

THE IMPACT OF EXCHANGE RATE ON INFLATION RATE ON NIGERIAN ECONOMY (1980-2014)

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ABSTRACT

This study carried out the impact of exchange rate on inflation rate in Nigeria for the period of 34 years, ranging from 1970 to 2014. Generally, Inflation is considered harmful to the economy of any country. The history of the origin of inflation in Nigeria has been dates back to the 1970s during the sharp rise in oil revenue and the implementation of a fixed exchange rate regime within the same period. Consequently, the researcher tried to investigate the short run and the long run relationship between inflation and exchange rate and the other care variables, co integration a between inflation and exchange rate and other care variables was also carried out. Engel granger approach was used to ascertain the co-integration of the variables. The above is one of the statistical diagnostics carried out before the data analysis. The least square method, Augmented Dickey Fuller (ADF) unit root test, the Engel Granger approach and the error correction model were adopted to determine the stationary levels, short run impacts and long run impacts respectively. The researcher discovered among other things that exchange rate has a negative effect on inflation rate both in the short run and the long run, this maybe as a result of structural rigidities and distortions of the government in the economy, also all the care variables account for only about 28% of the causes of inflation, this means that there are some other more important factors that need to be investigated, such other factors may relate to government growing annual deficit budgets, increasing lending rates of commercial banks and so on. Among the recommendations drawn from this study is that the government should improve upon the exchange rate management frameworks and structure in Nigeria, and also the financial institutions and other institutions in charge of the exchange rate management in Nigeria should be strengthened to address the recurrent issues so that the benefit associated with exchange rate stability and inflation rate can be experienced in the Nigerian economy