

What causes stock market volatility in Pakistan?



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Abstract

This study examines the dynamics of macroeconomic variables and stock prices in Pakistan. Twenty companies from five different sectors were chosen, namely cement, chemical, pharmaceutical, investment banks, and insurance. Regular stock prices were taken from the Pakistan stock exchange (PSX). We examined the data using unit root test and Pedroni co-integration to check the long-run relationship between monetary policy and stock exchange. Stock price fluctuations were extracted using five years' standard deviation moving averages. We also applied the autoregressive distributed lag (ARDL) approach. Results also indicate that macroeconomic fluctuations affect stock prices, and it is clear that economic and financial analysts should make policies that must stabilize macroeconomic factors. The interest rate has a negative impact on stock prices, whereas growth and p/e have shown a positive relationship.

Keywords: interest rate, P/e ratio, macroeconomic variables, Stock prices

Table of Contents

Abstract.....	3
CHAPTER 1	6
INTRODUCTION	6
1.2 Research Objective.....	14
1.3 Research Questions	14
Chapter 2.....	15
Literature review.....	15
3.1.1. Population.....	23
3.1.2. Sample	23
3.1.3. Sample size	23
3.1.4. Sample period.....	23
3.2 Variables.....	24
3.2.1. Interest rate	24
3.2.2. P/E ratio	24
3.3 Data analysis	24
3.3.1. Tests.....	24
CHAPTER 4	26
RESULT AND DISCUSSION	26
4.1 Introduction.....	26

4.1.1. Level of Integration.....	26
4.3 Residual Based Co-Integration Test.....	27
Table 4: Long run relationship.....	29
ARDL (Short –run).....	30
CHAPTER 5	32
SUMMERY AND CONCLUSION.....	32
5.1 Limitations	33
References.....	34
Annexure.....	38