

Investigating the Asymmetric Effects of Monetary Policy and Exchange Rate Fluctuations in terms of Economic Value Added on the Stock Returns of Tehran Stock Exchange: Approach NARDL

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Abstract

The market capitalization of companies and stock prices can be significantly affected by various factors such as exchange rate fluctuations, liquidity, and economic value-added. Exchange rates have always been influenced by the supply and the demand behavior of actors in financial markets. On the other hand, Iran's capital market development can be a way to absorb the liquidity for productive activities to achieve long-term and continuous economic growth. Accordingly, this study has investigated the asymmetric effects of macro variables and economic value added on Iranian stock returns by applying the NARDL approach and by using annual time series data during the period 1992-2019. The results show that the estimation model is nonlinear. The results show that the effects of exchange rate shocks, liquidity, and value-added on stock returns in the short and long term are asymmetric. Thus, one percent increase in positive and negative exchange rate shocks significantly affects stock returns (respectively 2.37 and 0.22

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percent). One percent change in positive and negative liquidity shocks has a direct and significant effect on stock returns. In addition, the asymmetric effect of economic value added as a national account proxy on direct stock returns is significant.

Keywords: Stock Returns; Exchange Rate; Liquidity; Value Added; NARDL.

JEL Classification: C₃₂, C₅₈, E₅₂, F₃₁, G₁₁.

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