

## THE STUDY OF INFLATION AND STOCK MARKET RETURNS IN PAKISTAN

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**ABSTRACT:** This study examines the impact of inflation on stock returns for the period of 10 years. Kranchi stock 300 index month closing value has been used in the study to represent the monthly stock market returns and the Consumer price index as a measure of inflation. The study examines the monthly data of Kranchi stock index from December 2004 to December 2014. The study tries to analyze the relationship between the dependent and independent variables using the simple regression model. We have taken CPI monthly values as independent variable and stock index value as dependent variable and used one lag percentage differentials value by converting both the time series to analyze the nature of stationary. These tests examine both long-run and short-run dynamic relationships between the stock market index and the inflation. This paper established that there is positive but not significant relationship between stock market returns and inflation in Pakistan.

**KEYWORDS:** inflation, consumer, stock, market.

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