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Market Resiliency conundrum: is it a predicator of economic growth?

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Market Resiliency conundrum: is it a predictor of economic growth?Richard Wamalwa Wanzala¹, Willy Muturi² and Tobias Olweny²¹Department of Agriculture and Recourse Economics, Jomo Kenyatta University of Agriculture & Technology, Nairobi, Kenya¹Coressponding author: rwwanzala@aa.jkuat.ac.ke²Department of Economics, Accounts and Finance, Jomo Kenyatta University of Agriculture & Technology, Nairobi, Kenya

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Revised: 22nd November, 2017**Abstract**

Resiliency provides fundamental insights on the speed at which the marginal price impact increases as transaction volume increases in the stock market yet very few empirical research has been dedicated to its study. Consequently, this study was directed towards determining whether market resiliency is a predictor of economic growth. Secondly, the study also sought to examine whether real interest rate and risk premium moderate the relationship between stock market tightness and the economic growth in Kenya. To solve the conundrum on the relationship between market resiliency and economic growth, a sagacious moderating regression analysis (MRA) was used. The liquidity and variance ratios were used as measures of resiliency while real interest rate and risk premium were taken as moderating variables. The CUSUM plots were used to determine the stability of the model. The results of this study shows that market resiliency is a predictor of economic growth and both real interest rates and risk premium moderates the relationship between stock market resilience and the economic growth in Kenya.

Keywords: liquidity ratio, variance ratio, moderating regression analysis, market resiliency, economic growth, real interest rate, risk premium, CUSUM plot

1.0 Introduction

The extant literature have demonstrated that the notion of market liquidity is too complex to be crystallized and understood using a single parameter. Conceivably, that's why and Saligehdar, *et al.*, (2017), Wanzala, *et al.*, (2017) and Dash and Sumanjeet (2005) enumerates five dimensions of market liquidity (that is, tightness, depth, breadth, resiliency and immediacy) while other researchers (for example, Rouetbi and Mamoghli 2015) identify only three (that is, tightness (spreads), depth, and resiliency). Shockingly, an extensive body of literature of stock

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