

The Impact of Financial Ratios and Economic Variables on Stock Price

Premathilaka, A.B.B.I.¹ and Kethmi, G.A.P.²

Department of Finance, University of Kelaniya, Sri Lanka^{1,2}

buddhikaindiwari001@gmail.com¹, kethmip@kln.ac.lk²

ABSTRACT

Purpose: Various nations have conducted a variety of empirical studies to determine the variables influencing the stock price. Studies from the past demonstrate that both internal and external factors influence stock price changes. This study considers external and internal factors, and the main objective of the study is to examine the Impact of the financial ratios and economic variables on stock prices in Sri Lanka.

Design/Methodology/Approach: Under the internal factors Earnings per share, Dividends per share, and Net assets value per share were taken into the study while Inflation, Interest rate, and Exchange rate were considered as the external factors. The sample is 60 companies that are listed in CSE, and the considered time period is 10 years from 2012 – 2021.

Findings: Using the random effect model the results revealed that there is a positive relationship between financial ratios Earnings per share, Dividends per share, Net assets value per share and the stock price. Considering all financial variables together, it was revealed that it has a significant impact on the stock price. The overall impact of economic variables on stock price, the result shows a significant impact. The relationship between the economic variables and the stock price has a negative relationship. From the findings, it has been identified that inflation and the interest rate do not have a significant relationship with the dependent variable. Considering all financial ratios and economic variables the results revealed that there is a significant relationship between the independent variables and the dependent variable.

Originality: The study considers both Financial and Economic variables which have not been considered for the Sri Lankan context in the recent past.

Keywords: *Interest Rate, Exchange Rate, Colombo Stock Exchange (CSE), Listed Companies*