IMPACT OF PRICE INSTABILITY ON COFFEE PRODUCTION AND ECONOMIC GROWTH IN KENYA.

(An econometric approach)

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ABSTRACT

Coffee is undoubtedly one of the most important agricultural commodities in world trade. This study outlines the impact that the coffee price instability has had on the production and economic growth of a country. This study is guided by various objectives such as the scope of the world market and coffee prices in comparison to the coffee industry in Kenya and the indirect influence of stabilization schemes on economic growth through their effect on the average level of producer prices. It also analyses various effects of real price instability on production and economic growth of a country. The various hypotheses are then tested for the case of coffee production and economic growth in Kenya. The main sources of data for this study are secondary sources and variables like growth rate of GDP, foreign direct investment as a ratio of GDP, exports as a ratio of GDP are sourced from the World Development Indicators 2010 (WDI 2010) of World Bank. Data for consumer price index and exchange rate is from International Finance Corporation (IFC) and World Bank and the Kenya bureau of statistics. Other sources include esource, CBK annual report 2009, the economic survey 2010 and working papers. The key finding resulting from this study is that there are instabilities in coffee prices in the global market which in turn affects the production of the commodity in the country and in effect there are major repercussions in the economic growth of Kenyan. Agriculture is one of the key pillars of the Kenya economy and coffee is the main commodity that Kenya imports and as long farmers are getting value from the sale of the coffee product, this will enhance continuous production of this all important produce. This will in turn result in enough supply of coffee to the global market which will see the economy grow on an upward trend once more.