

ABSTRACT

In the environment of asymmetric information, investors diversify their investment to minimize their risk and maximize their wealth. Such diversification ranges from one market to another market and from one country to another country. Owing to the economy's turmoil, change macroeconomic indicators and markets liberation, the investors prefer the foreign portfolio investment over foreign direct investment. This study analyze the dynamic relationship among Stock Market Volatility (SMV), Foreign Portfolio Investment (FPI) and macroeconomic indicators i.e. Foreign Exchange Rate (FXR), Interest Rate (IR) and Gross Domestic Product (GDP) using the dynamic long run Autoregressive Distributed Lag (ARDL) model with respect to the Pakistan environment. In this study the impact of multiple structural breaks are also considered which represent the endogenous and exogenous shocks of these variables. For this study, the secondary data is used from Oct. 01, 2009 to Sept. 30, 2019 with monthly frequency. The results indicate the presence of cointegration between SMV, FPI, FXR, IR and GDP. In short run analyses the error correction term is statistically significant while in long-run the SMV, FPI, and FXR is not being impacted. As no evidence of volatility has been found between SMV and FPI either unidirectional or bi-directional, therefore, policies can be devised to further attract the new FPI for strengthening the foreign reserves, balance of payments and other microeconomic variables. Additionally, investors should update their knowledge based on considering the endogenous and exogenous shocks on the SMV.