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EXCHANGE RATE VOLATILITY, EXTERNAL SHOCK, AND CAPITAL INFLOWS
IN NIGERIA

Thesis Submitted to
School of Economics, Finance and Banking
Universiti Utara Malaysia
In Fulfilment of the Requirements for the Degree of Doctor of Philosophy
EXCHANGE RATE VOLATILITY, EXTERNAL SHOCK, AND CAPITAL INFLOWS IN NIGERIA

IDRIS AHMED SANI

DOCTOR OF PHILOSOPHY
UNIVERSITI UTARA MALAYSIA
August 2016
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This research focuses on exchange rate volatility, external shock, and capital inflows. The study uses secondary data for the period of 1986 to 2014 for its analysis. The three specific objectives of the study are to investigate whether current exchange rate volatility has any relationship with its conditional volatility in periods ahead using Exponential Generalized Autoregressive Conditional Heteroskedasticity (EGARCH) technique; to examine the impact of external shocks on exchange rate volatility; and to evaluate the relationship between capital inflows and exchange rate volatility using Autoregressive Distributed Lags (ARDL) and Johansen co-integration methods, respectively. The results show that current exchange rate volatility is related to its conditional volatility in periods ahead, external shock significantly impacted on exchange rate volatility and that exchange rate volatility significantly explains capital inflows. Based on these findings, the research recommends that minimizing effects of exchange rate volatility on its conditional volatility in periods ahead. So, the government needs proactive monetary and fiscal policies like prudent allocation of foreign currencies through Central Bank of Nigeria, direct swap of Naira to other currency aside United States Dollar (USD), and diversifying the economy to increase non-oil exports. The study suggested that political instability can be addressed through jobs creation for the youth like investment in small and medium enterprises, provision of affordable basic necessities of life, proper remuneration and equipping the security agencies. On oil price, the government should diversify the economy for the solid minerals and agricultural sectors to lead as Nigeria exports. The recommendations on financial crisis are that government should have a database for prompt response and forecasting. Financial leakage should address and reckless corrupt practices should legally deal with. This study equally recommends conducive legal, stable infrastructure, and reliable security framework for achieving sustainable capital inflows.

**Keywords**: exchange rate volatility, external shock, capital inflows, Nigeria.
ABSTRAK


Kata kunci: ketidaktentuan kadar pertukaran, kejutan luar, aliran masuk modal, Nigeria.
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Idris Ahmed Sani
Matric No. 900060.
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<td>Oil Price</td>
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<td>Exponential Generalized Autoregressive Conditional Heteroskedasticity</td>
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<td>Bureau of Statistics</td>
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<td>SAP</td>
<td>Structural Adjustment Programme</td>
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<td>SSA</td>
<td>Sub-Sahara Africa</td>
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<td>M &amp; A</td>
<td>Merger and Acquisition</td>
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<td>SFEM</td>
<td>Second-Tier Foreign Exchange Market</td>
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CHAPTER ONE
INTRODUCTION

1.1 Introduction

This chapter introduces the thesis. Whereas Section 1.1 provides the background to this study and Section 1.2 presents the problems addressed in this study. Section 1.3 and Section 1.4 present the research questions and objectives of this study, respectively. While Section 1.5 discusses the significance of this study, Section 1.6 explains the scope of this study and Section 1.7 discusses the organization of this thesis. Finally, Section 1.8 concludes this chapter.

1.2 Background of the Study

Nigeria, like many underdeveloped economies of the world, has experienced external shock emanating from worsening terms of trade obviously on account of fluctuations in the international commodity price (agricultural product, oil and gas prices), financial market crisis, property price, war and terrorism, natural disaster, political instability and economic policy shock (Abdur, 2015; Almukhtar, 2013; Chad & Meredith, 2014; Jiménez-Rodríguez, 2008). Among researchers, there has not been a conventional or a generally accepted definition of what is external shock. Some scholars like Ahmed and Alih (1999), Ahmet, Sensoy and Sobaci (2014), Alley, Asekomeh, Mobolaji, and Adeniran (2014), Almukhtar (2013), Ibrahim (2013), Obaseke (2001), Reys (2006) and Thorsten (2015) are of the opinion that external shocks in Nigeria and other economic community of west African states (ECOWAS) basically are distortions that are not
The contents of the thesis is for internal user only
REFERENCES


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