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THE EFFECTS OF INFLATION ON CONSUMPTION OF HOUSEHOLD GOODS, A CASE STUDY OF MILK CONSUMPTION IN KENYA.

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ABSTRACT

Inflation is the sustained increase in the general price level of goods and services in an economy over a period of time. When the general price level rises each unit of currency buys fewer goods and services. Consequently, inflation reflects to erosion in the purchasing power of money, i.e. a loss of real value of money as an internal medium of exchange and unit of account within the economy.

This study sets to establish the effects of inflation on consumption of household goods, a case study of milk consumption in Kenya. The study employed multiple regression analysis. The study used time series empirical data on the variables to describe and examine effects of inflation on milk consumption by establishing correlation coefficients between the inflation and the factors that affects milk consumption.

The study used secondary data on the Consumer Price Index for inflation, Disposable national income and price of substitute (coca cola-soft drink). The analyses entailed the computation of the various coefficients of explanatory variables denoted as ‘β’ in the model to determine the effects of inflation in milk consumption.

The study established that inflation and milk consumption were negatively correlated with each other. As inflation increases milk consumption decreased. An increase in inflation leads to reduction in people’s spending on milk due to low purchasing power and substitution for other drinks. The study also established that per capita income and price of substitute (coca cola) also are correlated with milk consumption.

The study recommends that the policy makers need to keenly consider the level of inflation in Kenya so as to ensure a stable retail price levels. The study also recommends that the Government put measures to protect domestic industries from unhealthy competition from powerful multinational.