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DETERMINANTS OF DOMESTIC PRIVATE INVESTMENT IN KENYA.
BY
MOGENDI JUSTINE ONGERI
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ABSTRACT

The main objective of this study is to establish factors that determine private investment behavior in Kenya. Private investment is one of the major contributors to economic growth and development in both developed and developing countries. This is because through investment, new technology can be adopted, employment opportunities can be created, incomes can grow and living conditions of the people can improve thus, ultimately leading to alleviation of poverty. Technology, employment and poverty are among the main problems facing most economies of developing countries and it is through investment that long-term solutions can be reached.

An eclectic function is estimated to determine factors affecting domestic private investment. The estimated coefficients of all the variables (gross domestic product, real exchange rates, interest rates, political interference, and public investment) depict the behavior of private investors in response to macroeconomic policy and structural changes within the economy. The empirical analysis has demonstrated the positive influence of GDP growth and the negative effect of the public sector (public investment), real exchange rates, real interest rates and election periods on the behavior of private investors. Based on the findings of this study, recommendations have been suggested that would help in the synthesis and understanding some of the policy issues relating to private investment behavior in Kenya and probably other developing countries.