

**FACTORS AFFECTING KENYA SHILLINGS VOLATILITY AGAINST THE
UNITED STATES DOLLAR**

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**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF
SCIENCE IN FINANCE, SCHOOL OF BUSINESS, OF THE UNIVERSITY OF
NAIROBI**

OCTOBER 2016

DECLARATION

I, the undersigned, declare that this research project proposal is my original work, and that it has not been presented to any other university or institution of higher learning for academic credit.

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This research project proposal has been submitted for presentation with my approval as university supervisor.

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ACKNOWLEDGEMENT

First and foremost our gratitude goes to my research project supervisor Dr. Kennedy Okiro for not only providing unlimited, invaluable and active guidance throughout the study but also for his constructive criticisms that helped shape up this project to the product it is now. Secondly, I owe my gratitude to the many people who in one way or another made contributions towards completion of this project though it's impossible to mention them all. Last but not least, I thank my family for their moral, spiritual support and encouragement throughout my period of study.

DEDICATION

I dedicate this research project to my family, Wife Virginia and daughter Rita Mwikali.

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ABBREVIATIONS AND ACRONYMS

CBK: Central Bank of Kenya

CEPR: Centre for Economic Policy Research

DKK: Danish Krone

ECB: European Central Bank

EMS: European Monetary System

FDI: Foreign Domestic Investments

GDP: Gross Domestic Product

IPR: Interest Rate Parity

KBA: Kenya Bureau of Statistics

KES: Kenya Shilling

MDGs: Millennium Development Goals

NSE: Nairobi Stock Exchange

PPP: Purchasing Power Parity

USD: United States Dollar

ABSTRACT

The study sought to identify the factors that affect Kenya shilling volatility against the US dollar. Data used in the study was collected from the central bank of Kenya and the Kenya bureau of statistics for a five year period. The study used descriptive research design to portray the variables influencing Kenyan shilling volatility against the US dollar. Descriptive statistics such as frequency distribution and percentages were used to analyze general information. Means and standard deviations were used to analyze the correlation between the variables. The findings were presented in form of tables to give a representation of the research findings on the extent of correlation of Kenya shilling volatility against the US dollar, against factors such as GDP, balance of payment, interest rates and inflation. The study concluded a positive relationship coefficient between GDP and Kenya shillings volatility, and a negative relationship with interest rates, inflation and balance of payments. The study found out that inflation decreases the availability of cash and makes it hard for the economy to afford purchases of goods and services. Inflation does not support Kenya shillings stability against foreign currency because it reduces the level of business activity in the economy, and therefore demand for foreign currency declines. The study found that Interest rates influences Kenya shillings instability. An increase in financing costs implies that customers need to pay more to back their consumption, therefore demoralize the buyers from purchasing, which lessens consumption. The study findings further confirm that long-term balance of payments deficit reduces national spending and force significant long-run costs on the economy this affects activity in the money market and reduces volatility. The study finds that GDP influences the Kenya shillings instability positively. An increase in total national output (GDP) prompts an increment in Kenya shillings volatility. A noteworthy change in GDP, whether up or down, more often than not significantly affects money markets. Growth in GDP will therefore increase volatility of the shilling.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Researchers have experimentally been exploring the trade rates exposures of firms for the last few decades. The vast majority of this exploration shows the introduction as the versatility amid adjustments in firm value and the currency conversion scale measures. In Kenya, there has been expanded changeability in the conversion standard as the Kenyan money has deteriorated radically against major worldwide currencies and this has adversely affected the domestic economy of the nation (Adler and Dumas, 2010). There has dependably been some dispute about the most appropriate rate of exchange in the third world nations. It predominantly spins around the level of changes amid times of unverifiable action as a consequence of inside and outside forces (Abor, 2005). There has been across the board financial ramifications on the local economy as a consequence of the nearby cash deterioration that has happened in the course of the most recent couple of years.

Kenya encountered a settled rate of exchange administration from 1966 up until 1992, when the multiparty framework and lapsed exchange became possibly the most important factor. Much the same as most developing nations around then, it needed to as often as possible cheapen its currency trying to moderate the negative impacts that unpredictability had on its economy around then. From that point, it went into a double rate of exchange framework, which endured until late 1993, after which the official conversion standard was coordinated to the authority interbank rate and the shilling was permitted to float against all other currency (Adler & Dumas, 2010).

Srinivasulu (2009) opionates that cash instability from an underlying exchange shortage lessens genuine national income and might prompt a decline in aggregate demand. Moreover, deterioration of currency brings away with one hand, by raising import prices or by bringing down export prices. At the point when the exchange is adjusted and terms of trade are not changed these esteem changes adjust each other. Where imports outperform foreign exports, the net result is abatement in genuine return inside the country. Cooper (2007) attests this point in a general harmony display. Felix (2012) express that in an average semi-industrialized nation where contributions for assembling are to a great extent imported and can't be effectively created locally, firms' information cost will expand taking after a debasement. Thus, the negative effect from the higher cost of imported goods or services may overpower the creation help from lower relative expenses for locally made merchandise. Lessard (2007) give prove that the last impact relies on upon the size by which request and supply bends move due to devaluation. Currency devaluation builds net exports and grows the cost of generation. On the other hand, currency strength reduces net exports and the cost of creation. The joined effects of interest and supply channels choose the net consequences of currency rate changes on genuine yield and costs

1.2 Currency Volatility

Currency volatility refers to the depreciation or appreciation of currency value of any country in comparison to foreign currency (Abrams et.al. 2008). These days, the currency volatility is one of the principle and essential issues universally (Bordo and Harold,

2006). Outside trade market is undoubtedly, the world's biggest money related market and the issue of cash instability is a serious issue particularly to growing economies. It happens when nation is taking after gliding swapping scale framework. A floating rate of exchange implies that the worldwide venture advertise decides the estimation of a nation's money. As indicated by Devarajan (2013) the rate of exchange among different monetary forms changes each day as speculators rethink new data. While a nation's legislature and national bank can attempt to impact its currency conversion scale with respect to different currencies, at last it is the free market that decides the actual swapping scale.

Starting 2012, all significant economies utilize a floating rate of exchange. Devaluation happens when a nation's conversion standard goes down in the market. The nation's cash has less acquiring power in different nations on account of the devaluation. Stephen et al (1998) displayed the possibility of outside rate trade instabilities variances as misfortune or pick up of one coin against the other. Unusualness is in this way a fall in estimation of one currency against various money related structures. This misfortune or pick up of a currency is the thing that they term as outside rate exchange changes. It is this conformity in swapping scale that offer rising to undesirable effects on company's' outside operations.

The Kenya shilling conversion scale against the US Dollar has been slanting at three-year lows for as long as 12 months, in a circumstance that has gotten brokers, Kenyans, and Monetary Policy experts concerned. To these players, the memory of the 2011 period is still new; a period when the KES devalued 25% against the USD inside 6 months setting off a shooting import charge, taking off expansion and a high loan cost administration as

the Central Bank and Monetary Policy attempted to put a cover to cushion Kenyans against developing expense of products and enterprises (Clark and Faruqee, 2015).

1.3. Factors Affecting Kenya Shillings Volatility

It's a well-known fact that the Kenya shilling has been failing, nearing 106 to the US dollar as at September, 2015. Remember this is not the most minimal the shilling has ever achieved; KES exchanged with USD at 107 in October 2011. In any case, conditions now are distinctive and have educated the nervousness about the instability of the shilling. Not just does Kenya's Current Account Deficit stay significant, the nation is piling on remote named unpaid liability. Toward the begin of the monetary year 2016/2017, Kenya's open obligation remained at KES 3.2 trillion, around (60%) from household sources, with the rest of outside getting (40%). However add up to open obligation is required to go up to 3.8trn by end year. What amount of this will be foreign sourced ? This question gets to be essential while investigating the KES volatility issue as it adds to the issue of a lack of dollars.

1.3.1 Inflation Rate Differences

As per Gerlach, and Smets (2010) Inflation/deflation is connected with money devaluation. Assume the fetched level augmentations by 40% in the U.S., while the esteem levels of its trading accessories remain by and large consistent. U.S. stock will give off an impression of being to a great degree exorbitant to non-natives, while U.S. nationals will manufacture their purchase of decently humble remote items. The U.S. dollar will break down as needs be. If the U.S. development rate is lower than that of its trading accessories, the U.S. dollar is required to appreciate. Take note of that conversion

scale changes allow countries with generally high inflation rates to keep up exchange relations with nations that have low expansion rates.

1.3.2. Interest Rates

Higher interest rates results to gain while slicing financing costs tends to bring about currency deterioration. For instance, on the off chance that UK costs of financing ascend regarding elsewhere; it will end up being additionally engaging store trade out the UK. One will hint at change rate of return from saving in UK banks; thus overall demand for Sterling will rise. This is alluded to as "hot cash streams" and is a basic short run figure choosing the estimation of money (Omenda, 2010).

1.3.3 Balance of Payments

A deficiency on the present record suggests that the estimation of imports is more essential than the estimation of fares. At the point when financed by a surplus on the cash account, then this is OK. In any case, a country, who fights to pull in enough capital inflows to back a present record deficiency, will see flightiness in the money. (For example current record inadequacy in US of 7% of GDP was one clarification behind cheapening of dollar in 2006-07).

1.3.4 GDP growth rate

As GDP growth and buyer income rise, acquisition of merchandise and enterprises likewise will similarly rise. A portion of this expanded utilization will be made out of imported products. For instance, for each dollar that U.S. shoppers spend on products and ventures, around 10%, or 10 pennies, is spent on imported merchandise. In this way a positive connection between's economy growth and the level of imports is normal. This over the long-run can prompt loss or gain (Duarte& Stockman, 2002).

1.4 Research Problem

The latest downward run of the Kenya shilling against the significant monetary forms has influenced the economy of Kenya incredibly because of the big effect it has brought on to the lives of its citizens. Kenya, as it is for a greater part of developing economies of the world, vigorously depends on import of products to take care of internal demand for merchandise and enterprises. A feeble shilling hence harms shippers and expands the cost of products. Like anything, the estimation of the currency rises and falls as a result of the forces of free market action. The free market movement of a country's trade is reflected out its outside transformation scale.

When a nation's economy flounders, buyer spending lowers and exchanging feeling for its currency goes bad, prompting a decrease in that nation's money against different monetary standards with more grounded economies. Then again, a blasting economy will lift the estimation of its money, if there is no administration mediation to control it. Buyer spending is affected by various variables: the cost of products and ventures, livelihood, loan costs, government activities, et cetera. Here are some monetary variables you can take after to distinguish financial patterns and their impact on currency.

In the developed nations, researchers have additionally investigated the effect of currency conversion standard instability and related vulnerability on exchange, speculation, and monetary development. A significant number of these studies have found that conversion standard instability can straightforwardly impact exchange (Cheong, 2004)Regarding the research writing on the effects of rate of exchange variances on monetary development, Few that especially focus on Kenyan economy. In Kenya, Kiptui and Kipyegon (2008) Notes that both external and internal economic shocks have an effect on

the currency volatility . Otieno and Felix (2012) look at on the impact of rate of exchange variances on FDI in Kenya and found that the impact on currency fluctuation to be immaterial.

Musyoki and Pundo (2012) study found that Kenya's rate of rate of exchange by and large demonstrated a heightening and instable pattern, proposing that when all is said and done, the nation's worldwide competitiveness from 2012 henceforth, was negatively affected on the financial development of Kenya. Be that as it may, no study in Kenya has particularly centered on building up variables influencing devaluing shilling against dollar consequently this study aims at filling the gap. So is the current descending slide in the value as an after effect of the stagnation in the worldwide economy or because of inside auxiliary shortcomings of the Kenyan economy? As indicated by Amofo (2012) in financial matters, volatility is essentially the manifestations of a hidden issue, particularly lopsided characteristics in a critical Balance of Payment (BOP), exuding from overabundance interest for dollars. So as opposed to talking about the deteriorating Kenya shilling, I will center my consideration on the causes or elements that make currency to depreciate and what the government can do to solve this condition.

Fluctuations in value of currency are a typical occasion and are normally no reason for concern. The minor day by day increments and abatements in esteem are for the most part because of "arbitrary walk" and not because of a monetary occasion or crucial issues. Be that as it may, changes in cash value get to be noteworthy when the decrease in estimation of the coin is a continuous pattern.

Actually, when currency devalues, it loses purchasing power, with effect on the genuine areas of the economy (Amofo, 2012). Although, the monetary impacts of a lower Shilling set aside opportunity to happen, there are time slacks between an adjustment in

the conversion standard and changes in item prices. Factors that decide the estimation of a currency incorporate the present condition of the general economy, inflation, exchange adjust (the contrast between the estimation of fare and import), level of political solidness, and so forth. Once in a while, outside variables like money theories on the remote trade market can likewise add to volatility of the neighborhood coin. Such being the situation, an administration can mediate into the outside trade market to bolster its national cash and smother the procedure of deterioration.

Currency deterioration can emphatically affect the general financial advancement, by boosting intensity of privately fabricated products through lower send out expenses and accordingly secures more wage from sent out merchandise correspondingly cheapening does. Unexpectedly, gratefulness makes imports more costly and demoralizes buys of imported merchandise animating interest for locally produced products. This study seeks to establish factors that affecting volatility of the Kenya shillings against the United States dollar between January 2010 and December 2015.

1.3 Research Objective

This study seeks to identify the factors affecting volatility of the Kenya shilling against the US dollar

1.4 Value of the Study

This study is significant and of great importance to the Kenyan economy since its core objective is to establish the factors affecting Kenya shilling volatility against US dollar and offer solutions and recommendations to the volatility of the shilling. The study looks into possible means of solving this crisis without hurting the economy and Kenyans at large. It's important to policy makers in the government who are struggling to strengthen the shilling as it may help to give an insight into the current situation of the economy and

the possible immediate propositions that should be formulated and implemented. It will also play a major role in advising investors since it will create caution to them and offer solutions to the current stalemate, therefore providing them with adequate information on investment opportunities.

Lastly, findings from this study will be of importance to future scholars, academicians and financial theorists who may want to use conclusions and recommendations of this study as the basis for further research on the same topic or other related topics. This is key in adding to the already existing literature on the subject, as well as in bringing forth new insights and ideas that have not been there before. This is crucial in growing the corpus of knowledge, both now and in the future.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter covers the theoretical framework of the study, factors affecting volatility of Kenya shilling against US dollar, empirical studies and a summary of the literature review.

2.2 Theoretical Framework

There are various rate of exchange theories, each recognizing own worldview and idea concerning the cash devaluation. The study is deeply intrigued with rate of exchange volatility theories that spot factors affecting volatility of one currency against the other. Highlighted below are some of such theories.

2.2.1 The Balance of Payments Theory

This theory is the present day and most acceptable theory of the assurance of the rate of exchange. It is additionally called the rate of exchange demand and supply theory. The rate of trade in the outside trade is dictated by BOP as per the demand and supply of the particular market. The 'balance of payments' is utilized as a part of the of market balance. In the event that the demand for a nation's currency declines at a specified rate of trade, we can talk about a shortfall in its BOP. Thus, when the demand for a nation's money ascends at a given rate of trade, we can talk about surplus in its balance of payments.

A shortage BOP prompts a fall or instability in the outer estimation of the nation's currency. A surplus balance of payments prompts a gain in the outside estimation of the nation's currency (Galí & Monacelli, 2005). As indicated by the theory, a shortage of

BOP prompts decline or volatility in rate of exchange, whilst a surplus of BOP reinforces the foreign exchange funds, bringing about a gain in the cost of home currency as far as foreign currency is concerned. A shortage balance of payments of a nation infers that interest for outside trade is surpassing its supply.

2.2.2 Trade Theory

Trade theory relates exchange products with the genuine rate of exchange. Setting every single other variable settled, the trade theory expresses that the conversion standard can influence the economy's imports and exports. A fluctuation in the rate of exchange influences both the volume and value of exchange. On the off chance that the real rate of exchange ascends for the nation of origin i.e. on the off chance that there is a real devaluation, the family units in the domestic nation can get less remote merchandise and enterprises in return for a unit of household products and ventures. Along these lines a unit of outside great would give a greater amount of local products, bringing about local family units purchasing less remote merchandise and remote families needing to buy generally more local products.

The higher the real rate of exchange the more surplus in the net exports the nation will get (Zhang, 2008). Lerner extended standard trade theory by including price elasticity of demand for imports and exports as imperative components in deciding the impact of conversion scale changes on the exchange adjust. An expansion in exports and cut down on imports because of instability in the rate of exchange does not really mean an adjustment, or even a change, in the exchange adjust. The trade balance is not bothered with the measures of physical products but rather with their real values (Lerner, 1944).

2.2.3 Interest Rate Parity Theory

The theory of interest rate parity is used to inspect the relationship between at the spot rate and a looking at forward rate of money related structures. The theory states interest rate differentials between two extraordinary financial principles will be reflected in the premium or markdown for the forward rate of exchange on the outside coin if there is no arbitrage the development of acquiring shares or cash in one budgetary market and offering it at an advantage in another. The theory help states size of the forward premium or discount on an outside currency should be equal to the advance charge differentials between the countries in examination (Bleaney & Fielding, 2002).

IPR hypothesis relates the difference among outside and family credit charges with the refinement in spot and future rate of exchange s. This correspondence condition communicates that the neighborhood interest rate should square with the outside financing cost notwithstanding the ordinary change of the trade rates. If budgetary masters are peril unprejudiced and have sound goals, the future swapping scale should perfectly alter given the present advance cost differential. For example, if the differential between one-year dollar and pound credit expenses is five percent with the pound being higher, chance fair, ordinary budgetary experts would envision that the pound will disintegrate by five percent over one year in this way leveling the benefits on dollar and pound stores. If the conversion standard did not change, then arbitrage openings would exist. Consequently, the current forward rate should reflect this credit cost differential as a forward contract secures later on rate of exchange.

2.2.4 Purchasing Power Parity Theory

This theory shows how to deal with take a gander at the typical costs of items and ventures between countries. According to PPP theory, as time goes on, differently priced things and organizations in different countries should cost the same in different countries. This relies on upon the decision that rate of exchange s will adapt to discard the arbitrage possibility of buying stock or organizations in one country and offering it in another. For example, take a cell phone that costs 2000 DKK in Denmark and a swapping scale of 5 Kroner to 1 USD. If comparable phone costs 500 dollars in the USA, American purchasers would buy the PDA in Denmark. In the occasion that done on an immense scale, the inflow of U.S. dollars would drive up the cost of the DKK, until it leveled at 4 Danish Kroner to 1 USD comparative extent of the cost of the remote in Denmark to the cost of the phone in the U.S (Akwimbi, 2003).

PPP theory holds for tradable stock, not to stable items or neighborhood organizations. The theory also disregards a couple genuine components, for instance, transportation costs, duties and trade costs. The other suspicion is nearness of centered markets for the stock and ventures in both countries. The PPP rate of exchange between two money related benchmarks is the swapping scale that would look at the two relevant national esteem levels if referred to in one coin at that rate, so that the purchasing impact of a unit of one currency would be the same in both countries. Relative PPP holds when the rate of unpredictability of one trade out regard to another reciprocals the qualification in complete esteem extension between the two countries concerned. If the apparent conversion standard is described essentially as the cost of one currency similarly as another, then the genuine swapping scale is the apparent rate of exchange adjusted for

relative national esteem level differences (Devereux, 2002). Right when PPP holds, the genuine conversion scale is a relentless, so that improvements in the bona fide rate of exchange address deviations from PPP (Sarno and Taylor, 2002).

Acquiring power surveys the national typical esteem levels for stock, organizations and endeavors. Under the facilitated commerce of banknotes into gold, silver or other critical metals and tolerating the adaptability of gold trade between the countries, the transformation scale possibly goes out of order from the PPP on account of operation of gold mining and openness of underground wells.

2.3 Determinants of Currency Volatility

There are many determinants of currency volatility worldwide the study focuses on the following factors:

2.3.1 Balance of Payment (Importation and Exportation Rates)

As indicated by Gerlach, and Smets (2000) both exports and imports may seem like dull terms that have little bearing on standard day by day presence, notwithstanding they apply a critical effect on the buyer and the economy. In today's interlinked overall economy, clients are usual to seeing things and make from every side of the world in their neighborhood strip malls and stores. These abroad things or imports give more choices to purchasers and help them manage strained family spending arranges. In any case, unnecessarily various imports in association with exports which are things conveyed from a country to outside objectives can mangle a nation's adjust of exchange and spoil its cash (Gudmundsson, 2012). The estimation of a currency, hence, is one of the best determinants of a nation's financial execution.

Positive net exports add to money related advancement, something that is instinctually direct. More exports mean more yields from assembling plants and current workplaces, furthermore a more noticeable number of people used to keep these modern offices running. The receipt of export proceeds also addresses an inflow of benefits into the country, which empowers customer spending and adds to financial development. On the other hand, imports are thought to be a postponement to the economy, as can be gauged from the GDP condition. Imports address a surge of benefits from a country, since they are portions made by local association to abroad components. However, imports thusly are not by any stretch of the imagination upsetting to monetary execution, and honestly, are a fundamental part of the economy. Kiptoo (2007) states that, an unusual condition of imports shows generous family unit request and a creating economy. It's stunningly better if these imports are basically of productive assets like equipment and rigging, since they will upgrade gainfulness over the long haul.

As demonstrated by Miller (2004) a sound nation will be one where both imports and exports are creating, since this typically indicates money related quality and a commonsense trade surplus or shortage. In case charges are turning out to be charmingly however imports have declined by and large, it may demonstrate that whatever is left of the world is alive and well than the private economy. Then again, if conveys fall distinctly however imports surge, this may demonstrate that the private economy is faring better than anything abroad markets. The U.S. trade inadequacy, for instance, tends to decay when the economy is turning out to be decidedly. The country's unending trade lack has not blocked it from continuing being a champion among the most gainful nations on the planet. Imports and passages apply a critical effect on the customer and the

economy particularly, furthermore through their impact on the neighborhood cash level, which is one of the best determinants of a nation's financial execution (Fung, 2002).

2.3.2 Inflation Rates

Inflation is one of the essential issues that impact the cash decay. Speculatively a low inflation rate circumstance will show a rising cash rate, as the purchasing impact of the money will increase when stood out from various currencies (Duarte & Stockman, 2002). Generally, the extension rate is used to evaluate the esteem security in the economy. In budgetary matters, inflation is an overseen increase in the general esteem level of items and ventures in an economy over a time span. Right when the esteem level climbs, each unit of money buys less items and undertakings. Accordingly, expansion reflects a diminishment in the securing impact per unit of trade lost honest to goodness regard out the medium of exchange and unit of record inside the economy.

A focal measure of value inflation is the expansion rate, the annualized rate change in a general value record after some time. Sensibly, the expansion can be separated into two sides, specifically: demand inflation and supply side inflation. For open-economy countries, expansion starts from private components besides abroad components (Edwards, 2002). The wellsprings of outside factors are the development on the planet item expenses or transformation rate of exchange.

The effect of rate of exchange towards expansion itself depends on upon the choice of conversion standard organization in the country. Rate of exchange structure has a basic part in lessening or minimizing the threat of changes consequently rates, which will influence the economy. Any conformities consequently rates will incredibly influence the economy (Eichengreen, 2004). As indicated by Engle, (2002) in the course of action of

skimming rate of exchange s , transformation standard changes can firmly influence the level of expenses through the total demand and total supply. On the aggregate supply deterioration of family cash can impact the esteem level clearly through imported stock that private buyers pay. Regardless, this condition happens if the country is the recipient countries of all inclusive costs. The weakening of conversion scale will achieve the cost of wellsprings of information all the more expensive, along these lines adding to a higher cost of era.

Expansion is the term used to depict a rising of ordinary expenses through the economy. It causes currency to lose its regard. The essential cause is by and large that a great deal of money is open to purchase too much couple of items and endeavors, or that demand in the economy is outpacing supply. All around, this situation happens when an economy is light to the point that there are no matter how you look at it inadequacies of work and materials. People can charge higher expenses for comparable stock or organizations. Extension can similarly be achieved by a rising in the expenses of imported items, for instance, oil. In any case, this sort of inflation is ordinarily transient, and less indispensable than the essential expansion brought on by an over-supply of money (Fraga, Goldfajn & Minella, 2003).

All around, the inflation rate is used to measure the esteem security in the economy. The wellsprings of external factors are the development on the planet item expenses or rate of exchange instability. The effect of conversion scale towards expansion itself depends on upon the choice of swapping scale organization in the country. Maintained inflation in like manner has longer-term impacts. If cash is losing its regard, associations and

theorists are less disposed to make whole deal contracts. This dispirits whole deal enthusiasm for the nation's profitable utmost.

The relationship between expansion concentrating on organization and transformation scale organization has driven a couple of inspectors to reason that one of the costs of inflation concentrating on allotment is the addition in swapping scale dubiousness. In any case, a couple concentrates on exhibit that the gathering of a free-floating change scale does not by any stretch of the imagination surmises all the more convincing of apparent and honest to goodness rate of exchange skimming battle that inflation concentrating on would provoke higher transformation standard unusualness find that the nonattendance of legitimacy of cash related power may incite rate of exchange flimsiness issue (Levy-Yeyati, & Sturzenegger, 2002).

2.3.3 GDP Growth Rate

As indicated by Klau (2014) the ascent in local GDP will tend to expand the interest for imports. The development in imports will realize the present record to break down. The development in imports purchased will grow the need to change over family unit to remote coin. Accordingly, the conversion scale of the neighborhood cash will decrease. With no organization mediation, the budgetary record ought to now move toward a surplus as the cash related and current record must total to zero (Morón & Winkelried, 2013). As a result of the extension in imports, foreign will now have an abundance of the nation's coin. If non-locals don't use that cash to purchase the country's fares, they will finally need to put that coin in the upsides of the family country. This clears up why countries, for instance, Japan and China put significant totals in assets, for instance, U.S. Treasuries.

Richard (2011) states that the holders of the U.S. cash must give it something to do some place! Observe that remote examiners are as often as possible enhancing rates of return than what might be expeditiously obvious in light of the fact that the estimation of the household cash is falling in regard to their own specific money. As demonstrated by revelations by Musyoki et.al (2012) imports are particularly related with GDP and conversely associated with the genuine swapping scale. Thusly, higher money related improvement with coin appreciation likely grows the country's imports. The converse would happen when GDP decreases and the national money cheapens.

2.3.4 Interest Rate

Interest rate is the value a borrower pays for the use of money he doesn't claim, and needs to return to the moneylender who gets for yielding his usage, by advancing to the borrower. Premium can likewise be said to be rate of money expected control over the season of one year (Devereux & Yetman, 2002). A financing cost is especially particularly communicated as the rate of addition after some season of a bank store. A premium, which is charged or paid for the usage of money, is routinely conveyed as a yearly rate of the vital. It is learned by apportioning the measure of excitement by the measure of focal.

The bona fide credit charge shows the apparent financing cost swelling. A negative genuine loan fee suggests that the apparent financing expense is not precisely the expansion rate (Gagnon & Ihrig, 2004) subsequently cash cheapening. Financing cost is the device used by the national bank of a country to keep mindful of any critical cash change. An extension in financing expense is imperative to offset the change standard unpredictability and to control the inflationary weight and in this way dodges numerous

unfriendly monetary outcomes. On the off chance that a nation keeps its interest rate at a generally abnormal state, it normally draws in huge transient capital streams and the cash of this nation acknowledges and tight clamp versa (Ma'ckowiak, 2003).

In 2000-2001, the interest rate in Poland was altogether higher than in the euro zone and amid this period the zloty increased in value, which is bolstered by Interest Rate Parity Theory. In 2002-2003, the contrast between interest rate levels diminished, and the zloty deteriorated. In consequent years, there has been no more extended such a reasonable relationship. the zloty swapping scale vacillated in 2007-2008 per the real loan fee equality condition, yet towards the end of 2008 the model of the EUR/PLN conversion standard was turned around. It was a result of the worldwide monetary emergency and increment in outside financial specialists' repugnance for put resources into developing business sector (Mishkin, 2008).

2.4 Empirical Review

There has been a continuous verbal confrontation on the proper conversion standard arrangement in developing nations. It concentrates on the level of fluctuations in the value of currency even with inner and outside shocks. Rate of exchange thus is probably going to decide financial execution (Devarajan et al., 2003). An unpredictability (or deterioration) of the local cash may invigorate monetary development through the hidden augmentation in the cost of outside stock in regard to home items. By growing the all inclusive forcefulness of neighborhood organizations, transformation standard unpredictability occupies spending from outside stock to family unit items.

As delineated in Dornbusch (2008) the accomplishment of money volatility in advancing exchange adjust to a great extent relies on upon exchanging request in legitimate heading

and sum, and additionally on the limit of the home economy to take care of the extra demand by providing more merchandise (Frankel, 2008). Changes are acknowledged around an unfaltering state incline that is steady with variety in large scale monetary essentials after some time. Vulnerability enters the model as aggravations to both total demand and total supply. Inside this system, total demand is influenced by currency volatility through exports, imports and the demand for local currency. Total supply is influenced through the cost of imported moderate products (Kandil, 2010).

A key issue in the outline of a global money related framework is the impact of the decision of rate of exchange administration on desires. For instance, an administration's affirmation of a story on its rate of exchange may balance out the market, yet then again it might destabilize the market by giving a simple focus to examiners (Wilcox et al., 2010). The approach developments of the major industrialized countries after 2000 and the extending significance of the European Monetary System (EMS), which incorporates the use of confined, unequivocal money bunches, drove Paul Krugman to apply stochastic process hypothesis to the examination of floating rates inside gatherings (European Central Bank, 2003). Krugman's 1987 paper has vivified amazing further research into the effects of exchange anticipates showcase desires, however quite a bit of this has yet to show up in distributed frame. A critical number of the most element individuals in this new region of research shared in a meeting on 'Change standard Targets and Currency Bands' held by the Center for Economic Policy Research (CEPR) in a joint exertion with the National Bureau of Economic Research (NBER) at the University of Warwick on 10-11 July 2006 (Eichengreen, 2009).

Notwithstanding unique creators, Miller and Sutherland battled that the desire of a modification in organization emphatically influenced the dollar advantage of sterling. They noted first that the example valuation for sterling, which others had seen as exogenous, likely reflected the contemplate altering of money related system remembering the ultimate objective to accelerate sterling's landing to gold. Second, the expiry of the Gold and Silver Act toward the end of 1925 surmised that the relationship between the swapping scale and the essentials should represent a period subordinate segment, pushing sterling towards the pre-war fairness of \$4.86. Their essential issue, in any case, was that esteem drowsiness was a key part that had been expelled by past studies, and they offered an alternative show with esteem inertness and variable general forcefulness (Krugman, 2000).

The national Bank of Kenya has experienced inconveniences in a split second affecting excess holds in sort of money outside banks - one of the key section of spare trade out Kenya, and perhaps the case for other national banks in Africa. Affecting coin outside banks through Open Market Operations (OMO) must be impacted by higher financing costs upheld over a long extend time, where the all inclusive community will respond by decreasing their money property for stores. High normality in coin outside banks associated with the all inclusive community's ubiquity for cash, especially in the midst of festivities and when extension is high due to transient components occasioned by opposing effects of drought on sustenance swelling and also rising world oil costs on fuel costs, has in like manner constrained liquidity organization using open market operations (CBK, 2009). It would have all the earmarks of being more sensible, in this way, to

concentrate on bank saves as it were. This is on the grounds that bank holds, not at all like money available for use, can be affected by national banks in their fleeting financial operations.

The incorporation of cash available for use has a tendency to confound money related operations. For instance, in situations where development available for later currency is because of abundance currency property, the national bank has no device available to its to wipe up the overabundance money possessions by the general population (CBK, 2009). Rates of exchange of the significant currency; the U.S. dollar, Japanese yen and the deutsche stamp and those of other vital modern nations have displayed generous short-run instability, vast medium-term swings and long haul slants in rate of exchange s in ostensible and in addition genuine terms (Laura, 1996).

Kimani (2007) examined proficiency of remote trade advertise in Kenya and found that trade rates are uneven pointers without limits spot rates. Neighborhood concentrates on productivity of outside trade showcases in Kenya by Ndunda (2002) and Kurgat (1998) looked from the start of fundamental trading rules. Kiptui (2007) in his presentation paper observes that genuine currency swapping scale has useful results in the short-run however that these effects were seen to be accurately unimportant. Kimani (2007) saw that under closeness of profitability in the outside trade advertise, the forward rate of exchange s should be fair pointer for the future spot rate. Kimani (2007) found that there was closeness of unexploited advantage open entryways for the people who partake in swapping scale in the Kenyan outside exchange showcase and in this way completed up the typical longing methodology is inefficient in remote exchange promote in Kenya. Kimani observes that there is closeness of a risk premium and thusly individuals in the

FOREX publicize in Kenya coordinate their trades on the commencement of speculation rather than on desire of future market direct in perspective of the past or current execution of individual money.

Most studies have not focused on the impact of Kenyan shilling fluctuation on fares especially where the administration has adjusted a specific hard money simply like the case with the use of the US dollar in tea convey deal however considers on the variable affecting shilling flightiness against the dollar have been scanty. Various speculations, for instance, Purchasing Power Parity, Interest Rate Parity and Fisher Effect don't offset the conversion scale change as the official fare coin does not have a place with the passage objective country. Nonattendance of standard overall cash ruins the spirit of Purchasing Power Parity. Focuses on demonstrate that advance expense uniformity illuminates constantly differentiate in apparent rates and the spot and forward trade rates where there is no impedance from the national depend upon the stress nation.

2.5 Summary of Literature Review

It is apparent from writing audit that most scholastics have been centered around cash variety all in all terms and on the supposition that there is a common worldwide currency. It is additionally evident from the writing audit that that trade rates are continually fluctuating at remote trade markets not exclusively as a result of market powers of demand and supply. The relational word presupposes that all players are educated of money development in the market. This think about means to explicitly address the elements influencing volatility of Kenyan shilling against the dollar as most different studies have amassed in rate of exchange vacillations in major hard monetary standards in significant economies with little consideration given to rising and less developed

economies. The study will draw out the truth of change between two monetary standards. The study will likewise help the in comprehension the relationship between the expansion and loan costs and gain more procedures on the most proficient method to control such by the Central Bank to guarantee a steady economy.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents an overview of the research methodology in terms of research design, study population, data collection, data analysis, analytical model and the tests of significance.

3.2 Research Design

As indicated by Leedy and Ormrod, (2001) a research design is an extensive arrangement that includes highlighting every one of the strategies that will be used in the accumulation and examination of information. The research design is dependably in accordance with the study questions. Descriptive research outline will be utilized as a part of this study. The descriptive research design is appropriate for the need to portray the variables influencing Kenyan shilling unpredictability against the dollar. An exploration outline helps specialists to lay out the examination questions approach, usage systems, and information gathering and investigation for the lead of an examination extend. By and large there are three sorts of research outline: quantitative plan, subjective plan, and blended strategies plan (Mugenda and Mugenda, 2003). In this study the analyst will utilize the quantitative research outline which incorporates the expressive research plan. The study will depict the significant factors connected with Kenyan shilling volatility against the dollar.

3.3 Population

Population is the whole groups or people or objects with similar attributes which the researcher wants to generalize (Mugenda and Mugenda, 2003). The population of interest

in this study will be Kenya Bureau of Statistics (KBS) and the Central Bank of Kenya.

3.5 Data Collection

Data is defined as raw truths that are yet to be prepared to be dependable data with the end goal of arriving at a decision on issues. The researcher used information from secondary data as main data source, the study will investigate the financial reports for the period between 2010 and 2014 from Central Bank of Kenya (CBK) and Kenya Bureau of Statistics (KBS) . In particular, the following data will be used: interest rates, inflation rates, balance of payment data and GDP growth rate for each month from the year 2010 and 2015. Data collected will constitute all the monthly average figures for inflation, GDP growth rate, balance of payment rates and government expenditure for the period under study from KBS and CBK. The study will also use the two institutions as data source in the pursuit to establish the effects of rate of interest and inflation on Kenyan shilling volatility against the US dollar. The data collected will help answer the research problem.

3.6 Data Analysis

Data will be analyzed using quantitative method and presenting the data using a variety of statistical tools such as percentages, tables and graphs. The study used multiple linear regression formula in showing the relationship between rates of interest, rates of inflation, GDP growth rate, importation and exportation rate and Kenyan shilling volatility against the US dollar. Multiple linear regression will be used to model the relationship the variables.

3.6.1 Analytical Model

In calculating the linear regression the following formula will be used.

The equation; $Y_i = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + \varepsilon$

Where: Y_i = Monthly Kenyan shilling volatility against the dollar

b_0 , is constants to be estimated by the model

b_1 , b_2 , b_3 and b_4 are coefficients

X_1 = Interest Rates, (will measured in duration of financial instruments in respect to the sensitivity of their values to interest rate changes in KES, Monthly)

X_2 = Inflation Rates (Consumer price index in KES, Monthly)

X_3 = GDP growth rate (will measured in duration of financial instruments in respect to the sensitivity of their values to interest rate changes in KES, quarterly)

X_4 = Balance of payment (Import/Export price indexes in KES)

ε = Error terms

3.7. Test of Significance

According to Kothari, (2004) results are said to be measurably significant inside the 0.05 level, which implies that the noteworthiness esteem must be littler than 0.05. The importance will be controlled by the t-value, which shows what number of standard blunder implies the example wanders from the tried esteem. In addition, the Pearson Product Moment Correlation Coefficient will be used to test the direction and magnitude of the relationship between the dependent and independent variables at 95% confidence level. The model significance will be tested using the ANOVA, t-tests, F-tests, z-tests, and the chi-square at confidence of 95%.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the research findings on the effect identify the factors affecting Kenya shillings volatility against the United States dollar. The study was conducted on 5 year period where secondary data for the period between 2010 and 2014 was used in the analysis.

4.2 Descriptive Statistics

Descriptive Statistics is the investigation of information that portrays, appear or condense information definitively with the end goal that, for instance, examples may rise up out of the information. It demonstrates the mean and middle of the diverse factors of enthusiasm for the study. It likewise shows the base and most extreme estimations of the factors which help in getting a photo about the greatest and least values a variable can accomplish. This study sought to investigate the descriptive statistics of Gross Domestic Product (GDP), inflation, real interest rate, Interest rates and Balance of payment

Table 4.1: Descriptive Statistics.

	N	Minimum	Maximum	Mean	Median
Inflation	40	2.60	16.90	7.8500	7.89
Balance of payment	40	6122.00	8667.00	7320.30	7326.46
Interest rates	40	.83	20.56	6.8906	5.65
GDP Rate	40	1.50	6.90	4.51	4.56

The table above shows that the country gross domestic product for the last 5 years was 4.51, the mean for inflation was found to be 7.85%, balance of payment was 7320.30, and interest rates had an average of 6.8906.

4.3 Correlations Analysis

Table 4.2: Correlations Coefficient

		Kenya shillings volatility	Inflation rate	Interest rates	Balance of payment	Export rate	Gross Domestic Product
Kenya shillings volatility		1					
		40					
Inflation rate	Pearson Correlation	-.022	1				
	Sig. (2-tailed)	.289					
	N	40	40				
Interest rates	Pearson Correlation	-.193	-.028	1			
	Sig. (2-tailed)	.177	.145				
	N	40	40	40			
Balance of payment	Pearson Correlation	-.066	.010	.026	1		
	Sig. (2-tailed)	.055	.244	.360			
	N	40	40	40	40		
Gross Domestic Product	Pearson Correlation	.166	-.075	-.094	-.065	-.132	1
	Sig. (2-tailed)	.257	.207	.115	.251	.363	
	N	40	40	40	40	40	40

From the findings on the correlation analysis, the researcher carried out a Pearson Product Moment correlation. Correlation analysis on various factors affecting Kenya shillings volatility was conducted. Kenya shillings volatility and inflation rate were found to have negative correlation with a correlation coefficient of -.022. The study also found a

negative correlation between Kenya shillings volatility and Interest rates as shown by correlation coefficient of -0.193. The study further found a negative correlation between Kenya shillings volatility and balance of payment as shown by correlation coefficient of -0.066, Gross Domestic Product has a positive correlation with Kenya shillings volatility with a correlation coefficient of 0.51. This is an indication that Kenya shillings became more stable when the rate of Gross Domestic Product (GDP) is high. However, the negative relationship between Kenya shillings volatility and balance of payment, interest rate and inflation rate indicates that increase in balance of payment, interest rate and inflation rate increase Kenya shillings volatility.

4.4 Regression Analysis

The study conducted a multiple regression analysis to test the influence among the variables by using SPSS V 20.

Table 4.3: Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.867	.751	.722	.08823

Source : Research Findings 2015

To evaluate the model fit the study applied coefficient of determination. An average adjusted coefficient of determination (R^2) of 0.751 or 75.1% of the variations in Kenya shillings volatility of the country are detailed using the independent variables understudy (inflation rate, interest rates, balance of payment and gross domestic product).

Table 4.4: Analysis of Variance

The study also tested the significance of the model using ANOVA technique. Table below shows the findings.

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	8.55	4	2.138	6.8718	.003 ^b
	Residual	11.198	36	0.311		
	Total	19.748	40			

Source : Research Findings 2016

Critical value = 2.19

From the ANOVA statics, the study found out the regression model had a significance level of 0.3% which is a sign that the data was perfect for drawing a conclusion on the population parameters as the value of significance (p-value) was less than 5%. The value was greater than the critical value ($6.8718 > 2.32$) indicating that inflation rate, interest rates, balance of payment and gross domestic product all have a significant effects on Kenya shillings volatility. The significance value was less than 0.05 indicating that the model was significant.

Table 4.5: Regression Model Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	Constant	0.366	0.495		0.739	0.006
	Inflation rate	-0.257	0.16	-0.1855	-1.6	0.010
	Interest rate	-0.239	0.152	-0.008	-1.572	0.024
	Balance of payment	-0.233	0.114	-0.031	-2.044	0.002
	Gross domestic product	0.222	0.129	0.161	1.682	0.33

Source : Research Findings

As per the SPSS generated output as presented in table above, the equation ($Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4$) becomes:

$$Y = 0.366 - 0.257X_1 - 0.239X_2 - 0.233X_3 + 0.222X_4$$

From the regression model obtained above, a unit change in Inflation rate while holding the other factors constant would lead to a decrease in Kenya shillings volatility by a factor of 0.257, a unit change Interest rate while holding the other factors constant would lead to a decrease in stock market returns by a factor of -0.239, a unit increase in Balance of payment while holding the other factors constant would lead to an decrease in Kenya shillings volatility of the country by a factor of 0.233 and a unit change in Gross domestic product while holding the other factors constant would lead to an increase in Kenya shillings volatility of the by a factor of 0.222.

The analysis was at significance level of 5% with the comparison criteria being whether the predictor variables were significant in the model at probability value of $\alpha = 0.05$. A probability value of less than α , indicated that the predictor variable was significant if not it wasn't.

4.5 Discussion of Findings

A negative correlation coefficient between rate of inflation and Kenya shillings volatility, (p- value .289, significance of -.022) was gotten. The study further revealed that Inflation reduces the value of money. Elevated inflation never prompts more raised measures of wage in the medium and long run, Inflation reduces the level of business wander, and the adequacy with which productive components are put to use. Further, Inflation prompts helplessness about the future advantage of theory endeavors. Expansion moreover diminishes a country's all inclusive power, by making its charges for the most part more

exorbitant, in this way influencing on the modification of portions. The study revelations are as per Kashyap and Stein (2000), inflation can associate with the obligation system to deform getting and interest decisions. Firms may need to devote more advantages for dealing with the effects of inflation.

The study revealed a negative association coefficient between Interest rates and Kenya shillings flimsiness, (p-value .177, significance -.93). The findings encourage revealed that when advance expenses increase, wanders go down, since it gets all the more exorbitant to get money and all the additionally luring to extra money. In this way, use reductions and it prompts decreased demand. So the decrease in saving prompts the reduction in wander from now on it cuts down the Kenya shillings estimation of a country. The study revelations are as per Toni and Tonchia (2003), a development in credit expenses suggests that clients need to pay more to back their Consumption. By then higher required portions discourage the customers from obtaining strong stock, which diminishes usage. The same goes for hypotheses, which can be seen as use by firms. Higher rates of interest for financing of equipment and contraption weaken firms to do better.

The study revealed a negative association coefficient between change of portion and Kenya shillings unpredictability, (p-values 0.055, significance of - .193). The focus advance revealed that an inflation to be resolved of portion diminishes national saving unless it is totally balanced an addition in private saving in this way poor economy. The study disclosures concur with Garrett (2014), that whole deal alter of portion s reduce national saving and compel impressive long-run costs on the economy. For whatever time allotment that a development to be chosen of portion is not totally offset by an addition in

private saving, an expanded lack will show itself in some mix of decreased nearby wander and an amplified current record inadequacy. Regardless, or paying little notice to the effect of deficits on economy, extended alter of portions reduce future wage. That diminishment in future compensation is the honest to goodness cost of oversight conform of portions. As the money related relationship of countries around the world grows, it gets the opportunity to be basic to understand the nature and centrality of their overall exchanges. The BOP accounts give an unmistakable record of an economy's all inclusive fiscal trades, and these records are key to the perception of the level of an economy's joining with the straggling leftovers of the world. BOP accounts record cash related settlements between inhabitants of an economy and non-locals, and are consistently implied as the external records. In any case, despite cash related settlements, they moreover record trades where stock very well might be traded, like the case with a couple sorts of outside guide.

The study revealed a positive association coefficient between aggregate national yield and Kenya shillings flimsiness, (p-value.257 significance of .051). The focus progress revealed that the effects of an extension in honest to goodness add up to national yield (GDP) prompts a development in Kenya shillings flimsiness. The study revelations are as per Zandberg (2009), a gigantic change in GDP, whether up or down, typically altogether influences the share exchanging framework. A frightful economy by and large infers cut down advantages for associations, which accordingly infers cut down stock expenses. Money related authorities genuinely push over negative GDP improvement, which is one of the parts business investigators use to make sense of if an economy is in a loss.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents summary of the study findings, conclusion and recommendations. The chapter is presented in line with the objective of the study which was to establish the factors affecting Kenya shillings volatility against the United States dollar.

5.2 Summary of Findings

The objective of the study was to determine the factors affecting Kenya shillings volatility against the United States dollar. The study revealed that there is negative correlation coefficient between Inflation rate and Kenya shillings volatility. The study was guided by the following four theories: the balance of payments theory, trade theory, interest rate parity theory and purchasing power parity theory.

From the findings Kenya shillings volatility and inflation rate were found to have negative relationship with a correlation coefficient of -0.022 . The study additionally found a negative connection between Kenya shillings volatility and Interest rates as appeared by relationship coefficient of -0.193 . The study also found a negative connection between's Kenya shillings volatility and balance of payment as appeared by relationship coefficient of -0.066 , Gross Domestic Product has a positive relationship with Kenya shillings volatility with a relationship coefficient of 0.51 . This means Kenya shillings turned out to be steadier when the rate of Gross Domestic Product (GDP) is high. Nonetheless, the negative relationship between Kenya shillings volatility and balance of payment, interest

rate and inflation rate indicates that increase in balance of payment, interest rate and inflation rate increase Kenya shillings volatility.

The study utilized coefficient of assurance to assess the model fit. The balanced R^2 , likewise called the coefficient of multiple determinations, is the percent of the fluctuation in the ward clarified extraordinarily or together by the autonomous factors. The model had a normal balanced coefficient of 0.751 and which suggested that 75.1% of the varieties in Kenya shillings instability of the nation are clarified by the autonomous factors understudy (inflation rate, interest rates, balance of payment and gross domestic product).

The study uncovered a negative relationship coefficient between Inflation rate and Kenya shillings volatility, (p-value .289, correlation component of -.022). The study findings are in accordance with Kashyap and Stein (2000), inflation can connect with the assessment framework to twist getting and intrigue choices. Firms may need to give more assets to managing the impacts of expansion (for instance, more careful checking of their rivals' costs to check whether any increments are a piece of a general inflationary pattern in the economy or because of more industry particular causes). The study uncovered a negative relationship coefficient between Interest rates and Kenya shillings volatility, (p-value .177 correlation - .193). The study discoveries are in accordance with Toni and Tonchia (2003), an expansion in loan fees implies that shoppers need to pay more to fund their Consumption. The study uncovered a negative connection coefficient between balance of payment and Kenya shillings volatility, (p-values 0.055, correlation of - .193). The study agrees with Garrett (2014), that long haul balance of payments lessens national sparing and force considerable long-run costs on the economy. For whatever length of time that

an expansion to be decided of installment is not completely balance by an expansion in private sparing, an extended shortfall will show itself in some mix of diminished household speculation and an extended current record shortage. In any case, or paying little mind to the impact of deficiencies on economy, expanded balance of payments lessens future salary. The study uncovered a positive relationship coefficient between GDP and Kenya shillings volatility, (p-value .257 correlation of .051). The study discoveries are in accordance with Zandberg (2009), a critical change in GDP, whether up or down, more often than not significantly affects the share trading system. Terrible economies for the most part means bring down benefits for organizations, which thusly implies bring down stock costs. Speculators truly stress over negative GDP development, which is one of the variables financial experts use to figure out if an economy is in a recession.

5.3 Conclusion

The study reasons that Inflation decreases the worth of cash and makes it troublesome for the average citizens on spending Inflation don't support fast Kenya shillings instability. High inflation never prompts more rise amounts of currency value in the medium and long run, Inflation diminishes the level of business venture, as well as the proficiency with which profitable variables are put to utilize. Interest rates influences Kenya shillings instability contrarily, an expansion in financing costs implies that customers need to pay more to back their Consumption. At that point higher required installments demoralize the buyers from purchasing merchandise, which lessens utilization. The concentrate assist reasons that that expansion to be determined of installment lessens national uptake of goods and services unless it is completely counterbalanced by an expansion in private

consumption consequently poor economy. The study findings agrees with Garrett (2014), that long haul balance of payments lessen national spending and force significant long-run costs on the economy. The conclusion reasons that GDP influences the Kenya shillings instability emphatically, impacts of an expansion in genuine total national output (GDP) prompts an increment in Kenya shillings volatility . The study findings are in accordance with Zandberg (2009), a noteworthy change in GDP, whether up or down, more often than not significantly affects money markets.

5.4 Recommendations for Policy and Practice

From the above analysis, this study suggests that the policy makers appreciate guaranteeing stable balance for the trade rates as they assume a vital part in deciding the interest for and supply of both imports and exports. It is through exports that the nation earns foreign exchange. In the event that the local currency deteriorates, it implies that imports get to be costly in light of the fact that the nation needs to spend more nearby currency to secure a given product. Appreciation for local currency guarantees that the nation can get more import all the more economically. There is have to set up a harmony between the exports and imports. To accomplish this, the approach producers need to assess the best conversion standard strategy for ideal monetary advancement.

The government ought to define strategies that support nearby based privately owned businesses to exploit rising foreign speculations that include foreign direct private ventures. For this to happen, the government ought to control and steady inflation and rate of exchange s at its least level through different macroeconomic arrangements reasonable for BOP change that empowers local outside private ventures.

The study recommends the government through its significant workplaces advance the fare enterprises like tourism which acquire the nation remote trade which can then be utilized to pay off imports to adjust installments. The government needs to build promoting of its exports and empower nearby businesses creating imports substitutes in order to support utilization of privately delivered items which enhance the nation's adjust of installments as well as adds to financial advancement through arrangement of vocation. The study encourage suggests that the government ought to give significant structures and environment to the smooth operation of import/export market in the nation. This might be accomplished through appropriate enactment which manage the level of import and fare exchange the nation.

5.5 Limitations of the Study

A limitation for the purpose of this research is regarded as a factor that is present and contributed to the researcher getting either inadequate information or if otherwise the response given would have been totally different from what the researcher expected. The main limitations of this study were:

The study was constrained to setting up the factors influencing Kenya shillings volatility against the United States dollar. It was additionally in light of a five year think about period from the year 2010 to 2014. A more drawn out length of the study would have caught times of different monetary periods. This may have likely given a more drawn out time concentrate thus given a more extensive measurement to the issue.

In achieving its goal, the study was restricted to just 5 years' time span beginning structure year 2010 to year 2014. Optional information gathered from the Kenya National Bureau of measurement and Central banks of Kenya was likewise restricted to the level

of exactness of the information so acquired. While the information was evident since it originated from the CBK and KNBS distributions, it in any case could even now be inclined to these inadequacies.

The expansion rates have been reliably high in the nation constraining the Central Bank of Kenya to raise its CBR rate which is passed on to different divisions in the economy in this manner affecting the general financial advancement of the nation along these lines affecting diversely on the distinctive areas of the economy.

5.6 Areas for Further Research

The study aimed at establishing factors affecting Kenya shillings volatility against the United States dollar. Majority of the factors investigated were found to affect Kenya shilling negatively. Study should be carried out to investigate effects of factors such as: rate of exchange, lending rates, gross investment, export rate and unemployment rate in relation to Kenya shillings volatility against the United States dollar. The study should cover a period of more than 10 years.

The study further recommends that another study be conducted in Kenya on the relationship between foreign rate of exchange and economic development in relation to Kenya shillings volatility against the United States dollar to check whether changes in the foreign exchange affect the income per capita of the citizens.

The study also suggests that further studies be carried out on the influence of macroeconomic policies on balance of payments in Kenya also in relation to Kenya shillings volatility against the United States dollar. The existing balance of payments in a country is a function of many macro-economic variables. By establishing the influence of

each macroeconomic variable on foreign rate of exchange s will enable policy makers know what tool to use when controlling the foreign rate of exchange levels.

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APPENDICES

APPENDIX I: EXCHANGE RATE, GDP GROWTH, INTEREST, INFLATION AND TRADE BALANCE DATA

Year	Month	KES /US dollar	Year	Month	GDP growth rate	Year	Month	Inter bank rate	Year	Month	12-Month Inflation	Year	Month	Trade Balance
2010	Jan	75.786	2010	Jan	5.3	2014	Dec	6.91	2014	Dec	6.02	2010	Dec	-53,185.19
2010	Feb	76.73	2010	Feb	5.3	2014	Nov	6.86	2014	Nov	6.09	2010	Nov	-63,442.77
2010	Mar	76.947	2010	Mar	5.3	2014	Oct	6.73	2014	Oct	6.09	2010	Oct	-50,429.46
2010	Apr	77.254	2010	Apr	7	2014	Sep	7.43	2014	Sep	6.43	2010	Sep	-53,596.69
2010	May	78.541	2010	May	7	2014	Aug	11.79	2014	Aug	6.6	2010	Aug	-42,706.32
2010	June	81.018	2010	June	7	2014	Jul	8.08	2014	Jul	8.36	2010	Jul	-45,730.83
2010	Jul	81.426	2010	Jul	9.5	2014	jun	6.6	2014	jun	7.67	2010	jun	-46,168.73
2010	Aug	80.44	2010	Aug	9.5	2014	May	7.76	2014	May	7.39	2010	May	-47,075.06
2010	Sep	80.912	2010	Sep	9.5	2014	Apr	7.4	2014	Apr	7.3	2010	Apr	-40,838.09
2010	Oct	80.714	2010	Oct	11.5	2014	Mar	6.47	2014	Mar	6.41	2010	Mar	-40,489.50
2010	Nov	80.46	2010	Nov	11.5	2014	Feb	8.83	2014	Feb	6.27	2010	Feb	-26,972.74
2010	Dec	80.568	2010	Dec	11.5	2014	Jan	10.43	2014	Jan	6.86	2010	Jan	-40,596.31
2010	Jan	81.	2010	Jan	10.	2010	Dec	8.98	2010	Dec	7.21	2010	Dec	-

11		029	11		6	13			14			11		75,017.37
20	Feb	81.473	20	Feb	10.6	20	Nov	10.77	20	Nov	7.15	20	Nov	-81,787.40
20	Mar	84.206	20	Mar	10.6	20	Oct	10.66	20	Oct	7.36	20	Oct	-70,468.41
20	Apr	83.89	20	Apr	7.6	20	Sep	7.52	20	Sep	7.76	20	Sep	-77,443.32
20	May	85.433	20	May	7.6	20	Aug	8.88	20	Aug	8.29	20	Aug	-89,852.11
20	June	89.049	20	June	7.6	20	Jul	7.93	20	Jul	6.67	20	Jul	-58,232.40
20	Jul	89.898	20	Jul	4.2	20	jun	7.14	20	jun	6.02	20	jun	-60,490.54
20	Aug	92.786	20	Aug	4.2	20	May	7.16	20	May	4.91	20	May	-76,055.20
20	Sep	96.357	20	Sep	4.2	20	Apr	7.9	20	Apr	4.05	20	Apr	-47,570.75
20	Oct	101.27	20	Oct	3.1	20	Mar	8.93	20	Mar	4.14	20	Mar	-65,857.37
20	Nov	93.676	20	Nov	3.1	20	Feb	9.25	20	Feb	4.11	20	Feb	-46,774.01
20	Dec	86.663	20	Dec	3.1	20	Jan	5.86	20	Jan	3.67	20	Jan	-55,070.07
20	Jan	86.343	20	Jan	3.4	20	Dec	5.84	20	Dec	3.2	20	Dec	-76,905.57
20	Feb	83.176	20	Feb	3.4	20	Nov	7.14	20	Nov	3.25	20	Nov	-83,837.21
20	Mar	82.897	20	Mar	3.4	20	Oct	9.14	20	Oct	4.14	20	Oct	-62,381.00
20	Apr	83.188	20	Apr	4.2	20	Sep	7.02	20	Sep	5.32	20	Sep	-65,641.29

20 12	Ma y	84. 384	20 12	Ma y	4.2	20 12	Aug	8.97	20 12	Aug	6.09	20 12	Aug	- 72,218. 12
20 12	Jun e	84. 789	20 12	Jun e	4.2	20 12	Jul	13.71	20 12	Jul	7.74	20 12	Jul	- 80,512. 50
20 12	Jul	84. 14	20 12	Jul	4.9	20 12	jun	17.09	20 12	jun	10.0 5	20 12	jun	- 70,794. 81
20 12	Aug	84. 075	20 12	Aug	4.9	20 12	Ma y	17.16	20 12	Ma y	12.2 2	20 12	Ma y	- 86,408. 97
20 12	Sep	84. 613	20 12	Sep	4.9	20 12	Apr	16.15	20 12	Apr	13.0 6	20 12	Apr	- 64,490. 73
20 12	Oct	85. 112	20 12	Oct	5.1	20 12	Ma r	24.02	20 12	Ma r	15.6 1	20 12	Ma r	- 80,851. 60
20 12	Nov	85. 629	20 12	Nov	5.1	20 12	Feb	18.15	20 12	Feb	16.6 9	20 12	Feb	- 57,981. 04
20 12	Dec	85. 994	20 12	Dec	5.1	20 12	Jan	19.27	20 12	Jan	18.3 1	20 12	Jan	- 59,293. 38
20 13	Jan	86. 9	20 13	Jan	7	20 11	Dec	21.75	20 12	Dec	18.9 3	20 13	Dec	- 78,673. 99
20 13	Feb	87. 446	20 13	Feb	7	20 11	Nov	28.9	20 11	Nov	19.7 2	20 13	Nov	- 71,723. 90
20 13	Ma r	85. 818	20 13	Ma r	7	20 11	Oct	14.95	20 11	Oct	18.9 1	20 13	Oct	- 92,959. 78
20 13	Apr	84. 189	20 13	Apr	8.7	20 11	Sep	7.46	20 11	Sep	17.3 2	20 13	Sep	- 71,017. 14
20 13	Ma y	84. 146	20 13	Ma y	8.7	20 11	Aug	14.29	20 11	Aug	16.6 7	20 13	Aug	- 78,833. 16
20 13	Jun e	85. 488	20 13	Jun e	8.7	20 11	Jul	8.61	20 11	Jul	15.5 3	20 13	Jul	- 82,680. 73
20 13	Jul	86. 859	20 13	Jul	4.3	20 11	jun	6.36	20 11	jun	14.4 9	20 13	jun	- 58,416. 58
20 13	Aug	87. 493	20 13	Aug	4.3	20 11	Ma y	5.54	20 11	Ma y	12.9 5	20 13	Ma y	- 70,062.

														98
2013	Sep	87.413	2013	Sep	4.3	2011	Apr	3.97	2011	Apr	12.05	2013	Apr	-76,076.35
2013	Oct	85.31	2013	Oct	3.2	2011	Mar	1.24	2011	Mar	9.19	2013	Mar	-68,299.05
2013	Nov	86.103	2013	Nov	3.2	2011	Feb	1.13	2011	Feb	6.54	2013	Feb	-69,715.93
2013	Dec	86.309	2013	Dec	3.2	2011	Jan	1.24	2011	Jan	5.42	2013	Jan	-83,648.21
2014	Jan	86.214	2014	Jan	4.2	2010	Dec	1.18	2011	Dec	4.51	2014	Dec	-97,025.61
2014	Feb	86.278	2014	Feb	4.2	2010	Nov	1.01	2010	Nov	3.84	2014	Nov	-78,706.79
2014	Mar	86.489	2014	Mar	4.2	2010	Oct	0.98	2010	Oct	3.18	2014	Oct	-113,262.07
2014	Apr	86.716	2014	Apr	6.1	2010	Sep	1.18	2010	Sep	3.21	2014	Sep	-119,462.74
2014	May	87.412	2014	May	6.1	2010	Aug	1.66	2010	Aug	3.22	2014	Aug	-100,000.72
2014	June	87.612	2014	June	6.1	2010	Jul	1.35	2010	Jul	3.57	2014	Jul	-105,738.50
2014	Jul	87.773	2014	Jul	5.3	2010	jun	1.15	2010	jun	3.49	2014	jun	-69,529.95
2014	Aug	88.106	2014	Aug	5.3	2010	May	2.16	2010	May	3.88	2014	May	-102,611.63
2014	Sep	88.836	2014	Sep	5.3	2010	Apr	2.46	2010	Apr	3.66	2014	Apr	-90,289.20
2014	Oct	89.227	2014	Oct	5.5	2010	Mar	2.21	2010	Mar	3.97	2014	Mar	-59,157.56
2014	Nov	89.963	2014	Nov	5.5	2010	Feb	2.39	2010	Feb	5.18	2014	Feb	-64,424.44
2014	Dec	90.	2014	Dec	5.5	2010	Jan	3.69	2010	Jan	4.89	2014	Jan	-

14		444	14			10			10			14		87,053. 98
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Source: Central bank of Kenya