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EFFECT OF EXCHANGE RATE ON STOCK RETURN

(Pakistan Stock Exchange 100 index)

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ABSTRACT:

The exchange rate and stock market are the two fundamental financial markets in the world. These two markets are playing key role in an international business all over the world. It is necessary to understand the relationship between the both markets so that the investors may be able to invest in a better way by taking the minimum risk. This paper investigates the Causal relationship between the exchange rate and stock market of Pakistan. PSE-100 index is used as a substitute of Stock Prices while currency rate of Pak Rupee against US Dollar (PKR/US$) is taken for exchange rate exposure. The data is on Daily basis and the time period is from January 2015 to December 2019. The findings of the research indicate that a positive relationship exists between stock price and exchange rate and both the variables are dependent on each other.

KEYWORDS: Exchange rate, Stock market, Risk, Causal Relation.

INTRODUCTION:

The relationship of exchange rate and stock prices is necessary for some reasons. Initially, it influences monetary and fiscal policy decisions. Then, usually in investment funds' portfolios, currency is considered as an asset. It is imperative to know about relationship between currency rates and other portfolio rates because it is necessary for the performance of fund, but first, determinants and exchange rate mechanism will be explained.

A study by Aggarwal (1981) provided some evidence in support of the flow model This investigation analyzed the connection between trade rates and stock costs by taking a gander at the relationship between's adjustments in the US exchange weighted swapping scale and changes in US securities exchange lists every month for the period 1974 to 1978. The examination found that the exchange weighted conversion scale and the US securities exchange lists were emphatically related amid this period, driving Aggarwal (1981) to presume that the two factors communicated in a way reliable with the stream show. That is, developments in the conversion scale could straightforwardly influence the stock costs of multinational firms by impacting the estimation of its abroad operations, and by implication impact local firms through affecting the costs of its fares as well as its transported in inputs. Soenen and Hennigar (1988) found a critical negative

connection between's the viable estimation of the US dollar and changes in US stock costs utilizing month to month information between the period from 1980 to 1986. While this finding is rather than Aggarwal (1981), who found a positive connection, despite everything it gives confirm in help of the stream display.

The differentiating comes about over the assemblage of writing with respect to this issue propose that there is no hidden or natural causal connection between trade rates and securities exchanges crosswise over purviews. Or maybe, the contrasting causal connections revealed through exact investigation infers that the collaboration amongst money and securities exchanges are impacted by the cycle of business and diverse monetary policy show inside individual nations, which means causality between the two budgetary factors is touchy to the era in which the examination is attempted. This view is affirmed by Ramasamy and Yeung (2005), who propose that causality is remarkable inside wards, inside particular eras and is even touchy to the recurrence of information used. In their investigation, the creators inspected the level of swapping scale and stock value causality in a similar nine Asian economies considered in Granger et al. (2000), however amid the period 1 January, 1997 to 31 December, 2000 – the whole time of the Asian money emergency. The observational aftereffects of Ramasamy and Yeung (2005) contrast from those of Granger et al. (2000). While Granger et al. (2000) found a bi-causality for Malaysia, Singapore, Thailand and Taiwan, Ramasamy and Yeung (2005) found that stock costs lead trade rates for these nations. Then again, Granger et al. (2000) found that stock costs lead trade rates for Hong Kong, however a bi-causality was distinguished by Ramasamy and Yeung (2005).

Umoru and O. Asekome (2013) discovered positive co-incorporation between conversion scale and stock costs as in light of an exploration completed on Nigerian Securities exchange. They likewise utilized the Granger Causality test which demonstrated bi-directional connection between the factors.

Dimitrova (2005) recognized the beneficial outcome of stock costs on trade rates, in any case, negative connection was noted when previous was taken as lead variable. Hamrita (2011) archived a long haul bidirectional causal connection between conversion standard and stock file for US Securities exchanges. Rjoub (2012) recognized bidirectional connection between swapping scale and stock costs for Turkish securities exchanges. In another examination in view of Indian Securities exchange, Bhunia (2012) discovered bidirectional connection between swapping scale and securities exchange records. A similar relationship was additionally noted by Malarvizhi and Jaya (2012) in the event of Indian Securities exchange. Bokhari (2013) directed an investigation on SAARC nations and found that if there should be an occurrence of Pakistan and Sri Lanka causality streams from securities exchange to remote trade advertise. Be that as it may, the other way around relationship was watched for Indian securities exchange. In addition, bidirectional relationship was noted if there should arise an occurrence of Bangladesh and Nepal.

1.1. Research Problem: We are trying to find out Causal relationship between Exchange rate and Stock return in PSE.

1.2. Exchange rate: Conversion scale is known as the rate at which a nation's money is converted to the money of another nation's currency. It is the base number of unit of a nation cash required to get one unit of another nation's money. The principle goal of swapping scale is to know whether it there is a negative or positive effect on the nation exchange adjust. A steady conversion

scale help endeavor and money related establishments in assessing the execution of speculations, financing and supporting thus diminishing their operational dangers.

1.3. Purpose of the Study This study is conducted to find the relationship between exchange rate and stock prices if foreign exchange fluctuations is affected by increase in share prices. If the relationship exists, is this relationship negative or positive?

1.4. Problem Area: the exchange rate is changing rapidly, and when I was search to know about the relationship between exchange rate and stock return there is no new research in Pakistan about this topic that's why it's important to know about the current impact of exchange rate on stock return. So I have collected data of exchange rate from OWANDA.COM and the Data of Stock return From PSE.

LITERATURE REVIEW:

According to Rahman and Jashim uddin (2012) : The recent liberalization of foreign capital controls and adoption of floating exchange rate regime in Bangladesh have widened the scope of studying the relationship between exchange rates and stock prices. Progression of outside capital controls has opened the likelihood of universal venture and the appropriation of gliding swapping scale administration has expanded the unpredictability of remote trade showcase. Therefore recognizing the relationship between stock costs and trade rates has turned out to be vital for the academicians, experts and arrangement creators. In a nation like Bangladesh where the economy is as yet rising and capital market is still in a helpless condition, as indicated by our insight no examination has been made so far to research the connection between stock costs and trade rates which urges us to lead the investigation to distinguish the connection between the factors.

Haji and Jianguo(2014): have investigated the relationship between two essential part of an economy named as stock costs and trade rates. As a matter of first importance, we connected unit root test to locate the stationary of information arrangement. The outcomes demonstrate that every one of the information arrangement of the factors are non-stationary and incorporated of request one. At that point we connected Johansen strategy to test for the likelihood of a checking relationship. Result demonstrates that there is no checking connection between stock costs and trade rates. The Capital markets are offices and connections through which stores move from subsidize holders to beneficial clients. The market channels reserves at the market cost, to gainful exercises. The Capital market is grouped into two portions. These portions are essential and auxiliary markets (DSE, 2010, Bodie et al., 2009). In Essential markets securities are issues to beginning purchasers at the first run through First sale of stock (Initial public offering). First sale of stock is utilized when the organizations drifts offers or its corporate securities to the speculators interestingly. Those organizations wishing to raise support for extending their capital and increment their business exercises can issue their offers interestingly through the Initial public offering. Before 1990s, Tanzania was following incorporated monetary approaches, all financial exercises around then were just determined by the administration, there were not very many or no open doors for the private segment to take an interest in the economy. Since the economy was unified the general population had no clue about the open doors accessible in the capital market. At that point the economy of Tanzania was reliant on just

about 700 ineffectively playing out government's companies (CMSA, 2006).

Zubair(2013) : has discovered The causal connection between stock list and trade rates in Nigeria, before the worldwide – money related emergency. The Examination tests for the nearness of co-incorporation and granger causality between the stock records and trade rates/M2, the aftereffect of this proposes: (1) non combination between swapping scale and securities exchange list earlier and amid the worldwide budgetary emergency (2) The consequence of the granger causality shows nonattendance of causality in the two time frames for the ASI and conversion standard. The outcome proposes the non-presence of connection between the conversion scale and securities exchange list for both the period in Nigeria amid the period under examination.

Ditmitrova: developed the hypothesis that there is a link between the foreign exchange and stock markets . I declared this connection is certain when stock costs are the lead variable and likely negative when trade rates are the lead variable. I discovered some help for these recommendations in past writing. I built up a multivariate concurrent condition demonstrate that permitted to examine the relationship with regards to a hypothetically solid, auxiliary macroeconomic system.

MAKERI BEATRICE NYAMBURA(2013): for the most part presumed that conversion scale Granger causes stock cost in Rwanda. This Granger causality from the conversion scale market to the share trading system presents various ramifications for singular speculators, corporate financial specialists, money related strategy producers and the market mediator offices. Any sharp changes in the stock costs caused by the vacillations in outside trade rates would bring about frenzy among different portfolio administrators, Corporate benefits are likewise diminished and are seen from the declining EPS. In this manner, high unpredictability brings about a negative effect on the development and advancement of the Rwandan Securities Trade.

Nieh and lee(2001): says that The stock costs clarify the present esteems marked down from future money streams of their organizations. Meese and Rogoff (1983) bolstered the gullible arbitrary walk estimating principle, which infers that there are sure connections among basics and trade rates.

Notwithstanding, Wolff (1988) acquired the inverse outcome. Introduction depicts the connection between changes in the estimation of a nation's cash and contemporaneous changes in the estimation of the firm being referred to as measured by stock costs. As in Engle and Granger (1987), every one of the factors in the ECM demonstrate are dealt with as mutually endogenous. Köse, Doganay and Karabacak(2010): found that the observational outcomes are to some degree blended with regards to the communications or bearings of causality between the two factors The aftereffects of existing group of writing regarding the matter could be classified into four fundamental branches. The greater part of the writing found a uni-directional causality from trade rates to stock costs or from stock costs to trade rates. Other observational investigations showed two-way or bi-directional causality, or neglected to discover any connection between stock costs and trade rates. It is beneficial to take note of that the heading of causality appears to rely upon particular qualities of the nation broke down, the models utilized or the timeframe chose. The target of this paper is to research causal relations between stock costs and trade rates for Turkish budgetary market. Trade rates incorporated into the model comprise of 5 currency types: US dollar, Euro, Swiss Franc, Japanese Yen, Pound Sterling, and two bushel of

monetary standards – UFT1 and UFT2 of Under secretariat of Remote Exchange. In the model, the stationer of factors is tried by applying the ADF test, the ideal slack length is resolved lastly, Enlarged Granger Causality test is connected to decide the causality between the two factors. This paper reveals insight into the presence of causality between stock costs and trade rates in view of the every day perceptions of ostensible powerful trade rates and stock value file in Turkey. The discoveries give confirmation to demonstrate a uni-directional causality running from stock costs to trade rates for the Turkish stock and cash markets. This outcome underpins the contentions of Ajayi and Mougoue (1996), Ajayi et al. (1998), Ramasamy and Yeung (2001) Granger et al. (2000), and Stavárek (2005). The restricted causality, which keeps running from stock costs to trade rates, underpins the reason of portfolio approach. This confirmation has suggestions for the strategy creators and financial on-screen characters to know the developments dynamic determinant in stock costs that may affect the achievement of scale arrangements of their conversion scale.

Muhammad and Rasheed(2000): analyzed the long-run and short-run relationship between stock costs and trade rates for four South Asian nations for the period January 1994 to December 2000. they utilized month to month information and connected contravention, mistake rectification displaying methodology and causality tests to see the short run and long run affiliation. There outcomes demonstrate no long run and short-run relationship between stock costs and trade rates for Pakistan and India.

Nath and samanta(2003): Are analyzing the dynamic linkages between the remote trade and securities exchanges for India. While the writing proposes the presence of huge communications between the two markets, our exact outcomes demonstrate that for the most part returns in these two markets are not interrelated, however lately, the arrival in securities exchange had causal impact on return in swapping scale with plausibility of gentle impact backward bearing. These outcomes have opened up some intriguing issues with respect to the swapping scale and stock cost causal relationship. In India.

Oyinlola, Adeniyi and Omisakin(2011): tested the short and long run progressions of trade costs and stock prices in Nigeria. For the examination, the Johansen and Gregory-Hansen co coordination investigations, causality test and Exponential General Autoregressive Restrictive Hetero scadasticity demonstrating were connected on day by day information from January 2, 2002 to August 11, 2011. The accompanying conclusions can be deduced from the investigation. To begin with, prove demonstrated that there is no long run connection between stock costs and conversion scale in Nigeria. One conceivable clarification is that there might be a channel, excluded in the present investigation29, through which the two markets are interrelated. The outcome additionally uncovered a basic break date of mid April 2007 which harmonizes with the period when the stock costs plumped abruptly from the effect of worldwide budgetary emergency in mid 2007. Second, the causality test result demonstrated that there is a unidirectional relationship from stock costs to swapping scale. Therefore, affirming the result of Adebiyi et al (2010).

Kofi and Kwabena(2013): This investigation inspected linkages between the outside swapping scale and securities exchange in Ghana. utilizing information on trade rates and stock costs from November 1990 to August 2009. This investigation found that all factors have unit roots. There are for quite some time run connection between stock costs and trade

rates in Ghana. Causality test of Graner demonstrated that no granger causality exists among these two factors.

Ai-Yee Ooi, Wafa, Lajuni and Ghazali(2009): analyze the dynamic linkages between conversion scale and stock costs for Thailand and Malaysia. Our experimental outcomes demonstrate that stock costs Granger-cause trade rates have more huge causal relationship contrasted and causal relationship from trade rates to stock costs. This real finding is strong as for different measurable tests utilized, including the Johansen-Julius co mix test, the new Granger causality test, and a change decay investigation. they build up a VAR model and utilize a multivariate MWald measurement to test limitations on its parameters. On the evaluated comes about, that Granger causality relationship from trade to stock rate either inside nation or all around the world for example, in Malaysia and Thailand. In the other word, the two markets are firmly connected.

Zia and Rahman(2011): exactly break down the dynamic connection between the Karachi Stock Trade 100 Record and Swapping scale (Pak Rupee/US Dollar). The Factors utilized as a part of this examination were at level of non-stationary, and stationary at initial distinction. To check the incorporation the Granger test is utilized. The outcomes reveal that no Long run relationship exists among the two variables of the test. These outcomes show that KSE 100 File and Conversion scale (Rupee/Dollar) measurements do not go together in long keep running In Pakistan. Subsequent to playing out the Engle Granger Co Joining test and enlarged Dickey Fuller Test. I play out the Granger Non Causality test. Outcomes confirm no causality in either heading, also no casualty from Conversion scale to Stock list nor in tight clamp versa. frame the investigation of current examination, however two factors are not Granger causing each other, when the speculator need to settle on choice about the interest in either area he should get data about every part independently.

Palmberg and kim(2011): observationally looks at the contemporaneous connection between stock costs and trade rates in Sweden for the period from Walk 2001 to Walk 2011. Outright estimations of the two month to month time-arrangement information were changed over into normal log frames And checked for stationary. Expanded Dickey-Fuller (ADF) test was connected and the outcomes Demonstrated that both arrangement are stationary at their first contrasts. At that point the Engle-Granger (EG) approach was utilized to test whether these two arrangement Are co coordinated, and the outcome showed no co incorporating relationship exists in the two Under-lying factors. The consequence of testing the contemporaneous relationship of stock cost and conversion scale Demonstrated that adjustments in the estimation of Swedish krona against euro would prompt a scorn ruinous change in the estimation of the Swedish securities exchange to the other way It reasoned that Swedish stock exchange and remote ex-change showcase are adversely related.

Rahman and Jashim Uddin(2012): have investigated the relationship between two vital part of an economy named as stock costs and trade rates. Most importantly, we connected unit root test to locate the stationary of information arrangement. The outcomes demonstrate that every one of the information arrangement of the factors are non-stationary and coordinated of request one. At that point we connected Johansen method to test for the likelihood of a coordinating relationship. Result demonstrates that there is no co coordinating connection between stock costs and trade rates. That implies there is no long haul co-development between the factors and none of

the factors is unsurprising on the premise of past estimations of other variable. Without any co-incorporating connection between the factors we move to standard Granger causality test to discover any causal connection between stock costs and trade rates. Results demonstrates that stock costs does not Granger cause trade rates and trade rates does not Granger cause stock costs, so its absolutely impossible causal connection between stock costs and trade rates. There is a typical conviction among the speculators that there is a relationship between trade rates and stock costs and they are unsurprising on the premise of the estimations of different factors.

Fredrick and Muasya(2014): set up that there was a solid, positive connection between's Remote Trade Rates spoke to by the Kenyan shilling to the US Dollar and the Stock value record as gave by the Nairobi securities trade 20-share List. In this manner when the swapping scale "expands" it infers an expansion of the Kenya shilling or energy about the remote money. This implies when the remote monetary forms acknowledge or Kenya shilling devalues, the stock costs fall. Likewise, when the stock costs rise, the outside monetary forms deteriorate or Kenya shilling increases in value. Agrawal and Srivastava(2010): exactly looks at the progression between the unpredictability of stock returns and development of Rupee-Dollar trade rates, as far as the degree of interdependency and causality . In any case, outright estimations of information were changed over to log typical structures and checked for ordinariness. Use of Jarque-Bera test yielded measurements that attested non-typical dissemination of both the factors. This offered conversation starters on the stationary of the two arrangement. Thus in this manner, stationary of the two arrangement was checked with ADF test and the outcomes demonstrated stationary at level structures for both the arrangement. At that point, the coefficient of relationship between's the two factors was figured, which demonstrated slight negative connection between's them. This cleared a path for deciding the course of impact between the two factors. Thus, Granger Causality test was connected to the two factors, which demonstrated unidirectional causality running from stock comes back to trade rates, that is, an expansion in the profits of Clever caused a decrease in the trade rates yet the opposite was not observed to be valid.

Conclusion Paragraph: This study is Focuses on the relationship b/w exchange rate and stock return, so after reading other researches I have got the idea to done the stationary test, Auto correlation, and Hetro scadasticity, tests to check that our data is correct or it have problem, than I have to check the GRANGER CAUSLITY Test to find the causal relationship b/w Exchange rate and stock return, than I have to run the least square model to check the impact of exchange rate on stock return.

RESEARCH METHODOLOGY:

3.1 Exchange rate:

The rate at which one country currency is changed into another country money is called exchange rate. It is the base number of unit of a nation money required to get one unit of another nation cash. The principle goal of swapping scale is to see whether it has positive or negative effect on the nation exchange adjust. A steady conversion scale help endeavor and money related foundations in assessing the execution of speculations, financing and supporting thus lessen their operational dangers.

1 USD = 100 PKR
1 USD = Base currency
100 PKR = Quoted currency

It is direct excerpt which contains fix unit of foreign currency in contradiction of some variable unit of home currency. The Government of Pakistan (State Bank of Pakistan) manages its exchange rate concluded two core systems.

1. Fixed exchange rate system
2. Floated/Flexible exchange rate system

3.1.1 Fixed exchange rate system:

It is additionally called Pegged conversion scale framework. In settled conversion standard framework, the National Bank trade neighborhood and outside cash at pre-declared rate. Government formally ties its swapping scale with outside money. The essential intentions of the settled conversion scale framework to encourage the exchange and ventures of the nation.

3.1.2 Floated / Flexible exchange rate system:

It is varied by showcase powers which implies it relies on advertise powers. It is the rate which dictated by showcase constrain of free market activity trade advertise. Numerous nations have adaptable swapping scale framework. Like the USA, Canada.

3.2. Model :

Dependent variable	Independent variable	Expected Relation
Stock Return (Stock Price)	Exchange rate	+

$Y=b0+b1x1$

$Y=b0+b1ER$

3.3. Rational:

Once there is an upturn in interest rate there will be increase in investment which drive result in decrease of demand for foreign currency and home currency will rise. when interest rate of home country is greater than other, it will attract foreign stockholders to invest more in home country to create money. Here will demand for home currency will increase and may reason to appreciate. And foreign investor will invest in our home country they will buy shares and when the demand for share is increasing the price of share is also increasing.

3.3. Determinants of Foreign exchange rate:

3.4.1 Interest rate:

At the point when there is an expansion in financing cost there will be increment in venture which will bring about decline interest for outside money and home cash will appreciate. It implies that when financing cost of home nation is higher than other, it will pull in outside speculators to put increasingly in home cuntry to win cash. In this circumstance interest for home cash will increment and may cause to appreciate.

3.4.2 Money Supply and Inflation:

In the event that state bank of any nation print more cash, the supply of cash will increment in the market which implies flow cash will increment. On the off chance that individuals have more cash, it implies that the obtaining energy of individuals or client increments yet it might cause swelling. Expansion and money are contrarily identified with each other. In the event that supply of money will build the estimation of a cash will be deteriorated.

3.3. Population:

The population consists of the Pakistan stock exchange and exchange rate of Pakistan for the study period (2015-2019).

3.3. Research Sample

In this research we have taken 100 index of PSE that represent the study sample. shows the study sample. The data to be available during the study period is five year data analysis (2015-2019).

3.3. Data Collection

In this Paper The data is essentially secondary and I have collected form the following sources. www.YAHOO.FINANCE.COM (PSE, 100 INDEX, Historical Data)

1) Www.owanda.com (Exchange rate of PKR/dollar, daily data)

3.3. Study Period

This study covers the period from 2015 to 2019, numerous data requisite to calculate the study variables, reason for limiting to this period was that the latest data for examination was available for this period.

3.3. Hypotheses of the Study

The following hypotheses were formulated for the study.

Ho: There is insignificant relationship between exchange rate and Stock return.

H1: There is significant relationship between exchange rate and Stock return.

If the granger test is more than 3.84 we have to Accept H1 and reject H0.

If the granger test is Less than 3.84 we have to Accept H0 and reject H1.

RESULTS AND ANALYSIS:

4.1. Unit root test for stationary: Exchange rate: we have done Unit Root test for our independent variable Exchange rate, ER and the value of probability are significant there is no stationary problem we can run the model.

Null Hypothesis: ER has a unit root

Exogenous: Constant

Lag Length: 5 (Automatic - based on SIC, maxlag=22)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-25.33010	0.0000
Test critical values:	1% level	-3.435453	
	5% level	-2.863681	
	10% level	-2.567960	

*MacKinnon (1996) one-sided p-values.

4.2. Stock Return (RM):

Unit root test for Stock Return (RM): we done Unit Root test for our dependent variable Stock return, RM the data is stationary and the value of probability is significant there is no stationary problem we can run the model.

Null Hypothesis: RM has a unit root
Exogenous: Constant
Lag Length: 0 (Automatic - based on SIC, maxlag=22)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-31.94426	0.0000
Test critical values:	1% level	-3.435432	
	5% level	-2.863672	
	10% level	-2.567955	

*MacKinnon (1996) one-sided p-values.

4.3. Heteroscedasticity:

we deduct the Hetroscadasticity Problem through White Test and the value of Obs*R-Squared is Insignificant it means there is no Heteroscedasticity Problem Exist We Accept H0 Null Hypotheses and Reject the H1 Alternative Hypotheses.

Heteroscedasticity Test: White

F-statistic	0.450288	Prob. F(1,1234)	0.5023
Obs*R-squared	0.450853	Prob. Chi-Square(1)	0.5019
Scaled explained SS	0.935138	Prob. Chi-Square(1)	0.3335

4.4. Auto Correlation:

We Deduct the Auto correlation Problem through Brusch Godfrey serial correlation lm test the value of Durban Watson is 2and the Resid 1 and residual 2 is also insignificant so there is no Auto Correlation Problem Exist

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	6.304470	Prob. F(2,1232)	0.0019
Obs*R-squared	12.52173	Prob. Chi-Square(2)	0.0019

Test Equation:
Dependent Variable: Rm
Method: Least Squares
Date: 11/20/20 Time: 23:38
Sample: 1/05/2015 12/30/2019
Included observations: 1236
Presample missing value lagged residuals set to zero.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	6.22E-07	0.000255	0.002438	0.9981
DER	2.181680	3.438068	0.052844	0.9579
RESID(-1)	0.093884	0.028485	3.295911	0.7810
RESID(-2)	0.028382	0.028482	0.996470	0.6192
Durbin-Watson stat	2.006969			

4.5. Granger Causality test:

Now we have To investigate the causal relationship between two variables with the help of granger causality test Eview's, we have following results.

Pairwise Granger Causality Tests
Date: 11/21/20 Time: 15:32
Sample: 1/05/2015 12/30/2019
Lags: 2

Null Hypothesis	Lags	Obs	F-Statistic	Prob
Pkr/usd with RM	2	1235	3.88913	0.0312
RM WITH PKR/USD	2		37.5268	0.0216

the f value has to be 3.84 or more than it then they have causal relationship, here Value of the granger Causality test Are More than 3.84 it means that there is Causal relationship exist between the exchange rate and stock return. So We have to Accept H1 and reject H0.

After All test is applied and deduct All the necessary problems for our data the following results is come and we have to explain it.

Dependent Variable: RM
Method: Least Squares
Date: 11/22/20 Time: 23:44
Sample (adjusted): 1/05/2015 12/30/2019
Included observations: 1236 after adjustments
Convergence achieved after 5 iterations
White heteroskedasticity-consistent standard errors & covariance

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.000975	0.000282	3.455033	0.0006
ER	2.646409	3.430026	0.771542	0.0405

R-squared	0.590898	Mean dependent var	0.000973
Adjusted R-squared	0.520090	S.D. dependent var	0.008988
S.E. of regression	0.008951	Akaike info criterion	-6.591667
Sum squared resid	0.098709	Schwarz criterion	-6.579233
Log likelihood	4073.354	Hannan-Quinn criter.	-6.586990
F-statistic	6.157808	Durbin-Watson stat	2.006969
Prob(F-statistic)	0.002183	Wald F-statistic	0.595277
Prob(Wald F-statistic)	0.000534		

Inverted AR Roots	.10

C: is significant 0.000975 is value and it tell us that there some relevant variables which we are not incudes in our Model. Coefficient of ER Independent Variable 2.6464 : it tell us that

if our independent variable is increased by 1 percent our dependent variable will be increased 0.26 percent . R-squared: 0.590898 the r squared value tell us that our independent variable individually effecting the dependent variable 59% percent. Adjusted R-Squared: 0.520090it tell us that our independent variables collectively effecting our dependent variable 52%percent Prob (F-statistic)0.002183: it is significant it means our model is significant.

CONCLUSION:

The study has been done to discover the connection among exchange rates and stock prices. As in Pakistan the exchange rates are varying in a rapid way and in enormous differences. This instability has identical bottomless impacts on stock market, particularly Oil and Gas companies. Due to these variations the investors avoid to invest in the market. We have used Stock price as dependent and exchange rate as an independent variable in the Research. In this paper it has concluded that exchange rate has impact on stock price.

The inspiration is to build up the causal linkages between driving costs in the outside trade advertise and the share trading system, the linkages have suggestions for the continuous endeavors to create securities exchanges in developing economies at the same time with an arrangement move towards autonomously gliding trade rates. This finding has arrangement suggestions, it recommends that administration ought to be careful in their usage of swapping scale strategies, given that such approaches have outcomes on their securities exchanges. So The government should work to stabilize the exchange rates and aware the investors about the Fluctuation, the new investors will not suffer losses if State bank update the firms about changes in the interest rates, exchange rates and other economy factors changes.

Some different examinations have discovered that there is certain connection between stock costs and conversion scale, while other confirmed that there is negative connection between stock costs and trade rates. Whatever we found that is there is a critical connection between stock costs and swapping scale, in Pakistan outside trade showcase is not compelling when contrasted with different nations that is the reason it is affecting the stock returns.

More or less we now can presume that conversion scale is an essential variable, we can't overlook it. One who need to watched the offer costs and put resources into the share trading system, they ought to consider the conversion scale too alongside other variable.

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