

## **Influence of Macro-Economic Variables on Foreign and Local Trading Behaviour in Colombo Stock Exchange**

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This paper attempts to investigate the impact of macroeconomic variables on the trading pattern of domestic institutional and individual, foreign institutional and individual investors in Colombo Stock Exchange (CSE) during 2005 to 2015. We selected Treasury bill rates (91 days, 182 days, and 364 days), Exchange rate and Market Index as macro-economic variables. Autoregressive Distributed Lag model (ARDL) with error correction model is used to enhance the purpose of this study. Findings established a Long run equilibrium relationship between macro-economic variables and foreign institutional and domestic investors trading. No short run equilibrium of all investors is observed. Long run ARDL coefficients revealed that ASPI negatively effect on the foreign individuals. The results remark that ASPI positively effect on trading of domestic investors in short run. Further, the findings strongly support to establish that domestic investors consider ASPI index in short term investments because changes in the macro environment fully reflected in the market index.

**Keywords:** Colombo Stock Exchange; Foreign Investors; Local Investors; Macro-economic Variables