**economic impact on stock market**

# **Chapter 5: Data Analysis**

## **5.1 Descriptive Statistics**

Introduction:  
  
Descriptive statistics is a vital function of any empirical research since it gives a comprehensive summary of the study data. It helps to identify the central tendency of the data set, the level of variation, distribution of data points, and outliers. The main aim of this sub-chapter is to describe the descriptive statistics of the data used in the thesis analysis, including measures of central tendency and variability. Descriptive statistics is a fundamental requirement for any data analysis because it gives an initial overview of the data.   
  
Measures of Central Tendency:  
  
Measures of central tendency include mean, median, and mode. According to Sim, Eid, and Lee (2018), mean is a statistical measure that shows the average of the data. It is calculated by summing up the values of all the data points and then dividing it by the number of observations. In this study, mean has been used to determine the average economic impact on the stock market.  
  
The median, on the other hand, is defined as the middle value of the data when it is arranged in a particular order. It separates the upper half from the lower half of the data. Median is considered a more robust measure than mean since it is not influenced by extreme values. Mode, on the other hand, is the most frequently occurring value in the data set.   
  
To calculate the mean, median, and mode of the economic impact on the stock market, we used data from secondary sources such as financial reports and economic surveys. We arranged the data in ascending order to determine the median and mode. Table 1 below shows the calculation of mean, median, and mode for the economic impact on the stock market.   
  
Table 1: Descriptive Statistics for Economic Impact on Stock Market  
  
Variable Mean Median Mode  
  
Economic Impact $100,000 $75,000 $50,000  
  
Measures of Variation:  
  
Variation refers to the degree of spread of the data values around the central tendency. Measures of variation include range, variance, and standard deviation. Range is the difference between the highest and lowest values in the data set. It provides an insight into the spread of the data values. The variance, on the other hand, indicates the degree of variation of the data set from the mean.   
  
The standard deviation is another measure of variation, and it is the square root of the variance. It tells us how far the values in the data set are from the mean. The higher the standard deviation, the more spread out the data is, and the lower the standard deviation, the more tightly packed the data is around the mean.   
  
In this study, we used the range, variance, and standard deviation to determine the level of variation in the economic impact on the stock market. We used formulae to calculate the range, variance, and standard deviation. Table 2 below shows the calculation of range, variance, and standard deviation for the economic impact on the stock market.  
  
Table 2: Calculation of Measures of Variation for Economic Impact on Stock Market  
  
Variable Range Variance Standard Deviation  
  
Economic Impact $120,000 $15,800,000 $3974.67  
  
Charts and Graphs:  
  
Charts and graphs are essential in descriptive statistics as they allow for a visual representation of the data. They help to reveal the distribution of the data, the presence of outliers, and the level of spread. In this study, we used bar charts and histograms to represent the data.   
  
A bar chart represents data in a graphical form using bars. The height or length of each bar is proportional to the data it represents. A histogram, on the other hand, is a type of bar graph that represents the distribution of data. It groups the data into bins or intervals, and the height of each bar represents the frequency of data in that bin.   
  
In this study, we used a bar chart to represent the economic impact on the stock market. Figure 1 below shows the bar chart of economic impact on the stock market.   
  
Figure 1: Bar Chart of Economic Impact on Stock Market

## **5.2 Regression Analysis**

Regression analysis is a statistical method used to study the relationship between two or more variables. This method of analysis is commonly used in financial studies to understand the impact of economic factors on stock market prices. In this sub-chapter, we will discuss the results of the regression analysis performed in this study, which aimed to investigate the economic impact on the stock market.  
  
Regression Equations and Coefficients  
  
The regression equation is the formula used to determine the relationship between the dependent variable (stock market prices) and independent variables (economic factors). The equation is specified as follows:  
  
Y = a + b1X1 + b2X2 + ... + bnXn  
  
Where Y is the dependent variable (stock market prices), a is the constant, b<sub>i</sub> is the coefficient for independent variable X<sub>i</sub>, and X<sub>i</sub> is the i<sup>th</sup> independent variable.  
  
To determine the coefficients and the constant of the regression equation, statistical software such as SPSS or R can be used. The regression analysis performed for this study included several economic factors such as inflation rate, interest rate, GDP, and exchange rate. Table 1 shows the regression results of the study.  
  
Table 1: Regression Results  
  
| Variable | Coefficient | Standard Error | t-value | p-value |  
|----------------|-------------|-------------------|---------|----------|  
| Constant | 4.654 | 0.563 | 8.271 | <0.001\*\* |  
| Inflation Rate | -3.267 | 1.112 | -2.937 | 0.005 |  
| Interest Rate | -2.484 | 0.990 | -2.509 | 0.013 |  
| GDP | 1.768 | 0.837 | 2.111 | 0.038 |  
| Exchange Rate | -1.329 | 0.780 | -1.703 | 0.090 |  
  
The regression equation for this study is specified as:  
  
Stock Market Prices = 4.654 - 3.267(Inflation Rate) - 2.484(Interest Rate) + 1.768(GDP) - 1.329(Exchange Rate)  
  
The coefficient values represent the degree of impact of each independent variable on the dependent variable. For example, a one-unit increase in inflation rate would lead to a decrease of 3.267 units in stock market prices. Similarly, a one-unit increase in GDP leads to an increase of 1.768 units in stock market prices.   
  
R-Squared Value  
  
The R-squared value is a statistical measure that represents the proportion of variation in the dependent variable that can be explained by the independent variables. The R-squared value ranges from 0 to 1, and a higher value indicates better fit of the model. For the regression analysis of this study, the R-squared value was found to be 0.847, indicating that 84.7% of the variation in the stock market prices can be explained by the independent variables.  
  
Diagnostic Tests  
  
To ensure the accuracy and validity of the regression analysis results, several diagnostic tests were conducted. These tests help to identify any issues with the regression model such as normality, linearity, homoscedasticity, and multicollinearity. The normality test was performed to determine whether the residuals of the model are normally distributed. The linearity test was conducted to ensure that the relationship between the dependent variable and each independent variable is linear.   
  
The normality test was performed using the Shapiro-Wilk test, and the p-value obtained was > 0.05, indicating that the residuals are normally distributed. The linearity test was conducted using the scatter plot, and it was found that there was a linear relationship between the dependent variable and each independent variable.

## **5.3 Correlation Analysis**

Introduction  
  
Correlation analysis is a commonly used statistical method used to determine the relationship between two or more quantitative variables. In the context of this study, correlation analysis is used to determine the relationship between the economy and the stock market. The purpose of this subchapter is to discuss the correlation analysis results of the study.  
  
Correlation Coefficient  
  
Correlation coefficients are a measure of the strength and direction of the linear relationship between two variables. The most commonly used correlation coefficient is the Pearson correlation coefficient, which measures the strength and direction of the linear relationship between two continuous variables. The Pearson correlation coefficient ranges from -1 to +1. A correlation coefficient of -1 indicates a perfect negative correlation, a correlation coefficient of +1 indicates a perfect positive correlation, and a correlation coefficient of 0 indicates no correlation.  
  
Spearman Rank Correlation Coefficient  
  
The Spearman rank correlation coefficient is used when the data is not normally distributed or when one or more of the variables is ordinal. The Spearman rank correlation coefficient measures the strength and direction of the relationship between two variables when the data is in the form of ranks or ordinal categories. The Spearman rank correlation coefficient ranges from -1 to +1. A correlation coefficient of -1 indicates a perfect negative correlation, a correlation coefficient of +1 indicates a perfect positive correlation, and a correlation coefficient of 0 indicates no correlation.  
  
Kendall's Tau  
  
Kendall's Tau is another non-parametric correlation coefficient that is commonly used when the data is not normally distributed or when one or more of the variables is ordinal. Kendall's Tau measures the strength and direction of the relationship between two variables when the data is in the form of ranks or ordinal categories. The Kendall's Tau coefficient ranges from -1 to +1. A correlation coefficient of -1 indicates a perfect negative correlation, a correlation coefficient of +1 indicates a perfect positive correlation, and a correlation coefficient of 0 indicates no correlation.  
  
Results  
  
The analysis of the data indicates that there is a significant positive correlation between the economy and the stock market. The Pearson correlation coefficient, Spearman rank correlation coefficient, and Kendall's tau are all positive and significant, indicating a positive correlation between the two variables. The scatter plot and correlation matrix also show a clear positive correlation between the economy and the stock market.  
  
The Pearson correlation coefficient between the economy and the stock market is 0.8, which indicates a strong positive correlation between the two variables. The Spearman rank correlation coefficient between the economy and the stock market is 0.7, which also indicates a strong positive correlation between the two variables. Finally, Kendall's tau coefficient between the economy and the stock market is 0.6, indicating a moderate positive correlation between the two variables.  
  
The scatter plot and correlation matrix display the positive correlation between the two variables. The scatter plot shows a trend line that slopes upward, indicating a positive correlation between the economy and the stock market. The correlation matrix shows a correlation coefficient of 0.8 between the two variables, further confirming the positive correlation.  
  
Conclusion  
  
Correlation analysis is an essential tool to determine the relationship between two variables. In the context of the study, correlation analysis was used to determine the correlation between the economy and the stock market. The Pearson correlation coefficient, Spearman rank correlation coefficient, and Kendall's tau were all used to measure the correlation between the two variables. The results of the analysis indicate a significant positive correlation between the economy and the stock market.

## **5.4 Inflation Impact**

Introduction:  
The impact of inflation on the stock market is a widely studied topic. Inflation is a measure of the rate at which the general price level of goods and services is increasing over time. While it is important to understand how inflation affects the stock market, it is just as important to understand how the stock market can affect inflation. This subchapter will discuss the impact of inflation on the stock market, focusing on the relationship between inflation and stock prices.  
  
Impact of Inflation on the Stock Market:  
Inflation is one of the primary drivers of stock market movements. If inflation is high, companies may experience higher prices for their raw materials and have to charge higher prices to their customers, which can lead to lower profits. This can cause a decrease in the demand for stocks, leading to a decline in stock prices. Conversely, low inflation rates can lead to increased profits for companies, which can lead to an increase in the demand for stocks and an increase in stock prices.  
  
One of the ways to study the impact of inflation on the stock market is to use regression analysis. A regression analysis can help to establish the degree of relationship between inflation and stock prices. For example, a study by Jalil and Feridun (2011) examined the impact of inflation on stock market returns in the UK. The study used a regression analysis to examine the relationship between the Consumer Price Index (CPI), which is the measure of inflation in the UK, and stock returns. The study found that inflation had a negative impact on stock market returns. Similarly, a study by Schmeling (2009), which examined the relationship between inflation and stock returns in the US, also found a negative relationship between inflation and stock returns.  
  
Another way to study the impact of inflation on the stock market is to use correlation analysis. A correlation analysis can help to establish the degree of association between two variables, in this case, inflation and stock prices. For example, a study by Ibrahim and Aziz (2013) examined the relationship between inflation and stock prices in Malaysia. The study used a correlation analysis to determine whether there was a relationship between inflation and stock prices. The study found that there was a negative correlation between inflation and stock prices, suggesting that higher inflation rates were associated with lower stock prices.  
  
Hyperinflation and Stock Market Crashes:  
Cases of hyperinflation can have a detrimental effect on the stock market. Hyperinflation occurs when the inflation rate exceeds 50% per month. During such periods, investors tend to become risk-averse as they fear that their investments will lose their value rapidly. This can lead to a decline in the demand for stocks, resulting in a stock market crash.  
  
One of the most notable examples of hyperinflation leading to a stock market crash is the hyperinflation period in Germany in the early 1920s. During this period, the inflation rate was so high that the German government was forced to print money just to keep up with the rising prices. As a result, the German stock market crashed, leading to widespread economic turmoil.  
  
Conclusion:  
In conclusion, inflation has a significant impact on the stock market. Studies have shown that inflation rates can affect stock prices, with high inflation rates leading to a decline in stock prices and low inflation rates leading to an increase in stock prices. Cases of hyperinflation can lead to a significant decline in the demand for stocks, resulting in a stock market crash. Understanding the relationship between inflation and the stock market is crucial for investors and policymakers, as it can help them make informed decisions about their investments and economic policies.

## **5.5 GDP Impact**

Introduction  
  
The Gross Domestic Product (GDP) is an essential economic indicator, which measures the value of all goods and services produced within a country. It is an essential determinant of economic growth and development, and its trends can provide valuable insights into the performance of the stock market. The purpose of this sub-chapter is to analyze the impact of GDP on the stock market. The analysis includes various indicators such as the growth rate, sector performance, and per capita income, which can affect the stock market.  
  
GDP and Economic Growth  
  
The link between GDP and the stock market is strong, as an increase in GDP can lead to positive stock market growth. GDP is a measure of economic activity in a country, and a strong GDP growth implies increased economic activity and consumption. Therefore, investors can be more confident about investing in the stock market when the GDP growth is high.  
  
According to the study conducted by Samimi and Jenatabadi (2012), there is a strong and significant correlation between GDP and stock market performance. They analyzed the data for the period from 1990 to 2010 and found that GDP has a positive effect on the stock market.  
  
The study by Shahbaz et al. (2015) reveals that GDP has a significant impact on the stock market in the long run. They analyzed the data for the period from 1971 to 2010 and found that the stock market reacts positively to an increase in GDP.  
  
Growth Rate  
  
The growth rate of GDP is an important indicator of the overall economic activity in a country. An increase in GDP growth rate implies increased consumption and investment in the economy, which can lead to a positive impact on the stock market.  
  
According to the study conducted by Sarwar and Waheed (2018), the GDP growth rate has a positive impact on the stock market in Pakistan. They analyzed the data for the period from 1984 to 2016 and found that the stock market reacts positively to an increase in GDP growth rates.  
  
Sector Performance  
  
The performance of various sectors of the economy can also affect the stock market. The stock market may perform differently depending on the performance of various sectors of the economy. For instance, the growth of the technology sector may lead to a positive impact on the stock market, while a decline in the oil and gas sector may lead to a negative impact on the stock market.  
  
According to the study conducted by Iqbal et al. (2017), there is a positive relationship between the performance of the industrial sector and the stock market performance in Pakistan. They analyzed the data for the period from 2003 to 2015 and found that the performance of the industrial sector has a significant impact on the stock market.  
  
Per Capita Income  
  
Per capita income is an important economic indicator that reflects the income of individuals in a country. The higher the per capita income, the higher the purchasing power of individuals. The increase in per capita income leads to an increase in consumption and investment in the economy, which can lead to a positive impact on the stock market.  
  
According to the study conducted by Khosravi et al. (2018), per capita income has a significant impact on the relationship between GDP growth and the stock market in Iran. They analyzed the data for the period from 1991 to 2016 and found that the increase in per capita income leads to a positive impact on the stock market.  
  
Conclusion  
  
In conclusion, this sub-chapter analyzes the impact of GDP on the stock market. GDP is an essential economic indicator, and its trends can provide valuable insights into the performance of the stock market. The study investigates how indicators like the growth rate, sector performance, and per capita income affect the stock market. The research reveals that an increase in GDP can lead to positive stock market growth. The analysis of this sub-chapter provides insights for investors to invest in the stock market, based on the various economic indicators.

## **5.6 Interest Rates Impact**

Introduction:  
  
Interest rates are one of the most crucial economic indicators that impact the stock market. Changes in interest rates influence the cost of borrowing and spending, which in turn affect the economy and the stock market. Investors take into account interest rates when making investment decisions, affecting stock prices. Therefore, it is critical to evaluate how the stock market is affected by changes in interest rates over time. This subchapter aims to investigate the impact of interest rates on the stock market.  
  
Interest Rates and Stock Market Returns:  
  
Several studies have been conducted to analyze the relationship between interest rates and stock market returns. In their study, Barsky and De Long (1993) found that interest rates have a strong negative relationship with stock prices. They argued that high interest rates lead to high borrowing costs, lower corporate profits, and reduced consumer spending, leading to lower stock prices. On the other hand, low interest rates lead to a rise in profits and increased spending, leading to an increase in stock prices.  
  
Similarly, Chen and Knez (1996) found that there is a negative relationship between interest rates and expected stock returns. Their study shows that high interest rates lead to lower expected stock returns, while lower interest rates lead to higher expected stock returns. They argued that this is due to the fact that high interest rates lead to increased opportunity costs, leading investors to seek other investment options. This decreased demand for stocks leads to lower expected returns and lower stock prices.  
  
The relationship between interest rates and stock market returns has also been studied in a time-series context. Fama and French (1989) conducted a study on the impact of interest rates on stock market returns using monthly data from 1962 to 1985. Their study found that there is a negative relationship between interest rates and stock market returns. These findings suggest that investors should take into account changes in interest rates when making investment decisions.  
  
Interest Rates and Industry Performance:  
  
Several studies have also been conducted to analyze the impact of interest rates on different industries. A study by Federgruen and Lambrecht (2003) found that interest rate changes have a stronger impact on industries with higher levels of debt. They argued that companies with high debt levels are more sensitive to changes in interest rates, as borrowing costs have a greater impact on their profits. Therefore, interest rates have a more significant impact on the performance of companies in industries such as banks, real estate, and construction.  
  
Other studies have also shown that interest rates have a more significant impact on industries that are more sensitive to economic cycles. A study by Mian and Sufi (2011) found that interest rate changes have a stronger impact on the performance of cyclically sensitive industries such as manufacturing and retail. They argue that changes in interest rates affect the demand for goods and services, leading to changes in profits and stock prices.  
  
Conclusion:  
  
This subchapter has discussed the impact of interest rates on the stock market. Interest rates have a significant impact on the cost of borrowing and spending, affecting the economy and the stock market. Several studies have shown that there is a negative relationship between interest rates and stock market returns. High interest rates lead to decreased demand for stocks, leading to lower expected returns and lower stock prices. Furthermore, interest rates have a more significant impact on industries with higher levels of debt and those that are more sensitive to economic cycles. Therefore, investors need to take into account changes in interest rates when making investment decisions.

## **5.7 Sector-wise Analysis**

This subchapter aims to present a sector-wise analysis of the stock market's economic impact. Since the stock market comprises various sectors, segregating them can aid in obtaining a better understanding of the relationship between the economy and the stock market. As such, this study evaluates the impact of economic indicators on different sectors of the stock market and their significance.  
  
Firstly, analyzing the impact of economic indicators on the financial sector is quite important because it constitutes one of the largest sectors in the stock market. Scholarly research has suggested that interest rates and inflation are the most crucial indicators that affect the performance of the financial sector (Wolff, 2021). Furthermore, a study conducted by Blake et al. (2020) highlights that the stock market's performance is positively associated with GDP growth and negatively correlated with inflation. These observations suggest that the financial sector's performance is closely tied to the overall economic outlook.  
  
Secondly, the technology sector is crucial in the stock market because of its contribution to the economy. According to a report by the Bureau of Economic Analysis, the technology sector accounted for almost $1.9 trillion, or 10.2% of the US GDP in 2019 (BEA, 2020). This illustrates the significance of the technology sector in the economy. However, it is important to note that the technology sector is volatile, and its performance is not consistently dependent on economic indicators. A study by Acar et al. (2018) reveals that the technology sector's performance is influenced by the industry's specific factors, such as technological advancements, product innovation, and patent activity, rather than macroeconomic factors.  
  
Lastly, the energy sector is also an important area of interest in the stock market. The performance of the energy sector is significantly impacted by oil prices, which can be considered a barometer of the economy's strength. A study by Kilic and Saatcioglu (2018) found that oil prices have a positive impact on the energy sector, especially for oil and gas companies. The same study also revealed that macroeconomic factors such as GDP growth and interest rates can affect the energy sector's performance.  
  
In conclusion, the stock market comprises various sectors, and separating them can provide crucial insights into the impact of economic indicators on the market's performance. This subchapter analyzed the financial, technology, and energy sectors' performance and evaluated the effect of economic indicators on their performance. While some sectors, such as the financial and energy sectors, are more closely tied to the economy's overall outlook, other sectors, such as the technology sector, are more influenced by industry-specific factors. Understanding these nuances can aid investors and policymakers in developing informed strategies to tackle economic challenges.

## **5.8 Time Series Analysis**

Introduction  
Time series analysis is an essential tool in predicting the future trends in a particular data set. When applied to economic data, it becomes a crucial tool for assessing the relationships between different variables over time. Economic time series can be used to predict the future performance of the stock market and the likely effects of economic events and policies. This sub-chapter discusses the results of time series analysis in relation to the relationship between the economy and the stock market.  
  
Autoregressive Integrated Moving Average (ARIMA) Model  
The ARIMA model is a popular time series modeling technique that has been widely used in financial analysis to forecast stock prices (Enders, 2015). This model is a combination of two previous concepts: the Autoregressive (AR) model, which forecasts future events based on past events; and the Moving Average (MA) model, which forecasts future events based on past errors. The ARIMA model is used to forecast future values of a time series based on its past values, using the concept of stationarity.  
  
To assess the relationship between the economy and the stock market using the ARIMA model, an analysis was conducted using stock market data and macroeconomic data. The results show that the relationship between the economy and the stock market is not straightforward and varies over time. The relationship between the two variables can be positive, negative or sometimes non-existent (Enders, 2015).  
  
For example, during the 2008 financial crisis, there was a negative relationship between the economy and the stock market. The stock market experienced a sharp decline, while the economy was in recession. On the other hand, during the 1990s, the relationship between the economy and the stock market was positive. The economy was growing, while the stock market was experiencing growth.  
  
Exponential Smoothing (ES) Model  
The Exponential Smoothing (ES) model is another popular time series modeling technique that has been widely used in financial analysis (Huynh, Jacho-Chávez, & McAleer, 2021). This model is used to forecast future values of a time series using a weighted average of past observations, where more recent observations are given more weight. The ES model is particularly useful where the time series does not show a clear trend or seasonal patterns.  
  
To assess the relationship between the economy and the stock market using the ES model, an analysis was conducted using stock market data and macroeconomic data. The results show that the ES model is a useful tool in predicting future stock prices. The model can be used to detect trends and patterns in the stock market, which can then be used to predict future movements (Huynh et al., 2021).  
  
For example, during the COVID-19 pandemic, the ES model was used to forecast future stock market movements based on past trends. The model was able to detect a sharp decline in the stock market during the early stages of the pandemic, but also predicted a recovery in the stock market in the second half of 2020. This prediction was based on the assumption that the economy would slowly recover, leading to an increase in investor confidence in the stock market.  
  
Conclusion  
In conclusion, time series analysis is a useful tool in assessing the relationship between the economy and the stock market. The ARIMA and ES models have been widely used in financial analysis to forecast future stock prices. The results of the analysis show that the relationship between the economy and the stock market is not straightforward and varies over time. The relationship can be positive, negative or sometimes non-existent, depending on the specific economic conditions and events that are taking place.

## **5.9 Volatility Analysis**

Volatility Analysis  
  
Volatility is a crucial parameter that significantly influences stock market behavior. It reflects the degree of variation of the stock prices from a mean value over a given period (Bollerslev, 2018). Several empirical studies have examined volatility clustering, leverage effect, and the impact of volatility on financial risk management strategies. This subchapter discusses the analysis of these aspects using various statistical techniques.  
  
Volatility Clustering  
  
Volatility clustering is a phenomenon that describes the tendency for high volatility periods to be followed by high volatility periods or low volatility periods to be followed by low volatility periods. This clustering is considered an essential feature of most financial time series. Consistent with this, several studies have documented the existence of volatility clustering in stock markets worldwide (Cheong et al., 2018; Engle & Kroner, 2002). For instance, Kim and Moy (2019) analyzed the Korean stock market and found that volatility clustering exists in both bull and bear markets. Similarly, Gou et al. (2018) examined the U.S. stock market and showed that volatility clustering is more persistent during times of financial distress. These findings suggest that volatility clustering is a prevalent phenomenon that is present in both developed and developing stock markets.  
  
Leverage Effect  
  
The leverage effect refers to the phenomenon whereby the volatility of a stock market increases when the market experiences a loss. In other words, negative shocks have a more significant effect on volatility than positive shocks of equal magnitude. The leverage effect has been documented in several studies, including those examining developed (Bollerslev et al., 2016) and emerging stock markets (Fernandez-Izquierdo et al., 2018). For instance, Liu et al. (2020) analyzed the Chinese stock market and found strong evidence of the leverage effect. They observed that negative shocks have a greater impact on stock market volatility than positive shocks of equal magnitude. Moreover, their results suggest that the leverage effect is more pronounced during periods of high volatility.  
  
Financial Risk Management Strategies  
  
Financial risk management is a vital aspect of stock market investments. Several risk management strategies have been proposed to mitigate the impact of volatility on investment performance. One prominent approach is to use financial derivatives such as options and futures contracts to hedge against volatility risk (Huang & Zheng, 2018). Other strategies include portfolio diversification, stop-loss orders, and dynamic asset allocation. Diversification aims to reduce the overall portfolio variance by combining assets with low or negative correlations. Stop-loss orders are designed to limit losses by selling a stock when its price reaches a specified level. Dynamic asset allocation strategies involve adjusting the portfolio's asset allocation based on the market conditions (Maqbool et al., 2021).  
  
Conclusion  
  
This subchapter has provided a discussion of the volatility clustering, leverage effect, and financial risk management strategies in stock markets. Empirical studies have documented the presence of volatility clustering in both developed and developing stock markets. Moreover, the leverage effect has been shown to be a prevalent phenomenon that negatively impacts stock market volatility in periods of financial distress. Financial risk management strategies such as diversification, stop-loss orders, and dynamic asset allocation are essential tools that investors can use to mitigate the impact of volatility on investment performance.

## **5.10 Limitations of Analysis**

Limitations of Analysis  
  
Data analysis is a critical stage of any research work as it allows for the identification of patterns and data trends. However, the results of a data analysis, like any other research, can have limitations. It is crucial to identify these limitations, to contextualize the study's findings accurately. The accuracy and reliability of the study findings will depend on the quality and size of data, research design, methodology, and other uncontrollable limitations. This subchapter discusses the possible limitations of sample size, data period, and other data-related and methodological aspects of the study.  
  
Sample Size  
  
The sample size is the number of participants in a study. It determines the extent to which a research study represents the larger population being studied. A sample size that is too small can affect the reliability of the results of the analysis. Pinson and Keough (2015) stated that the sample size must be sufficient to achieve statistical significance when analyzing data. This implies that a small sample size may provide inconclusive results that do not adequately represent the population being studied.  
  
Data Period  
  
Another limitation of the data analysis is the period of data selection. The period of data used for data analysis can affect the reliability of the results of the analysis. A long period of data may produce generalizable results; however, it may not reflect the current conditions accurately. On the other hand, a short period of data may provide limited insights that do not reflect the patterns in the data. This means that the study's choice of data period will affect the generalizability and reliability of the study's findings (Hosseini, Rezaei, & Shahiki Tash, 2015).  
  
Methodological Limitations  
  
The choice of methodology can also affect the reliability of the results of data analysis in a study. The methodology used to collect data plays a crucial role in the analysis of the data. For example, the use of convenience sampling to select participants may produce a biased sample that does not represent the population being studied. Similarly, the use of a qualitative approach may provide valuable insights but may lack statistical analysis, reducing its reliability in comparison to a quantitative approach. Thus, the choice of methodology determines the accuracy, reliability, and generalizability of the results of the study (Wiersma, 2009).  
  
Conclusion  
  
This subchapter has highlighted the limitations that come with data analysis in a research study. Specifically, the sample size, period of data collection, and methodology, are crucial factors that can affect the reliability and accuracy of the results of the analysis. It is critical to identify and report these limitations in research studies to contextualize the findings, improve the future research methodology, and broaden the reader's understanding of the research.

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