ABSTRACT

The main objectives of the this study is to assess the impact of macro-economic factors on stock market development in Tanzania under a case study of Dar es Salaam Stock Exchange. The study narrowed the macro-economic factors and chooses only three of them among many including Interest rate, Inflation rate and Money supply. To estimate the relationship the study applied several test and methods, unit root test, Vector Autoregressive Model, granger causality test to test the short-run causal relationship between variables, Johansen test for co-integration and ordinary least squares method. The period understudy is July 2011 to June 2016. And the entire test was conducted using secondary data monthly data. According to unit root test by Augmented Dickey Fuller Test it is found that the three variables are not stationary at level but when deference to its first deference they all become stationary. Based on estimated regression coefficients and t-statistics, it is found that Interest rate and inflation rate have negative impact on stock market development while money supply has a positive impact. Johansen test for co-integration found that there is long-run equilibrium among variables while Granger Causality test found that all variables as a whole, interest rate, money supply and inflation have no short-run relationship with market capitalization as a measure of stock market development. Further, the study concludes that the relationship between inflation rate and interest rate to stock market performance is inverse and significant while the relationship between money supply and stock market performance is direct and significant. Also the study concludes that the regulators including Bank of Tanzania (B.O.T) and Capital Market Security Authority (CMSA) should be proactive rather reactive as relates management of the macro-economic variables. Also Tanzanian government needs more attention in promoting the right political climate which links the politics with stock market development, improving macroeconomic stability, professionalization of assets management and privatization of management of public funds through provision of support to theories according to which well-functioning, promoting stock market by fuelling the engine of economic growth that's foster capital accumulation and turning better investment opportunities.