Title: EXAMINING THE EFFECT OF PRODUCT INNOVATION ON FINANCIAL RISK MANAGEMENT IN SACCOS: EVIDENCE FROM KENYA

Title: **Financial Development and Economic Growth in Kenya: 1990 to 2010 By:**

Author: Brian Muchiri Mutiga

ABSTRACT

This study is intended to investigate the link between financial development and economic growth with special emphasis on the banking sector and the stock market in Kenya. The nature of the relationship was determined through an econometric analysis of financial development on Kenyan economic growth. A time series analysis was employed through the Vector Error Correction framework after cointegration had been established among the variables through the Johansen cointegration test framework. The model was adopted to estimate the effects of the banking and stock market indicators on economic growth. The existence of a long term relationship between financial development and economic growth was achieved through the Johansen cointegration test which confirmed the existence of a long run relationship and the construction of a Vector Error Correction framework which confirmed the significance of the long term relationship. The direction of causality between financial development and economic growth was carried out using the Granger-causality framework and established the existence of bi-directional causality between financial development and economic growth with banking development having a greater impact on economic growth than stock market development. The results of the study indicate that there exists a long run equilibrium relationship between financial development and economic growth in Kenya and bi-directional causality running from financial development to economic growth and also from economic growth to financial development.