Economic Factors Affecting Stock Market: A Case Study of Dhaka Stock Exchange (DSE)

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THESIS PAPER

On

Economic Factors Affecting Stock Market:

A Case Study of Dhaka Stock Exchange (DSE)

Department of Economics

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Letter of Transmittal

Mohammad Ali Ashraf

Associate Professor, Former Head and Syndicate Member

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Subject: Letter of Transmittal.

Dear Sir,

With due respect, I am very much pleasure to submit my thesis paper on "**Economic Factors Affecting Stock Market: A Case Study of Dhaka Stock Exchange (DSE).**". Though I am in learning curve this study has enabled me to gain huge knowledge about GDP and Bangladesh Stock Market. So it becomes as an extremely challenging and interesting experience. Thank you for your supportive consideration for formulating an idea. Without your Inspiring, this study would have been an incomplete one.

Lastly, I would be thankful once again if you please give your judicious advice on effort.

Yours sincerely,

M.Shamim Reza

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Department of economics

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Abstract

In this study the impact of economic factor on Dhaka Stock Exchange (DSE) is explored. Economic factors It is said that economics factors have a very positive influence upon strong market. The aspiration of the study is to search out if this true of DSE or not. For this aspiration, data were composed to a period of January 2019 to December 2019. For this purpose, data were collected for a period of January 2019 to December 2019. Interest rate, Exchange rate, Inflation rate, Total Trade value in taka has been used this study. Simple OLS regression is use for analysis the result. This study finds that interest rate, inflation rate has a negative impact and exchange rate have a positive impact on stock market

Chapter 1

1.1 Introduction:

Over the year, Bangladesh achieved remarkable development. Our GDP growth rate is 39th in the world in nominal terms. A growing development country needs higher production and capital. Development of capital market reflects countries development. Capital market is a channel between capital holder and investor. There are many instruments in this market. Development of stock market has a unenvied influence on economics development. The progress of stock market is mandatory because of financial intermediation abutment the investment process by an formulated and regulated stock market increases the chance of investment by identifying to economic activity, domestic savings, mobilization and proficiency of capital. In order to understand effect of economic growth on stock market. We have to measure relationship between economic variable and stock market. In this paper I use interest, inflation and exchange rate to find if there any relation economic growth and stock market.

1.2 Study Background

Our growth rate is higher than any other time. With higher growth rate we need strong capital market, specially stock market. Because cost of capital is lower than banking sector. People can get higher return in capital market bust there is also higher risk. Over the year our participation in stock market gets lower than banking sector. Which could not match to our economic condition.

1.3 History of Stock Market In Bangladesh:

The development of capital market of Bangladesh dates back before the independence of Pakistan in 1947 when only two stock exchanges were functioning in the areas. In 1947 due to large scale migration of the non-Muslims members to India. Pakistan did not have any stock exchanges in August 1947.Institution was acutely felt; and therefore, the Karachi Stock Exchange was organized 28, 1954 in the then East Pakistan in the name of The East Pakistan Stock Exchange Limited changed its name to the East Pakistan Stock Exchange Limited on June 23, 1962 and finally to its present name of Dacca Stock Exchange and started functioning at the then Narayangonj Chamber Building erected the Exchange's own building at 9F Motijheel C/A and shifted the Stock. But since most of the promoters of the joint stock companies belonged to the west wing of the then Pakistan, Karachi was considered to be the principal capital market and Dhaka Stock Exchange (DSE) had to follow the tone and temperament of Karachi market. On liberation, the socialization program in Bangladesh drastically curtailed. Most of the companies listed with DSE were either In the middle of 1976, DSE resumed its operation following some pragmatic measures initiated by the Government of the People's Republic of Bangladesh. Raising the ceiling of private investment in both public and private sector, disinvestment of a larger number of small and medium industries, revival of Investment Corporation are among the economic measures included in those programs. These programs tended to create an environment in the economy for and DSE took the initiative once again to channelize. Right now, DSE has a total of 486 listed securities with a total market capitalization of 914498788.94 million market capitalization that includes 230 equity securities, 33 mutual funds securities, 8 debentures, 212 treasury bonds, and 1 corporate bonds.

1.4 Development of Dhaka Stock Exchange (DSE):

Capital market in developing economies like Dhaka Stock Exchange DSE is being an successful to the abandonment of industrialization through preserving mobilization and investment fund distribution development may be conceived by examining its relative contribution in resource mobilization. With the resumption of DSE activities since 1976, the structure of Dhaka Stock Exchange (DSE) has changed and the number of listed securities has Stock Exchange (DSE) with the objective to clarify whether or not the particular asset The Bangladesh Government is intended to open the capital market to foreign participation in order to attract foreign capital since 1994 along with easy privatized for the last decade although at a slow pace. A broker is supposed to provide services at the time of executing a sell order as well as provide services and funds for a buy order for commission.Sometimes, Securities and Exchange Commission (SEC) of Bangladesh also interferes in this delay the effect of new information on stock prices. Trading system and Central Depository System (CDS) has already been implemented. In the view of the growing size of the market, frequent allegations about the market manipulation and the recent upsurges followed by sharp downswings in 1996 and2010, the credibility of the system as a whole has been brought into question. The system, therefore, needs to combine the advantage of

the technology- efficiency, accuracy and speed - with those of human interaction, visibility and information exchangeability on the trading floor so that better market condition with less price

1.5 Problem Statement of the Study

For growing economy like Bangladesh, we need strong channel between investor and capital holder. In general bank and stock market can make this channel. Over the year our banking sector has grown any other time. But with higher interest rate and default loan, our banking sector is now falling behind. Another option is stock market. It can be trusted place for investor. It is a matter of sorrow number of investor is lower any other time. This do not match economic growth and stock market So we have to study economic growth and stock market by using macroeconomic variable. Many study use interest, exchange and inflation rate to find relationship of economy and stock market. But most of this study done for other countries stock market. Very few research analysis for Bangladesh stock market. Therefore, to fulfill the gap in the literature, it is very important to find out the macroeconomic factors that influence stock market.

1.6 Research Question

1. What is the relation between inflation and stock market trade value?
2. What is the relation between interest rate and stock market trade value?
3. What is the relation between exchange rate stock market trade value?

1.7 Research Objective

1. To investigate the relation between inflation rate and stock market trade value
2. To examine the relation between interest rate and stock market trade value
3. To study the relation between exchange rate and stock market trade value

1.8 Significance of the Study

Our size of economy increased over the year. As a result our number of industry has grown any other time. Industrialization needs more capital. Capital market supply capital to industry. Number of investors has increased in banking sector but decreased in stock market. This is not support many economic literature. So i take this study to evaluate the performance of the Stock Market

1.9 Limitation of the Study

Lack of data access is one of the limitations of this study. All data is collected from Dhaka Stock Exchange website and various research paper. Another limitation is methodology for analysis. There are many models for measuring stock market growth but most of them cannot show economic factors of stock market.

Chapter 2

Literature Review

1. Amtiran, Indiastuti, Nidar, & Masyita (2017) examine the macroeconomic factors and stock returns in the Indonesian capital market. Secondary data was used for this study from the period of 2007 to 2014. Data was analyzed by the OLS regression technique. The results show that exchange rate, and interest rate has a positive relationship with stock returns; inflation has a negative correlation with stock returns.
2. In Aggarwal (1981), Solnik (1987) and Smith (2002) shows positive relationship between exchange rate and stock return.

3. Ali (2011) analysis effect of macro and micro economic variable on stock market of Bangladesh. He found that the industrial production index, market earning per share and growth in market capitalization positively impact on the stock market. On the other hand foreign remittances and inflation negatively related to stock prices.
4. Pal & Mittal (2011) examined interest rates, inflation, and exchange rate and gross domestic savings on Indian capital market. They used trade volume as a dependent variable. They find that the inflation rate have the significant impact on Indian capital markets

Chapter 3

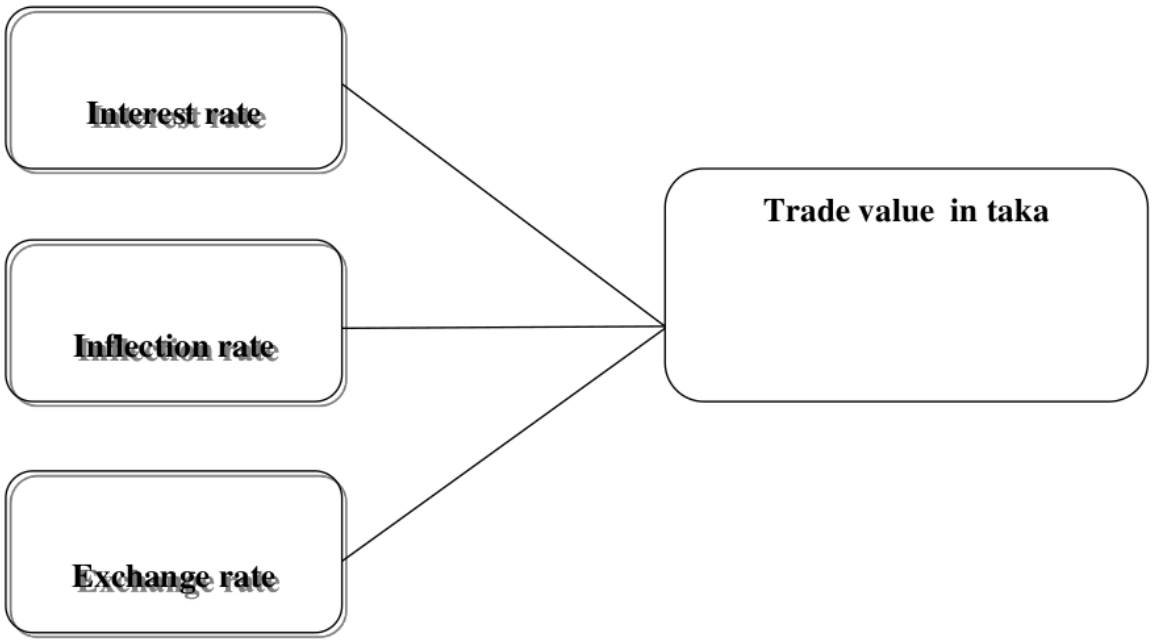
3.1 Research Methodology

From the above literatures, I use total trade value (million in taka) of Dhaka Stock Exchange, inflation, interest, exchange rate. Main goal of this study is to see is there direct relationship between total trade value and macroeconomic factors. I assume from literature that there are positive and negative relationship between them. Is this study I developed three hypothesis to test the relationship and run a liner regression to accept or reject null hypothesis.

3.2 Theoretical Framework

This theoretical framework represented that Economic Factors Affecting Dhaka Stock Market consists of three independent variables. interest rate, inflation rate and exchange rate. Total trade volume of Dhaka stock exchange is dependent variable.

3.3 Conceptual Framework



3.4 Research Design

My research is designed in the basic of Quantitative research. Descriptive statistics is used for analysis data. Sample size of this paper is 15 years. This helps to analysis result deeply. Large sample sizes also minimize chance of error. My main purpose of with this paper is to give more insights for developing an approach to the problem.

3.5 Data Collection:

Only secondary data used for this study. Interest rate, Inflation rate, Exchange rate and trade value in taka. 12-month data of 2019 is used for this study.

Data sources: Source of data are Annual report of DSE, SCE and Bangladesh bureau of statistics.

Hypothesis Development

For this study I developed three Hypotheses to analysis how this variables or indicators affect stock market:

3.6 Hypothesis Development

For this study I developed two Hypotheses to analysis how this variables or indicators affect stock market:

H1: There is a negative relationship between total trade volume in taka of stock trade to interest rate

H2: There is a negative relationship between total trade volume in taka of stock trade to inflation rate

H3: There is a positive relationship between total trade volume in taka of stock trade to exchange rate

Chapter 4

Findings of the study

4.1 Descriptive Statistic

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Total value of trade (taka mm)	12	5.7779	2.23485	9.409624	4.53615964
Interest rate	12	5.3400	5.7100	5.5183330	.1440854

Inflation Rate	12	5.42	6.05	5.5908	.16962
Exchange Rate	12	83.9400	84.8980	8.445352 1	.2879198
Valid N (listwise)	12				

N shows sample size which is 12. For all the dependent and independent variables the sample size is 12.Here maximum interest rate is 5.710 and inflation rate is 6.05, total value of trade on that time is 5.779 million taka at that time. Which shows negative relation between this variables.

4.2 Correlations

		Total value of trade (taka mm)	Interest rate	Inflation Rate	Exchange Rate
Total value of trade (taka mm)	Pearson Correlation	1	-.595*	-.428*	796**
	Sig. (2-tailed)		.041	.165	.002
	N	12	12	12	12
Interest rate	Pearson Correlation	-.595*	1	.558	.897**
	Sig. (2-tailed)	.041		.059	.000
	N	12	12	12	12
Inflation Rate	Pearson Correlation	-.428*	.558	1	.608*
	Sig. (2-tailed)	.165	.059		.036
	N	12	12	12	12
Exchange Rate	Pearson Correlation	.796**	.897**	.608*	1
	Sig. (2-tailed)	.002	.000	.036	
	N	12	12	12	12

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

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

The correlation analysis indicates the level of significant between variables. Here, (*) represent the 5% significance level and (**) is represent (1%) significance. So according to the model, with 5% level of significant, interest rate and inflation rate are negatively correlated with total value of trade. And with 1% level of significant exchange rate is positively correlated with total value of trade.

4.3 Coefficients

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	1.7367	5.2756		3.290	.011	5191279.940	2.952E7
	Interest rate	-190411.704	135872.800	-.605	1.401	.199	-122911.535	503734.942
	Inflation Rate	-20529.976	64256.261	-.077	.320	.758	-127645.228	168705.180
	Exchange Rate	218197.693	71090.424	1.385	3.069	.015	382132.505	54262.881

a. Dependent Variable: Total value of trade (taka mm)

The coefficients table represents the result of the analysis. It indicates Interest rate and inflation rate have a negative effect on trade value. When interest rate arise cost of production and assets of listed company in stock market also increases. Which may lower their production. Lower production creates lower turnover and earning per share (EPS). This causes downfall of their stock price and trade value. Inflation lower the liquidity so it effect negative turnover. On the other hand exchange rate has a positive relation on stock market. Higher exchange rate increases the return of investment for foreign investors. The get more profit from their investment. So they increases their investment in higher exchange rate which increases trade value .

4.4 Model Summary

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.842[a]	.709	.600	2.867408 3	.709	6.510	3	8	.015	1.255

The analysis is based on ordinary least square (OLS) method. The coefficient of determination (r2). Shows the overall goodness of fit the study (r2) is .709. It means 70% is estimate independent variable (interest rate,inflation rate, exchange rate) can explain relationship to dependent variable (total trade value in taka) . According of Durbin Watson found at where 1.255 if the value is around it is considered as a good value which means this value identify that the data is acceptable.

4.5 ANOVA

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.60610	3	5.352E9	6.510	.015[a]
	Residual	6.5789	8	8.222E8		
	Total	2.263E10	11			

According to the ANOVA table it represents some of squares for residual is 6.5789 with degree of freedom 8. Here **Sig,** statistically significant interaction at the $p = .014$. So we can accept null hypothesis

Chapter 5

Conclusion and Recommendation

After analysis the result, it is clear that this macroeconomic variable has an influence on stock market. So, for develop our stock market Government must control this factor. In my study, I find that our interest rate is higher in terms to market return. Government propose to bank to minimize interest rate ratio. But overall interest rate still higher in some bank. Government should concern all bank interest rate in single digit.

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