

**IMPACT OF INTEREST RATE ON SHARE PRICES OF BANKING
SECTOR: EVIDENCES FROM PAKISTAN**



BY

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A thesis submitted to Bahria University, Islamabad in partial fulfillment of the requirement
for the degree of Master (MS) in Finance

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April 2018

Table of Contents

Abstract.....	1
Chapter 1	2
1. Introduction.....	2
1.1. Background and Motivation of Study	2
1.2. Problem Statement And Rational Of Study	4
1.3. Research Question	5
1.4. Objective Of Study	5
1.5. Research Hypothesis	5
1.6. Contribution and Significance of Study	6
1.7. Organization of Study.....	7
Chapter 2	8
2. Review of Literature	8
2.1. Introduction	8
2.2. Conclusion.....	19
Chapter 3	20
3. Methodological Framework and Data Description.....	20
3.1. Methodological Framework	20
3.2. Selections of Cross Sections and Data Collection.....	25
3.3. Theoretical Framework	26
3.4. Empirical Methodology.....	27
3.5. Independent Variables of the Study	29
Chapter 4	31
4. Discussion and Results	31
4.1. Data Analysis	31
4.2. Analytical model: Non-Linear Regression	32
4.3. Results	32
4.3.1. Empirical Results of Large Banks	32
4.3.2. Empirical Results of Medium Banks	35

4.3.3. Empirical Results of Small Banks	37
4.4. Summary of Finding	40
4.5. Hypothesis Analysis	40
Chapter 5	42
5. Conclusion and Recommendations.....	42
5.1. Conclusion	42
5.2. Recommendations	43
5.3. Limitations	43
References	44

Abstract

The study focuses on the relationship between short-term and long-term interest rate and share prices. The overall idea is that if the interest rate increases, it makes the holding of shares less attractive in relation to fixed income securities. Therefore, investors change the structure of their portfolios and change the capital of the shares to the banks, which results in a decrease in the prices of the shares but in this study due to the bank rates, their relationship with share price show different nature. In our research, we apply fixed effect model to study the influence of bank rate on the price of banks share in Pakistan Stock Exchange. Fluctuations in rates of interest have a diverse effect on the entire economic spectrum in any country. The objective of this research is to examine how changes in interest rates and stock prices are related to each other for banks over the period 2008 - 2017, represented in three categories of banks. The study uses the E views to examine the data. The results therefore indicated that, in large banks, short-term has a significant effect while long-term has not a significant effect on share price. In medium banks, short-term has positive impact whereas long-term has negative influence on the share price. Short-term has significant positive impact and long-term has negative impact on the share prices.