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TOPIC:

**A CRITICAL ANALYSIS OF THE DETERMINANTS OF STOCK PRICES
IN A HYPERINFLATIONARY AND SPECULATIVE ECONOMY. A CASE
STUDY OF THE ZSE (2008)**

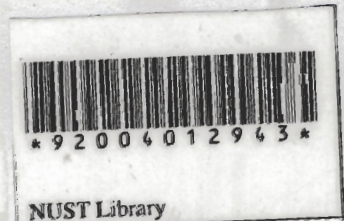
*A Dissertation Submitted in Partial Fulfillment of the Requirements of Bachelor of Commerce
Undergraduate Degree in Banking.*

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ANNA T. WHATA

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ABSTRACT

This study sought to analyze on the determinants of stock prices in hyperinflationary and speculative economy, with the Zimbabwe Stock Exchange (ZSE) as a case study. Zimbabwe has been in a state of economic recession for the past eight years, with an escalating unemployment rate, a significant decline in real GDP and the highest inflation rate in the world (as at December 2008). In spite of all these challenges, the ZSE appeared not to be affected by an ever-increasing inflation rate, declining disposable incomes and a shrinking economy. It was, in 2006 and 2007, respectively, rated the best performing bourse on the continent and ranked the second in the developing capital markets all around the world. As Zimbabwe progressed into its worst recession, the stock market indices hit record high and in the past years especially in the 2007/2008 era, it has recorded its highest gains, both nominal and real, in its forty-year history, which generated a lot of debate on what drives the stock market outside the performance of a company. This study reviewed literature on the various determinants of stock prices in both developing and developed countries. It examined the factors that could have led to the abnormal price movements on the ZSE the past year. The target population consisted of all financial institutions and independent economists, from which a sample was extracted and questionnaires and interviews were used as primary data collection methods. The study found that the asset price bubbles accentuate stock price increases, eventually resulting in their major fall. Recommendations to regulators and policy makers were also given, on how to preserve the efficiency and integrity of the stock exchange.

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