

Title: Examining the Potency of Interest rates and Reserve Money as Monetary Policy Tools in Kenya

Author: WANJOHI ROBERT WANYIRI

ABSTRACT

The Central Bank of Kenya has over the years used monetary policy to achieve its monetary policy objectives i.e. to stabilize both inflation and output, using two instruments; interest rates and reserve money simultaneously. However literature suggests that using the two simultaneously will not be effective in hitting the monetary policy targets. CBK has over the years missed its inflation target, which would be as a result of using the two tools simultaneously. It therefore must make a choice between the two instruments. Literature suggests that the choice depends on the economic environment of the country in question. Furthermore, other scholars suggest that an optimal mix of these two instruments could work effectively. The aim of this study is to find out which of the two monetary policy tools minimizes losses of the output in Kenya. The variables in this study are majorly monetary policy instruments (interest rates and money supply) and how they affect output (GDP) and inflation (both targeted and actual inflation).