RELATIONSHIP BETWEEN MONEY GROWTH AND INFLATION: EMPIRICAL EVIDENCE FROM NIGERIA

By

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ABSTRACT

This study examines the relationship between money growth and inflation in Nigeria using cointegration and causality analysis. The study used annual time series data from 1970 to 2012, Johansen cointegration approach, Vector Error Correction Model (VECM) and Granger causality test are used to identify long run relationship, the short run dynamic and causal relationship among the variables respectively. The empirical results confirm that in the long run money supply growth has significant and positive relationship with inflation while lagged value of money supply growth has negative and insignificant relationship with inflation in the short run. Moreover, the causality test result reveals that money supply growth has unidirectional causal relationship with inflation, the causal relationship runs from money supply growth to inflation. However, interest rates and import have positive and significant relationship with inflation but exchange rates and GDP have negative and significant relationship with inflation in the long run. In the short run lagged GDP variable has significant and positive relationship with inflation, lagged import variable and lagged interest rate variable have significant and negative relationship with inflation, while lagged of exchange rate variable has insignificant and negative relationship with inflation in the short run. Moreover, the causality test result reveals that exchange rate, interest rates and GDP variable have unidirectional, bidirectional and no causal relationship with inflation, respectively. The study concludes that for maintaining price stability and minimum rate of inflation, Nigeria needs to reduce money supply growth, improve GDP, reduce interest rate and impose strong import restrictions measures as well as exchange rate depreciation along with import substitution strategy.
ABSTRAK

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(815009)
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>TITLE PAGE</td>
<td>Error! Bookmark not defined.</td>
</tr>
<tr>
<td>CERTIFICATION</td>
<td>ii</td>
</tr>
<tr>
<td>PERMISSION TO USE</td>
<td>iii</td>
</tr>
<tr>
<td>ABSTRACT</td>
<td>iv</td>
</tr>
<tr>
<td>ABSTRAK</td>
<td>v</td>
</tr>
<tr>
<td>ACKNOWLEDGEMENT</td>
<td>vi</td>
</tr>
<tr>
<td>TABLE OF CONTENTS</td>
<td>vii</td>
</tr>
<tr>
<td>LIST OF TABLES</td>
<td>ix</td>
</tr>
<tr>
<td>LIST OF FIGURES</td>
<td>x</td>
</tr>
<tr>
<td>LIST OF ABBREVIATION</td>
<td>xi</td>
</tr>
</tbody>
</table>

## CHAPTER ONE: INTRODUCTION

1.1 INTRODUCTION 1
1.2 BACKGROUND OF THE STUDY 1
1.3 PROBLEM STATEMENT 8
1.4 OBJECTIVES OF THE STUDY 11
1.5 SIGNIFICANCE OF THE STUDY 12
1.6 SCOPE OF THE STUDY 13
1.7 ORGANIZATION OF THE STUDY 13
1.8 CONCLUSION 13

## CHAPTER TWO: LITERATURE REVIEW

2.1 INTRODUCTION 15
2.2 CONCEPTS AND MEASUREMENT OF MONEY AND INFLATION 15
  2.2.1 Concept and Measurement of Inflation 15
  2.2.3 Concept and Measurement of Money Growth 19
2.3 THEORITICAL REVIEW OF INFLATION AND MONEY GROWTH 21
  2.3.1 The Quantity Theory of Money 22
  2.3.2 Monetary Theory of Inflation 23
  2.3.3 Demand Full Theory 23
  2.3.4 Cost Push Inflation Theory 25
  2.3.5 Structural Inflation Theory 26
  2.3.6 New Neoclassical Synthesis 27
  2.3.7 New Political Macroeconomics of Inflation 28
  2.3.8 Rational Expectation Revolution 29
2.4 EMPIRICAL LITERATURE 31
2.5 CONCLUSION 53

## CHAPTER THREE: METHODOLOGY

3.1 INTRODUCTION 54
3.2 THEORITICAL FRAMEWORK 54
3.3 THE MODEL 57
3.4 JUSTIFICATION OF VARIABLES
3.4.1 Inflation
3.4.2 Money Supply Growth
3.4.3 Interest Rate
3.4.4 Exchange Rate
3.4.5 Gross Domestic Product
3.4.6 Import
3.6 DATA
3.7 METHOD OF ANALYSIS
3.7.1 Unit Root
3.7.2 Cointegration Test
3.7.3 Vector Error Correction Model
3.7.4 Granger Causality
3.8 CONCLUSION

CHAPTER FOUR: DISCUSSION OF RESULTS
4.1 INTRODUCTION
4.2 DESCRIPTIVE STATISTICS
4.3 UNIT ROOT TEST
4.4 THE LONG RUN RELATIONSHIP
4.4.1 The Optimal Lag Length
4.4.2 The Johansen Cointegration Analysis
4.5 SHORT RUN RELATIONSHIP
4.6 GRANGER CAUSALITY
4.7 DIAGNOSTIC TEST ON VECTOR ERROR CORRECTION MODEL
4.7.1 Lagrange Multiplier test
4.7.2. Autoregressive Conditional Heteroskedasticity Test
4.7.3 Normality test
4.8 CONCLUSION

CHAPTER FIVE: CONCLUSION AND POLICY IMPLICATION
5.1 INTRODUCTION
5.2 SUMMARY OF FINDINGS
5.3 LIMITATION OF THE STUDY
5.4 SUGGESTION FOR FUTURE STUDIES
5.5 POLICY IMPLICATION
5.6 CONCLUSION

REFERENCES
LIST OF TABLES

<table>
<thead>
<tr>
<th>Table 4. 1:</th>
<th>Descriptive Statistic</th>
<th>72</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table 4. 2:</td>
<td>The Unit Root Test Results</td>
<td>72</td>
</tr>
<tr>
<td>Table 4. 3:</td>
<td>VAR Lag Order Selection Criteria</td>
<td>74</td>
</tr>
<tr>
<td>Table 4. 4:</td>
<td>The Johansen Co-integration Test Result</td>
<td>75</td>
</tr>
<tr>
<td>Table 4. 5:</td>
<td>Estimated Long run Coefficients</td>
<td>76</td>
</tr>
<tr>
<td>Table 4. 6:</td>
<td>Estimated Short run Coefficients</td>
<td>78</td>
</tr>
<tr>
<td>Table 4. 7:</td>
<td>Pairwise Granger Causality Test</td>
<td>80</td>
</tr>
<tr>
<td>Table 4. 8:</td>
<td>LM test for Inflation Rate Determination</td>
<td>81</td>
</tr>
<tr>
<td>Table 4. 9:</td>
<td>ARCH test for Inflation Rate determinant</td>
<td>82</td>
</tr>
</tbody>
</table>
# LIST OF FIGURES

<table>
<thead>
<tr>
<th>Figure</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Figure 1.1:</td>
<td>Inflation Rate of Nigeria, 1970 - 2012</td>
<td>4</td>
</tr>
<tr>
<td>Figure 1.2:</td>
<td>Money Supply Growth in Nigeria, 1970 - 2012</td>
<td>6</td>
</tr>
<tr>
<td>Figure 1.3:</td>
<td>Money Supply Growth and Inflation Rate in Nigeria, 1970 – 2012</td>
<td>8</td>
</tr>
<tr>
<td>Figure 3.1:</td>
<td>Inflation Rate Determinants</td>
<td>55</td>
</tr>
<tr>
<td>Figure 4.1:</td>
<td>Normality Test for Inflation Rate</td>
<td>81</td>
</tr>
</tbody>
</table>
# LIST OF ABBREVIATION

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADF</td>
<td>Augmented Dickey Fuller</td>
</tr>
<tr>
<td>AIC</td>
<td>Akaike Information Criterion</td>
</tr>
<tr>
<td>ARCH</td>
<td>Autoregressive Conditional Heteroskedasticity</td>
</tr>
<tr>
<td>CBN</td>
<td>Central Bank of Nigeria</td>
</tr>
<tr>
<td>CPI</td>
<td>Consumer Price Index</td>
</tr>
<tr>
<td>ECM</td>
<td>Error Correction Model</td>
</tr>
<tr>
<td>ECT</td>
<td>Error Correction Term</td>
</tr>
<tr>
<td>GDP</td>
<td>Growth Domestic Product</td>
</tr>
<tr>
<td>IMP</td>
<td>Import</td>
</tr>
<tr>
<td>INF</td>
<td>Inflation</td>
</tr>
<tr>
<td>INR</td>
<td>Interest Rate</td>
</tr>
<tr>
<td>LM</td>
<td>Lagrange Multiplier</td>
</tr>
<tr>
<td>MS</td>
<td>Broad Money (M2)</td>
</tr>
<tr>
<td>NNS</td>
<td>New Neoclassical Synthesis</td>
</tr>
<tr>
<td>OLS</td>
<td>Ordinary Least Square</td>
</tr>
<tr>
<td>PCE</td>
<td>Personal Consumption Expenditure</td>
</tr>
<tr>
<td>PPI</td>
<td>Producer Price Index</td>
</tr>
<tr>
<td>PP</td>
<td>Phillip-Peron</td>
</tr>
<tr>
<td>RE</td>
<td>Rational Expectation</td>
</tr>
<tr>
<td>US</td>
<td>United State</td>
</tr>
<tr>
<td>VAR</td>
<td>Vector Autoregressive</td>
</tr>
<tr>
<td>VECM</td>
<td>Vector Error Correction Model</td>
</tr>
<tr>
<td>USA</td>
<td>United State of America</td>
</tr>
</tbody>
</table>
CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

This chapter presents the general introduction of the research. Background of the study is introduced in Section 1.2 while Section 1.3 provides the problem statements, Section 1.4 is about the objectives of the study. Significance of the study, scope of the study and the organization of the study are discussed in Section 1.5, Section 1.6 and Section 1.7, respectively.

Inflation as a macroeconomic phenomenon generates problems and leads to noises in the working of the economy that is liable to adverse effect on economic growth. Conversely, it is not a simple task to handle the problem of inflation effectively. In order to handle the problem successfully, accurate and precise evaluation of the causes of inflation is seriously needed, because wrong approaches in solving the problem will lead to unintended adverse impacts on the economy.

1.2 BACKGROUND OF THE STUDY

In general, the monetary policy as an instrument of macroeconomic management is aim at promoting price stability, full employment, economic growth and balance of payment equilibrium. In small open economies, however, exchange rate stability becomes a prime concern of the central bank because of its high correlation with price stability. The commercial banks, which constitute the core of the financial system, directly influence price and exchange rate stability through their domestic credit supply, while their impact
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REFERENCES


97


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