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

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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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DEDICATION

This project work is dedicated to all future generations in my village of Toto in Tulimani Mbooni West who are encouraged to work tirelessly to uplift their standards of living.

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 %.

TABLE OF CONTENTS

DECLARATION.....i

ACKNOWLEDGEMENT.....ii

DEDICATION.....iii

ABSTRACT.....iv

TABLE OF CONTENTS.....iv

LIST OF TABLES.....ix

LIST OF FIGURES.....x

CHAPTER ONE.....1

INTRODUCTION.....1

1.1 Background of study.....1

1.1.1 Macroeconomic Variables.....2

1.1.2 The Nairobi Securities Exchange.....3

1.2 Statement of the problem.....4

1.3 Objectives of the study.....5

1.4 Research Questions.....5

1.5 Justification for the Study.....5

1.6 Scope of the Study.....6

CHAPTER TWO 7

LITERATURE REVIEW 7

2.1 Introduction 7

2.2 Theoretical Review 9

2.2.1 Exchange rate 9

2.2.1.1 The Traditional Approach Theory 9

2.2.1.2 Portfolio Adjustment Theory 9

2.2.1.3 The International Capital Flows Theory 10

2.2.1.4 The Deterministic Stock Valuation Model 10

2.2.2 Interest Rates 11

2.2.2.1 Efficient Market Theory 11

2.2.2.2 Dividend Irrelevance Theory 12

2.2.3 Inflation rate 13

2.2.3.1 The Cost-push Theory of Inflation 13

2.2.3.2 New Keynesian Q (NKQ) Theory 13

2.2.3.3 The Quantity Theory of Money 14

2.3 Empirical Literature 15

2.3.1 Exchange rate 15

2.3.2 Interest rate fluctuations 18

2.3.3 Inflation rate 20

2.3.4 Political condition 21

2.3.5 Business climate in the country 21

2.3.6 Nationalization of industries 22

2.3.7 The presence of active dealers in the stock exchange 22

2.3.8 Market psychology: 23

2.3.9 Literature overview and Research gaps.....24

2.4 Conceptual Framework.....26

CHAPTER THREE.....27

METHODOLOGY.....27

3.1 Research Design.....27

3.2 Target population.....28

3.3 Sample size and sampling Technique.....28

3.4 Data collection procedure.....28

3.5 Data Processing and analysis.....28

CHAPTER FOUR.....29

FINDINGS AND DISCUSSIONS.....29

4.1 Introduction.....29

4.1.1 The effect of Foreign exchange rate.....31

4.1.2 The effect of Interest rate.....32

4.1.3 The effect of Inflation rate.....33

CHAPTER FIVE 36

SUMMARY OF FINDINGS,CONCLUSIONS AND RECOMMENDATIONS.....36

5.1 Introduction.....36

5.2 Summary of findings.....36

5.3 Conclusions.....36

5.4 Recommendations.....37

REFERENCES.....38

APPENDICES.....41

LIST OF TABLES

1. Table 4.1 Correlations between the independent variables output 30

2. Table 4.2 Regression between Euro, US Dollar and stock market prices 31

3. Table 4.3 Regression between Interest rate and stock market prices.....32

4. Table 4.4 Regression between Inflation rate and stock market prices 33

5. Table 4.5 Regression between Euro, US Dollar, Interest rate, Inflation rate and stock market prices.....34

6. Table 4.6 Model summary.....35

LIST OF FIGURES

Figure 2.1 Conceptual Framework.....26