

**ASSESSMENT OF BID-ASK SPREAD DETERMINANTS IN  
NAIROBI FOREX BUREAUS**

**BY**

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## ABSTRACT

Theoretically, economists have recognized four determinants of bid – ask spread: exchange rate volatility (market uncertainty), trading volume, number of dealers (market competition), and order sizes.

This study sought to assess the determinants of bid-ask spread and their significance to Forex Bureaus operating in Nairobi, Kenya. The objective of this study was to establish and analyze the factors which determine the bid-ask spread such as exchange rate volatility (market uncertainty), trading volume, number of dealers (market competition), order sizes, cost and location of the bureaus.

The study population comprised of 75 registered forex Bureaus operating in Nairobi. A simple random sampling technique, the lottery method, was used to get 45 forex bureaus which constituted the sampling units. Questionnaires were used to obtain primary data from the forex bureaus. Secondary data was collected both CBK. Statistical package for social sciences (SPSS) was used to get the mean, standard deviation and the correlation for the quantitative data.

It has been found from this study that bid-ask spread has an inverse relationship with number of dealers (market competition), order sizes and a direct relationship with market uncertainty, cost and competition and there was no relationship to volume of trade.

Given importance of market uncertainty and order size in BASs Central Bank of Kenya should strengthen the information dissemination process and sensitize the forex bureaus on the meaning of key macro-economic variables and their implication to the market and encourage computerized system for trading to cut cost.