

An Empirical Investigation into the Effect of Macroeconomic Policy on Economic Growth in Nigeria

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Abstract : This paper investigates the effect of the money supply, exchange and interest rate on economic growth in Nigeria through the application of Augmented Dickey-Fuller technique in testing the unit root property of the series and Granger causality test of causation between GDP, money supply, the exchange, and interest rate. The results of unit root suggest that all the variables in the model are stationary at 1, 5 and 10 percent level of significance, and the results of Causality suggest that money supply and exchange granger cause IR, the result further reveals two - way causation existed between M2 and EXR while IR granger cause GDP the null hypothesis is rejected and GDP does not granger cause IR as indicated by their probability values of 0.4805 and confirmed by F-statistics values of 0.75483. The results revealed that M2 and EXR do not granger causes GDP, the null hypothesis is accepted at 75percent 18percent respectively as indicated by their probability values of 0.7472 and 0.1830 respectively; also, GDP does not granger cause M2 and EXR. The Johansen cointegration result indicates that despite GDP does not granger cause M2, IR, and EXR, but there existed 1 cointegrating equation, implying the existence of long-run relationship between GDP, M2 IR, and EXR. A major policy implication of this result is that economic growth is function of and money supply and exchange rate, effective monetary policies should direct on manipulating instruments and importance should be placed on justification for adopting a particular policy be rationalized in order to increase growth in economy

Keywords : economic growth, money supply, interest rate, exchange rate, causality

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