

Impact of Inflation on the Pakistan Stock Exchange

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Abstract

The main object of this study is to find the relationship between the Pakistan stock market (SR) and the inflation rate. To estimate the relationship Ordinary Least Square (OLS) method has used. The period is 2009-2017. Based on the OLS method found that there is no relationship between stock prices and the inflation rate. Mean that no impact found of inflation rate in case of Pakistan. This study is helpful for the policy maker, investor as well as Government.

Keyword: Pakistan stock market, inflation rate, OLS.

Introduction

Stock market plays an important role to develop the economy of a country. Pakistan is an emerging economy. Stock market provides a platform for trading securities. The stock market encourages the investor to

boost their investment through lock of resources for enabling the corporation to obtain funds and grow their business. Stock Exchange has an important role in the promotion capital Establishment. He has an important role in stock exchange for any country's healthy economy. Using exchange is a work Channel between stock investors and stock lenders. This word is a simple stock market in which we can use Commercial securities. According to the statues of different views, there are two types of investors in the stock market. The point of view is that investors use different techniques to control the stock market prices and have the market there is inaccessible. The second approach indicates that advertisers are the only information that cannot defeat it Stock prices.

In Pakistan, the rate of the saving has strictly at under 15% so channelizing to meet the investment of the country. Therefore as an alternative to debt financing, stock exchange

as a whole service yield levels and hereafter economic growth. Chen and Rall (1986) found the negative relationship between Inflation rate and the Tokyo stock market. Nadeem et al., (2008) conclude that relationship exists between Pakistan stock market and the macroeconomic variables. Habib Ullah (1996) studies the long and short-term relationship between stock prices and macroeconomic variables. Rebert (2008) explained the relationship between macroeconomic variables (exchange rate and oil prices) and stock prices of BRICs countries. Jung (1998) found that up and down share price depends on the movement of macroeconomic variables also Wang (2012) says that stock prices are having a positive relationship with a stock return in Thailand stock market. Gjerde et al., (1999) and Aizenman et al., (2010) found the relationship between macroeconomic variables and the stock market in Norway. Alam (2007) and Naseem et al., (2018) analyzed a limner relationship between interest rate and share price. Chong et al., (2011) found a relationship between inflation rate and stock price in case of the US, China and Malaysia.

Problem statement:

Inflation has an impact on the stock exchange.

SR: (Pakistan stock market) and inflation.

H0: There is a significant relationship between stock prices and inflation rate.

H1: There no is a significant relationship between stock prices and inflation rate.

DATA

In this secondary study, data is used to check the relationship between stock prices and the Inflation rate. In a past study, many researchers work on this a huge literature available. So the monthly data is used in this study for the period 2009-2017. The data of these variables are collected from the Pakistan stock Exchange and State bank of Pakistan.

RESEARCH METHODOLOGY

One dependent and one independent variable are used in the study. The dependent variable is stock price return. Independent variables are Inflation. The theoretical framework to study the determinants of stock price volatility is explain given below. Change in stock price

return is affected by change occurs in the Inflation rate

$$SR = \alpha + \beta 1IN + e$$

Where SR shows stock price return, IN shows Inflation rate and “a” is the y-intercept, $\beta 1$ in the research model stand for the slope or regression coefficient and “e” is ean rror.

Results

Descriptive Statistics

| Table# 1 | SR | IF |
|-----------------|----------|----------|
| Mean | 0.016177 | -0.00925 |
| Median | 0.215751 | -0.01859 |
| Std. Dev. | 9.758804 | 0.172828 |
| Skewness | -0.3659 | -0.00524 |
| Kurtosis | 7.679694 | 5.513758 |
| Jarque-Bera | 100.9578 | 28.4359 |
| Probability | 0 | 0.000001 |
| Observations | 108 | 108 |

Table 1 shows the result of descriptive statistics the men value of SR is 0.016 and Inflation rate is -0.0092, the value of standardization is 9.75, 0.17 respectably and

the skewness of both variables is negative. The Jarque-Bera test is significant which means data are not normally distributed.

| Table-2 Ordinary Least Square Method | | | | |
|---|--------------------|-------------------|---------------------|--------------|
| Variables | Coefficient | Std. Error | t-Statistics | Prob. |
| C | -0.02701 | 0.941591 | -0.028685 | 0.9772 |

| | | | | |
|----------------------|-----------|-------------------------|-----------|----------|
| IF | -4.667122 | 5.465629 | -0.853904 | 0.3951 |
| R-squared | 0.006832 | Mean Dependent Var. | | 0.016177 |
| Adjusted R-squared | -0.002538 | S.D. dependent variable | | 9.758804 |
| S.E of regression | 9.771178 | Akaike info criterion | | 7.415096 |
| Sum squared residual | 10120.45 | Schwarz criterion | | 7.464765 |
| Log-likelihood | -398.4152 | Hannan-Quinn criterion | | 7.435235 |
| F-statistics | 0.729152 | Durbin-Watson stat | | 2.824247 |
| Prob. (F-statistics) | 0.395084 | | | |

In the above table show that the result of OLS. The result shows that there is no relationship between SR (Pakistan stock return) and Inflation rate because the Inflation rate is insignificant, but the sign of the independent variable is negative. Mean that if the rate of Inflation moves upward or downward no impact on stock prices.

Conclusion

Pakistan is an emerging economy. In this study check a relationship between SR (Pakistan stock exchange) and IN (Inflation rate). According to this study, there is no relationship between stock price and Inflation rate because in above table no relationship is found mean the coefficient of Inflation rate is insignificant. This study is helpful to the policymaker, investor as well

as the Pakistani Government as Bouraoui & Phisutthiwatcharavong (2015).

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