THE IMPACT OF MACROECONOMIC
RISK ON STOCK PRICES IN KENYA,
2000-2005.

BACKGROUND/CONCERN

- Growth of the financial sector is considered as an essential aspect of the development process.
- Levine (2004);A well-functioning stock market is a core component of the financial sector.

- Chen, Ross and Roll (1986); there is no satisfactory theory that would argue that the relation between financial markets and the macro economy is entirely in one direction, but stock prices are usually considered as responding to external forces (even though they may have a feedback on the other variables).

objectives

- To investigate how risk exposures and returns of the country's equity indexes are related to the country's specific macroeconomic factors.
- To identify the information that stock prices contain about fundamental shocks affecting the economy.
- To give recommendations to policy makers based on 1 and 2 above

Methodology

- Data types and sources.
- Empirical model; dividend discount model
- CAPM vs APT.

$$R_t = \alpha + \beta_1 INF + \beta_2 MD + \beta_3 NER + \beta_4 TB + \beta_5 PR + \varepsilon$$

$$\beta_j = \frac{E(R_j) - R_f}{E(R_m) - R_f}$$

...

$$R_j - R_f = \alpha_j + \beta_j [R_m - R_f] + \varepsilon_j$$

Regression results and Conclusion

Areas for Further Research

- More studies should come up to focus on the cross sectional and panel analysis for a better understanding of the relationship between the macro economy and the stock market.
- research should be done on current information since there have been observed changes especially since the automation of the NSE from September 2006.

- Research to establish the speed of adjustment or the speed of processing the information in the stock market.