

This study examines the impact of macroeconomic variables on stock returns of Pakistan, India and Sri Lanka for the period of 1997 M7 to 2010 M12. An ARDL approach is used to analyze the impact of macroeconomic variables on stock returns in the long run and VECM is used to capture this impact for the short run. Variables of the study were T-Bills, Exchange Rate, Consumer Price Index (CPI) and the Industrial Production Index (IPI). The results of study show that t-bills rate has negative significant impact and Exchange rate has a significant positive impact on the Stock Returns of Pakistan for the study period. T-Bills have negative significant impact, Exchange rate and Consumer price index having significant positive impact on the stock returns of the India and in Sri Lanka only T-bills rate having negative significant impact on stock returns. For the short run dynamics, the Vector Error Correction Model (VECM) shows the same result as in the long run. The estimated equation remains stable over the period of study as indicated by CUSUM and CUSUMQ stability tests. This study also provide policy implication for the policy maker T-Bills effect the stock returns in the short run but in long run.