

**“Effects of Interest Rate on Share Prices of Listed Banking
Sector of Pakistan”**



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Abstract

This research examines the relationship between interest rate which is known as (KIBOR) Karachi Inter Bank Offered Rate and stock prices of top eight listed banks of Karachi Stock Exchange. KIBOR is the rate which banks usually used for borrowing and lending between banks and they further adds 2% or 3% in the KIBOR rate to charge the customers for lending money for their profits. The research further elaborates the relationship between interest rate (KIBOR) and exchange rate, after that it examines the relationship between interest rate (KIBOR) and inflation rate in the economy. Data of all the variables has been collected for the time period of 9 years which ranges from 2005-2014, and all the data which has been used in this research is on monthly basis. Results and analysis of data has been generated by using the analysis tool pack in the MS Excel, such as regression analysis, correlation analysis and descriptive statistics. The results of this research shows that there is inverse relationship lies between interest rate (KIBOR) and stock prices of listed banks of banking sector of Pakistan. Results also shows that there exist negative relationship between interest rate (KIBOR) and inflation rate and at the end interest rate (KIBOR) shows that with the increase in interest rate, currency devaluation has been seen frequently. This research gives the proper recommendations, conclusion and most important one the action plan in the end to tackle the situation created by the increase or decrease in the interest rate (KIBOR) in the economy, especially in the stock market.

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