

**THE RELATIONSHIP BETWEEN INTEREST RATE AND STOCK PRICE:
EMPIRICAL EVIDENCE FROM COLOMBO STOCK EXCHANGE**

A. A.J. Fernando

University of Sri Jayewardenpura, Gangodawila, Nugegoda, Sri Lanka

email: p.anil.jayantha@gmail.com

Telephone: +94714463944

Abstract

This study examines the relationship between stock price and the interest rate during the period from July 2012 to December 2015. Average daily stock prices calculated by Colombo Stock Exchange (CSE) and Sri Lanka Interbank Offer Rates (SLIBOR) are used as dependant variable and independent variable respectively. Accordingly, all Share Price Index (ASPI) and the Standard of CSE is used to analyse the overall impact of interest rate on stock prices whereas Standard and Poor Price Index (S & P) of CSE is used to measure the relation between stock prices of selected companies (Blue Chips) and interest rate. Regression is mainly used to examine the relation between stock prices and interest rates. As theory suggest, the study finds that both share prices reflected by ASPI and S&P negatively correlate with the interest rate. The findings urge policy makers and other interested parties to assess the impact of interest rate as a significant macroeconomic variable.

Key Words: All Share Price Index (ASPI), Standard and Poor Price Index(S&P), Sri Lanka Inter Bank Offer Rate (SLIBOR), Stock Price, Interest Rate