THE RELATIONSHIP BETWEEN EXCHANGE RATE VOLATILITY AND STOCK MARKET PERFORMANCE IN NIGERIA (1980-2014)

IN PARTIAL FUFILMENT OF THE REQUIREMENTS FOR THE AWARD OF BACHELOR OF SCIENCE (B.Sc.) DEGREE IN ECONOMICS AND DEVELOPMENT STUDIES

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ABSTRACT

This study empirically examined the relationship between exchange rate volatility and stock market performance in Nigeria. The study employed the quarterly data on stock market capitalization, exchange rate, real GDP growth rate, broad money supply, and real interest rate from the Central Bank of Nigeria for the period of 1980-2014; this data frequency was selected to ensure adequate number of observations. Augmented Dickey Fuller Test and Johansen Co-integration test were also carried out to check for the time series properties of the variables, also the standard deviation was used to generate exchange rate volatility series for the period under consideration. The study utilized multiple regression method to know the long run effect of exchange rate volatility on stock market performance. The long run result shows that exchange rate volatility, broad money supply and real GDP growth rate have positive effects on stock market performance, while real interest rate has a negative effect on the stock market performance. Positive although weak relationship was confirmed to be the relationship between exchange rate volatility and stock market performance. The study recommended that since the exchange rate volatility is not negatively related to the stock market performance in Nigeria, government can use the exchange rate as a policy tool to attract investors; and also as a result of the weak relationship between the exchange rate volatility and stock market performance, the Nigeria stock market should ensure some hedge instruments that would shock any negativity that might occur as a result of the unstable exchange rate.

Keyword: exchange rate, exchange rate volatility, stock market, stock market performance