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# Causes of Stock Market and Sector Fluctuations

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# CAUSES OF STOCK MARKET AND SECTOR FLUCTUATIONS

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The stock market has been viewed as a proxy for the state of the economy. However, predicting changes in the stock market has not been an easy task. The Federal Reserve has the power to control, to some degree, the direction in which the stock market will move through monetary policy. While there are many variables that affect the stock market, my study focuses on variables that can be somewhat controlled, interest rates, inflation, real GDP, and consumer confidence. By understanding the relationship of how changes in these variables cause changes in the stock market, then we can effectively predict changes in the stock market. This can be useful in determining the future state of the economy. Furthermore, we need to understand how much of a change in these variables causes a certain amount of change in the stock market.

My study uses these four variables to predict changes in the stock market and the sectors in a rational expectations model. I found that these variables are very useful and significant in predicting future changes in the stock market and the three sectors I chose: consumer durables, consumer nondurables, and the financial. My results show that not only are these variables significant in predicting stock market and sector fluctuations, but the market is also very sensitive in slight changes in these particular variables. Given changes in these variables, we can accurately predict changes in the stock market. This is not only useful in determining the future state of the economy, but also can be very lucrative.