

Abstract

Modern corporate organizations listed in the security markets periodically communicate their financial performance to stakeholders through earnings announcements. Efficient markets immediately absorb and reflect the new information into the share prices. This paper examines the effect of annual earnings announcement at the Nairobi Securities Exchange (NSE) by analyzing changes in share prices and trading volumes for the period from 2006 to 2010. Abnormal returns during the event window of 91 days were determined using the event study methodology employing the market model on data from 5 listed companies. Further, the volume reactions were examined by use of the trading activity ratio (TAR). Inferential and descriptive statistics were used to test for significant effect on TAR and price changes. The results obtained indicate that the abnormal returns and TAR were not significant at 5% probability level. Thus the NSE is of semi-strong efficiency, whereby it is not possible to earn abnormal returns in the NSE using the publicly available information.