

**THE EFFECT OF STOCK MARKET DEVELOPMENT ON THE
LEVEL OF FOREIGN DIRECT INVESTMENT IN KENYA.**

KELVIN MWENDA MWITI

**A RESEARCH PROJECT PRESENTED IN PARTIAL FULLFILMENT OF
THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF
MASTERS OF SCIENCE IN FINANCE, BUSINESS, UNIVERSITY OF
NAIROBI.**

2020

DECLARATION.

This research is my legitimate work and has not been presented anywhere else, either in partiality or wholly, in this or any other institution of learning.

Signed:  _____

Date: December 4, 2020

MWITI KELVIN MWENDA

D63\11533\2018

This research project has been submitted for examination with our authority as university supervisors.

Signed:  _____

Date: December 4, 2020

Mr. Ronald Chogii

Lecturer, Finance and Accounting.

School Of Business, University Of Nairobi

Signed:  _____

Date: December 7, 2020

Dr. Winnie Nyamute

Senior Lecturer, Finance and Accounting.

School Of Business, University Of Nairobi

DEDICATION

I graciously devote this project to the most high God for guiding me achieve this far.

To Dad Mr. John Mwiti, Mum Mrs. Charity Mwiti and Siblings who have greatly supported me and been a source of inspiration and encouragement.

ACKNOWLEDGEMENT

To achieve this, it would not have been possible without the great favour and providence from the Lord Almighty. I give thanks to him for the good health, peace of mind and insights in this work.

I would also pass my great appreciation to my Dad and Mum for making it possible for me to reach this far, both morally and financially. To my supervisors Dr. Winnie Nyamute and Mr. Ronald Chogii, I really appreciate the encouragement and knowledge you gave me in order to better my work.

To the University of Nairobi, I really feel honored and grateful for offering me admission to carry out my studies and eventually research. At the very end, I would appreciate the great support from my colleagues and friends for the support they have given me all along.

TABLE OF CONTENT

DECLARATION.....	ii
DEDICATION.....	iii
ACKNOWLEDGEMENT.....	iv
LIST OF TABLES	viii
LIST OF FIGURES	ix
LIST OF ABBREVIATIONS AND ACRONYMS	x
ABSTRACT.....	xi
CHAPTER ONE	1
INTRODUCTION.....	1
1.1 Background to the Study.....	1
1.1.1 Stock Market Development	2
1.1.2 Foreign Direct investment	4
1.1.3 Stock Market Development and Foreign Direct investment	5
1.1.4 Stock Market in Kenya	6
1.2 Research Problem.....	7
1.3 Research Objective.....	10
1.4 Value of the study	10
CHAPTER TWO	11
LITERATURE REVIEW	11
2.1 Introduction	11
2.2 Theoretical Review	11
2.2.1 Eclectic Paradigm Theory	11
2.2.2 Modernization Theory	12
2.2.3 Financial Market Theory of Development	13
2.3 Determinants of Foreign Direct Investments	14
2.3.1 Stock Market development.....	14
2.3.2 Inflation rate	15
2.3.3 Tax Rates	15

2.3.4 Exchange Rates.....	16
2.4 Empirical review	16
2.5 Conceptual Framework	21
2.6 Summary of literature review.....	22
CHAPTER THREE	23
RESEARCH METHODOLOGY	23
3.1 Introduction	23
3.2 Research Design.....	23
3.3 Data collection.....	23
3.4 Diagnostic Tests	23
3.5 Data Analysis	24
3.5.1 Analytical Model	25
3.5.2 Test of Significance	26
CHAPTER FOUR.....	27
DATA ANALYSIS, RESULTS AND DISCUSSION.....	27
4.1 Introduction	27
4.2 Diagnostic Tests	27
4.3 Descriptive Statistics	30
4.4 Correlation Analysis.....	31
4.5 Regression Analysis	33
4.6 Vector Autoregressive Model and Vector error correction Model	35
4.7 Granger Causality.....	40
4.8 Discussion of research findings.....	42
CHAPTER FIVE	45
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS	45
5.1 Introduction	45
5.2 Summary of Findings	45

5.3 Conclusions.....	47
5.4 Recommendations	48
5.5 Limitations to the study.....	49
5.6 Suggestions for future research	50
REFERENCES.....	52

LIST OF TABLES

Table 3.1 Summary of Measurement of variables.....	25
Table 4.1: Heteroscedasticity Test.....	27
Table 4.2: Autocorrelation Test.....	28
Table 4.3 Multicollinearity Test.....	28
Table 4.4 Omitted Variables Test.....	29
Table 4.5 Unit Root.....	29
Table 4.6 Descriptive statistics.....	30
Table 4.7 Correlation Analysis.....	32
Table 4.8 Regression Analysis.....	33
Table 4.9 Regression Coefficients.....	34
Table 4.10 Lag Selection.....	36
Table 4.11 Cointegration Test.....	36
Table 4.12 Vec Model.....	37
Table 4.13 Vec Model coefficients.....	38
Table 4.14 Vec Model Autocorelation Test.....	39
Table 4.15 Jarque-Bera test.....	39
Table 4.16 Stability Test.....	40
Table 4.17 Granger Causality.....	41

LIST OF FIGURES

Figure 2.1 Conceptual Framework.....	21
---	-----------

LIST OF ABBREVIATIONS AND ACRONYMS

AIMS	Alternative investment segment
CBK	Central Bank of Kenya
CMA	Capital Markets Authority
FDI	Foreign Direct Investment
FIMS	fixed income market segment
GDP	Gross Domestic Product
IMF	International Monetary Fund
KNBS	Kenya National Bureau of Statistics
MDG	Millennium Development Goals
MIMS	Main Investment Market Segment
NSE	Nairobi Securities Exchange
OLI	Ownership, Location and Internalization
OLS	Ordinary Least Squares
UNCTAD	United Nations Conference on Trade and Development
VAR	Vector Autoregressive model
VECM	Vector Error Correction Model
VIF	Variance Inflation Factor

ABSTRACT

This study concentrated on exploring the association amongst the stock market development and foreign direct investments. The key emphasis was majorly on the impact or influence in which the advancement of the stock market has on the inflows of foreign direct investments in Kenya. According to Adam and Tweneboah (2009) they cited the stock market development has a crucial role in attracting direct foreign investments. In asserting this relationship, the study incorporated other economic variables to model a multiple linear regression. This model had foreign direct investment as the output variable with the independent variable being the stock market development. Control variables in the study were Real exchange rate which is measured as a comparison of the KES to the USD, the inflation rate measured in relation to the commodity price, the applicable tax rates and the country's economy size expressed by the GDP growth rate. The study assumed a descriptive research design approach. Secondary data from the past historical years was embraced in order to run the multiple linear regression analysis using the STATA statistical software. The analysis also included Vector Auto regression model (VAR) and Vector Error Correction Model (VECM). The inquiry findings were presented in form of both descriptive and inferential statistics. The results showed R squared value of 0.2705 which illustrates that 27.05 percent of the deviance in FDI was determined by selected variables in the model while 72.95 percent was determined by variables not contained within the model. Consequently, the model was statistically significant in determining how stock market expansion, size of the economy, rate of exchange, inflation rate and taxation rate affect direct foreign investment inflows at 95 percent confidence level. Using VECM the study revealed existence of insignificant long standing linkage among the variables. Stock market development had an adverse though insignificant sway on foreign direct investments while economic growth and inflation rate possess a positive implication on the direct foreign investments which was significant. Exchange rate and tax rate had a negative influence on foreign direct investments which was significant. Testing for causality using granger causality test revealed that foreign direct investment inflows had a unidirectional association with stock market development were stock market development significantly caused on foreign direct investments.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study.

Foreign direct investments (FDI) is regarded as a high contributor in spurring economic growth in emerging economies. Rather than providing the much needed financing for investment, it has helped in creating job opportunities, advancement in technology and provision of advanced managerial skills thus aiding in economic growth (Adam and Tweneboah, 2009). FDI accounted for an average of thirty nine percent (39%) of external financing in developing countries (Unctad, 2018). Economic theories have explained a bi-causality in examining the association and influence between the advancement of stock markets and direct foreign investments. Countries with advanced financial markets invite a lot of FDI (Alfaro, Chanda, Ozcan & Sayek, 2004). An increase in FDI results in a quadruple stimulation to a county's economy, in presence of a developed financial market (Alfaro, Chanda and Kalemli – Ozcan, 2010).

This study was based on a number of economic theories, which elaborate the various interrelationships between the advancement of stock market and FDI. Some of these theories used include; Eclectic paradigm theory, modernization theory and the financial market theory of development. The electric paradigm theory focuses on the ownership, location and internalization in driving the direction of FDIs in an economy. The transfer of technology and advancement in production, are among the key contributors to FDI in a country. Modernization theory highlights on the advancement of these factors through capital accumulation to facilitate attraction of more FDIs. The theory of financial development elaborates on usage of private investments through stock markets to accelerate development. It will be noted that a well-elaborated stock market attracts FDIs through the transparency it creates in the market. Foreign direct investments have

played a key role in stimulating economic growth with its advancement in technology and transfer of skills. Based on policy determination and implementation, some of the key factors in attracting FDI inflows include financial development, human resource endowment, infrastructural development, stability of the economy and liberalization of markets (Bengoa, M., & Sanchez-Robles, B. 2003).

Direct foreign investments in Kenya have been considered low in relation to the GDP of the nation and level of development. However there has been a steady rise in the amounts of FDI in the country, to USD 1.6 billion in the year 2018 noting a 27% increase, with a total FDI stock of 14.4 billion (Unctad, 2019). This has made it the largest FDI recipient among its East African counterparts. Various initiatives have been initiated in order to attract more FDIs among them privatization and public-private partnerships in the various sectors in line with the vision 2030. With the growing need for FDIs to stimulate growth of a nation's economy, advancement of the stock market has to play a fundamental role, with various initiatives and regulations having been employed to strengthen its efficiency. Incorporation of the Kenyan stock market with the global financial system has however exposed it to access to more risks and resilience in its operation.

1.1.1 Stock Market Development

Stock market is an avenue in which the government together with other market players can use to raise their long-term capital with investors purchasing and selling their securities (Arnold, 2004). A stock market intermediates by providing an avenue for the interactions of buyers and sellers hence the price determination of the traded asset and provision of an opportunity for traders to sell and buy it while ensuring the cost of transaction remains low (Fabozzi, Gupta & Markowitz, 2002). Stock market development is all about setting up credible and effective institutions, instruments and

markets to support growth and investment. Through this, it ensures that the stock market is an efficient intermediary in trading. Highly liquid markets provide an opportunity for high volumes of stocks to be issued with the least price effect (Adam & Tweneboah, 2009). Expansion of Stock markets can therefore be the advancement in capacity, size, volume and market efficiency in which capital is raised by investors in a legal institutional framework.

A well-developed and elaborate stock market has been highly regarded as a tool to spur economic growth in a nation. They undertake the “magical art” by allowing long-term ventures to be funded by individuals’ resources, who may wish to withdraw them at will (Baumol, 1960). With the growing investment needs coupled with economic growth, the stock market advancement has a critical duty to play in fostering this growth. The stock market being the carrier of the much-eyed financing, have to be well elaborate. Foreign investment is interlinked with institutional mechanisms and regulatory changes, requiring disclosures, listings and fair trading practices that eventually raises the confidence and perception of the domestic markets by investors. This raises the investor’s base and enhances participation, which ultimately leads to increased capital flows (Yartey, 2008). This has greatly driven the urge for expansion of the financial sector that incorporates stock markets in developing nations.

Stock market development is a concept that can be estimated by the use of a number of parameters, which include; Stock Market capitalization, the firms listed and the stock liquidity, which is expressed as the sum worth of shares trading in the stock market in relation to the GDP. Adam and Tweneboah (2009) examined stock market expansion by calculating market capitalization in the form of a ratio to the GDP expressed as the total market value of listed shares divided by GDP. The guiding postulation as to the adoption of this technique is that, it is a more standardized and less subjective estimate

in comparison to other estimates of stock market advancement (Garcia and Liu, 1999). Njane (2017) used a similar concept and expressed stock market growth as the market capitalization as a percentage to the GDP.

1.1.2 Foreign Direct investment

Foreign direct investment is well-thought-out to be corporation's establishment of business operations in another state by way of establishing its own affiliate, acquiring a local enterprise or by engaging in a joint venture (Theodore Moran, 2012). It is also regarded as the transfer of assets which include financial, technology, human capital and expertise to another country (Bajrami & Zeqiri, 2019). The IMF balance of payment manual states that FDI is considered as acquisition of long-term control and existence in another country by a foreign firm. Therefore, FDI can be regarded as the establishment of economic activities in a country by a foreign firm or multinational while tapping the opportunities in the country.

Economic growth has been stimulated by the increase in foreign direct investments, highly attributed by the transfer of finance, technology, skilled manpower and expertise. With the growing development need and economic growth, FDI has been regarded a key catalyst in delivering this due to the inadequacy of domestic investments and low savings. Countries have embarked on attracting direct foreign investment and adoption of the millennium development goals (MDG) (Ayanwale, 2007). As countries try to attract more of FDI, more concern has shifted to the catalysts of attracting it, since it is notable that the economy has grown tremendously as a result of it.

The direction of FDI has been influenced by changes in the policy framework, which include entry barriers and government privatization of firms. Growth prospects play a key role, as the potential for higher economic growth will attract more FDI. The macroeconomic factors in a country such as rate of taxation and the exchange rate,

influence the direction of FDI as lower taxation rates and exchange rate that is anticipated to appreciate, attract more FDI (Mishkin & Eakins, 2009).

Foreign Direct Investment can be expressed as either FDI flows or FDI stocks as expressed by the balance of payments and international investment position manual by the IMF. This incorporates the reinvested remunerations, equity capital and intercompany debt instruments. According to Shahbaz, Lean and Kalim (2013) FDI is calculated by the net inflows, which are indicated as a portion of the state's GDP. A country's net FDI inflow share is best derived from the difference between inward and outward FDIs of the nation (Adam & Tweneboah, 2009).

1.1.3 Stock Market Development and Foreign Direct investment

FDI has been a great cradle of financing for developing countries. Several research among them Shahbaz, Lean and Kalim (2013), Musa and Ibrahim, (2014) have indicated that FDI is a key capital source, complements the domestic private investments, create new employment opportunities, boosting of technological advancement, and stimulates the overall economic growth in the home nations. Financial sector expansion has increased levels and advancements of innovation and technology from FDI. Positive growth of direct foreign investments is associated with the advancement of the financial sector in the host nations (Hermes & Lensik, 2003).

There is an interlinking relationship between direct foreign investments and progression of the stock market with various studies signifying that they all stimulate growth of a state's economy. In analysing these parameters, economic growth plays a central critical role. Basing to Singh (1997), a positive association is exhibited amongst economic growth and stock market growth. Stock market expansion has been highly viewed to complement the financial sector development, which has encompassed financial reforms and macroeconomic variables strengthening. Empirical studies has

indicated that FDI is a vital foundation of capital, complementing inland Investments as it brings about new job opportunities with technological transfer boosting the country's economic growth.

Theoretically, the presence of a short-term positive influence concerning stock market advancement and FDI is notable, with foreign investments being driven by advancement of the stock market. This signifies the great forte of a country's economic climate in drawing foreign investors. In the long-term, the FDI flows positively influence stock market expansion (Arcabic, Globan & Raguz, 2013). According to Claessens, Klingebiel, and Schmukler (2001) a complementary association among stock market growth and FDI exist. The flow of FDI in developed stock markets influences the number of investors willing to partake trading on the stock market.

The substitution effect concerning stock market improvement and FDI has been established where FDI inflows are larger in countries referred as underdeveloped financially, riskier and weak in their institutional frameworks (Hausmann & Fernandez-Arias, 2000). This implies a negative connection between direct foreign investment and stock market expansion, with direct foreign investments being a substitute to the development.

1.1.4 Stock Market in Kenya

The Nairobi Securities exchange (NSE) which was earlier on referred to as the Nairobi Stock Exchange is a legally mandated entity for trading of stocks in Kenya. At its inception in the year 1954, it had 46 listed companies. Since then, the market has undergone rigorous transformation and development to meet the international standards and be more attractive to investors. These reforms included the setting up of the Capital Markets Authority (CMA) in 1989, which is the regulatory body, replacing the call over trading system with the open outcry system and providing a well enabling environment to facilitate progression and growth of the market. However, the number of listed firms

has grown to the current 66 firms (Nairobi Securities Exchange, 2020).

The NSE groups the market into three segmentation specified as; Main Investment Market Segment (MIMS), Alternative investment market segment (AIMS) and fixed income market segment (FIMS). MIMS is the main quotation market with AIMS providing a substitute capital generation mechanism to small, medium and newly established entities which are not able to achieve the regulatory necessities of the MIMS with regard to listing. FIMS offers an autonomous market for fixed income securities, such as bonds, debenture stocks and preference shares, short-term financial tools, such as commercial papers and treasury bills (Capital Markets Authority, 2002; Nairobi Securities Exchange, 2012).

Kenya's market capitalization as of Dec 2019 was at 26.1% of the GDP changing from 23.6% in the previous year 2018. It is important to note that in December 2006, it hit the all-time highest at 87.0% while the lowest was at 23.4% in December 2011.

According to UNCTAD 2019, the FDI inflows in the year 2018 rose to USD 1.6 billion from USD 1.2 billion in 2017. It was worth noting that the USD 1.6 billion was the highest amount with the least being USD 0.4 billion in 1988. This was attributed to the large influx from the ICT sector, manufacturing, mining, banking and tourism. Most of these influxes were from Netherlands, Belgium, China and South Africa.

1.2 Research Problem

FDI has been a key contributor in motivating growth and stability in emerging countries through various initiatives and opportunities it offers. This has led to the increase in initiatives by the government and institutions to attract more of them. However, the level of FDIs invested into a country is dependent on a multiple of factors among them the economy's size, tax rates, exchange rates, political stability and infrastructural development. The size of the economy has been viewed in a broader perspective to

include the level of economic growth and its growth potentials. This has driven the desire to have a higher economic growth capacitated by a number of transformations. Key among these are the financial sector transformations, which encompass improvement of the stock market, advancement of the economy's productivity, domestic investment and development of financial intermediation sector, which are determinative in stock market advancement (Garcia and Liu, 1999). According to Levine & Zervos, (2005) there exists an upward influence concerning stock market advancement and economic expansion.

Transformation of the economy has been greatly influenced by FDI influx through the mechanism of providing capital, advancement in technology, human capital and expertise skills. There is a notable phenomenon of a wedge-shaped causal association among FDIs and stock market development as FDI stimulates an economy's growth, which in turn stimulate expansion of the stock market. This leads to a conclusion that FDI stimulates progression of the stock market (Adam & Tweneboah, 2009). The findings of Soumare & Tchana, (2011) illustrate that stock market progression and FDI exhibit a bi-directional causal connection. This phenomenon has however opened up research, to scrutinize the cause and effect relationship of stock market development on FDIs. Kenya being a high recipient of FDI flows and an attractive destination for many multinational corporations, this research endeavored to get a clarity as to whether it conforms to the phenomenon. The steady rise in FDI inflows brought an inquest on to its key contributors. This study sought to examine as to whether the growth and advancement in Kenya's stock market had a consequence on the level of FDI inflows. According to the World Bank report on the ease of doing business for the year 2020, Kenya's ranking improved, attributed by an increase in the FDI inflows that were channeled in to the ICT sector, infrastructure, Mining. This was further facilitated by

the various public –private partnerships, relaxation in listing and business operation procedures, accompanied with the conducive political atmosphere in the country in line with the vision 2030. ICT sector has been pivotal in the attraction of FDI with the establishment of fibre optic and google loons (google balloons).

Related studies in this area entailing stock market and its advancement, FDI and economic growth have been done in Kenya. According to Dinga (2009) and Kimotho (2010) who studied FDI and economic growth, made a deduction that FDI influences the level of economic growth in Kenya but failed to explore on stock market and its development. Ndungu (2011) researched on stock market advancement and Kenya's growth of the economy and made the conclusion that the two variables were positively related. However, the linkage between FDI and the variables under consideration in the research was not highlighted. According to Njane (2018) who studied on implication of FDI to the progression of stock market in Kenya, concluded that FDI showed an impact on stock market expansion despite the effect being insignificant. This study however did not capture the implication of a developed stock market on the FDI in Kenya.

Numerous studies have assessed the intertwine amid FDI, stock market advancement and economic expansion in Kenya. However, a deficiency in the research, on the implication of stock market improvement on Kenya's foreign investments is notable. This study wished at addressing the deficiency by solving the query; what is the consequence of stock market development on the level of foreign direct investments in Kenya?

1.3 Research Objective

This study endeavored to examine the effect of stock market development on the level of foreign direct investments in Kenya.

1.4 Value of the study

This study outcomes are anticipated to aid in policy formulation and derivation of strategies to make Kenya an attractive destination for investment therefore attracting more FDI. Focusing keenly on the stock market development. It will guide on the various policy interventions needed to grow and develop the Kenyan stock market to attract and protect the various investors in to the country.

It will be a guide and reference for future scholars, researchers and learners in this field or related studies. This will be through guiding them in identifying areas of future research and the various gaps with in the research that need to be addressed. It will also aid scholars in advancing their knowledge base.

The study findings will be a guide to the government institutions like the capital markets Authority and investors on the various market initiatives and regulations that need to be undertaken to increase advancements made in the stock market while increasing investors' confidence.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter highlighted the theoretical framework underpinning the study. Various studies and literature pertaining foreign direct investment and stock market advancement were reviewed. It also encompasses the key attractors of foreign direct investment flows, empirical review. Conceptual framework and a summary of literature review.

2.2 Theoretical Review

The various associations amongst stock market development and foreign direct investments can be explained using different theories. This study laid a key focus on three theories, which include; Eclectic paradigm theory, Modernization theory, and the financial market theory of development.

2.2.1 Eclectic Paradigm Theory

John H. Dunning developed this theory in the year 1979. This theory explains the interrelationship between three aspects; ownership, location and internalization (OLI) in the engagement of foreign direct investments. A multinational firm will strive to channel FDIs to a country in which it will have a competitive advantage over the host firms in terms of ownership of the investing enterprise. The locational attractiveness of the country is a key component in attracting the FDIs by a firm in exploiting its specific advantages. The more the net gains of internalizing the firms operations, the more the firm will engage in production in foreign countries itself without engaging foreign firms (Dunning, John H., 2000).

The interaction between these three factors as explained in the eclectic paradigm gives a more detailed expression of the various moves and direction of FDIs by firms at their

industrial level. This gives an insight on the acts of foreign production through direct foreign investments, and their respective growth (John H. Dunning, 2000).

Under this theory, it postulates that a firm will avoid open market transaction if the cost of performing the same transactions is lower internally. This conforms to the idea and strategy that the approach adopted provides more value as compared to the other choices available (John H Dunning, 1979). The eclectic paradigm was empirically tested by Shanghai Vision Technology Company, and their strategy worked better in the new markets they ventured.

2.2.2 Modernization Theory

This theory came into place from the origination ideas of Max Weber in the period between 1864 and 1920 after which it was developed to a paradigm by Talcott parsons in the years 1902 to 1979. This theory looks into account the internal factors, incorporating foreign assistance in the country to bring about development. The Modernization theories majorly rely on the neoclassical and endogenous growth theories which suggests FDI would stimulate expansion of economies in emerging countries. This lies on an understanding that capital investment is a key catalyst in spurring economic growth, which may be channeled through FDI.

Based on the findings of Calvo and Sanchez-Robles (2002) technological transfer to developing countries channeled through FDI is key, as most of these nations do not have the sufficient infrastructure in terms of education levels of the population, economic, social stability and financial markets that is required to spur innovation for economic growth. FDI brings along with it the structural, organizational and advanced managerial skills, market penetration techniques, market knowledge, together with their interrelationship in multinational corporations (Kumar & Pradhan, 2002). According to Nath (2005), FDI exercises the role of stimulating capital accumulation and raising the

factor productivity yield. This is highly attributed to the development of market structures to facilitate the capital movement.

Complement to the advancement of technological capacity and increasing on capital creation, FDI enhances the flow of knowledgeable expertise in management, organizational structure and operation, promoting and aiding of easier access to marketing networks open to entities in the international scope (Holtbrügge & Kreppel, 2012; Lipsey, 2004). This explanation gives a clarification on the resulting effects of FDI in developing nations as highlighted in the modernization theory.

2.2.3 Financial Market Theory of Development

The financial market theory of development was developed and postulated in the World Bank's World development report for the year 2000. It became the beginning of the new theory of development, which highlighted usage of private investment by channeling capital through the stock market in spurring development. The theory states that the creation of regulated financial markets that are accessible by foreign investors gives the surest path to rapid economic development.

According to Filer, Ha-nousek, and Campos (1999) they implied that activities of stock markets stimulated economic expansion in countries with low and medium level incomes. The financial market theory of development indicates that stock markets enhance economic expansion under the guidance of it being incorporated to an organized formal framework, that help in decision making to help in spotting and growth of available opportunities through the various signals sent. However, the development and functioning of these markets has been influenced by the various regulations taken in different countries (weber, Davis, and Lounsbury, 2009).

Businesses and companies in low income and developing nations are able to get a wide range of private capital from developed and industrialized countries without the reliance

on aids and loans. Decision-making has been highly enhanced through the pricing system, through the knowledge and intelligence offered by the markets. This provides investors with a high prospect for growth in the developing countries and greater returns worth the risks attached.

2.3 Determinants of Foreign Direct Investments

Various factors determine the flows in direct foreign investments in a nation. The main factors highlighted in this study included stock market development, economy's size, tax rates, exchange rates and the inflation levels.

2.3.1 Stock Market development

Stock market development through institutional frameworks that offer the necessary regulations creates transparency and openness in the transactions. This strengthens the investor's trust in the market and may be attracted to devote more investments to the country. According Hermes and Lensik (2003) the rise in FDI inflows in a nation is facilitated by the financial sector development. Foreign investment is highly interlinked with reform in the institutional and regulatory frameworks, disclosure requirements, listings and favorable trading practices that raise the trust in domestic markets. The resulting effect is that the investor's base and level of participation grows, leading to surge in capital flows (Yartey, 2008). Stock market development is regarded as an advancement to the access to private capital through the various regulations that avail an opportunity to enhance the level of trading and liquidity in the market. Size of the economy

An economy's size coupled with the market size are key determinants of the FDI that a country may attract. When the host nation's market size is large or portrays positive growth potential, it provides a high investment opportunity for multinational firms to invest. Multinational firms have a keen eye on large markets for them to efficiently and

fully utilize the resources to maximize the economies of scale (Chakrabarti, 2001). A larger market creates an opportunity for large-scale production to be exercised. However, investors will prefer fast growing markets which offer promising prospects (Culem, 1998). According to Billington (1999) the larger the host country's total income and growth, the more attractive it is to more influx of FDI.

2.3.2 Inflation rate

Inflation is a reduction in the purchasing muscle or real value of a nation's money (Tucker, 2007). It has an impact on the units of commodities purchased by consumers. The decrease in real value for money causes uncertainties in the markets and economies. Macroeconomic stability is measured using the inflation levels. It indicates the resilience of a nation's economy in providing an extent of surety and certainty to function profitably (Balasubramanyam, 2001). The lower the inflation rate, the higher the expected positive impact on FDI. According to Dryabina (2011), there occurs a negative association amid the inflation levels and FDI. A high inflation levels discourages investments and savings which leads to a shortage in goods due to the price increase (wanjala, 2014).

2.3.3 Tax Rates

Tax policies have the capability of altering the volume, direction and location of FDI. It can be noted that the higher the tax rates the lesser the after-tax returns that reduces the incentives to allocate investment funds (Gordon & Hines, 2002). Multinationals are sensitive to various tax policies adopted by countries in form of subsidies and incentives and prefer investing in environments which maximize their net gains. According to Wijeweera, Dollery, and Clark (2007) there is an adverse influence among FDI and the tax rates, indicating that the greater the tax rate, the lesser the FDI inflows in to the country.

2.3.4 Exchange Rates

The exchange rate is the worth of a state's medium of exchange relative to that of the other. It determines the price of a nation's exports to foreign countries and the domestic country's imports. The floating exchange system has been widely adopted in this era whereby the rates change throughout the day (Thomas, 2006). According to Bénassy-Quéré et al. (2001), the rate of exchange instability leads to an adverse impact on FDI. This affects the various transactions that take place between countries, which include the production costs, and income perspectives. This gives the perspective of exchange rate as an indicative sign of competitiveness as highlighted by Yaprakly (2006). The ultimate effect of real rate of exchange is indicated by its impact on demand levels of foreign and domestic goods.

2.4 Empirical review

There have been several studies, local and international that suggest the various relationships exhibited by stock market advancement and FDIs. However, a limited scope of these studies have explored the consequence of stock market developing on the levels of FDI, more so on the developing economies like Kenya.

A research by Arcabic, Globan & Raguz (2013) explored the longstanding and short-range characteristics and interactions amongst the stock market in Croatia and FDI. Data on FDI stocks and trade volumes on a quarterly basis was used for the period between Quarter 1 of 2001 to Quarter 4 of 2011. The study investigated the trends in FDI and movement of the stock trading market together with expansion of the economy. Further, using the two variable VAR model, it was noted that on the short run, growth in the stock market impacted positively on FDIs. This is a sign of great strength in the market, favorable investment conditions and fairness to foreign investment. In the long run, the study suggested that there existed no influence among FDIs and stock market

advancement in Croatia. This was examined by use of Engle-Granger and Johansen cointegration approaches. This study used a short period in the analysis of the long run relationship, which could be a contributor to their findings.

According to Raza et al. (2012) who investigated on the implication of direct investments on stock market advancement of a third world developing nation, and used Pakistan as the casestudy. The study sought to deduce whether the variables had an association. Using time series data, and the period spanning the year 1988 and 2009 that was run on an ordinary least squares model, it was found existence of a notable positive association among FDIs and stock market expansion in Pakistan. The study recommended for government policy intervention to have a friendly legal and financial guideline to attract more investors. However, in the study the findings were not conclusive to all the developing nations, hinting out that the concept could not be generalized for applicability due to their local aspects.

Adam and Tweneboah (2009) carried out a research that targeted the implication of FDI flows on advancement of the Ghanaian stock market. Data was obtained for the duration between the years 1991 and 2006. Using cointegration analysis, the study implied the manifestation of a long run association among the variables. A positive significant impression of FDI on the advancement of stock market in Ghana was exhibited. Stock market advancement was facilitated by rise of FDI as it was evidenced using the variance decomposition and impulse response from the VEC model. Ghana being an African country just like Kenya has experienced increased FDI with significant advances on the stock market. Therefore a necessity to explore whether expansion of stock market could be impacting on direct foreign investment levels.

Aayale (2017) examined the influence exhibited among various macroeconomic factors on the FDI and stock market progression in Morocco. Data covering twenty years, 1993

to 2013, was employed in the analysis by running a multiple linear regression analysis. The findings suggested presence of a notable negative influence amongst FDI and development of the Casablanca stock market. From the macroeconomic variables used; exchange rate coupled with domestic savings exhibited a stimulus on the expansion of stock market. These findings were a contrast of the literature and theories relating to their relationship. The study however, did not have a keen focus on the variable FDI and stock market development, which ought to have been explained by the macroeconomic variables.

(Chee & Nair, 2010) Studied on the effect of FDI and development of financial sector in the Asia-Oceania region's economic growth. The study used Fixed and random effects-estimators to check for the association among FDI, financial sector advancement and economic expansion in which data from a sample size of 44 states in Asia and Oceania region for the duration between 1996 and 2005 was used. Empirical evidence depicted that enlargement of financial sector had an impact on the FDI inflows, which stimulated economic growth. The study also implied a complementary connection amongst FDI and expansion of stock market in facilitating progression of the economy. In the presence of market and regional dynamics as a result of economic endowment and activities, it necessitates for examination of this phenomena in a specific country to test its conformity as this study was regional based.

Njane (2017) assessed the FDI's influence on advancement of the Kenyan stock market. In the study, correlation and regression analysis for the period 1987 to 2016 was done. The dependent variable was stock market development with FDI inflows being an independent variable. The multiple regression however incorporated the variables; economic growth expressed in terms of GDP, annual interest rate, exchange rate and the rate of inflation. The results established that stock market advancement and FDI were

positively correlated, which was insignificant. This led to a decision that FDI was not a vital factor in improvement of Kenya's stock market. However, the variables in the model were jointly deterministic in elucidating expansion of the Kenyan stock market. The influence exhibited by direct foreign investments and advancement of stock market could lead us to the question of which these variables influences the other, which was not clearly examined.

Ikikii and Nzomoi (2013) did an analysis on Kenya's economic growth as influenced by advancement of the stock market. The analysis used GDP to estimate the level of economic growth and market capitalization together with total trade volumes to estimate stock market development with data spanning in the years 2000 to mid-2011. It was concluded that advancement of the stock market was positively correlated to growth of Kenya's economy. The empirical evidence depicted that enlargement of stock market, had a positive result on progression of the Kenyan economy. The study however did not conclusively examine the various determinants of economic growth that were influenced by development of stock market.

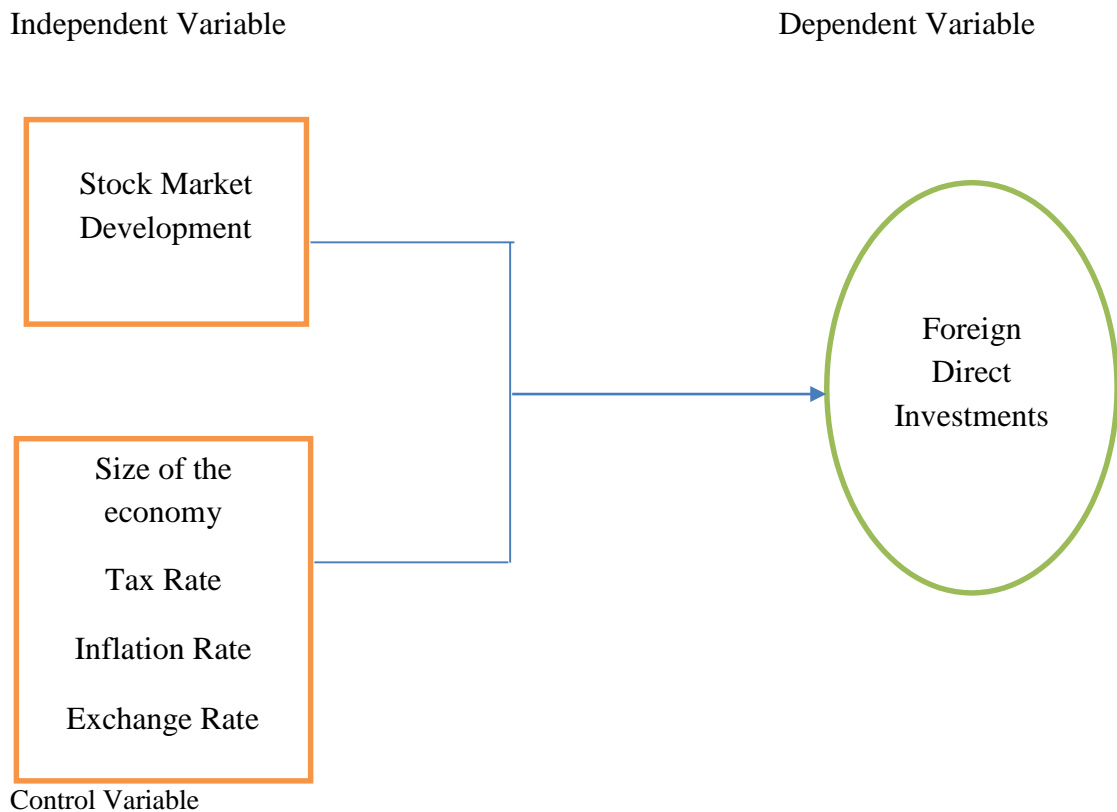
Muriithi (2016) modelled on stock market advancement and its resulting influence on economic stimulation in Kenya. The analysis was centered on the variables market capitalization, NSE20 share index, sum value of shares traded and GDP for the years 2000 to 2015 were analyzed using Vec model and Johansen cointegration tests. It was noted that market capitalization had a long-term adverse result on economic growth while the sum value of shares traded and NSE20 index had a long standing positive association with expansion of the economy. Further, it was established that stock market indicators were related to economic progression in the short run. The study made the recommendation to capital markets regulators to formulate policies that ensure stability of the markets liquidity and ensure allocation of funds for productive

investments. This would increase performance and efficiency of the stock markets hence developing it and fostering economic growth. However, with its recommendation, the study did not highlight on the source or type of investment funds to be channeled into the stock market, and how its development impacted on the different investment funds in the market.

Using SPSS to run a multiple regression and data for the years 1990 to 2007, Dinga (2009) assessed the consequence of direct investment flows on progression of the Kenyan economy. The dependent variable was GDP per capita with FDI inflows, capital formation and labor as the independent variables. The study gave an insight that FDI showed a low impression on the economic progression. This gave an illustration of the need for Kenya to attract more FDI and influence advancement of the stock market to facilitate higher capital formation through the stock market while attracting FDI to foster economic growth. One of the shortcomings of the study is that it focused on effects of FDI and economic growth without highlighting various factors that attract the flows of direct foreign investment.

2.5 Conceptual Framework

Figure 2.1 Conceptual Framework



Source: Author (2020)

The conceptual framework gives the diagrammatic representation of the study variables being examined. The study wanted to scrutinize the implication of stock market advancement on the level of foreign direct investments. The dependent variable was FDI expressed as the foreign investment flows into the country, while the self-determining variables were stock market development measured as the market capitalization as a percentage of the GDP, together with Inflation rate expressed by the CPI, Tax rate and rate of exchange in respect of the KES and the USD.

2.6 Summary of literature review

This study was anchored on numerous concepts relating to direct foreign investments and stock market development. Among the theories that were used are eclectic paradigm theory, Financial market theory of development and modernization theory. Global and local research that give empirical evidence of the various relationships and effects exhibited by our variables have been considered. However, some of these evidence had a contradiction with previous studies depending on the method, depth of analysis and the variables under consideration. It is substantive to note that the economic progression was a key factor in expressing the association amongst the direct foreign investments and development of stock markets. A major gap that was detected was that most of these studies did not focus on the outcome of an advanced stock market in attracting FDI inflows more so in the local Kenyan case. With some studies and evidence of this relationship, this study had a keen focus on its existence in Kenya and therefore addressing the gap.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter concentrated on research methods adopted in examining existence of interrelationships of our study variables. It discusses on the research design, data specification, data collection and the data analysis method.

3.2 Research Design

The study aimed at assessing various relations amongst stock market advancement and the level of foreign investments for a case study of Kenya. Therefore, embraced a descriptive research design in order to give characteristic information about the observed relationship in the variables. It helped in answering the question of how the variables relate to one another.

3.3 Data collection

The study involved secondary time series data on a quarterly basis, for the period between the first quarter of 2008 and the first quarter of 2020. Stock market development, data was collected from the Capital Markets Authority. Exchange rate data was gotten from CBK and data on inflation rates, foreign direct investment and tax rate was extracted from the Kenya National Bureau of Statistics.

3.4 Diagnostic Tests

The data was run against some pretest to determine its suitability for the analysis. Stationarity test was carried out using the Augmented Dickey fuller test for stationarity to avoid erroneous results from the data's unconformity if any. Stationarity means that the data being used for the analysis has a constant mean and variance. Non- stationarity may lead to observation of some relationships that do not exist among the variables. This test also ascertains the integration order of the variable if any. This was determined

when the p-value of 0.00 was attained, to reject the null hypothesis and consequently the order of integration noted. Multicollinearity test was done to ascertain if the study variables have a linear relationship among themselves. The existence of a linear relationship leads to inconsistent results and poor estimation of the association among the variables. It was examined using the Variance inflation factor (VIF). The null hypothesis ought to be rejected if the VIF value is greater than five (5).

Heteroscedasticity test for constant variance in the error term was conducted. Under the OLS, it is assumed that the error term should have a constant variance. This was implored using the Breusch-Pagan test for heteroscedasticity. In this test, the null hypothesis was rejected whenever the P-value is below 0.05. Autocorrelation tests measures as to whether a there is a similarity or pattern being exhibited by the error term with its lagged values. It was examined by use of Breusch-Godfrey LM test for autocorrelation. Its null hypothesis is rejected under the condition that the P-value is below 0.05.

3.5 Data Analysis

The data was subjected to analysis using a multiple regression model to establish relationships amongst FDI inflows, stock market development, exchange rate, tax rate, size of the economy and inflation rate. This involved the analysis using the STATA statistical software.

Using the multivariate time series analysis, Vector autoregressive models were used to explore interrelationships between the variables. When variables are stationary, OLS would be appropriate but with non-stationarity, VAR would be used. Non-stationary variables, which were cointegrated, were estimated using Vector Error Correlation Model (VECM). Granger causality test was employed to elaborate the causation amongst the variables under consideration.

3.5.1 Analytical Model

The regression model adopted in the study was: $Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon$

It was further transformed to natural logarithm, in order to form a linear equation with the following econometric model;

$$\ln Y = \alpha + \beta_1 \ln X_1 + \beta_2 \ln X_2 + \beta_3 \ln X_3 + \beta_4 \ln X_4 + \beta_5 \ln X_5 + \varepsilon \text{ Where:}$$

$Y =$ FDI

$\alpha =$ Y intercept in the equation

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ are the slope coefficients of the regression variables $X_1 =$ Stock market development

$X_2 =$ Size of the economy $X_3 =$ Tax rate

$X_4 =$ Inflation rate $X_5 =$ Exchange rate $\varepsilon =$ Error term

The variables were measured as illustrated below:

Table 3.1 Summary of Measurement of variables

Variable	Measurement
FDI	Net FDI inflows calculated as a proportion to the GDP
Stock Market Development	Market Capitalization as a percentage of the GDP
Size of the economy	GDP growth rate
Exchange rate	KES\ USD
Inflation rate	Inflation rate as derived from the CPI
Tax rate	Taxation rate on profits

Source: Author (2020)

3.5.2 Test of Significance

The statistical significance was tested using the F-Test to test for joint significance among variables in the regression. T-test was employed to examine the significance of the coefficients. This was tested at 95% confidence level.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter discussed the study's analysis of data, findings, interpretation and presentation. The focus was on establishing the implication of stock market development on the level of FDI in Kenya. By use of descriptive statistics, correlation analysis and regression analysis, the research findings were presented in tables form for a clear and easy interpretation. The analysis involved secondary data gathered from the Kenya National Bureau of Statistics, Central Bank of Kenya and Nairobi Securities Exchange.

4.2 Diagnostic Tests

The data collected was run on diagnostic tests to check on its conformity and to avoid spurious results. Breusch-Pagan / Cook-Weisberg test was employed to check for heteroscedasticity. The null hypothesis specified existence of a constant variance. Table 4.1 shows that the p-value (0.2082) is more than 0.05. Therefore we do not reject the null hypothesis and conclude that there lacks significant heteroscedasticity in our research variables. The variables are homoscedastic.

Table 4.1: Heteroscedasticity Test

chi2(1)	1.58
Prob > chi2	0.2082

Source: Research Findings

To test for autocorrelation, Breusch-Godfrey LM test was employed. The null hypothesis indicated the absence of autocorrelation. Table 4.2 shows that the p-value (0.3959) is more than 0.05. Based on this, we resist from rejecting the null hypothesis and conclude that there exists no significant autocorrelation among the variables.

Table 4.2: Autocorrelation Test

lags(p)	chi2	df	Prob > chi2
1	0.721	1	0.3959

Source: Research Findings

Multicollinearity is a problem where the two or more independent variables exhibit a linear relationship among themselves. This was tested using the variance inflation factor with the null hypothesis being there is no multicollinearity. Table 4.3 shows that the mean VIF (2.21) was less than 5, we do not reject the null hypothesis and infer that there is no significant multicollinearity in the study variables.

Table 4.3 Multicollinearity Test

Variable	VIF	1/VIF
Ln EXCHANGE RATE	3.88	0.257844
Ln STOCKMARKET DEVELOPMENT	2.16	0.462276
Ln TAX RATE	1.88	0.533035
Ln ECONOMY SIZE	1.74	0.575922
Ln INFLATION RATE	1.42	0.704708
Mean VIF	2.21	

Source: Research Findings

Ramsey RESET test was employed to check for any omitted variables in the model. The null hypothesis stated that the model lacked omitted variables. Table 4.4 shows that the p-value (0.7156) is larger than 0.05. Therefore we decline on rejecting the null hypothesis and make the conclusion that the model lacks omitted variables.

Table 4.4 Omitted Variables Test

F(3, 39)	0.45
Prob> F	0.7156

Source: Research Findings

In order to test for stationarity and the order of integration, the study used augmented dickey fuller test for unit root. The null hypothesis stated presence of non-stationarity.

Table 4.5 demonstrates the outcomes.

Table 4.5 Unit Root

Variable	Level	First Difference	Second Difference
Ln STOCKMARKET DEVELOPMENT (P Value in parenthesis)	-2.776 (0.0618)	-9.819 (0.0000)	
Ln ECONOMY SIZE (P Value in parenthesis)	-4.068 (0.0011)	-9.200 (0.0000)	
Ln EXCHANGE RATE (P Value in parenthesis)	-1.954 (0.3069)	-5.946 (0.0000)	
Ln INFLATION RATE (P Value in parenthesis)	-2.253 (0.1874)	-4.271 (0.0005)	-8.554 (0.0000)
Ln TAX RATE (P Value in parenthesis)	-1.827 (0.3672)	-6.745 (0.0000)	
Ln FDI INFLOWS (P Value in parenthesis)	-5.675 (0.0000)		

Source: Research Findings

The results show that only the foreign direct investment inflows were stationary at order zero (0). Tax rate, size of the economy exchange rate and stock market development were stationary after the first difference while inflation rate was stationary at the second difference.

4.3 Descriptive Statistics

Descriptive statistics provides a demonstration of the mean, maximum and minimum values of variables coupled with their standard deviations in the study. Table 4.6 illustrates the descriptive statistics of the variables used in this research. All the variables were analyzed using the STATA software for the duration covering from the first quarter of 2008 to the first quarter of 2020.

Table 4.6 Descriptive statistics

Variable	Obsvn	Mean	Std. Dev.	Min	Max
Ln ECONOM SIZE	48	1.508837	.4327726	-.6931472	1.974081
Ln STOCK MARKET DEVELOPMENT	49	5.469701	.2477107	5.005514	6.179862
Ln INFLATION RATE	49	2.002608	.5614395	1.202972	3.371768
Ln EXCHANGE RATE	49	4.494036	.1302948	4.137564	4.639765
Ln TAX RATE	49	3.433237	.0597161	3.310543	3.50255
Ln FDI NET INFLOWS	49	-2.247861	.8452658	-4.681548	-1.145005

Source: Research Findings

The size of the economy showed an average of 1.508837 with a standard deviation of 0.4327726. Stock market capitalization indicated a mean of 5.469701 and a standard deviation of 0.2477107. Inflation rate had an average of 2.002608 and standard deviation of 0.5614395. Exchange rate had a mean of 4.494036 with a standard

deviation of 0.1302948 while tax rate resulted to an average of 3.433237 and a standard deviation of 0.0597161. FDI inflows resulted to a mean of -2.247861 and a standard deviation of 0.8452658.

4.4 Correlation Analysis

Correlation analysis gives the relationship between variables. Its value ranges from a negative indicating a negative relationship to a positive value one (1) indicating a strong positive perfect relationship. The study used the Pearson correlation to examine the association with the results on table 4.7.

Table 4.7 Correlation Analysis

	Ln FDI INFLO WS	Ln STOCK MARKET DEVELOPM ENT	Ln ECONO MY SIZE	Ln INFLATI ON RATE	Ln EXCHA NGE RATE	Ln TA X RAT E
Ln FDI INFLOWS (P Value)	1.0000					
Ln STOCK MARKET DEVELOPM ENT (P Value)	0.1413 (0.3327)	1.0000				
Ln ECONOMY SIZE (P Value)	0.3308 (0.0216)	-0.1877 (0.2014)	1.0000			
Ln INFLATION RATE (P Value)	-0.0376 (0.7975)	0.0865 (0.5545)	-0.4870 (0.0004)	1.0000		
Ln EXCHANGE RATE (P Value)	0.2131 (0.1416)	-0.6102 (0.0000)	0.5608 (0.0000)	-0.4381 (0.0016)	1.0000	
Ln TAX RATE (P Value)	-0.3436 (0.0156)	0.1057 (0.4699)	-0.4080 (0.0040)	0.4317 (0.0020)	-0.5946 (0.0000)	1.00 00

Source: Research Findings

The outcomes of the study showed that FDI inflows and Stock market development had a weak positive insignificant correlation of 0.1413 and p value of 0.3327. This infers

that stock market advancement positively influenced on the level of FDI inflows but not in a significant way. FDI inflows and the size of the economy showed a 0.3308 correlation which was significant and had a p value of 0.0216 implying that size of the economy significantly influenced the level of FDI inflows in a positive manner. Inflation rate and FDI inflows had a weak negative association among themselves which was insignificant as depicted by the coefficient of -0.0376 and a p value of 0.7975. Tax rate had a negative significant correlation of -0.3436 with a p value of 0.0156. This infers that tax rate influenced FDI inflows negatively and in a significant way. FDI inflows and the exchange rate showed a positive insignificant correlation as shown by the coefficient 0.2131 and p value of 0.1416.

4.5 Regression Analysis

Foreign direct investments as a proportion of the GDP was regressed against the variables Stock market capitalization as a percentage of the GDP, size of the economy as expressed by GDP growth rate, inflation rate as expressed by CPI, rate of exchange as estimated by the KES/USD exchange and tax rate. The regression was undertaken at 5% significance level and the resulting model statistics as presented in the table 4.8.

Table 4.8 Regression Analysis

R-squared	Adjusted R-squared	F Statistic	P Value	No of Obsv (N)	DF
0.2705	0.1837	3.11	0.0176	48	47

Source: Research Findings

R squared which is the coefficient of determination specifies the deviation in the outcome variable elucidated by the predictor variable. From the analysis, R squared had the value 0.2705 which indicated that 27.05 percent of foreign direct investment inflows in Kenya were explained by stock market progression, size of the economy, exchange

rate, inflation rate and taxation rate.72.95 percent was enlightened by other variables not apprehended in the model. The model had a F value of 3.11 and a p value of 0.0176 which was below 0.05. This imply that the model was fit and statistically significant in determining how stock market development, size of the economy, exchange rate, inflation rate and taxation rate affect foreign direct investment inflows.

Table 4.9 Regression Coefficients

Ln FDI INFLOWS	Coefficients.	Std. Err.	t	P>t	[95% Conf.	Interval]
Ln STOCK MARKET DEVELOPMENT	1.037497	.6543868	1.59	0.120	- .2831094	2.358103
Ln ECONOMY SIZE	.6837157	.3390508	2.02	0.050	- .0005165	1.367948
Ln INFLATION RATE	.4722218	.2417204	1.95	0.057	- .0155897	.9600334
Ln EXCHANGE RATE	1.008622	1.751779	0.58	0.568	- 2.526611	4.543856
Ln TAX RATE	-3.616539	2.564353	- 1.41	0.166	- 8.791614	1.558536
_cons	-1.999196	17.04691	- 0.12	0.907	- 36.40125	32.40286

Source: Research Findings

The coefficients of the predictor variables are highlighted in table 4.9. This indicates that size of the economy, was the only significant variable in determining foreign direct investment in Kenya since it exhibited a p value which was less than 0.05. The resulting regression equation from the coefficients obtained was:

$$\text{Ln } Y = -1.999196 + 1.037497 \ln X_1 + 0.6837157 \ln X_2 + 0.4722218 \ln X_3 + 1.008622 \ln X_4 - 3.616539 \ln X_5$$

Where

y= FDI net inflows

X₁ = Stock Market development calculated by the percentage of market capitalization to GDP

X₂ = Economy Size expressed by the GDP growth rate

X₃ = Inflation Rate expressed by CPI

X₄= Exchange Rate expressed by KES/USD

X₅ = Tax Rate measured by taxation on profits

4.6 Vector Autoregressive Model and Vector error correction Model

The study variables were examined for stationarity using the augmented dickey fuller test and based on the results, they exhibited non-stationarity. To avoid spurious results, they were made stationary through differencing. Vector autoregressive model is used to explore for the linkage amongst variables that are not cointegrated. Variables that are cointegrated indicate occurrence of a linear long term connection amongst themselves and are therefore tested using the Vector error correction model. Before testing for presence of cointegrating equations, the study first determined the optimal lag length. This was chosen at 5 using the Akaike Information Criterion (AIC), Final Prediction Error (FPE) criterion and Hannan –Quinn Information criterion (HQC) information criteria as revealed in table 4.10.

Table 4.10 Lag Selection

lag	LL	LR	df	p	FPE	AIC	HQIC	SBIC
0	44.7988				6.6e-09	-1.80459	-1.71397	-1.55885
1	169.941	250.28	36	0.000	1.1e-10	-5.95073	-5.31636	-4.23049*
2	217.779	95.676	36	0.000	6.8e-11	-6.50134	-5.32322	-3.3066
3	254.43	73.304	36	0.000	8.7e-11	-6.53165	-4.80978	-1.86242
4	319.874	130.89	36	0.000	4.0e-11	-7.90114	-5.63552	-1.75742
5	410.552	181.35*	36	0.000	1.1e-11*	-10.4443*	-7.63491*	-2.82606

Source: Research Findings

The cointegration results in table 4.11, showed presence of a cointegrating rank of order 5 since five is the last order where the trace statistics is larger than its critical value, consequently the null hypothesis was rejected. Subsequently, the Vector error correction model becomes fit to check for the connection among the variables.

Table 4.11 Cointegration Test

maximum rank	parms	LL	eigenvalue	trace statistic	5% critical value
0	150	290.50936	.	240.0849	94.15
1	161	346.95825	0.92760	127.1871	68.52
2	170	374.23786	0.71884	72.6279	47.21
3	177	388.01884	0.47322	45.0659	29.68
4	182	399.06235	0.40169	22.9789	15.41
5	185	407.97814	0.33945	5.1473	3.76
6	186	410.5518	0.11282		

Source: Research Findings

The Vec model was run using one cointegration equation for simplicity and after the first model of order five did not converge to give the normalized short term equation. Outcomes of the Vec model are revealed on table 4.12. A long run relationship was established from the error correction term (ec1) though it was insignificant at 5% significance level. The coefficient ce1 signifies the swiftness of alteration of the model towards long run equilibrium which was at 31.34 percent.

Table 4.12 Vec Model

	Coef.	Std. Err.	z	P>z	[95% Conf.	Interval]
D_ lnFDIGDPPROPN						
_ce1						
L1.	-.3133833	.163225	-1.92	0.055	-.6332985	.0065319
lnFDIGDPPROPN						
LD.	-.3805008	.1387181	-2.74	0.006	-.6523832	-.1086184
lnMARKETCAPGDP						
LD.	-.8388371	.6746312	-1.24	0.214	-2.16109	.4834158
lnGDPGROWTHRATE						
LD.	-.9929324	.3629644	-2.74	0.006	-1.70433	-.2815352
lnINFLATIONRATE						
LD.	-.6810991	.4614564	-1.48	0.140	-1.585537	.2233387
lnEXCHANGERATE						
LD.	-3.97257	3.822746	-1.04	0.299	-11.46501	3.519875
lnTAXRATE						
LD.	.0299016	4.294558	0.01	0.994	-8.387276	8.44708
_cons	-.0013085	.1286301	-0.01	0.992	-.2534188	.2508019

Source: Research Findings

In the longterm, stock market has an adverse but insignificant effect on foreign direct investments while economic growth and inflation rate had a positive result on the foreign direct investments which was significant. Exchange rate and tax rate indicated

a negative control on foreign direct investments which was significant. This is shown by table 4.13.

Table 4.13 Vec Model coefficients

beta	Coef.	Std. Err.	z	P>z	[95% Conf.	Interval]
_ce1						
lnFDIGDPPROPN	1	.	.	.	.	.
lnMARKETCAPGDP	.311020	.668946	0.4	0.64	-1.00009	1.62213
	7	3	6	2		1
lnGDPGROWTHRAT	-	.361045	-	0.00	-	-
E	2.92746	3	8.1	0	3.63509	2.21982
	2		1		7	6
lnINFLATIONRATE	-1.51906	.206080	-	0.00	-1.92297	-1.11515
		4	7.3	0		
			7			
lnEXCHANGERATE	5.98297	1.81332	3.3	0.00	2.42892	9.53702
	5	5	0	1	3	7
lnTAXRATE	7.35851	2.16256	3.4	0.00	3.11996	11.5970
	3	4	0	1	6	6
_cons	-	.	.	.	.	.
	44.3000					
	7					

Source: Research Findings

4.6.1 VEC Model Post estimation Tests

The model was further subjected to post estimation tests to check for its suitability. From table 4.14 we conclude that at two lags the Vec model has no autocorrelation since the p value is more than 0.05 and the null hypothesis that there occurs no serial autocorrelation was accepted.

Table 4.14 Vec Model Autocorelation Test

lag	chi2	df	Prob > chi2
1	45.0142	36	0.14415
2	35.8766	36	0.47443

Source: Research Findings

Testing for normality on the Vec model was done using the Jarque-Bera test for normality and it was deduced that foreign direct investment was not normally distributed while the other variable stock market development, exchange rate, tax rate and inflation rate were normally distributed. The overall model was normally distributed. This is shown by the results on table 4.15.

Table 4.15 Jarque-Bera test

Equation	chi2	df	Prob > chi2
D_ lnFDIGDPPROPN	10.003	2	0.00673
D_ lnMARKETCAPGDP	3.608	2	0.16466
D_ lnGDPGROWTHRATE	0.005	2	0.99774
D_ lnINFLATIONRATE	3.509	2	0.17302
D_ lnEXCHANGERATE	0.317	2	0.85337
D_ lnTAXRATE	1.138	2	0.56615
ALL	18.578	12	0.09922

Source: Research Findings

The model was tested for stability, and as shown by results on table 4.16, the model was stable since the remaining moduli of the eigenvalues was less than one.

Table 4.16 Stability Test

Eigenvalue	Modulus
1	1
1	1
1	1
1	1
1	1
.075614 + .6703431i	.674594
.075614 - .6703431i	.674594
.5256146	.525615
.4058936 + .08249045i	.414191
.4058936 - .08249045i	.414191
.1139106 + .1854738i	.217661
.1139106 - .1854738i	.217661

Source: Research Findings

4.7 Granger Causality

The variables were tested for causal effect among themselves using the granger causality test. The outcomes are indicated in table 4.17. Foreign direct investment inflows had a unidirectional association with stock market development were stock market development significantly caused on foreign direct investments. A significant bidirectional causal effect was noted among the variables direct investment inflows and tax rate. The exchange rate has a significant causal outcome on the level of foreign direct investments. The pairs (Exchange rate, tax rate), (tax rate, inflation rate), (Inflation rate, Exchange rate), (exchange rate, Stock market development), (Inflation rate, Stock market development), (size of the economy, tax rate), (size of the economy,

exchange rate), (size of the economy, inflation rate) all had a significant bidirectional causal association.

Table 4.17 Granger Causality

Equation	Excluded	chi2	df	Prob > chi2
lnFDIGDPPROPN	lnMARKETCAPGDP	15.047	5	0.010
lnFDIGDPPROPN	lnGDPGROWTHRATE	8.8119	5	0.117
lnFDIGDPPROPN	lnINFLATIONRATE	5.4424	5	0.364
lnFDIGDPPROPN	lnEXCHANGERATE	16.244	5	0.006
lnFDIGDPPROPN	lnTAXRATE	16.498	5	0.006
lnFDIGDPPROPN	ALL	100.3	25	0.000
lnMARKETCAPGDP	lnFDIGDPPROPN	1.5197	5	0.911
lnMARKETCAPGDP	lnGDPGROWTHRATE	3.712	5	0.592
lnMARKETCAPGDP	lnINFLATIONRATE	14.301	5	0.014
lnMARKETCAPGDP	lnEXCHANGERATE	18.824	5	0.002
lnMARKETCAPGDP	lnTAXRATE	112.1	5	0.000
lnMARKETCAPGDP	ALL	213.04	25	0.000
lnGDPGROWTHRATE	lnFDIGDPPROPN	57.749	5	0.000
lnGDPGROWTHRATE	lnMARKETCAPGDP	22.111	5	0.000
lnGDPGROWTHRATE	lnINFLATIONRATE	61.701	5	0.000
lnGDPGROWTHRATE	lnEXCHANGERATE	54.566	5	0.000
lnGDPGROWTHRATE	lnTAXRATE	78.015	5	0.000
lnGDPGROWTHRATE	ALL	245	25	0.000
lnINFLATIONRATE	lnFDIGDPPROPN	3.2054	5	0.668
lnINFLATIONRATE	lnMARKETCAPGDP	12.077	5	0.034
lnINFLATIONRATE	lnGDPGROWTHRATE	13.646	5	0.018
lnINFLATIONRATE	lnEXCHANGERATE	17.179	5	0.004
lnINFLATIONRATE	lnTAXRATE	16.06	5	0.007
lnINFLATIONRATE	ALL	77.622	25	0.000
lnEXCHANGERATE	lnFDIGDPPROPN	6.4367	5	0.266
lnEXCHANGERATE	lnMARKETCAPGDP	25.389	5	0.000
lnEXCHANGERATE	lnGDPGROWTHRATE	11.846	5	0.037
lnEXCHANGERATE	lnINFLATIONRATE	20.303	5	0.001
lnEXCHANGERATE	lnTAXRATE	32.563	5	0.000
lnEXCHANGERATE	ALL	89.082	25	0.000
lnTAXRATE	lnFDIGDPPROPN	56.396	5	0.000
lnTAXRATE	lnMARKETCAPGDP	32.218	5	0.000
lnTAXRATE	lnGDPGROWTHRATE	50.777	5	0.000
lnTAXRATE	lnINFLATIONRATE	119.3	5	0.000
lnTAXRATE	lnEXCHANGERATE	141.64	5	0.000
lnTAXRATE	ALL	453.95	25	0.000

Source: Research Findings

4.8 Discussion of research findings

The study targeted at defining the implication of a developed stock market on direct foreign investment flows in Kenya. The predictor variable was stock market advancement explained by the quarterly market capitalization as a percentage of the GDP. The control variables were exchange rate expressed by the KES/USD rate, Tax rate measured by the taxation rate on profits, Inflation rate measured by the quarterly CPI and size of the economy as informed by the quarterly GDP growth rate. The level of FDI inflows was the outcome variable the study pursued to clarify, which was estimated by the quarterly net FDI inflows as a proportion of the GDP. All the variable measurements were transformed to their natural logarithm form. The effect of the independent variables was evaluated in relation to strength, course and trend.

The Pearson correlation coefficients for the study variables showed that FDI inflows and Stock market development had a weak positive insignificant correlation. FDI flows and the economy's size showed a significant positive correlation which was significant. The study revealed that Inflation rate and FDI inflows had a weak negative association among themselves which was insignificant. The results revealed an adverse significant relationship concerning tax rate and FDI flows. The connection between FDI flows and the exchange rate was established to be positive and insignificant.

The model summary indicated that the independent variables; stock market expansion, size of the economy, exchange rate, tax rate and inflation rate explains 27.05 percent of the deviances in the level of FDI inflows in Kenya as indicated by the R^2 value. This implies that 72.95 percent was expounded by variables not incorporated in the model. The model had a F value of 3.11 and a p value of 0.0176 lower than 0.05. This means that the model was statistically significant in determining how stock market development, size of the economy, exchange rate, inflation rate and taxation rate affect

direct foreign investment inflows at 95 percent confidence level.

The Vector Error Correction Model revealed existence of insignificant long standing association among the variables. Stock market expansion had a negative but insignificant control on foreign direct investments while economic growth and inflation rate had a positive bearing on the direct foreign investments which was significant. Exchange rate and tax rate had a negative influence on foreign direct investments which was significant. Testing for causality using granger causality test revealed that foreign direct investment inflows had a unidirectional association with stock market development were stock market development significantly caused on foreign direct investments.

Based on the analysis, the study results were in conformity with the prevailing literature whereby FDI and stock market development have an insignificant influence on each other in Kenya. This is evidenced by the study by Njane (2017) which assessed the FDIs influence on advancement of the Kenyan stock market and revealed an insignificant association between FDI and stock market advancement. It was further evidenced by the study by Njeru (2013) on the influence of FDI on the Kenyan economy which depicted a positive association among FDI and the economy.

The study was in contrast with the findings of Ikikii and Nzomoi (2013) who did an analysis on Kenya's economic growth as influenced by expansion of the stock market and depicted that enlargement of stock market, had a positive result on progression of the Kenyan economy. It further concluded that advancement of the stock market was positively correlated to expansion of Kenya's economy

The study contrasted with the findings of Raza et al. (2012) who investigated on the influence of FDI on expansion of stock markets of third world developing nation, and used Pakistan as the case study. Using time series data, and the period spanning the year

1988 and 2009 that was run on an ordinary least squares model, it was found the occurrence of a notable positive connection among FDIs and stock market expansion in Pakistan.

The study was in conformity with the research by Arcabic, Globan & Raguz (2013) which explored the longstanding and short- range characteristics and interactions amongst foreign investments and the stock market in Croatia. Using the two variable VAR model, it was noted that on the short run, growth in the stock market impacted positively on foreign direct investments in Croatia.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter highlights the summary of research outcomes, conclusions based on the findings and the various suggestions for policy and practice. The chapter also elaborates the confines to the study and the various proposals for prospective research.

5.2 Summary of Findings

The study targeted at exploring the implication of stock market development on the level of foreign direct investments in Kenya. The predictor variable was stock market development with the control variables being economy's size, inflation rate, exchange rate and tax rate. The study embraced a descriptive research design. Secondary data was extracted from the Kenya National Bureau of statistics (KNBS), Central Bank of Kenya (CBK) and the Capital Markets Authority (CMA). The analysis were conducted using STATA analysis software. The study used quarterly data covering the period from the first quarter 2008 to the first quarter of the year 2020.

The correlation analysis revealed that a weak positive insignificant correlation existed among FDI inflows and Stock market development variables. The connection among FDI inflows and size of the economy was discovered to be positive and significant. The findings revealed that Inflation rate and FDI inflows had a weak negative association among themselves which was insignificant. The results revealed a negative significant association amid tax rate and FDI flows. The correlation between FDI inflows and exchange rate was discovered to be positive and insignificant.

The R squared had the value 0.2705 which indicated that 27.05 percent of foreign direct investment inflows in Kenya were explained by stock market expansion, size of the economy, exchange rate, inflation rate and taxation rate. 72.95 percent was explained

by other parameters not included in the model. The model had a F value of 3.11 and a p value of 0.0176 lower than 0.05. This infers that the model was statistically significant in determining how stock market development, size of the economy, rate of exchange, inflation rate and taxation rate affect direct foreign investment inflows.

The model also revealed that with the independent variables; stock market expansion, size of the economy, exchange rate, inflation rate and taxation rate being rated at zero (0) the FDI inflows would be -1.999196. A percentage rise in the stock market advancement would result to a 1.037497 increase in the FDI inflows while a unit growth in the size of the economy would result to a 0.6837157 increase in the FDI inflows. A unit upsurge in the inflation rate resulted to a 0.4722218 increase in the FDI inflows, with a unit rise in the exchange rate leading to a 1.008622 growth in the FDI inflows. A unit rise in the tax rate would result to a 3.616539 drop in the FDI inflows.

The Vector Error Correction Model revealed manifestation of insignificant long run linkages among the variables. Stock market advancement had a negative but insignificant effect on foreign direct investments while economic growth and inflation rate showed a positive control on the foreign direct investments which was significant. Exchange rate and tax rate had a negative influence on foreign direct investments which was significant.

Testing for causality using granger causality test revealed that foreign direct investment inflows had a unidirectional association with stock market development were stock market development significantly caused on foreign direct investments. The pairs (Exchange rate, tax rate), (tax rate, inflation rate), (Inflation rate, Exchange rate), (exchange rate, Stock market development), (Inflation rate, Stock market development), (size of the economy, tax rate), (size of the economy, exchange rate), (Economy size, inflation rate) all had a significant bidirectional causal association.

5.3 Conclusions.

Centered on the research outcomes, the study concluded that stock market development had an implication on the flow of foreign direct investments though not in a significant way. These findings therefore lead to the conclusion that stock market advancement was not a key determiner of the amount of direct foreign investment inflows in Kenya. The study found that the size of the economy, exchange rate and inflation rate had a constructive but insignificant sway on the level of foreign direct investment inflows. Therefore, a conclusion was made that deviations in the exchange rate, inflation rate and the economy's size lack a significant impression on the amount of direct foreign investment inflows in Kenya. The study also found existence of a significant negative association between FDI and tax rate. This hints that a rise in the tax rate led to a reduction in the level of foreign direct investments.

The study made the conclusion that the explanatory variables selected in the study stock market advancement, exchange rate, inflation rate and tax rate jointly influence on the level of foreign direct investments in Kenya in a significant way. This is evidenced by their accountability of 27.05 percent of deviations in the level of foreign direct investment inflows. It can be further deduced that 72.95 percent of the deviations in FDI resulted from variables not incorporated in the study. The overall model was significant in determining the level of direct foreign investment inflows as revealed by the p value of 0.0176.

The study concurs with Njane (2017) who studied on the implication of FDI on stock market advancement in Kenya. The study assumed a descriptive research design that aimed at defining the association amid FDI and stock market advancement in Kenya. The sample frame was centered on annual time series data spanning the years 1987 to 2016. Foreign direct investment was the independent variable with stock market

development being the predictor variable. The study used economic growth, interest rates, exchange rate and inflation rate as the control variables. Data was obtained from secondary sources and examined using the SPSS version 21 software. Descriptive and inferential statistics were conducted. The overall conclusions from the study were that FDI inflows had a positive association with stock market advancement but insignificant in determining stock market improvement in Kenya.

5.4 Recommendations

Kenya's stock market has undergone various transformations over time and this can be seen through the tremendous rise in the level of market capitalization and trading levels. This is an indicator of investor confidence and stability of investments in the country. It is worth noting that foreign direct investments have also been on the rise over time. This study consequently advocates that policy makers need to establish policies which fasten the development of stock markets and for them to be strong avenues through which a significant level of foreign direct investment is channeled through. This could also be by increasing and attracting more companies to be listed in the stock market.

The economy's growth and its future prospect is an aspect that influences on the level of FDI in a nation. This study proposes that policy formulators strategize on ensuring stability and growth prospects for it to have a significant outcome on the level of foreign direct investments it attracts into the country. Growth and expansion of a nation's economy is a pointer of the nation's economic resilience and attractiveness to investors. The government should therefore create a conducive and enabling environment for conducting businesses which will spur the economic growth of the nation.

The tax rate on profits had an adverse significant implication on the level of FDI in the country. Increase in tax rate had a consequent impact of decreasing the level of FDI in the country. This study suggests for policy intervention by the government, authorities

and policy makers to ensure the tax rate are maintained at the minimum level and ensuring their stability.

5.5 Limitations to the study

The scope of the study was for the period spanning from the first quarter of 2008 to the first quarter of 2020. It is uncertain whether the results would stand for a longer period of time or if similar results would hold in the future after the first quarter of 2020. This limits the study findings to only the period under consideration. A longer period of study is more desirable as it would be able to capture more economic details pertaining the recession and booms.

Data quality and reliability was a limitation of the study. It is challenging to make a deduction from the study if the outcomes portray the true facts regarding the situation. It was only assumed that the data was accurate and the measures employed are subject to changes over time and depending on the researcher and objectives.

The study adopted secondary data which was gotten from publications rather than primary data which is first hand. This meant that the data had been published with the various adjustments made to it. Depending on data availability, the study also did not exhaustively use all the determiners of FDI but a selected range of them was considered. The study used a combination of multiple linear regression, VAR and VECM models for data analysis. Due to the various shortcoming that arise from these models and depending on the range of data, the models may not hold and may give spurious results on different applications. With the application of these models, a similar finding may not be obtained from application of a different model used.

The variables in the study were not expressed using all the economic measurements associated with them. Therefore with the use of a different measurement on the variables, it is not certain whether the same findings would stand.

5.6 Suggestions for future research

This study was centered on the effect of stock market advancement on the level of direct foreign investments in Kenya and used secondary data. A similar study in which primary data is used with questionnaires, interviews that cover on the sectors and parties to foreign direct investment and stock markets is recommended to integrate with this research's findings.

The research was not far-reaching on the explanatory variables that affect the level of direct foreign investment inflows in Kenya. It is therefore the recommendation of this study that further studies that incorporate variables such as interest rates, money supply, technological advancement, political stability, labor force, education levels and other macroeconomic variables. Determining the impact of individual variables on direct investments will make policy makers have a wide range of tools and knowledge to base their policies on to enhance FDI inflows in Kenya. With integration with the neighboring countries to form the East Africa bloc, this study further recommends a similar research to cover the region to test its conformity

The study concentrated on the period after 2008 on a quarterly basis. This study further recommends a longer period of study which will help to strengthen or critique this research findings. A lengthier period will be able to capture and account for various economic boom and recessions that happened.

The study proposed that a similar research be conducted with the same variables but having them expressed using different measurement. This is because the study did not employ all the various economic measures of the variables. With application of different measurements, the findings may change.

This study used the multiple linear regression, VAR model and VEC model for analysis. With the various shortcomings of these models, this research therefore proposes a

similar study which employs other models and tests such as the impulse response function. This should involve testing the relationship and depth of association between the variables to address any shortcomings from this study.

REFERENCES

- Aayale, Jihane (2017). Foreign Direct Investment and the development of the Casablanca Stock Exchange. doi:10.2991/icefs-17.2017.64
- Adam, A. M. & Tweneboah, G. (2009). Foreign Direct Investment and Stock Market Development: Ghana's Evidence, *International Research Journal of Finance and Economics*, 26(2), 44-69
- Alfaro, L., Chanda, A., Kalemli-Ozcan, S., & Sayek, S. (2004). FDI and economic growth: the role of local financial markets. *Journal of International Economics*, 64(1), 89-112.
- Alfaro, L., Chanda, A., Kalemli-Ozcan, S., & Sayek, S. (2010). Does foreign direct investment promote growth? Exploring the role of financial markets on linkages. *Journal of Development Economics*, 91(2), 242-256.
- Ang, J. B. (2008). Determinants of foreign direct investment in Malaysia. *Journal of policy modeling*, 30(1), 185-189.
- Arcabic, V., Globan, T., & Raguz, I. (2013). The relationship between the stock market and foreign direct investment in Croatia: evidence from VAR and cointegration analysis. *Financial Theory and Practice*, 37(1), 109-126.
- Arnold, H. (2004), Schumpeter and Methodological Individualism. *Journal of Evolutionary Economics*, 14(2), 153-156.
- Ayanwale, A.B. (2007) FDI and Economic Growth: Evidence from Nigeria. *African Economic Research Consortium Paper* 165, Nairobi.
- Bajrami, H., & Zeqiri, N. (2019). Theories of Foreign Direct Investment (FDI) and the Significance of Human Capital. *International Journal Of Business And Management*, VII (1).
- Balasubramanyam, V. N. (2001), Foreign Direct Investment in Developing Countries: Determinants and Impact, OECD, New Horizons and Policy Challenges for FDI in the 21st Century.
- Baumol, W. (1960). *Economic dynamics*. New York: Macmillan.

- Bénassy-Quéré, A., Fontagné, L., and Lahrèche-Révil, A. (2001), Exchange Rate Strategies in the Competition for Attracting Foreign Direct Investment. *Journal of the Japanese and International Economies*, 15,178-198.
- Bengoa, M., & Sanchez-Robles, B. (2003). Foreign direct investment, economic freedom and growth: new evidence from Latin America. *European journal of political economy*, 19(3), 529-545.
- Billington, N. (1999). The Location of Foreign Direct Investment: An Empirical Analysis. *Applied Economics*, 31(1), 65-76
- Calvo,M.B.,&Sanchez Robles,B.(2002). Foreign Direct Investment, Economic Freedom, and Economic Growth: New Evidence from Latin America. Universidad de Cartabria, Economics Working Paper No. 4/03.
- Chakrabarti, A. (2001), The Determinants of Foreign Direct Investment: Sensitivity Analyses of Cross-Country Regressions, *KYKLOS*, 54, 89-114.
- Chee, Y., & Nair, M. (2010). The Impact of FDI and Financial Sector Development on Economic Growth: Empirical Evidence from Asia and Oceania. *International Journal of Economics and Finance*, 2(2).
- Claessens, Stijn, Daniela Klingebiel, and Sergio L. Schmukler. 2001. FDI and Stock Market Development: Complements or Substitutes? *Unpublished paper*. Washington: World Bank.
- Culem, C.G. (1988). The Location Determinants of Direct Investments: Among Industrialized Countries. *European Economic Review*, 32 (4), 885-904.
- Dinga, M. O. (2009). A study of the impact of foreign direct investments on economic growth in Kenya. *Unpublished MBA project*, University of Nairobi
- Dryabina, V. (2011). The effect of inflation on investments with different terms services. 1st ed.[ebook] Available at: <https://www.hse.ru/data/285/127/1237/Dryabina.pdf>
- Dunning, John (1979). Toward an Eclectic Theory of International Production: Some Empirical Tests. *Journal of International Business Studies*, 11(1), 9–31.

- Dunning, John H. (2000). The eclectic paradigm as an envelope for economic and business theories of MNE activity. *International Business Review*, 9(2), 163–190.
- Fabozzi, F., Gupta, F., & Markowitz, H. (2002). The Legacy of Modern Portfolio Theory. *The Journal of Investing*, 11(3), 7-22.
- Garcia, V., & Liu, L. (1999). Macroeconomic Determinants of Stock Market Development. *Journal of Applied Economics*, 2(1), 29-59.
- Gordon, Roger H., and James R. Hines Jr. (2002). International Taxation. NBER Working Paper No. 8854.
- Hausmann, R., & Fernandez-Arias, E. (2000). What's Wrong with International Financial Markets?. *SSRN Electronic Journal*.
- Holtbrügge, D., & Kreppel, H. (2012). Determinants of outward foreign direct investment from BRIC countries: an explorative study. *International Journal of Emerging Markets*, 7(1), 4-30.
- Ikikii, S., & Nzomoi, J. (2013). An Analysis of the Effects of Stock Market Development on Economic Growth in Kenya. *International Journal of Economics and Finance*, 5(11).
- Kimotho, A.M. (2010). The relationship between foreign direct investments (FDIs) and economic growth in Kenya. *Unpublished MBA project*, University of Nairobi.
- Levine, Ross, 2005. Finance and Growth: Theory and Evidence, Handbook of Economic Growth, in Philippe Aghion & Steven Durlauf (Ed.), *Handbook of Economic Growth*, 1(1) (12), 865-934, Elsevier.
- Mishkin, F.S. & Eakins S. (2009). *Financial Markets and Institutions* (6th Ed.). Pearson Prentice Hall.
- Moran, T., Kotschwar, B., & Muir, J. (2012). Chinese Investment in Latin American Resources: The Good, the Bad, and the Ugly. *SSRN Electronic Journal*. doi: 10.2139/ssrn.2007277

- Muriithi, M.N. (2016). Modelling the effect of stock market development on the economic growth of Kenya. *Unpublished Masters project*, KCA University.
- Musa, S. U., and Ibrahim, M. (2014). "Stock Market Development, Foreign Direct Investment and Macroeconomic Stability: Evidence from Nigeria." *Research Journal of Finance and Accounting*, Vol.5 (18), pp. 258-264.
- Nairobi Securities Exchange. (2012). Retrieved from <http://www.nse.co.ke/nse/history-of-nse.html>
- Ndungu, D.K. (2011). The relationship between economic growth and stock market development: The case of Nairobi stock exchange. *Unpublished MBA project*, University of Nairobi.
- Niels Hermes & Robert Lensink, 2003. "Foreign direct investment, financial development and economic growth. *Journal of Development Studies*, Taylor & Francis Journals, 40(1), 142-163.
- Njane, R. (2017). The effect of foreign direct investment on stock market development in Kenya. *Unpublished Master's thesis*, University of Nairobi.
- Nyasha, S., & Odhiambo, N. (2013). The Dynamics of Stock Market Development In Kenya. *Journal of Applied Business Research (JABR)*, 30(1), 73.
- R Dhiman, P Sharma, 2013. Impact of flow of FDI on Indian capital market, *European Journal of Business and Management*
- Raza, A., Z., M., & T. (2012). The Role of FDI on Stock Market Development: The Case of Pakistan. *Journal of Economics and Behavioral Studies*, 4(1), 26-33.
- Raza, M.A., Siddiquei, A.N., Awan, H.M., & Bukhari, K. (2012). Relationship between Service Quality, Perceived Value, Satisfaction and Revisit Intention in Hotel Industry. *Interdisciplinary Journal of Contemporary Research in Business*, 4 (8), 788-805.
- Ross, Valerie. Developing Stock Exchanges in Developing Countries. Kellogg Insight. Kellogg School of Management at Northwestern University, June 2011. Web. 12 Feb. 2013.

http://insight.kellogg.northwestern.edu/article/developing_stock_exchanges_in_developing_countries/

Sánchez-Robles, B., & Bengoa Calvo, M. (2003). Foreign Direct Investment as A Source of Endogenous Growth. *SSRN Electronic Journal*.

Shahbaz, M., Lean, H., & Kalim, R. (2013). The Impact of Foreign Direct Investment on Stock Market Development: Evidence from Pakistan. *Economic Research-Ekonomska Istraživanja*, 26(1), 17-32.

Soumaré, I., & Tchana, F. (2011). Causality between FDI and Financial Market Development: Evidence from Emerging Markets. *SSRN Electronic Journal*.

The Capital Markets (Securities) (Public Offers, Listing And Disclosures)

Regulations (2002). Thomas, D. B. (2006). Money, Banking and Financial Markets. Thomson- South

Tucker, I.B. (2007). *Economics of Today's World*. Thomson South Western.

UNCTAD (2018). *World Investment Report*, New York and Geneva:

United Nations. UNCTAD (2019). *World Investment Report*, New York

and Geneva: United Nations.

Wanjala, J.B. (2014). Macro-economic determinants of stock market performance in Kenya: case of Nairobi securities exchange, *Unpublished MBA project*, University of Nairobi.

Weber, Klaus, Gerald F. Davis and Michael Lounsbury. Policy as Myth and Ceremony? The Global Spread of Stock Markets, 1980-2005. *Academy of Management Journal*. 52 (6): 1319-1347. Web. 12 Feb. 2013.

http://www.kellogg.northwestern.edu/Faculty/Directory/Weber_Klaus.aspx#research

Wijeweera, A., Dollery, B. & Clark, D., 2007. Corporate tax rates and foreign direct investment in the United States. *Applied Economics*, January, 39(1), pp.

109-117

Yapraklı, S. (2006), An Econometric Analysis on the Economic *Determinants of Foreign Direct Investments in Turkey*, D.E.Ü. İ.İ.B.F. Dergisi 21(2), 23-48

Yartey, C. (2008). Financial development, the structure of capital markets, and the global digital divide. *Information Economics and Policy*, 20(2), 208-227.