

TO STUDY ABOUT IMPORTANCE OF STOCK EXCHANGE IN ZAMBIAN CONTEXT

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ABSTRACT

International emerging markets have attracted the attention of researchers and economists, especially during the current economic crisis and due to their high potential for development and their capacity to grow faster than the developed economies. A stock exchange market or equity market is a public entity for the trading of company stock (shares) and derivatives at an agreed price. Zambians now have an opportunity to diversify their investment with the establishment of the Lusaka stock exchange which provides a pitch on which ordinary Zambians can hold of listed companies.

This research was conduct due to the surveillance that many people and organizations in Zambia have the mentality of serving their surplus fund or profit in banks rather than investing in stocks or share.

KEYWORDS: Financial Development, Financial Efficiency, Stock Exchange.

INTRODUCTION

International emerging markets have attracted the attention of researchers and economists, especially during the current economic crisis and due to their high potential for development and their capacity to grow faster than the developed economies. A stock exchange market or equity market is a public entity for the trading of company stock (shares) and derivatives at an agreed price. Zambians now have an opportunity to diversify their investment with the establishment of the Lusaka stock exchange which provides a pitch on which ordinary Zambians can hold of listed companies.

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or profit in banks rather than investing in stocks or share.

This research focuses on the benefits of investing in shares more than saving in banks. It explains the importance of the Lusaka stock exchange and gives an account of how individuals and organizations are benefiting from investments.

ECONOMIC OR OPERATING EXPOSURE

Companies are exposed to three types of **risk** caused by **currency** volatility: Transaction exposure. This arises from the effect that **exchange rate fluctuations** have on a company's obligations to make or receive payments denominated in foreign **currency**.

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THE LUSAKA STOCK EXCHANGE

According the article visited on web: www.wikipedia.com "The Lusaka Stock Exchange (LuSE) was established with basis technical assistance from the International Finance Corporation (IFC) and the World Bank in 1993. The Exchange opened on 21st February 1994. within their first two years of plan, the LuSE and Securities and Exchange Commission (SEC) are funded by the UNDP and Government of Zambia as a scheme on financial and capital market expansion in Zambia under the multi component private sector development agenda. The LuSE is composed of stock broking corporate members and is incorporated as a non-profit limited liability company. At present, there are six members of the exchange. Three firms hold the bulk of the trades, but by value of the trades Pangaea Securities Zambia handles by far the bulk of the transactions.

REVIEW OF LITERATURE

(Allayannis, W.Brown, &F.Klapper, 2001) analyze the exchange rate risk management practices for the large sample of East Asian, the difference in using currency derivatives depends on the differences in size, domestic and foreign debt exposures, and financial characteristics. The result of this research represents that when the difference between domestic and foreign interest rate exist, the companies are less likely to apply foreign exchange rate risk managing instruments because they do not want to abandon maximum profit goals.

(Brown, 2001) analyze in detail on foreign exchange rate risk management at a single, large, multinational companies in order to see the process of foreign exchange rate risk management. The results show that these corporations have a foreign exchange rate risk program and it comes along with foreign

operations. The reasons why almost companies tried to manage foreign exchange rate risk are minimizing expected taxes, avoiding costs of financial distress, managerial risk aversion. The results from statistical tests show that foreign exchange rate fluctuation is important factor of foreign exchange rate risk management policies.

Levin and Zervos (1995.) show that stock market development, particularly in stock market liquidity, is significantly positively correlated with future economic growths and they further demonstrated that even after taking into account the role of the banking system, stock market development still remained significant in economic development.

Bencivenga et al (1992), Levin (1991), Saint Paul (1992) and Greenwood and Jovanovic (1990 .) in an attempt to explain the empirical findings of Levin and Zervos, show how liquid secondary capital markets help to allocate funds to projects with the highest marginal product that stimulate economic growth. Thus, stock markets increase the productivity of capital by improving liquidity, enhancing portfolio diversification opportunities and gathering information on the profitability of the concerned projects whose stocks are traded on the stock exchange.

The LuSE is owned by corporate members who are also licensed dealers and stock brokers. A dealer is a market practitioner who is able to transact in LuSE instruments from their own account while a stock broker is a market player that is approved with a licence to act as an intermediary between buyers and sellers in transactions involving the LuSE. To become a member of the LuSE, a firm must meet the Securities and Exchange Commission (SEC) of Zambia's capital requirements as well as pay an initial membership fee. It must also be a licensed broker/ SEC of Zambia.

Table 1. Companies That Are Currently Listed On Lusaka Stock Exchange

COMPANY	SYMBOL	SECTOR
AFRICAN EXPLOSIVES ZAMBIA	AELZ	BASIC MATERIALS
AIRTEL NETWORK ZAMBIA	ATEL	TELECOMMUNICATUONS
BRITISH AMERICNAN TOBACCO ZAMBIA	BATZ	CONSUMER GOODS
CAVMONTCAPITAL HOLDINGS	CCHZ	FINACIALS
CEC AFRICA INVESTMENT	CCAF	FINANCIALS
COPPERBELT ENERGY CORPORATION	CECZ	UTILITIES
FIRST QUANTUM MINERALS	FQMZ	BASIC MATERIALS
INVESTMENT BANK	INVE	FINANCIALS
LAFARGE CEMENT ZAMBIA	LAFA	INDUSTRIAL
MADISON FINACIAL SERVICES	MFIN	FINANCIALSS
METAL FABRICATORS OF ZAMBIA	ZAMFA	INDUSTRIALS
NATIONAL BREWERIES	NATB	CONSUMERS GOODS
PAMODZI HOTELS	PMDZ	CONSUMER SERVICES
PRIMA RE FINANCIALS	PRIM	FINANCIALS
PUMA ENERGY ZAMBIA	PUMA	OIL AND GAS
REAL ESTATES INVESTMENTS ZAMBIA	REIZ	FINANCIAL
SHOPRITE HOLDINGS	SHOP	CONDUMER SERVICES
STANDARD CHARTERED BANK ZAMBIA	SCBL	FINANCIALS
ZAMBEEF PRODUCTS	ZAMBF	CONSUMERS
ZAMBIA BATA SHOE COMPANY	BATA	CONSUMERS GOODS
ZAMBIA NATIONAL COMMERCIAL BANK	ZANACO	FINANCIALS
ZAMBIA SUGAR	ZSUG	CONSUMER GOODS
ZAMBIAN BREWERIES	ZAMBR	CONSUMER GOODS
ZCCM INVESTMENT HOLDINGS	ZCCM	BASIC MATERIAL

MARKET CAPITALIZATION

Market capitalization is the market value of a company's outstanding shares. It is also defined as the aggregate valuation of the company based on its current share and the total number of outstanding stocks.

It is found by multiplying the current market price of the company's share with the total outstanding shares of the company.

formula

$$MC = N \times P$$

Where:

MC=Market capitalization

N= Number of shares outstanding

P= Closing price per share

PEG RATIO (price earnings to growth ratio)

It is the valuation metric for determining the relative tradeoff between the price of a stock, the earnings generated per share (EPS) and the companies expected growth.

Therefore, the P/E ratio is higher for a company with a higher growth rate.

Formula

$$\text{PEG RATIO} = \text{PRICE} / \text{EARNINGS} \div \text{ANNUAL EPS GROWTH}$$

The growth rate is expressed as a percentage value, and should use real growth only to correct for inflation. A lower ratio is better and cheaper while a higher is ratio is expensive.

CONCLUSION

In the national economy, real investments have a key influence on economic growth rates which it is expected to enhance the development of the stock market, and, on the other side, the values obtained confirm the positive influence market capitalization may have on real investments, and, in consequence, on the national growth rates, for a 10 % level. Share investing is not being widely practiced in Zambia. People have the interest to invest but they do not fully know the merits and demerits of investing.

With regards to listed companies visited, they are benefiting in a way that they are now able to raise huge sums of long term capital as compared to when they were operating private.

And the Lusaka stock exchange itself ensuring is helping the country by acting as an open market for trading of securities and bonds.

LuSE has also been like a savior to listed companies they are able to provide a source of long-term capital mainly to the privatized companies in a fair and clear process, to support the international community to invest in Zambia; to provide an opportunity to the Zambians people to invest in the privatized companies as a way of promote wealth formation via wide ownership of shares, to make possible the privatization of state-owned enterprises as part of economic reform; and to offer a neat translucent market for the secondary trading of shares and other saleable securities.

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