

# Abstract

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## **The effect of macroeconomic factors on stock markets: A comparative study between emerging economies**

Stock market is crucial for the economic growth of any country as it helps the flow of money from investors to firms. This benefits the industries as well as the investors by offering investors alternative investment opportunities, and a way out for firms to raise funds if they want to stay away from leverage. The key objective of this study is to investigate the nature of the relationship between the macroeconomic factors and the stock market of two emerging economies (Egypt and Tunisia) for the period from January 1998 to January 2014 using correlation matrix, Johansen test for cointegration, and Granger causality. Results of this study indicated that the Selected macroeconomic variables are correlated with both stock market indices. Granger causality analysis suggests that there is a causal relationship running from market index in Egypt to CPI, exchange rate, and money supply, and from interest rate, exchange rate, and money supply to the stock market. As for Tunisia, the results of the granger causality test indicated that there is a short run causal relationship running from stock market to interest rate and from interest rate, exchange rate, and money supply to stock market. Johansen test revealed that the interest rate, CPI, exchange rate and money supply in Egypt affect the stock market in the long run. In Tunisia, although the macroeconomic variables are cointegrated with the stock market, only CPI and exchange rate affect the stock market in the long run. Emerging markets constitute an area which is not well explored yet. The results of this thesis will help shed light on this unexplored area. In addition, it will help market participants monitor the stock market through observing the macroeconomic variables.