UNIVERSITY OF NAIROBI

SCHOOL OF ECONOMICS

THE EFFECT OF EXPORTS ON THE ECONOMY: THE CASE OF KENYA.

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RESEARCH PAPER

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Abstract

This paper investigates the effect of exports on economy in Kenya. This study examines the relationship between exports and economy for Kenya using Balassa approach based on data from 1975 to 2010. A time series regression analysis was applied to test the hypothesis that exports and economy are positively related. While conventional wisdom suggests that exports have a positive effect to economic growth, this study also provides strong evidence supporting the positive relationship between exports and the economy. The model that will be used to examine the effect of exports on the economic growth is shown by the following production function, which is referred to as the Balassa approach. The variables used are: real exports, real import, real GDP, labor force, and real gross capital formation. The data used will be from 1975-2010. Export and economy were found to be positively related while imports, labor force and real gross capital formation showed negative relationship and we recommended Kenya should facilitate trade in a new environment through economic interdependence and globalization.

Key words: Exports, economy, Kenya