

Determinants of Share Price Movements - Evidences From Earlier Studies

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Abstract- *It is very difficult to predict share price of a company, share price of a company is influenced by various factors. Macro economic factors are affecting the whole economy, hence it affects price of almost majority of shares in a market. But factors related to a particular industry affect share prices of the particular industry and variables specifically related to a company influence share price of the particular company. Among specific company factors, accounting factors are playing very important role. The study observed eight key determinants which influence share prices namely Firm Size, Return on Net-worth, Earning per Share (EPS), Price Earnings Ratio (PER), Dividend Yield Ratio, Net Assets Value Per Share, Book to Market Value per Share and Firm Age. The above factors influenced share price movements either positively or negatively in various countries such as India, Srilanka, Nepal, Pakistan, Bangladesh, Nigeria and so on.*

Keywords- Determinants, Dividend, Earnings per Share Market Value, Share.

I. INTRODUCTION

Savings play an important role in economic development of a country. Small investments of people lead for capital formation and it help for industrial development of the economy. People are investing their surplus earnings in order to get a nominal or high return. Many investment avenues are available for making investment, such as savings in banks, mutual funds, savings in post office, debentures and shares, but rate of return on these investments is varying on the basis of the nature of investment. Some investments give high return. Some give moderate rate of return and some give low rate of return. The rate of return and risk on investment are having direct relationship each other. In other words, if risk on investment is more there will be high return and where there is low risk will be low return. People are choosing investment avenues on the basis of their risk taking capacity. In recent decades people in India are showing interest in making investments in shares since it gives high return.

Prediction of share price movements helps for investors to take right decision to buy or sale of their shares in order to earn high return from investments in shares. Understating the determinants of share price movements will help the investors to predict share price movements. Many factors are determining movements of share prices such as macroeconomic variable are specific company related variables. Among them accounting variables are playing an important role in determining the movements of share prices. Many researchers analysed the influence of share price movements. The present study describes the key accounting variables on share price movements by reviewing earlier study.

II. STATEMENT OF THE PROBLEM

It is very difficult to predict share price of a company, share price of a company is influenced by various factors. Macro economic factors are affecting the whole economy, hence it affects price of almost majority of shares in a market. But factors related to a particular industry affect share prices of the particular industry and variables specifically related to a company influence share price of the particular company. Among specific company factors, accounting factors are playing very important role. Many researchers have analysed and tried to find the influence of accounting variables on the movements of share prices in India and other countries of the world. The present study is aimed to describe key accounting determinants which influence share price movements by reviewing earlier studies.

A. Objective

The main objective of this study is to describe the influence of accounting variables on share price movements by reviewing earlier studies.

B. Determinants of share price movements

Accounting variables are specifically company related factors which influence share price of a particular company. Among various accounting factors Firm Size, Return on Net-

worth, Earning per Share (EPS), Price Earnings Ratio (PER), Dividend Yield Ratio, Net Assets Value Per Share, Book to Market Value per Share and Firm Age were observed as key accounting factors which influence share prices.

a) Firm size

Firm size is the key accounting factor which influencing the share price of a company. Firm size is calculated on the basis of turnover of the company. If a company's sales is high, it is considered as big company vice versa. Investors want to invest in the shares of big companies in order to get high return. Many researchers studied this variable in order to know its influence on share price movements. Sanjeet Sharma (2011), Jayasree M (2011), and Kiran Chella and Chalam G.V (2015) and Oliver Ike Inyama (2015) evidenced positive relationship between firm size and share price movements of the concerned companies.

b) Return on net worth

Investors are investing in profit making industries. Investors calculate return on their net worth. Net worth is the value of different between total assets and external liabilities. The price of share is increasing when the rate of return on its net worth is more than normal rate of return in the market. Jayasree M (2011), Udayan S Kachchhy, Bhavik U Swadia and Shailja C Tiwari (2014) and Kiran Chella and Chalam G.V (2015) found positive relationship between return on net worth and share price movements in India.

c) Earnings Per Share

Profit making companies are liked more by investors for making investment. For this purpose they calculate earnings per share, it gives the rate of profit per share hold by shareholders. Earnings per share is calculated by dividing profit after tax divided by number of shares outstanding by the company. It expresses the proportion of profit earned by a company per share. Michalis Glezakar et al (2012) found significant relationship between EPS and share price movements in Athens stock exchange. Nidhi Malhotra and Kamini Tendon (2013), Khurram Shehzad and Aisha Ismail (2014) and Sanjeet Sharma (2011) found significant relationship between EPS and share price movements in India. Reaz Uddin et al (2013) found positive relationship between EPS and share price movements in Bangladesh. Junjie Wang et al (2013) found positive relationship between EPS and share price movements in Shanghai Stock Exchange. Yuga Raj Bhattarai (2014) found positive relationship between them in Nepal. Menike M.G.P.D and Sujeewa Kodithuwkku (2016) found positive relationship in Srilanka. Oliver Ike Inyia Ma

(2015) found positive relationship between EPS and share price movements in Nigeria. Arslan Iqbal et al (2015) found positive relationship between them in Pakistan. Udayan S Kachchhy et al (2014) and Chalam G.V (2015) found positive relationship between EPS and share price movements in India. Srinivasan P (2012) found negative relationship between them in India.

d) Price Earnings Ratio

Price earnings ratio is another important ratio which influences share price movements. This ratio relates market value of share and earnings per share of a company. This ratio is calculated as market value per share divided by earnings per share. It gives an indication of share price matured against the earning power of stock. Sanjeet Sharma (2011) and Yuga Raj Bhattarai (2014) evidenced positive relationship between price earnings ratio and movements of share price in India and Nepal respectively. Srinivasan P (2012) found negatively relationship between price earnings ratio and share price movement in India.

e) Dividend Yield Ratio

This accounting variable expresses the return earned by an equity share by way of dividend. Dividend yield is the realised return on share held by shareholder. Hence this factor influences the share price movements. Generally the whole profit earned by a company is not distributed, it depends on its dividend policy. Sanjeet Sharma(2011) and Nidhi Malhotra and Kamini Tandon (2013) found positive relationship between dividend yield ratio and share price movements in India. Arslan Iqbal et al (2015) found negative relationship between dividend yield ratio and share price movement in Pakistan.

f) Net Assets Value Per Share

Net assets value per share expresses value of net assets (total assets less external liabilities) per equity share of the company. Net assets are the value of assets to be owned by shareholders. High value of net assets per share will increase market value of share and low ratio may decrease the market price of share. Reaz Uddin et al (2013) evidenced positive relationship between net assets per share and share price movement in Bangladesh. Onyedikachi O John (2015) found positive relationship between them in Nigeria. Sujeewa Kodithuwakku (2016) evidenced positive relationship between net assets per share and share price movements in Sri Lanka.

g) Book to Market Value Per Share

This accounting variable explains the relationship between book value per share to market value per share. Book value per share is calculated by dividing net worth dividend by number of equity share. Market value is market price of the share in the market. Market value of share is influenced by various factors. Jayasree M (2011) found negative relationship between book to market value per share and movements of share price in India. Zeeshan Arshad et al (2015) found negative relationship between book to market value per share and share price movements in Pakistan.

h) Firm Age

Firm age is calculated as number of years it has been running since its establishment. Generally investors believe that old firms are reliable. Hence they show interest to invest in those shares. In other words, firm age is number of years from its incorporation. Jayasree M (2011) found positive relationship between firm age and movements of share price in India. Oliver Ike Inyama (2015) evidenced positive relationship between firm age and share price movements in Nigeria.

III. CONCLUSION

This study has been made as survey of review study. It has been done in order to find key accounting factors which influencing shares price movements in India and in various countries. The study has reviewed 30 articles published in various journals, magazines and newspapers. The study observed eight key determinants which influence share prices namely Firm Size, Return on Net-worth, Earning per Share (EPS), Price Earnings Ratio (PER), Dividend Yield Ratio, Net Assets Value per Share, Book to Market Value per Share and Firm Age. The above factors influenced share price movements either positively or negatively in various countries such as India, Srilanka, Nepal, Pakistan, Bangladesh, Nigeria and so on.

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