

**A STUDY ON STOCK PRICE BEHAVIOUR OF SELECTED INSURANCE
COMPANIES LISTED IN NEPSE**

A Thesis

Submitted

By

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CERTIFICATION OF AUTHORSHIP

I certify that the work in this thesis has not previously been submitted for a degree nor has it been submitted as part of requirements for a degree except as fully acknowledged within the text.

I also certify that the thesis has been written by me. Any help that I have received in my research work and the preparation of the thesis itself has been acknowledged. In addition, I certify that all information sources and literature used are indicated in the reference section of the thesis.

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Shyam Pudasaini

December, 2020

RECOMMENDATION LETTER

It is certified that this thesis entitled “**A study on stock price behavior of selected insurance companies listed in Nepal Stock Exchange**” submitted by Shyam Pudasaini is an original piece of research work carried out by the candidate under my supervision. Literary presentation is satisfactory and the thesis is in a form suitable for publication. Work evinces the capacity of the candidate for critical examination and independent judgment. Candidate has put in at least 60 days after registering the proposal. The thesis is forwarded for examination.

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APPROVAL SHEET

We, the undersigned have examined the thesis entitled **A study on stock price behavior of selected insurance companies listed in Nepal Stock Exchange** presented by Shyam Pudasaini a candidate for the degree of **Master of Business Studies (MBS)** and conducted the viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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TABLE OF CONTENTS

	Page No.
<i>Title</i>	<i>i</i>
<i>Certificate of Authorship</i>	<i>ii</i>
<i>Approval Sheet</i>	<i>iii</i>
<i>Acknowledgement</i>	<i>iv</i>
<i>Table of Content</i>	<i>v</i>
<i>List of Tables</i>	<i>viii</i>
<i>List of Figure</i>	<i>ix</i>
<i>Abbreviations</i>	<i>x</i>
<i>Abstract</i>	<i>xi</i>
CHAPTER I: INTRODUCTION	1-6
1.1 Background of study	1
1.2 Problem statements and research questions	3
1.3 Purposes of the study	4
1.4 Significance of the study	4
1.5 Limitations of the study	5
1.6 Chapter plan	6
CHAPTER II: LITERATURE REVIEW	7-32
2.1 Conceptual review	7
2.2 Review of the empirical studies	21
2.3 Conceptual framework	31
2.4 Research gap	32
CHAPTER III: METHODOLOGY	33-39
3.1 Research design	33
3.2 Population and sample	33
3.3 Natures and Sources of data	33
3.4 Data analysis tools	34

CHAPTER IV: RESULTS	40-58
4.1 Trend analysis	40
4.2 Analysis of financial indicators	46
4.3 Major findings	57
CHAPTER V: CONCLUSION	59-62
5.1 Discussion	59
5.2 Conclusions	60
5.3 Implications	61
REFERENCES	63-68

LIST OF TABLES

Title of Table	Page No.
4.1 Market summary of insurance company	44
4.2 Analysis of MPS	46
4.3 Analysis of EPS	47
4.4 Analysis of P/E ratio	49
4.5 Analysis of DY	50
4.6 Analysis of size	51
4.7 Analysis of DPS	52
4.8 Descriptive statistics	53
4.9 Correlation analysis	54
4.10 Regression analysis	55

List of figures

List of Figures	Page No:
2.1 Conceptual framework	31
4.1 NEPSE index	40
4.2 Insurance index	41
4.3 No of transaction	42
4.4 Amount of trade share	43

ABBREVIATIONS

AGM	:	Annual General meeting
CFG	:	Corporate and Financial Governance
D/Y	:	Dividend Yield
DPS	:	Dividend per Share
EPS	:	Earning Per Share
FY	:	Fiscal Year
GDP	:	Gross Domestic Product
MPS	:	Market Price of Share
NEPSE	:	Nepal Stock Exchange Pvt Ltd
NIC	:	Neco Insurance Co. Ltd
NLIC	:	Nepal Life Insurance Co. Ltd
NLICL	:	National Life Insurance Co. Ltd
P/E	:	Price Earning
PRIN	:	Prabhu Insurance Co. ltd
SEBON	:	Security Exchange Board of Nepal
SIC	:	Sagarmatha Insurance company Co. Ltd
SLICL	:	Surya Life Insurance Company Co. Ltd
VIC	:	Variance inflection Factor

ABSTRACT

This is aims to investigate the effect of some factor on market stock price such as earning per share (EPS), Dividend per share (DPS), P/E ratio and Size of the company. To meet the desired objectives, the researcher identified the correlation of the quantitative factors EPS, Dividend Yield, Dividend per Share, SIZE and P/E with MPS by correlation and regression analysis of secondary data and also tests the significance of such relationship at 95% level of significance

From the secondary data analysis it is known that there is not consistent performance in the relationship of MPS with EPS, Dividend Yield and Dividend per Share, SIZE and P/E for the six sampled insurance companies. For some of the companies, the correlation coefficients of MPS with independent variables (EPS, Dividend Yield, Dividend per share, SIZE and P/E) are significantly positive whereas some other has significantly negative correlation at 95% level of significance. So these three factors (EPS, Dividend Yield Dividend per share, SIZE and P/E) are not only the factors affecting the market price. Even though, P/E, DPS and EPS affects the MPS positively; there are other various factors in the internal as well as external environment of the organization, which significantly affect the MPS. Theoretically when earnings, dividend and book value of share increases, the market price of share also increases and vice versa. Dividend yield, earning per share, price earnings ratio and size are the major determinants of share price of Nepalese Insurance companies.

CHAPTER I

INTRODUCTION

1.1 Background of Study

Nepalese economy is in developing phase. Due to political instability, unplanned economic activities and geographical situation the economic growth is very sluggish. However after the suitable financial policies and adaptation of economic liberalization financial institutions and economic activities have mushroom in urban and city areas of the country Ministry of Finance Economic Survey (2006).The economy of the country mainly depends upon the utilization of resources and mobilization of capital. It is regarded as general barometer that measures the proper collection and mobilization of saving of productive and income generating sector. Stock market index is taken as a barometer of an economy. Growth in stock index is normally considered as a good significance because the investors are confident about the future prospect of economy. However, a rapid increase or decrease in the stock market index is a matter of concern. If the price increase or decrease in index is not justifications by the fundamentals. Hence, it is essential that the policymaker keep eyes on the stock market development and ready to take appropriate measures. If need arise, to prevent the buildup of bubbles and collapse in the market. Hence, it is necessary to understand the relationship between the stock market index and factors that influence it (Shrestha & Subedi, 2014).

Financial market can be defined as the center which provides facility for buying and selling of financial claims and services. Financial market can be divided into money market and capital market. Money market deals with short term financial market while capital market deals about long term. Primary and secondary are the component of capital market. Primary market is the place where organization government issued new securities .Secondary market is the place for buying and selling the issued new share by the company and government (Shrestha & Subedi, 2014).

After the establishment of SEBON and NEPSE in 1993 under the provision of securities exchange act 1983, there is progressive development of capital market in Nepal. The SEBON is front line regulator which is promoting and protecting the interest of investor

by different act bylaws. Beside the regulatory role, securities board has identified the policy development, legal and regulatory reform, and standardizing disclosure; bring enforcements to insure compliance and promoting board based market as priority areas to reform SEBON Journal (2017). NEPSE is the only organized stock exchange where stock is traded through registered broker under the set of rules and regulations (Pandak, 2017).

CDS and Clearing handle securities in dematerializations form which is the company established under the company act promoted by NEPSE. The share price is determined in the floor by the interaction of market forecasting demand and supply. The market would upward and downward there are many reasons that cause the stock price fluctuation, major of them are economic and non-economic market factors. Government policies rules and regulations, firm dividend declaration, financial statement published interest rate business cycle trade etc. can increase or decrease the listed share price. There is no any software or tools that can predict the share movement price behavior somehow it can be forecast using the different tool. The Securities market plays an important role in mobilizing saving and channeling them into productive investment for the development of commerce and economic growth in the country. But the Nepalese market still in growing phase. The security market is a requisite for the sound development of an economy because it not only provides stable long-term capital for companies and as effective saving vehicle for the public but also functions as an efficient tool for resource allocation (Pandak, 2017).

Stock market can encourage economic growth by providing an avenue for growing companies to raise capital in low cost. Companies usually borrow money from bank in order to meet their short term cash requirement. However, when they need long term finance they may sell their ownership interest in the company by using common and preferred stock. The stock exchange serves two critical functions it provides a critical link between companies that need fund to set up new business or to expand their operational and investor that have excess fund to invest in such companies and it's also provides a regulated market of share at market price determined by demand and supply. The price of the stock, the economist's makes us to believe is determined by the forces of demand and supply in a free economy. In the securities market, both the primary and secondary market are influences from the Macro and Micro economic prospective. Macroeconomic factor includes politics general economic conditions and micro economic factor includes

earning per share, return on assets, dividend per share, dividend payout ratio, dividend yield, rumor investor reaction government policies, dividend and right share declaration, etc. Stock price in the market is not static rather it changes every day. The stock (market) price is different from its par value and book value. Stock price movement is not independent in nature and both extrinsic as well as intrinsic factor have been established to exercise influences over stock price movements (Tandon & Malhotra, 2013). It is expected that the finding of this study would provide some meaningful insights to understand the determinants behind the performance of Nepalese stock market, useful to both policy maker and investor.

1.2 Statement of Problems and research questions

Nepal Stock market is small as comparison to other developed and efficient market of the other world. There are limited broker limited no of listed companies and very few no of transaction. Stock price is determined by demand and supply. Both the qualitative and quantitative factor determines the stock price, to specify exactly what factors to determine the stock is a controversial/ unpredictable issue. The stock price fluctuates time to time and stock exchange reacts with the environmental changes.

Actually, the problem of Nepalese stock market has not been search efficiently. The policy makers are unable to make the suitable policy for the development of stock market. Most of the government effort for the development of stock market since 1976 has poorly contributed only in the early nineties (after the adaptations of economic reform and liberalization); the government policies to reform the capital market under the extended structural adjustment program (ESAP) have left some positive impact for the development of stock market. However, this effort also has not become sustainable because of the lack of proper implementation of the policy.

In Nepalese context, a few researches have been conducted to study the stock price behavior of listed companies. But these studies are lacking to explore the all qualitative and quantitative factors which are the major determinants of stock price. Due to symmetrical information the study result might change accordingly and it is not suitable to generalize the result due to high stock price volatility. Therefore this study is directed to resolve the following issues are the context of Nepal:

- i. What are the major determinants of stock price in NEPSE?

- ii. What is the effect of EPS, P/E ratio and DPS to the movement price of share of listed insurance companies in Nepal?
- iii. Does any relationship at size with market price of share of Nepalese listed insurance companies?

1.3 Purpose of the study

The major purpose of this study is to measure the relationship between financial factors (like: dividend per share, dividend yield, earning per share, price earnings ratio and size.) and stock price of companies listed in NEPSE. Specifically, the study purpose can be broken down into following parts.

- i. To identify factor affecting the stock price in NEPSE focus to insurances companies listed at Nepal Stock Exchange
- ii. To analyze the effect of EPS, P/E ratio and DPS to the movement price of share of insurance companies listed at Nepal stock exchange.
- iii. To analyze the relationship of price of share in Nepalese insurance companies with size of the companies.

1.4 Significance of the Study

The study focuses on the stock price movement of listed companies in the NEPSE. So the study is particularly significant to the investors, managers, bankers, stock analyst, broker, academicians, government officials, student and any other stakeholders who are interested in understanding the share price behavior. The investor invests money in capital market with the expectation of acquiring good returns from their investment. This study analyzes financial situations of the sample companies and performance of its traded stock. The study provides insight over the financial positions and capitalization status of NEPSE. The management can analyze the financial position and performance of their stock to undertake necessary steps for its improvement. Since the study provides general pictures of existing share market, it is significant to the government officials and the policy making agencies to prepare/change policies in timely manner for efficient functioning growth and development of stock market.

In addition, the study would also be useful to stock analyst, bankers, and academician, student who are willing to learn about the stock price behavior of NEPSE and also to those who wanted to purser their career in banking or share business.

1.5 Limitation of the Study

There are some limitations in this study which are pointed out below:

- i. This research is concentrated at 6 sampled listed insurance companies only so, the conclusion derived thereof cannot be generalized on the total capital market.
- ii. The study only examines the effect of internal factors (EPS, P/E, DPS, SIZE& Dividend Yield).The study doesn't examine external factor affecting the share price behavior such as inflation, interest rate, macro-economic factors, etc.
- iii. The topic stock price behavior of listed companies is much more dynamic and it stakes huge resources including human and financial to cover the whole aspects of this research.
- iv. There might be various technique and method to perform the study on the stock price behavior, but the study is focused the correlation coefficient and regression analysis.

1.6 Chapter Plan

The whole study was organized in the five different chapters.

Chapter I – Introduction

This chapter concentrated on background of study, statement of the problem, objective of the study, limitations of the study and significance of the study.

Chapter II – Review of Literature

This chapter deal with review of various Journals, books published or unpublished reports, articles and previous thesis.

Chapter III – Research Methodology

This chapter deals with various descriptions of tools and techniques for data collection, presentation and analysis.

Chapter IV – Results

This chapter deals with result and finding of the research.

Chapter V – Conclusion

This chapter deals with discussion, conclusion and implications of the Research.

CHAPTER – II

REVIEW OF LITERATURE

Review of literatures means reviewing research studies and other relevant propositions into the centered areas of study so that all the past studies, their conclusion and deficiencies may be known and further research can be conducted. In the context of Nepalese financial market no sufficient studies have been made in the past relevant to share market. The second section of this chapter includes the studies of related literature carried out previously in the foreign as well as Nepalese context.

2.1 Conceptual Review

Before getting into the core concept of factors determining the stock price, it is logical to be familiar with some technical terms, which are frequent use in researches on capital market and finance. So in this section, some of the technical terms related to the capital market are defined. The conceptual framework is design to understand the factor that may affect the market per share. The extent literature available strongly supports the movement of stock price as consequences of firm's specific factors.

2.1.1 Stock Price

Stock price is the amount of money that one has to pay to purchase/receive a stock of company. If 'A' buy 10 share of bank of Kathmandu from 'B', s/he pays Rs.4000 for these 10 shares, than the price of share is Rs.400 (i.e. $4000/10$). Thus stock price is the amount paid by a buyer to buy one stock or the amount received by the seller by selling a stock. The stock price is determined in stock market, by market forces, i.e., demand (buyer's force) and supply (seller force). The demand and supply are based on the environmental forces and individual's future expectations/assumptions. The stock (market) price is different from its par value and book value. Stock price movement is not independent in nature and both extrinsic as well as intrinsic factor have been established to exercise influences over stock price movements (Tandon & Malhotra 2013).

2.1.2 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 specific 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 the case, a stated value must be recorded in place of the par value). (Sharpe, Alexander, & Bailey, 2000). The initial offering price of share may vary from its par value stock are issued on premium or discount.

2.1.3 Market Price of Share

A share of common stock can be authorized either with or without par value. Par value is the recorded figure in the corporate charter. Generally, par values of most stocks are set at fairly low figures with compare to their market values, and the market value per share is the current price at which the stock is traded. Market value per share of common stock is the function of the current and expected future dividend of the company and the perceived risk of the stock on the part of investors (VanHorne & Wachowicz, 2000).

Common stock holders are sometime referred to as a residual owner since in essence he or she receives what is left the residual after all other claims on the firms' income and asset have been satisfied. All the companies issue common stock. Common stockholders are true owners of business firm. They invest money with expectation of getting high return. The return from common stock is usually from the capital gain earned. If they increase in value after public buy them. That's why price for common share can be more volatile. They move up and down due to the factors like economy and company performance. 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 paid 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 prices 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 shares is very much sensitive to the environmental forces, the shares price increased 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 earnings and dividend of an organization increases, then the investors have 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 a gap between demand and supply so the market price of shares increases. The investors determine 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 assumptions and expectations vary from individual to individual. Since different persons analyze the same situation differently with their limited knowledge.

The index of stock gives the surrogate of market price of share. NEPSE index is the surrogate of all the listed companies in NEPSE. So it is one of the indicators of stock price in NEPSE. There are various indexes to analyze the stock behavior in the world's capital market. "Stock market indexes are 'pure numbers' used for making comparison between index numbers in the same series or other index number. An index is usually a ratio tabulated from average of different securities. Typically, a time series of index numbers is constructed from the same base date and base value (usually set at 100 or 10 or 1) to make time directly comparable. Some past year is selected as the base year from which index's base value is calculated in order to impart time perspective to the index (Francis, 1991).

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 paid 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 stockholders 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 (Bhattarai, 2014).

2.1.4 Earnings per Share

The firm's earning per share (EPS) is generally of interest to present or prospect stockholder and to management. The amount earned during the accounting period on each outstanding share of common stock, calculated by dividing the period's total earnings available for the firm's common stock holders by the number of common stock outstanding Upadhayaya (2003), Malhotra & Tandon (2013), Alumumani (2014), Uddin (2009), Nasif Al-shubiri (2010), Sharma (2013) and Bhattarai (2014) stated the earning per share has a positive relationship with market per share, that is, higher the earning per share, higher will be market price .

2.1.5 Dividend Yield

It depicts the percentage of dividend declared in a financial year with respect to its market price. It is derived by dividing dividend per share with market value per share Zahir & Khanna (1982), Malhotra & Tandon (2013) and Bhattarai (2014) found a significant inverse association between dividend yield and market price of the firm's stock.

2.1.6 Dividend Payout Ratio

Dividend payout shows the percentage of the net profit after taxes and preference dividend paid out a dividend to equity shareholders. It can be calculated by dividing the total dividend paid to the equity shareholder by total profits/earnings available to them. Challa and Chalam (2015), Sharma (2011), Bhattarai (2014) found that the dividend payout ratio is the strongest determinants of market price. In fact, more mature companies tend to have a highest payout ratio. Conversely, it means that there is an inverse relation between payout ratio and share price changes (Bhattarai 2014).

2.1.7 Price Earnings Ratio

It relates with the comparison of market value with its earnings per share (EPS). The price earnings (P/E) ratio indicates the extent to which the earning of each share is covered by its price. It tells whether the share price of a company is fairly valued, under price, overpriced. In general, high P/E suggests that investors are expecting higher earnings growth in the future compared to companies with a lower P/E.

Khan and Amanullah (2012), Malhotra & Tandon (2013), Almumani (2014) and Bhattarai (2014) indicate that price-earnings per share ratio have a significant positive association with firm's stock price.

2.1.8 Size

Size of the firm plays an important role in an investment criterion. Large companies generally offer the investment opportunities to investor than the smaller one. The size of the firm can be measured in many ways, e.g. through turnover, paid up-capital, capital employed, total assets, net sales, market capitalization, etc. In the present study insurance size is measured by paid up capital. According to Almumani (2014) and Bhattarai (2014) size is negatively related to market price of equities. However, large insurance generally offer better insurance services opportunities to customers. The insurance by virtue of their higher size generally occupy a stronger and dominant position in the stock market. The share of large insurance is actively traded in stock exchange; they provide more liquidity and marketability to investors. Thus, the temptation to buy share of large insurance leads to increase its market price of share.

2.1.9 Dividend per share

The percentage of earnings the firms pays in cash to its shareholders is known dividend. The dividend, of course, reduces the amount of earnings retained in the firm and effect the total amount of internal financing. Nothing is more important than dividends to stockholders. They buy share of firm with the hope of sharing profits earned by firms. The role motive of stockholders is to receive return on their investment, nothing please them than knowing the firm's earning and more profits mean more dividends coming in. An issue of bonus share represents a distribution of share in addition to cash dividend to the existing stockholder. This practice has the effect of increasing the number of outstanding share of the company, which is distributed proportionately. Thus, a shareholder retains proportionate ownership of the company. Payments made in cash to stockholders are termed as 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 account of the firm will be reduced, thus both the total assets and the net worth of the firm are reduced in case of distribution of cash dividend (Almumani (2014).

2.1.10 Stock Price Behavior Theories

In present context, the investment sector is getting flourished in recent years as other economic sectors. Today most of the developing countries are boosting their economic development through the contribution of this investment sector. Business cycle theorist felt that tracing the evolution of several economic variables over time would clarify and predict the progress of economy through boom period.

There are two theories of stock price behavior i.e. classical theory and efficient market theory. Classical or convectional theory includes fundamental analysis theory and technical analysis theory. Under efficient market theories, there are three forms of efficient market hypothesis. Classical approach assumes market as an inefficient whereas the efficient market theory argues that the market is efficient. Prior to the development of the efficient market theory, investors were generally divided into two groups' fundamentalists and technicians (Alexander, Sharpe, & Bailey, 2000).

a. Fundamental analysis

Fundamental analysis theory claims that at any point of time an individual stock has intrinsic value, which is equal to the present value of the future cash flow from the securities discounted at appropriate risk, with adjusted discount rate. The value of the common stock is simply the present value of all future income which the owner of share will receive.

In simplest form, fundamental analysis begins with the assertion that the true value of any financial assets equals the present value of all cash the owner of the asset expects to forecast the timing and size of these cash flows and then converts the cash flows to their equivalent present value using as appropriate discount rate.

The objective of fundamental analysis is to appraise the intrinsic value of the security. The intrinsic value is the true economic worth of financial assets. Therefore, fundamental analysts work to find new information before other investors, so they can get into the position to profit from the price changes they anticipate. Fundamental analysis use different models like top-down versus bottom-up forecasting probabilistic forecasting, econometric models, financial statement analysis etc. to estimate the value of security in an appropriate manner for making investment decision. Fundamental Analysis theory taken into account, financial and economic statistics and information relating to a

financial institutions, part record and present position and then uses informed judgment to project future results. Fundamental analysis rests on the assumption that each stock has an intrinsic value, where intrinsic value may be defined as a present value of the future stream of income occurring to a financial company. Stock is considered under or over valued depending upon whether the share price is below or above its intrinsic value.

In the fundamental approach, the security analyst or prospective investor is primarily interested in analyzing factors such as economic influences, industry factors and pertinent company information such as product demand, earnings dividends and management in order to calculate an intrinsic value for the firm's securities they reach on as investment decision by comparing this value with the current market price of the security. The fundamental analysis tends to look forward. Fundamentalists are concerned with such matter at future earnings and dividends. It is sometimes said fundamental analysis is designed to answer to question. What? (Sharpe, Alexander & Bailey 1999)

Fundamentalists forecast stock price on the basis of economy industry and company statistics. The principle design variable ultimately takes form of earnings and value with a risk return framework based upon earnings power and economic environment. Fundamental analysis delves into company's earnings, its management, economic outlook competitors market condition and many other factors (Clark, & Francis, 1997).

Fundamental analysis attempts to find under or over-valued securities by analyzing fundamental information such as earnings asset values etc., to uncover yet undiscovered information about the future of a business they look ahead trying to forecast future information (Will, 1999).

Fundamental theory assumes that knowledge about the future of companies is not perfect some stocks are underpriced and others are overpriced. The investor's task is to study certain fundamental factors that may enable them to select undervalued stock for purchase and sell overvalued stock. These fundamentals are the historical profitability of an industry, the leading companies in the industry the economic outlook for the profitability of the industry as a whole and the outlook for general economy. The potential investors then estimate the value of the one company by comparing the history and expected future of this company with competing firms; such companies are based on much objective information.

b. Technical analysis

Technical analysis theory involves of the past volume and price date of the stock of predicts future price fluctuations. This approach studies various graphs and charts of the past share prices and deduce from the analysis about future price movement by seeking to interpret past pattern in the assumption that history tends to repeat it. Technical analysis is based on the widely accepted premise that security price are determined by the supply of and the demand for securities. The tools technical analyses are therefore designed to measure certain aspects of supply and demand. Typically technical analysis record historical financial data on charts, study these charts in search of patterns that they find meaningful and end over to use the pattern to predict future prices. Some charts are used to predict the movements of single security other are used to predict the movements of single security others are used to predict the movement of market index and still other are used to predict the action of both individual assets and the market. In essence, technical analysis believes that past patterns of market action will recur in future and can therefore be used for predictive purpose (Clark & Francis 1997).

Technical analysts attempt to find pattern in security price movement and trade accordingly. Their trading tends to quickly offset any price trend and keep the market efficient. Technical analysts are studying past price working for predictable patterns (Will, 1999).

Technical analysis theory involves study of the past volume and price data of the securities to predict future price fluctuations. Technical analysis theory of share price behavior is based on past market information. On the assumption that history tends to repeat itself, it is believe that knowledge of past patterns of share prices will help to predict future price under similar circumstances. It involves the study of past market behavior with reference to various financial and economic variables are to forecast the future. The change occurs in financial and economic variables are to be adjusted in the light of the present situation. Technical analysts or chartist, as they are commonly called, believe that they can discern patterns in price or volume movements and they by observing and studying the past behavior patterns of given stocks. They can use this accumulated historical information to predict the future price movements in the security. Technical analysts comprise many different subjective approaches but all have one thing in common that is belief that these past movements are very useful in predicting future

movements. Technical analysts believe in the theory behind chart information and pattern. They read charts much like ancient astrologers read the stars looking for head and shoulder formation. They believe reflect the patterns of buying and selling accumulation and distribution or market psychology. Technical analysis is a method of evaluating securities by analyzing statistics generated by market activity, past prices and volume. Technical analyst do not attempt to measure a securities intrinsic value, instead they look at stock charts for patterns and indicators that will determine a stocks future performance. Technical analysis has become increasingly popular over the past several years, as more and more people believe that the historical performance of a stock is a strong indication of future performance. The use of past performance should come as no surprise. Technical analyst belief that securities moves according to very predictable trends and patterns. These trends continue until something happens to change the trend and until this change occurs price levels are predictable. Technical analysts also belief that important information about future stock price movements can be obtained by studying his historical price movement of stock prices. Financial data are recorded on graph paper and the data are sanitized in search of repetitive patterns. Technical analysts base their buy and sell decision on the charts they prepare. There are different approaches to the technical analysis approach. We have mainly Dow Theory, Bar Charts Odd-lot-theory and short sales country opinion theory and available for disunion.

The Dow Theory is one of the oldest and most famous technical tools; it was originated by Charles Dow founder of the Dow Jones Company and editor of the wall street journal around 1900. Mr. Dow died in 1902 and the Dow Theory was developed further and given its name by staff member at the wall street journal. Today many versions of the theory exists and are used it is the basis for much of the work done by technical analysis. The Dow Theory is used to delineate trends in the markets as a whole or in individual securities. According to Mr. Dow: The market is analysis considered as having three movements all going at the same time. The first is the narrow movement from day to day. The second is the short swing running from weeks to a month or more, the third is the main movement covering at least four year in duration. The Dow Theory views the movement of market prices as occurring in three categories:

- i. Primary movements/Trends: These are called bull and bear markets Bull market is where prices move in an upward manner for several years. Bear markets, on the

other hand, are price move in a downward manner, delineating primary trends is the primary goal of the Dow Theory.

- ii. Secondary movements: These are up and down movements of stock price that last for a few months and are called corrections.
- iii. Testing moves: These are simply the daily fluctuation. The Dow Theory asserts that daily fluctuations are essentially meaningless random wiggles. Nonetheless, the chartist should plot the asset's price or the market average each day in order to trace out the primary and secondary trends.

The odd lot transactions are measured by odd-lot changes in index. Odd lots are stock transactions of less than say 100 shares. The odd-lot ratio is sometime efforts to as a yardstick of uniformed sentiment or an index of contrary opinion because the odd lot theory assumed that small buyers or sellers are not very bright especially at tops and bottoms when they need to be brightest. Odd-lot trading volume is reported in the financial section of many large newspapers. The odd lot statistics are broken down in to the number of share purchased sold and sheets sold. Most odd lot theorists chart the ratio of odd lot- sales to odd-lot purchases week by week. The odd lot purchase sales index is typically plotted concurrently with seem market index, if is used by some chartists as the leading indicator of market price. High odd-lot purchase sale ratios are presumed to forecast falls in market prices and low purchase sales ratios are presumed to occur towards the end of bear markets. Therefore, when the odd lot purchases are relatively high, stocks prices are likely to fall and when the odd-lot sales are low, the end of a bear market is supposed to be close at hand. Short sales are done by investors who borrow the securities from a broker and sell them. The short seller hope to profit by replacing the borrowed securities at a lower price then what they sold them for contrarians believe that short sellers are usually wrong, 50 when short sales are high, indicating a bearish attitude about the market, contrarians takes a bullish attitude about the market. Several chartists follow short sales trading statistics. Some short sales follows uses aggregate statistics as an indicator of overall market sentiment and some follow the short sales for individual securities in search of information about those securities. However, both groups interpret a high level of outstanding short sales (or uncovered short positions or short interest, as it is variously called) as a sign of increase future demand for securities that will bid up their prices. Thus, rising short sales is believed to foretell future demand for securities that will

bid up their prices. In startling contrast to the followers of the short sales contrary opinion theory, another group of technical analysts believes that short sellers tend to be more sophisticated than the average investor. This second group asserts that when short sales for the market as a whole or for an individual security are high, sophisticated investors expect a price decline and if should therefore follow shortly (Francis, 1996).

c. Efficient market theory

Among the various theories of stock market behavior another theory is efficient market Hypothesis. The efficient market hypothesis states that securities are typically in equilibrium or that they are fairly priced. Current security prices fully reflect all available information because in an efficient market all unexploited profit opportunities are eliminated. The efficient market theory holds that market prices fully and instantaneously reflect all available information. In this sense share prices are said to be correct and priced accurate signals for resource allocation. Considerable controversy surrounded the concept of efficient of market during the 1960s and 1970s and even today. There is considerable doubt expressed by many professional and amateur investors. Empirical evidence however comes down firmly on the side of market efficiency and it can now be regarded as the accepted model of share price behavior (Firth & Khane, 1986).

Capital market efficiency has been divided into three levels:-

i) Weak form efficiency

If statistical independence is found (price changes are random), this provides evidence in support of market efficiency as it signifies that no profitable investment trading strategy can be formulated based on dependencies in past market prices. In an efficient market current share prices are the best, unbiased, estimate of the value of the security. These prices will only change when new information arrives, and as new information is, by definition, unpredictable, so share price changes will be unpredictable and will behave as if generated by a random process. Strictly we might expect to see some small upward movement in share prices over time due to future dividends becoming nearer. Expected returns on a share generally incorporate both dividend income and share price appreciation. Because we might expect to see some small level of statistical dependence. For weak form efficiency the important factor is whether dependencies in price can be

exploited to earn excess returns. If there is substantial dependence in price changes this suggests that it may be possible to earn excess returns from using a simple trading rule.

Early tests of weak-form market efficiency failed to find any evidence that as normal profit could be earned trading on information related to past prices. That is knowing how security price had moved in the past could not be translated into accurate predictions of future security prices. These tests generally concluded that technical analysis, which relies on forecasting securities price on the basis of past prices, was ineffective. More recent studies however have indicated that investor may overreact to certain types of information, driving security price temporarily away from their investment values. As a result it may be possible to earn as normal profit buying securities that have been 'oversold' and selling securities whose price have been bid up excessively. It should be pointed out, however, that these observations are debatable and have not been universally accepted. (Sharpe, Alexander, & Bailey, 1996)

ii) Semis strong efficient market hypothesis

The semi strong efficient where share price adjusted instantaneously and in an unbiased fashion to available new information, so that no excess returns can be earned by trading on that information. This hypothesis specifies that markets are efficient for price to reflect all publicly available information or all public information has its effect on market prices, only those insiders who have access to valuable information could earn profit larger than what could be earned using a naive buy and hold strategy is semi efficient market. "The result of test of semi strong form market efficiency has been mixed. Most event studies have failed to demonstrate sufficiency to overcome transaction costs. However, various market 'anomalies' have been discovered where by securities with certain characteristics or during certain time periods appear to produce abnormally high returns (Sharpe, Alexander & Bailey, 1996). The semi strong form efficiency requires that share prices fully and instantaneously reflect all publicly available information. Publicly available information not only includes past share prices (examine in weak form tests) but also a whole host of economic data that are relevant in influencing price movements. Example of data have been examined included announcements of mergers, new share issues, stock splits, earnings, large share deals, and discount rate changes. Most of the tests under the semi strong form banner have involved measuring the adjustment of share price to the release of information. The share price adjustment measured in the semi strong form is

the research is the difference between actual share prices and share price that would have been observed had no new information arrived (Firth & Keane, 1986).

c) Strong form efficient market hypothesis

The strong form efficient market hypothesis exists in stock prices reflect all information that is not available to the public. Private information often called inside information is made public to ensure rational and competitive behavior of the stock market under strong form of market efficiency.

The strongly efficient market hypothesis assumes that all information is reflected in security price. It claims that no one can buy and hold strategy by trading or short term security price movements. If markets are strongly efficient, even those who possess inside information would not have investment information of any value. Security markets can be strongly efficient if rates of stock price changes are independent random variables and none of the market participants use inside information. Strong form market efficiency says that all information, whether publicly available or not is instantaneously reflected in share prices and that no market participant can earn excess returns except by chance. Thus, under strong form efficiency we would not expect to find investors who have consistently earned excess returns over a long period and likewise, investors who have advance knowledge of information would not be earning excess returns. The major research studies examining for strong form efficiency have investigate the investment performance of managed funds (e.g. Unit trusts, investment trusts, pension funds) and of investors with access to advance or non-public information. If funds manage to earn excess returns consistently, the market is not strong from efficient. Excess returns will mean that funds managers have superior abilities in interpreting existing knowledge or that they have excess to and utilize advance knowledge. The publicly given to and the monitoring of insider dealing reduce the extent to which advance knowledge is utilized by insiders. (Firth & Keane; 1986)

One would expect that investors with excess to private information would have an advantage over investors who trade only on publicly available information. In general corporate insiders and stock exchanges specialists, who have information not readily available to the investing public, have been shown to be able to earn abnormally high profits less clear is the ability of security analysts to produce such profits. At times, these analysts have direct access to private information and in a sense they also manufacture

their own private information through their research efforts. Some studies have indicated that certain analysts are able to discern misruled securities but whether this ability is due to skill or chance is an open issue (Sharpe, Alexander & Bailey 2000).

Strong form suggests that securities price reflect all available information even private information. The strong form does not hold in a world with an uneven playing field. The semi strong form of EMH asset that security price reflect all publicly available information. There is no undervalued or overvalued security and thus trading rules are incapable of producing superior returns. When new information is released, it is fully incorporate in to the price rather speedy.

The efficient market theory implies that security market prices represent fair value. Some argue this cannot be for price goes up and down and that fair value should change very little fair market value change with new information about the future cash flow associated with a security. It implies that portfolio managers work in a very competitive market with little or no added advantage over the next portfolio manager. They make few extra ordinary returns not became they are idempotent, but because the markets are so competitive and there are few easy profits (Will, 1999).

2.2 Review of the Empirical Studies

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

Empirical evidence linking stock market development to economic growth has been inconclusive even through the balance of evidence is in favor of positive relationship between stock market and economic growth. There is large number of studies in foreign and Nepalese context but only few of them are briefly reviewed below.

In India, Srivastava (1968) studied the share price affected by the Dividend and the Earnings. The study explained that the retained earnings have no effect on share prices. Levin and Zervos (1998) find the various measure of stock market activity are positively correlated with measures of real economic growth across countries, and that the association is particularly strong for developing countries.

Zahir and Khanna (1982) examined the determinants of stock price in India in 101 industrial giants in the private sector for the years 1976-77 to 1977-78 with the help of multiple linear regression models and revealed that dividend per share emerged as a

significant determinant of share price, yield also emerged highly significant determinant with its negative association with market price of share. The coefficient of book value was positive throughout and highly significant except in 1977-78. The decomposition of stock price movements is very sensitive to what assumption is made about the presence of permanent changes in either real dividend growth or excess stock return (Wohar & Mark, 2006). Cochrane (1992) Timmerman (1995) have argued that fluctuation in stock prices can be explained by time-varying discount rates and future excess returns. Cochrane (1992) by using alternative methodology to decompose the variability of stock prices also found the variability of excess return to be more important than variability of dividend growth.

IMF (1997) examined the general relationship between stock price and macro-economic variable in Zimbabwe, using the revised dividend discount model, Error-Correction model, and Multi-factor return-generating model. Despite the large fluctuation in stock price since consistently indicates that the Zimbabwe Stock Exchange has been functioning quite consistently during this period. Whereas sharp increase in stock price during 1993-94 were mainly due to the shift of risk premium that was caused by partial capital account liberalization, the recent rapid increase prices can be explained by the movements of monetary aggregates and market rates.

Paul (2001) reviewed the international capital markets pleaded that the development of world capital markets appears to be reaching the stage where they can make significantly gather contribution to world economic growth and trade. More importantly, the groundwork has been laid for the healthy development and future growth of international capital markets. Barring the intervention of war or other major disturbances, world capital markets give promise of being able to play an increasing important, though no predominant role in the movement of capital internationally.

Upadhyaya (2003) analyzed on impact of stock price behavior of firms listed in NEPSE, with reference to commercial bank for 5 years data. Author found that market price per share (MPS) had high degree of positive relationship with EPS in all sample banks and MPS largely depend on EPS. EPS dividend payout growth rate, and risk associated with company information disclose political instability are the major factors affecting the share price in NEPSE. Moreover interest rate, retention ratio, cost of equity, market liquidity, change in management does not significantly affect the share price in NEPSE.

Regmi (2003) studied on Capital market practices in Nepal conducted by Securities Board, Nepal mainly given focus on basic level of corporate governance practices in Nepal and this study revealed that corporate directors and some of them are already in practice. They agreed to the necessity of adopting code of ethics on good governance and avoiding political influence in the corporate sector. Further, they have suggested increasing the responsibility of the board of directors and making them responsible. They asked for the cooperation of regulators to work for the improvement of corporate governance as well.

Upreti (2004) examined corporate Governance Law and Practice in Nepal submitted by organized by SEBON Nepal in 2004 has highlighted different aspect of corporate governance, related law and practice in Nepal in respect of securities markets regulation and concluded that importance of good corporate governance should be explained and its importance made understood to directors, CEOs, Managers, regulators and stakeholders, and introduction of corporate governance code. Further, internal governance of the regulator should reform.

K.C. (2004) studied on development of stock market and economic growth in Nepal based upon the data of ten years. The study reports that the relationship between financial development and economic growth, with focus on developmental role of stock markets has been in debate for some time in the past. Empirical studies suggest that financial development does matter and stock market do spur economic growth. Unfortunately, in Nepal, despite a history of about half decade of planned economic activities to develop real sector of the country, little attention was paid on the development of financial sectors. In the past one and half decade, financial sector despite, many problems have developed significantly in Nepal. However, most of the developments were confined to the banking sectors. Stock market has virtually remained stalled because of this priority in the governments' financial reform politics. Various measures of stocks market deployment indicate that the stock market in Nepal is underdeveloped and has failed to show impact on the overall national economy. Small market size has made it vulnerable to manipulation and price rigging. Low turnover ratio and value traded ratio to volatility, and high concentration ratio indicate that the stock market in Nepal is highly liquid and risky. Investors tend to avoid stock market because they do not have option to it since

stock market is less reliable source of raising funds for them. Due to this, financial system of Nepal has remained basically bank dominated.

Upadhyaya (2004) studied regulation of Nepalese capital market and investor's protection and published in SEBON has discussed on regulatory aspect of existing legislative frameworks and also highlighted major deficiencies of existing provisions and proposed suggestions for further improvement. Studied concluded that with a view to professionalizing the existing members of SEBON, Stock Exchange and concerned authorities must conduct from them to time refresher course and concerned persons should have reasonable background in corporate finance, capital market, economics and financial engineering, etc.

Adhikari (2005) studied on securities markets development in Nepal and highlighted major issues regarding development of securities market and dealt possible suggestive measures. Author believes that Nepalese securities market does not adequately developed due to legal inadequacy, law resource to regulator, poor liquidity, poor corporate governance practices, poor disclosure practices, law involvement of institutional investors, high cost of public issue, high transaction cost and lack of accounting and auditing standard, etc. in concluding remarks author said that the present status of securities market should be improved and developed as an important source of long-term financing by introduction new legislations and implementing them effectively.

Kafle (2005) analyzed primary market development in Nepal and argued that its issues and Challenges showed the primary market scenario, relevant issues in the primary market and envisioned reforms. Studied guided that empowerment of regulator enables it to move toward standard practices, restructuring processes and opens up market to outside investments, which has become important in the wake of regional co-operational and WTO accession. The recent issuance of Securities Ordinance is important in terms of empowering the regulator and facilitating capital market reform. More over the planned implementation of Ordinance will emerge as challenge. .

European Central Bank (2005) analyzed of earning, stock price an bond yields for thirteen countries over a time span of three decades by using Fed model. The study found that stock price down when inflation goes up. Correspondingly, very low inflation would warrant very low earning yield results high P/E ratios.

Mainali (2006) studied the study on share price behavior of listed commercial banks. The prime objective of study was to analyze the performance of stock market and the behavior of share price of listed commercial banks. The other specific objectives were to provide glimpse of NEPSE, examine the risk involved in the common stock investment of the sample commercial banks and discuss the movement of the stock market price. There used parametric and non-parametric test to explore the randomness of stock return and also used standard deviation coefficient of variation beta coefficient for individual stock to test the friskiness of share. The results of estimate serial correlation were found to have deviated significantly from the expected value zero i.e. serially correlated. So, that the results obtained from the serial correlation tests tend to invalidate the hypothesis of dependence. The results of run tests also consistence with the results of serial correlation tests. Studied found that past and present price changes can screen out some valuable information in predicting future price changes. So, there exists sufficient amount of opportunity for sophisticate investors. The statistical analysis is regarding the risk and return of sampled stock showed that most of the stock seemed to be riskier than the average stock. But most of the banks are offering cash dividends every year, which may not be applicable to other non-banking firms.

Ban (2007) administered a research on valuation of stock in stock market with reference to banking, finance and insurance companies listed in NEPSE. During this study statistical tool, financial tools and financial parameters were used. The objectives of this study were to predict trends and significant development of stock in NEPSE, analyze size and return of securities, and compare with market return, examine the relation between market capitalizations with other determinants variables. The study found that banking sector occupy 62.18% whole transaction of NEPSE. So, the rate of stock market depends on performance of banking sector. The participation of people is encouraging market due to higher return. The average return of financial and insurance is 13.86% and coefficient of variation is 290.03%. The risk associated with finance and insurance sector is higher than banking sector. Similarly, in the case of finance and insurance sectors, EPS has found significant relationship with market capitalization.

Giri (2007) studied on Behavior of Share Price of Listed Commercial Bank by taking 10 sample commercial banks. There used statistical tools, financial tools and financial parameters. The objectives of this study were to provide glimpse of Nepalese stock

market, analyze the share price behavior of listed commercial banks, to examine the risk involved in the common stock investment on those listed commercial banks. The study found that weakly efficient market hypothesis does not offer a satisfactory explanation to these speculative price series. The information of the past price changes is helping in predicting future change. So, sufficient opportunities are available to institution and individual investors to make higher expected profit in future. Most of the stocks seemed to be riskily than the average stock. She found that most of the banks are offering cash dividends every year. According to her it is not applicable in the other type of non-banking industries.

Dhungel (2007) analyzed on stock price movement and financial performance of Nepalese listed companies with the objective to measure the stock price behaviors and fluctuation trends. The study revealed the relationship between share volumes, market capitalization with price of stock and concluded that the invisible factors causes the ups and downs movement of monthly share volume, price and market capitalization throughout each fiscal year, the fluctuation trends is not in order and there is no correlation between volume and price of stocks. The larger stocks have the lower price earnings ratios, larger market value to book value ratio and lower ratio of dividend per share to market price per share, higher J and less variable leverage and lower profitability. Most banks are unknown about laws and policies regarding share market but poor rules and regulation as well as ineffective regulatory mechanism of market makers are the problem of Nepalese capital market. Due to the inadequate knowledge of share market among Nepalese investors, capital market of Nepal has not been well developed yet. The reason why commercial banks are only the attractive sectors to invest, in the view of investor is that they are better managed and controlled; that is why they are in profit and distribute good rate of dividend.

Regmi (2008) studied on share price behaviors in Nepal. The objective of the study was to assess equity share price behaviors in Nepal. The other specific objectives were to test random walk or weak form efficient market hypothesis, examine whether successive price changes are independent or not, conduct the opinion survey financial executives regarding the various aspects of the share price behaviors in Nepal. There used both the tests- serial correlation and run test analysis do not support the independence assumption of random walk model. Share price movements are caused by flow of several kinds of information in

the market. The existence of work from efficient market hypothesis slightly accepted by the financial executives in Nepal.

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

Dhakal (2010) studied on stock price behavior of listed companies of NEPSE Ltd taking ten public companies as sample from listed among 149 companies for 17 years data. Study found that Nepalese stock is not efficient enough to determine MPS in accordance with the respective financial performance. The market price of the share of Nepal is not indicative of company's financial performance in stock market and share market is imperfect and not efficient also mainly driven by rumors, manipulation, anomalies and political activities.

Shrestha (2010) analyzed on stock price behavior of Nepalese Commercial banks taking 10 commercial banks as sample over the period of 5 years. In this study market price of share in NEPSE are affected by the earnings book values, dividend payment and risk associated with company. Similarly, there are other factor such as government instability, information's rumors and whim. However, NEPSE is in primitive stage and it doesn't have significant effect of retention cost of equity and change in management. Most banks are unknown about laws and policies regarding share market but poor rules and regulation as well as infective regulatory mechanism of market makers are the problem of Nepalese capital market.

Nazir, Nawaz and Ahmed (2010) examined the price volatility with the dividend yield, payout ratio, earning volatility and size in Karachi Stock Exchange (KSE) for the period 2003-2008 by using fix effect and random effect regression model analysis taking 73 companies as sample. The result indicated that dividend policy (dividend yield and dividend payout) has significant impact on the price volatility and size and leverage have negative and non-significant impact on the stock price volatility.

Nasif Al-shubiri (2010) analyzed the determinants of market stock price movement variables such as book value per share, dividend per share, earning per share, lending interest rate, inflation rate ,gross domestic product, net worth for the period 2005 to

2008. The result revealed that EPS, BVPS, dividend per share has significant impact on the market price of share. Furthermore, result of the study indicated that DPS, EPS, being strongest determinants of market price. So the Result supports liberal policy and suggests companies to pay regular dividend.

Khan (2010) analyzed the determinants of share price movement in Bangladesh and revealed expected dividend and retained Earning of the firms listed with Dhaka Stock Exchange does not play an important role in determination of stock price in all industries.

Sharma (2011) examined the empirical relationship between equity and share prices and explanatory variables such as: book value per share, dividend per share, earning per share, price earnings ratio, dividend yield, dividend payout, size in terms of sale, and net worth for the period 1993-94 to 2008-09. The Results revealed that earning per share, dividend per share, and book value per share has significant impact on the market price of share. Furthermore, results of the study indicated that dividend per share and earnings per share being the strongest determinants of market price, so the result of study supports liberal dividend policy and suggests companies to pay regular dividends.

Paudel (2012) studied on stock price behavior of commercial banks in NEPSE of monthly closing price of 6 listed commercial banks during the period of three consecutive years from 2002 to 2004 by means of Correlation Coefficient, Regression Analysis, Run Test and Autocorrelation. The researcher found in the study that successive price changes were correlated with previous price series. The researcher also found that most of the stocks did not follow random walk hypothesis. The present stock price was dependent to the historical prices. The EPS was the most affecting factor for the price change of the stock. Most of the investors wanted to invest in the shares of commercial banks because the fluctuation in NEPSE index was due to the transaction of commercial bank's shares. There were serious limitations in the study. Data used in this study, monthly closing price of stocks not enough to predict the behavior of share prices.

Since the above-mentioned studies on share price behavior in Nepal offer limited findings. Therefore, more extensive testing measures, more close time period (in most of the study data taken as weekly or monthly basis which is not real representation of the market) and adjustment of necessary variables are needed in order to be more conclusive about the efficiency of Nepalese stock market. Arial's study has now become old since it

was based on eight months of time period covering from starting day of the organized stock market. Moreover, the companies included in the sample were randomly selected and did not fulfill any criteria.

Khan and Amanullah (2012) investigated different determinants of share prices of Karachi Stock Exchange (KSE) 100 index using linear Multiple Regression model. A sample of 34 companies has been randomly selected from 34 sectors of KSE. Ten year's (2000-09) data has been collected for the sample companies. The study found that rises in GDP, dividend and P/E ratio leads to rise in share prices but B/M ratio and interest rate are negatively related to share prices.

Malhotra and Tandon (2013) attempted a study to determine the factors that influence stock price in the context of National Stock Exchange (NSE). 95 of companies are selected as sample from the data 2007-2012 by using the linear regression. The result of the study indicates that firms book value, earning per share and price earnings ratio are having a significant positive association with firms market price while dividend yield have inverse significant with market price of the firms market price.

Bhattarai (2014) administered a research to identify the determinant of share price of Nepalese Commercial bank over the period 2006-2014 using the multiple regression models and concludes that dividend yield, earning per share and price earnings ratios are the major determinant of share price of Nepalese's Commercial bank.

Shrestha and Subedi (2014) found the positive relation between the growths of NEPSE with money supply; however negative relationship shown by Treasury bill. The result was drowning by empirical examination in Nepal by using monthly data from August 2000 to July 2014 with the help of regression correlation method.

Amatya (2015) studied on Anomalies in stock market in NEPSE and International context. Anomalies are likely to affect market because every investor is not rational and are rather driven by psychological and behavioral biases such as personality, attitude, culture value and assumption of investor. Moreover, Due to small market size big player of big firms can easily manipulate the market.

Challa and Chalam (2015) found the significance of book value and net worth as determinants of market share price of selected steel companies listed in Bombay Stock

Exchange by the statistical tools of multiple regressions. The study was based on the data from 2003/04 to 2012/13. The purpose of study was to know the influences of the various financial factors on stock market prices. The study analyzed the impact of selected accounting variables like book value, dividend per share, earning per share, size of firm, dividend payout ratio and P/E ratio on the equity price of listed companies in Bombay Stock Exchange.

Qaisi, Tahatmout and Oudah (2016) studied the effect on market price such as Return on Assets (ROA), ROE debt ratio, the age of company, the size of company. The study used twenty insurance companies listed in Amman Stock Exchange during the period 2011 to 2015. The data analysis included simple and multiple regression method and results found that there is effect between ROA, Debt Ratio, Company age and Company size and market stock price and there is no effect of ROE and market stock price in insurance companies listed on ASE.

Karki (2016) empirically examined the macro-economic factors on the stock market performance in Nepal and found that there is positive relationship of market price to real GDP, Inflation and money supply and negatively to interest rate. It is also found that stock price movement in Nepal is not explained by macroeconomic variables. In the more recent study, Phuyal (2016) documented that the stock market has the long run equilibrium relationship with a set of macroeconomic variables. In this study he found that there is significant positive relationship between remittance and NEPSE index applying Johannes's co-integration method study employed monthly data from 2003 to 2012.

Ojha (2016) administrated a research on financial performances and common stock pricing. In this study author found that dividend per share is relatively more stable than the dividend payout ratio. That's why payout ratio and dividend yields have been fluctuating, People have a misconception that the issuance bonus shares and right shares, which actually decrease the net worth per share, There is significant positive correlation between the dividends paid and stocks prices of banking and manufacturing industries. All other industries have not a perfect correlation between the dividends paid and stock prices and there is positive correlation between the net worth per share and stock prices of banking, hotel industries, there is no perfect correlation between the net worth per share and common stock price.

Agrawal (2017) examined determinants of stock prices fluctuation in Nepal and found that there was difference between NEPSE index before major signaling factor and major signaling factors such as: public monument 2062/63, peace pact Maoist and government, Political demonstration. Under correlation test between EPS and DPS with MVPS has been tested. To compute the value of predetermined hypothesis, paired- test correlation and regression analysis has been done. Analysis of financial indicators (EPS and DPS) has shown that Nepalese stock market is still on infancy stage. EPS and DPS are not much stable. Potential investors are highly attracted by banking industry and financial company.

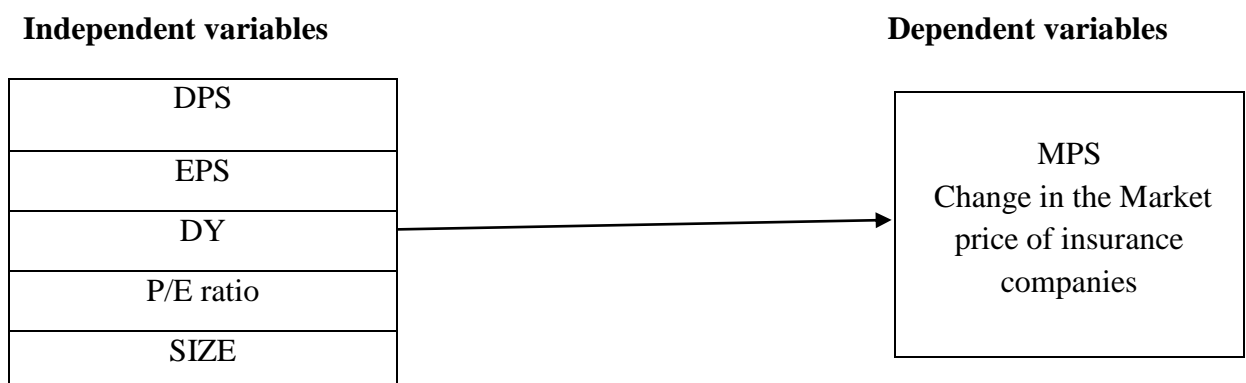
Saldani, Axidin and Bektas (2017) examined the causality relationship of the stock price of 10 deposit banks traded in Borsa Istanbul with industrial production index, exchange rate and money supply using monthly observations and focusing on the period between Jun 2007 and October 2016. The panel causality test is used to examine the causality relationship between variables. The finding of the study showed that the industrial production index is not one of the determinants of stock price of the bank examined.

2.3 Conceptual frameworks

Based on the literature review the major factor affecting stock prices considered in this study are : Dividend per share (DPS) ,Earning per share (EPS), Dividend Yield (DY), price earnings ratio(P/E) ,Paid up capital(SIZE)

Figure 2.1

Conceptual framework of the study



2.4 Research Gap

Earlier studies and researches on the stock price movement in the NEPSE are carried out on the apparent approach by taking the most common indicators inconsideration. During the review of previous thesis, it is found that very few researches have been conducted by taking these sample companies, which the researcher has selected in this research and it is found that there is also a research gap in these period too. So, it is believed that this study will fulfill the gap, which had been made by the earlier researcher.

Researcher has taken sample from only the first class commercial banks, which also could predict the sensitive stock moment as well. Moreover, the researcher has been conducted on price behavior related to stock market efficiency by using share brokers, market analysts and individual investors as primary sources of information. There was a need to conduct a survey with the share brokers, market analyzers and individual investors who are the major stakeholders of the stock market.

Furthermore, it shows that there is very few research works conducted on various aspects of securities price formation of insurance companies in the field of stock market. The studies conducted in developed security markets may not be entirely relevant in the security markets of underdeveloped country like Nepal. There applicability to test in the context of smaller and underdeveloped capital market likes ours. The changes taken place after the completion of these studies might have reduce their relevance. Therefore, it is necessary to test the validity of these studies and their applicability in our context.

Most of the above stated studies use technical method and statistical methods like regression analysis, correlation coefficient, NEPSE trend etc. for analysis purpose. Only few of studies use fundamental analysis tools for the research work. More than that, some few studies are concerned about financial indicators like EPS, DPS and BVPS, which are the most influencing factors for the MVPS. So, this study tries to analyze the relationship of these factors along with influencing factor on market price of the stock.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Research Design

A research design is the arrangement of conditions for collection and analysis data in a manner that aims to combine relevant to the research purpose with economy in procedure. Research design is the conceptual structure within which the research is conducted. This research study has applied descriptive and analytical design. The research adapted for this purpose of the study is descriptive research design. To determine the effect of book value, dividend and earning on stock price descriptive and analytical research design has been adapted along with correlation and regression analysis. To identify the qualitative factors affecting stock price, descriptive research design has been adopted.

3.2 Population and Sample

This study has examined the determinants of share price of insurance company in Nepal. This study adopted descriptive and causal comparative research design. All the listed both life and non-life insurance companies i.e. (26 companies) were population and six insurances companies were selected as sample using convenient sampling method for study.

3.3 Nature and Sources of Data

This study is based on secondary data. The quantitative data have been extracted from secondary sources. Company's annual financial statements have served the data required to capture the stock price of the firm. Company's balance sheet, income statement, financial ratio providing, information like dividend, earning, book value and market price etc. have been excessively employed as a secondary source of data. Secondary data were collected from annual reports of the selected insurance companies for the years 2011/12 to 2018/19.

3.4 Data Analysis Tools

The secondary data collected from various sources leads to the logical conclusion-only if the appropriate tools and techniques are adapted. To analyse the data, the following statistical and financial tools have been.

3.4.1 Statistical tools

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

a. Mean

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

Mathematically,

$$\text{Mean } (\bar{x}) = \frac{\sum x}{n}$$

Arithmetic Mean (AM)

Where,

\bar{x} = Arithmetic mean.

$\sum x$ = Sum of all the valued of the variable x.

n = Number of observations.

b. Standard deviation

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

Mathematically, standard deviation $\sigma = \sqrt{\frac{1}{n} \sum (x - \bar{x})^2}$

c. Coefficient of variation

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

$$\text{Mathematically, (coefficient of variation) } (CV) = \frac{\sigma}{x} \times 100$$

d. Correlation coefficient

Correlation may be defined as the degree of linear relationship existing between two or more variables. Two variables are said to be correlated is accompanied by the change of another variable. If the increase (decrease) in the value of one variable on an average is associated with the increase (decrease) in the value of another variable, positive relationship is said to be existed. The relationship will be negative if increased (decreased) in the variable of one variable is associated with the decreased (increased) in the value of another variable. But the correlation coefficient always remains within the limit of +1 to -1. By Karl Pearson, the simple correlation coefficient (between two variables say x and y) is given by:

$$r_{xy} = \frac{n\sum xy - \sum x \sum y}{\sqrt{[n\sum x^2 - (\sum x)^2]} \sqrt{[n\sum y^2 - (\sum y)^2]}}$$

Where,

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

- r lies between -1 and +1, i.e. $-1 \leq r \leq +1$
- Where $r=+1$, there is perfect positive correlation
- Where $r=-1$, there is perfect negative correlation
- Where $r=0$, there is no relation.
- Where r lies between 75 to 1 (-0.75 to -1), there is very high (significant) degree of positive or negative correlation.
- Where r lies between 0.50 to 0.75 (-0.50 to -0.75), there is high degree of positive or negative correlation.
- When r lies between 0.25 to 0.50 (-0.25 to -0.50), there is low degree of positive or negative correlation.

- When r lies between 0 to 0.25 (0 to -0.25), there is very low degree (insignificant) of positive or negative correlation.

e. Regression analysis

Correlation coefficient measures the degree of relationship between two variables whereas the regression analysis is used to estimate the likely value of one variable from the now value of other variable. In regression analysis we establish. In regression analysis we establish a kind of average irreversible functional relationship between two variables. In other words, regression analysis is a mathematical measure of the average relationship between two or more variable in term original unit of data.

To achieve this objective a multiple regression model is specified as:

$$MP_{it} = \beta_0 + \beta_1 DPS_{it} + \beta_2 DY_{it} + \beta_3 EPS_{it} + \beta_4 P/E_{it} + \beta_5 SIZE_{it} + \varepsilon$$

Where:

MP_{it} = market price of the share of firm i in year t

DPS_{it} = dividend per share of firm i in year t

DY_{it} = dividend declared in a financial year with respect to its market price
Firm i in year t

EPS_{it} = earnings per share of firm i in year t

P/E_{it} = price earnings ratio of firm i in year t

$SIZE_{it}$ = insurance companies size (natural logarithm of total assets) of firm i in year t

β_0 = the intercept (constant term)

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ = regression coefficient for respective variables (i.e. the slope Which represents the degree with which share price changes as the independent variable changes by one unit variable).

ε = error terms

f. Coefficient of determination

The coefficient of determination gives the percentage variation in the dependent variable that is accounted by independent variables. In other words, the coefficient of determination gives the ratio of expected variance to the total variance. The coefficient of determination is given by the square of the correlation coefficient, i.e. r^2 . So, the coefficient of determination

$$r^2 = \frac{\text{Expected Variance}}{\text{Total Variance}}$$

3.4.2 Financial Tools

Except the statistical tools some financial tools have also used in this research work. The major financial tools used in this study are:

a. Market price per share

The MPS is the amount in which a share of the stock is traded in the market. It is calculated as follows.

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

b. Earnings per share

The firm's earning per share (EPS) is generally of interest to present or prospect stockholder and to management. The amount earned during the accounting period on each outstanding share of common stock, calculated by dividing the period's total earnings available for the firm's common stock holders by the number of common stock outstanding.

$$\text{Earnings per share} = \frac{\text{Net profit after tax} - \text{Preference dividend}}{\text{No of share outstanding}}$$

c. Dividend yield

It depicts the percentage of dividend declared in a financial year with respect to its market price. It is derived by dividing dividend per share with market value per share.

$$\text{Dividend yield} = \frac{\text{Dividend per share}}{\text{Market price of share}} * 100$$

d. Dividend payout ratio

Dividend payout shows the percentage of the net profit after taxes and preference dividend paid out a dividend to equity shareholders. It can be calculated by dividing the total dividend paid to the equity shareholder by total profits/earnings available to them.

$$\text{Dividend payout} = \frac{\text{Dividend Per Share}}{\text{Earning Per Share}} * 100$$

e. Price earnings ratio

It relates with the comparison of market value with its earnings per share (EPS). It is calculated as follows:

$$\text{Price earnings ratio} = \frac{\text{Market Price of Share}}{\text{Earning Per Share}} * 100$$

f. Size

Size of the firm plays an important role in an investment criterion. Large companies generally offer the investment opportunities to investor than the smaller one. The size of the firm can be measured in paid up-capital.

g. Dividend per share

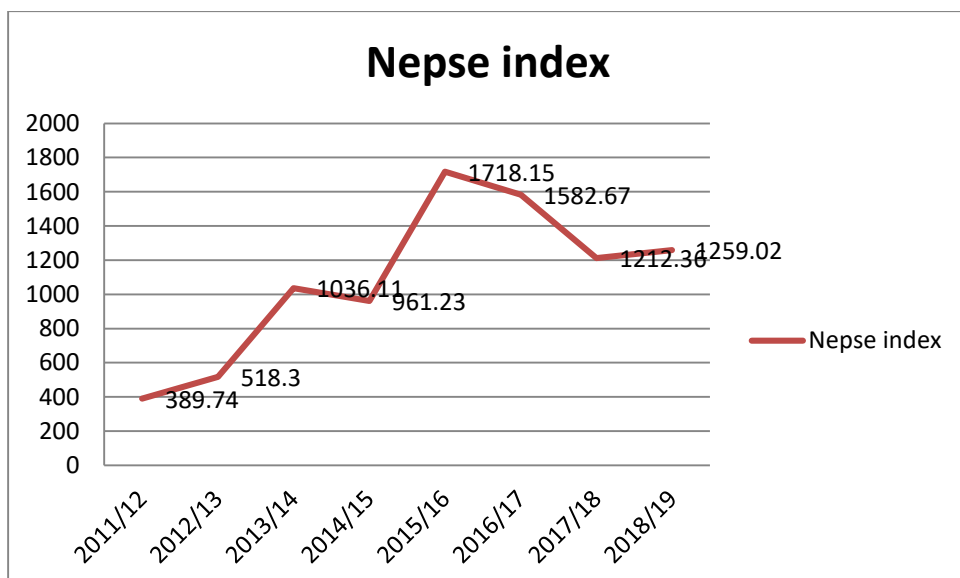
The percentage of earnings the firms pays in cash to its shareholders is known dividend. The dividend, of course, reduces the amount of earnings retained in the firm and effect the total amount of internal financing. Nothing is more important than dividends to stockholders. They buy share of firm with the hope of sharing profits earned by firms. The role motive of stockholders is to receive return on their investment, nothing please them than knowing the firm's earning and more profits mean more dividends coming in. An issue of bonus share represents a distribution of share in addition to cash dividend to the existing stockholder. This practice has the effect of increasing the number of outstanding share of the company, which is distributed proportionately. Thus, a shareholder retains proportionate ownership of the company. Payments made in cash to stockholders are termed as 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 account of the firm will be reduced, thus both the total assets and the net worth of the firm are reduced in case of distribution of cash dividend.

CHAPTER-IV

RESULTS

4.1 Trend Analysis

One of suitable techniques for analyzing price index is trend analysis. Trend analysis is techniques used in technical analysis that attempts to predict the future stock price movement based on recently observed data. Trend analysis is based on the idea what has happen in the past given traders and idea of what will happen , in future, For this purpose, NEPSE index of last eight years has been taken.

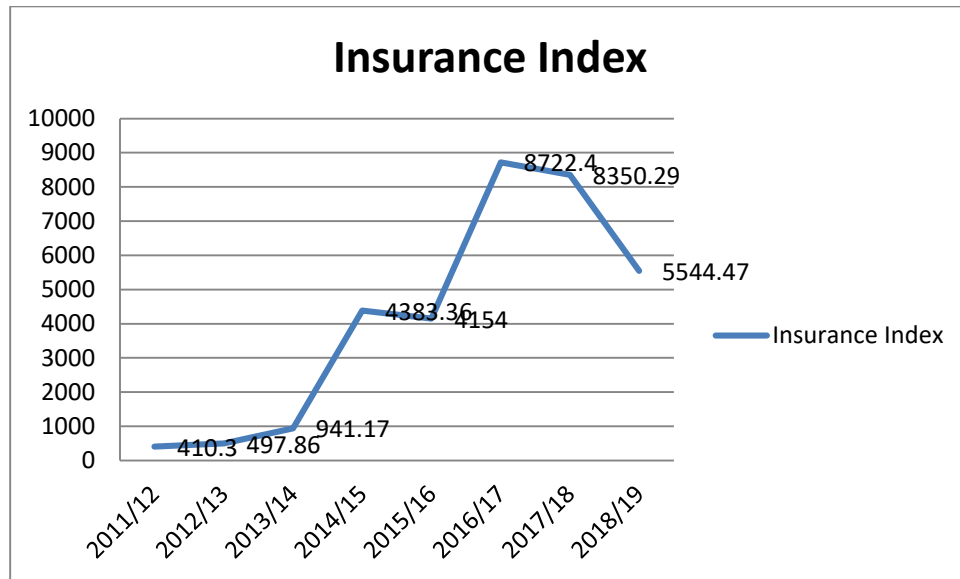


Source: NEPSE Annual Report (2011/12 to 2018/19)

Figure 4.1 NEPSE Index

Figure 4.1 shows that NEPSE price index clear that end of fiscal year 2011/12 to 2013/14 is increasing trend and after that NEPSE price index has decreased from the fiscal year 2013/14 to 2014/15 by 75 points during this year. When the Nepal Rastra Bank and Beema Sansthan had published the notice about the capital increase of commercial bank and other financial intuitions then the NEPSE index gain the highest index of 1718 during the fiscal year of 2015/16. Capital market is not static its only depend upon demand and supply, there is

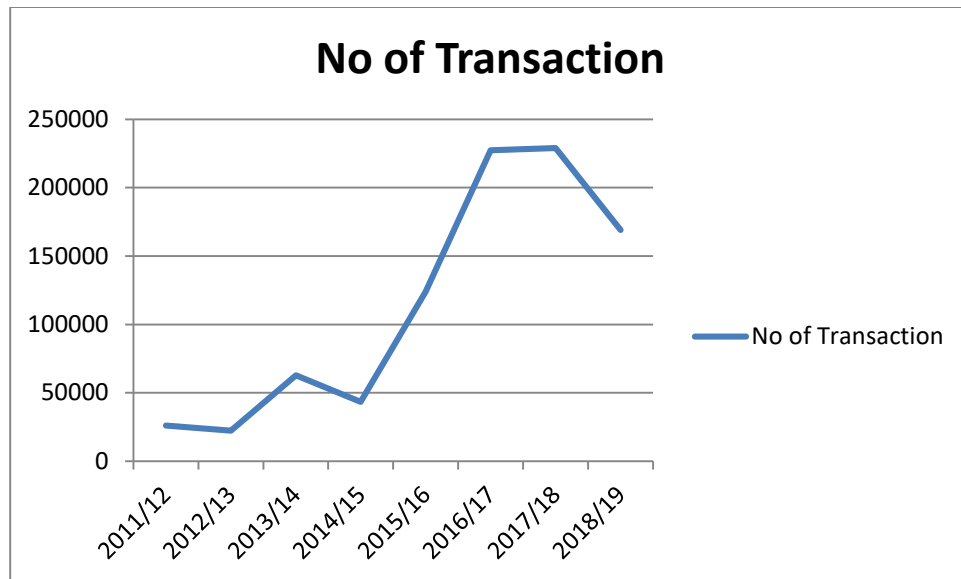
large supply of share in NEPSE after the capital incresasement of banks and financial intuitions and less demand in the NEPSE. Due to this reason NEPSE index rise to fall and catch the bearish trend for last three years. In the fiscal year 2017/18 to 2018/19 NEPSE index slowly increasing.



Source: NEPSE annual report (2011/12 to 2018/19)

Figure 4.2 Insurance Index

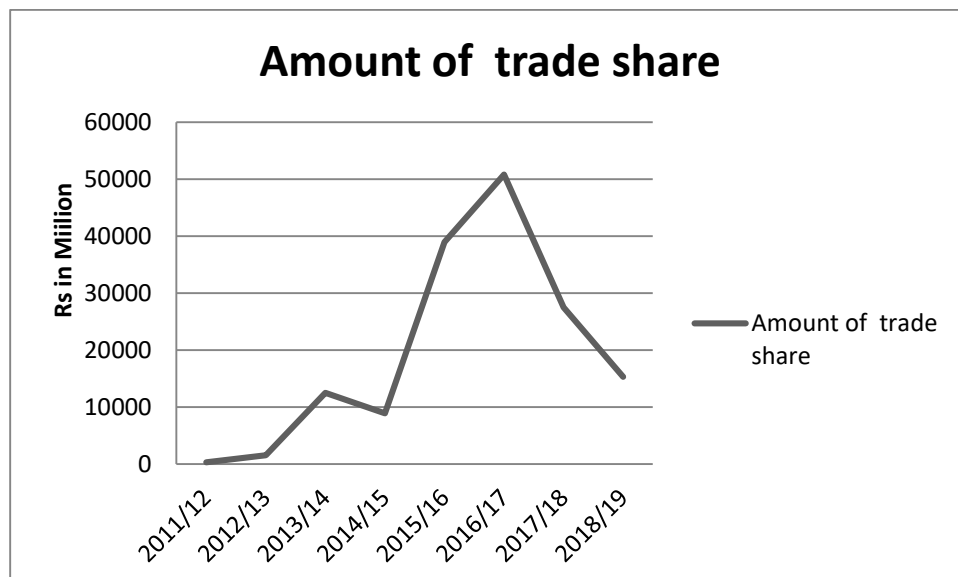
Figure 4.2 show that in the fiscal year 2011/12 to 2013/14 slowly increasing after that insurance price index has captured the bullish trend from 941.17 points to 4383 points for the fiscal years 2013/14 to 2014/2015. Due to divested earthquakes for the fiscal years 2015/16 the insurance index as well as NEPSE index falls, when the blockades had happen in 2016/17 and regulatory bodies Beema Sansthan announced the increase in paid up capital of insurance companies insurance index begins to rises. Due to high supply and less demand index begin to fall 8350.29 to 5544.47 point for fiscal year 2017/18 to 2018/19.



Source: NEPSE annual report (2011/12 to 2018/19).

Figure 4.3 No of Transaction

Figure 4.3 show no of transaction of listed insurance companies in NEPSE. No transaction satisfactory increasing trends besides fiscal year 2012/13 to 2014/15. Due to the reason no of transaction slowly decreasing trend for the fiscal year 2017/18 to 2018/19.



Source: NEPSE annual report (2011/12 to 2018/19).

Figure 4.4 Volume of Traded Stock

Figure 4.4 show amount of trade share increasing trend FY 2011/12 to 2013/14 and after that FY 2013/14/ to 2014/15 amount of trade share decreased. .Amount of trade share satisfactory increasing trends FY 2014/15 to 2016/17 and start to falls from 2016/17 to till now.

Table 4.1 Market summary of insurance companies

Particulars	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Trades Share	1521560	3977550	13375110	7047900	25727700	28137230	22067040	21615073
Total % of traded share	3.36%	5.80%	6.25%	4.41%	8.52%	7.17%	7.51%	5.58
Traded volume (Rs in millions)	334.28	1546.89	12517.74	8948.65	38985.07	50817.03	27504.85	13552.46
% of total Volume	3.25%	7.44%	16.19%	13.70%	23.78%	24.81%	22.68%	13.45
Market Capitalization (Rs in millions)								
Open	12254.32	12639.56	27519.81	141238.09	133677.08	283162.17	295854.41	221015.62
Closed	12639.56	27410.88	140643.22	133677.08	284734.93	295801.97	223921.77	204586.01
% of total Capitalization	3.48%	5.33%	13%	15.51%	12.42%	15.15%	15.16%	13.06%
Index								
Opening	410.30	497.86	941.17	4383.36	4154.19	8722.4	8350.29	6199.45
Closing	497.86	941.17	4383.36	4154.19	8722.4	8350.29	6199.45	5544.47
No of Transaction	26035	23245	62853	42345	124024	227320	228998	169139
% covered of total transaction	3.63	5.04	11.09%	8.89%	14.82%	16.77%	17.48%	11.89

Source: NEPSE annual report (2011/12 to 2018/19).

An insurance industry plays the supportive role for the development of trade and industries, it saves governments funds, share risks and reduce worry and fears. Insurance encourages to individuals for savings funds for future, reduces tax liability and increase confident. Insurance sector is the third largest listed sector in NEPSE on the basis of turnover and no of listed companies.

During year 2011/12 the no of transaction is 26035 which are 3.63 % of total transaction in NEPSE. During this year's insurance index opens with 410.30 points and closed at 497.86 points. The trade volume during this year's is 334.280 million rupees which is 3.36% of total turnover and which is 3.48% of total market capitalization. 1521560 kitta of share are traded during this year's and covers the 3.36% of total traded share. After that fiscal year 2012/13 the no of transaction is 23245 which are 5.04 % of total transaction in NEPSE. During this year's insurance index opens with 497.86 points and closed at 941.17 points. The trade volume during this year's is 1546.89 million rupees which is 7.44% of total turnover and which is 5.33% of total market capitalization. 3977550 kitta of share are traded during this year's and covers the 5.80% of total traded share. During 2013/14 the no of transaction is 62853 which are 11.09 % of total transaction in NEPSE. During this year's NEPSE index remain volatiles which influences insurance index, insurance index opens with 941.17 points and closed at 4383.36 points. The trade volume during this year's is 12517.74 million rupees which is 16.17% of total turnover and which is 13% of total market capitalization. 13375110 kitta of share are traded during this year's and covers the 6.25% of total traded share During the fiscal years 2014/15 Nepal faced the highly affected earthquakes. Turnovers, market capitalization NEPSE index and insurance index decreased as compared to previous fiscal years at some extent. During this year's there are 42345 no of transaction which is 8.89 % of transaction. During this period 8948.65 million of rupees of share are traded with 7047900 kitta of share of insurance company are traded and covers 15.5% of market capitalization with 13.70 % of total traded share volume. Insurance index opens at 4383.86 points and closed at 4154.19 points. When the regulatory bodies Beema Sansthan announced the increased in capital for both non-life and life insurance companies NEPSE index, insurance index, no of transaction, market capitalization, total traded share and contribution of insurance sector in NEPSE are in increasing trend for the last two fiscal years 2015/16 to 2016/17. For the fiscal year 2017/18 to 2018/19 there is 228998 and 169139 no of transaction with 27504.85 million and 15352.46 million of rupees of share of insurance companies are

traded in NEPSE. There is decreased in market volume with fiscal year 2017/18 to 2018/19 .Fiscal year 2017/18 22.68 % of market volume is done during this year's. 22067040 kitta of share are traded which covers 7.51 of total traded share of NEPSE. Fiscal year 2018/19, 13.45 of market volume 2165073 kitta of share are traded which coverage 5.58 of total trade share of NEPSE. Insurance index opens at 6199.45points and closed at 5544.47. During the fiscal years 2018/19 total traded volume, no of transaction, market capitalization, total traded share insurance index are decreased as compared to previous years..

Even though the listed companies remain constant for insurance companies, the no transaction, volume of stock traded, market capitalization, trading amount are in increasing trend at some extent for last eight years. NEPSE price index and insurance index are has also risen from 2011/12 to 2015/16 and start to falls from 2016/17.

4.2 Analysis of Financial Indicators

The summary of financial indicators of the sampled listed companies of this study are presented with eight years data (2011/12 to 2018/19) including market per share, dividend payout ratio, earning per share, size (in paid up capital), price earnings ratio dividend per share and dividend yield.

a. Analysis of Market per share

Table 4.2 Analysis of Market Price per share

Insurance Company	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	Mean	S.D	CV
SLICL	144	166	750	709	856	1070	600	456	593.875	324.6	0.547
SIC	347	591	1260	750	2401	1640	1340	605	1116.75	682.3	0.611
NIC	118	113	770	462	1051	981	558	495	568.5	352.71	0.62
NLICL	785	1425	4351	2886	4060	2148	1035	901	2198.88	1424.6	0.648
NLIC	529	596	2550	1840	3300	2300	799	585	1562.38	1079.4	0.691
PRIN	97	134	583	350	1470	1000	535	364	566.625	463.04	0.817
MEAN	336.67	504.2	1710.7	1166.2	2189.7	1523.2	811.17	567.67			
SD	275.85	503.6	1480.4	995.6	1293.7	596.75	320.89	185.49			
CV	0.8194	0.999	0.8654	0.8537	0.5908	0.3918	0.3956	0.3268			

Mean, Standard Deviation & Coefficient of Variations of MPS

Table 4.2 it is clear that the end of FY 2011/12 to FY2013/14 is increasing and in FY 2013/14 to 2014/15 decreasing but FY2015/16 highly increased and after FY2016/17 to FY 2018/19 is sharply decreased due to different factors. According to coefficient of variation is 99.89% in FY 2011/13 which is highest CV during the period. This CV indicates that it is highest risk involved in insurance companies but FY 2018/19 has least

CV which is 32.67%. Similarly from the above table it is analyzed under the company wise PRIN have highest CV which is 81.7%. It indicates that there is highest degree of risk involvement but SLICL have less risk CV which is 54.7% it shows that 54.7 % have less risk involved during the study.

b. Analysis of Earning per share

Table 4.3 Analysis of Earning per share

Insurance company	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	MEAN	S.D	CV
SLICL	8.17	9.79	8.76	4.54	5.68	14.78	11.08	16.64	9.93	4.1657	0.4195
SIC	106.39	69.3	64.54	30.88	41.67	47.48	61.88	27.62	56.22	25.46	0.4529
NIC	24.99	27.35	44.04	48.46	39.9	24.74	24.74	29.22	32.93	9.6754	0.2938
NLIC	166.85	121.51	56.67	10.36	11.09	13.45	10.9	9.52	50.04	61.413	1.2272
NLICL	24.02	88.32	32.21	21.1	16.64	17.78	18.02	11.18	28.66	24.877	0.8681
PRIN	35	44	32	17	45	30	32	26	32.63	9.1329	0.2799
MEAN	60.903	60.045	39.703	22.057	26.663	24.705	26.437	20.03			
S.D	62.283	41.268	19.983	15.78	17.435	12.805	19.173	8.6946			
CV	1.0226	0.6873	0.5033	0.7155	0.6539	0.5183	0.7253	0.4341			

Mean, Standard Deviation & Coefficient of Variations of EPS

Table 4.3 shows the CV of MPS PRIN is high among the sampled insurance which indicate that there is high risk involved in market price of share for the investor and shareholders of this insurance. The CV of MPS in SIICL is low which show that there is low risk involved in market price of share for the investors and shareholders. The CV of EPS in NLIC is the highest who means the NLIC common stock are riskier as compared to other insurance. The CV of PRIN is lower comparing with others and it is less riskier among act. FY 2011/12 has highest CV and FY 2018/19 has lowest CV during the study period. Insurance industry has EPS of Rs 35.44 in FY 2013/14 which is highest and FY2018/19 has lowest EPS of Rs 19. At the end the above calculation and analysis explains that when the EPS were increased, the MPS also increased. EPS is the one humbly affected to MPS. EPS plays the vital role for the price fluctuation in the capital market.

c. Analysis of P/E ratio

Table 4.4 Analysis of Price earnings ratio

Insurance company	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	MEAN	S.D	CV
SLICL	17.64	16.95	85	132.06	150.78	72.4	54.17	27.71	69.589	50.99	0.733
SIC	3.36	8.53	19.23	24.31	57.63	34.54	21.66	21.9	23.895	16.65	0.697
NIC	7.72	4.13	28.37	9.53	51.51	33.3	22.56	16.94	21.758	15.78	0.725
NLIC	4.7	11.73	76.78	278.57	366.1	159.7	94.95	94.64	135.9	127.3	0.937
NLICL	22.03	6.67	79.17	87.2	198.32	129.36	44.34	52.38	77.434	62.34	0.805
PRIN	3	3	18	20.59	32.67	32	35	14	19.783	12.8	0.647
MEAN	9.7417	8.5017	51.092	92.043	142.84	76.883	45.4467	37.928			
S.D	8.1126	5.1871	32.325	102.88	127.06	55.389	27.3007	30.982			
CV	0.8328	0.6101	0.6327	1.1177	0.8896	0.7204	0.60072	0.8169			

Table 4.4 shows the CV of MPS in PRIN is high among the sampled insurance which indicate that there is high risk involved in market price of share for the investor and shareholders of this bank. The CV of MPS in SLICL is low which show that there is low risk involved in market price of share for the investors and shareholders. The CV of P/E ratio NLIC is highest which mean the NLIC common stock are riskier as compared to other insurance companies. The CV of PRIN is lower comparing with others and it is less riskier among act. FY 2014/15 has highest CV of 111.17% and FY 2017/18 has lowest CV of 60.07% of PE. At the end the above calculation and analysis explains that when the P/E where increased, the MPS also increased. P/E is the one humbly affected MPS plays the vital role for the price fluctuation in the capital market.

d. Analysis of Dividend yield

Table 4.5 Analysis of dividend yield

Insurance company	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	MEAN	S.D	CV
SLICL	0	0	0	0	0.58	1.12	2.34	2.63	0.834	1.0969	1.316
SIC	0	0	1.25	2.67	0.99	0	1.64	14.21	2.595	4.7871	1.845
NIC	10.26	0	3.32	2.75	1.43	2.04	1.79	1.64	2.904	3.1282	1.077
NLIC	16.08	6.91	1.56	3.41	1.67	1.22	6.81	5.38	5.38	4.9051	0.912
NLICL	4.91	12.24	1.49	1.36	2.2	1.65	3.29	2.48	3.703	3.6423	0.984
PRIN	11.34	9.7	2.06	0	0.82	1.7	3.78	4.48	4.235	4.1639	0.983
MEAN	7.0983	4.8083	1.6133	1.6983	1.28167	1.2883	3.275	5.13667			
S.D	6.5455	5.5306	1.0831	1.474	0.60111	0.7153	1.92375	4.65583			
CV	0.9221	1.1502	0.6713	0.8679	0.46901	0.5552	0.58741	0.90639			

Mean, Standard Deviation & Coefficient of Variations of DY

Table 4.5 shows the CV of MPS in PRIN is high among the sampled insurance which indicate that there is high risk involved in market price of share for the investor and shareholders of this bank. The CV of MPS in SICL is low which show that there is low risk involved in market price of share for the investors and shareholders. From the above table analysis, it is clear that insurance sector has less dividend yield rather than other sector of listed companies. DY has less effect on MPS. In FY 2011/12 shareholder gets the highest rate of return where in FY 2015/16 gets less rate of return.

e. Analysis of SIZE

Table 4.6 Analysis of Paid up capital

Insurance company	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	MEAN	S.D	CV
SLICL	36	41.13	50	50	50	65.62	65.82	126.77	60.668	28.67	0.473
SIC	12.91	25.83	31.01	35.64	44.12	53.82	53.82	100.12	44.659	26.39	0.591
NIC	12.12	13.52	13.52	25	32.4	71.89	117.62	131.74	52.226	48.88	0.936
NLIC	30	63.75	108	200.1	216.75	309.64	439.69	549.62	239.69	183.3	0.765
NLICL	30.85	50.99	78.39	101.92	101.92	132.48	165.6	300.74	120.36	84.51	0.702
PRIN	14.75	16.23	18.26	29.68	32.9	57.57	68.38	100.51	42.285	30.63	0.724
MEAN	22.772	35.242	49.863	73.723	79.682	115.17	151.82	218.25			
S.D	10.654	20.086	37.064	67.96	71.905	99.527	147.1	179.04			
CV	0.4679	0.57	0.7433	0.9218	0.9024	0.8642	0.9689	0.8204			

Mean, Standard Deviation & Coefficient of Variations of SIZE

Table 4.6 NIC have highest CV which indicates that the size (paid-up) these companies are increasing faster than other listed companies while SLICL has least CV this means the size of these companies are increasing in smaller difference. Table 4.6 explains that when the size of companies is increased, the MPS also decreased. Size affected MPS plays the vital role for the price fluctuation in the capital market.

f. Analysis of Dividend per share

Table no 4.7 Analysis of dividend per share

Insurance company	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	MEAN	S.D	CV
SLICL	0	0	0	6.5	5	12	12	12	5.9375	5.5706	0.9382
SIC	0	0	15.78	25	23.16	0	22	86	21.4925	28.272	1.3154
NIC	12.11	0	24.74	0	25	63.15	30.5	8.16	20.4575	20.772	1.0154
NLIC	126.32	98.5	68	25	68	26.31	70.5	48.5	66.39125	34.402	0.5182
NLICL	26	73	38	8.29	72.5	38	26.32	14.5	37.07625	24.272	0.6546
PRIN	11	13	12	30	12	17	20.21	16.32	16.44125	6.3163	0.3842
MEAN	29.238	30.75	26.42	15.798	34.277	26.077	30.255	30.9133			
S.D	48.52	43.651	24.021	12.357	28.849	22.258	20.676	30.6647			
CV	1.6595	1.4195	0.9092	0.7822	0.8416	0.8536	0.6834	0.99196			

The Table 4.7 shows the CV of MPS in PRIN is high among the sampled insurance which indicate that there is high risk involved in market price of share for the investor and shareholders of this bank. The CV of MPS in SICL is low which show that there is low risk involved in market price of share for the investors and shareholders. NIC has highest dividend per share and SIC has less dividend per share. When the DPS increased the MPS is also increase so DPS is strong influences over MPS. In FY 2015/16 the companies paid more dividends per share and FY 2014/15 paid fewer dividends per share for their shareholders. DPS affect the MPS of share positively.

g. Descriptive Statistics

Descriptive statistics provide simple summaries about the sample and about the observations that have been made

Table 4.8 Descriptive statistics

Variables	N	Minimum	Maximum	Mean	Std. Dev.
MPS	48	97	4351	1101.55	1309.8
DPS	48	0.00	126.32	27.96	28.21
DY	48	0.00	16.08	3.10	2.33
EPS	48	4.54	166.85	35.81	35.60
P/E	48	3	366.1	58.05	69.97
SIZE	48	12.12	549.62	93.305	89.77

This Table 4.8 shows the descriptive statistics of dependent and independent variables of Insurance Companies for the study period 2011/12 to 2018/19. The dependent variables are market price of share (MPS) whereas the dividend per share (DPS), dividend yield (DY), earning per share (EPS), Price to earnings ratio (P/E) size (paid up capital) of the firms are independent variables. From the above Table 2 shows that MPS of share range from Rs 97 minimum to Rs 4351 maximum and leading the average of Rs 1101.55 and standard deviation of 1309.8. Moreover, size (paid up) of the insurance companies has minimum capital of 12.12 corers and maximum of 549.62 corers with average of 93.305 corer of paid up capital and standard deviation of 89.77. Earnings per share (EPS) of the companies have minimum Rs of 4.54 per share and maximum of Rs 166.85 per share leading the average of Rs 35.81 with standard deviation of 35.60. Price to earnings per share (P/E) has a minimum of 3 percentages to maximum of 366.1 percentages with an average of 58.08 percentages and 69.97 of standard deviation. The minimum Dividend Yield of the companies is 0 percentages of minimum and 16.08 percentages of maximum with an average of 3.10 percentages yield over the study period. The minimum Dividend Per Share of the companies is 0 percentages per share of minimum and 126.32 percentage of dividend per share of maximum with an average of 27.96 percentages of dividend per share over the study period.

h. Correlation Analysis

The Pearson co-efficient of correlations used to assess the relationship between market price of share and dividend payout ratio, dividend yield, earning per share, price earnings

ratio, and size of the insurance companies at 1% and 5% level of significance. The Pearson correlation analysis results have been presented in Table 4.9.

Table 4.9 Correlation analysis

Variables	Correlation (r)	Coefficient of Determinant (r^2)	Remarks (Sig/ Insig)
MPS & EPS	0.711	0.50	Significant (0.005 level significance)
MPS & DY	0.274	0.075	Significant (0.005 level significance)
MPS & DPS	0.610	0.37	Significant (0.005 level significance)
MPS & P/E	0.194	0.034	Significant (0.005 level insignificance)
MPS & SIZE	- 0.38	0.144	Significant (0.005 level insignificance)

Table 4.9 shows the bivariate persons correlations coefficients between dependent variable and independent variable. The dependent variable is MPS whereas independent variables are SIZE, DY, DPS and PE ratio. It is quite clear from the Table 4.9 that the share price is significantly positively related to DPS, EPS, dividend yield and insignificantly positively related to P/E which means that these variable moves together with the share prices. However, share price is insignificantly negatively correlated to SIZE, which means with increase in the size of the company there is decreased of share price. Table 4.9 shows that Size has an inverse relationship with that of market price. This result basically means that with the influence of other variable held constant, as firm's size will have negative impact on market price. Correlation between MPS and EPS shows that there is high degree of positive relationship. The coefficient of determination between MPS and EPS is 0.5 that means nearly 50% variation in MPS is explained by variation in EPS, Rest 50% is explained by other factors. We conclude that EPS plays the vital role to fix the price of MPS.

i. Regression analysis

The regression coefficient of model was estimated using multiple regression analysis. Finding from the regression analysis for the selected insurance companies are presented in Table 4.8 below.

The model is $MP_{it} = \beta_0 + \beta_1 DPS_{it} + \beta_2 DY_{it} + \beta_3 EPS_{it} + \beta_4 P/E_{it} + \beta_5 SIZE_{it} + \varepsilon$

Table 4.10 Regression analysis

Predicators	Coefficients	p-value	VIF
Constant	68.026	.778	
DPS	36.947	.000	2.265
DY	-527.912	.000	1.624
EPS	33.693	.000	2.165
P/E	4.512	.000	1.769
SIZE	1.726	.325	1.734
$R^2 = .841$	$F(\text{si n}) = 0.000$	$D. W = 1.855$	

The R-Square which is often referred to as the coefficient of determination of the variables is .841. The R-Square which is also a measure of the overall fitness of the model indicates that the model is capable of explaining about 84.10% of the variability in the share prices of insurances. This means that the model explains about 84.10% of the systematic variation in the dependent variable. That is, about 15.90% of the variations in market price of the sampled insurances are accounted for by other factors not captured by the model. This result is complimented by the adjusted R- square of about 84.10%, which in essence is the proportion of total variance that is explained by the model. Similarly, findings from the Fishers ratio (i.e., the F-Statistics) which is a proof of the validity of the estimated model as reflected in Table.4.8, indicates that, the p-value or F (sig) that is equal to 0.000, this invariably suggests clearly that simultaneously the explanatory variables are significantly associated with the dependent variable. Among all the independent variables the p value of firms dividend yield, earning per share, price to earnings ratio, dividend per share are less than 5 % i.e. 0.05 and for those independent variable, the t value for beta was significant and implies that these variable are significant predictors.

Based on coefficient output collinearity statistics obtained (VIF) variance inflation factors values for all independent variables is less than 5, this means that there is no multi collinearity between the independent variables. The Durbin–Watson statistics value is 1.855 which means the error terms is independent and is free of autocorrelation.

Under the study of regression analysis coefficient of DPS, DY, EPS, P/E and size are denoted by β_1 , β_2 , β_3 , β_4 , β_5 are 36.94, -527.91, 33.69, 4.512 and 1.72 respectively it means that 1 % increase in DPS, P/E and DY leads too RS.36.94 and RS 4.512 increase and RS 409.178 decrease in MPS . Whereas RS 1 increase in EPS tends to RS. 48..30 increases in MPS, likewise RS 1 corer paid up increase tends to RS 1.73in MPS. The regression constant is -379.726. Empirical finding from the regression analysis shows a positive relationship between EPS, DPS, PE ratio, size and MPS. And have a negative relationship between DY and MPS. The results can be explained as that an increase in earnings per share will invariably bring about a significant increase in the market prices of equity shares. Another empirical finding from the regression analysis shows that there is positive relationship between P/E ratio and MP. DY have no explanatory power toward stock price movement.

4.3 Major Findings of the Study

The major findings of the study are as follows:

- i. From the study of market summary, the no of transaction, traded shares, traded volume, and market capitalization are in increasing trend at some extent for last eight years of the listed insurance companies of Nepal.
- ii. The study shows that the CV of MPS in PRIN is 81.7% which is high among the selected insurance companies of Nepal. There is high risk associated in market price of share for the investors and shareholders of this insurance. The CV of MPS in SLICL is 54.7% which is lowest among selected sample insurance companies of Nepal. It indicates that there is low risk involved in market price of share.
- iii. The study of market price of each company that the end of FY2011/12 to FY2013/14 is increasing and FY 2013/14 to 2014/15 decreasing. In fiscal year 2015/16 highly increased and after FY2016/17 to FY 2018/19 is sharply decreased due to different factors.
- iv. The correlation analysis show there is high degree of positive relationship of MPS with EPS among all other different variable and is significant at 0.05 level of

significance (2-tailed). The risk .711 which the moderate positive but correlation of MPS's and DPS, MPS and DY, MPS and PE, MPS and SIZE are .61, .274, .190 and -.38 respectively which is least than MPS and EPS. That is positive fluctuation shall bring positive change in MPS. And negative fluctuation shows negative change in MPS.

- v. The CV of EPS in NLIC is the 122.72% which is highest among sample insurance mean that NLIC common stocks are riskier as compared to other insurance. The CV of PRIN is 28% which is lowest comparing with others and it is less risky among all. The CV of PE in NLIC is the 93.7% which is highest among sample insurance mean that NLIC's common stocks are riskier as compared to other insurance. The CV of PRIN is 64.7% which is lowest comparing with others and it is less risky among all
- vi. The coefficient of multiple regression determination shows MPS is highly influenced by the joint effect of EPS, DPS, PE, DY, & SIZE. The r^2 of regression is .841 which shows that 84.10% change in MPS is due to the joint effect of EPS, DPS, PE, and DY & SIZE.
- vii. LIC has highest dividend per share as compared to other companies. The insurance sector has least dividend per share as compared to other listed sector of NSE. The average EPS of LIC is Rs. 56.22 which is highest and SLICL has least EPS of Rs.9.93 per share. LIC has highest PE ratio and PRIN has least PE ratio over the study period.
- viii. The study of insurance index for last six year are increasing trend up to FY 2016/17 and reach in average 8722.4 and after that in FY 2016/17 to 2018/19 decreasing trend . So it is clear that during the study period the security market is increasing trend except FY 2017/18 and 2018/19.

CHAPTER-V

CONCLUSION

In this chapter, discussion conclusions and implication of the study are presented. After summarizing and concluding it an attempt has been made to forward implication and suggestion for improvement.

5.1 Discussion

Nepalese investors have not adequate education about the capital market. They do not have good knowledge and information to analyze the scenario and forecast share price. Perhaps due to this reason stock price in NEPSE show rather irrational behavior. Creation of the investment opportunities NEPSE is very poor due to the traditional stock trading and lack of stock broker's professionalism.

Empirical finding from the regression analysis show's a positive relationship between EPS and MPS .This result can be explained as that an increase in earnings per share will invariably bring about a significant increase in the market price of share. Importantly this outcomes is consistent with the finding provide in Upadhaya (2003), Regmi(2008), Malhotra and Tandon (2013), Khan and Amanulla (2012)v where it has been observe that earning per share is major determine of the stock price.

To meet the desired objectives, the researcher identified the correlation of the quantitative factors EPS, Dividend Yield, Dividend per Share, SIZE and P/E with MPS by correlation and regression analysis of secondary data and also tests the significance of such relationship at 95% level of significance.

From the secondary data analysis it is known that there is not consistent performance in the relationship of MPS with EPS, Dividend Yield and Dividend per Share, SIZE and P/E for the six sampled insurance companies. For some of the companies, the correlation coefficients of MPS with independent variables (EPS, Dividend Yield, Dividend per share, SIZE and P/E) are significantly positive whereas some other has significantly negative correlation at 95% level of significance. So these three factors (EPS, Dividend Yield Dividend per share, SIZE and P/E) are not only the factors affecting the market price. Even though, P/E, DPS and EPS affects the MPS positively; there are other various factors in the internal as well as external environment of the organization, which

significantly affect the MPS. Theoretically when earnings, dividend and book value of share increases, the market price of share also increases and vice versa. Dividend yield, earning per share, price earnings ratio and size are the major determinants of share price of Nepalese Insurance companies.

5.2 Conclusions

The study based on six sample insurance companies whose stock is listed in Nepal stock exchange. It shows how to share price affected by different variable. Based on the above summary discussion and findings of this research, the researcher came in to following conclusions. The study of market summary, the no of transaction, traded shares, traded volume, and market capitalization are in increasing trend at some extent for last eight years of the listed insurance companies of Nepal. The correlation analysis show there is high degree of positive relationship of MPS with EPS among all other different variable and is significant at 0.05 level of significance (2-tailed). The r is .711 which the moderate positive but correlation of MPS's and DPS, MPS and DY, MPS and PE, MPS and SIZE are .61, .274, .190 and -.38 respectively which is least than MPS and EPS. That is positive fluctuation shall bring positive change in MPS. And negative fluctuation shows negative change in MPS. The coefficient of multiple regression determination shows MPS is highly influenced by the joint effect of EPS, DPS, PE, DY, & SIZE. The r^2 of regression is .841 which shows that 84.10% change in MPS is due to the joint effect of EPS, DPS, PE, and DY& SIZE.

The risk per unit of return for investors and total risk are different in different sample insurance company, which have been shown by the coefficient of variation and standard deviation respectively. The study shows that the CV of MPS in PRIN is 81.7% which is high among the selected insurance companies of Nepal. There is high risk associated in market price of share for the investors and shareholders of this insurance. The CV of MPS in SLICL is 54.7% which is lowest among selected sample insurance companies of Nepal. It indicates that there is low risk involved in market price of share. The CV of EPS in NLIC is the 122.72% which is highest among sample insurance mean that NLIC common stocks are riskier as compared to other insurance. The CV of PRIN is 28% which is lowest comparing with others and it is less risky among all. The CV of PE in NLIC is the 93.7% which is highest among sample insurance mean that NLIC's common stocks are riskier as compared to other insurance. The CV of PRIN is 64.7% which is

lowest comparing with others and it is less risky among all significantly. There is lack of proper laws and policies regarding the capital market. Investors, Shareholders are feeling unsecured to invest in security market due to poor regulatory mechanism to protect shareholders interests. The implementation of existing laws is very weak. Listed companies do not provide sufficient information (financial as well as non-financial) to their shareholders and they are

5.3 Implications

Based on the findings and the conclusion of research, the following implication and suggestions put forward.

- i. The Nepalese stock market (NEPSE, SEBON and NRB) should take some effective initiatives to control random fluctuation of MPS and establish the system and regular monitoring and evaluation of stock market so the investor would be assured on the NEPSE, SEBON, and NRB.
- ii. The ultimate objective of any firm is to maximize the wealth position of its investor, which largely depends upon the proper trend of EPS, DPS and other dominant variable. This reality should be well imported to the investor in order to make them rational in the field of investment for which the public companies themselves should frequently launch their well-designed awareness campaigns
- iii. The stockbrokers have a great role and responsibility to develop capital market opportunities. For the development of capital market they are suggested to provide rational and adequate advices to their clients/investors and upgrade their professionalism. They have to change themselves according to the dynamic environment of the capital market.
- iv. They are suggested to implement accounting and auditing standards set by Accounting Standard Board and Nepal Auditing Board to enhance investors.
- v. The researcher suggests to the government to formulate and duly implement effective laws and policies regarding capital market with compulsory participation of shareholder in various policy-making boards and organizational committees and to promote shareholders' organization with high priority. Laws and regulation should be made in order to participate the NRN and Foreign investor and intuitional investors.

- vi. Government should formulate and implement a rigid rule and regulation for future development of share market .A mechanism to take immediate action for the faulty company is to be established.
- vii. The future study can be conducted by the using more sample companies, advance methodology ,large no of observation and by include more respondents opinion.

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