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## **Long-Term & Short-Term Impact of the Macroeconomic Variables on All Share Price Index**

Malith AAD Amarasinghe

Department of Accountancy and Finance, Sabaragamuwa University of Sri Lanka  
malithamarasinghe123@gmail.com

This study examines the long-term and short-term impact of macroeconomic variables on all share price index. Data were collected for the period commence from January 2006 to December 2015 using Central Bank annual reports and publications of Colombo stock exchange. Money supply; interest rates; Colombo consumer price index; exchange rate; and industrial production index were used as macroeconomic variables of the study. The Johansen-Juselius cointegration test suggested that there are significant positive long run relationships between all share price index and money supply, interest rate & exchange rate while there are significant negative long run relationships between all share price index and industrial production index & Colombo consumer price index. To examine whether all variables in the model are integrated of the same order, unit root test is used. Results showed that all series are non-stationary in levels but stationary in first difference. Granger causality test showed that money supply, interest rate, exchange rate and industrial production index have one-way causality while Colombo consumer price index have no causal relationship with all share price index. The impulse response functions indicate that there is a statistically significant short run relationship between all share price index and four macroeconomic variables except money supply. This implies that there are contemporaneous effects of the macroeconomic variable shocks on the stock market. Error variance decomposition also confirms that the selected variables have a significant effect on the stock market.

**Keywords:** All Share Price Index, Macroeconomic Variables, Long Run & Short Run Relationship