ABSTRACT

This paper examines the effectiveness of monetary policy in controlling inflation affecting household goods. There has been increasing trends of inflation especially in the prices of household goods in Kenya. The purpose for this study is to investigate the effectiveness of the CBK’s monetary policy in controlling inflation of these goods over the three selected years from 2009 to 2011.

The data for the study was obtained from the Central Bank of Kenya monthly economic review. The study adopts the quantity theory of money in its empirical analysis, where it examines the impacts of money supply and interest rates on inflation as well as the relationship between them. The study also goes further to check the trends in the changes in inflation rates for 35 months in the last three years. The data was analyzed using STATA to determine the impacts of money supply and interest rates on inflation as well as the relationship between them.

The study reveals that money supply and interest rates are ineffective in controlling inflation. In the model, a unit increase in interest rates leads to a 0.3712 increase in inflation and a unit increase in money supply leads to a 0.6548 decrease in inflation which contradicts with the theoretical model that positively relates inflation to money supply and negatively relates inflation to interest rates.