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A STUDY ON FACTORS AFFECTING  
SHARE PRICE BEHAVIOUR

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## ABSTRACT

The purpose of this study is to examine some of the factors affecting share price behaviour and to check the existence of any relationship between the factors and share price. I am trying to establish whether there is a relationship between earnings per share, net asset and dividend yield with share prices. Once this is established the best linear model will be ascertained. Effectively, the objective here is to test whether the factors under study has an effect on the share price.

The approach used to study the relationship between share price and earnings per share, net asset and dividend yield is by using the Regression Technique.

The findings indicate that there are relationships between factors under study and the share price behaviour.

The study shows that earnings per share, net asset and dividend yield are important determinants in the valuation of equity. The linear relationships are also seen in all the five years under study with different determinant in each year.

The validity and limitation of the study such as data constraints and methodology limitations are also discussed.

## **CHAPTER 1**

### **INTRODUCTION**

Everyday, we hear on the news that the Dow Jones stock average went up or down, that the prime rate increased or decreased; that the Ringgit was strong or weak overseas; that one corporation was attempting to buy out another corporation; or some percentage of business firms had gone bankrupt.

There are many factors that contribute to this situation and may have a direct or indirect influence on a company. Among the factors mainly discussed in the books are the general market as a whole, industry factors and company-related information. However possibly the most important of these factors is company development; which covers factors such as whether the company is losing competitively in its industry, the dividends and asset size. These matters which are all interrelated are the factors that affect corporate earnings and stock price.

In making investment decisions, the major information is gathered from financial statements. Since the nature of financial statements is to present all business transactions conducted by the corporation as of the stated time period, it is one of the ways to measure the company's performance. If the company is operating at a profit, it will be indicated in the financial statements. This information will be used by the investors to evaluate the performance of the company.

Guiding by this information a favourable result will induce purchase and thus, referring to the economic theory, when there is a demand the price will go up.