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The relationships between stock market capitalization rate and interest rate: Evidence from Jordan

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Subject(s): Economy
Published by: Prague Development Center
Keywords: Stock market capitalization rate; prevailing interest rate; Government development stock rate.
Summary/Abstract: The paper examines the effect of interest rates on the stock market capitalization rate in Amman Stock Exchange (ASE) over the period 1999-2008. Based on the multiple linear regression model and simple regression model, the time series analysis revealed that there is significant and positive relationship between government prevailing interest rate (R) and stock market capitalization rate (S). The study shows that Government development stock rate (D) exerts negative influence on stock market capitalization rate (S), also it finds a significant and negative relationship between government prevailing interest rate (R) and Government development stock rate (D). Finally, this study suggests the

importance of government intervention to encourage investment in ASE by reducing rate of personal taxation thus, granting incentive for creation of wealth, controlling interest rate so as to aid the growth of the stock market and improving the regulatory environment and decreasing red tape.

Details

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Journal: Business and Economic Horizons (/search/journal-detail?id=878)

Issue Year: 2010 **Issue No:** 02 **Page Range:** 60-66

Page Count: 7 **Language:** English

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