



Applied Economics Letters >

Volume 16, 2009 - [Issue 14](#)

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# Relationship between stock returns and inflation

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Pages 1403-1408 | Published online: 07 Oct 2009

Cite this article <https://doi.org/10.1080/13504850701537682>

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## Abstract

The question of whether common stocks can act as a hedge against inflation has received tremendous attention in the economics and finance literature, but with little or no evidence for African countries. This letter examines the Fisher hypothesis for 6 African countries. Using OLS estimates we find positive relationship between inflation and stock returns in Kenya and Nigeria. However, instrumental variable estimates provide consistent results and confirms the validity of a generalised Fisher hypothesis in 3 markets: Kenya and Nigeria at the 12 month horizon, and Tunisia at 60 month horizon. This suggests that investors should expect stocks to be a good hedge against inflation over long horizons.

<sup>1</sup> The studies such as Anari and Kolari ([2001](#)) use cointegration while studies like Spyrou ([2001](#)) concentrate on both short- and long-run methods.

## Related Research Data

### COMMON STOCKS AS A HEDGE AGAINST INFLATION

Source: The Journal of Finance

[Testing Fisher hypothesis in long horizons for G7 and eight Asian countries.<sup>1</sup>](#)

Source: Applied Economics Letters

### THE FINANCIAL AND TAX EFFECTS OF MONETARY POLICY ON INTEREST RATES

Source: Economic Inquiry

### STOCK PRICES AND INFLATION

Source: The Journal of Financial Research

[Stock returns and inflation: evidence from an emerging market](#)

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