

An Empirical Analysis of Market and Industry Factors in Stock Returns of Pakistan Banking Industry

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Banks in Pakistan are the major stakeholders of the financial sector of the country, and their operational and stock market performance is considered to be the real reflector of financial and economic conditions. The purpose of this study is to examine the relationship of stock returns of Pakistan banking industry to selected market and industry variables by applying multi-factor model. The model consists of four market and industry variables, which would affect stock returns of banking firms. This paper attempts to discover which, if any, of the market and industry variables are of use in explaining the variability of banking stock returns. The 15 banks selected for this analysis were on the basis of data availability, profitability and performance on the Karachi Stock Exchange (KSE) 100 index. The stock prices data for the selected banks and market and industrial variables were obtained for the period July 1998 - June 2006. Multi-factor regression models were used to carry out the data analysis. This paper concludes that the return on the KSE 100 index is the only independent variable significant at 0.05 level, while the other macroeconomic as well as industry variables are insignificantly related to the stock returns of banking industry but they do increase the explanatory power of the model.

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