

# Reactions of Stock Prices to Changes in Exchange Rate and Monetary Policy Rate of Central Banking System: Symmetry or Asymmetry

## **Abstract**

*This study examines the reactions of stock prices to variations in the monetary policy rate of the central banks and exchange rate shock, which is, if the responses are similar or differ in a comparative analysis between developed and emerging stock markets. Data were obtained on daily stock market prices, exchange rates, and variations in policy rate. The panel non-linear autoregressive distributed lag (NARDL) estimation method was utilized for this study. The NARDL showed the existence of a significant asymmetric long-run link between stock market price, exchange rate, and variation in monetary policy rate variables. For developing countries, the long-run results show that a percentage rise in the currency rate stimulated a 0.596% increase in the price of stock while it resulted in a 0.574% drop in prices of stock. The same results were obtained for the short-run analysis. Also, the results shows that a positive shock to policy rate led to a 0.26% drop in the price of stock in the long-term while it induced a 0.35% rise in prices of stock. These estimates are similar to those obtained for developed economies. By and large, the findings imply that variations in the currency and monetary policy rate of the central banks have significant implications for stock market prices. There is need for central monetary authorities to base effective regulations of exchange and monetary policy rates on market mechanisms while stock market investors are advised to frequently study the behavior of the two variables when dealing at the stock market.*

**Keywords:** Changes in Exchange Rate, Interest Rate Variation, NARDL method

**JEL Classification:** D40, F21, E80

## **1. Introduction**

A key indicator of a nation's economic activity is the stock market's level, which when combined with the interest rate, and the exchange rate provides a synopsis of the macroeconomy. Additionally, stock values have been known to fluctuate most often and this stimulates excessive worries about potential bubbles that could harm the economy. According to Durban (2000), a stock market crash was the cause of many financial crises in the past, and stock market declines are one of the effects of financial crises. In reality, the stock market's performance is a vital economic indicator that is frequently discussed because of how crucial it is to every economy. Nigeria has its stock exchange, formerly known as the Lagos Stock Exchange. According to Eapen (2002), the stock market is the strongest predictor of future economic activity and can explain the true causal relationship between stock prices and future economic growth. To De Long and Olney (2009), and Belke & Wiedmann (2018), economists confronted with the difficult challenge of making financial intermediaries function successfully and efficiently in the

context of emerging countries. This is because stock prices are among the most extensively monitored asset values in the economy and are thought to be very sensitive to economic conditions.

The idea that monetary policy is transmitted through the stock market is supported by the fact that changes in monetary policy have a considerable impact on stock returns (Bernanke and Kuttner, 2005). The institutional and structural distinctions between developed and developing nation motivate the researcher to look into the relationship between these variables. To Nieh and Lee (2001), among other macroeconomic variables, a country's stock market and exchange rate play a significant influence in promoting economic development in the majority of nations. However, given their significance to the economy, these variables continue to be important in the implementation of monetary and fiscal policies to foster the sustainable development of the financial sector. It has been noted that the stock market displays volatile behavior because it is susceptible to changes in stock prices, capital returns, interest rates on loans, inflation, exchange rates, and the consumer price index (Nieh and Lee, 2001). Such behavior is relevant from a policy standpoint, according to Dahir et al. (2018) and Leung et al. (2017), since it suggests that volatility in the stock market or the exchange rate market may have a large impact on the economy through a variety of channels. Against this backdrop, our objective in this study is to quantify the response of stock prices to variations in the monetary policy rate of the central banks and exchange rate shock. To confirm the accuracy of the research findings, the underlying hypothesis that stock markets in industrialized and developing nations respond to variations in the monetary policy rate of the central banks and exchange rate policy shocks symmetrically was evaluated.

The study is significant because empirical finding regarding the response of asset prices to central bank policy and changes in currency rates is a key component for analyzing the impact of monetary policy and foreign exchange rate movements on the economy. Moreover, determining quantitatively whether there is a stock price/return reaction to changes in interest and exchange rates policy is pertinent to the study of stock market determinants, and also making provision for the understanding of potential economic effects of policy actions or inactions. For the sake of efficacy of the transmission mechanism of monetary policy, it becomes imperative for the management of an economy to be situated on the empirical finding on how different countries' stock markets perform in response to volatile currency rates, and expansionary or contractionary monetary policy. Investors and researchers generally agree that having accurate estimates of how asset prices respond to policy instruments is important. The availability of such estimates aids in developing sensible policy choices. The structure of the paper is divided into 5. Part 2 is the literature review while part 3 deals with the research methods adopted in the study. Section 4 presents and analyzes the data while the concluding part is Part 5.

## **2. Literature Review**

### **2.1. Theoretical Review**

This section reviews relevant theories of exchange rates and stock prices. In the theoretical review, we consider the following theories. The flow-oriented model provides support for the idea that through their impact on input and product prices, exchange rate changes have an impact on a firm's ability to compete (Joseph, 2002). Theoretically, exporters suffer when the currency value increases as exports will cost more on the global market as a result of the currency's rise. Given that buyers on the global market will perceive them as costly; this will result in a fall in their exports. As a result, their profits will drop, and if profits drop, the firm's

ability to compete on the local stock market will suffer. On the other hand, the balance of payments (BoP) theory emphasizes how closely the position of a country's BoP affects its exchange rate. A country's imbalance in its BoP indicates that there is a surplus of demand for foreign currency. As a result, the cost of foreign currency must increase relative to domestic currency, which implies that the domestic currency's exchange rate must decrease. Conversely, a country's BoP surplus indicates that there is a bigger demand than there is supply for its domestic currency abroad. As a result, the value of a domestic currency in terms of foreign currency increases, improving the exchange rate.

The Dornbusch overshooting model of exchange rates is an economic framework that seeks to explain the short-term volatility of exchange rates in response to changes in monetary policy. According to the model, exchange rates adjust more rapidly in the short run than what would be justified by changes in economic fundamentals. The main tenet of the Dornbusch overshooting model is that short-term price and wage stability exist. This implies that they do not instantly adapt to changes in monetary or political situations. Prices and wages in particular are thought to be more fixed in the non-tradable products sector than in the tradable goods sector.

According to the theory, when there is an unanticipated rise in money stock, interest rates decline, leading to a devaluation of the local currency. However, the initial impact on the exchange rate is much larger than the long-run impact. This overshooting occurs because prices and wages do not adjust immediately, leading to a temporary disequilibrium in the forex market. Interest rate differences can be used to explain the overshooting effect. Short-term capital outflows could occur if investors lose interest in the domestic currency as interest rates drop as a result of an expansionary monetary policy. The value of the local currency decreases due to an increase in its supply on the foreign exchange market. The currency rate steadily moves towards its long-run equilibrium level as wages and prices adapt. The Dornbusch overshooting model has several implications. First, it suggests that exchange rates are inherently volatile in the short run, reflecting the delayed adjustment of prices and wages. Second, the model emphasizes that exchange rates do not immediately reach their long-run equilibrium levels, but rather exhibit temporary deviations.

## **2.2. Empirical Review of Previous Studies**

Using the ARDL, Indra et al. (2022), using quarterly data from Q1 1992 through Q4 2019, examined the effects of central bank policy rates on the volatility of the currency rate in Indonesia. To examine the effects of the variables, an Autoregressive Distribution Lag estimate was used in the procedure. The exchange rate volatility includes the rupiah's relationship to the US dollar, the Singapore dollar, the Australian dollar, the British pound sterling, and the euro. According to the results, using the ARDL estimation, the adjustment period for exchange rate volatility to reach long-run equilibrium ranged from 1.77 to 2.26 quarters. Second, it was discovered that, a decline in the central bank rate greatly reduced exchange rate volatility. All five models were subjected to this Full Modified Ordinary Least Square (FMOLS) estimation. The Indonesian Rupiah's volatility versus five foreign exchange rates was found to be significantly positively impacted over the long term by the central bank policy rate.

The currency rate variations on Sudan's demand for money were investigated by Tomader in 2021. Data from 1960 to 2018, the non-linear ARDL model was used. The empirical findings imply that the exchange rate's influence is asymmetric. Positive changes in the exchange rate lead to an increase in short-term money demand, while negative changes have no impact. However, over time, both a positive and negative shift in the exchange rate has the same impact

on the demand for money. The devaluation of the Sudanese pound has a bigger long-term impact than a positive shift in the exchange rate since this is true. Ali (2022) used the quarterly data from 2008 to 2020 to evaluate the variables influencing currency rate variations in Turkey.

The West African Monetary Zone (WAMZ)'s real effective exchange rate (REER) reactions to shocks in exchange rate determinants were investigated by Adu et al (2019) for the period 1980 -2015. The outcome shows a significant variation in how these nations' REERs responded to real oil price shocks. Additionally, it appears that various economies differ in the relative contribution of these shocks to REER movements in the short and long runs. In 33 Indonesian provinces, Triwibowo and Oktaviani (2022) looked at how the monetary policy shock affected regional output disparities using the VAR method. According to the regional analysis, economic structure and financial depth significantly and positively influence the asymmetric responses mentioned above. However, they are negatively impacted by economic size and trade openness. Other studies that evaluated the asymmetric impact of monetary policy and exchange rate movements on stock market performance include, Xiaoyu and Fanghui (2021), and Sun and Wang (2018).

### 3. Methodology

Asymmetric shocks (negative shocks) cannot be captured by the GARCH model, which can only capture symmetric shocks (positive shocks). Hence, we have chosen to execute the NARDL methodology in this paper. The framework panel NARDL regression model for exchange rate is specified as follows:

$$STOCKPRC_t = \varphi^+ EXCHRAT_t + \varphi^- EXCHRAT_t + \mu_t \quad (1)$$

$$\Delta EXCHRAT_t = \mu_t \quad (2)$$

Where  $STOCKPRC_t$  and  $EXCHRAT_t$  are scalar I(1) variables, and  $EXCHRAT_t$  is decomposed as  $EXCHRAT_t = EXCHRAT_0 + EXCHRAT^+ + EXCHRAT^-$  and  $EXCHRAT^+$  and  $EXCHRAT^-$  are partial sum of positive and negative changes in exchange rate:

$$EXCHRAT^+ = \sum_{j=1}^t \Delta EXCHRAT_j^+ = \sum_{j=1}^t \Delta \max(\Delta EXCHRAT_j, 0), \quad (3)$$

$$EXCHRAT^- = \sum_{j=1}^t \Delta EXCHRAT_j^- = \sum_{j=1}^t \Delta \min(\Delta EXCHRAT_j, 0) \quad (3!)$$

With the aid of equations (3) and (3!), asymmetric co-integration defines a linear combination of the partial sum mechanism as specified in equation (4) accordingly:

$$z_t = \varphi_0^+ STOCKPRC_t^+ + \varphi_0^- STOCKPRC_t^- + \varphi_1^+ STOCKPRC_t^+ + \varphi_1^- STOCKPRC_t^- \quad (4)$$

The standard linear (symmetric) co-integration is a special case of (4), obtained only if  $\varphi_0^+ = \varphi_0^-$  and  $\varphi_1^+ = \varphi_1^-$ . Based on Shin et al. (1999) restriction, equation (4) could be re-specified into a non-linear ARDL model as shown in equation (5):

$$STOCKPRC_t = \sum_{j=1}^p \varphi_j STOCKPRC_{t-j} + \sum_{j=0}^q (\varphi_j^{+'} EXCHRAT_{t-j}^+ + \varphi_j^{-'} EXCHRAT_{t-j}^-) + \varepsilon_t \quad (5)$$

Where  $\varphi_i^+$  and  $\varphi_j^-$  are the non-linear lagged parameters,  $EXCHRAT^+$  and  $EXCHRAT^-$  are the positive and negative changes in the exchange rate respectively. The generalized NARDL specification becomes.

$$STOCKPRC_t = \rho STOCKPRC_{t-1} + \vartheta_j^{+'} EXCHRAT_{t-j}^+ + \vartheta_j^{-'} EXCHRAT_{t-j}^- + \sum_{j=1}^{p-1} \phi_j \Delta STOCKPRC_{t-j} + \sum_{j=0}^{q-1} (\phi_j^{+'} \Delta EXCHRAT_{t-j}^+ + \phi_j^{-'} \Delta EXCHRAT_{t-j}^-) \quad (6)$$

The non-linear conditional ECM is given in equation (7):

$$\Delta STOCKPRC_t = \rho \partial_{t-1} + \sum_{j=1}^{p-1} \omega_j \Delta STOCKPRC_{t-j}$$

$$+ \sum_{j=0}^{q-1} (\omega_j^{+/} \Delta EXCHRAT_{t-j}^{+/} + \omega_j^{-/} \Delta EXCHRAT_{t-j}^{-/}) + e_t, \quad (7)$$

Where  $\omega_0^{+/} = \phi_0^{+/} + e$ ,  $\omega_0^{-/} = \phi_0^{-/} + e\omega_j^{+/} = \phi_j^{+/} + e\Lambda_j$ , and  $\omega_j^{-/} = \phi_j^{-/} + e\Lambda_j$  for  $j = 1, \dots, q-1$ . Similarly, the panel NARDL regression modeling framework for monetary policy shock measured as variations in interest rate is specified as follows:

$$STOCKPRC_t = \partial^+ VARINR_t + \partial^- VARINR_t + \epsilon_t \quad (8)$$

$$\Delta VARINR_t = \epsilon_t \quad (9)$$

Where  $STOCKPRC_t$  and  $VARINR_t$  are scalar I(1) variables, and  $VARINR_t$  is decomposed as  $VARINR = VARINR_0 + VARINR^+ + VARINR^-$  and  $VARINR^+$  and  $VARINR^-$  are partial sum of positive and negative variations in interest rate:

$$VARINR^+ = \sum_{j=1}^t \Delta VARINR_j^+ = \sum_{j=1}^t \Delta \max(\Delta VARINR_j, 0), \quad (10)$$

$$VARINR^- = \sum_{j=1}^t \Delta VARINR_j^- = \sum_{j=1}^t \Delta \min(\Delta VARINR_j, 0) \quad (10!)$$

With the aid of equations (10) and (10!), asymmetric co-integration defines a linear combination of the partial sum mechanism as re-specified in equation (11) accordingly:

$$z_t = \partial_0^+ STOCKPRC_t^+ + \partial_0^- STOCKPRC_t^- + \partial_1^+ STOCKPRC_t^+ + \partial_1^- STOCKPRC_t^- \quad (11)$$

The standard linear (symmetric) co-integration is a special case of (11), obtained only if  $\partial_0^+ = \partial_0^-$  and  $\partial_1^+ = \partial_1^-$ . The non-linear ARDL model is shown in equation (12):

$$STOCKPRC_t = \sum_{j=1}^p \partial_j STOCKPRC_{t-j} + \sum_{j=0}^q (\partial_j^{+/} VARINR_{t-j}^{+/} + \partial_j^{-/} VARINR_{t-j}^{-/}) + \epsilon_t \quad (12)$$

Where  $\phi_i^{+/}$  and  $\phi_j^{-/}$  are the non-linear lagged parameters,  $VARINR^+$  and  $VARINR^-$  are the positive and negative changes in the variations in the monetary policy rate of the central banks respectively. The generalized NARDL specification becomes.

$$STOCKPRC_t = \rho STOCKPRC_{t-1} + \alpha_j^{+/} VARINR_{t-j}^{+/} + \alpha_j^{-/} VARINR_{t-j}^{-/} + \sum_{j=1}^{p-1} \gamma_j \Delta STOCKPRC_{t-j} + \sum_{j=0}^{q-1} (\gamma_j^{+/} \Delta VARINR_{t-j}^{+/} + \gamma_j^{-/} \Delta VARINR_{t-j}^{-/}) \quad (13)$$

The non-linear conditional ECM is given in equation (14):

$$\Delta STOCKPRC_t = \rho \partial_{t-1} + \sum_{j=1}^{p-1} \beta_j \Delta STOCKPRC_{t-j} + \sum_{j=0}^{q-1} (\beta_j^{+/} \Delta VARINR_{t-j}^{+/} + \beta_j^{-/} \Delta VARINR_{t-j}^{-/}) + \epsilon_t, \quad (14)$$

Where  $\beta_0^+ = \gamma + v$ ,  $\beta_0^- = \gamma_0^- + v\beta_j^+ = \gamma_j^+ + v\Lambda_j$ , and  $\beta_j^- = \gamma_j^- + v\Lambda_j$  for  $j = 1, \dots, q-1$ . Equations (7) and (14) explain both long and short-run asymmetries in exchange rate movements and variations in interest rate of the central banks. Both equations can be estimated by OLS. The data used consist of daily stock market price, exchange rate volatility, and variations in variations in the monetary policy rate of the central banks which was calculated as the discount rate used by the central banks to lend to deposit money banks of ten developing countries.

## 4. Results and Discussion

The data collected were analyzed in this chapter using inferential statistical techniques. As part of this analysis, we shall first present the data of the daily stock market price, consumer price index, interest rate of the central banking system, and exchange rate of emerging economies of ten African countries.

### 4.1. Discussion on Developing Markets

As displayed in Table 1 the p-values of the test were smaller than 0.05 at level; hence, we refused to accept the null hypothesis of unit root (non-stationarity) at 5% level of significance and

thus conclude that the stock market price, exchange rate volatility, and variations in the monetary policy rate of the central banks are non-stationary over the period from 1990 - 2022.

**Table 1: Unit Root Test Results at a level based on Levin, Lin & Chu**

Variable	Test Statistic	P – value	Critical value
STOCKPRC	10.00801	0.0032	1%, 5%, 10%
VARINR	-123.58615	0.00004	1%, 5%, 10%
EXCHRAT	-243.27159	0.00005	1%, 5%, 10%

Table 2 shows the estimates of the asymmetry of exchange rate movements in financial markets. The long-term results of the NARDL approach for estimated asymmetric exchange rate variations (positive and negative) indicates statistically significant asymmetrical effects of exchange rate movements on stock market price. In particular, the results shows that a percentage rise in the currency rate led to a 0.596% increase in the price of stock while a percentage reduction in the exchange rate resulted in almost equivalent proportion, 0.574% drop in prices of stock. The same results were obtained for the short-run analysis where positive exchange rate shock stimulated 0.62% increase in stock prices. Relatively, 1% negative exchange rate shocks induced 0.61% fall in stock prices. The policy findings in this paper support earlier findings of Umoru & Asekome (2016) were a positive long-term association was established between the exchange rate positive shock and prices of stock in the Nigerian stock exchange.

**Table 2: Non-Linear ARDL Model Estimation of Exchange Rate Volatility on Stock Prices**

Variable	Coefficient	t-Statistic	Prob.*
Long-run estimation			
EXCHRAT_POS	0.596230	20.339253	0.0000
EXCHRAT_NEG	-0.574323	-10.185270	0.0000
Short-run estimation			
ERROR COEFFICIENT	-0.136359	-32.196498	0.0000
D(EXCHRAT_POS)	0.62116	40.742358	0.0000
D(EXCHRAT_NEG)	-0.605653	-13.664699	0.0000
D(EXCHRAT_POS(-1))	0.145446	16.78292	0.0000
D(EXCHRAT_POS(-2))	1.463870	19.36836	0.0000
D(EXCHRAT_POS(-3))	0.093518	22.337839	0.0000
D(EXCHRAT_NEG(-1))	-0.12353	-30.4793	0.0000
D(EXCHRAT_NEG(-2))	-1.23478	-10.35626	0.0000
D(EXCHRAT_NEG(-3))	-0.029361	-10.3783	0.0000
C	1.035785	20.48795	0.0000
Log-likelihood	-1051.592		

Table 3 shows estimates of the asymmetry of interest rate shock on stock prices. The result of the NARDL approach for estimated asymmetry of the variations in variations in the monetary policy rate of the central banks on stock prices indicates statistically significant asymmetrical effects of the variations in interest rate on stock market price. The long-term results shows that a positive shock to interest rate led to a 0.26% drop in the price of stock while

a percentage reduction in the variations in interest rate of the central banking system resulted in 0.35% upward movement in prices of stock. Similarly, the short-run analysis shows that 1% positive variation in the interest rate induced 0.17% decline in stock prices. On the other hand, 1% negative variation in interest rate induced 0.14% rise in stock prices.

**Table 3: Non-Linear ARDL Model Estimation of Monetary Policy Shocks on Stock Prices**

Variable	Coefficient	t-Statistic	Prob.*
Long-run estimation			
VARINR_POS	-0.25544443	-130.04574	0.0000
VARINR_NEG	0.34823151	560.06819	0.0000
Short-run estimation			
ERROR COEFFICIENT	-0.352997	-121.08700	0.0000
D(VARINR_POS)	-0.16688.4	-13.59700	0.0000
D(VARINR_NEG)	0.142368	15.090860	0.0000
C	0.980409	17.235440	0.0000
Log-likelihood	-1000.592		

Table 4 shows the significant interactive effects of exchange rates and variations in the monetary policy rate on stock prices. The short-term and long-term estimates report similar findings. The interactive effects are symmetrical for the both periods.

**Table 4: Non-linear ARDL Model Estimation of the Interactive Effects of Exchange Rates and Monetary Policy Variables on Stock Prices**

Variable	Coefficient	t-Statistic	Prob.*
Long-run estimation			
EXCHRAT*VARINR	-0.001968	-20.595345	0.0000
EXCHRAT*VARINR_POS	-0.135120	-10.561870	0.0000
EXCHRAT*VARINR_NEG	-0.912854	-10.675583	0.0000
Short-run estimation			
ERROR COEFFICIENT	-0.473981	-16.418807	0.0000
D(EXCHRAT*VARINR)	-0.438908	-20.591857	0.0000
D(EXCHRAT*VARINR_POS(-1))	-0.637136	-102.033717	0.0000
D(EXCHRAT*VARINR_POS(-2))	-0.045420	-9.28423	0.0000
D(EXCHRAT*VARINR_NEG(-1))	-0.012735	-12.34784	0.0000
D(EXCHRAT*VARINR_NEG(-2))	-0.103478	-11.23759	0.0000
C	13.18297	190.207257	0.0000
Log-likelihood	-10459.592		

#### 4.2. Discussion on Developed Markets

The data used for the developed countries consist of daily stock market price, exchange rates, and variations in the monetary policy rate of the central banks of ten developing countries. Table 5 below shows that all the variables are stationary at first difference.

**Table 5: Unit Root Test Results at a level based on Levin, Lin & Chu**

Variable	Test Statistic	P – value	Critical value
STOCKPRC	-112.15840	0.0004	1%, 5%, 10%

VARINR	-2341.78465	0.0002	1%, 5%, 10%
EXCHRAT	-5220.07636	0.0096	1%, 5%, 10%

Table 6 shows the estimates of the asymmetry of exchange rate movements on stock market prices. The non-linear ARDL analysis looks at the relationship between developing-country exchange rates and stock prices. According to the NARDL estimates, a rise in the exchange rate raises stock prices in both the short and long run. In particular, the results show that a percentage increase in the exchange rate stimulated 0.137% rise in stock prices while a 1% fall in exchange rate induced 0.33% drop in stock prices in the long-run. During the short-run, 0.14% increase in stock prices was observed as a result of 1% rise in exchange rate while it necessitated 0.13% decline in stock prices. However, the positive component of interest rates has a greater short-run impact on stock prices, whereas the negative component had a greater long-run impact. According to the NARDL results, exchange rate devaluation results in higher stock prices while appreciation of the currency rate reduces prices of stock in the market accordingly. The results thus suggest asymmetry in the effects of exchange rate movements on stock prices.

**Table 6: Non-Linear ARDL Model Estimation of Exchange Rate Volatility on Stock Prices**

Variable	Coefficient	t-Statistic	Prob.*
Long-run estimation			
EXCHRAT_POS	0.136515	180.33253	0.0347
EXCHRAT_NEG	-0.33071	-190.18270	0.0092
Short-run estimation			
ERROR COEFFICIENT	-0.336359	-13.196498	0.0016
D(EXCHRAT_POS)	0.142416	10.742358	0.0000
D(EXCHRAT_NEG)	-0.131005	-40.664699	0.0000
C	10.53383	16.850381	0.0000
Log likelihood	-1052.592		

Table 7 shows the estimate of the asymmetry of interest rate variability on stock prices. The results of the NARDL results indicate statistically significant asymmetrical effects of interest rate on the stock market prices. According to the NARDL results, a positive variation in the interest rates stimulated 0.26% decline in stock prices, whereas a 1% negative variation to interest rate led to 0.17% increase in stock prices over the long-term period.

In the short-run relationship between the variables, it is revealed that the difference of lag1, lag 2, and lag3 of the positive variation in the monetary policy rate of the central banks all had negative effect on stock prices. This implies that higher variation in the policy rate of the previous periods led to a significant decline in stock prices. On the other hand, the difference of lag1 negative interest, the difference of lag 2 negative monetary policy rate and the difference of lag3 negative interest rate all reported significant positive impact on stock prices. Consequently, lower variations in the monetary policy rate of the central banks of past period resulted in higher stock prices. Overall, the findings imply that variations in the interest rates have significant non-linear implications for stock market prices.

**Table 7: Non-Linear NARDL Model Estimation of Monetary Policy Shocks on Stock Prices**

Variable	Coefficient	t-Statistic	Prob.*
Long-run estimation			
VARINR_POS	-0.26158	-501.007305	0.0002
VARINR_NEG	0.17578	110.007305	0.0002
Short-run estimation			
ERROR COEFFICIENT	-0.697614	-40.134974	0.0000
D(VARINR_POS(-1))	-0.079758	-15.165011	0.0000
D(VARINR_POS(-2))	-0.018950	-26.324872	0.0000
D(VARINR_POS(-3))	-0.214422	-17.500380	0.0000
D(VARINR_NEG)	0.501349	210.009574	0.0000
D(VARINR_NEG(-1))	1.004519	140.956531	0.0000
D(VARINR_NEG(-2))	1.012430	205.931554	0.0000
D(VARINR_NEG(-3))	0.164589	131.065990	0.0000
C	5.50E+10	126.148448	0.0000
Log likelihood	-1000.592		

Table 8 shows the estimates of the interactive effects of exchange rate movements and variations in policy rate of the monetary authorities on stock prices. The result for developed countries indicates statistically significant asymmetrical interactive effects of the variability of exchange rate and monetary policy rate of the central banks on stock market prices. Again, the lagged values of the positive interactive effect of interest rate variation and exchange rate movements are statistically significant and positively impacted stock market prices. Similarly, the lagged values of the negative interactive effect of policy rate variation and exchange rate movements are statistically significant but negatively influenced stock market prices. In the short-run period, a 1% rise in the interactive effect of interest rate variation and exchange rate movements stimulated 0.11% decline in stock prices. Also, a 1% reduction in the interactive effect of interest rate variation and exchange rate movements resulted in 0.12% reduction in prices of stock.

**Table 8: Non-Linear ARDL Model Estimation of the Interactive Effects of Exchange Rates and Monetary Policy Variables on Stock Prices ARDL**

Variable	Coefficient	t-Statistic	Prob.*
Long-run estimation			
EXCHVOL*VARINR	-0.01968	-60.5954	0.0001
EXCHRAT*VARINR_POS	-0.11335	-12.56187	0.0000
EXCHRAT*VARINR_NEG	-0.12684	-43.67558	0.0000
Short-run estimation			
D( EXCHRAT*VARINR_POS(-1))	0.24396	-23.46670	0.0000
D( EXCHRAT*VARINR_POS(-2))	0.76232	-28.0392	0.0000
D( EXCHRAT*VARINR_POS(-3))	0.20446	-11.74317	0.0000
D( EXCHRAT*VARINR_POS(-4))	0.47148	-25.29111	0.0000
D( EXCHRAT*VARINR_NEG	1.29491	-38.5540	0.0000
D( EXCHRAT*VARINR_NEG(-1))	-0.04076	-10.2118	0.0000
D( EXCHRAT*VARINR_NEG(-2))	-0.60272	14.89690	0.0000
D( EXCHRAT*VARINR_NEG(-3))	-0.34452	3.655752	0.0003

D( EXCHRAT*VARINR _NEG(-4)	-0.36258	14.65719	0.0000
D(VARINR_POS)	-0.01926	-20.26278	0.0000
D(VARINR_NEG)	0.18256	40.80542	0.0000
D(VARINR_NEG(-1)	1.25697	24.77970	0.0000
D(VARINR_NEG(-2)	0.179230	33.1191	0.0000
C	0.022985	66.0103	0.0000

## 5. Conclusion

The study identifies and establishes the nature of the response of stock prices to exchange rate changes and monetary policy rate of the central monetary authorities in developed and developing stock markets. This study adopted the Non-Linear ARDL testing approach to establish these relationships. It was established for all emerging markets in the study that the estimated asymmetric exchange rate movement on stock prices is significant. It is revealed that variations in the monetary policy rate of the central banks decreases stock market prices in both the short-run and long-run in the emerging stock markets. The impact of exchange rates and monetary policy rates on stock prices in developed countries is significant and asymmetrical. There is a significant positive interactive effect of lagged values of a positive exchange rate shock and policy rate variation on stock market prices in the developed stock markets. Relatively, the lagged values of the negative exchange rate shock and monetary policy rate variability significantly results in a decline in stock prices also in the developed stock markets. For the emerging markets, there is a significant negative interactive effect of lagged values of a positive and negative exchange rate shock and monetary policy rate variation on stock market prices. Relatively, the lagged values of the negative exchange rate shock and policy rate variability significantly results in a decline in stock prices also in the developed stock markets. There exists a significant asymmetrical effect of the interest rate variations on stock prices. Whereas the positive variation in policy rate reduces stock market price, the reduction in variation in the variations in the monetary policy rate of the central banks raises it.

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