

**CRITICAL ANALYSIS ON DETERMINANTS OF THE NAIROBI STOCK MARKET  
PERFORMANCE FOR KENYAN FIRMS DURING GENERAL ELECTIONS.**

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## ABSTRACT

The relationship between information flow and asset prices behavior is a key topic in finance. This study intended to analyze how inflation, money supply, GDP and interest rate affect the performance of the Nairobi Stock Exchange in the election period. The target population was the listed companies in the Nairobi Stock Exchange for the period 1982 to 2008 while the sample was the election years and the index for the twenty best performing companies for the election years. The rationale of this study was the theory of the Political Business Cycle (PBC) that was pioneered by Nordhaus (1975). A purposive sampling design was used to handpick cases that possessed the required characteristics which included both the variables involved in the study. The stock market performance is of significant importance to investors as they expect good returns on their investment. To policymakers and investors, determinants of stock market performance during general elections are very important since they influence the level of economic activity in the NSE at any time. Secondary data on independent variables inflation, money supply, interest rate and GDP and the dependent variable 20 share index was obtained from the NSE reports and other financial documents. The data was analyzed using descriptive statistics where scatter graphs were used to show whether there was correlation between the variables while regression statistics were used to show the level of the correlation. From the analysis it can be stated that although these variables contribute some percentage of performance either positively or negatively to the 20 share index the remaining part can be explained by other fundamentals in the economy. This finding enlightens investors interested in investing in NSE on the new opportunities and challenges that are in the market during general elections. This research finding forms the basis for future researchers who will wish to pursue their research in the same field. On the basis of the conclusion and evidences above it is recommended that firms should take into consideration the influence of general elections while investing because it has some impact on the performance of their businesses. It is suggested that if such a study could be done using data inclusive of the other East African stock markets so as to understand what forces really correlate with the stock indices of the different countries in the context of economic integration. Given that the number of firms listed in the Nairobi Stock Market is small, future studies may also involve a larger number of firms within Kenya that are not listed for further confirmatory or contradictory evidence.