Title: EXAMINING CAPITAL MARKET INTEGRATION IN KENYA AND UGANDA

Author: LITUNYA, SHARON OKWAKO

ABSTRACT

This study examines the degree of stock market integration between Kenya and Uganda using daily closing equity prices from 14th

cointegration approach is employed to capture the dynamic nature of stock market integration. Empirical results provide evidence of integration between the two markets as shown by the existence of two cointegrating vectors. The results change to three cointegrating vectors after controlling for USD foreign effects. Impulse response and variance decomposition reveal that shocks in the Nairobi stock market are due to their own innovation averaging 99 per cent during the entire period. However, variations in Nairobi stock market seem to marginally impact the variation in Uganda stock exchange with around 3.68 per cent of Uganda stock market being influenced by Nairobi stock market. The main implication of our results is that investors cannot benefit from diversification by investing in Uganda and Nairobi stock exchanges.