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THE DETERMINANTS OF COMMON SHARE PRICES: NEW EMPIRICAL EVIDENCE FROM KUWAIT

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ABSTRACT

The main objective of this study is to identify the determinants of market share prices of companies listed in the Kuwait Stock Exchange (KSE) over the period 2008-2013. Another objective is to identify the direction of the relationship between share prices and a group of firm-specific and macroeconomic variables. A panel data of 48 firms listed in the Kuwait stock exchange was primarily collected from the publications of KSE as well as the annual reports of the selected companies. Data pertaining to the macroeconomic variables was principally retrieved from the publications of UNCTAD. The study uses descriptive statistics and correlation analysis to test for normality; explore the type and intensity of the relationships among the hypothesized variables; and to test for multi-collinearity. In addition, the study uses multiple-regression analysis represented by Ordinary Least Square (OLS) to examine the relationships between share prices, on the one hand, and the hypothesized twelve explanatory variables that are anticipated to determine firm's share prices, on the other. The results of the OLS regression provide empirical evidence that one-year-lagged price of the stock, inflation rate, tangibility of assets, economic progress proxied by per-capita gross domestic product, money supply, change in growth opportunities, profitability, and liquidity of the firm have statistically significant relationships with share prices of listed companies in the KSE. Hence, these factors are considered as the main determinants of share prices in Kuwait. Change in dividend policy, size of the firm, exchange rate and leveraging of the firm, on the other hand, were found to have positive, but statistically insignificant relationships with share prices. In addition, interest rate was found to have negative yet statistically insignificant relationship with share prices.

KEYWORDS: *Inflation Rate, Tangibility, Money Supply, Growth Opportunities, Profitability, Liquidity, Dividend Policy, Exchange Rate, Leveraging,*

1.0INTRODUCTION

Stock prices represent a major concern of almost all investors all over the world. Typical investors generally prefer increasing prices of their stocks to make their money (capital gains). However, stock prices are not all the time increasing in the market. They could fluctuate and possibly cause detrimental losses to investors and portfolio managers. Needless to say that major crises and market failures have occurred during the last and the current centuries. Examples include the 1929 crash of the stock market in the United States. The world still also suffers from the Global Financial Crisis of 2008, where all people all over the globe were affected by that crisis either directly or indirectly. Thus, there is a need to fairly predict and anticipate changes in the upcoming stock prices. To be able to predict, one needs to identify the causes of price movements in the stock market. So, knowing the causes or variables that influence the share price is probably one of the crucial issues currently facing investors, managers, practitioners, academicians and researchers.

Asset value can basically be determined by finding the present value of all expected future cash flows arising from the underlying assets discounted at a certain rate. However, Cash flows as well as discount rates used are fairly sensitive to changes in macroeconomic conditions. So it is fairly reasonable to assume a close association between changes in asset values and variations in macroeconomic conditions. Thus, it is vital to examine whether certain macroeconomic variables such as inflation, economic progress proxied by per-capita gross domestic product, interest rate, money supply, and exchange rate have a positive or negative impact on the stock price movement. In addition, it is equally important to examine whether certain firm-specific (internal) variables such as dividend policy, assets tangibility, firm's size, profitability, financial leveraging, and liquidity of the firm have a similar impact on share prices movements.

A lot of researches were conducted in this regard both in developed and emerging markets. However, countries have differing environments, surroundings and circumstances. This study, thus, attempts to empirically examine what influences the long run share price movements of companies listed in the Kuwait stock exchange (KSE).

1.1RESEARCH PROBLEM

The existing literature and the available empirical evidence are still lacking the conceptual clarification of the direction of the movement in share prices as influenced by certain factors such as GDP, inflation, exchange rates, interest rates. Sometimes, a disagreement among scholars (researchers) exists regarding the relationships between share prices and other explanatory variables, as some argue positive association whereas others confirm the opposite for the same variable. This can be explained by the fact that the influence of certain measures on share prices varies by the scope of the study and its designated period. This study, thus, endeavors to identify the factors that influence stock price movements and to find out the way of the influence. Specifically, the study attempts to explore the degree of association between a number of hypothesized variables and the market share prices of companies listed in the KSE. In addition, it seeks to find out in which direction they move (i.e., negative or positive).

OBJECTIVES OF THE STUDY

The primary objective of this study is to empirically identify the main factors determining the market prices of share. It seeks to empirically examine the relationships between firm's share price changes (the dependent variable) and a wide range of independent (explanatory) variables. The study also attempts to identify the direction of the relationships (negative or positive) between share prices and certain firm-specific and macroeconomic factors. Specifically, this study analyzes the influence of certain firm-specific variables, namely, dividend policy, assets tangibility, size, profitability, financial leveraging, and liquidity. In addition, the study analyzes the impact of a group of country-specific or macroeconomic variables encompassing inflation, GDP, interest rate, money supply, and exchange rate on the share prices of companies listed in the Kuwait Stock Exchange (KSE). The current study is motivated by the significance of dynamism of share prices and their impacts on efficiency and effectiveness of the stock markets and the resultant development of the economy.

SIGNIFICANCE OF THE STUDY

Vast amount of researches were conducted all over the world to study the determinants of share prices and share price movements. Still, the literature reveals very few studies that focused on Gulf Cooperation Council (GCC) countries, in general, and the State of Kuwait, in particular. According to the best knowledge of the researcher, there is only one study that was conducted to identify the determinants of share prices in the context of Kuwait. That study was conducted by Al-Deehani (2005) who used traditional and relaxed extreme bound analysis to test the robustness of the determinants of stock prices for the period from 1999 to 2005. The current study is different with regard to the pertaining period of the study, the variables used, and the methodology utilized. It uses

the most recent available data (2008-2013); has added a group of macroeconomic variables, besides adding some other firm-specific measures.

The outcomes of the current study are essential in understanding the impact of the explanatory variables used in the study on market share prices in Kuwait and other GCC countries as they are considered as co-integrated (see (Onour, 2009). The study findings are possibly will be valuable to government administrators in formulating policies pertaining to control of the money supply, interest rate, exchange rate, and inflation rate in a way that improves and enhances the efficiency of the stock markets. In addition, the findings of the study are possibly will be essential to corporate managers in formulating corporate policies that are estimated to increase the stock price in the market. Furthermore, the study findings are anticipated to be supportive to investors and portfolio managers in making rational decisions.

2.0LITERATURE REVIEW AND THE EMPIRICAL EVIDENCE OF THE DETERMINANTS OF SHARE PRICES

Numerous researches were found in the literature of finance that have investigated the association between stock prices and certain macroeconomic variables such as gross domestic product (GDP), the money supply, interest rates, and exchange rates. Some of them were based on emerging markets like studies of Bhattacharya and Mukherjee (2002), Ibrahim (2003), Al-Sharkas (2004), Gunasekarage (2004), Gunasekarage et al. (2004), Aydemir and Demirhan (2009), Aisyah et al. (2009), Pal and Mittal (2011), and Aduda et al. (2012). Others were based on developed markets such as the studies of Poon and Taylor (1991), Mukherjee (1995), Mukherjee and Naka (1995), Kim (2003), and Humpea and Macmillana (2009).

A number of researchers, on the other hand, have studied the relationships between stock prices and selected firm-specific (internal) variables like for example: Malhotra and Malhotra (2008), Sharma (2011), Uwuigbe et al. (2012), Özlen and Ergun (2012), and Taimur et al. (2015). On the other hand, others, though very few, have chosen to discover the impact of both internal as well as external factors on share prices like, for example, Al-Tamimi et al. (2011) and Zeeshan et al. (2015).

Al-Sharkas (2004) investigates long term equilibrium associations between a number of macroeconomic variables (i.e., industrial production index, inflation, money supply and interest rate) and the Amman Stock Exchange index. The data were collected from various issues of the monthly statistical bulletins published by the Central Bank of Jordan (CBJ) data covering the study period of 1980 - 2003. To avoid potential misspecification biases, Al-Sharkas used the Johansen's (1991) vector error correction model. His empirical results reveal that the macroeconomic variables are co-integrated i.e. he found a co-integrating relation exists among the variables.

In a study comparing US and Japan, Humpea and Macmillana (2009) examine the relationship between industrial production, the consumer price index, money supply, long-term interest rates and stock prices in the US and Japan. For the US market, they find that stock prices are positively associated with industrial production and negatively linked to both the consumer price index and the long-term interest rate. They also find an insignificant (although positive) relationship between the money supply and the US stock prices. For the Japanese market, however, they find that stock prices are influenced positively by industrial production and negatively by the money supply. They also find industrial production to be negatively influenced by both a long-term interest rate and the consumer price index. These contrasting results, according to the authors, are caused by the slump in the Japanese economy during the 1990s and consequent liquidity trap.

Aisyah et al. (2009) examine the interactions between macroeconomic variables and stock prices in the context of Malaysia. They show that changes in stock market index do perform a co-integrating relationship with variations in interest rate, money supply, reserves, exchange rate and industrial production index. The lag exclusion test used in the study shows that all six variables add significantly to the co-integrating relationship which implies that the Malaysian stock market is sensitive to changes in the macroeconomic variables. In addition, the study shows that Malaysian stock exchange has stronger dynamic interaction with the industrial production index and the reserves, as compared to, exchange rate, money supply, and interest rate. Eventually, their results show negative association between Kuala Lumpur Composite Index (KLCI) and interest rates, money supply and real exchange rate and positive relationship with reserves and industrial production.

Sharma (2011) used correlation and multiple regressions to empirically examine the relationship between share prices and some explanatory variables in India. Her findings revealed that earnings per share (EPS), dividends per share (DPS) and book value per share (BVP) had significant impact on the market price of shares, while price earnings ratio (P/E), dividends payout ratio, dividend

yield and firms size were revealed as having no significant relationships with share prices.

Al-Tamimi et al. (2011) investigate the main factors determining stock prices in the UAE stock markets using data covers the period from 1990 to 2005. They used regression model with five independent variables after dropping oil price and dividends per share due to multicollinearity. They found a strong and positive impact of EPS on the UAE stock prices. On the other hand, they found money supply and GDP to be positive though statistically insignificant. Consumer price index was found to be negative and statistically significant at the 1% level, whereas interest rate was found to be negative but statistically insignificant.

To study on the relationship between Indian Capital Markets and main macroeconomic variables, Pal and Mittal (2011) investigated the impact of inflation rate, exchange rates, interest rates, and gross domestic savings of Indian economy on capital market indices over the period of 1995-2008. To achieve the objectives of their study, they used the co-integration test, unit root test and error correction mechanism test. They found that capital markets indices are reliant on macroeconomic variables even though the results were statistically insignificant in some of the areas.

Aduda et al. (2012) investigated the determinants of development of Nairobi Stock Exchange using regression analysis. They examined the impact of macroeconomic and some institutional factors on the development of the stock exchange. The study found that development of the stock market was determined by liquidity of the market, quality of the institutions, per-capita income, bank development and domestic savings. Inflation rate and private capital flows were revealed to have no association with the development of stock market.

Uwuigbe et al. (2012) studied the determinants of share prices in the Nigerian Stock Exchange (NSE) using data collected from annual reports of the firms and the stock exchange. They Used regression analysis to examine the effects of financial leverage, financial performance and dividend payout ratio on share price of firms in Nigeria. The study found that dividend payout ratio and financial performance had a significant positive association with share prices. Conversely, debt-equity ratio, which was used as a proxy for financial leverage, was found to have significant negative influence on the market value of share prices.

Using the regression and correlation analysis, Almumani (2014) investigated the quantitative factors that influence share prices for the banks listed in Amman Stock Exchange (ASE) in an attempt to identify the determinants of equity share prices in Jordan. He used earning per share, dividend per share, dividend payout ratio, book value per share, price earnings ratio, and bank size as independent variables. He found significant and positive correlation (at 1% probability level) between DPS, EPS, PE and the market prices of banks listed ASE. Another significant relationship was found between banks book value and market price. However, his empirical findings indicate that there is an inverse relationship between size of the bank and the market price of the stock. On the other hand, the study findings reveal that dividend per share and dividend payout ratio as having insignificant impact on market prices.

In a very recent study, Taimur et al. (2015) analyze the determinants of stock price of companies listed in the Bahrain stock exchange (BSE) using a panel data of 41 companies for the period 2006-2010. The study primarily investigated the relationship between shares prices and a number of firm specific variables. The POLS regression results show a positive and significant association between return on equity, book value per share, dividend per share, price earnings ratio and firm's size. On the other hand dividend yield was found to have a significant negative relationship with stock market prices. Leverage also was shown to have a negative but insignificant relationship with market price.

Another recent study by Zeeshan et al. (2015) investigates the determinants of stock prices for the listed commercial banks in Pakistan over the period 2007-2013. They tempted to discover the impact of both internal and external factors on share price. Their Linear multiple regression results revealed that earning per share has positive and significant association with share prices, book value to market value per share ratio and interest rate were, on the other hand, found to have negative significant relationships with share prices. Other variables such as gross domestic product (GDP), price earnings ratio (P/E), dividend per share, and using deb (or leverage) were shown as having no relationship with share prices in Karachi stock exchange.

The extensive review of the literature reveals that there is a lack of sufficient literature pertaining to the determinants of share prices in the GCC countries, in general and in Kuwait in particular. This fact creates the need for further studies in this respect. The current study, as a result, tends to fill the gap in the literature by examining the impact of a group of macroeconomic (external) variables, in addition, to a collection of firm-specific (internal) variables on the market share prices for the listed firms in the Kuwait stock exchange (KSE).

3.0 DATA AND METHODOLOGY

The data set used in this study was principally retrieved from both the Kuwait stock exchange (KSE) publications, re firm-specific information and the publications of United Nations Conference on Trade and Development (UNCTAD), re macroeconomic variables. The panel data was constructed from actual and historical annual financial figures related to the country (Kuwait) and to the selected firms (sample) over the period 2008-2013 making a total of 288 observations. Panel data were used in this study as they, according to Baltagi (2001), give more variability, are more informative, have less co-linearity, have more degrees of freedom and are more efficient. Despite the fact that previous literature on the subject has suggested too many possible variables, it is determined that including them all is impractical. The criteria used for reducing the number of variables include the availability of data, the multicollinearity, in addition to the similarity between variables. The sample of the study consists of 48 companies selected from four different sectors, namely, industrial, services, oil and gas, and basic material sectors. The sample was basically selected based on the availability of data, as companies belonging to these sectors and having less than 6 years of data i.e., from 2006-2013, were excluded. The explanatory variables used in the study are described in the following sections.

3.1The Study Hypotheses:-

The following Twelve[1] null hypotheses were formulated and used for testing in order to examine the determinants of share prices of the companies listed in the Kuwait Stock Exchange (KSE):

H1: There is no statistically significant relationship between share prices and inflation rate.

H2: There is no statistically significant relationship between share prices and change in dividend policy of the firm.

H3: There is no statistically significant relationship between share prices and assets tangibility of the firm.

H4: There is no statistically significant relationship between share prices and economic progress of the country.

H5: There is no statistically significant relationship between share prices and interest rate in the country.

H6: There is no statistically significant relationship between share prices and size of the firm.

H7: There is no statistically significant relationship between share prices and money supply.

H8: There is no statistically significant relationship between share prices and exchange rate.

H9: There is no statistically significant relationship between share prices and change in growth opportunities of the firm.

H10: There is no statistically significant relationship between share prices and profitability of the firm.

H11: There is no statistically significant relationship between share prices and leveraging of the firm.

H12: There is no statistically significant relationship between share prices and liquidity of the firm.

These hypotheses are tested by exploring the level of significance of the relationship between the share prices and each of the twelve explanatory variables using the econometric OLS multiple regression model.

(Notes)

[1] Initially there were 17 hypotheses but reduced to 12 due to multi-collinearity

3.2 The Study Model:-

This study uses multiple-regression model to examine the impact of a group of variables on the share prices of the firm. The explanatory variables include macroeconomic and firm-specific factors. The macroeconomic variables used in this study include inflation, GDP per capita, level of interest rate, money supply, and exchange rate. The remaining variables are firm-specific. The study model expresses the share prices of the firm as a function of previous year's share prices (PRICE (-1)), annual average growth of inflation (AGRF), change in dividend policy, fixed assets to total assets ratio as a proxy for assets tangibility, per-capita GDP, interest rate, size of the firm, money supply, exchange rate, change in growth opportunities, profitability, debt financing (leverage), and liquidity.

E-view version 8 software is used to estimate the multiple regression model of the study by means of ordinary least squared (OLS) technique. Some variables were used in natural logarithm (LN) such as firm's size which is proxied by the natural logarithm of total assets of the firm. Some are expressed in millions like money supply and balance of payments. The remaining variables were used in either indexes or ratios (percentages).

The following regression specification is used in order to examine the relationship between market price of shares and the explanatory variables.

PRICE =f (AGRF, DTNP, FATTA, GDPC, IRATE, LNTA, M1, NEXR, PTBV, ROE, TLTA, TLTE,μ) ----------

---------- (1)

The general multiple-regression model estimated to test the null hypotheses of the study is as follows:

$$PRICE=\beta_0+ \beta_1AGFR_{i,t} + \beta_2DTNP_{i,t} + \beta_3FATTA_{i,t} + \beta_4GDPC_{i,t} + \beta_5IRATE_{i,t} + \beta_6LNTA_{i,t} + \beta_7M1_{i,t} + \beta_8NEXR_{i,t} + \beta_9PTBV_{i,t} + \beta_{10}ROE_{i,t} + \beta_{11}TLTA_{i,t} + \beta_{12}TLTE_{i,t} + \mu \text{ ---------- (2)}$$

Where:

B_0: the intercept or constant amount

B_1- β_{12} are coefficients of the explanatory variables

μ: Error term

$PRICE_{i,t}$ =Share price as of 31st of December of firm *i* in year *t*.

$AGFR_{i,t}$ = Average annual growth rate of inflation of country[2] *i* in year *t*.

$DNTP_{i,t}$ = Dividend per share divided by net profit per share ratio of firm *i* in year *t*, used as a proxy for firm's dividend policy.

$FATTA_{i,t}$ = Fixed assets to total assets ratio of firm *i* in year *t*, used as a proxy for assets tangibility.

$GDPC_{i,t}$ = Gross Domestic Product per-capita at current prices at current exchange rate of country *i* in year *t*.

$IRATE_{i,t}$ = interest rate level as of December of each year of country *i* in year t.

$LNTA_{i,t}$ = Natural logarithm of total assets of firm *i* in year *t*, used as a proxy for its size.

$M1_{i,t}$ = Money supply measured by M1 of country *i* in year *t*.

$NEXR_{i,t}$ = Nominal effective exchange rate of country *i* in year *t*.

$PTBV_{i,t}$ = Price per share to book value per share ratio of firm *i* in year *t*, used as a proxy for growth opportunities of the firm.

$ROE_{i,t}$ = Return on equity ratio of firm *i* in year *t*, used as a proxy for profitability of the firm.

$TLTA_{i,t}$ = Total liability to total assets ratio of firm *i* in year *t*, used as a proxy for use of debt (leveraging).

$TLTE_{i,t}$ = Total liability to total equity ratio of firm *i* in year *t*, used as a proxy for liquidity of the firm.

Notes :[2.] *Country here is the State of Kuwait.*

4.0 EMPIRICAL RESULTS AND DISCUSSION

This study uses regression analysis, correlation analysis, and descriptive statistics in order to accomplish the concluding results. The following subsections display the results and their discussions.

4.1 Descriptive statistics:-

To analyze the data, the study starts with the descriptive statistics. Table 1 displays the descriptive statistics of the dependent (explained) variable and the independent (explanatory) variables. It shows the Mean, Median, Maximum, Minimum, and Standard Deviations, in addition to Skewness, Kurtosis, Jarque-Bera and Probability values for each of the 17 variables initially used in the study. The figures revealed in the Table are not representing the actual amounts for some of the variables as they are plotted in either natural logarithm of the original amounts, in millions, or in index format.

Table (1): Descriptive statistics

	PRICE	AGRF	BOP	DTNP	FATTA	GDPC	IRATE	LNTA	M1	M2	NEXR	PE	PTBV	ROA	ROE	TLTA	TLTE
Mean	311	0.051	56718	0.563	0.273	47601	0.026	11.12	6306	27156	102.1	-46.51	1.165	0.021	0.052	0.372	1.502
Median	202	0.045100	65738	0.189	0.204	52158	0.025	11.122	6365	27746	100.0	10.70	1.000	0.031	0.051	0.350	0.532
Maximum	2000	0.106	78708	58.13	1.012	54540	0.038	14.394	8985	32867	107.1	894.7	4.900	0.301	7.808	0.990	148.17
Minimum	14.0	0.027	28384	-6.098	0.000	37180	0.020	8.512	4370	21950	99.10	-18000	-9.400	-0.397	-0.758	0.010	0.009
Std. Dev.	324.6	0.026	18022	3.484	0.241	7034	0.006	1.276	1660	3538	2.852	1070	0.944	0.091	0.490	0.225	8.806
Skewness	2.62	1.519	-0.477	15.90	0.830	-0.5770	0.7279	0.167	0.408	0.1797	0.555	-16.662	-4.189	-1.256	13.93	0.375	16.30
Kurtosis	11.15	3.768	1.699	263.5	2.867	1.5268	2.338	2.9223	1.724	2.015	1.962	280.1	57.62	6.3200	222.4	2.138	271.89
Jarque-Bera	1116	116.7	30.94	8177	32.90	41.585	30.38	1.400	27.24	13.06	27.44	925326	36258	205.8	581210	15.49	871220
Probability	0.000*	0.000*	0.000*	0.000*	0.000*	0.000*	0.000*	0.494	0.000*	0.001*	0.000*	0.000*	0.000*	0.000*	0.000*	0.000*	0.000*

(*), (**) and (***) signify that the null of normality was rejected at significance level of 1%, 5%, and 10%, respectively.

The low standard deviation values for many variables indicate that they are typically in the same range of values. Positive and negative values of skewness shown in the Table indicate that the results, to a certain extent, are not normally distributed. The Table reveals positive skewness values of 12 series (items) indicating that these variables have long tails on the right hand side of the distribution. Kurtosis values of most variables show that data is not normally distributed as their values are deviated from 3. The study uses Jarque-Bera statistics and corresponding probability (p-values) to further examine the normality of data. Based on the values of these two tests the normality assumption is rejected at 1% level of significance (probability is less than or equal 0.01) for all variables except (LNTA) that has a Jarque-Bera value of 1.400 and a probability of 0.494.

4.2 Correlation Analysis:-

The correlation coefficient is a statistical method used to explore the type and intensity of the relationships among the hypothesized variables i.e., the explained and the explanatory. The correlation matrix as demonstrated in Table 2 measures the degree of multi-collinearity among all the variables of the study. The correlation test is also used to identify the most significant factors in the list of the hypothesized independent variables (Gathogo and Ragui, 2014). Table 2 below shows the correlations matrix of the 17 study variables.

Table (2): Correlation Analysis of the Study Variables

	PRICE	AGRF	BOP	DTNP	FATTA	GDPC	IRATE	LNTA	M1	M2	NEXR	PE	PTBV	ROA	ROE	TLTA	TLTE
PRICE	1.000																
AGRF	-0.007	1.000															
BOP	0.047	0.0835	1.000														
DTNP	0.022	-0.052	0.030	1.000													
FATTA	-0.096	0.037	-0.087	0.033	1.000												
GDPC	0.035	0.411	0.926	0.029	-0.070	1.000											
IRATE	-0.021	0.843	-0.412	-0.050	0.077	-0.064	1.000										
LNTA	0.161	0.016	0.020	0.032	-0.104	0.024	0.003	1.000									
M1	0.022	-0.611	0.688	0.084	-0.100	0.449	-0.883	0.006	1.000								
M2	0.024	-0.745	0.563	0.085	-0.092	0.292	-0.921	0.001	0.980	1.000							
NEXR	-0.039	0.646	-0.068	0.038	0.023	0.284	0.693	0.007	-0.328	-0.403	1.000						
PE	0.026	-0.126	-0.006	0.059	-0.110	-0.052	-0.110	0.122	0.074	0.091	-0.101	1.000					
PTBV	0.560	-0.120	0.070	0.023	0.020	0.022	-0.137	-0.089	0.129	0.137	-0.095	0.002	1.000				
ROA	0.399	0.158	-0.045	0.044	0.186	0.007	0.173	0.011	-0.162	-0.168	0.083	0.018	0.271	1.000			
ROE	0.097	0.175	-0.002	0.005	0.130	0.060	0.161	0.047	-0.120	-0.139	0.125	0.007	-0.544	0.228	1.000		
TLTA	-0.007	-0.038	0.036	-0.093	0.026	0.022	-0.052	0.444	0.058	0.057	-0.018	0.060	-0.021	-0.220	0.096	1.000	
TLTE	-0.037	0.118	0.013	-0.019	0.072	0.056	0.099	0.101	-0.061	-0.078	0.097	0.008	-0.639	-0.099	0.921	0.278	1.000

Table 2 shows that there is a positive correlation between PRICE (the dependent variable) and each of BOP, DNTP, GDPC, LNTA, M1, M2, PE, PTBV, ROA, and ROE with coefficients of (0.47), (0.022), (0.035), (0.161), (0.022), (0.024), (0.026), (0.560), (0.399), and (0.097) respectively. The Table also shows negative correlation between PRICE and each of AGRF, FATTA, IRATE, NEXR, TLTA, and TLTE with coefficients of (-0.007), (-0.096), (-0.021), (-0.039), (-0.007), and (-0.037) respectively. The two highest correlations were found between the dependent variable PRICE and each of PTBV with a coefficient of (0.560) and ROA with a coefficient of (0.399). This indicates that the most significant factors influencing share prices, according to this test, are growth opportunities proxied by the ratio of market price per share to book value per share (PTBV) and return on assets (ROA). Among the dependent variables, Table 2 demonstrate that the highest positive correlations are found between M1 and M2 with a coefficient of (0.980), IRATE and M2 with coefficient of (-0.921), IRATE and M1 with coefficient of (-0.883) and between ROE and TLTE with coefficient of (0.921). Multi-collinearity was found between M1 and M2, which suggests that one of these variables should be removed from the list or excluded from further investigations. The study has chosen to exclude money supply (M2) from further investigations. The study has also chosen to exclude balance of payment (BOP), price earnings ratio (PE) and return on assets (ROA) from further investigations due to multicollinearity.

4.3 Regression Analysis:-

Multiple regression analysis is used as a statistical tool to examine the relationships between share prices (the dependent or explained variable) and a group of firm-specific and macroeconomic variables in order to identify the determinants of share prices of listed companies in the Kuwait Stock Exchange. The study usesDurbin-Watson statistics, adjusted R-square, and Probability- value as criteria for decision making. P-value is used in this study for estimating the degree of significance of the relationships between the dependent and independent variables. It is the criterion that helps decide whether to reject or to accept the proposed hypotheses. A P-value of 1% or less indicates that the null hypothesis is rejected at 1% level of significance which implies that there is only a 1% chance that the results would have come up in a random distribution, and that there is 99% probability that the variable is having some effect. A P-value of 5% or less indicates that the null hypothesis is rejected at 5% level of significance. A P-value of 10% or less indicates that the null hypothesis is rejected at 10% level of significance. Rejecting the null hypothesis denotes accepting the alternative one.

Coefficients seen in Table 3 tell the size of the effect that each of the independent variables have on the dependent variable. Negative coefficient denotes that the dependent variable is decreasing while positive coefficient denotes that the dependent variable is increasing.

The adjusted *R*-squared which is often referred to as the coefficient of determination is a statistical technique used in multiple regression analysis to evaluate the overall goodness-of-fit that penalizes additional explanatory variables. The adjusted R-squared value of 0.708296 indicates that variations in the hypothesized independent variables can explain the variations in the dependent variable (share prices) by 70.8296%. This implies that 29.17% of the variations in share prices of the sampled companies are accounted for by other factors not captured by the study model.

Durbin-Watson (D-W) value is a number that tests for autocorrelation in the residuals from a statistical regression analysis[3]. It is used to test for first order serial correlation in the errors of a regression model (Wooldridge, 2004). The estimated D-W value of 1.941780 designates an absence of autocorrelation in the data as it is very close to 2.

Table 3 shows the regression results of this study. It illustrates the regression results of share price (PRICE) in the one hand, and each of the independent variables, on the other using Least Square Method.

Notes

[3] www.investopedia.com/corp.aspx

Table (3): Regression Results between Share Prices and each of the Twelve Independent Variables

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-659.9104	1130.170	-0.583904	0.5598
PRICE(-1)	0.754857	0.034296	22.01013	0.0000***
AGRF	-5459.309	2676.176	-2.039966	0.0423**
D(DTNP)	0.518085	2.192211	0.236330	0.8134
FATTA	-117.4821	45.33324	-2.591523	0.0101**
GDPC	0.023886	0.011087	2.154339	0.0321**
IRATE	-24882.42	23704.13	-1.049708	0.2948
LNTA	13.17473	9.350033	1.409057	0.1600
M1	-0.168466	0.101216	-1.664427	0.0972*
NEXR	14.35886	19.14845	0.749871	0.4540
D(PTBV)	110.5050	12.25024	9.020646	0.0000***
ROE	354.1921	65.01828	5.447577	0.0000***
TLTA	22.10917	60.08428	0.367969	0.7132
TLTE	-10.54596	3.874608	-2.721813	0.0069***
R-squared	0.721696	Mean dependent var		311.4577
Adjusted R-squared	0.708296	S.D. dependent var		325.5374
S.E. of regression	175.8215	Akaike info criterion		13.22485
Sum squared resid.	8346565.	Schwarz criterion		13.40473
Log likelihood	-1863.929	Hannan-Quinn criter.		13.29697
F-statistic	53.85861	Durbin-Watson stat		1.941780
Prob. (F-statistic)	0.000000			

****, **, and *, signify levels of significance at 1%, 5% and 10% respectively.*

Table 3 shows a statistically significant positive relationship exists between share price and the one-year lagged share PRICE (-1) at 1% level with p-value of (0.0000). This significant positive relationship implies that previous years' prices explain the current years' prices.

Empirical findings from the regression analysis also indicate that there is an inverse significant relationship at 5% level between AGRF and PRICE. This is evident in the P-value of 0.0423 and coefficient of -5459.309. This implies that there is a negative relationship between share price and average annual growth of inflation. Since AGRF is used as a proxy for inflation rate, then, the First null hypothesis that there is no statistically significant relationship between share prices and inflation rate is rejected and thus, the alternative hypothesis is accepted. This finding mainly implies that an increase in inflation rate will invariably result in a significant decrease in the share prices in the Kuwait stock exchange. It also indicates that inflation rate has a crucial role in determining share prices. This result is consistent with the research results of Zhao (1999) and Udegbunam and Eriki (2001) who found inflation to be inversely correlated to stock market price behavior. It is also consistent with the results of Al-Tamimi et al. (2011) who found consumer price index to have negative and statistically significant impact on UAE stock prices. This result, however, deviates from the findings of Aduda et al. (2012) who found no association between inflation rate and the development of stock market. It is also not consistent with the study results of Humpea and Macmillana (2009) that revealed positive association between stock prices and consumer price index in the US market.

The Table also shows the coefficient of D (DTNP) of 0.518085 is statistically insignificant at 10% level with p-value of (0.8134). Since the change in payout ratio is used in this study as a proxy for change in dividend policy, then, the Second null hypothesis that there is no statistically significant relationship between share prices and changes in dividend policy of the firm is accepted. This suggests that the change in dividend policy of the firm is not a determining factor factor of share prices. This finding comports with the results of Sharma (2011) and Almumani (2014) who found insignificant relationship exists between share prices and dividend payout ratio. However, it is not consistent with the results of Uwuigbe et al. (2012) and Hunjra et al (2014) who found dividend payout ratio to have positive significant impact on stock prices. It also deviates from the findings of Hussainey et al. (2011) and Kanwal Khan (2012), who found negative relation between dividend payout ratio and stock price changes.

Another empirical result from the regression analysis shows a significant negative relationship between FATTA and PRICE. This is evident in the coefficient of -

117.4821 and P-value of 0.0101. Since FATTA is used as a proxy for assets tangibility, then, the Third null hypothesis that there is no statistically significant relationship between share prices and assets tangibility of the firm is rejected. This implies that the alternative hypothesis is accepted. This outcome basically implies that an increase in assets tangibility will invariably result in a significant decrease in the share prices. This also indicates that assets tangibility is a major determinant of share prices. This result is unique as tangibility of asset, proxied by fixed assets to total assets ratio (FATTA), has never been examined by any other scholar as a factor determining stock prices. This may be considered as another contribution of this study to the literature.

The empirical results confirm a statistically significant positive relationship at 5% level exists between PRICE and per-capita Gross Domestic Product (GDPC) with p-value of (0.0321). Since GDPC is used in this study as a proxy for economic progress, then, the Fourth null hypothesis that there is no statistically significant relationship between share prices and economic progress of the country is rejected. This implies that the alternative hypothesis is accepted and suggests that economic progress is a major determinant of equity share prices. This result is consistent with the findings of Aduda et al. (2012) who found per capita income as a determining factor of the development of stock market. It is also consistent with the results of Levine and Zervos (1998) who found that several measures of stock exchange activities are positively linked to measures of real economic growth across countries. The positive coefficient of this finding comports with studies' results of Mukherjee and Naka (1995), Udegbunam and Eriki (2001), Ibrahim (2003) Chaudhuri and Smiles 2004) and Faris Al-Shubiri (2010). However, it is not consistent with the results Al-Tamimi et al. (2011) who found GDP as having positive and statistically insignificant on UAE stock prices.

Interest rate (IRATE) is revealed by the results to have a statistically insignificant negative relationship with share at 10% level with p-value of (0.2948). Thus the Fifth null hypothesis that there is no statistically significant relationship between share prices and interest rate in the country is accepted. This result is consistent with the results of Al-Tamimi et al. (2011) who found interest rate as having negative and statistically insignificant impact on UAE stock prices. This result deviates from the findings of Humpea and Macmillana (2009) who found positive association between stock prices and the long term interest rate in the US market. It is also inconsistent with the results of Aisyah et al. (2009) and Zeeshan et al. (2015) whose results show negative association between share prices and interest rates.

Table 3, shows the coefficient of natural logarithm of total assets (LNTA) of 13.17473 is statistically insignificant at 10% level with p-value of 0.3693. Since size of the firm is proxied by the natural logarithm of total assets, then, the Sixth null hypothesis that there is no statistically significant relationship between share prices and size of the firm is accepted. This suggests that size of the firm is not a determinant of share prices. This finding comports with the results of Sharma (2011) and Almumani (2014) who found firm's size to have insignificant relationship with share prices. However, it is not consistent with the results of Taimur et al. (2015) who found a positive and significant relationship exists between firm size and market price of shares.

Money supply (M1) also is shown to have a statistically significant negative relationship with share prices (PRICE) at 10% level with p-value of (0.0972). This indicates that the Seventh null hypothesis that there is no statistically significant relationship between share prices and money supply (M1) of the country is rejected and thus, the alternative hypothesis is accepted. This suggests that money supply is a determinant of share prices in Kuwait. The positive sign of the coefficient implies that share price increases as money supply increases. This result is consistent with the results of Humpea and Macmillana (2009) who found positive relationship exists between stock prices and money supply in the Japanese market. It is also consistent with the research results of Aisyah et al. (2009) whose findings show that money supply is inversely related to the Malaysian stock market return in the long run. However, this result opposes the result of Al-Tamimi et al. (2011) who found money supply to have positive and statistically insignificant impact on UAE stock prices. It also deviates from the research result of Humpea and Macmillana (2009) who found insignificant (though positive) relationship between stock prices and money supply in the US market.

The empirical results indicate that nominal effective exchange rate (NEXR) has no statistically significant impact on share prices. Therefore, the Eighth null hypothesis that there is no statistically significant relationship between share prices and exchange rate is accepted. Accordingly, this finding suggests that the exchange rate is not a determining factor of share prices. This result is consistent with the results of Rjoub et al. (2009) who found real exchange rate to have statistically insignificant association with share prices in Istanbul Stock Exchange. However, this finding is not consistent with the results of Aisyah et al. (2009) whose' results show negative association between Kuala Lumpur Composite Index (KLCI) and exchange rate.

Table 3 shows a significant positive relationship exists between share prices and changes in price-per-share to book-value per-share D (PTBV) with a level of significance at 1% and a p-value of (0.0000). Since PTBV is used here as a proxy for growth opportunities, then the Ninth null hypothesis that there is no statistically significant relationship between share prices and change in growth opportunities of the firm is rejected. This necessitates that the null hypothesis is accepted and suggests that change in growth opportunities is one of the major factors determining share prices in Kuwait. This result is consistent with the results of Taimur et al. (2015) who found a positive and significant relationship exists between Book value per share and market price of shares. However, this result deviates from the research results of Zeeshan et al. (2015) who found book to market value ratio to have a significant negative relationship with share prices in Pakistan.

Table 3, shows the coefficient of return on equity (ROE) of 354.1921 is statistically significant at 1% level with p-value of 0.0000. This indicates that there is a significant positive relationship between share prices and return on equity (ROE). Since ROE is used in this study as a proxy for firm's profitability, then, the Tenth null hypothesis that there is no statistically significant relationship between share prices and profitability of the firm is rejected. This suggests that the alternative hypothesis is accepted and implies that firm's profitability is a major determinant of share prices. The positive sign of the relationship denotes that share price increases as profitability of the firm increases. This result is consistent with the results of Taimur et al. (2015) who found a positive and significant relationship exists between ROE and market price of shares. It is also consistent with the research results of Uwuigbe et al. (2012) who found financial performance to have a significant positive relationship with share prices. However, this result deviates from the research findings of Khan (2012), Akbar & Baig (2010), Khan et al. (2011) and Travlos et al. (2001) who found ROE to have an insignificant impact on stock prices.

Total liability to total assets (TLTA), as clearly shown in Table 3, is found to have a positive though statistically insignificant relationship with share prices with p-value of (0.7132). Since TLTA is used in this study as a proxy for leveraging or using debt financing, then, the Eleventh hypothesis that there is no statistically significant relationship between share prices and leveraging (debt financing) of the firm is accepted. This indicates that leveraging (capital structure) is not a determinant of share prices. This result is consistent with the research results of Zeeshan et al (2015) who found 'leverage' to have positive but statistically insignificant impact on share prices in Pakistan. This finding also is in line with Cheng and Tzeng (2011) whose empirical results show the values of leveraged firm are greater than that of an unleveraged firm. However, this finding is not consistent with the results of Uwuigbe et al. (2012) and Nirmala et al. (2011) who found financial leverage to have a significant negative influence on share prices. This result also deviates from the research results of Buigut et al. (2013) who found gearing ratio and debt to positively affect share prices.

Total liability to total equity ratio (TLTE) is shown to have negative and statistically significant relationship at 1% level with share price and a p-value of (0.0069). Since TLTE is used as a proxy for firm's liquidity, then, the Twelfth null hypothesis that there is no statistically significant relationship between share prices and liquidity of the firm is rejected. This necessitates that the alternative hypothesis is accepted and that liquidity is a determining factor of share prices. The negative association of this result implies that share price increases as liquidity of the firm decreases. This finding comports with the findings of Ariff et al. (2013) who found money supply through its liquidity creation influences share prices significantly.

5.0 CONCLUSIONS

This study has empirically investigated the determinants of share prices of a sample of companies listed in the Kuwait Stock Exchange (KSE). Specifically, it examined the relationship between share prices on the one hand, and a group of firm-specific and macroeconomic variables on the other. The firm-specific variables investigated encompass one-year lagged share price (PRICE (-1)), dividend policy, assets tangibility, firm's size, growth opportunities, profitability, leveraging, and liquidity. The macroeconomic variables examined include inflation rate, economic progress, interest rate, money supply, and exchange rate. A number of other factors were excluded from further investigation mainly due to the unavailability of data, similarity with other variables, or multicollinearity. Using E-views version 8 software and employing the ordinary least square regression to analyze the panel data, the empirical findings indicate that the key determinants of share prices are the one-year lagged share prices, inflation, tangibility of assets, money supply, changes in growth opportunities, profitability, and liquidity of the firm. The study, on the other hand, found that dividend policy, interest rate, firm's size, and leveraging are not determinants of share prices. The empirical results of the study are in line with most of the findings found in the literature and support the existence of the relationship between stock prices and both firm-specific and the macroeconomic factors.

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