

The impact of external factors on the market value of shares of companies listed on the Iraq Stock Exchange

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Abstract

The purpose of this study is to identify the External factors and to determine arrange of its relationship with Market Value in Iraq Stock Exchange. The study used Kolmogorov – Smirnov Test to fulfill from the natural distribution of data, as well as Simple and Multi Regression. The study population has consist of all companies Iraq Stock Market. The study sample consists of (39) companies. The study founded some of Conclusions: There is Significant Statistical relationship between the dependent variables which represent (the budget surplus, the gross domestic product, Interest rate, the inflation rate, and Average Exchange Rate of Iraqi Dinar Per USD), with the independent variable (Stocks Market Value).

Keywords: stocks market value, the budget surplus, the gross domestic product, interest rate, the inflation rate, and average exchange rate of Iraqi dinar per USD

Introduction

In order to have the markets securities dynamic and active vital, it must guide the available financing capacity to it towards productive and profitable investments, and this is based on cost-effectiveness and profitability of companies in economic, financial and national level, and notes that different countries may have the huge capabilities of financing but big limitations in domestic investment opportunities. In this band it can be traced not to the quality of these decisions to the weakness of the role of specialized financial brokerage companies in the study of the lucrative as well as technical studies for the installation of such operations.

Access to acceptable returns for savers compared to recruit and invest their money is an essential condition for the existence of this market, and comes not only the existence of a number of factors, including:

- The Existence of a Successful Stock Companies.
- Raise Interest Rates.
- Reduction of the Tax Burden.
- Reduction of inflation rates.

In addition to be the stability of the currency, and finally, the experience shows that effective markets are those markets that attract successful stock companies and we find that in states that adopt tight monetary policies on controlling inflation and maintaining a motivational approach in interest rates as well as tax policy that encourage savers and investors alike.

There are several factors that affect stock prices as stock prices are determined up and down based on supply and demand forces of reaction, and these forces in turn are changing, influenced by the following factors:

- 1) Expectations about the profits that the company can achieve.
- 2) The level of interest rates on fixed-interest investments such as bank deposits and bonds issued by the government.

- 3) Macroeconomic performance and its impact on the psychological state of investors (optimism or pessimism).
- 4) Expected increase in profits lead to higher prices in the stock market and vice versa.
- 5) Higher interest on bank deposits or government debt bonds leads to lower prices, and vice versa.
- 6) Optimism and greed to achieve capital gains through speculative lead to higher prices and the fear of incurring losses lead to the escape of the market and lower prices.

Problem of the study

The problem of the study a number of questions, because trading in the financial markets in constant motion in order to raise the value of the stock and thus maximizing the value of the company is based. Due to the fluctuation of winning in the market value of listed shares in which there are so many variables its impact in this area companies; so those questions are as follows:

- 1) See if there was a relationship between the surplus of the state budget and the market value of companies' shares listed on the Iraq Stock Exchange.
- 2) See if there was a relationship between the size of the gross domestic product and the market value of companies' shares listed on the Iraq Stock Exchange.
- 3) See if there was a relationship between the interest rates of the Central Bank of Iraq and the market value of companies' shares listed on the Iraq Stock Exchange.
- 4) See if there was a relationship between the annual rates of inflation and the market value of companies' shares listed on the Iraq Stock Exchange.
- 5) See if there was a relationship between the rates of the dinar exchange rate against the US dollar and the market value of companies' shares listed on the Iraq Stock Exchange.

Importance of the study

The measure of the extent of the economic policy success of

any country is the extent to stabilize the financial markets have, because it is a mirror of economic situation; therefore the study are essential issue addressed by scientific research to arrive at realistic results To put the right steps and be guided by them caused by overlapping effect of financial markets and what is desired by the country's economy in general, as it is hoped that the results of this study indicate some groups worked in the financial market, Such investors, intermediaries, suppliers, and others.

Objectives of the study

The study is an attempt to identify some of the external factors that have manifested in knowing how they relate to the market value of the shares. The study aims to:

- 1) Identify the explanatory and predictive ability of the various hypotheses for the variation in the market value of the shares.
- 2) Help financial organs of the state in shaping public policy, including within the scope of its powers to verify kind of stability in the fluctuations of the general price level in the Iraq stock exchange.
- 3) Advise investors in the financial market to keep them out of what might catch up with them from loss or guide them to achieve additional profits, and what they can predict the movement of the stock in the future.

Hypotheses of the study

In light of the study's problem of different dimensions, is the following hypotheses:

- **The first hypothesis:** There is a statistically significant relationship between the surplus of the state budget and the market value of companies' shares listed on the Iraq Stock Exchange at the level of ($A \leq 0.05$).
- **The second hypothesis:** There is a statistically significant relationship between GDP volume and the market value of companies' shares listed on the Iraq Stock Exchange at the level of ($A \leq 0.05$).
- **The third hypothesis:** There is a statistically significant relationship between the interest rates of the Central Bank of Iraq and the market value of companies' shares listed on the Iraq Stock Exchange at the level of ($A \leq 0.05$).
- **The fourth hypothesis:** There is a statistically significant relationship between the annual rates of inflation and the market value of companies' shares listed on the Iraq Stock Exchange at the level of ($A \leq 0.05$).
- **The fifth hypothesis:** There is a statistically significant relationship between the dinar exchange rate against the dollar and the market value of companies' shares listed on the Iraq Stock Exchange at the level of ($A \leq 0.05$).

Some previous studies

- 1) **(Boyer & Filion, 2004) [11] Study:** The purpose of the study entitled (president and general factors of stock returns in the Canadian oil and gas companies), to find out the relationship and the impact of the dependent variable (returns for stocks) and independent variables such as (interest rate, price of US and Canadian dollar, returns of the market, and oil prices. Conducted the study of the stock market companies listed in the Canadian stock market. The study used the way the Generalize. The

study concluded that the positive impact of earnings per share with oil prices, and the negative impact with interest rates as well as the Canadian currency exchange rates against the US dollar.

- 2) **(Joseph & Mohammed, Dana Bassam, 2008) [6] Study:**

The aim of the study entitled (Identify factors affecting the stock's return in Amman Financial Market) to identify the most important factors affecting stock's return and causing to the sharp fluctuations, And find out which factors most influence from others on stock's return (internal or external factors). The study population consisted of all listed on the Amman stock Exchange companies during the period (2000 to 2006). The sample of the study are stratified random and constitute (30%) of the original society. The study found a set of conclusions including: The presence of a statistically significant positive relationship between independent variables (inflation rate, deficit or surplus of the balance of payments, interest rates, the size of companies' capital in Amman financial market) with the dependent variable (stock's return), and the lack of statistical significance relationship of the (deficit or surplus of the general budget of the state, the GDP volume, number of employees) with the dependent variable.

The study methodology

The methodology applied in the study is the design of the study, and the study's community and sample, sources of data acquisition, and the variables of the study, and statistical methods used to find the relationship between the variables of the study, the model study, as well as the test to verify the suitability of the data for statistical analysis, and finally the analysis and testing of hypotheses.

The study design

It was followed descriptive approach to describe the variables of the study in terms of Arithmetic mean, standard deviation, in addition to using the analytical method to test hypotheses of the study, using a statistical program SPSS v14.

Society and the study sample

The study population of all companies listed on the Iraq Stock Exchange for two years for the period from 1/1/2011 until 12/31/2012, which consists of (84) a company, as the Iraq Stock Exchange is made up of seven different sectors: banks, industry, hotel and tourism, investment, agriculture, services, and insurance. The study sample consisted in all Banking, industrial and hotel companies listed since the beginning of the founding of Iraq Stock Exchange in June 2004, being more active in the market segments in terms of trading. illustrates the Appendix (1) the names of companies of the sectors under study and the date listed as the number of firms (39) a company. (Table 1) sample taken from each sector, constituting (% 46.43) of the original community of the Iraqi market for securities and the percentage (%70.1) of the three sectors, and is considered a significant proportion because the small size of sample makes the results are inaccurate, and has been taken this sample to provide all the information for the study.

Table 1: The study's sample of sectors

Sector	Number of companies	study' sample	Percentage
Banking	21	11	%13,10
Industrial	24	22	%26,19
Hotel and tourism	10	6	%7,14
Agricultural	6	-	-
Investment	8	-	-
Insurance	5	-	-
Services	10	-	-
Total	84	39	%46,43

Sources of data acquisition

To achieve the objectives of the study and testing of hypotheses, collected the basic data relating on study's variables to the market value of shares of stock's companies listed on the Iraq Stock Exchange from the annual reports of the Iraq Stock Exchange and the auditors' reports in the study's sample companies for the years 2011-2012. Explains Annex (2) the market value of companies sample of the study, in addition to the economic reports and annual bulletins issued by the Central Bank of Iraq to get the special economic indicators, the general budget of the state, the size of GDP, rates of interest rates, the annual inflation rate, and the rate of the dinar exchange e against the US dollar, which is illustrated in Appendix (3), in addition to available in Arabic and English books, articles, studies and research and periodicals on the subject.

The study variables and statistical methods used

The study included one dependent variable and five independent variables. the dependent variable represents in the market value of the shares since this variable raises interesting and corporate activity, as identified independent variables in the state budget, GDP, the rate of interest, the annual inflation rate, and the rate of the dinar exchange e against the US dollar, and as follows:

1) The dependent variable

The dependent variable of the study is the market value that calculated according to the reports of trading activity in the Iraq Stock Exchange the following equation:

$$\text{The number of shares} \times \text{closing price}$$

2) The independent variables

Represented the external constraints that affect the company's business, and not to the company they occur in any relationship, including:

i) **The state budget:** show the total surplus or disability through the total actual revenue minus total actual expenditures of the general budget of the state, ie the general budget is a principle of a digital balance between public revenues and public expenditures, specific for nearly a year. The importance of the general budget evident through the financial and economic fields, as the financial importance of being manifested disclose the fact to financial situation, and describes what the State expenditure and income that will cover these expenses. The economic importance of the budget, show through the general budget that the government can guide the economic variables and the impact on economic conditions of recession and inflation and balance of

payments deficit, and the distribution of income and determine the interest rate and so forth of the economic variables, and in addition to its impact on the economic balance, it aims to achieve fair distribution of expenditure by priority. (Kharabsheh, 2000) ^[10].

ii) **GDP:** is one way of measuring the size of the economy according to the value of goods and services produced from existing resources locally in a given area during a certain period of time, and the size of the total output in the economy of a negative impact and a positive effect on GDP. The rise in total output volume of leads to higher GDP and thus increase employment opportunities and increase production and an increase in consumption. That the decline or rise in the GDP is due to the interest rate that is considered one of the important tools used to control the size of credit rate and thus the size of the money supply, and reflects the orientation of monetary policy to encourage them to invest or reduce its role in responding to inflation. (Juma, 2000) ^[5].

iii) **Interest rate:** The interest rate is the main engine for the employment of capital and move between stocks, bonds and banks in order to be considered the opportunity for the investor; it if the interest rate is high, prefer the investor to put money in the bank and get every year on the quoted interest rate, while If the investment of these funds will be the largest return will be greater than the interest rate yield prefer investment. At the same time, the high of the interest rate will lead to the reduction of borrowing thus lowering the liquidity ratio, thereby reducing the rate of inflation, in the case of a lower interest rate, investors will go to borrow to raise capital and get a greater rate of return. (Al-Farhan, 2002) ^[8]. The interest rate varies between different countries due to the different of inflation rates and the rates of expected economic growth and the balance of payments.

iv) **Inflation:** differed economists lot in defining the concept of inflation, and inflation in the sense of economic is weak purchasing power of the currency, and the resulting inflation in times of economic crisis when there is no confidence in the ability of governments to tackle their budget deficits, and worsened inflation rates the eighties during the Iran-Iraq war, while the nineties saw the imposition of the economic embargo on Iraq, with Iraqi oil exports would halt overseas, and freeze Iraqi assets in foreign exchange contributed to exacerbate inflation and rising general price level (Khazraji, 2007) ^[9].

Basis Inflation is calculated, after excluding some goods with volatile prices which the two sets of fruits and vegetables in the food division, and non-alcoholic beverage, in addition to the (oil and cooking gas) within the department of housing, and longer by the Central

Bureau of Statistics / Directorate records.

v) **The Iraqi dinar exchange rate against the US dollar:** It is the price that is set by the Central Bank of Iraq through the window of sale and purchase of foreign currency at the central bank, it has to be the stability of the currency as this factor determining factor for a foreign savers which allows him to secure transfer annual net profit to his native country, and It is also at the end of the project or withdrawing from it, you will lose if the capital by converting it to the native. (Annual economic report of the Central Bank of Iraq, 2011) ^[1].

Statistical methods used

To analyze and test the hypotheses of the study, it was used the following statistical methods:

- 1) Test (Kolmogorov - Smirnov) to verify the normal distribution of data.
- 2) The arithmetic means and standard deviations.
- 3) Simple regression analysis, so as to measure the relationship between the study's independent variables and the dependent variable

The study model

It can predict the market value of the shares based on the independent variables of the study by the following equation,

as follows:

$$Y = a + (B1X1) + (B2X2) + (B3X3) + (B X4) + (B5X5)$$

Whereas:

- Y: refers to the market value of the shares.
- A: represents a hard limit.
- X1: refers to the surplus in the general budget.
- X2: refers to the size of GDP.
- X3: indicate interest rates.
- X4: refers to the annual rates of inflation.
- X5: refers to the dinar exchange rates against the US dollar.

Verification of the suitability of data for statistical analysis test

For the purposes of verification of the objective results of the study has been conducted -Kolmogorov -Smirnov test, in order to verify the absence of study data from the statistical problems that may adversely affect the test results of the study's hypotheses, this test requires availability of a normal distribution in data. Otherwise, it will be created a false link between the independent variables of the study and subsidiaries, and thus loses of relationship its ability to interpret the phenomenon in question, or predict, as shown in (Table 2).

Table 2: The normal distribution to the variables of the study

No.	Variable	Kolmogorov– Smirnov	Sig. *	Result
1	Market value	0.348	0.811	Follows normal distribution
2	The state budget	0.579	0.890	Follows a normal distribution
3	Gross domestic product	0.486	0.972	Follows a normal distribution
4	Interest rates	0.667	0.766	Follows a normal distribution
5	The annual inflation rate	0.588	0.879	Follows a normal distribution
6	Dinar exchange rate	0.522	0.948	Follows a normal distribution

* Distribution naturally be explained as (Naimi & Yassin, 2008) if the significance level of > 0.05,

Given the above table and at the level of (0.05) and above it is apparent that the distribution of all of the variables was normal. Where the normal distribution ratios for each answer is greater than (0.05) which is adopted in the statistical treatment of this study is level.

Display study data

In this paragraph will be displayed and the analysis of the

results on the characteristics of companies, which are as follows:

1) The market value of the shares

It was extracted arithmetic means and standard deviations of the market value of the shares of the study's companies sample for the years (2011.2012), and the results were as illustrated in Table 3.

Table 3: Averages, standard deviations, the market value of shares of companies in the study sample

No.	Sector	SMA	standard deviations
1	Banking	168162.82	110179.83
2	Industrial	14978.45	26889.14
3	Hotel	33257.92	23728.34
Mean and standard deviation of the year		72133.06	53599.10

The table (3) indicates that the average market value of the shares in the Iraqi companies under study was (72133.06) million Iraqi dinars, and at the sector level, the average market value of the shares in the banking sector companies (168,162.82) million, and the average rate in the industrial sector companies (14978.45) million, while the average the market value of shares of companies in the hotel sector (33257.92) million, and therefore the banking sector is the highest rate of market value of the shares, followed by the hotel sector and the industrial sector is the lowest rate. As for

risk it amounted to an average for companies of the study sample and standard deviation (53599.10). At the level of sectors, the banking sector had a higher risk rate and the standard deviation (110,179.83), while the hotel sector was the least risky and standard deviation. (23,728.34)

Analysis and testing hypotheses

It is an attempt to test the acceptance or rejection of hypotheses that have been identified in the methodology using simple linear regression analysis as follows:

Test of the first hypothesis

Table (4) illustrates the relationship between the surplus of the state budget and the market value of the shares, where the results of the statistical analysis showed a statistically significant correlation between the surplus of the state budget and the market value of the shares, reaching the correlation coefficient (R) (64.3%) at a level ($\alpha \leq 0.05$) and the coefficient of determination (R²) (41.3%) and this means that the value of (41.3%) of the changes in the market value

of the shares resulting from the change in the surplus of the state budget, as the value of the degree of influence B (8,024,728.88), this means that the increase in the surplus of the state budget with one unit leads to an increase in the market value of the shares value of (8,024,728.88) and emphasizes moral of this relationship F value calculated, which amounted to (26.019), which function at the level of ($\alpha \leq 0.05$), and this confirms the correctness accept the first hypotheses.

Table 4: Analysis of Simple linear regression of the relationship between the general budget surplus and market value of the shares

Statement	R	R ²	F Calculated	coefficient Regression B	Sig.*
Market value Shares & the surplus Public budget	%64.3	%41.3	26.019	8024728.88	.000

* Correlation is statistically significant at the level of ($\alpha \leq 0.05$).

Test of the second hypothesis

To test this hypothesis, a measure of the correlation coefficient (R) and the coefficient of determination (R²) between the independent variable and the dependent variable, with the results shown in the table (5) The volume of GDP strong statistically significant relationship with the market value of shares of companies that clarified of the correlation coefficient (R) (% 72.7), while the coefficient of determination (R²) (52.9), which indicates that the independent variable can be interpreted as the equivalent

(52.9%) of the change in the market value of the shares, ie, that the independent variable strong influence on the dependent variable. The table also shows that the value of the regression coefficient for the size of GDP (-3,792.1), this means that an increase by one unit in the volume of GDP will lead to a decrease in the market value of shares (-3,792.1), and emphasizes the significance of this relationship through calculated F value (41.51), which statistically significant at the level of ($\alpha \leq 0.05$), and this confirms the correctness accept the second hypothesis.

Table 5: Analysis of Simple linear regression of the relationship between the gross domestic product and market value of the shares

Statement	R	R ²	F Calculated	coefficient Regression B	Sig.*
Market value Shares & the gross domestic product 't'	%72.7	%52.9	41.51	-3792.1	.000

* Correlation is statistically significant at the level of ($\alpha \leq 0.05$).

Test of the third hypothesis

Table (6) The relationship between interest rates and the rates of the market value of the shares, with the results of the statistical analysis showed a statistically significant correlation between interest rates and the market value of the shares, reaching the correlation coefficient (R) (72.4%) at the level of ($\alpha \leq 0.05$) while the coefficient of determination (R²) (% 52.4) this means that the value of (52.4%) of the

changes in the market value of the shares resulting from changes in interest rates, as the value of the degree of B effect (-0.003), and this means that the increase in interest rates one unit leads to a decrease in the market value of shares of a (-0.003) and emphasizes the significance of this relationship through calculated F value (40.74), which statistically significant at the level of ($\alpha \leq 0.05$), and this confirms the correctness accept the third hypothesis.

Table 6: Analysis of Simple linear regression of the relationship between Interest rates and market value of the shares

Statement	R	R ²	F Calculated	coefficient Regression B	Sig.*
Market value Shares & Interest rates	%72.4	%52.4	40.74	-0.003	.000

* Correlation is statistically significant at the level of ($\alpha \leq 0.05$).

Test of the fourth hypothesis

To test this hypothesis, were measured the correlation coefficient and coefficient of determination between the independent variable and dependent variable, with the results shown in the table (7) that the inflation rates-strong statistically significant relationship with the market value of shares of companies that clarified of the correlation coefficient (R) (%72.8), while the coefficient of determination (R²) (53%), which indicates that the independent variable can be interpreted as the equivalent of (53%) of the change in the market value of the shares, this

means that the independent variable a strong influence on the dependent variable. The table also shows (7) The value of the regression coefficient for inflation (-0.336), this means that the increase by one unit in inflation will lead to a shortage in the market value of the shares(-0.336), and emphasizes the significance of this relationship calculated F value, which amounted to (41.73), which function at the level of ($\alpha \leq 0.05$), which statistically significant at the level of ($\alpha \leq 0.05$), and this confirms the correctness accept the fourth hypothesis.

Table 7: Analysis of Simple linear regression of the relationship between the annual rate of the inflation & market value of share

Statement	R	R ²	F Calculated	Coefficient Regression B	Sig.*
Market value Shares & the annual inflation rate	%72.8	%53	41.73	-0.336	.000

* Correlation is statistically significant at the level of ($\alpha \leq 0.05$).

Test of the fifth hypothesis

Table (8) the relationship between the dinar exchange rate and the market value of the shares, where the results of the statistical analysis showed a statistically significant correlation between the dinar exchange rate and the market value of the shares, reaching the correlation rate (R) (%72.6) and a factor determining (R2) (52.6%), this means that the value (% 52.6) from changes in the market value of the

shares resulting from the change in the dinar exchange rate, as the value of the degree of influence B (- 69.25), and this means that the increase in the dinar exchange rate one unit leads to a decrease in the market value of shares of the dinar (- 69.25) and emphasizes moral of this relationship calculated F value, which amounted to(41.13), which function at the level of ($\alpha \leq 0.05$), and this confirms the correctness of acceptance of the fifth hypothesis.

Table 8: Analysis of Simple linear regression of the relationship between the rate of the dinar exchange rate against the US dollar and market value of the shares

Statement	R	R2	F Calculated	Coefficient Regression B	Sig.*
Market value Shares dinar exchange rate against the US dollar	%72.6	%52.6	41.13	- 69.25	.000

* Correlation is statistically significant at the level of ($\alpha \leq 0.05$).

Conclusions

Possible to say that the findings of the study support the reasonableness of the existence of the relationship between external factors to explain the companies' market value of the shares to the Iraq Stock Exchange; therefore the study found through statistical analysis to the following conclusions:

- 1) The high economic inflation usually reflected in the purchasing power of the local currency, lowering the purchasing power leading to rising real value of assets such as real estate and securities, including stocks, and this has been proved by the first hypothesis is the presence of a statistically significant relationship between the surplus of the state budget and the market value for companies' shares listed on the Iraq Stock Exchange at the level of ($\alpha \leq 0.05$).
- 2) The increase in the size of the gross domestic product, This means that the increase in goods in a certain area indicating low of the primary commodities prices, leading to lower commodity producer prices, and thus lower the value of the stock in the market, and this has been proved by the second hypothesis is the presence of a statistically significant correlation between GDP size and the market value for companies' shares listed on the Iraq Stock Exchange at the level of ($\alpha \leq 0.05$).
- 3) There is a close relationship between the interest rate and the market value of the shares as a rise in interest rates leads to a tendency of investors to deposit and lack of orientation towards loans, unless there is a return on investment exceeds the interest rate, and thus lead to higher interest rates, while if investors headed for deposits this leads to lower prices. This has been proved by the third hypothesis is the presence of a statistically significant relationship between interest rates and the market value of companies' shares listed on the Iraq Stock Exchange at the level of ($\alpha \leq 0.05$).
- 4) High economic inflation is usually reflected in the purchasing power of the local currency, lowering the purchasing power leading to rising real value of assets such as real estate and securities, including stocks. This is evidenced of fourth hypothesis by the existence of the statistically significant relationship between the annual rates of inflation and the market value of companies' shares listed on the Iraq Stock Exchange at the level of ($\alpha \leq 0.05$).
- 5) The exchange rate one of the economic indicators When brings strong against other currencies converted investor

funds from the stock market to the currency markets, and this has been proved by the hypothesis fifth the existence of a statistically significant relationship between the dinar exchange rate against the dollar and the market value of companies' shares listed on the Iraq Stock exchange at ($\alpha \leq 0.05$).

Recommendations

Based on what brought him study findings, the researcher recommends the following:

- 1) Handle the kind of careful with the results of the study of abnormal circumstance of the Iraqi economy, in addition to the low efficiency of the market, compared with the evolving financial markets.
- 2) The need for increased attention to corporate departments of study the impact of inflation on the market value of the shares and the decline in the purchasing value of money and the search for multiple alternatives to absorb the negative effects of this aspect.
- 3) The importance of disclosure to Shareholding Companies all their financial statements and the movement of the stock trading on a regular basis and periodically companies and the establishment of information centers to increase investment awareness to the public.
- 4) Companies must invest the material and human potential to increase their efficiency in such a way to increase sales while maintaining the non-rising costs and thus increase the market value of its shares.
- 5) The need for banks and financial circles of cooperation with scientific research centers in universities and provide them with the necessary information needed in order to service the community.
- 6) The need to the attention of companies to the interest rate, because the rally could lead to a rise in market value of its shares at times and sometimes falling, depending on the nature of the investment.

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