

An Association between Stock Index and Macro Economic Variables in Bangladesh

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Abstract

The aim of this article is to explore whether certain macroeconomic variables such as industrial index, inflation, broad money, exchange rate and deposit rate as a proxy for interest rate are interlinked with Dhaka stock price index (DSEX index) precisely after the introduction of new index by Dhaka Stock Exchange (DSE) since January 2013. The data set considered consists of monthly observations, for a period of four years from January 2013 to June 2018. Findings from cointegration analysis suggests that DSEX and macroeconomic variables have a significant long run relationship.

Both (Engle and Granger ,1987) and (Johansen and Juselius , 1990) may not always reflect the true long run relationship between variables when number of observations are small thus (Pesaran and Shin ,1995) and (Pesaran et al ,1996) proposed Autoregressive Distributed Lag (ARDL) approach to cointegration or bound procedure was explored to examine the existence of long run relationship among the variables despite the changes that was accompanied in the stock price index . The co integration results show that there is long run relationship between stock price index and other macroeconomic variable despite the changes that was incorporated in stock price index with the exclusion of certain industries ,implying that all the variables move together in the long run.

Keywords: DSEX, ARDL, CO-INTEGRATION