Macro economics research paper

Economics, Money

Kenya

Unemployment

Unemployment refers to a situation in which people are looking for jobs, but can not get even if they are qualified for them. It is one of the major challenges which have been facing Kenya for a long time.

Causes

Some of its major causes include:

- Overdependence on agriculture

Just like in any other developing country, agriculture is the chief exchange earner for this nation. At least 75% of its population depends on agriculture as the main source of income. However, this leads to seasonal unemployment because of the poor agricultural practices, unfavorable climatically conditions and aridity (itching, G., 2000).

- Corruption

Kenya is among the most corrupt countries in Africa. As a result of the misappropriation of public funds, a lot of national and privately owned corporations have collapsed. For instance, all the local state owned clothe making firms collapsed. This has led to loss of jobs because all those who were working in such industries were eventually laid off.

- Voluntary

Many people have deliberately decided to remain unemployed even if there are many job opportunities for them. This is attributed to poor working conditions and low salary packages. They feel demoralized and would rather remain unemployed instead of being exploited.

Effects

The major effects of unemployment in Kenya are:

- Poverty

Kenya is a third world country. 50% of its population lives in abject poverty. These are people who live below a dollar in a day. Hence, they find it difficult to afford even the basic necessities such as food, shelter and clothing.

- High dependence ratio

According to sociologists, an employed Kenyan citizen directly and indirectly supports 5 people. Meaning, the unemployed depend on their employed relatives and friends for financial support.

- Brain drain

Many Kenyan scholars have migrated to foreign countries to look for job opportunities. This has robbed Kenya of its educated professionals like doctors, nurses, teachers and engineers who immigrate to lucrative countries like Botswana, South Africa, USA and UK.

Remedial Measures

The following are some of the ways through which unemployment can be eradicated in Kenya:

- Diversification of Economy

Instead of solely depending on the unproductive subsistence agriculture, a more diversified economy should be introduced. More industries should be constructed to provide jobs to people. This can be cottage and well established industries.

- Government Intervention

The government should come up with appealing economic and foreign policies to attract foreign investors. These will establish multinationals within the country to create more employment to the locals. Thus, they will be economically empowered. In doing this, the government can decide to reduce taxes and fight any evils like corruption and embezzlement of public finances.

Inflation

The term inflation refers to a general increase in prices of commodities in an economy over a given period of time. It is also a persistent menace in the Kenya’s economy.

Causes

In Kenya, inflation is currently at 11%. It has been attributed to the following factors:

- Cost Push Inflation

This means that the rapid increase in prices of goods and services is caused by the increased costs of production. If this happens, any business organization involved in the production process will be forced to hike their prices so as to make some (good) profit. After all, profit-making is the primary goal of any business (Wells, D. A., 2007).

- Demand Pull Inflation

In this situation, inflation will arise from increased demand of various commodities in the market. If the demand is higher than supply, there will be an increase in the price of that particular product. This is usually experienced in the energy sector in which clients scramble for oil fuels.

- Imported Inflation

Kenya is actively involved in international trade. In case of global economic melt down, it is always not spared. It faces inflation because of the increased oil prices in the world market (Wolf, M., 2009).

Effects

The effects of inflation in Kenya include:

- Social Unrests

Whenever Kenyans experience inflation, they fill the streets to demonstrate and revolt against the government. These become tough times for the country's leadership because it usually lead t political crisis.

- Hoarding

Inflation can force people to buy commodities and store them for future use. This is done even if it is an unhealthy business practice.

- Unemployment

There is a high connection between inflation and unemployment in Kenya. Many industries are shut because of increased costs of production and employee demands. Whenever this occurs, there is automatic loss of jobs.

Remedial Measures

The following steps are taken in solving this problem in Kenya:

- Control of Money Supply

The government should intervene by introducing appropriate financial measures like credit squeeze and increasing interest rates on loans. This will help to reduce money supply by discouraging people from borrowing loans (Wells, D. A., 2007).

- Reduced Government Expenditure

If the government reduces its expenses, it will not demand for more taxes from the citizens. Thus, they will be relieved of this burden and end up having money for their own consumption.

- Price Support Program

The government can contribute to the eradication of inflation through offering subsidies and price control for specific commodities in the country. This will prevent the exorbitance and exploitation of consumers by the businessmen.

Kenya’s Economic Reforms

Even if it is regarded as a third world country, Kenya is viewed as the super power in the Horn of Africa. This has been so, because of its economic reforms made in the following areas:

A lot of reforms have been made in the agricultural sector especially after the revolutionary National Rainbow Coalition (NARC) government. After coming to power in 2002, it introduced subsidized agriculture. Nearly all in puts including fertilizers, hybrid seeds, ploughs and tractors were made accessible (Kitching, G., 2000).

A lot of reforms have been made in the cottage industry which now employs a large section of the population. This has been done by empowering the artisans through giving them loans to expand their businesses. This has worked well because many people are now employed in this informal sector. Mean while, economic reforms have been implemented in the field of tourism which is the country’s second chief foreign exchange earner. There has been a lot of government support through international promotion, promotion of security and reduced taxation in this sector. This has attracted both the investors and tourists in equal measure.

Moreover, the Kenyan government has promoted the development of small and micro medium entrepreneurship amongst the youth. In 2004, it introduced Youth Enterprise Fund. Later, in 2008, Women Enterprise Fund was established. These have actually empowered the youth economically. Now, they can participate in small scale entrepreneurship without any constraint (Kitching, G., 2000).

Effects of Balance of Payment on Kenyan Exchange Rates

Kenya, just like any other country, participates in international trade. It exports tea, coffee, pyrethrum and tourism, but imports mainly manufactured and capital products- cars, fertilizers, ships, machines etc. Balance of Payment (BoP) has greatly impacted on its exchange rates in the following ways:

A downward shift of currency has greatly impacted on the value of Kenya’s currency. It has made it more expensive for its citizens to buy imports from other countries. At the same time, it has helped in correcting any deficit that may be in the country’s economy (Kitching, G., 2000).

Conversely, an upward shift of the kenya’s currency value in comparision to others, has made its imports cheaper and exports less competitive. This helps in correcting current account surplus and making the investment flows less attractive. Hence, it is upon the government to adjust its currency in an appropriate manner to restore balance.

References

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