



STOCK MARKET VOLATILITY AND ITS DETERMINANTS IN PAKISTAN STOCK MARKET

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Abstract

Stock price volatility is considered as one of the most important areas of concern for the capital markets regulators, investors and academicians in recent years. Corporate dividend policy as a determinant of stock market volatility is a significant area of concern for the investors as well as the managers of the company due to political instability and the current economic crisis in Pakistan. This study aims at determining the effect of significant factors such as dividend yield, dividend payout ratio, foreign exchange rate and foreign direct investment on stock price fluctuation in Pakistan, which contributes to overall variation in stock price volatility. The study used a sample of 200 Pakistani listed companies by employing the regression analysis. The endogeneity issues were addressed through the generalized method of moments (GMM) estimation. The study concludes that stock price volatility has a negative association with dividend policy. The study also suggests that foreign direct investment and foreign exchange rates both negatively influence the stock price fluctuations in emerging markets. The findings of this study provide practical implications for the investors, policymakers and firm managers.

Keywords: *Stock Market Volatility, Dividend yield, Dividend payout ratio, Foreign Exchange Rate, Foreign Direct Investment*

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The material presented by the author(s) does not necessarily portray the view point of the editors and the management of the ILMA University, Pakistan.

(Online) 2409-6520 (Print) 2414-8393, published by the ILMA University, Pakistan.

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1) INTRODUCTION

The volatility of stock prices is referred as variation in prices of stock over a span of time. These price variations are caused by market instability and market unpredictability as well as by the risks associated with the market. These factors affect the interest of the investors which consequently creates the difference among the buying and selling prices. Therefore, risk management can be considered as an important factor for investment .

Dividend policy can be described as the percentage of earnings which is floated towards the shareholders (Fama and French, 1988). These policies are developed while considering for the risk factors. The payments of dividend are supported by the researchers by giving different reasons for it such as dividend payments play significant role for the resolution of organizational problems ,these help to eliminate the conflict of interest arising among the management of the company and company shareholders . These payments also help to mitigate the risk faced by shareholders with minor shares where the firms are controlled by major shareholders. The exchange rate of any country can be considered as a measure of its economic condition . The exchange rate being a macroeconomic variable, is also used a predictor of economic strengths and weaknesses of any country.

Therefore, it can be concluded that an economy with strong currency have a strong economy whereas a country with weak currency has a weak economy . In the developing countries or third world, there is a lack of resources which is required for the development purposes causing a slow-paced development. Therefore, most of these economies have to consider the option of foreign borrowings or foreign investments to improve the development in the country. Therefore, foreign direct investment either through public agencies or by private institutions, is an important source of growth of economy in a developing country. The characteristics of corporate management directly affect the corporate risk-taking as well as its decision-making processes ;

The role of financial markets is of crucial value for any economy, as it is a source of active mobilization of domestic resources as well as of productive investment of these resources. Pakistan Stock Exchange was established after the merger of three different stock markets of Pakistan i.e. Islamabad, Karachi and Lahore Stock Exchange on January 11, 2016. The PSX is smaller in size when compared to emerging markets. Therefore the role of this market is not very significant in the capitalization of emerging markets. Nevertheless, the investors gain huge financial benefit from PSX. Pakistan economy has been witnessing many changes due to the political instability in the region. Therefore, this economy has a challenging economy for further investigation in this field of study. Moreover, very few studies have incorporated the impacts of micro and macro-economic variables simultaneously.

The study used a sample of 200 non-financial firms which are listed at PSX. To estimate the results, ordinary least square regression analysis is used. Further the study applied fixed effect and random effect models for testing the relationship

among the variables. The findings indicate that dividend policy is negatively linked with stock price volatility. Moreover, foreign direct investment and foreign exchange rates both have converse relation with stock price fluctuations.

The study will provide the implications for the managers of the firms listed at Pakistan stock market to manage the stocks while considering the effects of microeconomic variables i.e. dividend policy and macroeconomic variables which include foreign exchange rates and foreign direct investment, simultaneously. The simultaneous effect of micro and macro variables has not been addressed frequently by previous literature for Pakistan stock market.

The rest of the paper includes literature review, research objectives, research questions, research hypothesis, theoretical framework, research design and methodology, empirical results and discussion and conclusion.

2) LITERATURE REVIEW

Many variables contribute towards stock volatility as discussed in the literature as well. These variables are as under:

a) DIVIDEND POLICY AND STOCK PRICE VOLATILITY:

A large number of studies have been present around the globe including the developed as well as developing economies, regarding the association of dividend policy with stock price volatility but the mystery of this relationship is not solved. Gordon (1963) claims that high dividend payments lead to risk diminution and this phenomenon cause affects the stock prices as well as the cost of capital of the firms. Dividend policy has been defined as being the portion of company's wealth which may be distributed among the shareholders (Arnold, 2008). It is the decision of corporate managers either to keep the company wealth for the enhancement of the share prices or to distribute it among the shareholders as dividend while considering for interest and taxes (Bodie, 2009).

The relationship of price fluctuations of stock with dividend policies has been researched in various studies. Dividend policy can be investigated by the help of proxies of dividend yield and dividend payout ratio. It is argued by Gordon (1963) that if more dividend paid out, it reduces the risk and affects capital costs. Further he says that it causes reduction in stock prices. It is evident from many studies that in advanced markets, there is an inverse association amongst the stock volatility and dividend policies.

As explained by Baskin (1989) stock price fluctuations are negatively correlated with stock returns. Hence, the financial managers can utilize the dividend payments as a tool to regulate the price volatility of stocks i.e. increased dividend payments can be used to reduce stock fluctuations. Allen and Rachim (1996) performed an analysis by using the data of Australian Securities Exchange (ASX) to analyze the relation of stock price volatility with dividend policies. They indicated the

presence of a significant negative connection among dividend payout ratio and stock fluctuations. Hussainey et al. (2011) concluded the same results about the payout ratio and stock volatility. Similarly, Proffitt and Bacon, (2013) found that there is a converse relationship of dividend policies with the fluctuations of stock. In contrast, there is some research based on developed countries that suggests a positive connection of price fluctuation with dividend policies. The study of Hussainey et al. (2011) while analyzing the stock market of UK shows that the policies regarding dividend and stock prices have positive relation to each other.

In some emerging markets this relationship is not significant, as suggested by few studies. Rashid and Rahman (2008) used stock returns from stock market of Bangladesh for the study of stock price fluctuations and dividend yield. They found no significant connection between these variables. Ilaboya and Omoje (2012) also studied these two variables by using the data of Nigerian Stock market. Their study also suggests the presence of no significant relation between stock volatility and dividend policies. Some evidence is also there of positive link among dividend yield and stock volatility in these countries. For instance, Jahfer and Mulafara (2016) after studying the price fluctuations of Sri Lankan stocks concluded that stock volatility is positively related with dividend yield.

Studies also prove that this relationship may vary regarding different dividend policies. Gunaratne, Priyadarshanie, and Samarakoon (2016) also studied Sri Lankan market and suggested that the link of dividend yield with volatility of stocks was inverse in current year of study whereas the relationship of stock fluctuations with dividend payout ratio was positive in current and previous year.

Moreover, this relationship of dividend policies and stock volatility change with respect to time period as well. Irandoost, Hassanzadeh, and Salteh (2013) conducted a study on stock market of Tehran for both long run as well as short run. They confirmed the presence of a significant association between stock fluctuations and dividend policy in short run, however, this association was insignificant for the long run. Lashgari and Ahmadi (2014) found an opposite but significant association among stock price volatility and payout ratio. Ramadan (2013) studied the Jordanian market and concluded that the policies regarding dividend payment i.e. dividend yield and payout ratio have an inverse and significant association with the fluctuation of stock prices. The study explained this movement with the help of signaling theory and duration effect.

Al-Shawawreh (2014) also studied the Jordanian market and study revealed an inverse but significant relation among the volatility and payout ratio whereas a weak and positive association among stock price fluctuations and dividend yield. The Pakistan stock exchange was studied by Nawaz, Anwar, and Ahmed (2010) to investigate the price fluctuations of stocks in relation to dividend policies. They found that dividend policies have significant effect on stock volatility where dividend yield has a positive but payout ratio is inversely related to volatility. Another study conducted by Shah and Noreen (2016) also used Pakistan stock market data and shows a significant but negative relation of market fluctuations with dividend policies. The results of both the studies conducted by Nazir et al. (2010) and Shah and

Noreen (2016) confirmed a correlation between dividend policies and fluctuations of stock prices in Pakistani market which affirms the implication of duration effect, realization effect as well as information effect in PSX. Zakaria, Muhammad, and Zulkifli (2012) explored an association of dividend policies and volatility of stocks by analyzing the construction sector of Malaysian stock market. They found a positive and significant relation between dividend policies and fluctuations of stock prices. But on the other hand, few other researches based on Malaysian market showed a negative relation between these two variables (Hashemijoo, Ardekani, & Younesi, 2012); (Zainudin, Mahdzan, & Yet, 2018).

Suwanhirunkul and Masih (2018) performed a study while analyzing the data of Islamic firms listed on Dow Jones Islamic US Index as well as firms listed on Dow Jones US Index. The analysis was conducted for a period of 12 years i.e. from 2005 to 2017. They used quantile regression as well as GMM approach to examine the relation of market volatility and dividend policies. The study found that while using GMM approach, the stock fluctuations are not impacted by dividend policy for all shares listed on Dow Jones US Index. Though, quantile regression results for Islamic shares showed a significant positive relation of stock volatility with the dividend policies.

Camilleri, Grima, and Grima (2019) studied Mediterranean banks to estimate the relationship of dividend policy and fluctuations of stock. The period of analysis was starting from 2001 and ended to 2016. The study used a cluster approach and study results showed that dividend yield's impact is more

significant as compared to dividend payout ratio on stock price movements. The above research evidences shows different results regarding the association of dividend policies and price movements of stocks which can be a consequence of dissimilar research methods or different study samples.

b) FOREIGN EXCHANGE RATE AND STOCK PRICE VOLATILITY

The exchange rates and stock variations are studied by many researchers. Kutty, (2010) explored the impact of stock price movements on foreign exchange rates while studying the Mexican market. He used VECM model and the study concluded that in short run exchange rates are lead by stock price but the relationship is insignificant in the long run.

Gulathi & khakani, (2012) also studied the relationship of exchange rates with the stock market by using Granger Causality model. They do not find any significant relationship among the prices of stocks and exchange rates.

Some other researchers, such as Malarvizhi & Jaya, (2012), Poornima & Ganeshwari, (2013) and Najaf & Najaf, (2016) also studied the relationship of exchange rates and stock price fluctuations. They examined Indian rupee and US dollar exchange rate in contrast to nifty returns. The results suggested that exchange rate effects the Nifty returns but returns have no effect on exchange rates.

c) FOREIGN DIRECT INVESTMENT AND STOCK PRICE VOLATILITY

The developing countries have been studied by many researchers in respect of the FDI and its effect on financial market. The impact of foreign direct investment on market returns and exchange rates has been studied by (Wang 2010). He states that FDI is a substantial determinant to be investigated regarding its effect on stock returns while studying the developing countries. The author applied three different methodologies to infer the results which includes ordinary least squares (OLS), Granger causality and GARCH model in Taiwan economy. The study concluded the existence of a positive relationship among stock market returns and foreign portfolio management. Moreover, the FDI is also found to have a positive linkage with exchange rate. (Al-Nasser and Gomez 2009) affirms the importance of FDI as being an essential component of globalization. The authors also suggest that many of the macroeconomic changes are also caused by foreign direct investment in the host country. The study used the pooled data of 15 Latin American countries from 1978 to 2003. The study concluded that the development of financial markets and the amount of private credit provided by the banks, both are positively linked with FDI.

In the same lines, Fritz, Mihir and James (2005) investigated the connection of FDI with the domestic capital formation. They, for the said purpose, used the database of comparatively bigger sample including many countries and study period was 1980s to 1990s. The results of regression analysis suggest that the natural assumption regarding FDI is that the country has to sacrifice its domestic investment for it. The long run connection of FDI with the growth of financial market was explored by Errunza (1983) as well. They indicated the presence of a positive link between the both variables. Boubakari and Jin (2010) studied macroeconomic indicators in relation to stock market for five Euronext countries. The study period started from 1994 till 2008. They used Granger-causality test and found that economic growth indicators are positively related to stock market growth.

RESEARCH OBJECTIVES

The current research focuses on following objectives:

To investigate the factors which contribute to Stock market volatility.

To discover the effect of Dividend policy on the volatility of financial market.

To investigate the influence of Dividend yield on financial market volatility.

To explore the effect of Foreign Exchange Rate on the volatility of financial market.

To investigate the impact of Foreign Direct Investment on Stock market volatility.

RESEARCH QUESTIONS

The research questions which are to be addressed to attain the above-mentioned objectives are as follows:

What are the possible determinants for Stock market volatility?

Does Dividend policy effect on Stock market volatility?

Does Dividend yield effect on Stock market volatility?

Does Foreign Exchange Rate effect on the volatility of Stock market?
What is the impact of Foreign Direct Investment on the Stock market fluctuations?

RESEARCH HYPOTHESIS

H1: Dividend Yield (DY) has a significant connection with financial market volatility.

H2: Dividend payout ratio (DPR) is significantly related with the volatility of Stock market.

H3: Foreign Exchange Rate (FExg) impacts on Stock market volatility significantly.

H4: Foreign Direct Investment (FDI) significantly effects the fluctuations of Stock market.

3) THEORETICAL FRAMEWORK

a) VARIABLES DEFINITION

i) Stock Price Volatility

Stock price fluctuations have been used as response variable in this study. Stock price volatility is a measure of price change movements and calculates the risk attributed to the stock prices. To calculate the stock price volatility, first the difference of lowest and highest stock prices is observed during a year. Then this difference is divided by the value obtained after taking an average of these highest and lowest values of stock prices with a square of the average. This computes the variance which is then further transformed to standard deviation with help of square root of whole value.

Many researchers used the described method for instance Baskin, (1989), Hashemijoo, Ardekani, & Younesi, (2012), Sew, Albaity, & Ibrahimy, (2015) and Shah & Noreen, (2016). Following calculation describes the stock price volatility:

$$SPV = \sqrt{\frac{\sum_{i=1}^n \left[\frac{(H_i - L_i)}{\left(\frac{H_i + L_i}{2}\right)^2} \right]}{n - 1}}$$

Where, H_i = highest stock price, L_i = lowest stock price during the fiscal year i (Zainudin, Mahdzan, & Yet, 2018)

ii) Dividend Yield

DY is used as an explanatory variable. To calculate the DY firstly total dividend per share has been observed then it is divided by the price of the stock. Further, the outcome is divided by years of the study. This method of computation has been used by Zainudin, Mahdzan, & Yet, (2018).

$$DY = \sum_{i=1}^n \frac{DPS_i / PRICE_i}{n}$$

Here, DPS_i = Annual cash dividend distributed among the common shareholders during the year, $PRICE_i$ = Market value of shares at year end.

iii) Payout Ratio

Dividend payout ratio is used as a proxy for measuring dividend policies. It measures the effect of dividend policy on price fluctuations of stocks (Phan & Tran, 2019). PR is a measure of the residual profits which is distributed among the shareholders as dividend (Fama & French, 1988); (Bali, 2003).

To compute this ratio, dividend per share is divided by earnings per share. This method has been used by many researchers (Marshall, McManus, & Viele, 2011) (Wild, Subramanyam, & Robert, 2007) (Sew, Albaity, & Ibrahimy, 2015); (Shah & Noreen, 2016).

The calculation of payout ratio is illustrated as follows:’

$$PR = \sum_{i=1}^n \frac{DPS_i / EPS_i}{n}$$

Where, DPS_i = dividend per share and EPS_i = earnings per share.

iv) Foreign Exchange Rate

Rate of exchange of foreign currency can be explained as “the price of domestic currency terms of other currency”. This currency change is caused by the supply and demand phenomenon in free market conditions (Onyeizugbe & Umeagugesi, 2014) & (Abdullahi & Oloyin-Abdulkakeem, 2019).

Pakistani Rupee-US Dollar Exchange Rates are used in this study because the US Dollar has been the most dominating among the foreign currencies used all over the world (Shirodkar, 2017), (Gulathi & khakani, 2012), (Najaf & Najaf, 2016).

v) Foreign Direct Investment

FDI can be described like “A situation whereby the concern of the investing countries is to exercise control over the assets created in the capital importing countries by means of that investment”.

Shenkar, (2007) defined FDI as direct investment in the production or other types of investment with an aim of acquiring effective control.

Control Variables:

To compute the right impact of dividend policies, foreign direct investment and foreign exchange rates on stock market volatility, the other variables which potentially effects the market volatility need to be controlled for (Baskin, 1989), (Allen & Rachim, 1996), (Hussainey, Oscar MGgbame, & Chijoke-Mgbame, 2011), (Shah & Noreen, 2016), (Zainudin, Mahdzan, & Yet, 2018), (Camilleri, Grima, & Grima, 2019).

vi) Earnings Volatility

Earnings effect stock prices as stable earnings cause stable stock prices which consequently provides higher dividends (Ball & Brown, 1968); (Beaver, Clarke, & Wright, 1979). LeRoy and Porter (1981) and Shiller (2007) also claims about the earnings that these are related to stock prices and dividends.

To estimate the EVol, EBIT is divided by total assets. Then its average is calculated over ten years and its square is computed. Further, by taking a square root the standard deviation is calculated (Allen and Rachim, 1996) (Zakaria, Muhammad and Zulkifli, 2012).

$$EVol = \sqrt{\frac{\sum_{i=1}^n (R_i - \bar{R})^2}{n - 1}}$$

Where, R_i = The ratio of Earnings before interest and taxes to total assets for year i whereas:

$$\bar{R} = \frac{\sum_{i=1}^n R_i}{n}$$

vii) Assets Growth

Assets growth is associated with the investment opportunities as well as the risk along with investment (Eskew, 1979); (Beaver, Kettler, & Scholes, 1970); (Chung & Charoenwong, 1991).

Assets growth is calculated by taking the difference in opening and closing amount of assets during a year and dividing the outcome by total assets of last year. This method has been used by many studies previously (Allen & Rachim, 1996),

(Hashemijoo, Ardekani, & Younesi, 2012), (Sew, Albaity, & Ibrahimy, 2015).

$$AG = \left(\sum_{i=1}^n \frac{\Delta ASSET_i}{ASSET_i} \right) / n$$

Where, $\Delta ASSET_i$ = Change in total assets during year i , whereas $ASSET_i$ = total assets at the beginning of year i .

viii) Firm Size

The effect of firm size has been incorporated by many researchers such as Black F., (1976a), Black F., (1976b) and Christie, (1982). Cheung and Ng, (1992) argued that economic shocks have more impact on the stock prices of smaller firms as compared to large firms which cause more stock volatility for smaller firms.

Where, MV_i = Market value at the end of year i . (Baskin, 1989) (Al-Malkawi, 2008) (Sew, Albaity, & Ibrahimy, 2015).

$$Sz = \ln \sum_{i=1}^n \frac{MV_i}{n}$$

ix) Leverage

The literature provides the evidence that greater financial leverage is a cause of higher volatility for financial markets (Black F., 1976a); (Black F., 1976b); (Christie, 1982); (Schwert, 1989). The issuance of new securities by the firm in a large number causes the stock price volatility to increase. Debt to equity ratio is taken as leverage proxy (Bowman, 1980); (Peterson, 1999) and (Al-Malkawi, 2008).

$$Lv_g = \sum_{i=1}^n \frac{DEBT_i / EQUITY_i}{n}$$

Where, $DEBT_i$ = Total debt of the company for year i , whereas, $EQUITY_i$ = Shareholders' equity for the same year.

b) RESEARCH DESIGN AND METHODOLOGY

The sample size for the study is of 200 non-financial firms which are listed on PSX

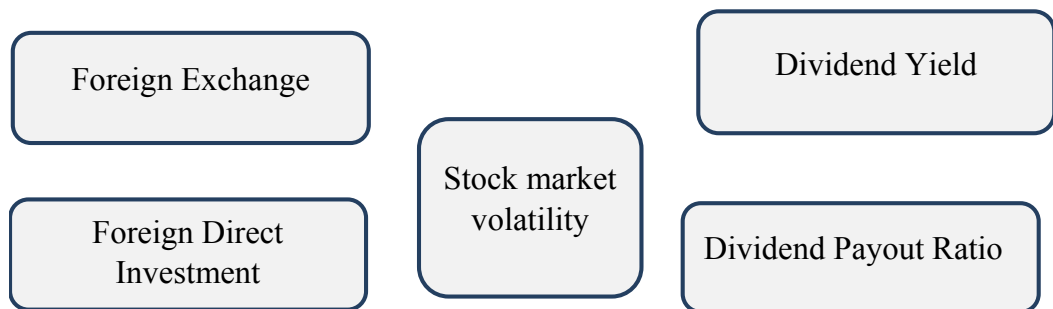
from 2010 to 2019. After removing missing values, the number of observations is 1574. Regression analysis is applied for testing the hypothesis. Fixed effect and random effect regression techniques are applied to deal with the panel data of the study and to infer the results about the existence of relationship between the explanatory and explained variables. To investigate the clear relationship among the variables, the study incorporated four control variables including assets growth, earnings volatility, firm size and financial leverage.

The model used in the study has the similarities with the literature i.e. Baskin (1989) and Allen and Rachim (1996). The response variable is stock price volatility whereas dividend yield, payout ratio, foreign exchange rate and foreign direct investment are introduced as explanatory variables. The equation for the study is given below:

$$PVol = \alpha + \beta_1 DY + \beta_2 DPR + \beta_3 FExg + \beta_4 FDI + \varepsilon$$

To overcome the issue of relatedness of DY and DPR, control variables are added in the model. So, the equation is as follows:

$$PVol = \alpha + \beta_1 DY + \beta_2 DPR + \beta_3 FExg + \beta_4 FDI + \beta_5 AG + \beta_6 Sz + \beta_7 Lvg + \beta_8 EVol + \varepsilon$$



4) EMPIRICAL RESULTS AND DISCUSSION

Descriptive statistics are presented in Table 1. For stock price volatility the observed value of mean is -0.09 having the value of standard deviation of 2.17. Dividend yield has the maximum value of 0.17 with minimum value of 0.00. The value of standard deviation for dividend yield is 0.03. The DPR has the mean value of 0.24 whereas maximum value of 3.14 and minimum value of -0.68. The sample mean value of foreign exchange rate is 5.67 and standard deviation of 0.07. Foreign direct investment has the mean value of 22.23 whereas its standard deviation is 0.35.

Table 2 contains the correlation coefficient matrix of the variables of current research. This matrix shows that the price fluctuation of the stocks is negatively associated with DPR. This indicates the presence of inverse relation among the stock price volatility and DPR. Therefore, the dividend payout ratio can be used as a tool to decrease the share price fluctuations. Foreign exchange rate and foreign direct investment both are also negatively associated with stock variations. This suggests that with an increase in foreign direct investment, the stock price volatility can be reduced. Further, rise in exchange rate is also a tool for increased stability

in stock prices.

Table 3 shows the results of System GMM for all the models. Firstly, the results of **Model (1)** are presented. Model (1) shows the relationship of firm specific factor i.e. dividend yield and dividend payout ratio. The results of GMM model shows that Dividend yield and Dividend payout ratio which are used as a proxy for dividend policy have a statistically insignificant association with price variations as the value of t-statistics is significant at 1% and 5% level of significance for DY and DPR respectively. Dividend yield has a negative relationship with the price variations with a coefficient value of 0.559 whereas, dividend payout ratio has a negative association with price variations having coefficient value of 0.253. These outcomes of insignificant relationship are in line with the previous studies of (Allen & Rachim, 1996); (Rashid & Rahman, 2008); (Lashgari & Ahmadi, 2014).

The GMM estimates for **Model (2)** incorporates the effect of control variables of assets growth, size of the firm, financial leverage and earnings volatility to control for the relatedness of dividend yield and dividend payout ratio. The results show that while introducing the control variables in the model, the negative association of dividend policies with stock price volatility remains intact. The coefficient value of DY is -0.581 that indicates one unit increase in DY will cause 0.581 units decrease in stock price volatility which is significant at 1% level of significance. The coefficient value of DPR is -0.117 but here, DPR becomes insignificant after the incorporation of control variables. The control variable of assets growth has a negative and significant relationship with stock price volatility at 15 level of significance. Its coefficient value is -0.516. The control variable of size of the firm also has a negative and significant relationship with dependent variable with coefficient value of -0.742. Leverage has a positive but insignificant relationship with stock price volatility. Earning volatility as a control variable has a positive and significant relationship with stock volatility at 1% level of significance having a coefficient value of 0.213. The value of constant is 9.746 which shows that if all the variables are zero in this model then the value of dependent variable is 9.746. These results of negative relationship of DY and Price variations are similar with the results of the previous studies such as (Baskin, 1989); (Hashemijoo, Ardekani, & Younesi, 2012); (Shah & Noreen, 2016) and (Zainudin, Mahdzan, & Yet, 2018).

Model (3) incorporates the effect of external variables of foreign exchange rate and foreign direct investment in the above model while taking account for the control variables as well. Here, DY and DPR both again have a negative relationship with stock price volatility. However, DY is significant at 1% level of significance whereas DPR is not significant in this model. Coefficient value of DY is -0.591 and of DPR is -0.028. Foreign exchange rate exhibits an inverse association with stock variations having a value of -1.200 which is significant at 1% level of significance. The coefficient of foreign direct investment is also significant at 1% level of significance under GMM estimates of Model (3). These results are similar with the results of Phan & Tran, (2019). The GMM estimates shows that there is a negative and significant link between foreign direct investment and stock fluctuations. The coefficient of foreign direct investment has the value of -0.796. Control variables of Assets Growth and Firm Size both are also negatively associated with the dependent

variable in the Model (3) as well. Whereas, leverage and earnings volatility both have a positive association with stock price volatility.

Table 1: Descriptive Statistics

	Mean	St.Dev	p1	Median	p99
P V o l _ (L srd)	-.09	2.17	-2.22	-.02	2.46
DY w	.03	.04	0	0	.17
DPR w	.24	.46	-.68	0	3.14
FExg w	5.67	.07	5.58	5.66	5.8
FDI w	22.23	.35	21.48	22.29	22.65
AG w	1	.79	0	.91	3.71
Sz w	15.88	2.05	9.22	15.98	20.45
Lvg w	2.37	5.14	-20.49	1.93	31.94
EVol w	12.72	2.18	6.54	12.89	17.5

PVol: Stock price volatility, DY: Dividend yield, DPR: Dividend payout ratio, FExg: Foreign exchange rate, FDI: Foreign Direct Investment, Sz: Firm size, AG: Assets growth, Lvg: Leverage, EVol: Earning volatility

Table 2: Correlation analysis Variables

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1) PVol_srd	1.00								
(2) DY_w	0.03	1.00							
(3) DPR_w	-0.01	0.59*	1.00						
(4) Fxg_w	-0.06*	-0.06*	0.06*	1.00					
(5) FDI_w	-0.16*	0.00	0.00	0.44*	1.00				
(6) AG_w	-0.07*	0.22*	0.23*	-0.07*	-0.09*	1.00			
(7) Sz_w	-0.07*	0.29*	0.23*	0.03	0.06*	0.18*	1.00		
(8) Lvg_w	-0.01	-0.01	-0.03	0.04*	0.02	0.10*	0.11*	1.00	
(9) EVol_w	0.07	0.29*	0.21*	-0.09*	0.03	0.26*	0.81*	0.10*	1.00

Values are significant at *1%, **5%, ***10% level of significance.

PVol: Stock price volatility, DY: Dividend yield, DPR: Dividend payout ratio, Sz: Firm size, AG: Assets growth, Lvg: Leverage, EVol: Earning volatility

Table 3: OLS estimates

VARIABLES	(1)	(2)	(3)
PVol (L.srd)	-0.312*** (0.025)	-0.570*** (0.043)	-0.649*** (0.046)
DY_w	-0.559*** (0.145)	-0.581*** (0.148)	-0.591*** (0.148)
DPR_w	-0.253** (0.105)	-0.117 (0.166)	-0.028 (0.171)
FExg_w			-1.200*** (0.368)
FDI_w			-0.796*** (0.218)
AG_w		-0.516*** (0.176)	-0.467*** (0.172)
Sz_w		-0.742*** (0.222)	-1.092*** (0.241)
Lvg_w		0.013 (0.013)	0.014 (0.012)
EVol_w		0.213*** (0.048)	0.200*** (0.046)
Constant	-0.197*** (0.041)	9.746*** (3.504)	4.609 (6.255)
Observations	1001	1001	1001
Sargan (%)	24.26	22.71	26.36
AR1	0.183	0.182	0.186
AR2	0.492	0.487	0.496

Notes: * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$; Standard errors in parentheses

CONCLUSION

The stock price volatility is an important risk factor associated with the financial markets of emerging countries. Many of the factors cause an effect on the fluctuations in stock prices. Empirical evidence shows that dividend policy has been used by the corporate managers to control the volatility of stocks. Stock price fluctuations are also influenced by the imports and exports of any country. Further,

foreign investors also intervene the financial markets and become a reason for stock volatility. The impacts dividend policy on stock price fluctuations has been studied previously. However, the impact of foreign direct investment as well as foreign exchange rates on stock price fluctuations has been examined very rarely along with the dividend policy for emerging markets. The current study has incorporated the effects of dividend policy as well as foreign direct investment and foreign exchange rate simultaneously.

The study suggests that dividend payout ratio as a proxy of dividend policy affects the stock volatility negatively showing that the firms having higher dividend payout have more stable stocks. These results are different for developed markets as suggested by (Allen & Rachim, 1996). The study also concludes that dividend yield is not an effective factor for stock fluctuations while considering as a part of dividend policy. The study also suggests that foreign direct investment and foreign exchange rates both negatively influence the stock price fluctuations in emerging markets.

The findings from this study provides the implications for the policymakers, regulators, investors and managers of emerging countries and specifically to Pakistan for making investments related decisions in capital markets.

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