

**An empirical analysis of determinants of stock returns in Dar es Salaam stock exchange
2000-2005**

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The study empirically analyses the influence of companies' characteristics (dividend yields, Earnings Per Share). Macroeconomic variables (inflation, Consumer Price index, exchange rate and interest rate) and microstructure variable (liquidity) on stock returns at DSE. The study uses mainly descriptive analysis as a result of early detection of Errors in variables Problem (EIV) resulted from application of a standard Fama-MacBeth two stage approach which requires large sample of data and frequent trading of the stocks. The study finds that returns at DSE trend in the same manner but peak in different periods. TBL and TCC stocks show stability in their return movements while the rest of the stocks appear to be volatile. It is further observed that returns at DSE are not normally distributed and their movements are independent from each other. Company's specific variables explain largely individual returns at DSE. It is also observed that exchange rate and interest rate are important macroeconomic variables in explaining both individual and market returns at DSE. However returns at DSE are found to be slowly adjusting to macroeconomic news. Liquidity fails to show significant results as the hypothesis is rejected for all companies except TBL. In most cases the study finds SWISSPORT and SIMBA stocks behave in the same manner. The study concludes that, nature of the business and company's reputation are important factors that contribute to the stock performance in the market DSE.