STOCK MARKET PERFORMANCE AND ECONOMIC GROWTH: 
THE CASE OF NAIROBI SECURITIES EXCHANGE

BY

DIANA MUTHONI MURIUKI
X75/28331/2009

SUPERVISOR: DR. SETH GOR

Research Project Paper Submitted in Partial Fulfillment of the Requirements for the Award of 
the Degree of Bachelor of Economics and Statistics of the University of Nairobi

May 2012
ABSTRACT

This study examines the nature of the relationship between the Nairobi Securities Exchange (NSE) performance and economic growth in Kenya. Using quarterly time series data for the first quarter of 2000 to the second quarter of 2011. The study conducts a Granger causality test based on the Vector Autoregressive (VAR) Model. To determine the direction of causality between NSE performance and economic growth in Kenya, the results show that the causal relationship between NSE performance and economic growth in Kenya is not sensitive to the proxy used for describing the NSE performance. The findings imply that there is unidirectional causality from stock market performance to economic growth i.e. from the NSE 20-share index to the GDP and similarly from the NSE Market Capitalization to the GDP. From the results, we infer that the movement of stock prices in the NSE reflects the macro-economic condition of the country and can therefore be used to predict the future path of economic growth.