FACTORS INFLUENCING THE PRICE-EARNINGS MULTIPLES AND STOCK VALUES IN THE KARACHI STOCK EXCHANGE

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ABSTRACT

A Price-earnings (P/E) ratio model has been constructed in this dissertation from the origin of Gordon and Shapiro (1956) discounted dividend growth model, which is well known and commonly used for all investors. The study follows the multiple regression analysis approaches to the P/E ratio as a response variable with dividend payout ratio, earnings growth and discount rate as explanatory variables. A panel data has been used in this paper for 35 dividend-paying firms over a period for the year 2000 to 2008. A range of tests have been applied to the panel data like F-Test, Lagrange Multiplier-LM test (Breusch and Pagan, 1980) and Hausman specification (1978) test for group effects and time effects in support of the best appropriate model. The empirical findings reveal that the dividend payout ratio and earnings growth has significant positive affect on P/E ratio but interest rate is negatively correlated to it. These results do favour also the inferences of Amoako-Adu, Ben & Smith, Brian (2002).