

Effect of Monetary Policy on Performance of Stock Prices for Quoted Companies at the Nairobi Securities Exchange

by
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EFFECT OF MONETARY POLICY ON PERFORMANCE OF STOCK PRICES FOR QUOTED COMPANIES AT THE NAIROBI SECURITIES EXCHANGE

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In accordance with Daystar University policies, this thesis is accepted in partial fulfillment of requirements for the Master of Business Administration degree.

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QUOTED COMPANIES AT THE NAIROBI SECURITIES EXCHANGE

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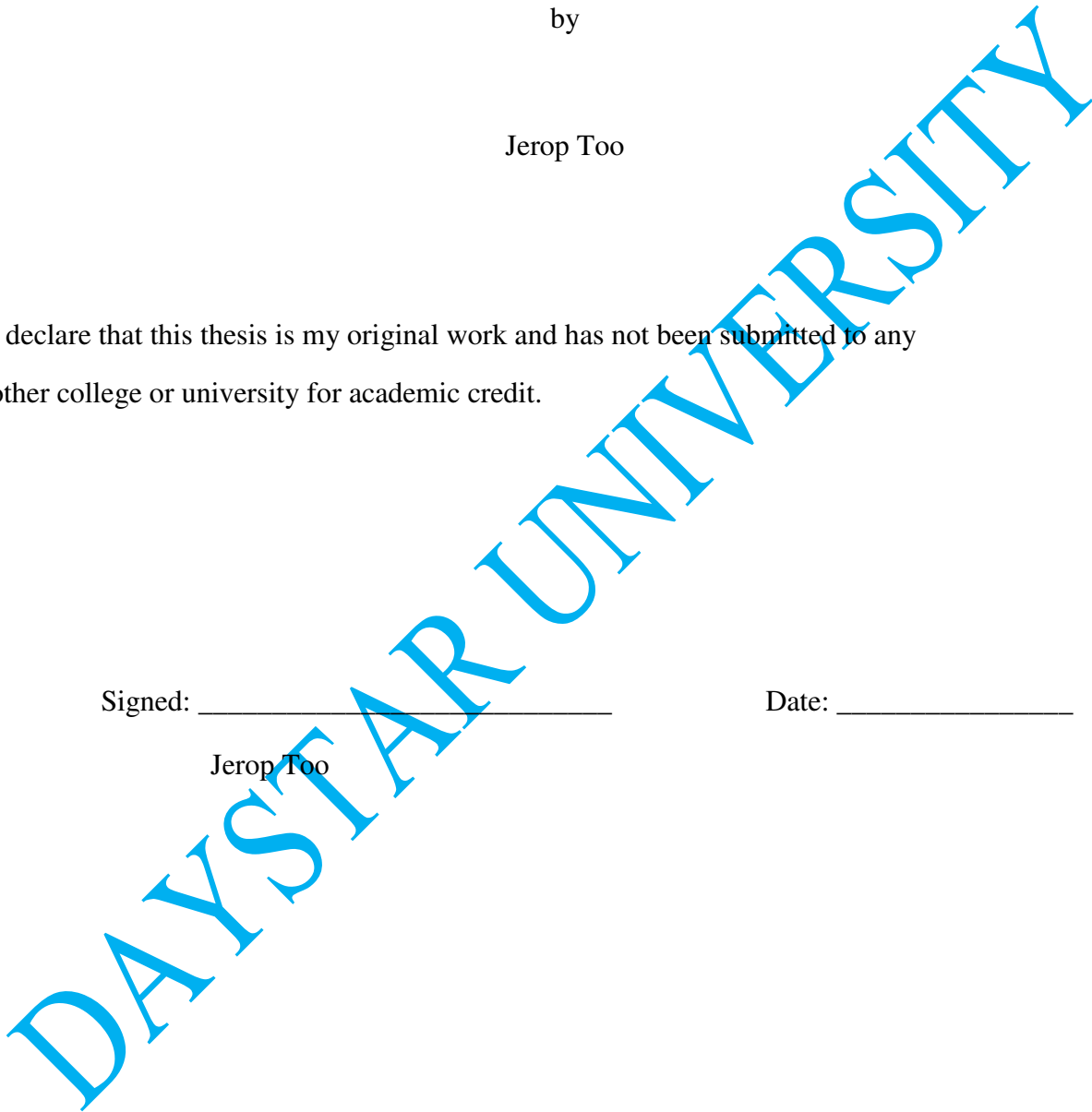
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I declare that this thesis is my original work and has not been submitted to any other college or university for academic credit.

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List of Abbreviations and Acronyms

CBK	Central Bank of Kenya
CBR	Central Bank Rate
GDP	Gross Domestic Product
OMO	Open Market Operations
MPC	Monetary Policy Committee
NSE	Nairobi Securities Exchange
SADC	Southern African Development Countries
STATA	Statistical Analysis Software
REPO	Repurchase
VIF	Variance Inflation Factor

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Abstract

The purpose of this study was to investigate the effect of monetary policy on the performance of stock prices for quoted companies at the Nairobi Securities Exchange. Using the random effect model, a stepwise random effect regression method was used to regress monetary policy tools against stock prices; this study found that interest rates and exchange rates had a negative effect on the stock prices while treasury bills and money supply had a positive effect. The findings were consistent with that of a research done by Machimbo, (2012) but only differed on the effect of treasury bills on stock prices. These findings give conclusive evidence that monetary policy has a significant effect on performance of stock prices. The difference on effect of treasury bills in this study implies the presence of a mutually exclusive relationship between interest rates and treasury bills hence a positive effect on the stock prices. The findings conclude that the stock market is a good transmitter of monetary policy in Kenya. A major recommendation of the study is that the Central Bank should be careful to check the impact of the policy in one sector of the economy over other sector because monetary policy seemed to favor the banking sector than other sectors thus resulting in biased information being used for future forecast.