

SHARE PRICE MOVEMENTS: INSIGHTS FROM FINANCIAL FIRMS ON THE COLOMBO STOCK EXCHANGE

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ABSTRACT

This study investigates the impact of firm internal factors on share prices in financial sector firms listed on the Colombo Stock Exchange (CSE). Although extensive research exists on the influence of macroeconomic factors on share prices, there needs to be more understanding of how internal firm factors affect share price movements in emerging markets like Sri Lanka. Addressing this gap, the study focuses on the financial sector, which is critical for the economy and has unique characteristics compared to financial industries. The research aims to determine the relationships between critical internal factors—Dividend Yield, Earnings Per Share (EPS), Book Value Per Share (BVPS), Dividend Per Share (DPS), Return on Equity (ROE), Firm Size, Financial Leverage, and Price-Earnings Ratio (P/E Ratio)—and their impact on share prices. A sample of 20 financial firms was analyzed using secondary data from 2017 to 2022 and the software E views 10. was used. Regression and correlation analyses were conducted, and the Random Effects Model was applied to assess the influence of these variables on share prices. The results reveal that Dividend Yield, EPS, Financial Leverage, ROE, and the P/E Ratio are negatively associated with share prices, while DPS and BVPS have a positive relationship. DPS and ROE, in particular, significantly affect share prices. These findings suggest that investors in the CSE's financial sector can make more informed investment decisions by focusing on these critical internal factors. The study contributes to the existing literature by highlighting the significance of internal factors in determining share prices, particularly in an emerging market like Sri Lanka. This research provides valuable insights for academics and investors interested in the financial dynamics of developing economies.

Keywords: Share price, financial sector, Colombo stock exchange, emerging markets, internal firm factors.