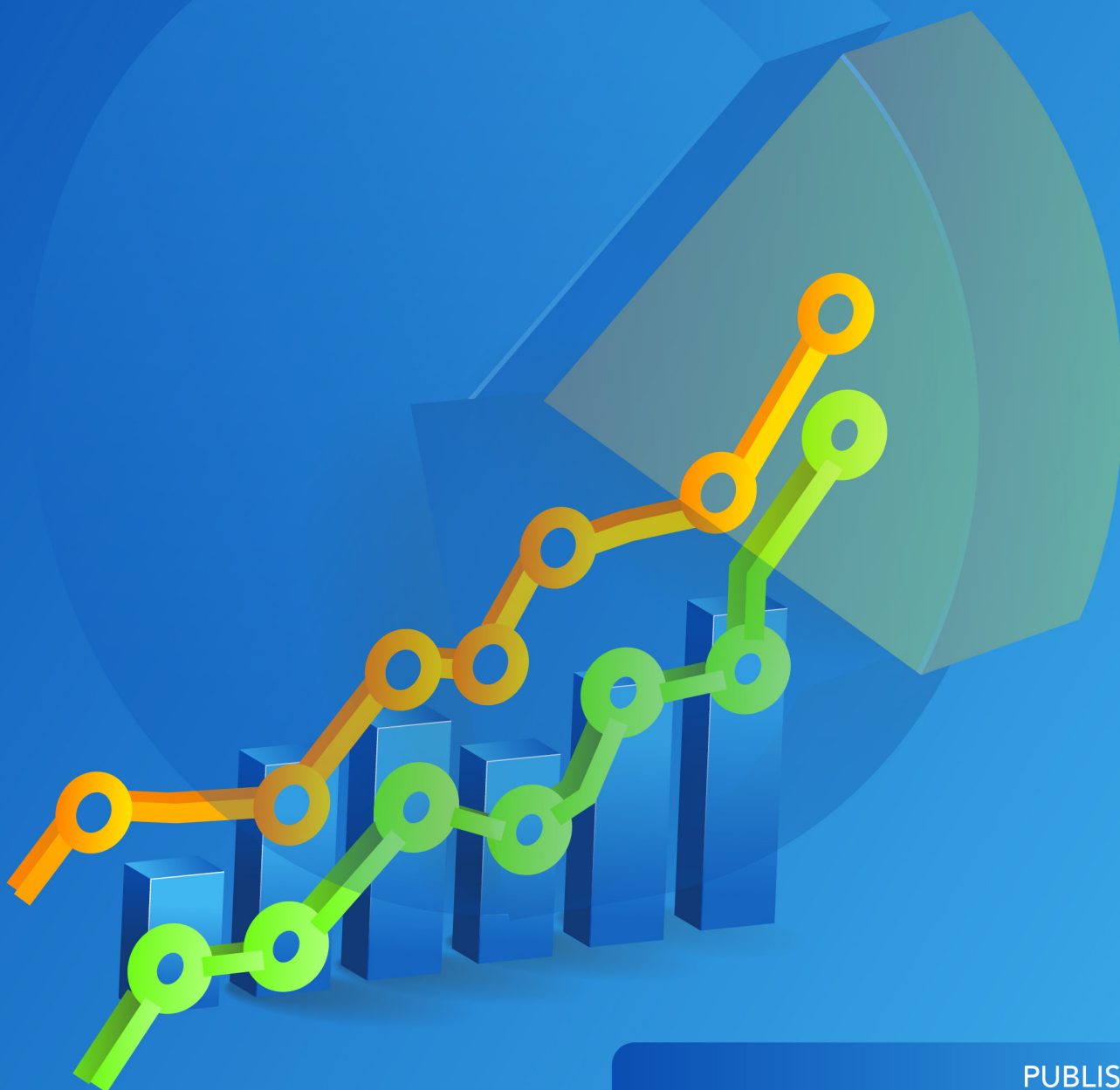


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## Determinants of Share Price of Dhaka Stock Exchange

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### ABSTRACT

This study investigates at the main factors influencing share prices on the Dhaka Stock Exchange (DSE), one of the two main stock exchanges in Bangladesh. Stock markets provide as venues for businesses to generate cash through the issuance of securities, which investors' then trade. Primary measures of investor sentiment and stock prices are extremely volatile and impacted by a number of qualitative (goodwill, industry circumstances, and market hype) and quantitative (earnings per share, ROA, and net asset value) variables. The present research inspects 206 firms that are listed on the DSE and investigates the influence of distinct quantitative elements on share prices, including liquidity, EPS, ROA, NAV, business size, and cash dividend rate (CDR). The results indicate that these variables explain 56% of the volatility in share price. Notably, share prices are negatively impacted by ROA and liquidity, while CDR has the most favorable impact. Additionally, the analysis shows that there is considerable multi-co linearity among the variables, indicating that removing variables with higher p-values enhances the accuracy of the model. The outcomes of the research provide investors with insightful information that helps them make better decisions by demonstrating how important financial parameters impact share prices. Furthermore, the results lay the groundwork for future studies that examine other variables affecting DSE share price swings. The study emphasizes the difficulty of anticipating share prices because of both erratic market dynamics and controlled financial considerations.

### INTRODUCTION

The ownership certificate of any company is termed as stock. Stock exchange is a marketplace where financial securities are issued by the companies for buying and selling. Both shares and bonds are included in securities that are issued by the companies to gain desired level of capital from the market. And it also allows the investors to choose for the best alternatives to invest to get maximum benefit by taking the best calculative decision. As securities can be easily bought and sold it provides higher liquidity and also gives confidence to the investors to trade. Stock exchange provides a overall scenario of the industries by the price index. Higher price indicates more growing and lower price indicates less growing or drowning. Stock exchange helps the companies to raise their capital by attracting more investment. Higher price of stock can ensure more capital reserves for companies. Stock exchange plays a major role to create entrepreneur. DSE stands as Dhaka Stock Exchange which is one of the two stock exchanges of Bangladesh. It lists companies, provides the screen based automated trading for listed securities; it settles the transactions, publishes monthly reviews, monitors the activities of listed companies and protects funds by setting required rules and regulations. The stock price is the only indicator that represents the present condition of the investor's investment. It is very sensitive in nature as there are many factors that influence its price. There are some qualitative factors like the goodwill of the company, analyst's reports, industries condition, hype etc and there are many quantitative factors like Earnings per share (EPS), Cash Dividend

(CD), Return on Assets (ROA), Net Asset Value (NAV), Inflation Rate, Bank Rate, Size of the company etc.

In this paper Liquidity, Earnings per share (EPS), Return on Assets (ROA), Net asset value per share (NAV), Size of the company, Cash Dividend Rate (CDR) are considered as the determinants of the price of the share of a company. The impact of each factor on share price is also discussed with results.

### Rationale of the study

The share market is the most unpredictable market as the nature of the price of the share is so sensitive and changes frequently due to various factors. Studies suggest that both qualitative and quantitative factors are responsible for the change in share price. In this study, some independent variables like return on assets, earnings per share, size of the company, net asset value of the company per share and cash dividend rate are considered and selected and their impact on current share price is determined. These results will be helpful for the investor as they will have an idea regarding the impact of the selected variables on share price and invest more wisely in future considering the results. Again this study can help the researcher to continue the research regarding the determinants of share price in future with more variables.

### Objectives of the study

The following objectives are to be fulfilled by this study:

1. To find out the impact of independent variables like ROA, NAV, EPS, size of the company and rate of cash dividend paid on share price.

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2. To find out the impact of the independent variables on share price individually.

## LITERATURE REVIEW

Several studies have already been conducted regarding the determinants of share price in stock market. Some studies showed the effect of internal factors on share price and some stated about the effect of external factors on share price.

The stock market has become an essential market playing a vital role in economic prosperity that fosters capital formation and sustains economic growth. Stock markets are more than a place to trade securities. They operate as a facilitator between savers and users of capital by means of pooling of funds, sharing risks and transferring fund (Mondal & Imran, 2010). The expectation of future real dividend growth is a primary determinant of stock price movements (Balk & Wohan, 2006). In all share index is more responsive to change in exchange rate, inflation rate, money supply and real output (Maku & Atanda, 2007). Both quantitative and qualitative factors influence share price. Quantitative factors are dividend, market capital, price-earnings ratio, EPS, net income, return on investment, rational earnings, merger, stock split, margin loan, demand and supply of stock, inflation, interest rate, exchange rate etc. Qualitative factors are company goodwill, market segments, company announcement, annual general meeting, analyst reports, hype, international situation, internal political situation, government policies etc (Hasan & Mondal, 2008). Previous behavior of stock prices, company sizes, previous earnings per share are the most important factors of current share price. Additionally, macroeconomic indicators like GDP growth, rate of interest and financial depth have significant relationship with stock price (Nisa & Nishat, 2011). The stock price movement is determined by the ratios like asset turnover ratio, debt ratio, current ratio, net profit margin, price-to-earnings ratio and book value (Ugun Ergun, 2012). The relationship between dividends and stock prices after controlling the variables like EPS, return on equity. Retention ratio have positive relation with stock prices while dividend yield and profit after tax have negative relation with share price (Masum, 2014). Both macro and micro variables can reliably price the stocks. Specifically asset quality, management quality, earnings, size, money supply and interest rate are significantly related to stock price (Rjoub *et al.*, 2017). Remittance and money supply positively affect the stock market where as interest rate and exchange rate negatively affects the stock market performance (Rakhal, 2018). The major factors influencing stock market development in line with FDI, economic growth, infrastructural development, savings, inflation, trade openness, exchange rates and stock market liquidity (Tsaurai, 2018). The positive relationship lies among stock price volatility and dividend payout ratio, assets growth and size. And a negative relation among stock price and earnings volatility leverage (Arshad *et al.*, 2019). The impact of some selected variables like

dividend, price, earnings per share, dividend payout ratio and size on the movement of share price. (Chowdhury *et al.*, 2019).

In this study, factors like liquidity, return on assets, net asset value, earnings per share, size of the business and cash dividend rate are selected as independent variables and their impact on changing the share price is examined and discussed.

## Research Gap

Though several researches had been conducted regarding the title determinants of stock price, most research have been done on small sample group but this study covers the information of 206 companies which is larger in scale. Again, all other research work is done before 2019 whereas this paper includes the information of 2023 which updated compared with the previous studies. Variables like return on assets (ROA) and net asset value per share (NAV) are considered independent variables that determine the share price in this paper which were ignored before.

## Data Collection & Descriptive Statistics

### Data Collection

This study is a quantitative study and data used in this study is secondary in nature. Total 206 companies are examined to collect the information that is required to conduct this study. Annual reports of those 206 companies are already published and available online and offline. Data are mainly collected from the website of Dhaka Stock Exchange and from the annual reports of the sample organizations.

## Descriptive Statistics

### Dependent Variable

Share Price (SP): In this study share price is taken as dependent variable. Closing market price of per common share is taken here as share price. It is the last trading price of the share in the Dhaka Stock Exchange.

### Independent Variables

Liquidity (L): Liquidity is the ability of an organization to meet up its current liabilities. Normally, it is expressed by the current ratio of each company. Liquidity indicates the amount of current assets available to pay the current liabilities.

### Return on Assets (ROA)

When return is compared with the asset ROA is obtained then. ROA indicates the return generated in terms of assets. It expresses the percentage of how profitable a company's assets are generating revenue.

Formula of ROA is,

$$ROA = \text{Net income} / \text{Total assets.}$$

### Net Asset Value (NAV)

Net asset value expresses the realizable asset value after the deduction of its liabilities. It represents the net value

of an entity. It is calculated as the total value of the assets minus the total value of the liabilities.

Formula of NAV is,

NAV = Net asset value / Number of shares outstanding

### Earnings per share (EPS)

EPS is the most common and popular indicator of company's performance. When the earning is expressed in proportion to per share, it is called EPS or earnings per share. Earning per share indicates how much money is made for each share. It is an indicator of company's profitability.

Formula of EPS :

EPS = (Net income – Preferred dividend) / weighted average outstanding shares

Size (S): Size interprets the total proportion of market share is captured by any company. It is expressed by the logarithm of net asset value. It indicates how much market share is captured by a company.

### Cash Dividend Rate (CDR)

The cash dividend rate is the rate by which the profit portion is distributed to share holder in form of cash. Cash dividend rate indicates the amount of cash return to it's stockholder on an annual basis. It is the dividend rate that is declared and paid by the companies.

**Table 1:** High tendency of changing price

	Share Price	Liquidity	ROA	NAV Per share	EPS	Size	Dividend Rate
Mean	142.8140777	2.18315534	0.055579369	44.6661165	3.302538835	9.157262136	0.228473301
Standard Error	19.84179665	0.208816997	0.028457642	7.360174063	0.86943117	0.149050396	0.049104485
Median	51.65	1.44	0.0235	28.855	1.375	9.515	0.1
Mode	9.9	0	0	18.56	0.22	0	0.1
Standard Deviation	284.7833567	2.997087732		105.638371	12.47868483	2.139275637	0.704781942
Sample Variance	81101.56024	8.982534873	0.166826507	11159.46542	155.7175751	4.576500253	0.496717586
Kurtosis	27.98868064	37.27142079	113.9122547	85.3076146	34.29382307	12.40120118	77.3261226
Skewness	4.780958708	5.337846297	8.672089319	-6.910987275	3.471037174	-3.466258855	7.950804115
Range	2416.3	27.77	7.02	1511.63	165.85	11.68	8
Minimum	5.2	0	-1.96	-1167.57	-53.03	0	0
Maximum	2421.5	27.77	5.06	344.06	112.82	11.68	8
Sum	29419.7	449.73	11.44935	9201.22	680.323	1886.396	47.0655
Count	206	206	206	206	206	206	206

It is obtained from the table that the mean value of share price is 142.814 and standard deviation is 284.78 which shows that there is high tendency of changing price. The minimum value of share price is 5.2 and the maximum value is 2421.5. It's mode is 9.9.

The mean value of liquidity denotes as 2.18 and it's standard deviation is 3.00. The range of its value is 0 to 27.77. The mode of liquidity is 0.

The mean value and standard deviation of ROA are 0.056 and 0.41 respectively. The minimum value of ROA is -1.96 and the maximum value is 5.06. The mode value of return on assets or ROA is 0.

NAV's mean value is 44.67 and standard deviation is 105.63. The range of NAV is -1167.57 to 344.06. The mode value of net asset value per share or NAV is 18.56. EPS has a mean value of 3.30 and standard deviation of 12.48. The minimum value of EPS is -53.03 and the maximum value is 112.82. From the table it is shown that the mode of earnings per share is 0.22.

The mean value of the size of the companies is 9.16 and standard deviation is 2.14 while the range of the size of the companies expressed as 0 to 11.68. The mode of size of the companies is 0.

Cash Dividend Rate has a mean value of 0.23 and

standard deviation of 0.71 while it's minimum value is 0 and maximum value is 8. Mode of the cash dividend rate of the companies is exactly 0.01.

## MATERIALS AND METHODS

In this study descriptive statistics, correlation, economic model, regression are designed to show the relationship among the independent variables and their impact on the dependent variable which is share price.

Some selected independent variables like liquidity, return on assets, net asset value, earnings per share, size of the business and cash dividend rate are considered as the determinants of share price. To show the relationship among the variables and their impacts on share price descriptive statistics and correlation matrix are used. To understand the effect of each variable on share price an econometrics model is used in this study and with the help of data analysis tool of Microsoft Excel coefficients are determined.

### Econometrics Model

The following model is used to find out the influence of Liquidity, Return on Assets, Net Asset Value, Size of the company and Cash Dividend Rate on Share Price of the

particular company.

$SP_i = \alpha_1 + \beta_1 L_i + \beta_2 ROA_i + \beta_3 NAV_i + \beta_4 EPS_i + \beta_5 S_i + \beta_6 CDR_i + \mu_i$   
 $\alpha_1$  = Constant. It indicates the value of the share price per share in absence of liquidity, return on assets, net asset value, and earnings per share, size of the company and cash dividend rate.

$\beta_1$  = The partial change in share price due to the one percentage change in liquidity while other things remain constant.

$\beta_2$  = The partial change in share price due to the one percentage change in Return on Assets (ROA) while other things remain constant.

$\beta_3$  = The partial change in share price due to the one

percentage change in Net Asset Value (NAV) while other things remain constant.

$\beta_4$  = The partial change in share price due to the one percentage change in Earnings per share (EPS) while other things remain constant.

$\beta_5$  = The partial change in share price due to the one percentage change in Size (S) while other things remain constant.

$\beta_6$  = The partial change in share price due to the one percentage change in Cash Dividend Rate (CDR) while other things remain constant.

$\mu_i$  = Error

**Table 2:** Correlation Matrix

	Share Price	Liquidity	ROA	NAV Per share	EPS	Size	Dividend Rate
Share Price	1						
Liquidity	-0.077602565	1					
ROA	0.04193175	-0.038355729	1				
NAV Per share	0.313655963	-0.017135035	0.057411343	1			
EPS	0.616150332	-0.024942244	0.129164084	0.493833012	1		
Size	0.060655544	0.096163557	0.066466266	0.350240737	0.196324749	1	
Dividend Rate	0.733105264	-0.059979308	0.083753395	0.216638088	0.800290692	0.133439	1

This table shows the correlation matrix among the variables. According to that table there is both positive and negative correlation among the variables among them some are significant and some are not significant. The share price has positive correlation with ROA, NAV per share, EPS, size and dividend rate. Among them dividend rate has highest correlation with share price as of 0.73 which is significant as well. EPS is another factor which has significant correlation with share price exactly of 0.61. On the other hand with liquidity share price has negative correlation which is of -0.08.

Liquidity has only positive correlation with size of the organization which is 0.096. It has negative correlation with ROA, NAV and EPS among them the height correlation is with size of the company of 0.10.

ROA has positive correlation with NAV, EPS and size and dividend rate. Highest correlation is with EPS of 0.13.

NAV has positive correlation with EPS, size and cash dividend rate. Among them the highest one is with EPS of 0.49.

EPS has positive correlation with size and dividend rate. It has highest correlation with dividend rate of 0.80 which is also significant in nature.

Size has positive correlation with dividend rate and it is of 0.13.

## RESULTS AND DISCUSSION

### Empirical Results

With the help of data analysis tool of Microsoft Excel from the appendix 4 the following model can be extracted that we designed earlier:

### Summary Output

**Table 3:** Regression Statistics

Multiple R	0.758177466
R Square	0.57483307
Adjusted R Square	0.562013966
Standard Error	188.4710872
Observations	206

**Table 4:** Anova

	df	SS	MS	F	Significance F
Regression	6	9557071.059	1592845.177	44.84190902	1.88254E-34
Residual	199	7068748.79	35521.3507		
Total	205	16625819.85			

**Table 5: ROA**

R	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	179.050	59.914	2.988	0.003	60.902	297.199
Liquidity	-1.971	4.439	-0.444	0.658	-10.725	6.783
ROA	-12.524	32.596	-0.384	0.701	-76.803	51.755
NAV Per share	0.615	0.160	3.831	0.000	0.298	0.931
EPS	-2.093	2.118	-0.988	0.324	-6.270	2.084
Size	-13.425	6.641	-2.021	0.045	-26.522	-0.328
Dividend Rate	311.472	33.376	9.332	0.000	245.657	377.288

SP = 179.05 – 1.97 Liquidity – 12.52 ROA + 0.62 NAV – 2.09 EPS – 13.43 Size + 311.47 Dividend Rate

Here 179.05 denote the value of constant. It denotes that the share price will be 179.05 if liquidity, ROA, NAV, EPS, size and cash dividend rate are absent in the market. -1.97(Liquidity) indicates that if only liquidity stays in the market and other thing remain constant for 1 unit change in liquidity will result in 1.97 unit of share price in the opposite direction. That means if the liquidity will increase the share price will be decreased and if liquidity is decreased share price will be increased.

-12.52(ROA) explains that the ROA presence in the market while other factors will remain constant will affect the share price. For each unit of ROA the share price will be moved 12.52 in the opposite way. That means if ROA increases for 1 unit the share price will be decreased for 12.52 units and vice versa.

0.62(NAV) discloses that if other factors remain constant in the market except NAV this will affect the share price. To be exact 1 unit of NAV will influence the share price in the same direction for 0.62 units. If NAV increases for 1 unit the share price will be increased by 0.62 units. Again if NAV decreases for 1 unit, the share price will be decreased by 0.62 unit.

-2.09 (EPS) demonstrates that if only EPS stays in the market and other factors remain constant will have an effect on changing share price. Share price will be effected by 2.09 units for the per unit change of EPS in

the opposite direction. If EPS is increased by 1 unit this will result in 2.09 units decrease of share price. Again if EPS is decreased for 1 unit will result in increase of share price by 2.09 units.

-13.43(Size) interprets that the size of the organization negatively effects share price when other factors remain constant. For each unit of size of the organization increase will result in 13.43 units' decrease of share price. If the size of the organization will be decreased by 1 unit, that will ensure the increase in share price by 13.43 units. 311.47(CDR) illustrates that the cash dividend rate is a significant factor to influence the share price when other factors constant. I unit of increase in CDR will assure 311.47 units of increase in the share price. Similarly 1 unit decrease in CDR will cost 311.47 units decrease of share price.

The value of r square is 0.57. Again, the value of adjusted r square is 0.56. This indicates that the model explains 56% proportion of the share price. To be more exact it can be said that 56% of the share price can be demonstrated by the variables used in the model and the rest 44% can be influenced by the factors that are not considered in this model.

ANOVA table shows that the value of significance F = 1.88254E-34 ~ 0.000... that also provides the assurance of the model's significance.

### Summary Output

**Table 6: Test of Multi-co-linearity**

Regression Statistics								
Multiple R	0.758177466							
R Square	0.57483307							
Adjusted R Square	0.562013966							
Standard Error	188.4710872							
Observations	206							
ANOVA								
	df	SS	MS	F	Significance F			
Regression	6	9557071.059	1592845.177	44.84190902	1.88254E-34			
Residual	199	7068748.79	35521.3507					
Total	205	16625819.85						

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	VIF	r2
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Intercept	179.0502836	59.91444623	2.988432587	0.003157252	60.90159921	297.1989679		
Liquidity	-1.970817384	4.439223972	-0.443955384	0.657557203	-10.72477415	6.78313938	1.021591333	0.021135
ROA	-12.52400962	32.59632841	-0.384215347	0.701229082	-76.80255274	51.75453351	1.022979181	0.022463
NAV Per share	0.614512374	0.160418936	3.83067229	0.000171245	0.298173203	0.930851545	1.657449589	0.3966634
EPS	-2.092886387	2.118022755	-0.988132154	0.32428785	-6.26953522	2.083762445	4.031461526	0.751951
Size	-13.42505098	6.641447657	-2.02140432	0.044577334	-26.52169715	-0.328404814	1.164993348	0.141626
Dividend Rate	311.4724529	33.37566126	9.332323051	2.08425E-17	245.6570993	377.2878066	3.193255844	0.68684

Variance inflation factor =  $1 / (1 - R^2)$

Here the value of VIF is less than 5. It indicates that there is moderate Multi-co-linearity in the model.

## Summary Output

**Table 7:** Test of Autocorrelation

Regression Statistics						
Multiple R	0.756134457					
R Square	0.571739318					
Adjusted R Square	0.56537901					
Standard Error	187.74568					
Observations	206					
ANOVA						
	df	SS	MS	F	Significance F	
Regression	3	9505634.895	3168544.965	89.89177767	5.48197E-37	
Residual	202	7120184.955	35248.44037			
Total	205	16625819.85				
	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	178.7749272	59.57335853	3.000920741	0.003030763	61.30952613	296.2403283
NAV Per share	0.530930594	0.134799543	3.93866762	0.000112791	0.265135904	0.796725284
Size	-13.61506297	6.557022528	-2.076409363	0.039121579	-26.5440517	-0.686074239
Dividend Rate	284.5025787	19.09583116	14.89867481	2.32765E-34	246.8498507	322.1553068

Here the variables having higher p value are excluded from the model and the regression shows better results in terms of p value. After deduction of the variables the new model stands like this:

SP = 178.77 – 1.97 Liquidity + 0.53 NAV – 13.61 Size + 284.50 Dividend Rate.

## Findings

1. The regression model's  $R^2$  score is 0.57, suggesting that 56% of the variance in share price is explained by these factors.

2. The dependent variable, share price, has a mean of 142.81 and a standard deviation of 284.79.

It is extremely volatile in nature, ranging from 5.2 to 2421.5.

3. The analysis discovered that the cash dividend rate, size, profits per share, return on assets, liquidity, and net asset value were correlated negatively, and that the independent factors had negligible effects on share price.

4. Share price is negatively impacted by liquidity and ROA; for every 1% rise in both factors, the price drops by 1.97 and 12.52 units, respectively.

5. NAV has a positive correlation with share price; for every 1% rise in NAV, the price of the shares increases

by 0.62 units.

6. Size and EPS have a negative impact on share price: size lowers share price by 13.43 units and EPS by 2.09 units for every 1% rise in EPS.

7. One important component is the Cash Dividend Rate (CDR), which yields a 311.47 unit rise in share price for every 1% increase.

8. Moderate multi-co linearity in the model is indicated by Variance Inflation Factor (VIF) values less than 5.

9. Enhanced results are obtained using a modified model that eliminates variables with higher p-values.

10. Share price is influenced by size, dividend rate, and net asset value, with dividend rate having the most positive impact, while liquidity, ROA, and EPS have minimal impact.

## Recommendations

Following are some suggestions derived from the results to enhance stakeholders' decision-making and share price predictability:

1. Companies should emphasize maintaining or growing dividend distributions since they have a large positive impact on investor confidence and share price

growth, especially when it comes to the cash dividend rate (CDR), which has the biggest positive impact on share price.

2. By better managing their assets and cutting down on obligations, companies should concentrate on raising their net asset value.

3. Since increased liquidity seems to have a negative impact on share price, companies should carefully manage liquidity.

4. Even while ROA is usually viewed as a metric of revenue, companies should look into why increased ROA causes a drop in share price and modify their plans appropriately, maybe by making better use of their assets.

5. Companies should think about restructuring techniques to strike a balance between expansion and operational efficiency, as a larger company's size has a negative influence on share price.

6. In an effort to match EPS growth with investor expectations, management should look into the causes of the correlation between rising EPS and falling share price.

7. To stabilize share price, investors and corporations must consider severe volatility ranging from 5.2 to 2421.5, using risk management measures like shareholder communication, hedging, and diversification.

8. Companies should communicate their financial performance in a straightforward manner, emphasizing dividends, net asset value (NAV), and ROA and EPS strategies that are in line with investor goals.

By concentrating on these essential elements, companies may develop tactics that enhance the predictability of share prices while also better matching investor expectations and market realities.

## CONCLUSION

Share market is the most unpredictable and sensitive market in Bangladesh, which is controlled by so many micro and macroeconomic factors. Among them, some are controllable and some are not. Factors like bank rate, exchange rate, inflation rate, government policies, international business situation, market expectations, hype, goodwill of a company, analyst's report, corporate social responsibility, corporate governance, companies internal policies, profitability, nature of business, GDP growth, economic growth, demand and supply situation etc can affect the share price in any moment. As there are so many variables, it is very difficult to predict the share price by previous actions, and also, it is not possible to predict it's future value accurately by depending on mathematical calculations as there are some factors which are qualitative but has significant influence on the share price. The overall report expresses that the independent variables like liquidity, return on assets, net asset value per share, earnings per share, size of the organization and cash dividend rate can explain 56% of the share price. There is moderate Multi-col-linearity among the variables as the variable influencing factor is less than 5% among the variables. Autocorrelation suggested that if liquidity, ROA and EPS is excluded the rest variables

gives significant p value.

Though it is difficult, this study attempts to predict the determinants of share price by selecting some independent quantitative variables and to some extent this study can influence the investors to make better decisions. As there are so many factors to be more examined and due to the changing nature of the share price, the determinants of share price of DSC is a topic to be more discussed and more examined. So, further studies can be conducted to get better results in the upcoming future.

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