EXCHANGE RATE FLUCTUATION AND ECONOMIC DEVELOPMENT IN NIGERIA

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BEING A PROJECT SUBMITTED TO THE DEPARTMENT OF ECONOMICS IN PARTIAL FULFILMENT OF THE REQUIREMENTS OF THE AWARD OF THE BACHELOR OF SCIENCE (B.SC.) HONOURS DEGREE IN ECONOMICS, UNIVERSITY OF BENIN, BENIN CITY.

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CERTIFICATION

We, the undersigned, confirm that Umukoro Franklin Okeoghene with Matriculation Number SSC1909444, conducted this research, that it is adequate in scope and quality, and that it is hereby approved for partial fulfillment of the award of Bachelor of Science (B.Sc.) Degree in Economics at the University of Benin, Benin City.

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Date: _____

DEDICATION

This work is dedicated to the Almighty God and to my wonderful parents who have made this dream a reality.

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ABSTRACT

This study investigated the impact of exchange rate fluctuation on economic development in Nigeria. the study adopted the expo facto research design to source aggregate data from Central Bank of Nigeria CBN statistical bulletin from 1984 to 2022. The data was analysed using the Johansen co-integration test, serial correlation tests, Ramsey test, Unit Root Test ADF, and the Error Correction Mechanism ECM. The result showed that exchange rate reset have a positive significant impact on economic development in Nigeria. The result also showed that inflation and institutional quality has significant impact on exchange rate fluctuation in Nigeria, and that there exist bi-casuality between exchange rate fluctuation and economic development in Nigeria. The study recommended that for small-scale enterprises to engage in raw materials processing for export promotion, the government should provide incentives, such as loan subsidies and other forms of support. the government ought to support export-oriented policies in order to a positive exchange rate balance.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The Nigerian economy has been severely unstable, making it difficult to demonstrate quality in its foreign exchange rate (Kelikume and Nwani, 2019; Osabuohien et al., 2018). Exchange rate fluctuation, a steady jig within the global exchange exhibit of nations, has developed into a prevailing topic of discussion in subsequent worldwide support writing because of its disastrous effects on the economies of developing countries like Nigeria (Barguellil et al., 2018; Senadza and Diaba, 2017). The definition and implementation of the Structural Adjustment Programme (SAP), a component of the Money Related Recovery Programme (ERP) in 1986, led to changes in the money-related segment in Nigeria. Part of the changes includes the relinquishment of the predetermined exchange rates to facilitate the administration's free-coasting policies in the late 1980s.

This action was done with the belief that flexible currency rates will stop the boom-bust cycle and steer the country towards progress. It is expected that the exchange rate channels will positively influence growth in the areas of customer fetched soundness, volumes, wanders, and exchange rate terms. The Naira's deliberate overvaluation prior to the implementation of the Structural Adjusted Programme (SAP) in Nigeria is evidenced by its 1981 value of ₦1 to 0.90 cents. This continuously strengthens imports while preventing non-oil exchange and Nigeria's economy from relying too much on imported

input in comparison to swapped surrender. An economy whose yield exceeds exchange rates will have a negative change in installment and its currency will lose value relative to other nations' money standards used in transactions. Regarding that, the exchange rate between that nation's currency and other guidelines pertaining to money will be provided; for example, the Nigerian Naira and dollars are worth $1 to ₦1340.00, the pounds and sterling are worth £1 to ₦1700.29, and so on (Omoregie, 2020).

Nigeria's currency rate was severely impacted by the global financial and budgetary crisis; in just two years, from 2008 to 2009, the value of the Naira relative to the US dollar increased from about ₦1340/$, related to Nigeria's national decline in income and remote benefits resulting from the ongoing global decline in the price of crude oil. The developed economies' renewed focus on the production of alternative energy sources to fossil fuels, like wind, bioenergy, and solar power, has reduced the need for dirty oil. A barrel's price fell sharply from $110 to less than $50 between mid-2018 and early2019; as of the latter quarter of 2020, it is $38.77. This development undermined Nigeria's external earnings and benefits, which were needed to support the regions that would increase investment, create jobs, raise the minimum wage, and elevate living standards.

The quest to understand why Nigerian budgetary experts are successfully pursuing equality on the inside as well as the outside and raising living standards for their people is what ultimately motivates this inquiry. Still, there has been a desperate attempt in the intervening years to achieve the broad macroeconomic goals while ensuring the stability

of private expenditures, with little to no success. Since the government has adopted several initiatives since 1994 to ensure exchange rate soundness and fiscally sound budgetary improvement, it is essential to raise the following research concerns to guide this study. Why does the currency rate in Nigeria fluctuate so much? What effects does Nigeria's monetary execution face from the volatile exchange rate? In response, a variety of experts on money matters, including policymakers, public and private financial masters, and those who are interested in the connection between exchange rates and the execution of the Nigerian budget, will have crucial meetings.

1.2 Statement of the Research Problem

Recent studies seem to indicate that the increasing value of the Nigerian Naira is getting closer or might have stimulated the currency's overvaluation, which saw it rise from ₦1 to 0.90 cents in 1981 to ₦755.00 in 2022. This situation continuously encourages imports, weakens non-oil currency rates, and increases Nigeria's reliance on imported inputs in comparison to output. A country whose GDP yield exceeds its own would experience a worrisome shift in payments, and its currency will weaken relative to other national currencies that are used in transactions. In 2022, the sterling to pounds exchange rate is £1 to ₦945.00, while the Nigerian Naira to dollars is $1 to ₦755.00 (Omoregie, 2022).

This situation has also been linked to Nigeria's sudden decline in foreign exchange earnings and gross domestic product due to the global crude oil market's

unabated decline in price, which saw a barrel of oil drop from 83.42 U.S. dollars per barrel, compared to 78.48 U.S. dollars and 83.74 U.S. dollars respectively. This has the effect of weakening Nigeria's external earnings and benefits, which support the essential divisions that create jobs, advance financial activities, increase standard remuneration, and advance living standards. It is important to monitor and provide some insight into why the country's macroeconomic objective minute travel towards inner and outside equalisations appears to have delivered little to no positive results over an extended period of time, given the efforts made by the government and its monetary specialists to guarantee steady exchange rates and economical financial development since 1960 (Alasha, 2020).

Given the fact that previous discussions about Nigeria's exchange rate changes and budgetary improvements were predicated on open economy and contains small amount of theoretical and test fabric, it's possible that there are weaknesses in the approaches that have not been addressed. Furthermore, research on the impact of exchange rate variations in developing and emerging countries has shown that there is a strong correlation between exchange rates, work development, commerce, advancement, extension, and hypothesis (Alagidede and Ibrahim, 2017; Habib et al., 2017; Isola et al., 2016).

A few more recent theories, like those of Aliyu (2009) and Akpan (2008), have produced inconsistent and inconsistent results. Despite the fact that research has been done to determine the fundamental causes of this relationship and how it affects both internal and

external soundness, the evidence linking macroeconomic precariousness and exchange rate precariousness remains. Additionally, open financial discussions with a minimal amount of observational or theoretical data are the primary source of dialogue regarding the instability of Nigeria's currency rate. In this manner, it is planned to close the gaps between conjecture and legitimate research and reinforce the limitations of earlier studies carried out in the Nigerian context.

1.3 Research Questions

Based on the above background of the study, the following research questions is raised to guide the course of the study.

1. Does the fluctuation in the exchange rate affect economic development in Nigeria?
2. What are the causes of exchange rate fluctuation in Nigeria?
3. What is the nature of casuality between exchange rate and economic development in Nigeria?

1.4 Objectives of the Study

The broad objective of the study is to examine the effect of exchange rate fluctuations on economic development in Nigeria. Specifically the objectives of the study are;

1. To examine the impact of exchange rate fluctuation on economic development in Nigeria.
2. To investigate the determinants of exchange rate fluctuation in Nigeria.

3. To determine the nature of casuality between exchange rate and economic development in Nigeria.

1.5 Hypotheses of the Study

The hypotheses of the study are formulated in accordance with the specific objectives. It stated in null forms:

1. H_{o1}: Exchange rate fluctuation has no significant impact on economic development in Nigeria

2. H_{o2}: Inflation and institutional quality do not determine exchange rate fluctuation in Nigeria

3. H_{03}: There is no bi-casuality between exchange rate fluctuation and economic development in Nigeria.

1.6 Significance of the Study

This study's primary goal is to determine whether the volatility of exchange rate requirements can have an impact on an economy's monetary development. Nigeria's exchange rate policy changed significantly throughout the years, starting from the early years after independence and continuing through the oil boom of the 1970s and the era of floating currency in 1986 following the devastating economic collapse of 1998–1985. Economic and political issues that were necessary to affect the nation's structural development, inflation, balance of payments, and real income drove policy at each of these periods. T This is the ideal chance in Nigerian history to look into this topic because

the Naira has depreciated to the point where it is worth 358 Naira to the US dollar on the official market. Thus, the goal of this research is to find out how changes in exchange rates impact Nigeria's economic expansion.

1.7 Scope of the Study

This review focuses on the exchange rate, one of the many varied and occasionally intricate components that make up the economy. The estimation and empirical analysis from 1984 to 2022

1.8 Limitations of the Study

1. The research study has data collection challenges. Primarily, obtaining the necessary information for the study is limited to annual data from CBN.

2. The time frame is a limit to this study as a project (1984 to 2022).

3. The investigation is limited to industry performance metrics, such as growth opportunities. The analysis has been restricted to exchange rate fluctuation and GDP.

1.9 Justification of the Study

This study is justified by earlier research on the effects of exchange rate changes on the Nigerian economy (Felix, 2015; Akinmulegun et al., 2018) as well as the general effects of fluctuations in the value of the Naira on economic growth. A thorough grasp of the currency market and how it affects the expansion of other economic sectors is provided by this study. By "raising awareness of exchange market uncertainties to increase exchange rate and investment, especially capital inflows, in order to promote economic

growth and increase national welfare," the government will be better able to offer a framework for exchange rates.

This research will be used to develop our pricing strategy. This study provides as a foundation for future research on the ways in which exchange rate variations impact other related macroeconomic variables, in an effort to identify other factors that might be involved. Exporting businesses will benefit from this study's understanding of how variations in the aforementioned exchange rate variables impact their earnings.

In addition to contributing to the literature and export revenue, this study will look at the variables that affect exchange rates. Students with an interest in finance can benefit from it and broaden the breadth of what they already know. In light of the fact that the export sector's performance significantly boosts the economy as a whole, this study concludes by endorsing the government's regulatory measures to enhance stable exchange rates in the export sector.

1.10 Definition of Terms

The exchange rate is the value of one currency when it is transferred to another foreign currency for international money transfers. It is the rate at which one currency is exchanged for another. The expansion of an economy's capacity to produce goods and services is known as economic growth.

1.11 Structure of the Study

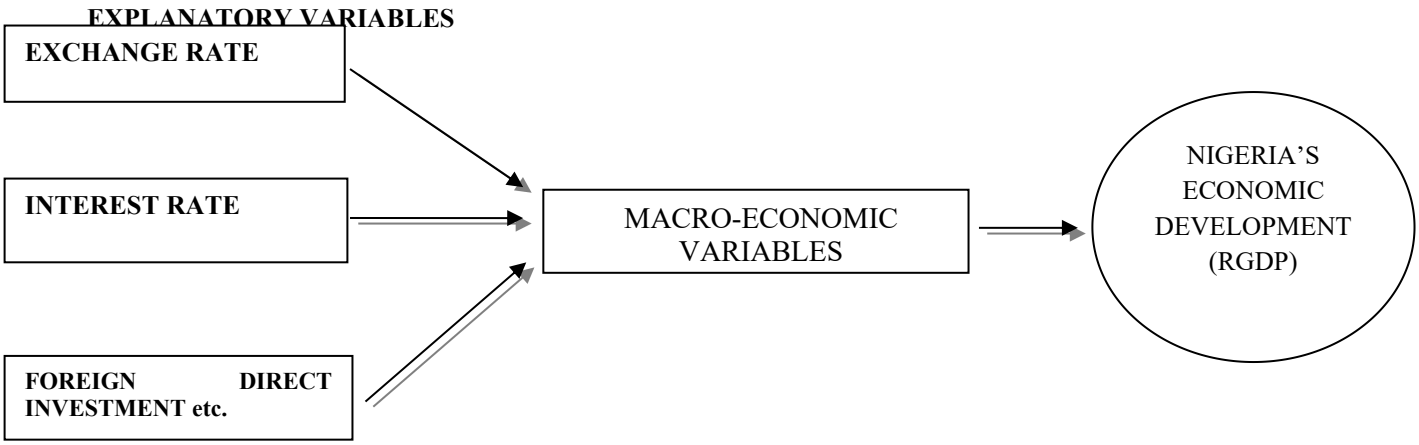
There are five chapters in this chapter. The study is given a general introduction in this chapter. A review of relevant literature on exchange rate fluctuations and Nigeria's economic development is presented in the second chapter. It also provides an overview of the investigation's theoretical foundation. The research approach is presented in Chapter Three. The results and discussion of chapter four's quantitative analysis of economic development and exchange rate fluctuations are presented, together with an explanation of the findings. The summary, conclusion, and recommendations are presented in Chapter 5.

CHAPTER TWO

REVIEW OF LITERATURE

2.1 Conceptual Framework

Conceptualization is a method of thinking that tries to picture the study problem's causal relationship prior to undertaking fieldwork. The study topic is identified together with the independent and dependent variables and their respective relationships. After carefully reviewing the literature, the researcher developed the conceptual model that is displayed below.



Source: *Developed by the researchers*

The Portfolio Balance Model

According to Gbosi (2003), the portfolio adjustment shows the exchange rate as the result of substituting monetary and non-monetary resources. The financial method

prohibits current events from influencing the trade rate that is calculated. This is why a country's observed tendency for its cash supplies—a shortage—to lose value cannot be explained by the financial method. It was said that the money-related approach's obvious flaws stemmed from its narrow perspective on currency rates and the high cost of films. The portfolio adjustment strategy says that the supply and demand for a wide range of financial resources in the markets defines an exchange rate in the short term in order to address these flaws.

The programme admits that people distribute their wealth (w), which is determined at a specific point in time, among their discretionary means. Residential cash (m) locally, issued bonds (b), and outside bonds designated in outside cash (f) are shown in a basic one-nation demonstration. This analysis's experimental framework is provided by financial development speculations. The conventional view of financial development recognised the existence of a fiercely competitive market wherein unseen parties prudently distribute assets. Even though Adam Smith noted that the advancement plan started when he contended that splitting labour boosts efficiency, which enhanced overall yield, classicists continue to view capital accumulation as an essential element of financial growth. The problem with the Harrods model is that it symbolises a yield-seeking tendency while simultaneously raising the economy's general efficiency capital. The instrument used to finish financial advancement is net venture. A stable capital yield, or an unchanging relationship between capital stock and yield, is what Harrods and

Domar predict (Domar, 1957).

Conversely, the neoclassical development hypothesis places emphasis on resource allocation efficiency and generally overlooks the influence of social and political factors on financial progress. Inequalities in poverty, suffering, and inequality within divisions persisted despite improvements in national productivity. The primary alternative theories addressed these supplementary mutilations; one such theory is the two division surplus labour idea put out by Arthur Lewis. It's likely that the anticipated increase in yield and business for the advanced category won't happen. In the advanced segment, specialised advances are usually sued when capital stock containing work investment money is present. Under these conditions, acceptable overflow work from the conventional to the advanced segment has often not materialised as envisaged, leading to the nationalisation of structural change hypothesis. This, in turn, highlights economic corruption and makes the improvement plan easier to understand. Capital arrangement has drawn a lot of interest because it is related to the production of capital goods such as machinery, plants, and equipment. To measure financial progress, financial analysts look at data on the GDP, or net household product, which totals the income of all the people in the economy. Significant disparities in the living standards of various nations are also evident in the real GDP per person (Mankiw and Gregory, 1994).

The relationship between labor-drive development and technology improvements and how it impacts yield is demonstrated by the Solow growth model.

The idea that the amount of capital accumulated is determined by the supply and demand for goods was explored in the initial stages of constructing the model. One must first maintain the set work constraints and technology in order to accomplish this. The next step is to present technological advancements that refute these widely held beliefs. The Solow development presentation allowed it to demonstrate the allocation and generational distribution of the economy's yield information print in real time. Moreover, the Solow growth curve illustrates the long-term effects of population increase, savings, and creative management on output development. Most of the products in the Solow development demonstrate are based on the common production function Y = f (k,L). Yield is impacted by both the capital stock and the work limitation. A consistent return to scale should be provided by the generation function, as per the Solow growth model.

Nonetheless, the modern endogenous development model suggested that innovative modifications are endogenous to development since they depend on the flag as well as advantages in the financial environment. The endogenous development researcher proposed the concept of human capital as a development metric. Bolt, Villanueve Rebelos A. K., Mankiw, Romar and Weil, and many more are among the underappreciated development scholars. The expanding returns scholar argues that the scope of the single classical growth theory that is subject to diminishing returns is limited because speculation in a small number of new area items, control sources, or generation innovations increases with time and becomes more profitable with each new

increase. One can determine the source of these increasing revenues with some thought and effort. Early professional development may lead to underutilised skills and mindsets in a work limitation, where the cost may be lower than what was initially invested at the introduction arrangement. Moreover, each investment may find speculation because to the infrastructure established by their predecessors.

Finally, underutilised development demonstrates the difference that has been suggested in (Jenur, 2008; Romer, 1996), indicating that countries with large amounts of human and physical capital would always grow at a quicker rate than countries with modest amounts of capital. This is because merging is not anticipated in the unutilized development.

2.1 Determinant of Exchange Rate Volatility in Nigeria

Universal exchange may be determined by fluctuations in exchange rates. For instance, in Nigeria, according to Omojimite and Akpokodje (2010), organisational changes within the economy, fundamental generational transitions, and changing global trade patterns have all contributed to this volatility. Furthermore, Ogunleye (2010) contended that external shocks brought on by unforeseen fluctuations in the price of these commodities define the genuine exchange rate in Nigeria because the bulk of the country's profit from the exchange rate is derived from oil and agricultural commodities. Genuine exchange rate instability was less noticeable when Nigeria's economy was dependent on rural exports since these items were less unpredictable and more trading partners' monetary forms were taken into consideration when determining Nigeria's

genuine exchange rate. Ogunleye (2010) reports that this had little bearing on the real exchange rate, which varied by 0.14 from 1970 and 1977. Due to the country's growing reliance on oil, there were large exchange shocks from worldwide oil cost inventories, which caused the naira's value to fluctuate by 10 between 1978 and 1985.Iyoha and Oriakhi (2002) claim that cash shortages during this period were the reason for variations in the real exchange rate. Furthermore, the government used monies for ambitious renovation projects imprudently as a result of the oil boom, according to Ogunleye (2008). In order to finance its operations, the Nigerian government consequently moved to creating currency. Ogunleye's expansionary monetary-fiscal policy thus increased pressure on expansion and contributed to a notable acceleration in real exchange rate developments. The allocation for the Basic Alteration Programme (SAP) started to influence the real exchange rate flow in Nigeria in 1986 (Aminu, Bello & Salihu, 2013). The main objective of this strategy was to ride out apparent exchange rate arrangements. As the naira was permitted to fluctuate, the nominal exchange rate development became more defined, which helped to provide more stable exchange rate developments over this period of time (Adegbite & Owolabi, 2017). Ogunleye (2010) pointed out that the median yearly change in the real exchange rate of the country went from 25% between 1986 and 1992 to 4.5 between 2000 and 2006. Therefore, this drop in remote exchange rate instability was caused by favourable terms of trade, less financial dominance, a persuasive financial arrangement that was initiated by a more transparent and open

central bank, and an apparent exchange rate arrangement that was well-managed. It should be widely recognised that while there are many variables that might lead to exchange rate instability, the degree to which each element has an impact varies and is influenced by the financial standing of a certain country. Therefore, countries like Nigeria that are included in the migration plan are more susceptible to the impact of these factors, which in turn influences judgements about financial strategies (Ajao & Igbekoyi, 2013).

2.1.1 Concept of Exchange Rate

The price at which one nation's currency can be exchanged for another is known as the exchange rate, according to the Exchange rate Word reference. Harvey (2012) defines an exchange rate as the relative value of two monetary standards. It is the cost stated in a different currency. It is the cost at which the money of one nation can be exchanged for that of another. This is effectively the exchange rate for a single currency unit between two countries. Exchange rates, or the cost of household cash represented in terms of distant cash, are widely recognised as the measure of value. It is the cost of one currency stated as another's value. In Nigeria, for instance, a trading rate of US$0.00167 for each Naira (N) means that one Naira is worth US$0.00167. To put it simply, an exchange rate is a measurement of the value of one currency when it is exchanged for another. Both the input used in production and the cost structure of a material may be impacted by changes in exchange rates. Businesses typically assume that the division or office responsible for financial arrangements will ensure that specific procedures are in

place to control the exchange rate, preventing an unwarranted increase in the price of imported goods, services, or equipment. According to Kirui, Wawire, and Perez (2014), businesses would always appreciate the naira when they exchange money since they will pay less in naira units for a dollar or pound, depending on where the exchange takes place.

2.1.2 Concept of Exchange Rate Fluctuation

Because of the industry's sensitivity to fluctuations in foreign exchange rates, forecasting future costs is challenging. These variations pose a danger to exporters and merchants participating in foreign currency rate transactions because of their regular exposure to cash risks (Allayannis & Weston, 2011). Fabricating businesses are susceptible to potential ups and downs since their purchase prices are stated in non-monetary ways and the value of their raw materials varies. Activities related to import and export subject these companies to the dangers of global trade. The unpredictability of exchange rate changes in the worldwide outside exchange rate exhibition is referred to as "exchange rate instability". Thus, exchange rate instability illustrates the extent to which the exchange rate is prone to cyclical volatility.

The volatility of exchange rates has a greater impact on business execution than on financial development in general (Ayobami, 2019). For instance, when import costs for manufacturing enterprises rise due to exchange rate depreciation, household investment declines. Moffett, Stonehill, and Eiteman classified exchange rates into four groups (2017). Among these was the fixed exchange rate set by the government and

based on a country's savings over a predetermined length of time. The monitored coasting exchange rate is the one that is established based on the supply and demand of particular monetary standards below a predetermined threshold of government intelligence. A trade rate that is fully set by supply and demand limitations at an open market, free from any government intervention, is referred to as a "openly drifting rate".

The financial show, the most trustworthy source of exchange rate information, admits that the yield levels and cash supply of the various countries are currently the two main financial factors affecting exchange rates. When the facts and the aspirations for future exchange rates are combined, the show produces the value of the current exchange rate. Another name for the financial plan is the "newspaper model." When analysing fluctuations in the exchange rate, writers usually refer to the findings of the financial demonstration. Furthermore, Divider Road investigators often employ several iterations of the financial demonstrate in response to inquiries regarding the accuracy of their exchange-rate estimates. This well-known demonstration is based on traditional macroeconomic theory and provides an intuitive explanation of the principles of finance.

The fundamental idea of the economic demonstration is straightforward: the trading rate is determined by the relative cost levels of the two nations. $2 will be equivalent to one unit of foreign currency in the improbable case that goods and services are valued twice as much in US dollars as they are in another currency. In this way, the cost of goods and services will be the same whether they are acquired domestically in the

US or elsewhere (Backus, 1984). But what factors influence the different cost levels in the two nations? The primary subjects of discussion in the financial show are supply and demand for cash. The average level of spending in the United States will most likely rise in the unlikely case that the country's money supply rises without any other changes. Due to the fixed price level in the isolated nation, more dollars will be required to buy one unit of foreign currency. Because of the decline in the value of the dollar, the cost of the outside cash will increase. Cash supply and financial necessities are not the same thing in a money-related programme.

2.1.3 Concept of Economic Development

Pay increases are commonly referred to be financial advancement in developing countries and economic growth in wealthy ones. Economic development refers to the progress made by an economy in the shock of perfect conditions, as exemplified by the progress made by the United Kingdom during the Mechanical Transformation (Maddison, 1982). Similar opinions were expressed by Hicks (1987), who claimed that while developed nations' concerns are related to development and that the majority of their assets are already well-known and impressively created, immature nations' concerns are related to improving underutilised assets—even though their employment is well-known.

When referring to an economy, economic development is the gradual improvement in the economy's capacity to generate commodities and services. Both

apparent and real words can be used to quantify it, with the last one taking swelling into account. Total financial development is usually measured using the net national product (GNP) or net residential product (GDP), while there are several circumstances where optional measurements are utilised. The financial development rate measures how quickly the amount of goods and services provided changes from year to year. It rises to the real rate of GDP growth.

2.1.4 Foreign Exchange Volatility

Remote exchange rate instability can be used to describe exchange rate swings that result from changes in money. Both a company's revenue stream and reputation are impacted by such instability. In theory, most people concur that changes in exchange rates significantly contribute to macroeconomic fragility. Economic theory states that differences in stock costs can be caused by changes in the exchange rate. This is particularly true for multinational firms that exchange some of their inputs with other businesses. Exchange rate fluctuations affect the cost of imported inputs and completed items, which has an effect on companies that compete with these industries indirectly (Grambovas & McLeay, 2006). Therefore, regardless of the company's location—locally or internationally—they need to have a big impact on its reputation. This is due to the fact that increasing globalisation has enabled numerous businesses to expand internationally in order to benefit from economies of scale and competitive advantages. The company has benefited more from its entry into modern markets, but it has also seen

a rise in net pay volatility as a result of different financial risks.Multinational company managers are emphasising the need of chance management strategies to lessen the unpredictability of their outside revenue streams due to fluctuations in foreign exchange rates (Afza & Alam, 2014). Mongeri (2011) studied how foreign exchange rates and distant exchange rate savings affected the way NSE files were executed. Finding out how these elements impacted NSE file execution was the aim of the study. The study design used by the researcher was a longitudinal one. There is currently proof that outside exchange rates and stock showcase execution have a positive association. Changes in foreign exchange rates had an impact on the advertising of stocks. Lastly, Onyancha (2011) studied the effects of fluctuations in foreign exchange rates on the financial performance of international non-governmental organisations. An inquiry into plan-related studies was used in the research. His research suggests that exchange rate risk may have a detrimental effect on venture quality. Therefore, the goal of this study is to establish the remote possibility that outside trading rate volatility influences money-related execution.

2.2 Exchange Rate Fluctuations and Economic Development in Nigeria

When an economy grows because of advantageous circumstances, such as the United Kingdom's economic growth during the Mechanical Insurgency, it is referred to as an economic improvement. According to Ewubare and Ushie (2022), countries with higher income levels refer to this as "financial development" whereas those with lower

incomes refer to it as "financial improvement". Even though their labour markets are well-known, developing countries still have difficulties optimising underutilised resources, according to Hicks (1987). On the other hand, developed countries confront difficulties in their development because most of their resources have already been produced and are well-known.

Manufacturers of delivered goods find positive or negative variations undesirable since they have been demonstrated to increase risk and vulnerability in the global exchange rate. Although exchange rate fluctuations have been shown to have a positive effect on export exchange in countries that are members of the European Union, the Universal Monetary Finance (IMF) (1984) discovered that these changes also entail adverse macroeconomic wonder inflations (Egbujor, 2012). Starting with their impact on distant coordinate speculation, Walsh and Yu (2010) examined the consequences of these oscillations and found that tall outside exchange-rate periods increase the importation of generation, equipment, and generation sent out. Moving forward, Portage and Stein (1991) found a clear indication that degradation (a decline in the exchange rate) causes an increase in a weaker nation's internal show.

2.3 Review of Theoretical Literature

The consensus among money and economics specialists, however, is that there is only one explanation that adequately explains the trading rate. Regarding the nature of the exchange rate notion, there are now, at most, five competing views that can be

classified as either traditional or new. Because the classic theories are based on monetary and exchange streams and achieve control equality, they are crucial for explaining exchange rate movements over an extended period of time. The portfolio adjustment method, the gaining control hypothesis, the money-related approach, the versatility approach, and the exchange rate assurance theory are some of these theories. The present theory, on the other hand, emphasises the significance of capital and universal capital streams, explaining why exchange rates tend to overshoot in the long run and are unstable in the short run. Many viewpoints, especially from developed and middle-income nations, have also examined the ways in which exchange rate volatility and related vulnerabilities impact financial development, exchange, and investment. The majority of these research have found that fluctuations in exchange rates have an indirect impact on exchange through their effect on the yield and speculative structure, in addition to their direct impact on exchange through instability and alteration costs (Cote, 1994).

Aluko (1988) concluded that the naira's exaggerated depreciation was required for the SAP to be implemented after analysing the naira's appreciation and devaluation from 1970 and how it affects Nigeria's external deposits and installment payments. Having said that, he overlooked how inventive the Nigerian economy is. Nigeria's economy is still growing as well; it produces the bulk of its own needs but imports machinery and a large portion of the raw materials needed for its industries. He overlooked the ordered toll devaluation and cheapening would place on imports, leading to an exaggerated rate of

expansion. Eze (1988) suggested that Nigeria's central bank fix the value of the Naira at a practically accepted rate on the open market in his examination of the effects of fluctuations in foreign currency rates on the country's economy. However, in order to mitigate the adverse consequences of the unpredictable foreign exchange rate on the Nigerian economy, he offered suggestions regarding how the government might affect the foreign exchange rate and implement positive economic adjustments.

2.3 Review of Empirical Literature

Iheanachor and Ozegbe (2021) looked at how Nigeria's monetary implementation was impacted by known exchange rate volatility. The investigation into why the attempts to pursue both internal and external equalisations, with the assistance of Nigeria's budgetary specialists, yielded little or no positive outcomes in later times affected it. The autoregressive scattering-slack (ARDL) approach was used by the analyst to try and ascertain the short- and long-term consequences of exchange rate variations on monetary advancement employing yearly time course of action data from 1986 to 2019. The observational result shown that Nigeria's budgetary improvement was adversely affected cumulatively by the exchange rate, net arrange eliminated facilitation journeys, and swelling rate. The overall result of this thought experiment indicated that changes in the benchmark exchange rate are impeding Nigeria's monetary improvement. In the presentation of the test results, this researcher recommends that Nigeria increase its rural generation and agro-investment. In order to mitigate the detrimental consequences of an

unstable exchange system on the Nigerian economy, the government should authorise legislative reforms that would have an impact on the exchange system. The dynamic relationship between Nigerian exchange rate types and global spares is examined by Kelikume and Nwani (2019).Using monthly time series data on the bureau de alter exchange rate and widely accessible spares taken from the Central Bank's quantifiable bulletin covering 108 recognitions between January 2010 and December 2018, the analysis set out to ascertain whether a lead-lag relationship existed between both ponders.

The Granger causality based on the vector botch modification instrument and the AR talk root test for robustness and constant quality were the two econometric techniques that were employed. The observational conclusion appears to be that there is no proof of a causal relationship between the widespread spares and the variations in Nigeria's currency rate. The key finding of the study was that financial professionals shouldn't depend on foreign investment fund management as a viable strategy to preserve the value of Nigerian currency, based on the results of our analysis. Therefore, the total amount of foreign reserve money could serve as a reference point for credit evaluations and the determination of whether reserves are necessary to assist Nigeria in making the much-needed fiscal improvement.

Using month-to-month time course of action data (January 2006 to December 2015), Osabuohien, Obiekwe, Urhie, and Osabohien (2018) examine the extent to which

the official and parallel exchange rates pass through to development as well as the relationship between exchange rate flimsiness and extension in Nigeria. To get its conclusions, the study employed the Summed Up Auto In reverse Conditional Heteroscedasticity (GARCH) method. It is complemented by the Drive Response, Vector Botch Alteration Illustrate, Alter Weakening, and Co-integration approaches. The results suggest that the official exchange rate, in a sense, experiences development over the long run, whereas the parallel exchange rate experiences development over the short term. It also shows that the most significant and long-lasting impact on swelling is exchange rate precariousness.

Alasha (2020) used the exchange rate, interest rate, swelling rate, and exchange rate alter as components and data sourced from the Central Bank of Nigeria truthful bulletin & dispersions from the National Bureau of bits of knowledge to investigate the relationship between exchange rate fluctuations and their effects on the development of the Nigerian economy. The data appear to be broken down by applying other methods such the Granger Causality test, Cointegration, and Extended Dickey More full test in addition to the conventional scarcest square procedure (OLS) and classical smallest backslide. The results indicated that while interest rates have a positive effect on GDP, exchange rates and inflation has the reverse effect.

Isola et al. (2016) used the Autoregressive Passed on Slack (ARDL) data set over an eleven-year period (from 2003 to 2013, in addition to) to investigate the impact of currency rate variations on monetary improvement in Nigeria. Although these associations are not long-term, tests have revealed a short-term correlation between exchange rate volatility and financial improvement. Okoroigwe, Obilikwu, Sayedi, and Yusuf (2023) investigated how fluctuating exchange rates affected Nigeria's financial growth over a period of more than three decades using swelling rates and charmed rates as control components. The National Bureau of Estimations and the Genuine Bulletin of the Central Bank of Nigeria (CBN) provided the data. The study that yielded the following results was contextualised by the relapse inquiry, which also took interest in the exchange rate, growth rate, and committed rate to net family item. The investigation's findings have shown that exchange, swelling, and interest rates are significant determinants of net family pay in the context of Nigeria's budgetary development.When presented synonymously, the exchange rate, extension rate, and grabbed rate have all done well in terms of financial improvement. The variables that determine net private thing are, per the outcomes, exchange rate, swelling rate, and captivated rate. The exchange rate, development rate, and interest rate were all successfully stabilised, based on a careful examination of these parameters. This will surely result in a net household item gain that is more notable and evident. According to the findings, while Nigeria's

exchange, growth, and interest rates are stable, its net family item becomes more realistic. This may certainly have a significant positive impact on the country's financial prosperity.

Yusuf, Oyegoke, Gylych, and Haruna (2019) compared the official exchange rates with the parallel publicise rates from the post-SAP period of 1986 to 2017 in order to explore the variables influencing currency values in Nigeria. They used information from the quarterly time course of action to do this. Using previously published study data, the exchange rate's most plausible causes were identified. They comprised interest rates, GDP, imports, non-oil exports, savings, and population growth. The co-integration of the components was evaluated using the Auto-regressive Spread Slack Appear (ARDL) method, and the transient course of action features were evaluated using the Expanded Dickey-Fuller (ADF) unit roots test of stationarity. The results show that the primary factors impacting Nigeria's official exchange rates are GDP, extension, interest rates, non-oil exchanges, oil exports, and spares; the primary factors influencing substitute or parallel exchange rates, on the other hand, are GDP, extension, and non-oil exchanges. Contribution/Originality: Using quarterly time course data, the study compares official and parallel publicise rates from the post-SAP era of 1986 to 2017 in order to investigate the causes driving Nigeria's commerce rate.

Idris and Shuyur (2023) looked at how Nigeria's budgetary advancement was affected by changes in exchange rates. The main source of additional data used in this

analysis is the Quantifiable Bulletin on assortment of points published by the Central Bank of Nigeria. The monetary authority moved from regulating fixed exchange rates to regulating flexible exchange rates between 1986 and 2019. The data was analysed using backslide analysis and the conventional slightest square (OLS) relationship. The exchange rate has a positive but not very significant influence (â=0.014, t = 1.783, Pns), according to the data, which supports previous ideas that suggest developing countries are often better suited selecting flexible exchange rate management. Furthermore, the findings demonstrated that, although not crucial, the rates of interest and swelling had a negative impact on the advancement of money (â = 0.002, t = 0.015, Pns) and (â = 0.023, t = 0.716, Pns), respectively. In a similar vein, the report recommended that the government be authorised to initiate special initiatives to stop money shortages. To draw in foreign investment, Nigeria's government must develop a stable currency, provide enough security, foster a business-friendly atmosphere, and carry out other budgetary initiatives.

Koroma, Jalloh, and Squire (2023) carried out a test study to ascertain the effect of exchange rate variations on the budgetary development of Sierra Leone. When considered as a whole, the period of time in question may cover 39 years, from 1980 to 2018. In this paper, we discovered that a sincere basic association between advancements in money in Sierra Leone and exchange rate changes (devaluation of the Leones) is

consolidated. Previous studies demonstrate that fluctuations in exchange rates can impact a country's economy's fiscal progress in both good and negative ways. We employed the PP-test and the ADF-test to ascertain whether the factors were steady. The results are based on backslide analysis done with publicly available data, and the data was evaluated using the usual scarcest square approach.

Nigeria's currency rate drivers were assessed by Rauff (2022). The data is derived from multiple sources, such as WDI (World Progression Pointers) and Uncertainties (Worldwide Money Related Estimations). The true exchange rate (RER) is regarded as a subordinate variable, whereas the Net Family Improvement Rate (GDPG), Swelling Rate (INFL), Interested Rate (INTR), and Exchange Openness (Beat) are employed as independent components. All of the components are combinations of I(O) and I(1), according to the unit root analysis. All of the parameters have a long-term association, according to the co-integration analysis results. A subsequent downturn was associated with Autoregressive Disseminated Slack Appearance (ARDL). The real exchange rate and the GDP development rate have a strong inverse relationship in the near term.

There is a noteworthy positive association between the real exchange rate and the swelling rate. While exchange rate openness has a small but negative association with real exchange, interest rates and exchange rates also have a fundamentally beneficial link in the short run. Moreover, the long-term data revealed a significant inverse relationship

between the real exchange rate and the GDP development rate. This could be useful for short-range location. Additionally, a strong positive link was demonstrated between the veritable exchange rate and the extension rate. The long-term results showed that the interest rate and the real exchange rate in Nigeria had a positive, non-essential link. Additionally, a weak and negative association was found between exchange rate openness and the real exchange rate.

Nwankwo (2023) examines the effects of exchange rate variations on the Nigerian economy using ECM. We used the Johansen test for co-integration among components, the Phillips-Perron unit root test, and the Goof Amendment Appear (ECM) to examine the relationship between these parameters and the Nigerian economy. The co-integration test confirms the long-term relationship between exchange rate volatility and the Nigerian economy. The examined result indicates that Nigeria's net family position appears to have been unaffected by money rate volatility over that period. This kind of result showed that a decrease in private money does not strengthen the stability of the exchange rate and, by extension, the country's GDP position. As a result, it was advised that the monetary approach measures implemented to stabilise the currency rate and stop its ongoing free slide be thoroughly examined. In order to enhance Nigeria's economic base and maximise the benefits from upcoming exchange streams, financial specialists and policymakers must band together and generate the political will to put these measures into action.

The risk in lower- and lower-middle-income countries (LLMICs) in Africa was studied by Okot, Kaltenbrunner, and Ruiz (2022). It combines macro-panel estimates for fifteen African LLMICs with floating or well-controlled exchange rates with data from thirteen semi-structured interviews with seventeen outside exchange grandstand participants in six case-considered countries. It illustrates both the integration of cash-related services for exchange rate assurance and the essentially favourable exchange rate structure of African lower-middle-income countries (LLMICs), which is centred on a small number of commodities generated from agriculture and minerals. It has been discovered, specifically, that while exchange rate-related factors such as the intrigued rate differential, inclusive market conditions, and short-term budgetary flows matter for the possibility of abrupt and significant changes in exchange rates, exchange rate-related factors such as terms of exchange, exchange concentration, and send out costs have a significant impact on the level and instability of exchange rates.

Barbosa, Jayme, and Missio (2018) employed stationary and intermittent impacts board data models to analyse annual data from 1990 to 2008 in order to analyse the factors impacting the REER in 45 developing and emerging economies (DEEs). The analysis showed that rather than traditional macroeconomic details, what drives exchange rates from DEEs are short-term returns and capital streams, global market conditions, and their notable external commitments, which are measured by their net short-run liabilities

as well as exterior commitment as a share of future exchange spares and the current account alter as a share of GDP.

Umoru, Effiong, and Akpoviroro (2023) investigated the causes of volatility in exchange rates. The idea roughly carried out the Autoregressive Distributive Slack (ARDL) bounds testing for co-integration in addition to assessing the botch change depict. Additionally, the degree of fragility of the Bend and GARCH models was evaluated using an autoregressive illustrate fitted to the squared residuals of the temporal course of activity. It is almost implied from the Bend and GARCH results that the exchange rate markets in the aforementioned countries are objectively fragile. The rate at which the flimsiness of the economy's exchange rate changes is 39% in Sudan; it is 50% in the Niger Republic; it is 52% in Cameroon; and it is 55% in Tunisia, in the Congo, it is 32%; in Central Guinea, it is 58%; and in Côte D'Ivoire, it is 45%.

The investigation found that several variables contribute to currency rate instability among African countries, depending on the country. The observed fragility of the Sudanese currency rate was determined by both the fundamentally negative interest rate difference and the critically important positive effects of pay differentials and development. The Niger Republic's currency rate precariousness was primarily caused by the significant fluctuations in oil prices and interest rate differentials, in addition to the significant advantages of productivity growth and cash availability. The observed short-

term fragility in Cameroon's exchange rate was totally and categorically impacted by swelling differential and cash supply assortment, despite the fact that interest rate disparity and oil price stagger had a consistent but contradicting impact. Exchange rate insecurity in Tunisia was reinforced by the basically positive consequences of development inequality, efficacy advancement, oil price shock, and the noticeable negative influence performed by exchange rate alteration.

The fundamental negative consequences of charmed rate discrepancy, pay disparity, currency volatility, cash supply variation, and the observed short-term insecurity inside the Congolese exchange rate were all brought on by the essential favourable influence of the swelling disparity. Based on the fundamental and beneficial effects of the variations in the rates of development, the increase in oil prices, the variations in the money supply, and the external exchange rate movement, the observed precariousness of the Central Guinean currency was chosen. Variations in the wage level, interest rate, and extension rate were the main causes of the observed fragility in the Côte D'Ivoire currency rate. Changes in exchange rates also played a part, but the oil price stagger's detrimental effects were what truly gave it greater clout.Using Nigeria as a case study, Chiadikobi, Oladipo, and Umozurike (2023) assessed the impact of exchange rate fluctuation on advancements related to money. This study examined the impact of currency rate volatility from 1981 to 2020 on Nigeria's budgetary progress. The sources consulted were the World Bank's annual assistant statistics and the Central Bank of

Nigeria's Truthful Bulletin on noteworthy problems. The ARCH/GARCH appear was used to measure fragility and the ARDL estimating technique.

According to the results, exchange rate volatility over the long run includes a negative coefficient of -4.84852, even if the exchange rate has a positive coefficient of 9.28831, which isn't really a coefficient. On the other hand, the exchange effect is negative (with a coefficient of 17.0966) and quantifiably significant at one percent, whereas the exchange rate precariousness effect was positive (with a coefficient of 54.6847) and verifiably relevant at one percent in the short term. The argument put up by the author is in favour of the Central Bank of Nigeria maintaining the existing directed float exchange rate regime while also restoring the country's current exchange rate instability to facilitate the country's apparent short-term improvement in GDP per capita. Plans that will advance the era and lower imports must be enhanced in order to move the economy away from one focused on utilisation and towards one based on era.Soro and Aras (2021) looked into the effects of currency rate increases on Nigerian outside saves between 1980 and 2019. The study seized the ARDL appear, and its conclusions indicate that the exchange rate has a constraining impact on spares. They suggested breaking out the entire exchange rate into sections with varying sizes and relative to spares under both positive and negative headings. A negative fluctuation in the currency rate has little long-term impact on spares; conversely, a positive fluctuation has a significant long-term impact.

The relationship between exchange rate precariousness and mechanical abdicate in Nigeria was assessed by Oseni, Adekunle, and Alabi (2019). From 1986 to 2017, they utilised monthly exchange rate data. The fragility of NER's improvement rate was assessed using the EGARCH(p,q)-AR(k) models, and Nigeria's mechanical abdicate was analysed using the ARDL appear for both short- and long-term changes. The study almost found that the numerous exchange rate drives during the study period had a positive impact on mechanical surrender and the transparency of external exchange pickups, which is why the RER insecurity is highlighted. It was also found that the capacity utilisation extent was low in the middle of the consideration period.

Oseni, Adekunle, and Alabi (2019) assessed the relationship between mechanical abdicate and exchange rate precariousness in Nigeria. They used monthly data from 1986 to 2017 regarding exchange rates. The ARDL appear was used to analyse both short- and long-term changes in Nigeria's mechanical abdicate, and the EGARCH(p,q) -AR(k) models were used to assess the flimsiness of NER's improvement rate. The RER insecurity was almost found to highlight a facilitation effect on mechanical surrender and the openness of external exchange pickups that came about as a result of the different exchange rate pushes during the contemplate era. Furthermore, it was found that in the middle of the consideration time, the capacity utilisation extent was low.

Barguellil, Ben-Salha, and Zmami (2018) conducted an experimental study on 45 developing and rising nations between 1985 and 2015 to examine the impact of exchange

rate volatility on financial development. The researchers used the differentiate and framework generalised procedure of minutes estimators to conduct their research. GARCH stands for generalised autoregressive conditional heteroskedasticity, the examiner calculated the verifiable exchange rate flimsiness as well as the apparent exchange rate. The results of the scholastics indicate that this computation hinders economic growth. Moreover, the international exchange rate regime or strategy, as well as the degree of national openness linked to cash, are less affected by the volatility of external money rates. Surprisingly, insecurity stings more when countries are able to regulate financial transparency and exchange organisations.

Using the Granger Causality Test (GCT), Muhammad and Adindu (2022) examined the impact of exchange rate volatility on the cost of particular development materials in north-central Nigeria. Granger Causality Test (GCT) was used in this study to investigate the effect of Exchange Rate Precariousness (ERV) on specific development fabric expenses for travels made within the North-Central geopolitical region of Nigeria. Typical Fetched Designs (Well-suited) of Cement, Square, Tile, and Fortress were employed in the data for the period between 2011Q1 and 2020Q4. The Exchange rate Instability (ERV) float was also used. The findings indicate that the p-values for fortification, cement, pieces, and tile are 1.006e-05, 1.006e-05, 0.000668, and 1.006e-05, in that order. Consequently, it is found that the development fabric components that ERV do not granger-cause are the costs of cement, square, tile, and fortification. After giving it

some thought, it is concluded that exchange rate imperativeness negatively impacts each and every one of the chosen improvement materials. Switches do not experience the same unidirectional impact. According to the report, basic budgetary practices should be followed, such as reducing the amount of money exchanged for Naira outside of Nigeria, stopping all cash transactions with US dollars, and raising the amount of money utilised to create building materials locally.

The exchange rate is the price of one country's currency in relation to another. The quantity of money planned to be used towards the acquisition of another sum of money. Aliyu (2011) states that devaluation would lead to a fall in minute and an increase in send out, whereas appreciation of the exchange rate would almost exclusively result in longer imports and less exchange. Furthermore, a drop in the value of the currency can occasionally cause consumers to switch from luxury to household items. Consequently, it takes focus away from compensating trading nations through exchange rate fluctuations, which usually impact trade and contribute to economic growth.

In a similar vein, Hossain (2002) concurred that diverse exchange rates are necessary to enable the global exchange rate, which influences import and export volumes as well as a country's shift in its stance towards installment payments. Furthermore, emerging countries are somewhat better off when choosing flexible exchange rate organisations, according to Rogoffs and Reinhartl (2004). Previous investigations into the impact of exchange rates on budgetary development have

produced different findings. The event's test findings showed how real exchange rate fluctuations might affect development outcomes. True disintegration of exchange rates is essentially associated with speedier advancements in the field of money (Hausmann, Pritchett, and Rodrik 2005). They argued that genuine undervaluation increases the share of tradable assets in private regard, strengthens the budget's development, and increases the effectiveness of the tradable division. He contends that the tradable segment may be too small in emerging nations because it experiences more control lapses and market disappointments than the non-tradable division. Reducing the value of the currency by increasing industry output is the second best strategy to counteract the negative consequences of these developments. Enhanced efficacy stimulates conjecture within the tradable segment, hence augmenting and propelling financial advancement.

Asher (2012) assessed the impact of exchange rate fluctuations on Nigeria's economic development from 1980 to 2010. The result showed that economic growth is positively impacted by a real exchange rate. Akpan (2008) examined, in a comparable manner, the fiscal improvement and inaccessible exchange exhibit in Nigeria, a petroleum-based economy in development, from 1970 to 2003. He found that better financial position and exchange rates were positively correlated. Furthermore, Azeez, Kolapo, and Ajayi (2012) investigated the impact of currency rate insecurity on macroeconomic execution in Nigeria from 1986 to 2010. They found that the exchange rate and net private item had a positive association.

Adebiyi and Dauda (2009) refuted the idea that exchange rate liberalisation enhanced growth in Nigeria's mechanical industry and steadied the exchange rate grandstand between 1970 and 2006 by using error correction. They saw a positive and important relationship between the recording of the mechanical era and the appropriate exchange rate. The mechanical generation record rises by 12.2 percent for every 1% increase in actual send-out. It suggests that the deregulation arrangement was the direct cause of the exchange rate devaluation.

Barkoulas et al. (2002) looked at the effect of exchange rate volatility on the volume and unpredictable character of exchange rate streams. They concluded that exchange rate fragility reduces the advantages of exchange rates by impeding the expansion of exchange rate volume. In a study that lasted 120 months and involved 12 countries, Eichengreen and Leblang (2003) found a strong link between advancement and stable exchange rates. They concluded that the test and the time period had a major impact on the estimations' outcomes. Ogun (2006) examined the impact of the actual exchange rate on the growth of non-oil exports in Nigeria, with a focus on the insecurity and misalignment of the real exchange rate on non-oil export growth. He used the standard exchange rate theory illustrate of determinants of send out advancement as well as two different measures of actual exchange rate misalignment: one based on appearance-based estimation of the adjust honest to goodness exchange rate (ERER) and the other on deviation of the getting control equality (PPP). Even in the absence of the

deliberate misalignment treatments that were used, he observed that genuine exchange misalignment and precariousness had a negative impact on the development of Nigeria's non-oil exchanges. Servén (2003) demonstrated that travel across a wide variety of poor nations was negatively impacted by real exchange rate fluctuation. This negative impact is inherently more pronounced in nations with relatively open economies and underdeveloped monetary systems. In addition, he found evidence of edge hits, which suggested their flimsiness as objects when they were typically tall. Eme and Johson (2012) carried up a comparative study to look into how real abdicate improvement in Nigeria was affected by changes in exchange rates between 1986 and 2010. The results demonstrated that there isn't any proof of a significant relationship between changes in currency rates and surrender improvement. Alternatively, Nigeria's financial progress can have been directly impacted by cash-related variables.

2.4 Review of Theoretical Literature

The theoretical literature is hinged includes the balance of payment theory, the mint parity theory, the purchasing power parity and the traditional flow model.

2.4.1 The Mint Parity Theory

This hypothesis relates to the functioning of the global gold standard. According to Jingan (2005), the currency in use under this system was convertible into gold at a specific rate or was backed by it. The value of the currency unit in this instance was set in relation to a particular weight of gold, and the central bank of the relevant country was

always prepared to buy and sell gold at the predetermined price. The amount of one naira that may be worth an ounce of gold is known as the mint price of gold.

2.4.2 The Purchasing Power Parity

The Salamanca School in Spain is credited with originating the concept of purchasing power in the sixteenth century. PPP concepts were established and, with some reservations, approved by classical economics of the nineteenth century, including as Ricardo, Mill, Goshen, and Marshall. The Swedish economist Gustav Cassel is credited with developing and popularising the empirical form of the theory when it was initially proposed in the 1920s (Rogoff, 1996). The reciprocal of each country's price level can be compared to get the buying power exchange rate between any two countries. Consequently, the relative purchasing power of various currencies should be reflected in the nominal exchange rate (Cassel, 1916). Taylor (1988) stated that a free exchange rate requires that the nominal exchange rate between two nations be equal to the percentage of the respective price levels in each nation. Changes in the nominal exchange rate typically cancel out changes in the relative prices since this method presupposes that equilibrium real exchange rates will remain constant over time. Two equilibrium rate systems are defined by the buying power and parity theories. The exchange rate that would be present in a fully free floating exchange rate balance is known as the short-term equilibrium exchange rate. The second is the long-run equilibrium, which creates the payments equilibrium over time when cooperative parties collaborate. Cycles in the balance of

payments, such as those resulting from the relative value of a currency's exchange rate, are typically linked to arbitrage issues and expectations in the goods market.

2.4.3 The Traditional Flow Model

The balance of payment model is another name for the conventional flow model. According to this model, when there is an equal supply and demand for foreign exchange, the exchange rate is in equilibrium (Olisadebe, 1991:56). The demand for foreign exchange is determined by the domestic population's desire for domestic assets and products, and exchange rates are adjusted accordingly. The flow model states that relative income influences the exchange rate because it makes the assumption that requests for domestic goods from outside sources are primarily influenced by domestic income. Since the difference in interest rates between domestic and international sources can affect the demand for assets, this paradigm also takes other significant factors into account that affect the exchange rate.

According to this idea, a country's balance of payments determines the currency's exchange rate under free exchange rates. According to Jhingan (2005), a positive balance of payments increases the exchange rate whereas an unfavourable balance of payments lowers it. According to this theory, the supply and demand for foreign currency control the exchange rate.

According to this idea, a country's balance of payments determines the currency's exchange rate under free exchange rates. The exchange rate increases in the event of a

positive balance of payments and decreases in the event of a negative balance of payments (Jhingan, 2005). According to this theory, the supply and demand for foreign currency control the exchange rate. The overshooting of the exchange rate objective and the possibility of non-automatic substitutability between money and financial assets are the two main drawbacks of the traditional method, commonly known as the portfolio balance model. These drawbacks led to the creation of the monetary approach. The typical flow model and purchasing power parity were used in this study based on the aforementioned premise and reasoning.

CHAPTER THREE

METHODOLOGY

3.2 Introduction

The primary focus of this chapter is the approach taken to structure the study's design. It includes the population and sampling, research instrument, data source, data analysis technique, model definition analysis, data synthesis, and research design. Evaluating Nigeria's economic development and exchange rate volatility is the goal of the study. For this investigation, the researcher will want distinct data collected using particular methods. The data will be sourced from the Central Bank of Nigeria's annual financial report and statistical bulletin.

3.2 Research Design

The study will employ an ex post facto research approach because the variable under investigation is historical in nature and was taken from the annual statistical bulletin published by the Central Bank of Nigeria. Conducting an empirical analysis of Nigeria's economic development and exchange rate volatility is the primary goal of the study. This is consistent with the research conducted by Agya, Amadi & Wunuji (2017), Okafor, Ugochukwu & Chijindu (2016), and Ebiringa & Emeh (2013). A research design, in the opinion of Silverman (2005) and Yomere and Agbonifoh (1999), should include a variety of techniques for connecting data collection and analysis to the study's overall objective (i.e., blueprint), which describes the proper procedures for obtaining and assessing data pertaining to a specific issue.

3.3 The Population and Sampling Technique

The population consists of all publicly quoted firms that are listed on the Nigerian Stock Exchange. The study's population consists of two hundred and sixteen (216) enterprises that are registered on the Nigerian Stock Exchange (Finelib, 2022). A statistical bulletin from the Central Bank of Nigeria (CBN) would be the source of aggregate data used to assess the fundamental variable discussed in this study. The use of secondary data will necessitate the application of this methodology.

3.4 Sources of Data

Utilising aggregate data from the Central Bank of Nigeria's (CBN) statistical bulletin, the study makes use of secondary data. Also, data compilation would make use of pertinent literature.

2.5 Theoretical Framework

A distinct stance on monetary money was adopted by the Keynesian Theory of Money. Onyiewu (2013) asserts that the foundation of Keynesian theory is the idea of price rigidity, in contrast to the classicalist view that the monetary system is price flexible. This theory also takes into account the potential of an economy operating at a level of output, income, and employment that is below full employment. According to Abdulazeeze (2016), this model presupposes a closed economy, perfect competition, and an aggregate supply function with a fair price-interest relationship. According to the Keynesian theory of money, the amount of money that people want depends on their income and interest rate. Income determines the transactional and precautionary motives in the Keynesian concept, whereas interest rates dictate the speculative motive. This is provided as:

$$m = \frac{M^d}{p} = kY + L(r).$$

Where kY is the combination of the precaution and transaction motives, and is the speculative demand for money, and m is the money supply, the demand for money, and P is the price level. The multiplier process is how the Keynesian monetary policy theory

affects investment decisions by influencing interest rates, which in turn affects output and income (Udude, 2014). The monetarist formula is presented as follows:

$$\frac{M^d}{P} = \frac{M^d}{P}(Y^p, r, P^e)$$

This school of thought was advanced by Milton Friedman, who modernised the classical theory of money by applying marginal analysis value to the theory of demand for money. Iyoha (2004) claims that Friedman brought in an important and modern change to the classical theory of demand for money by factoring in interest rate as a core factor that helps maintain price level and drive economic growth. Friedman holds that the model holds a stable and high relationship that has been empirically backed. The monetarist school of thought has its roots in the Classical model, but Friedman factored in interest rate as a core factor that helps maintain price level and drive economic growth. The monetarist theory of money takes into account two assets: bonds and speculative, the allocation of which is based on interest rates, which will further spur an increase in output (Jhingan, 2010).

IS-LM Curve

Miles and Scott (2005) state that the IS-LM model is a tool used to illustrate how shifts in the spending component and monetary conditions interact to influence an economy's total income level. Prices are constant in this model since there are no supply-side impacts (Soderlind, 2001). To stabilise output, the central bank can control the

money supply or the interest rate. The "general equilibrium," when there is a simultaneous equilibrium in both markets, is the intersection of the IS and LM curves.

IS Curve

The Investment Savings Curve, or IS curve, is a representation of the equilibrium in the goods market. It illustrates how the interest rate and output (income) levels interact to ensure that businesses' and families' spending goals are met (Miles and Scott, 2005). That being said, changes in interest rates have an impact on both spending intentions and the appeal of holding certain financial assets. Money demand and income have a positive correlation, but interest rates and money demand have an inverse association. The I-S curve has a left to right sloping slope. As per Keynes,

Output = Consumption + Government Expenditure + Investment

Or $Y = C + G + I$

$Y = A + bY + G + I$

$Y - bY = A + G + I$

Or $Y = [1-(1-b)] * \{A + G + I\}$

Where b = Marginal Propensity to consume (MPC)

A = Autonomous consumption

And [1-(1-b)] = the multiplier

The multiplier increases with the size of the marginal propensity to consume; higher government spending and investments in independent consumption will boost output.

LM Curve

LM illustrates how the economy is impacted by monetary policy (Miles and Scott, 2005). It centres on the relationship between the central bank's supply and demand for money. Additionally, the money market is shown to be in equilibrium when the GDP and interest rates are combined. The LM curve indicates how interest rates increase with rising income and decrease with falling income by sloping upward from left to right. As a result, a positive link between the GDP and interest rate is necessary for money market equilibrium. An increase in income will cause money demand to rise, but if the central bank does not adjust the money supply, the money market will not be in equilibrium. Real money balance demand is favourably correlated with GDP or income level (Y) and negatively correlated with circulation velocity (V).

$$MV = PY$$

$$M^d/P = (1/V)Y$$

Where P = prices and M = non-interest bearing forms of money

3.6 Model Specification

For this investigation, we will use the econometric simulation single equation technique. The determinant of the dependent and independent variables, the functional form of the model, the mathematical form of the equation, and the priori expectation of the signs and magnitude of the parameters of the functions are all included in the model specification. The primary method used in this paper to test our hypotheses will be the Ordinary Least Square Regression analysis.

The model of econometric function is as follows:

$$RGDP = \beta_0 + \beta_1 (TOPN) + \beta_2 EXCR + \beta_3 (INRT) + \beta_4 (INFRT) + \beta_5 EXPT + \beta_6 FDI + \varepsilon \quad ...1$$

$$ERF = f(INRT, INFRT, EXPT, FDI, OEXP) \quad ..2$$

$$ERF = \alpha_0 + \alpha_1 INRT + \alpha_2 INFRT + \alpha_3 EXPT + \alpha_4 FDI + \alpha_5 OEXP \ \varepsilon \quad .....3$$

Where:

$\beta 0$ = Constant's coefficient

$\beta 1 - \beta 3$ = regression coefficients for independents variables

RGDP = Real economic development (Real Gross Domestics Product)

TOPN = Exchange rate Openness of the economy

EXCR =Exchange Rate Fluctuation:

INRT = Interest Rate

INFRT = Inflation Rate

EXPT = Non-oil export

FDI = Foreign direct investment

OEXP = Oil Export

ε = Error Term

Concept of the Variables

Real GDP = A macroeconomic measure of the value of economic activity after taking price swings into account is called real GDP, or real gross domestic product. With this modification, nominal GDP—a money-value metric—becomes a quantity index for total production.

Exchange Rate: The exchange rate is a variable that is affected by changes in the value of a foreign currency. Any currency can be bought or sold at any time for a different amount of another currency since each currency's value varies for a variety of economic reasons.

Economic Openness: The degree to which nondomestic transactions—such as imports and exports—occur and impact the size and expansion of a country's economy is referred to as economic openness. The real amount of documented imports and exports within a country's economy, or the impex rate, is a measure of how open an economy is.

Interest Rate: The interest rate is the percentage of the money lent, deposited, or borrowed that is due each period. The principal amount, interest rate, frequency of compounding, and duration of loan, deposit, or borrowing all affect the total interest on the amount borrowed or lent.

Parity in Purchasing Power: A measure of the cost of particular goods in several countries is known as purchasing power parity, and it is used to compare the absolute buying power of the various currencies.

Inflation Rate: The rate of price increases over a given period of time is known as the inflation rate. A broad indicator, like an increase in overall prices or the cost of living in a nation, is frequently used to characterise inflation.

Non-Oil Export: Products and commodities that are not made of minerals or crude oil are referred to as non-oil exports.

Method Of Data Analysis

The Test for Auto Correlation and Multi-Collinearity Test technique, together with additional methods of data analysis when needed, is the suggested approach to be used for regression analysis.

3.3 Apriori Expectations

The apriori expectation of this proposed research is that exchange rate fluctuation and economic development in Nigeria will have a negative and bilateral relationship, respectively, based on other empirical studies that have been conducted and are cited in

this paper as well as the differences in consensus regarding the subject matter.$\alpha_1 > 0$ $\alpha_2 < 0$.

$\beta_1 > 0; \beta_2 < 0$

$\alpha 1 \neq \alpha 2 \neq \alpha 3 \neq \alpha 4 \neq 0$, and the invalid speculation, H0:

$\alpha 1 = \alpha 2 = \alpha 3 = \alpha 4 = 0$.

The following results are anticipated based on the preceding equation: the interest rate will be negative (<0), while the exchange rate fluctuation and economic development will be positive (>0).

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF RESULTS

4.1 PRESENTATION OF RESULTS

Based on the objectives of the research two models were employed by this study. The Ordinary Least Square (OLS) approach was used to estimate the models. Real economic development (RGDP), exchange rate openness of the economy (TOPN), exchange rate fluctuation (EXCR), interest rate (INRT), inflation rate (INFRT), non-oil export (NEXPT), foreign direct investment (FDI), and oil export (OEXP), as the variables or interest, relationship between exchange rate fluctuation and economic development in Nigeria.

Table 4.1: Descriptive Statistics

	GDP	EXCR	FDI	INTR	NOEXP	OEXP	TOPN
Mean	35411.63	117.92	536.66	8.38	3976381.	6176841.	46339.03
Median	25267.50	120.97	294.90	6.60	1668931.	2993110.	1952.92
Maximum	80347.20	367.32	1331.00	31.50	17802182	24221596	321456.0
Minimum	116.27	6.70	15.50	0.90	5069.700	8368.500	20.11
Std. Dev.	26111.40	108.40	448.18	5.91	5084469.	6561196.	94441.27
Skewness	0.44	0.93	0.31	1.67	1.43	0.807454	1.88
Kurtosis	2.03	3.12	1.49	7.14	4.07	2.668957	4.96
Jarque-Bera	2.78	5.69	4.31	45.98	15.09	4.42	29.18
Probability	0.25	0.06	0.12	0.00	0.00	0.11	0.00
Sum	1381054.	4599.13	20929.70	327.00	1.55E+08	2.41E+08	1807222.
Sum Sq. Dev.	2.59E+10	446525.9	7633048.	1325.55	9.82E+14	1.64E+15	3.39E+11
Observations	39	39	39	39	39	39	39

A display of the fundamental analysis of the factors under consideration may be

seen in the above descriptive table. With matching lowest and maximum values of N116.27 billion and N80347.20 billion, respectively, the mean and standard values of GDP were N35411.63 billion and N26111.40. With comparable minimum and maximum values of N6.70 billion and N367.32 billion, respectively, the mean and standard values of EXCR were N117.93 billion and N108.4006 billion. With comparable minimum and highest values of N15.50000 billion and N1331.00 billion, respectively, the mean and standard values of FDI are N536.66 illion and N448.18 billion. With comparable minimum and maximum values of N 0.900000 billion and N 31.50 billion, respectively, the mean and standard values INTR indicate N8.384615 billion and N5.91 billion. With matching lowest and maximum values of N 5069.70 billion and N 178 billion, respectively, the mean and standard values of NOEXP are N3976381 billion and N5084469 billion. With matching minimum and maximum values of N 2993110 billion and N billion, respectively, the mean and standard values of OEXP are N36176841 billion respectively. Comparably, N46339.03 billion and N944441.27 billion are the mean and standard values for TOPN, with N 20.11 billion and N 321456.0 billion serving as the minimum and maximum values, respectively. The Jarque-Bera statistics and associated probability clearly show the normal distribution of the regression variables. The standard deviation, which is rather large, suggests that the variables are widely dispersed from the mean value. The idea that the exchange rate fluctuation and economic development series variables collectively is

supported by the positive skew of all the variables, with the exception of the exchange rate variable.

Table 4.2: Econometric Analysis
Variance Inflation Factors
Date: 04/11/24 Time: 09:14
Sample: 1984 2022
Included observations: 39

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	9425222.	6.470887	NA
EXCR	1309.637	22.79837	10.29450
FDI	43.63696	14.49181	5.863543
INTR	51391.88	3.679684	1.199219
NOEXP	5.37E-07	15.12245	9.290574
OEXP	3.46E-07	19.05099	9.976459
TOPN	0.000942	7.007139	5.618802

The variance inflation factor is displayed in Table 2. Based on the variance inflation factors, all of which reported centred VIF values less than 10 point Bench Mark, the absence of the multicollinearity problem was further supported. Whereas EXR was 5.863543, INTR was 1.199219, NOEXP was 9.290574, OEXP was 9.976459, and TOPN was 5.618802, the centred VIF of EXCR was 10.29450. The outcome, as previously shown, confirms that the regression variables do not exhibit multicollinearity.

Table 4.3: Heteroskedasticity Test

Heteroskedasticity Test: ARCH

F-statistic	4.524664	Prob. F(1,36)	0.0403
Obs*R-squared	4.242780	Prob. Chi-Square(1)	0.0394

The results of the heteroskedasticity test are shown in Table 3. The test was conducted by applying the heteroskedasticity test (Breusch-Pagan-Godfrey). The test results showed very low probability values of 0.0403, with a Probability Chi-Square of 0.0394 at 5%, suggesting heteroskedastic residuals. Thus, the null hypothesis was supported.

Unit Root Test

Group unit root test: Summary
Series: GDP, EXCR, FDI, INTR, NOEXP, OEXP, TOPN
Date: 04/11/24 Time: 09:06
Sample: 1984 2022
Exogenous variables: Individual effects
Automatic selection of maximum lags
Automatic lag length selection based on SIC: 0 to 8
Newey-West automatic bandwidth selection and Bartlett kernel

Method	Statistic	Prob.**	Cross-sections	Obs
Null: Unit root (assumes common unit root process)				
Levin, Lin & Chu t*	4.38431	1.0000	7	246
Null: Unit root (assumes individual unit root process)				
Im, Pesaran and Shin W-stat	5.80421	1.0000	7	246
ADF - Fisher Chi-square	14.9393	0.3823	7	246
PP - Fisher Chi-square	15.1497	0.3680	7	266

** Probabilities for Fisher tests are computed using an asymptotic Chi -square distribution. All other tests assume asymptotic normality.

Table 4 showed the results of the Augmented Dickey-Fuller unit root test for stationarity. According to the result, all of the variables are stationary at the t* statistical coefficient of 4.38431 for Levin, Lin, and Chu, with series probability of 1.0000 for the variables that are being examined. At the one and five percent significance levels, each

series was noteworthy. At the 5% level of significance, the ADF - Fisher Chi-square value was estimated to be 14.9393 with a p-value of 0.3823, while the PP - Fisher Chi-square value was assessed to be - 15.1497 with a p-value of 0.3680. The Fisher tests' probabilities are calculated using an asymptotic Chi-square distribution. It was thought that the estimation variable had asymptotic normality. This suggests that the alternative is adopted and the null hypotheses are rejected.

Table 5: Ramsey RESET Test

Ramsey RESET Test
Equation: UNTITLED
Specification: GDP C EXCR FDI INTR NOEXP OEXP TOPN
Omitted Variables: Squares of fitted values

	Value	df	Probability
t-statistic	6.654448	31	0.0000
F-statistic	44.28168	(1, 31)	0.0000
Likelihood ratio	34.60274	1	0.0000

F-test summary:

	Sum of Sq.	df	Mean Squares
Test SSR	1.07E+09	1	1.07E+09
Restricted SSR	1.82E+09	32	56805761
Unrestricted SSR	7.49E+08	31	24146436

LR test summary:

	Value
Restricted LogL	-399.6564
Unrestricted LogL	-382.3550

The Ramsey Reset Test findings are shown in Table 5. The Ramsey reset is a measure of model misspecification. The likelihood scores of 0.0000 and 0.0000

indicate that the model is quite accurate. This established the alternating hypothesis and rendered the null hypothesis of an inaccurately presented model unnecessary. This diagnostic test clearly shows that the alternative is accepted instead of the null hypothesis' apriori expectation.

Co-integration Test

OLS estimate was employed in earlier studies under the mistaken presumption that all series were stationary. Yule (1979) first noticed the spurious regression problem as a result of this. This has changed in the past ten years due to the increased focus on testing for level correlations between variables in empirical economics. This inquiry has been built upon co-integration methodologies. The need to ascertain if two or more stationary variables have a long-term relationship forms the basis of co-integration analysis. The probable long-term association between the study's variables will be established using the Engle-Granger approach.

Table 4.6: Co-integration Test

Date: 04/11/24 Time: 09:05
Sample (adjusted): 1986 2022
Included observations: 37 after adjustments
Trend assumption: Linear deterministic trend
Series: GDP EXCR FDI INTR NOEXP OEXP TOPN
Lags interval (in first differences): 1 to 1

Unrestricted Cointegration Rank Test (Trace)

Hypothesized	Trace	0.05

No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.898150	206.6687	125.6154	0.0000
At most 1 *	0.761343	122.1514	95.75366	0.0002
At most 2	0.592821	69.14043	69.81889	0.0565
At most 3	0.344280	35.89583	47.85613	0.4016
At most 4	0.289233	20.28102	29.79707	0.4040
At most 5	0.126767	7.648832	15.49471	0.5037
At most 6	0.068698	2.633364	3.841466	0.1046

Trace test indicates 2 cointegrating eqn(s) at the 0.05 level
* denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values

Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None *	0.898150	84.51731	46.23142	0.0000
At most 1 *	0.761343	53.01099	40.07757	0.0011
At most 2	0.592821	33.24460	33.87687	0.0593
At most 3	0.344280	15.61481	27.58434	0.6982
At most 4	0.289233	12.63219	21.13162	0.4866
At most 5	0.126767	5.015467	14.26460	0.7399
At most 6	0.068698	2.633364	3.841466	0.1046

Max-eigenvalue test indicates 2 cointegrating eqn(s) at the 0.05 level
* denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values

After closely examining the results from the table above, it can be seen that the link between the Real Gross Domestic Product (which represents economic development) and exchange rate variables has at least two co-integrating variables, according to the maximum eigen value and trace statistics. This implies that exchange rate fluctuations and Nigerian economic growth have a long-term link.

Table 7: Summary of Regression

Method: Least Squares
Date: 04/11/24 Time: 09:21
Sample: 1984 2022
Included observations: 39

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2891.960	3070.052	0.941990	0.3533
EXCR	84.35088	36.18890	2.330849	0.0262
FDI	15.26132	6.605828	2.310282	0.0275
INTR	635.4400	226.6978	2.803027	0.0085
NOEXP	0.000880	0.000733	1.200213	0.2389
OEXP	0.000627	0.000589	1.065787	0.2945
TOPN	0.036289	0.030688	1.182532	0.2457

R-squared	0.929839	Mean dependent var	35411.63
Adjusted R-squared	0.916683	S.D. dependent var	26111.40
S.E. of regression	7536.960	Akaike info criterion	20.85417
Sum squared resid	1.82E+09	Schwarz criterion	21.15276
Log likelihood	-399.6564	Hannan-Quinn criter.	20.96130
F-statistic	70.68186	Durbin-Watson stat	1.722790
Prob(F-statistic)	0.000000		

The results show an adjusted R-squared of 0.929839 and an R-squared of 0.916683, respectively. This shows that approximately 92.98% of the systematic variation in economic development variable is explained by the explanatory variables, Trade openness of the economy (TOPN), exchange rate fluctuation (EXCR), interest rate (INRT), inflation rate (INFRT), non-oil export (NEXPT), foreign direct investment (FDI), and Oil Export (OEXP), respectively. The likelihood value of

0.00000 and the F-statistic of 70.68 show how well the regression model fits the data. A significant linear relationship between the independent and dependent variables is found.

The result revealed that exchange rate fluctuation and economic development had a positive and statistically significant relationship. The variable RGDP exhibits a positive relationship with explanatory variables, as evidenced by its EXCR of 2.33 and p-value of 0.03 at the 5% level of significance, positive significant association with FDI of 2.31and p-value of 0.028 at the 5% level of significance, and INTR of 2.80 and p-value of 0.0085 at the 5% level of significance. The non-oil export, there has non-positive significant link (t-value of 1.20 and p-value of 0.24 at the 5% level of significance) and a non-significant relationship (t-value of 1.07 and p-value of 0.29 at the 5% level of significance), Both associations were displayed via the RGDP variable. At the 5% level of significance, the null hypothesis—which states that there is no significant link between RGDP and—was rejected since all of the probability values—0.0262, 0.03, and 0.01—were less than 0.05. The Durbin Watson statistical significance value of 1.722790 indicates that there is no autocorrelation among the regression variables. The covariance analysis supports the above findings, demonstrating that all variables aside from interest rate had a positive and significant impact on real gross domestic product, a reliable indicator of economic development.

Table 8: Parsimonious ECM Result

Dependent Variable: DRGDPG

Method: Least Squares

Date: 4/11/24 Time: 09:16

Sample (adjusted): 1984 2022

Included observations: 24 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	319070.7	374250.9	0.852558	0.4073
DEXCR	2.080804	0.617331	3.370647	0.0042*
DEXCR(-1)	3.932022	0.903694	4.351057	0.0006 *
DFDI	2.805630	0.780699	3.593741	0.0027*
DFDI(-1)	-6.666240	1.488322	-4.479031	0.0004*
DOIL	-2.742411	18846.16	-1.455157	0.1662
DINTR	-64799.32	58858.26	-1.100939	0.2883
ECM(-1)	-0.269206	0.156300	-1.722363	0.0056*

R-squared	0.752582	Mean dependent var	1608113.
Adjusted R-squared	0.620626	S.D. dependent var	2148865.
S.E. of regression	1323557.	Akaike info criterion	31.30954
Sum squared resid	2.63E+13	Schwarz criterion	31.75131

Log likelihood	-366.7145	Hannan-Quinn criter.	31.42674
F-statistic	5.703283	Durbin-Watson stat	2.281734
Prob(F-statistic)	0.001912		

Source: Author's Estimation Result, 2024 using E-views 7.0

Key: * indicates statistical significant at 1% level.

The table above displays the result of the Parsimonious ECM. As evidenced by the R-Squared value of 0.75, the included regressors explain roughly 75% of the variation in the dependent variable, RDPG. The updated coefficient of determination estimates the systematic variation to be 62%; the remaining percentage that cannot be explained is accounted for by the stochastic error factor. R2 and its adjusted counterpart demonstrate the robustness of the computed model. The F-statistics at 5.70 with P = 0.001 show that the alternative hypothesis, which explains a systematic relationship between the dependent variable and each of the included regressors as well as the overall goodness of fit of the model, is accepted at the 1% significant level. To determine the impact of each independent variable on the dependent variable, we examine the computed coefficients.

Despite having a positive coefficient (-2.74) as observed, the exchange rate movement is not statistically significant at the 5% level (P = 0.16). OILP shows a positive coefficient (2.08) and is statistically significant (P = 0.004) at the 1% level. A one-period DOILP (-1) lag has a positive coefficient (3.93) and is statistically significant

(P=0.0006) at the 1% level. Exchange rate (EXR) shows a positive coefficient (2.81) and is statistically significant at the 1% level (P = 0.0027). The exchange rate one period lag, EXR (-1) has a negative coefficient, indicating that it lowers the gross domestic product growth rate (- 6.66), even if it is statistically significant at the 1% level (P = 0.0004). In line with this, the interest rate has a negative coefficient (-64799.32) and is statistically insignificant at the 5% level (P=0.28). The ECM Coefficient is negative (-0.2692) and statistically significant at 1% (P = 0.0056). Thus, the ECM coefficient can be used to give error equilibrium. With an ECM value of 0.2692, any brief deviation from the long-term equilibrium between the regressors and DGDPGR is associated with a 26.92% chance of restoration. Finally, the Durbin-Watson statistic, which is set at 2.28, or roughly 2, indicates the absence of first-order serial correlation.

Hypotheses Testing

4.3 Hypotheses 1: Exchange rate fluctuation has no significance impact on economic development in Nigeria.

The findings presented in Table 4.8 above shows the relationship between exchange rate fluctuations and economic development. At the 5% level of significance, the results demonstrate a positive significant relationship between exchange rate variation and real gross domestic product. The t-statistic of 2.33 with a p-value of 0.03 supports this. The results, as previously said, support the alternative theory that exchange rate

fluctuations have a beneficial and significant impact on Nigeria's economic development. They also support the rejection of the null hypothesis.

Hypothesis Two: Ho: Inflation and institutional quality does determine exchange rate fluctuation in Nigeria.

The findings shown in Table 4.8 above indicate that there is no statistically significant correlation between inflation and institutional quality and economic development. The t-statistic of 2.33 with a p-value of 0.03 confirms the results, which indicate that there is a positive non-significant association between real gross domestic product and exchange rate volatility at the 5% level of significance. The results, as previously said, support the null hypothesis and acknowledge the alternative, which contends that institutional quality and inflation both influence changes in the currency rate in Nigeria.

Hypothesis Three: Ho: There is no bi-casuality between exchange rate fluctuation and economic development in Nigeria.

Table 6 above presents the results, which reveal that there is no bi-casuality between exchange rate fluctuation and economic development in Nigeria. The findings, which show a positive non-significant correlation between exchange rate volatility and real gross domestic product at the 5% level of significance, are corroborated by the t-statistic of 2.33 with a p-value of 0.023. As previously stated, the data both confirm the

null hypothesis and acknowledge the alternative, which holds that variations in the Nigerian currency rate are influenced by both inflation and institutional quality.

4.4 Discussion of Findings

The result showed significant relationship between exchange rate fluctuations and economic development. The results, as previously said, support the alternative theory that exchange rate fluctuations have a beneficial and significant impact on Nigeria's economic development. The results showed a relationship between linked variables, economic progress, and variations in exchange rates. The findings show a positive significant relationship between exchange rate fluctuation and real gross domestic product. This validates the findings of Barguellil, Ben-Salha, and Zmami's (2018) study, which indicated a substantial correlation between exchange rate volatility and economic development. The results also indicated that there is a positive non-significant association between real gross domestic product and exchange rate volatility at the 5% level of significance. The findings further show a positive non-significant correlation between exchange rate volatility and real gross domestic product.

CHAPTER FIVE

SUMMARY, CONCLUSION AND POLICY ECOMMENDATIONS

5.1 SUMMARY OF FINDINGS

The purpose of this study is to provide light on the exchange rate fluctuations and economic development in Nigeria. The focuses on the impact of exchange rate fluctuation on economic development in Nigeria. The Findings showed that exchange rate fluctuations for the period on the review on economic development as measured by gross domestic product growth rate.

The study's findings showed that the natures of exchange rates causality are detrimental to the country's economic development.

The country's inflationary-growth relationship deteriorates with increased exchange rate volatility. Conversely, the real exchange rate coefficient shows that there is a positive correlation between the exchange rate fluctuation and economic development.

5.2 CONCLUSION

It is essential to keep the exchange rate constant following this investigation into how sound exchange rates affect economic growth. Based on time and arrangement data from 1984 to 2022, the following may be said:

1. Exchange rate fluctuation has a positive and significant relationship on economic development.

2. The Nigerian exchange rate fluctuates significantly in response to inflation and institutional quality.

3. The bi-causality of currency rate fluctuations and economic development in Nigeria has a good and important impact.

5.3 RECOMMENDATIONS

In response to its findings, the report specifically offered the following policy recommendations for the upkeep of a stable exchange rate. To keep the currency rate under control, these regulations must be adopted.

1. To achieve a realistic exchange rate for the naira, an effective policy should be developed based on the fiscal and monetary policies.
2. Finally, in order to mitigate the detrimental consequences inflation and institutional quality on the unstable exchange rate of exchange rate fluctuation inside the Nigerian economy, the government should influence the foreign exchange rate by putting good economic reforms into place.
3. The government should diversify the economic as to hedge against causality effect of exchange rate on the economy.

5.4 RECOMMENDATIONS FOR FURTHER STUDIES

1. To help determine what the appropriate exchange rate should be, a research on implementing stringent foreign exchange control measures would be conducted.

2. 3. Exchange rate liberalisation research is crucial to advancing exchange rates in all economies, and we counsel policymakers to ensure that supply and demand will determine the exchange rate.

4. To increase the purchasing power of the average Nigerian, the inflation rate should be as reduced through relevant macroeconomic variables.

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