

THE EFFECT OF MACROECONOMIC AND FINANCIAL RELATED VARIABLES ON STOCK MARKET CAPITALIZATION OF GLOBAL GROWTH GENERATOR COUNTRIES

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ABSTRACT

Purpose

In the emerging global economy, characterized by long term doleful economic recessions, the global growth generators (3G) countries, with 65 percent of the global population, can provide much better stability and growth to global economy. Stock markets play a vital role in the economic growth of countries. This study, therefore, examined the effects of macroeconomic variables and financial related variables on stock market development of 3G countries over a period of 22 years from 1992 to 2013.

Methodology

The study employed Auto Regressive Distributed Lag (ARDL) model for selected seven countries viz., India, Bangladesh, China, Egypt, Indonesia, Philippines and Sri Lanka out of eleven 3G countries.

Findings

The study found that selected variables namely, domestic credit, export, import, FDI, GDP, GDS, market capitalization, STR and STV were statistically significant and have impact on stock market capitalization of 3G countries. China, India and Bangladesh recorded high impact and showed stability in the long run relationship, whereas in Indonesia the impact is unstable. Among the selected 3G countries, Philippines exhibited high volatility while Sri Lanka recorded low volatility. Only Bangladesh and Egypt were serially correlated.

Social Implications

The study results suggested that investors could invest in China, Bangladesh, India and Egypt stock markets. Policy makers should improve the economic policy and investment