

PDF - THE EFFECT OF EXCHANGE RATE DEREGULATION ON THE NIGERIA ECONOMY -

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Certificationii

Dedication.....iii

Acknowledgement.....iv

Table of Contents.....v

Abstract.....ix

CHAPTER ONE: INTRODUCTION

Background of the Study.....1

Statement of the Research Problem.....7

Research Question.....10

Objectives of the Study.....10

Hypothesis of the Study.....12

Scope of the Study.....12

Significance of the Study.....13

Limitation of the Study.....13

Definition of Terms.....14

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction.....16

2.1.1 The Models of Exchange Rate Determination.....17

2.1.2 Assumptions under Monetary Model.....19

2.2 The Concept of Deregulation.....20

2.3 Theoretical Literature.....21

2.3.1 Benefits Derived from the Deregulation of ExchangeRate in any Economy.....21

2.3.2 Drawbacks of Deregulation.....22

2.3.3 Factors Affecting Exchange Rates.....22

2.3.4 Types of Exchange Rate System.....26

2.3.5 Problems of Economic Development.....28

2.4 Empirical Literature.....30

2.4.1 Pattern of Exchange Rate in Nigeria.....30

2.4.2 Exchange Rate Deregulation in China.....33

2.4.3 Exchange Rate Deregulation in the Gulf OilCountries.....36

2.4.4 Pattern of Exchange Rates in Kenya.....40

CHAPTER THREE:RESEARCH METHODOLOGY

3.1 Introduction.....43

3.2 Model Specification.....43

3.3 A Priori Expectation.....44

3.4 Method of Data Analysis.....45

3.5 Data for Regression.....46

CHAPTER FOUR:EMPIRICAL ANALYSIS

4.1 Presentation of Regression Result.....	48
4.2 Interpretation of Regression Result.....	48
4.3 Policy Implication.....	51

CHAPTER FIVE: SUMMARY, RECOMMENDATION AND CONCLUSION

5.1 Summary.....	55
5.2 Conclusion.....	56
5.3 Recommendations.....	57

Bibliography.....

ABSTRACT

The purpose of this work is to critically evaluate and apprise “the Effect of Exchange Rate Deregulation on the Nigeria economy”.

The methodology used is Ordinary Least Square (OLS) regression techniques as well as the Cochrane Orcutt method. Data used were annual time series data covering the period of 1970 – 2011. These data used were obtained from various secondary sources like the Annual Reports and Statistical Bulletin of Central Bank of Nigeria (CBN).

The findings of this research work reveals that the annual growth rate of exchange rate is positively related to balance of payment, inflation rate and interest rate, while it is inversely related to GDP and price level. The implication is that the GDP decreases when the exchange rate activities thrive.

CHAPTER ONE

Introduction

1.1 Background of the Study

How various individuals, groups, business persons and government have expressed concerns about attitudes of Nigerians towards the deregulation of exchange rate. Basically, the paper shows the relationship between the Nigeria economy and the government recent and past policies to increase the rate of converting Naira to Dollar.

Starting up with the current trends on the deregulation of the Nigeria currency in the foreign exchange market. On Wednesday, 20 January, 2016, an article was published in the Daily Sun Newspaper, as follows; Speaking during the opening of a one-day CBN/NEXIM Non-oil Simulation Conference in Abuja, CBN Governor Mr. Godwin Emefiele, attributed the decline (non-oil revenue by \$6.14 billion) to the low level of exports loan which he said, caused the decline in non-oil export revenue receipts from \$10.53 billion in 2014 to \$4.39 billion in 2015.

He further by saying, it has been observed that while credit to non-oil export is declining and currently at an average of 0.6 per cent of total domestic loans to the private sector in the past five years, domestic credit to the economy has been on the rise.

Managing Director of Nigeria Export Import Bank (NEXIM) Mr. Robert Orya, said the gathering at the seminar underscored the recurring problem of the volatility in the international oil market which has challenged the Nigeria economy over the years.

He said the recent rebasing of Nigeria’s economy revealed that production base had become much more diversified with the service sectors accounting for about 52 per cent of the Gross Domestic Product in 2014. Orya regretted that the revenue profile has remained skewed, with oil and gas sector contributing over 70 per cent and over 90 per cent of government and export earnings respectively, noting that the current episode of

the global oil price collapse is expected to be quiet protracted and had manifested in Nigeria insignificant revenue decline at all tiers of government with the attendant macroeconomic and external sector challenges. "Non-oil Revenues Decline by \$6.14bn say CBN", (2016).

On page 42 of the same newspaper, has it that Nigeria has comparative advantages over China and most developed countries in the production of tomatoes and many other farm produce, a status attributable to natural endowment of the country with better soil types. Exploring this potential, according to Chief Eric Odinaka Umeofia, the President/CEO of Erisco Foods Limited, an indigenous manufacturing company with over 18 high quality food brands, all produced locally, is sine qua non to the success of President Muhammadu Buhari administration's economic diversification policy "New Forex Policy 'Lift Manufacturing Sector'", (2016).

Readers may ask, what relationship exist between the topic and the cited scenarios above? One of the major purpose of deregulating currency is diversification. More so, encouraging investment in local production rather than consumable import. The policy looks impressive so far in certain sector and also failed miserably in other sector. The failure is traced to other economic mechanism that ought to be in place before now. According to the CBN Governor Mr. Godwin Emefiele, attributed the decline (non-oil revenue by \$6.14 billion) to the low level of exports loan.

As it is popularly said that only those that comply with regulations become regulators. The outcome of regulating an economy efficiently and effectively often results to outstanding achievement of that economy. Nigeria is a country that has always involved in different regulation strategies. Implementation of a new regulation which usually considers changes of previous regulation as a result of failed policies. The economic stabilization measures involving strict exchange and trade controls, introduced in 1983 and 1984 and retained in 1985 accomplished very little, in an instance. When there exists a regulatory failure, this could be due to excessive regulation and or ineffective implementation of regulatory measures. Tola, (2006).

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