EFFECT OF CENTRAL BANK INDEPENDENCE ON INFLATION IN KENYA

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A RESEARCH PROPOSAL SUBMITTED TO THE DEPARTMENT OF APPLIED ECONOMICS IN THE SCHOOL OF ECONOMICS IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTERS OF ECONOMICS (FINANCE) OF KENYATTA UNIVERSITY.

MARCH, 2014
DECLARATION

This proposal is my original work and has not been presented for a degree in any other University or any other award.

Signature

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We confirm that the work reported in this proposal was carried out by the candidate under our supervision.

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ABSTRACT

Kenya suffered double digit inflation rates as from 1974 culminating in the highest ever recorded rate of 46 per cent in 1993. High inflation brings with it uncertainties that retard economic growth. As such it is of paramount importance for a country to put in place mechanisms to maintain low and stable inflation rates. Among the solutions to high inflation rates is conferring independence upon the central bank. This study will examine the effect of the independence of the Central Bank of Kenya on inflation in Kenya. Empirical literature on the relationship between central bank independence and inflation is controversial with some studies showing a strong negative relationship while others find a weak relationship or none at all. The study will adopt a regressional research design. Secondary data on annual inflation rates, budget deficit, imports, exports and the level of the Gross Domestic Product in Kenya from 1966 to 2012 will be used.