INFLUENCE OF MACRO-ECONOMIC VARIABLES ON STOCK MARKET PRICES FOR COMPANIES QUOTED AT NAIROBI SECURITIES EXCHANGE

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A RESEARCH PROJECT REPORT SUBMITTED TO THE DEPARTMENT OF BUSINESS AND ENTREPRENUERSHIP IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (FINANCE) OF SOUTH EASTERN KENYA UNIVERSITY

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DECLARATION

This project report is my original work and has not been presented for a degree award in any other University.

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This project report has been submitted for examination with our approval as University Supervisors.

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ABSTRACT

Stock prices fluctuations for quoted companies occur daily due to both company specific variables like company earnings with corresponding dividend policies, and multiple macro-economic variables. This study sought evidence supporting the existence of influence of the selected macro-economic variables of: foreign exchange rate of hard currencies, interest rate and inflation rate on share prices fluctuations based on the weighted average monthly data from January 2008 to December 2012 for the companies listed on the Nairobi Securities Exchange in Kenya. The influence of selected macro-economic variables on stock exchange provide important implications for monetary policy, risk management practices, financial securities valuation and government policy towards financial markets. The study utilsed secondary data that was obtained from: Central Bank of Kenya, Institute of statistical Kenya and Nairobi Securities Exchange. To investigate the effect of the selected macro-economic variables on share prices of the companies listed on the Nairobi Securities Exchange, simple and multi-variate regressions analysis was used. For all of the quoted companies it was desirable to find if the stock prices fluctuations are predominantly due to the selected macro-economic variables. The Nairobi Securities Exchange may derive great benefit through more investors raising new capital in the share market when stocks are in great demand, and more extensional investment of companies by raising additional capital through stock splits or issuing more shares out of their authorized share capital. The study found that interest rate had a predominant effect on stock market price indices as compared to the other macro-economic variables. Interest rate, exchange rate for both the Euro and US Dollar had a negative effect on stock market indices for companies quoted on the Nairobi Securities Exchange. When the Kenya shilling depreciates the stock market indices gain in points. The inflation rate had a negative effect on stock market performance indicating that higher levels of inflation rate result in lower stock market indices in Kenya. Other macro-economic variables would also have impact on stock market indices for companies quoted on the Nairobi Securities Exchange since the predictor model did not account for all variables as it had a low R^2 of 15.1 %.