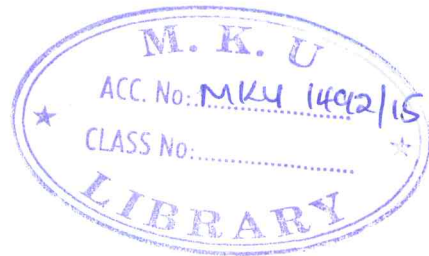


**EFFECTS OF CAPITAL MARKET DEEPENING ON ECONOMIC GROWTH
A CASE OF THE KENYAN CAPITAL MARKET**



BY
MWANIKI ALEX NYAGA

**RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE
REQUIREMENT FOR THE AWARD OF A DEGREE IN BACHELOR OF COMMERCE
(FINANCE OPTION) OF MOUNT KENYA UNIVERSITY**

2015

ABSTRACT

The capital market is important since it connects the financial sector with other non-financial sectors of the economy. This study examines the effect of Capital Market Deepening on economic growth in Kenya. Controversy exists among researchers on the role of deep capital markets in growth. Finance growth nexus suggested by various researchers suggests that finance has a supply leading effect on growth while others such as. The finance growth nexus forms the basis of the research with the capital market assumed to have a supply leading effect on economic growth. Empirical evidence on the role of capital market has been inconclusive on the effect on economic growth. Very few empirical studies have tackled the issue of bond market development as part of the capital market and its effect on growth. This study aimed at addressing the issue by incorporating a measure of bond market turnover. The research objective was to determine the effect of capital market deepening on economic growth in Kenya. The study used data from the Nairobi Securities Exchange from 1992-2011 and GDP data from The Kenya National Bureau of Statistics. Using correlational design, a multivariate regression model was used to regress the independent variables against the dependent variable with the dependent variable being Real GDP of Kenya and the independent variables being Stock Market Turnover Ratio, Bond Market Turnover Ratio, Value Traded Ratio, Market Capitalization Ratio and Stock Market Size. The findings indicate that three out of the five deepening variables have a significant positive effect on GDP. The study therefore concludes that Capital Market Deepening has a positive effect on GDP growth in Kenya and therefore lends support to the finance growth nexus. The Capital market plays an important role in economic growth and therefore the study recommends the government should take policy initiatives to foster growth of the capital market and especially so the bond market which is instrumental in providing finance for development of the Vision 2030 socio economic blue print.