



Apr 12th, 10:00 AM - 11:00 AM

The Effect of Federal Funds Rate Changes on Stock Prices: A Sector-Wise Analysis

Kunaey Garg
Illinois Wesleyan University

Margaret Chapman, Faculty Advisor
Illinois Wesleyan University

Follow this and additional works at: <https://digitalcommons.iwu.edu/jwprc>

Garg, Kunaey and Chapman, Faculty Advisor, Margaret, "The Effect of Federal Funds Rate Changes on Stock Prices: A Sector-Wise Analysis" (2008). *John Wesley Powell Student Research Conference*. 1.

<https://digitalcommons.iwu.edu/jwprc/2008/oralpres2/1>

This Event is protected by copyright and/or related rights. It has been brought to you by Digital Commons @ IWU with permission from the rights-holder(s). You are free to use this material in any way that is permitted by the copyright and related rights legislation that applies to your use. For other uses you need to obtain permission from the rights-holder(s) directly, unless additional rights are indicated by a Creative Commons license in the record and/ or on the work itself. This material has been accepted for inclusion by faculty at Illinois Wesleyan University. For more information, please contact digitalcommons@iwu.edu.

©Copyright is owned by the author of this document.

Oral Presentation O2.2

**THE EFFECT OF FEDERAL FUNDS RATE CHANGES ON STOCK PRICES:
A SECTOR-WISE ANALYSIS**

Kunaey Garg and Margaret Chapman*
Economics Department, Illinois Wesleyan University

The federal funds rate is an indicator of monetary policy that investors in the stock market scrutinize very closely. This paper determines the relationship between changes in the federal funds rate and sector wise stock indexes. Weekly returns of the Dow Jones ICB classified financial, energy, utilities, materials, industrials, consumer goods, consumer services, information technology, healthcare and telecommunications sectors are analyzed using separate OLS regression models for each sector. Since the financial sector's earnings are most directly affected by changes in the interest rate, I hypothesize ^{is} that this sector will be the most responsive. The results show that the utilities, financials, telecom and materials sectors are the most interest rate sensitive in that order and that the relationship exhibited between the stock price and the federal funds rate is positive. I conclude by attributing the positive relationship to sector specific demand and supply effects related to the federal funds market.