Abstract

The stock market plays a crucial role in the growth of business and production of goods and services which ultimately affects the economy of the country to a large extent. This is the rationale that the commercial associations, industrial bodies, policy makers, government advisors and even the central bank of the country keep a close eye on the operations of the stock market.

This paper attempts to empirically examine the impact of stock market and economic growth of Tanzania based on the time series data from 2000 to 2011 with seventeen listed companies. The paper explores the stock market development and economic growth relationship by looking at three main areas of stock market namely, market capitalization, turnover and total value of share traded in the market. The unit root test and wnteestq (Portmanteau) test were carried out. The researcher also tested the problem of multicollinearity through variance inflating factor (VIF) and normality of data by skewness and kurtosis. The findings show that the DSE still doesn't affect strongly the economic growth of Tanzania. A number of researches have been made on this topic and found a positive relationship between financial stock market development and economic growth, but in Tanzania the purpose of the government to develop economy, by creating the DSE is still not reached. This is due to the results from regressed model estimation which shows that there is no impact of DSE on economy of Tanzania. A paper comes up with the opportunity given to the Tanzania government to understand that it is time to find financial policies, to encourage companies and develop a financial stock market culture, and enhance to push companies to initiate an initial public offering (IPO) instead of bank loans or from any financial institution when investors either need fund for establishing new or for extension of existing investments.