THE EFFICACY OF MONEY SUPPLY ON ECONOMIC GROWTH IN NIGERIA (1980-2014)

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SUMMARY

The relationship between money supply and economic growth has been receiving increasing attention than any subject matter in the field of monetary economics in recent years. Money supply can have both positive and negative effect on economic growth. Economic growth is a long term expansion of a country’s productive potential. Nigeria has been controlling her economy through variation in her stock of money. Consequent upon the effect of the collapse of oil price in 1981 and the balance of payment (BOP) deficit experienced during this period, various methods of stabilization ranging from fiscal to monetary policy were used. Ikhide and Alwoda (1993) concluded that reducing money stock of money through increased interest rates would lower gross national product (GNP). Thus the notion that stock of money varies with economic activities applies to the Nigerian economy. This study is necessitated by the existence of some major problems which include price instability, persistent inflationary rate and unemployment in the economy in spite of the adopted monetary policies used to combat the problems. With the primary aim of examining the effectiveness and efficiency of money supply on economic growth the following specific objectives were examined: to examine the impact of money supply on economic growth in Nigeria; to examine the relationship between money supply and economic growth; to show the causality effect between money supply and economic growth; to use the Error Correction Model to determine the rate or speed of adjustment.