THE RELATIONSHIP BETWEEN SHARE PRICE AND FIRM SPECIFIC FACTORS: A STUDY ON THE BANKING SECTOR OF BANGLADESH

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Abstract

In this paper, by looking at firm specific factors including book value, profitability, capital ratio and company size for banking firms in Bangladesh, we intend to shed light on possible relationships between firm specific factors and share price in an emerging economy. Our panel data on all public traded bank stocks from the period 2000 to 2015, adjusted for multicollinearity and possible heteroskedasticity, suggests that book value, price-to-earnings ratio and company size have significant relationship with the share price of the concerned banking firms. The study findings are consistent with those of similar studies in other emerging economies and add further evidence to existing literature concerning the relationship between firm specific factors and stock prices in emerging economy capital markets.

Keywords : *Banking Industry, Fixed Effect, Panel Data, Random Effect, Share Price.*

1. INTRODUCTION

Stock market is a key indicator of the health of the economy and is also a key catalyst to the growth of industry and commerce in any country which in turn affects the economy of the nation. The stock market offers two-way benefits both to the listed companies and to the potential investors. The listed companies collect their required funds from the market whereas investors can earn extra revenues investing their surplus funds by buying shares of the listed companies (Naik & Padhi, 2012). The importance of stock market is beyond description and it can be understood as policy makers, researchers, managers, investors put it in the top most priority. Though the market offers good revenues, there are potential risks involved too. Potential investors buy stocks assuming maximum benefits with lower risks. Although the risks involved, to many researchers, policy makers and academicians, stock market performance reflects the economic well-being of any country.

When the economy is in good position, the companies make good sum of profits and people have surplus funds in their hands. With these surplus funds, they invest more in stock market and companies invest more in their business and their firms' intrinsic value also rises. It should be well-noted that consumer belief and spending etc. are key drivers of economic growth. As a matter of fact, investors are more likely to buy

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shares from companies which pay more dividends. This is pure indicative of the fact that investors prefer companies which pay more dividends and enjoy higher earnings growth. On the other hand, firms in pursuit of further expansion collects money from the market through issuing shares as this is a low-cost fund. But when share prices fall, it becomes more difficult. For that, listed companies perform or act in a way so that share prices are stable and in rising trend.

Bangladesh Securities and Exchange Commission (BSEC) regulates, monitors and oversees all regulatory activities and frameworks for the listed companies in Bangladesh. Currently, there are two stock exchanges operating in Bangladesh namely: Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE). Market capitalization of our stock exchanges is not so high. However, since the introduction of stock exchanges in the 1950s till today, the number of listed companies and market capitalization increased manifold. From only 14 companies, today the number of listed companies is 578 in Dhaka Stock Exchange (DSE). Digitalization process such as internet, e-communication, e-trading etc. increased efficiency in trading through providing easy access, cheaper mode of communication. Using this digital mode of communication, large access of information is widely circulated.

An investor considers two types of information while undertaking any investment decisions. They are external and internal factors to the firm. External factors are also called macro factors of any economy which is beyond the control of any investor. On the other side, internal factors are also called firm specific or fundamental factors. However, using these both sets of information, investors usually forecast future revenues and expected annual cash flows of the firm in the future periods. However, in developing nations like Bangladesh, many investors do not have adequate knowledge in measuring impact of firm specific variables on stock market performance. For that, analysing impact of firm specific variables on stock market performance is pretty interesting study to conduct. This paper analyses impact of firm specific variables on stock market performance in banking industry of Dhaka Stock Exchange.

2. BRIEF OVERVIEW ON STOCK MARKET OF BANGLADESH

The market size of Bangladeshi stock market is not so big. It's one of the smallest in the whole of South Asia. However, it's still the third largest in the South Asia. There are two stock markets in Bangladesh such as Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE). In mid-fifties, the capital market started its operation as East Pakistan Stock Exchange Association. The association initiated trading activities in 1956 though it was formed in 1954. After independence of Bangladesh back in the year 1971, the Association continued its operation as Dhaka Stock Exchange. Later in the year 1995, Chittagong Stock Exchange (CSE) was formed. The government of Bangladesh later formed Securities and Exchange Commission for ensuring regulatory framework in the country which was later renamed as Bangladesh Securities and Exchange Commission (BSEC). BSEC is wholly responsible for monitoring and regulating activities of total capital market. It oversees activities of issuing stocks, monitors transactions in the stock markets, and takes actions against irregularities, etc.

In the last decade, the stock market witnessed phenomenal growth. Though Dhaka Stock Exchange had started its operation with only 14 companies, nowadays DSE has 578 listed companies across 22 different industrial sectors. Total market capitalization of DSE as of 2018 is around US $47.34 billion.
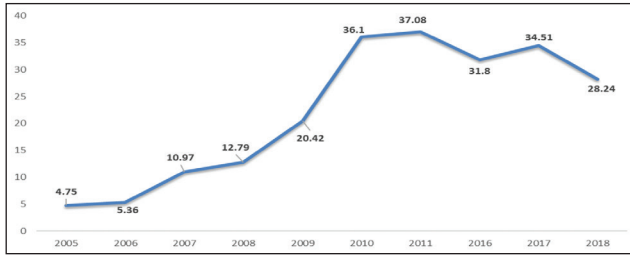

Figure 1 : Market Capitalization to GDP Ratio of Bangladesh

Market capitalization to GDP ratio is considered as a key indicator for the development of stock market. This ratio in Bangladesh suggests that there is no significant relationship between GDP and stock market capitalization both in historical and current terms. It also suggests that market capitalization has barely any impact on the economic performance of the country.
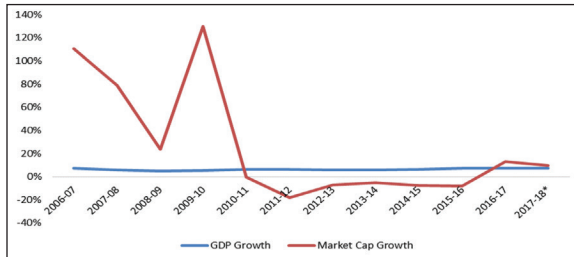

Figure 2 : GDP Growth and Marketing Capitalization Growth

The above graph also suggests that percentage change in GDP is almost the same whereas market capitalization has an erratic change.

3. BRIEF REVIEW OF RELEVANT LITERATURE

A large number of studies have looked into the possible relationship between firm-specific factors and their impact on the price of stocks of a publicly traded company. These studies have gathered evidence both from developed and emerging financial markets across the globe. Kothari (2001) identified a number of factors behind such huge demand for research in this topic area. Firstly, fundamental analysis is the key for gaining insights on stock market performance. A firm with solid fundamentals and a positive cash flow outlook into the future are expected to be valued positively by existing and prospective investors and this in turn should affect share price positively. Secondly, the effectiveness of capital market efficiency tests is high and investigating the relationship between firm specific performance factors and share price is a way of understanding the efficiency structure of a market. Finally, basic

underlying accounting treatments and financials and quality of disclosure are key to proper valuation of a publicly traded firm and these can be expected to have an impact on share price.

Aveh et al. (2017) studied all listed companies of Ghana Stock Exchange for the data period between 2008 and 2014. After conducting panel regression analysis, they found evidence of specific accounting information like earning per share (EPS), return of equity, market capitalization, book value etc. being useful in describing returns of the stock in the case of Ghana. In Pakistan too, similar study had been conducted. Mirza et al. (2016) conducted a study on listed companies of Karachi Stock Exchange (KSE) for a period of thirteen years. The key objective was to find out the leverage pricing on stock returns. They found that market risk premium was not a significant factor in the analysis however, size, value, financial leverage etc. proved to be more useful in predicting stock price.

Sharif et al. (2015) studied the factors which have an impact on stock prices in Bahrain Stock Exchange. The study was mainly conducted in the financial market of Bahrain. Accounting for 41 listed companies between the year 2006 and 2010 in the same stock exchange, they used an OLS regression method to investigate the relationship with eight firm specific variables e.g., book value per share, dividend, price earnings ratio, dividend yield, debt to assets, firm size, return on equity and earning per share. The study found out that variables like book value per share, return on equity, dividend per share, dividend yield, price earnings, firm size etc. had a strong impact in stock market performance in the stock exchange of Bahrain. The study also revealed a high R-square value of 0.80, indicating that around 80% of variations in price could be explained by the model.

Tudor (2008) was more interested in finding out the firm-specific factors which can forecast future earnings of the shares in the Romania. He considered time period between 2002 and 2008 and examined relationship between stock market return and firm-specific variables. The study investigated several variables like market beta, book to market equity, size, price to earnings ratio, return on equity, and return on assets. Out of them, the paper suggested that size is the most significant determining factor in capturing variations for stock market returns. However, there exists negative relationship between size and stock market returns. On the other hand, Issah and Ngmenipuo (2015) conducted a study on the banking industry of Ghana Stock Exchange (GSE) which revealed a positive relationship of market price of shares with ROA and ROE. The result is quite in line with the theoretical framework outlined in the study.

Chughtai et al. (2004) tried to find similar relationships. The authors found out that dividend per share and earning per share both have positive relationship on share prices of companies. However, the study failed to find out any relationship with respect to retained earnings and capital investment. Essentially a large number of studies have already been conducted to investigate the relationship between stock price and underlying company fundamentals but the findings are still inconclusive given variety of variables used.

4. DATA AND METHOD

For examining the hypothesis, the research considers secondary data. The sample was collected for all listed companies in the banking industry of Dhaka Stock Exchange for the time period between 2000 and 2015. All financial information was collected from respective annual reports of the particular company and closing prices of the company were collected from Dhaka Stock Exchange website. These companies are representative of the research sample and the factor can be generalized. All share prices of the respective companies have been considered on the last trading day of the year adjusted for stock dividend. Income statement and Balance Sheet are mainly used for obtaining data of the firm specific variables. Chosen firm specific factors for the study are size of the firm, profitability, market ratio, book value per share.

As discussed in the literature review section, the relationship between stock price and firm specific variables will be conducted in the study. A table is shown below used in the regression analysis. Table 1 shown below outlines all the potential determinants of stock price. The expected result is assumed and in line with the outcome found in different researches conducted. All these independent variables are the ones previously conducted by numerous researchers worldwide both in the developed and developing countries. The following hypotheses have been developed to test the relationship between share price of these selected banks and different firm specific variables.

Hypothesis 1 : There is no relationship between Share price and Book value per share of banks.

Hypothesis 2 : There is no relationship between Share price and Financial leverage of banks.

Hypothesis 3 : There is no relationship between Share price and Price to Earnings Ratio of banks.

Hypothesis 4 : There is no relationship between Share price and Return on Asset (ROA) of banks.

Hypothesis 5 : There is no relationship between Share price and Return on Equity (ROE) of banks.

Hypothesis 6 : There is no relationship between Share price and Size of banks.

Hypothesis 7 : There is no relationship between Share price and Trust Rate of banks.

Table 1 : Definition of Variables Used in the Study

Variables	Symbol	Description	Expected Result
Independent Variables			
Company size	Size	Market Price X Number of Issued shares	Positive
Return on assets	ROA	Net Profit/Total Assets	Positive
Return on equity	ROE	Net profit/Total Equity	Positive
Price to Earnings Ratio	P/E Ratio	Market price of shares/ Earnings per share	Positive

Variables	Symbol	Description	Expected Result
Book value per share	BVS	Total share amount/Number of shares outstanding	Positive
Leverage	LEV	Total Liabilities/Total Assets	Negative
Trust Rate	TR	Total Capital/Total Liabilities	Positive
Dependent Variables			
Market Price	MP	Closing price of respective shares at last trading day of the observed year adjusted for stock dividend	-

Multiple regression analysis shows the relationship between dependent variables and independent variables. Solid theoretical framework exists for conducting the analysis:

$$\ln MPS = \beta_0 + \beta_1 SIZE_{it} + \beta_2 ROE_{it} + \beta_3 ROA_{it} + \beta_4 EPS_{it} + \beta5 P/E_{it} + \beta6 BV_{it} + \beta_7 LEV_{it} + \beta_8 TR_{it} + e_i$$

Where, Ln *MPS* = Natural Logarithm of share price at market rate at last annual trading day adjusted for stock dividend (Dependent Variable)

β_0 = Coefficient of intercept and β_1, β_2, ..., β_8 = Coefficients of slope

SIZE = Company size of the firm

ROE = Return on Equity

ROA = Return on Assets

EPS = Earnings per share

P/E = Price to Earnings Ratio

BV = Book value

LEV = Leverage

TR = Trust Rate

5. TEST RESULTS AND ANALYSIS

5.1 Descriptive Statistics of Study Variables

Table 2 : Descriptive Statistics of Variables from the Study

Descriptives	PRICE	BVS	LEV	P/E	ROA	ROE	SIZE	TR
Mean	647.0422	94.52522	0.939589	20.38232	0.010006	0.166448	21.47507	0.053749
Median	337.1250	157.2768	0.925009	11.20690	0.012501	0.169749	21.24368	0.080384
Maximum	6765.500	3114.830	1.766296	778.8162	0.050996	1.008199	26.78123	0.182416

Descriptives	PRICE	BVS	LEV	P/E	ROA	ROE	SIZE	TR
Minimum	4.500000	-15966.40	0.029933	-323.3065	-0.229417	-1.931695	16.16232	-4.478846
Std. Dev.	1027.784	1521.331	0.125819	61.43764	0.022787	0.166459	2.313574	0.286157
Skewness	3.013673	-8.516596	2.419580	7.259212	-6.460312	-6.835392	0.055305	-14.56162
Kurtosis	14.09256	88.12894	30.72017	93.03439	56.68131	95.52783	2.124651	229.8574
Jarque-Bera	1832.800	86676.25	9105.990	94605.60	35059.19	100605.3	8.952411	601593.3
Probability	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.011376	0.000000
Sum	178583.7	26088.96	259.3264	5564.373	2.761693	45.93976	5927.119	14.83466
Sum Sq. Dev.	2.90E+08	6.36E+08	4.353350	1026687.	0.142795	7.619851	1471.971	22.51866

Table 2 summarizes the variables used in the analysis. The descriptive statistics showed that the share price of the selected banks varied from 4 Taka to 6765.50 Taka over the 10 years from 2004 to 2015. The distribution of the share prices was positively skewed. Book Value per share of the banks had an average of 94.52 Taka ranging from -15966 Taka to 3115 Taka. Book Value per share displayed a negatively skewed distribution. Leverage ratio had a mean value of 0.93 with a highest value of 1.76 and a minimum value of 0.03. Leverage ratio of these selected banks had a positively skewed distribution. The Price to Earnings ratio had an average of 20 with a median P/E ratio of 11.

P/E ratio showed a positively skewed distribution with an intense variability with a standard deviation of 61 ranging from -323 to 778. Over the 10 years, the banks could generate an average ROA of 1% with a maximum 5% return and a minimum of -22% return. Distribution of the Return on Asset was negatively skewed with extreme negative values. The average Return on Equity (ROE) earned by the banks was 16.66% with a standard deviation of 2%. The ROE varied from -193% to 100%. The distribution of the ROE was negatively skewed with a Kurtosis value of 95. The size of the firms was calculated by taking the Logarithm value of market capitalization of each bank. The Size variable had a mean of 21 with a standard deviation of 2.3. Finally, Trust Rate, measured as the ratio of Total bank capital to total liability, had an average of 5.3% ranging from -447% to 18.24%. Trust rate is a measure of the adequacy of capital or net worth of the banks. Trust rate displayed a negatively skewed distribution.

The Jarque-Bera statistic showed that for all the variables, the null hypothesis of normal distribution is rejected at 5% level of significance. So, all of the variables in the discussion showed a non-normal distribution. The Kurtosis values of all the variables showed that apart from Size of the banks, the other variables contained heavy tails with some outliers. While share price, leverage, PE ratio and size showed positively skewed distribution, Book Value per share, ROA, ROE and Trust rate showed negatively skewed distributions. Only size of the banks showed somewhat near to normal distribution.

5.2 Correlation Matrix

Table 3 : Correlation Matrix

Variables	PRICE	BVS	LEV	P_E	ROA	ROE	SIZE	TR
PRICE	1							
BVS	0.18	1						
LEV	-0.03	-0.35	1					
P_E	0.21	0.10	-0.10	1				
ROA	-0.03	0.43	-0.35	0.16	1			
ROE	0.15	-0.02	-0.19	-0.03	-0.13	1		
SIZE	-0.52	0.08	-0.04	-0.08	0.07	-0.18	1	
TR	-0.14	0.16	0.16	0.06	0.55	-0.28	0.107	1

Table 3 shows that the dependent variable – share price- shows positive relationship with Book Value per share, Price-to-earnings ratio, and ROE and negative relationship with Leverage, ROE, size, and Trust rate. Price showed a moderate correlation with Size (r=0.52) and weak to moderate relationship with other independent variables. When we observed the correlation among the independent variables, none of the independent variables showed high correlation with other variables. Only ROA had moderate correlation (0.54) with Trust rate. Other independent variables did not indicate a correlation value of 0.50 or above. Even though such weak correlation among the variables indicates less likelihood of the existence of multicollinearity in the data set, a test was nevertheless conducted to assess possibility of multicollinearity. We conducted a Variance Inflation Factor (VIF) test.

5.3 Test of Multicollinearity

The presence of multicollinearity in the regression model poses several problems including high R squared value with few statistically significant coefficients. When the independent variables in a multiple regression model are correlated, multicollinearity may be observed. Since the multicollinearity problem makes the OLS estimators and their standard errors sensitive to small changes in data, it is important to detect the presence of multicollinearity in the model (Gujarati & Porter, 2017). In order to assess the degree of multicollinearity, a Variance-Inflating Factor (VIF) test has been carried out and test results are presented in Table 4.

Table 4 : Results of Variance Inflating Factors (VIF) Test

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
BVS	0.001402	1.305619	1.300786
LEV	245861.0	88.06065	1.557653
P_E	0.696813	1.158460	1.043219
ROA	10567612	2.571452	2.169968
ROE	104095.4	2.280085	1.149219

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
SIZE	495.9155	92.09887	1.058026
TR	56123.66	1.904303	1.841541

The results of the VIF test show that the Centered VIF values for all the independent variables were below 10. So, we may conclude that the problem of multicollinearity was absent in the data set.

5.4 Test of Heteroskedasticity

When the error variances are not constant, the problem of heteroskedasticity is encountered. To test the presence of heteroskedasticity, we ran a Breusch-Pagan-Godfrey test of heteroskedasticity. The null hypothesis of the test is that the error variances are constant i.e., homoskedastic in nature.

Table 5 : Results from Breusch-Pagan-Godfrey Test of Heteroskedasticity

Heteroskedasticity Test : Breusch-Pagan-Godfrey Null hypothesis : Homoskedasticity			
F-statistic	3.882883	Prob. F(7,265)	0.0005
Obs*R-squared	25.39594	Prob. Chi-Square(7)	0.0006
Scaled explained SS	165.4031	Prob. Chi-Square(7)	0.0000

As can be seen in Table 5, the results of the test suggested that at 5% level of significance, the null hypothesis of homoskedasticity is rejected. Therefore, we conclude that the regression model has heteroskedasticity problem. The result is not surprising because of the presence of different sizes of banks, diversity in the data over the time and panel nature of data.

5.5 Test of Serial Correlation

When the error terms in a regression is correlated over time, the problem is known as serial correlation. The presence of serial correlation makes the OLS estimators inefficient. Therefore, we checked the presence of serial correlation in this panel data.

Table 6 : Results of Serial Correlation Test

Breusch-Godfrey Serial Correlation LM Test: Null hypothesis: No serial correlation at up to 2 lags			
F-statistic	61.04198	Prob. F(2,263)	0.0000
Obs*R-squared	86.54975	Prob. Chi-Square(2)	0.0000

The results of the test (Table 6) suggest that the null hypothesis of no serial correlation up to 2 lags are rejected at 5% level of significance. So, the panel data has the problem of serial correlation which must be addressed to make the model efficient. Since, both heteroskedasticity and serial correlation were observed, we could not run a Pooled regression model for the panel data set. In such situation, either Fixed

effects or Random effect model could be used. In order to decide which model is appropriate for our dataset, we conducted a Hausman Test (results in Table 7). The null hypothesis of the Hausman test is that the random model is appropriate for the given data set.

Table 7 : Random vs Fixed Effects

Correlated Random Effects - Hausman Test Equation : Untitled Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	50.800702	7	0.0000
Cross-section random effects test comparisons			
Variable	Fixed	Random	Var(Diff.)	Prob.
BVS	0.139129	0.167852	0.000131	0.0120
LEV	-424.745396	451.101955	439304.307471	0.1864
P_E	1.967626	2.577065	0.046327	0.0046
ROA	1280.477643	-1420.684835	1167931.876191	0.0124
ROE	229.771212	258.260542	20538.119870	0.8424
SIZE	-230.602957	-227.219478	32.809765	0.5547
TR	-350.214413	-452.757264	13380.528560	0.3754

At a 5% level of significance the test rejects the hypothesis of using Random effect model as an appropriate model and favours fixed effect model. The fixed effect model is normally appropriate when there are a number of unobserved or latent variables which may influence the dependent variable. As we know that the share price of a bank depends on several factors and the variables that we have taken are not collectively exhaustive, using Fixed effect model is a good idea.

The R squared value of the fixed effect model was 53.81% whereas the adjusted R squared value of the model was 48.30%. The independent variables of this regression model explain 48.30% of the variation in the dependent variable, share price. The overall model is statistically significant as the F statistic for the model is 9.76 with 0% probability which is less than 5% level of significance.

Table 8 : Fixed Effect Model

Dependent Variable: PRICE
Method: Panel Least Squares
Date: 01/19/21   Time: 00:46
Sample: 2004 2015
Periods included: 12
Cross-sections included: 23
Total panel (unbalanced) observations: 273

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5913.796	922.8481	6.408201	0.0000
BVS	0.139129	0.035702	3.896914	0.0001
LEV	-424.7454	812.2509	-0.522924	0.6015
P_E	1.967626	0.786834	2.500689	0.0131
ROA	1280.478	3124.769	0.409783	0.6823
ROE	229.7712	330.0694	0.696130	0.4870
SIZE	-230.6030	21.00454	-10.97872	0.0000
TR	-350.2144	244.7436	-1.430944	0.1537
Effects Specification				
Cross-section fixed (dummy variables)				
Root MSE		700.6247	R-squared	0.538142
Mean dependent var		647.3684	Adjusted R-squared	0.483023
S.D. dependent var		1032.828	S.E. of regression	742.6148
Akaike info criterion		16.16160	Sum squared resid	1.34E+08
Schwarz criterion		16.55825	Log likelihood	-2176.059
Hannan-Quinn criter.		16.32082	F-statistic	9.763284
Durbin-Watson stat		1.093429	Prob(F-statistic)	0.000000

6. ANALYSIS OF RESULTS AND FINDINGS

The results of the descriptive statistics show that although size of the banks show some sort of normal distribution, none of the other variables displays such distribution. Book Value Per Share, ROA, ROE and Trust rate are negatively skewed, suggesting some outliers and extreme negative returns experienced by some of the banks. Leverage and P/E ratio show a positively skewed distribution. The kurtosis values indicate whether the distribution of the data has any outliers or not. High kurtosis values of Book Value Per Share, P/E ratio, ROA, ROE and Trust rate indicate presence of outliers in the data set. Due to these outliers, it is likely that the model may have heterogeneity in data.

The correlation matrix showed the direction and strength of association among the data. As we see, the dependent variable, share price, has moderately negative relation with size but has weak relationship with other variables. The independent variables do not show any high correlation among themselves, indicating a probable absence of multicollinearity problem. The VIF test confirms this finding as none of the independent variables has a VIF value of 10 or more.

In light of evidence found in the literature, we expected a positive relationship between Book Value per share and share price. The coefficient of BVPS was statistically significant at 5% level of significance and it displayed a positive relationship with share price. The finding is consistent with our expectation, suggesting that an increase in BVPS will increase the share price of the banks. This is consistent with the findings of Sharif et al. (2015).

Banks are highly leveraged as a result of collecting funds from the depositors and are liable to pay back after maturity. In fact, banks are also required to keep sufficient capital as buffer to combat any crisis. The relationship between leverage and share price was negative as displayed in our Fixed Effect Model output. Mirza et al. (2016) found similar results for Karachi Stock Exchange in which financial leverage influenced the share price negatively. However, the coefficient of Leverage in our study was not statistically significant at all at 5% level of significance.

The price-to-earnings ratio showed a positive relationship with the share price of the selected bank. Such relationship was also statistically significant. The positive relationship implies that banks with an increase in P/E ratio is likely to have an increase in share price. To address the relationship between the bank profitability and share price, we used two proxies namely ROA and ROE for profitability. At 5% level of significance, neither of the two measures of profitability shows any statistically significant relationship with share price of the banks. However, the relationship between profitability (ROA and ROE) and share price is positive which has been supported by a number of literatures. It implies that profitable banks are likely to experience an increase in share price.

Size of the banks measured by the market capitalization of the banks showed a negative relationship with share price of the banks. The relationship was statistically significant for the selected banks listed in Dhaka Stock Exchange. The small banks experience an increase in share price whereas the reverse scenario is true for large banks. Tudor (2008) found a negative relation between share price and size of the firm. Finally, Trust rate shows a negative but statistically insignificant relationship with share price. The sign of the Trust rate was not as per the theoretical expectation.

The variability in size of the banks and presence of outliers in the data set have already signalled heterogeneity. The test of heteroskedasticity confirmed this characteristic of data set. It is quite reasonable to have the problem of heteroskedasticity in panel data and our findings are no different from that. The test of serial correlation also confirmed that the error or disturbance terms are correlated with time. We could not

use pooled OLS due to the presence of the serial correlation and heteroskedasticity problem. In such situation, we can use either Fixed Effect or Random Effect model. The Hausman test was conducted to see which model is appropriate for the panel data analysis and the results of the test suggested that we use fixed effect model for our data. The output from the Fixed effect model was used to test the hypothesis developed previously. The results of the hypothesis are given in Table 9.

Table 9 : Hypothesis Test Results

Hypothesis	Decision	Relation
The share price has no relation with Book Value per share	Rejected	Positive
The share price has no relation with Leverage	Accepted	Negative
The share price has no relation with ROA	Accepted	Positive
The share price has no relation with ROE	Accepted	Positive
The share price has no relation with PE ratio	Rejected	Positive
The share price has no relation with Size	Rejected	Negative
The share price has no relation with Trust Rate	Accepted	Negative

The hypotheses were tested at 5% level of significance. Book Value per share, P/E ratio and size were found to have statistically significant relationship with share price. While Book value per share and P/E ratio have positive relation with share price, size of the banks has negative relation with share price. ROA, ROE, Leverage and Trust rate do not show any statistically significant relationship with share price.

7. CONCLUSION

For this study we aimed to look at the nature and direction of relationship between firm specific performance factors and their respective share prices for the banking sector in Bangladesh. Since banking institutions are some of the most regulated ones among the publicly traded companies and must comply with strict disclosure requirements, it was expected that the relationship can be studied with relative ease. We looked into possible relationship between closing share price and a few explanatory variables including company size, profitability, price to earnings ratio, book value per share, leverage and trust rate etc.

Among the variables chosen for this study, it was observed that the share prices of banks were significantly related to book value, P/E ratio and size of the company under consideration. The first of these two factors were positively associated with share price while company size had a negative relationship with stock price. Our findings are consistent with those found through similar studies and adds further evidence to the literature aimed at understanding the relationship between stock price and firm specific factors for the Bangladesh capital markets.

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