

Assessment of the Systematic Risk of Securities in the Nairobi Stock Exchange under Inflationary Conditions

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Abstract:

This study set out to establish if General Price Level Adjusted (GPLA) accounting data conveys information that is not discernable in the currently available Historical Cost (HC) accounting data. The criteria used to assess relative information potency of the two data sets was an assessment of the relative degree of association between the alternative accounting measures and the behaviour of the prices of securities. The strength of the relationship between the alternative accounting measures of risk and the market measure of risk was assessed to determine which of the two accounting measures exhibited a closer relationship. Specifically, the relationship between HC and GPLA accounting betas with market beta was assessed to determine which set exhibited a closer relationship. The data set found to have a closer relationship was interpreted as the one that captures a larger proportion of the information set underlying the systematic risk of securities and was therefore rated to have better information value in the specific decision context of the study. The findings of the study indicate that there is no significant difference in the relative information potency of the alternative sets of accounting data that were considered. That is, in the assessment of systematic risk both sets of accounting data conveyed largely the same information.