

Exchange rates and its effects in the Nigeria market

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This paper examined the long run and short run interactions between stock prices and exchange rate in Nigeria based on a sample from 1st February, 2001 to 31st December, 2008. Three models were derived from the sample, albeit pre-crisis, crisis and basic models. The paper set out by testing the time series properties of the series using the ADF and PP tests. In addition, the Engle and Granger two-step and Johansen and Juselius cointegration procedures were applied. Empirical results showed that all the series are I(1) and evidence of cointegration was established using the Johansen and Juselius methodology. Furthermore, causality tests revealed strong evidence of long run bidirectional relationship between stock prices and exchange rate in the models. Policy wise, the findings implied that monetary authorities in Nigeria are not constrained to take into account stock market development in achieving their exchange rate policy objective given the symbiotic nature of relationship between the two. The paper recommends measures that would promote greater stability and efficiency of the Nigeria's foreign exchange market.