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Relationship of Economic and Financial variables with behavior of Stock Prices: A case of Pakistan Stock Exchange

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Abstract

The investigation decides the relationship of some economic and financial variables that relations with stock Exchange of Karachi, build up their association with stock prices and potentially utilize them to foresee the feasible changes in stock prices because of changes in these economic and financial factors. The researcher apply ADF test for predictions of relations. The acclaimed co-integration technique is connected on month to month information of KSE Index and the particular economic and financial variables from January 1992 through December 2016 to decide the degree to which these factors relations the share trading system returns. The investigation builds up that a long-run relationship exists between the dependent variable and the independent variables under thought to be specific, inflation, GDP growth rate, exchange rate, Trade Openness, Industrial production, Interest rate, The interbank call money rate, The term structure of interest rate, Trade deficit, Government Bond Rate and Treasury Bills Rate as independent variables and Stock price index as a dependent variable. It was additionally established that in the long run, unidirectional relations of variables with the behaviour of stock Exchange.

Keywords: Economic and Financial variables, Stock Prices, ADF Test.

INTRODUCTION

Background of the Study

There is presently a lot of composing that looks at the connection between securities exchange execution and a progression of macroeconomic and financial variables in various distinctive markets and eras. Presently a day's financial economy gives an arrangement of models that assistance you take a gander at the relationship.

The profitability of the activities is extremely touchy to the two fundamentals and desires. The last mentioned, thus, is impacted by the basics that can be founded on examples of judicious desires both as versatile, and additionally numerous arbitrary and non-quantifiable subjective components. Exact investigations demonstrate that once money related deregulation happens; the share trading system becomes more sensitive to both inner and outer elements. Local essentials on a fundamental level allude to national macroeconomic conditions. In any case, there might be a wide disparity between the general condition of the

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economy and the arrival of individual securities. The out-side variables would influence the execution of stock prices for the worldwide economy, the financing cost and the conversion scale.

Frequent pragmatic studies that are transmitted to developed markets provide a substantial confirmation of the controversy that stock price rise and fall with changes in economic variables. Thusly, costs for aggregate activities are relied upon to have a solid association with macroeconomic variables. (Gunasekaragea, Pisedtasalasaib, & Powerc, 2002), Accept that macroeconomic variables are exceptional candidates for training returns, so that changes in these measures will affect the cash flows of businesses and affect the risk of adjusted discount rate. The theory that changes in macroeconomic variables have a surround effect on stock prices has been the subject of in-depth research, observing whether money related resources were inadequate against expansion, announced a negative connection between stock prices and changes in the general value level, acknowledged the strong positive membership of economic returns and behaviours such as industrial production, interbank calling rates, currency offer and exchange rate, term rate structure, trade deficit etc.

The monetary policy manifesto had a remarkable control over stock prices, while acknowledged that the Manifesto on Monetary Mass and the Consumer Price Index was largely linked to changes in stock prices. It is quite commonplace in the theories and models of financial journalism, based on well-organized market theory, implying that it is not possible to make calculations and forecasts based on historical return rates or other factors in practice. -particles for practical results that stock prices follow a random walk process, making it difficult and almost ineffective any attempt to get short-term forecasts.

Consequently, an alternate method for concentrate the connection between the monetary actions spoke to by macroeconomic elements and the share trading system value conduct is in the investigation of long haul patterns in view of month to month perceptions. A casual mind securities exchange and GDP costs in created advertise economies demonstrate that they tend to move together. Nations with the best execution regarding GDP execution tend to build their scores on national satchels.

There is also big way for which researcher choose this topic capital markets is a show up among the most vital parts of a free-advertise economy, as it organizes capital for the organizations from investors in return for partakes in proprietorship to the financial specialists.

Stock trade furnishes organizations with the office to raise capital by pitching offers to the financial specialist (Pooja, 2011).Stock prices can be considered as a pointer of a nation's financial status and social inclination and are viewed as a main marker of the genuine monetary action. Offer expenses furthermore impact the plenitude of families and their use; assets and hypothesis decisions. In this way, one might say that, the stock exchange is an indispensable piece of the money related arrangement of any economy, as it assumes a noteworthy part in channelizing stores, interfacing savers and financial specialists, which prompted monetary development of the economy (Chakravarty, 2007; and Husain & Mahmood, 2001).

The supply of stock is made by the quantity of offers a firm issues, the request depends on individuals who need to purchase shares from investors who effectively possess them. In this specific circumstance, purchasers and vendors measure data about the firm, business data, the general condition and their own speculation. When choosing to purchase or offer a stock the budgetary strength of the firm is viewed as first.

Most of the observational work on the offer exchanging arrangement of Pakistan has been on the distributional qualities and time course of action properties of stock prices at the Karachi Stock Exchange (KSE). Karachi Stock Ex-change (KSE), Pakistan greatest stock exchange set up in 1949. It is one the most settled stock exchanges South Asia. In 1991, KSE was allowed with the status of refreshed nearby market document. Karachi Stock Exchange (Guarantee) Limited (KSE) was developed on September 18, 1947. It was intertwined on March 10, 1949. Only five associations were at first recorded with a total paid-up capital of 37 million rupees (Ihsan, Ahmad, Haq, & sadia, 2007).

Research Problem

Stock prices are most critical marker for measuring any nation's organization development. This specific investigation is going to gauge the connection amongst money related and financial factors with securities exchange costs of Pakistan. The hypothesis that movements in macroeconomic components have an incorporate effect on stock expenses has been the subject of all around look into. All things considered, paying little mind to whether changes in securities trade cause instabilities in macroeconomic variables, like Consumption Expenditures, Investment Spending, Gross Domestic Product (GDP), Index of Industrial Production (IIP), are so caused by these components is

a fascinating issue to be broke down. The past case surmises that securities trade leads money related development; however the last suggests that it slacks fiscal activity. The learning of association between stock behaviours and full scale factors are directly twisting up doubtlessly more imperative because of making countries in context of the diverse money related changes happening there. It is also equally important to know about all economic factors that may influence directly or indirectly our stock exchange so that's why we proposed this study.

Research objective

Our study's specific objectives are;

- To calculate the relationship of financial variables with stock prices behaviours.
- To measure the relationship between economic variables with stock prices behaviours.

LITERATURE REVIEW

Literature review is the review of the already published material relating to our particular study. This section includes financial variables and stock exchange behaviours, and economic variables and stock exchange behaviours respectively.

Financial variables and stock exchange behaviours

The past examination identified with Global Financial Crisis and Investors Behaviour take prove from the Karachi Stock Exchange and furthermore consider is to explore the connections between returns in Istanbul Stock Exchange (ISE) and macroeconomic factors of Turkish economy; scientist utilized the information of factors, for example, 50 modern firms with the period from 2004 to 2012.for the finding long haul stable relationship specialist utilize free factors alike GDP, swapping scale, loan cost, ebb and flow account adjust, mechanical generation, customer value list , net settled capital arrangement and cash supply and ward factors file stock prices of Karachi Stock Exchange and Istanbul Stock Exchange; For that is investigation utilizing co-combination tests and vector mistake rectification display (VECM) on informational index and factual test us for measure; because of causality tests Researcher discovered unidirectional connections between full scale markers and ISE list. That is, predictable with the current writing, changes in GDP,

outside swapping scale and current record adjust affect ISE file. Be that as it may, on the in opposition to desires, changes in the stock exchange list do influence loan costs.

The outcomes additionally demonstrate that the free factors on list anomalous stock prices is measurably huge and no critical mechanical generation record and currency showcase loan fee Index and Abnormal returns, scientist pre-scribes regard for financial factors of the financial and money related strategy in the Jordanian economy, which is described as a quickly developing with the goal that must be the constant investigation of market factors and decide the effect on irregular returns for the offers of organizations which fortifies the aggressive position of organizations in the market.

On the other examination the scientist look connection between modern generation and stock prices in which the specialist saw in two sections regularly and non-occasionally, the outcomes demonstrate that while stock prices seem to show a measurably noteworthy relationship after a slack, the regularly balanced file appears to demonstrate a more grounded relationship particularly with a 3, 6 and 9 month slack ,potential clarification is expanded mechanical creation prompts increment in financial action bringing about higher winning for organizations and ought to likewise increment in stock valuations bringing about stock pick up rather moderately non-occasionally balanced information demonstrate a connection amongst returns and modern generation does not exist as observed by the law and factually in noteworthiness of the large factors (Sohail & Javid, 2014; Acikalin, Aktas, & Unal, 2017; and Young, 2006; Laopodis, 2005; Saleem, Yasir, Shehzad, Ahmed, & Sehrish, 2012).

The experts in past examinations examination of the relations of needy and free factors like financing cost and swapping scale changes with securities trade return, and other effect of macroeconomic factors on stock execution, the examination develops that a long-run amicability and causal relationship exists between the penniless variable used month to month data from January 2000 to December 2010; The stock exchange All-Share Index, the Exchange rate and the 91-day Treasury charge rate addressing advance expense were considered in the examination to choose the dynamic effects of advance cost and transformation standard changes on grandstand re-establishes; A long run association between the elements was cleared up using the VECM and Johansen Multivariate co-fuse test, the various backslide show and attempted with a

direct backslide exhibit the revelations of past examination result that the relations of some macroeconomic components differentiates between organizations, however other macroeconomic elements have a homogenous relations, there is no affirmation found in this examination which recommends that the elements impact stock prices (Enyaah, 2011; & Ciftci, 2014; Joshi & Giri, 2015; Abakah & Adusah-Poku, 2016; Gunasekaragea, Pisedtasalasaib, & Powerc, 2001; Ross, 1976; Pearce & Roley, 1985; Fama & French, 1989; and Sun & Tong, 2015).

Hypothesis of the Study

After review of the previous studies this particular study hypothesizes are as following:

H1: Financial variables do have significant and positive relationship with behaviours of stock exchange.
Ho: Financial variables do not have significant and positive relationship with behaviours of stock exchange.

Economic variables and stock exchange behaviours

This past examination is about effect of exchange transparency and macroeconomic factors on monetary development of Pakistan, That's review expects to figure impacts of components on net local results of Pakistan; Trade receptiveness, business rate, swapping scale, outside direct speculation and expansion rate utilized as free factors and gross household items (GDP) development as needy variable by utilizing numerous relapse, Augmented Duky Fuller unit root test, normal slightest square strategy (OLS) and Co-reconciliation procedure; In other investigation the specialist looks at the effect of autonomous factors, for example, add up to fares to GDP proportion, imports to GDP, terms of exchange, exchange receptiveness, venture to GDP proportion, and swelling on subordinate factors alike the financial development of Pakistan, for this Chow test is utilized to test the basic break and model wellness and the OLS (Ordinary Least Square) method is utilized to distinguish the connection between exogenous factors and endogenous variable, right off the bat Study discover result that ex-change receptiveness, work rate, conversion scale, and remote direct venture has positive and noteworthy association with financial development and swelling rate has negative and immaterial association with GDP of Pakistan, furthermore assessed outcomes demonstrate that logical factors have positive and critical effect on the economy of Pakistan, the outcomes like-wise demonstrate that an increment in the import of crude materials, the generation, business and yield of the nation is helped up; Similarly, Trade transparency has additionally positive and huge impact on the economy of Pakistan, (Din, Ghani, & Siddiqu, 2003; and Javed,& Qaiser, Mushtaq, Saif-ullaha, & Iqbal, 2012).

The key focus of the past examination is to investigate the relationship of changes in picked autonomous factors such similar macroeconomic components with subordinate factors stock expenses of the Stock Exchange, and measure the relationship through unit root test, Multivariate Regression Model figured on Standard Ordinary Linear Square (OLS) strategy and Granger causality test have been used, The researcher use macroeconomic factors included are consumer esteem document, mechanical creation record, feature returns, risk free return and money supply.

The tests are guided in light of month to month data, in perspective of assessed backslide coefficients and estimations; it is found that development and cash downgrading influence stock expenses. Also, credit cost is unfavourably related to stock esteem change, notwithstanding it isn't critical in the model, Then once more, money supply is firmly identified with stock expenses disregarding the way that not enormous. Subsequently no unidirectional Granger Causality is found between stock expenses and all the pointer factors under scrutiny beside one unidirectional causal association from stock expenses to swelling, that each considered part firm stock exchange have negative relationship with buyer esteem list, money supply and risk free rate, while mechanical age record and market returns demonstrates a positive relationship, The outcomes of that examination have basic consequences for the esteem monetary authorities and approach makers (Ransford , 2011; & ciftici, 2014; Ihsan, Ahmad, Haq; Husain & Mahmood, 2001; Ali, 2011; and Husain, 2006; Chakravarty, 2007; & Pooja, 2011).

In these past study the aim of the investigator is, to inspection dependent variables are Co-coordination and granger causality test of independent variables are raw petroleum value, exchange rate, KIBOR rate, purchaser value list, contemplate is similarly about the effect of exchange receptiveness and chose macroeconomic factors on financial development of Pakis-tan and furthermore Financial improvement of Pakistan is measured regarding yearly apparent GDP advancement rate, Trade responsiveness, business rate, change scale, outside direct hypothesis and

development rate are taken as free factors in this examination; Augmented Dickey Fuller (ADF) test is associated with check unit root issue, Johansen and Granger Causality and Co-combination test is utilized and after effects of the considerable number of factors are critical, signifying that there exists long haul relationship among the factor; In addition to oil price, other macroeconomic variables and remote private portfolio venture were additionally incorporated into the model to help its illustrative power; The examination like-wise dissected the criticalness of political dependability in the assurance of securities ex-change execution.

Normal Least Square (OLS) technique is then connected to check the causal impact of exogenous factors; Both co-mix tests, that is, Trace Test and Maximum Eigen Value Test demonstrate that three factors are co-incorporated with each other; Granger Causality result determine that causality is found amongst CPI and Crude Oil Prices of Pakis-tan and furthermore between CPI Exchange Rate. Results demonstrate that all factors are co-incorporated at 5% level of noteworthiness; other specialist indicate comes about uncovered that the oil costs, swapping scale and outside private portfolio venture have positive relation-ship with securities exchange execution while chose set up is found to have a negative effect over securities exchange execution in Pakistan (Khan, Asif, & Mehar, 2015; Siddiqu, 2014; Ramzan, Asif, & Mustafa, 2013).

Hypothesis of the Study

After review of the previous studies this particular study hypothesize are as following

H1: Economic variables do have significant and positive relationship with behaviours of stock exchange.
Ho: Economic variables do not have significant and positive relationship with behaviours of stock exchange.

RESEARCH DESIGN AND METHODOLOGY

In this examination consider, inquire about plan is quantitative nature that is particularized after head. The essential subject is to recognizing the econometric strategies and procedure.

Time Period, Nature, Source of Data and Unit of Analysis

The primary objective of this examination is to examine

the Relationship of financial and economic factors with conduct of stock exchange. This study considers monthly data from 1992 to 2016. To search the relationship of financial and economic variables with stock ex-change for this study quantitative, time series and secondary data is used. The research is based on secondary data sectors of Pakistan Stock Exchange and economic and financial variables that are selected in the sample. Following listed data collected from the official web-site of State Bank of Pakistan, Statistics and DWH Department, Pakistan bureau of statistics government of Pakistan.

METHODOLOGY

Time series data is examined by utilizing E-Views. Firstly Unit Root Test used to check the stationary of data. These tests are used for stationary of data by using Augmented Dickey Fuller Test (ADFT). ADFT is the version of the Dickey Fuller test. When data is stationary at same order, than check the long-term relations with using Co-integration technique, if variables are at different level then use ARDL techniques for long-term relationships. In this study most of included variables are stationary at first difference therefore we use Co-integration test and after that use Granger causality test for checking course and effect relation.

ANALYSIS AND INTERPRETATION

Result of Unit Root Test

If a time series has a unit root it shows a systematic design that is random. Unit root tests are tests for stationarity in a time series. A time series has stationarity if a move in time doesn't reason an alteration in the form of the sharing; unit roots are one cause for non-stationarity. A customarily utilized examination that is valid in huge examples is the expanded Dickey Fuller test (Wikipedia, 2016).

In the event that the variable is fundamentally not quite the same as one (under 0.05) at that point the theory that contains a unit root is rejected. Rejection of the null hypothesis denotes stationarity in the series. If researcher don´t reject the null hypothesis, researcher concludes a unit root.

Table 1: *The variables used in the study*		
Variables	**Proxy Variables**	**Variable Description**
Financial variables	Exchange rate	Rate of our country to another country
	interest rate	Rate at which banks lend money to people
	Government Bond rate	Rate of bond of Government of Pakistan
	T-Bill rate	Current market rate of T-Bill
	KIBOR	Karachi interbank offer rate is a rate at which banks lend money to another bank
	Term structure of interest rate	
Economic Variables	Trade openness	Ratio of imports plus exports divided by GDP
	GDP	GDP of Pakistan
	Industrial production	Industrial production growth
	Inflation	
	Trade deficit	Trade deficit of Pakistan
Stock Behaviors	Stock Prices	100 index prices of Pakistan stock exchange

Note: The GDP rate yearly collected from 1992 to 2016 and spilt it in monthly using the E- views 10 software.

Table 2: Unit Root Test

Country	Unit Root Tests	Variables		Test-Statistic	Probability	Critical Value		
						1%	**5%**	**10%**
Pakistan	**ADF Test**	***Government Bond Rate***	At Level	-17.38146	0.0000	1% level	5% level	10% level
			First Diff.					
		Trade Deficit	At Level	1.019415	0.9968	1% level	5% level	10% level
			First Diff.	-13.01314	0.0000	1% level	5% level	10% level
		Exchange Rate	At Level	-0.266808	0.9265	1% level	5% level	10% level
			First Diff.	-11.14657	0.0000	1% level	5% level	10% level
		Inflation	At Level	1.464712	0.9992	1% level	5% level	10% level
			First Diff.	-19.29236	0.0000	1% level	5% level	10% level
		Interest rate	At Level	-0.533409	0.8812	1% level	5% level	10% level
			First Diff.	-16.07752	0.0000	1% level	5% level	10% level
		KIBOR	At Level	-13.44344	0.0000	1% level	5% level	10% level
			First Diff.					
		Trade Openness	At Level	-3.146962	0.0243	1% level	5% level	10% level

	First Diff.					
Industrial Production	At Level	1.282774	0.9986	1% level	5% level	10% level
	First Diff.	-8.053727	0.0000	1% level	5% level	10% level
Stock Prices	At Level	-0.532078	0.8815	1% level	5% level	10% level
	First Diff.	-14.24477	0.0000	1% level	5% level	10% level
T Bill	At Level	-1.547753	0.5081	1% level	5% level	10% level
	First Diff.	-15.01626	0.0000	1% level	5% level	10% level
Term Structure of Interest rate	At Level	-17.39278	0.0000	1% level	5% level	10% level
	First Diff.					

Now look at the result of this study, it appears that the p-values at level for these included variables namely are Government Bond Rate is (0.0000), KIBOR (0.0000), Trade Openness (0.0243) and Term Structure of Interest rate (0.0000) that's are less than from critical value 5% So researcher can reject the null hypothesis which are growing stationary at level, meaning that these variables not follow a random walk with drift and time trend.

This implies that researcher doesn't need to take the first difference of these variables they cannot be run in the regression model. Now this part the p-values for these included variables namely Trade Deficit (0.9968), Exchange Rate (0.9265), Inflation (0.9992), Interest rate (0.8812), Industrial Production (0.9986), Stock Prices (0.8815) and T Bill (0.5081) that's are more than from critical value 5% So researcher cannot reject the Null hypothesis which are growing non-stationary, meaning that these variables follow a random walk with drift and no time trend.

This implies that researcher needs to take the first difference of these variables they can be run in the regression model. So, researcher apply first difference of these variables and values come in (0.0000) then these all are growing stationary, meaning that these variables not follow a random walk with drift and time trend. This implies that researcher no need to take the 2nd difference of these variables they cannot be run in the regression model.

Result of Co-integration

Co-integration arises when an affiliation ties together non-stationary economic time series such that a mixture of those time series is I (0). The concepts of integration and co-integration are essentially statistical in nature. Co-integration validates, in statistical terms, the property of a long-run relation between integrated economic variables.

Above listed table number 2 and 3 shows the results of co-integration namely tables are Trace Statistics and Maximum Eigen Value Statistic respectively. The first column is Null Hypothesis, the second column is the Ordered Eigen Values, the third column is the Test Statistic and the last two columns are the 5% critical values and probability. Thus, in the first row (None), both the trace and Max-Eigen value have a test statistic greater than their Eigen value and critical values at 5%.

Additionally, the fact that they all have a P-value less than 0.05 means there is a low probability that the null hypothesis of no co integrating vectors is true. Therefore, in both situations Trace and Max-Eigen value researcher cannot reject the null hypothesis of at most one co integrating vector at the 5% level of significance. The interpretation of this finding is that there is the possibility of at least one long run relationship between the KSE and the variable set. If the researcher moves to the next row, again the Max-Eigentest statistic of 125.6166 is greater than the Eigen-value 0.359463 and the critical value of 33.87687 at the 5% level of significance.

This is further evidenced by a P-value of 0.0000for the max Eigen value, as it is trace test statistic of 236.7320is greater than the Eigen-value 0.359463and the critical value of 69.81889at the 5% level of significance. This is similarly further evidenced by a P-value of 0.0000for the trace Eigen value meaning researcher can reject the null of at most one co integrating vector.

The implication of this is that there are at least two co integrating vectors. Similarly see further rows in table all variables expect two variables test statistic greater than their critical values at 5%. Additionally, the fact that they all have a P-value less than 0.05 means there is a low probability that the null hypothesis of no co integrating vectors is true.

Table 3. Unrestricted Co-integration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigen-value	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.359463	236.7320	69.81889	0.0000
At most 1	0.172336	111.1154	47.85613	0.0000
At most 2	0.142417	57.77555	29.79707	0.0000
At most 3	0.037239	14.44973	15.49471	0.0714
At most 4	0.013203	3.747943	3.841466	0.0529
At most 5	0.374838	577.2121	125.6154	0.0001
At most 6	0.362395	439.1071	95.75366	0.0001
At most 7	0.314352	306.7964	69.81889	0.0001
At most 8	0.201656	195.8434	47.85613	0.0000
At most 9	0.160753	129.6299	29.79707	0.0000
At most 10	0.138329	78.10645	15.49471	0.0000
At most 11	0.110225	34.33520	3.841466	0.0000

Trace test indicates 11 cointegrating eqn(s) at the 0.05 level and 2 of them is not co-integrating
 * denotes rejection of the hypothesis at the 0.05 level
 **MacKinnon-Haug-Michelis (1999) p-values

Table 4. Unrestricted Co-integration Rank Test (Maximum Eigenvalue)

Hypothesized No. of CE(s)	Eigen-value	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None *	0.359463	125.6166	33.87687	0.0000
At most 1	0.172336	53.33984	27.58434	0.0000
At most 2	0.142417	43.32582	21.13162	0.0000
At most 3	0.037239	10.70178	14.2646	0.1698
At most 4	0.013203	3.747943	3.841466	0.0529
At most 5	0.374838	138.105	46.23142	0.0000
At most 6	0.362395	132.3107	40.07757	0.0000
At most 7	0.314352	110.953	33.87687	0.0000
At most 8	0.201656	66.21351	27.58434	0.0000
At most 9	0.160753	51.52341	21.13162	0.0000
At most 10	0.138329	43.77125	14.2646	0.0000
At most 11	0.110225	34.3352	3.841466	0.0000

Trace test indicates 11 co-integrating eqn(s) at the 0.05 level and 2 of them is not co-integrating
 * denotes rejection of the hypothesis at the 0.05 level
 **MacKinnon-Haug-Michelis (1999) p-values

Therefore, in both situations Trace and Max-Eigen value researcher cannot reject the null hypothesis of at most one co integrating vector at the 5% level of significance. However this result contradicts the results of the co integration test. Whilst the co-integration test results show no co integrating relationship between the numerous economic and financial variables with the KSE 100 index at the 5% level of consequence, the opposite is true for the Co integration test. The ADF unit root test confirms the data stationarity now the co-integration tests have been applied for to identify any possible long-run equilibrium relationship between Economic and Financial variables with stock prices. In case of Pakistan the null of no co-integrating vector can be rejected for all variables expect two variables and KSE-100 index return used in the study see table because the value of both Trace statistics and Max-Eigen statistic is greater than the critical value at 5%

level of significance but two variables not rejected. This indicates that the monthly data for this study from 1992 to 2016 support the intention that in Pakistan there exists a long term relationship between economic and financial with stock prices.

CONCLUSION

In this study researcher capture the conclusion in these words firstly researcher examined the long run and short run relationship of these selective economics and financial variables in Pakistan. Researcher analyzed how these economic and financial variables relate on emerging stock exchange. The data set covers the time duration from 1992 to 2016 and consists upon the plate of Pakistan. Firstly Descriptive test Analysis, and then Unit Root Test used to check the stationary of data. In this study most of included variables are stationary at first difference therefore researcher use Co-integration test. Some variables are non-stationary and stationary at first difference and other at level. When data is stationary at same order, than check the Co-integration technique that reasons the way of long run relationship between variables. Researcher defined long relationship so, next step is secondly correlation analysis test this is a method of statistical evaluation used to study the strength of a relationship between two, numerically measured, continuous variables. So the study finds that economic and financial variables do have unidirectional significant and positive relationship with stock exchange. Its means the stock prices do have relation with some variables and do not have relation with some other variables which the researchers have conducted.

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