DETERMINANTS OF COFFEE PRICES IN KENYA: AN ECONOMIC ANALYSIS PERSPECTIVE.

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Abstract.

The purpose of this dissertation is to construct an econometric model to explain factors affecting coffee prices in Kenya. There are three areas of interest, coffee production which is taken as supply, exports which is taken as demand and foreign exchange. Those three factors are used to estimate the price of coffee.

The main feature of this study is the use of production, supply, and exchange rate to estimate the response of coffee prices. All equations are derived from a CES production function.

Ordinary least squares multiple regression is used to fit the model equating the coffee prices which is the dependent variable to explanatory variables. There is a positive relationship between prices and nationals (production), a negative relationship between prices and exports (supply) and negative relationship between prices and exchange rate. The dissertation concludes with some guidelines for national policy based on the conclusions of the study.