THE EFFECT OF ELECTIONS ON GENERAL INFLATION RATES IN KENYA

A COMPARISON OF THE PERFORMANCE OF THIS VARIABLE DURING ELECTION AND NON-ELECTION PERIODS

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ABSTRACT.

This study is designed to analyze the effect that elections have on the general inflation rates in Kenya.

It argues that with the political unrest, investor anxiety, the stimulation and manipulation of the economy by politicians and the massive campaign expenditure that accompanies elections, there is a likelihood of this spilling over to inflate the general price levels in the economy. This hypothesis is investigated using a series of empirical tests.

The research comes up with a multiple linear regression model that takes account of the main factors which affect inflation rates in Kenya, with the election event as one of the explanatory factors, treated as a dummy variable.

In the single-factor models, all the influence factors (the money supply, interest rates, exchange rates, net income, the election event and the interaction term between an election event and money supply) are found to have a significant influence on inflation.

However, in the multiple linear regression model, only the money supply, interest rates, exchange rates and the election event are found to be significant.

There is a difference in the trends when we compare single party elections (before 1992) and multi-party elections (after 1992). Single-party elections have a direct relationship with the inflation rates, but the effect of multi-party elections on inflation is negative. This may be because the sample period from 1992 to 2010 includes only four election events, which are either inadequate or not very representative of the general situation.

The results show that in general, there is a direct relationship between inflation rates and elections, in the presence of all the other influencing factors. However, when linked to money supply, and in the presence of other factors, the relationship is indeterminate.

The research therefore concludes that elections do have an effect on inflation rates in Kenya, but not necessarily due to increases in money supply. Other external factors also come into play.