

Abstract:

In this paper, we focus on how the stock markets in Africa have responded to the reform process. We identify three main types of reforms implemented in these markets since the 1990s, namely revitalization of the regulatory framework, modernization of trading systems, and relaxation of restrictions on foreign investors. We invoke market microstructure theory to hypothesize the expected response of the markets in terms of efficiency and volatility to the three types of reforms. Econometric methods are applied to test the hypotheses on a sample of ten stock exchanges, for the period 1988:01-1999:12. The evidence generally suggests that there are benefits of investments to improve market microstructure. For example, a comparative analysis across the sample demonstrates that markets with advanced trading technology, tight regulatory system and relaxed foreign investors' participation show greater efficiency and lower market volatility. Although direction of causality between efficiency and volatility varies across the markets, in general, we infer that reforms, which reduce volatility, reap higher efficiency. However, in some markets, the effects of the reforms are too recent to show any clear response pattern.