

Micro Determinants and Share Prices: A Causal Relationship Study among Listed Insurance Companies in Sri Lanka

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Abstract

The focus of this study to identify the effect of micro factors on share prices among insurance companies. The secondary data was gathered from seven insurance companies in Colombo Stock Exchange. For this purpose, ten years data from 2008 to 2017 were extracted. The statistical analysis of descriptive, correlation and multiple linear regression analysis were conducted to find out the relationship between microeconomic factors and the market price of share. The results revealed that adjusted R² is 89% of variations in share price is explained by after adjusting number of independent variables and the remaining 11% is described the other factors affect the share price those are out of the research scope. Further results found that, highly positive significant relationship between market price of stock and earning per share, dividend per share, while, price earnings ratio is not significant, however, negative significant relationship on return on equity, but size is not significant. The research recommended that, there is need to strengthen its effort for effective management of the micro variables. This study would guide the potential investors in Sri Lanka to focus on the factors discussed above before making investment decisions. The present study confirms that the study of financial factors proves to be beneficial for the investors in Sri Lanka.

Keywords: Market price, earnings, dividend, price earnings ratio, return and size.