

**"The Effect of Interest Rates on the Stock Prices of  
Banks Listed in The Islamabad Stock Exchange."**



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## **ABSTRACT**

The paper is intended to find out the relationship between the Interest rates and the stock price of Banks that are listed on the Islamabad stock exchange. The study will be conducted to see to impact does the change in the interest rates affect the stock prices of the banks. The study will help us understand to what extent does the interest rate affect the stock process and banks are the financial institutions that do business that is directly related to the interest rates. The stock prices of banks should be affected by the change in interest rate and how much does the interest rate affects these stock prices and is there a known pattern or irregular pattern for change in stock prices and the interest rate. Two null and alternative hypothesis are made in order to carry out the research. The literature on the topic was not readily available and the research done on this topic for Pakistan was very little. The data for other economies specially China and some European Countries was available and was hence used for the research. Financial institutions deal with the lending and borrowing of money and if the interest rate changes the lending and borrowing of money is also effected causing the value of the assets and liabilities in the portfolio of these institutions and as a result the value of the firm will also change. (Santoni, 1984) The Analysis of the data shows that each and every economy has its own way of showing the changes between the interest rates and the stock prices. The literature showed that some of the economies show that the stock prices and the interest follow Random Walk theory and there is no such positive or negative relationship between the stock prices and the stock prices and the interest rates while other researchers and economists negated the concept and their researches proved that the stock prices and the interest rates have a negative relation. Out of the four hypothesizes made for the research to be conducted, two ha to be correct and two were to be rejected. First and Third Hypothesizes have been selected. The research was conducted and a very small scale and only one sector of industry, the banking sector was taken into account for the purpose of research, the results might have been different if stock of other industries. When other economies of the world will be studied it will help researchers understand and have a clearer idea on the actual relationship between the variables.

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# **DEDICATION**

DEDICATED TO  
MY BELOVED GRANDPARENTS, MY PARENTS, AND MY SIBLINGS  
WHO HAVE ALWAYS ENCOURAGED ME AND SUPPORTED ME

## Contents

<b>Background:</b> .....	2
<b>Introduction:</b> .....	2
<b>Interest:</b> .....	2
<b>Interest Rate:</b> .....	3
<b>Stock Prices:</b> .....	4
<b>Random Walk Theory:</b> .....	5
<b>Stock Exchange:</b> .....	5
<b>Banks:</b> .....	5
<b>Significance of the Study:</b> .....	6
<b>Theoretical Framework:</b> .....	6
<b>Hypothesis:</b> .....	7
Hypothesis 1: .....	7
Hypothesis 2: .....	7
Hypothesis 3: .....	7
Hypothesis 4: .....	7
<b>Research Questions and Objectives:</b> .....	7
Research Questions: .....	7
Objectives: .....	8
<b>Literature Review:</b> .....	10
<b>Common Stock: Real Assets:</b> .....	10
<b>Relation between Stock prices of Common Equity and Interest Rates:</b> .....	11
<b>Effect of Government announcements and its effect on the Stock prices of Common Equity:</b> .....	12
<b>Relation between Interest Rates of Banks and Stock prices:</b> .....	13
<b>Random Walk theory of Stock prices and Interest rates:</b> .....	13
<b>Negative Relationship of the interest Rates and the Stock prices, Random Walk Theory rejected :</b> .....	14
<b>Effect of Short Term and Long Term Interest rates on the Stock Prices:</b> .....	16
<b>Prediction of Stock Prices:</b> .....	17
<b>A Matter of Proper planning:</b> .....	18
<b>Effect of Interest on the Stock Prices of Financial Institutions:</b> .....	19
<b>Interest Rates and its Effect on the Stock Prices in Countries:</b> .....	20
<b>Interest Rate and the changes in Stock prices in Pakistan:</b> .....	23

<b>Methodology:</b> .....	25
Time Frame:.....	25
Contribution from other Papers: .....	25
<b>Research design:</b> .....	26
Primary Data: .....	26
Secondary Data: .....	27
<b>Sample:</b> .....	28
Sample Area:.....	28
Research Instrument: .....	28
Dependent Variable: .....	28
Independent Variable: .....	29
<b>Data Collection:</b> .....	29
Sample Size:.....	29
Analysis: .....	30
<b>Resources:</b> .....	30
<b>Analysis of Data:</b> .....	32
<b>ABL:</b> .....	33
2009: .....	33
2010: .....	35
2011: .....	36
2012: .....	36
2013: .....	38
<b>Standard Chartered Bank:</b> .....	39
2009: .....	39
2010: .....	40
2011: .....	41
2012: .....	42
2013: .....	43
<b>Bank Al-Habib:</b> .....	44
2009: .....	44
2010: .....	45
2011: .....	46
2012: .....	47
2013: .....	48

<b>Silk Bank:</b> .....	49
2009: .....	49
2010: .....	50
2011: .....	51
2012: .....	53
2013: .....	54
<b>Samba Bank:</b> .....	55
2009: .....	55
2010: .....	56
2011: .....	57
2012: .....	58
2013: .....	59
<b>IGI Investment Bank:</b> .....	61
2009: .....	61
2010: .....	62
2011: .....	63
2012: .....	65
2013: .....	66
<b>Security Investment Bank:</b> .....	67
2009: .....	67
2010: .....	68
2011: .....	69
2012: .....	71
2013: .....	72
<b>HBL:</b> .....	73
2009: .....	73
2010: .....	74
2011: .....	76
2012: .....	77
2013: .....	78
<b>Analysis:</b> .....	79
<b>Conclusion:</b> .....	82
<b>Recommendations:</b> .....	83
<b>Limitations for Future Research:</b> .....	83

**Bibliography** ..... 84