695.88	734.36	38.48	-0.05	0.0025
688.22	727.63	39.41	0.88	0.7744
680.08	727.75	47.67	9.14	83.53
708.04	720.26	12.22	-26.31	692.21
707.03	723.68	16.65	-21.88	478.73
700.75	721.16	20.41	-18.12	328.33
681.41	732.07	50.66	12.13	147.14
690.48	736.18	45.70	7.17	51.41
696.85	746.29	49.44	10.91	119.03
704.35	768.77	64.42	25.89	670.29
719.92	785.92	66.00	27.47	754.60
739.56	777.49	37.93	-0.6	0.36
		d=577.94	$(d-\bar{d})^2=5888.27$	

Annex - IV

Questionnaire

Dear Sir/Madam

I am conducting a research on the topic of “Factor Affecting the Share Price in Nepalese Commercial Banks Listed in NEPSE”. This questionnaire has been developed before you as a part of my study which will help me to understand your opinion about the factor affecting the share price in Nepalese Commercial Banks.

Therefore I am humbly requesting you that please fill it up with the best of your knowledge. Your kind co-operation in this regard will be fruitful for my research.

I shall be humbly grateful for your kind response.

Researcher

Dipak Raj Adhikari

Roll no. 1632/062

Master in Business Studies

Shankerdev Campus

Putalisadak Kathmandu

Respondent

Name:

Designation:

Organization:

Date:

Please answer the following questions with tick mark and rank in appropriate space as required by the questions.

1. What is the impact of new political change in the stock of Nepalese commercial banks?

- Increase in share trading volume
- Decrease in share trading volume
- Decrease in share price
- Increase in share price
- No any impact

2. Rank the major influencing factors for the share price by giving one to the most important one and so on.

- Financial indicators (like EPS, DPS, BVPS, MVPS etc.)
- Companies performance and management.
- Political situation.
- National economic situation.
- Rumors and whims.
- Change in rules and regulations.
- Investors' attitude towards the company.
- Others (please specify)

3. In which basis investors make decision to invest on share in the Nepalese commercial banks?

- Rumor Current market price Bank current performance
- Expert's advice Own analysis High rate of dividend

4. Are the investors aware about their investment in this sector?

- Yes No Don't know

5. How much the investor awareness affects the share price?

- Very high High Moderate
- Low Very low

6. Do you think that the inside information can be used to “beat the market” in Nepal?

Yes No Don't know

7. Do you think that current regulatory mechanism in Nepal is effective in secondary market?

Most effective Effective Less effective
 Non effective

8. For what purpose investors buy the stock in secondary market?

To invest excess money For high rate of dividend
 Price appreciation Social status
 Speculative purpose

9. For what purpose investors sell the shares?

For the personal need To buy the other stock
 Expectation of price fall No payment of the dividend by the company

10. How often the investors seek information about price of the stock after purchase it?

Daily Once a week Once a month
 Seldom Never

11. In your opinion, what is the level of return investors are presently getting in comparison to their expectation for share investment?

Very high High Moderate
 Low Very low