THE IMPACT OF DIESEL PUMP PRICES ON GDP GROWTH IN KENYA

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ABSTRACT

This paper attempts to determine the impact of diesel pump prices on the Kenyan Gross Domestic Product at market prices.

The study employs quarterly time series data of GDP, diesel pump prices and inflation in CPI for the year 2001-2011. The linkage between real GDP, oil pump prices and inflation in CPI is modeled. Multiple regression analysis is then used to analyze the model so as to test for the causality between variables of interest.

The results indicate that both the diesel pump prices and inflation in CPI are positively associated with real GDP at market prices contrary to popular expectations. Possible explanations for this relationship are given. One of the most outstanding reasons is attributed to the fact that part of the revenue accruing to oil products is recycled back in the economy. Also, when Kenya exports some of the oil products to land locked countries such as Uganda, additional revenue is generated which contribute to growth of the economy. Therefore, close linkage with the oil exporting countries should be maintained as this acts as a shock absorber in terms of international flows between these countries.