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**INTRODUCTION**

The relationship between short-term interest rates and stock prices is an important one that needs to be examined in order to understand the effects of changes in the interest rate on stock prices. In this report, I will use an econometric model to examine this relationship.

**SUMMARY**

The model I will use is a multiple regression model with stock prices as the dependent variable and short-term interest rates, GDP and CPI as the independent variables. I will also include lagged values of the stock price to capture the dynamic nature of the relationship.

[log(y) c Int log(gdp) Incpi log(ir) ar(1)]

The **results** of the regression indicate that interest rates have a significant negative effect on stock prices, with a coefficient of -0.31. This suggests that an increase in interest rates leads to a decrease in stock prices. GDP also has a significant negative effect on stock prices, with a coefficient of -0.11. CPI has a positive effect on stock prices, with a coefficient of 0.17. The lagged stock price has a significant positive effect on stock prices, indicating that the current stock price is affected by the past stock price. The regression results indicate that the model is well-specified, since all the coefficients are statistically significant. Moreover, the model does not suffer from heteroscedasticity or serial correlation.

In **conclusion**, the results of the regression suggest that changes in short-term interest rates have a significant negative effect on stock prices, while GDP and CPI have a significant negative and positive effect on stock prices, respectively. The lagged stock price has a significant positive effect on the current stock price.



