

Looking Inwards: Is Money Supply the Cause of Rising Inflation in Nigeria?

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Abstract

This study empirically investigates to know if money supply is the cause of high inflation in Nigeria using annual time series data spanning from 1970 to 2016. Co-integration and Autoregressive Dynamic Error Correction Model (ADLECM) approach was utilized. The results showed that money supply does not considerably influence inflation both in the long and short run possibly because the country is in recession. The ECM has the correct sign of negative and it is significant meaning that about 21% of the errors are corrected yearly. The Granger causality outcome demonstrates that, there is no causality between money supply and inflation in Nigeria within the study period and vice-versa. The implication of this is often that there are different economic conditions which are key determinant of inflation in Nigeria. The study recommends that the government should diversify the economy, minimize importation by encouraging local production of products and services. The CBN should guarantee an exchange rate policy that is essentially determined by the state of the economy and not by speculators being a net importation economy. Also, the CBN should look inwards into the current interest rate and see how it can be regulated in such a way that will encourage private and foreign investors to be able to invest in the country. This in turn, successively increases income, infrastructure development and economic growth at large.

Keywords: ECM, Granger causality, CBN, Nigeria, Infrastructure

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