CHAPTER ONE

INTRODUCTION

1.1 Background to the study

In many emerging economies, such as Nigeria, the usefulness of exchange rate management as a predictor of macroeconomic performance has been questioned and debated over the years (Jim, 2021). In finance, an exchange rate is the rate at which one currency is exchanged for another. It is also known as a foreign exchange rate, forex rate, or rate between two currencies. It's also known as the exchange rate of one country's currency against another (Tejvan, 2017). For example, a 415 naira (NGN) to 1-dollar interbank exchange rate indicates that 415 naira (NGN) will be exchanged for each 1 dollar (USD) or $1 will be exchanged for each ₦415. The exchange rate has an impact on the prices at which a nation trades with the rest of the world, and it's a key component of open economy research and policy formation. During the Bretton Woods era, exchange rates were established in terms of the US dollar. Nigeria's exchange rate policy has changed significantly since the immediate post-independence period, when the nation maintained a fixed parity with the British pound, through the oil boom of the 1970s to the flotation of the currency in 1986, following the economy's precarious existence between 1982 and 1985 (Dada and Oyeranti, 2012). The economic and political issues that drive exchange rate policy have significant implications for the structural evolution of the economy, inflation, the balance of payments, and real income in each of these periods.

National governments now have a variety of various exchange rate regimes to select from, ranging from independently floating to fixed. Governments prioritize the administration of exchange rate policy since it is one of the most important variables that influences economic growth, particularly

in emerging nations. This is because the viability of the external sector is determined by the exchange rate of the local currency versus other international currencies. In a pure market, the exchange rate, in whatever form it is conceived, is not only a significant relative price that connects local and global markets for goods and assets, but it also indicates the competitiveness of a country's exchange power vis-à-vis the rest of the world (Ismaila, 2016). Investors and companies would prefer a stable exchange rate versus a fluctuating international oil market because of the influence on company and the economy as a whole. Any fluctuation in the value of the US dollar poses a threat to Nigeria's economy, since we rely on one product: crude oil for over 95 percent of our earnings and imports for almost all of our needs.

The current dispute over fixed vs. floating exchange rates centers on whether currency speculation is stabilizing or destabilizing, as well as whether central banks have better economic understanding. Because of the increased integration of international financial markets, national governments' decisions to float their currency rates and eliminate exchange restrictions are frequently unavoidable.

As a result, the exchange rate is perhaps one of the most generally debated subjects in Nigeria today, and it is crucial, especially in a heavily import-dependent economy like Nigeria's (Olisadebe, 2012). Macroeconomic policy formulation is the process by which the agencies in charge of implementing economic policies control a collection of instrumental factors to obtain desired outcomes. These goals include achieving domestic price stability, balance of payments equilibrium, efficiency, equitable income distribution, and economic growth and development in Nigeria (Akonji, 2013). Economic growth, on the other hand, refers to a country's continual rise in national revenue or total volume of products and services; a useful indication of economic growth is the increase in Gross National Product (GNP) over time. On the surface, economic growth entails both structural and

functional transformation of all economic indices from a low to a high state (Siyan, 2008), with the exchange rate policy country being one of the most important macroeconomic factors.

Exchange rate policy, on the other hand, entails deciding where international transactions will take place (Obadan, 2009). As a result, exchange rate policy is a part of the macroeconomic management strategies used by monetary authorities in every given country to attain medium-term internal balance. Internal balances refer to the degree of economic activity that is consistent with inflation management that is adequate. External or sustainable current account deficits, on the other hand, are funded by long-term capital inflows.

Nigeria is now designated as a Third World Country (TWC) as a result of these findings, and its economic policy has to be reorganized in order to enable economic progress. The Naira has fallen during the 1980s and into the present despite several government attempts to maintain a stable exchange rate, according to (Benson and Victor, 2012) and (Aliyu, 2011). In light of this, the goal of this study is to investigate how Nigeria's macroeconomic performance has changed throughout the course of the country's exchange rate policy during the past 50 years (1970–2020).

1.2 Statement of the problem

The naira currency rate has shown consistent fall and volatility since September 1986, when the market-determined exchange rate system was adopted via the second-tier foreign exchange market (Yusef, 2019). This instability, along with the naira's continued depreciation in the foreign exchange market, has resulted in a decrease in the population's standard of living as well as an increase in the cost of production, contributing to cost-push inflation. It has also tended to impair non-oil exporters' international competitiveness, making micro- and macroeconomic planning and forecasting harder (Aladejare and Saidi, 2014). The low dollar/naira exchange rate has suffocated a huge number of

small and medium-sized firms, and there are various other challenges that have occurred as a result of exchange rate adjustments.

Concerns concerning the effect of exchange rate regulations on the Nigerian economy have been raised as a result of the decline in the exchange rate since 1986. In light of this, the purpose of this study is to examine how exchange rate policy has affected Nigeria's macroeconomic performance and to provide viable remedies for the present financial crisis.

1.3 Research questions

The following questions will direct the course of this study:

i. What is the impact of exchange rate policy on the balance of payment?

ii. To what extent does exchange rate policy impact the economic growth?

iii. What is the impact of exchange rate policy on the inflation rate?

1.4 Research Objectives

The broad objective of this study is to investigate the effectiveness of exchange rate policy on the economic performance in Nigeria. The specific objectives are:

i. To examine the impact of exchange rate policy on the balance of payment.

ii. To investigate the impact of exchange rate policy on the economic growth.

iii. To determine how the exchange rate policy affects the inflation rate.

1.5 Research Hypothesis

The hypothesis to be tested in this course of study includes:

Hypothesis 1

H_0: Exchange rate policy has no impact on balance of payment.

H_1: Exchange rate policy has impact on balance of payment.

Hypothesis 2

H0: Exchange rate policy has no impact on economic growth.

H1: Exchange rate policy has impact on economic growth.

Hypothesis 3

H0: Exchange rate policy has no impact on inflation rate.

H1: Exchange rate policy has impact on inflation rate.

1.6 Significance of the study

The importance of this research is that if the source of the naira's unstable exchange rate is recognized and fixed, the economy would swiftly grow and evolve into a sophisticated one (Adelowokan, Adesoye, and Balogun 2015). This is because, if the unstable naira exchange rate is seen to be negatively influencing macroeconomic main indicators such as the real exchange rate, real interest rate, inflation rate, gross domestic product, and the country's trade openness, efforts should be taken to stabilize the exchange rate. This is due to the fact that these variables are used to gauge an economy's growth and development (Ayodele, 2004). Importantly, this research will assist the Nigerian government and central bank (CBN) in identifying the strengths and weaknesses of each foreign exchange system and, as a result, adopting the best policy for the economy (Akpan and Atan, 2012). This will undoubtedly help the economy grow and develop, and the study will also serve as a resource for future researchers in this field. The following are some of the areas where the research is extremely beneficial: - Importers who make payments in foreign currencies, policymakers at Nigeria's central bank who issue government international trade guidelines, banks, particularly commercial and merchant banks, and the general public who have a right to contribute to and be informed about our banking institutions' activities.

1.7 Scope of the study

This project examines the impact of exchange rate regimes on Nigeria's economic growth, as a result of the inflationary pressures caused by the recent global economic crisis, as measured by exchange rate sensitivity. Furthermore, the regulatory and deregulatory exchange rate periods, i.e. the fixed and floating exchange rate periods, are included in the scope. The research is based on Nigeria's core macroeconomic performance.

1.8 Organization of the study

The introductory chapter is divided into the following sections: introduction, statement of problem, research questions, aims and objectives, significance of study, hypothesis, scope and limitation of study, and references. The focus of Chapter 2 is the review of intense, which is the capacity to assess earlier works connected to the topic under study. The structure of the study is discussed in Chapter 3. In Chapter 4, the research methodology, data analysis, interpretation, and presentation of the findings are discussed. In Chapter 5, the summary, findings, recommendations, and conclusions are presented, followed by the references.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter is divided into seven parts. Section 2.1 which is the introduction. Section 2.2 presents the conceptual review. Section 2.3 portrays the theoretical review of the study. Section 2.4 focuses on the empirical literature of exchange rate policy and macroeconomics performance. Section 2.5 shows the trend in macroeconomic performance in Nigeria. Section 2.6 portrays the trend in exchange rate policy in Nigeria, while section 2.7 reveals the gap in literature.

2.2 Conceptual review

2.2.1 Exchange rate

Exchange rates are the cost of one currency in relation to another. Additionally, it is regarded as the rate at which currencies may be exchanged across countries or economic zones (Sarno and Taylor, 2003). It is used to calculate the value of different currencies in relation to one another and is crucial in figuring out how trade and capital flows operate.

Exchange rates may be split into two categories: the actual exchange rate policy and the nominal exchange rate. The nominal exchange rate policy describes the rate at which foreign and domestic currencies are exchanged. It shows how many units of local money must be given up to obtain one unit of foreign cash. (Byjus, 2020). Simply put, it is the exchange rate between two currencies. The typical way to represent it is as the domestic price of the foreign currency. As a result, the nominal exchange rate for holders of the euro is €0.85 per US dollar, or $1.18 for those who hold US dollars.

The relative cost of imported vs. domestic goods is what the real exchange rate refers to. Before doing a transaction, it is preferable to take the genuine exchange rate into consideration. Comparing the prices of the two goods while accounting for inflation and global competition is done using real exchange rates. For instance, a person or company buying another currency is interested in what it may be used for. Which is better for them: dollars or euros? The RER intervenes to offer assistance. It strives to assess the relative value of a country's goods in relation to those of another, a group of countries, or the rest of the world at the current nominal exchange rate. The Big Mac, a McDonald's burger that is offered in several countries in virtually similar variants, is an example of a single representative commodity that may be used to gauge the actual exchange rate between two countries. If the price is stated in a common currency, the burger would cost the same in both the United States and, say, Germany if the real exchange rate for that commodity is 1. Such is the case if the Big Mac costs $5.30 in the United States and €4.50 in Germany. In this universe of one product, the purchasing power parity of the dollar and the euro are identical (with prices equal to exchange rates), and the RER equals one.

2.2.2 Exchange rate policy

The way a country handles its currency in relation to foreign currencies and the foreign exchange market is referred to as exchange rate policy. The exchange rate is the cost of converting a domestic currency into a foreign currency (Obadan, 2006). Exchange rates policies can be majorly divided into two: Fixed exchange rate policy and Floating exchange rate policy. Fixed exchange rates policies are decided by central banks of a country. It is also when a country ties the value of its currency to some other widely-used commodity or currency. In international trade, the dollar is most frequently utilized (Goldberg and Tille, 2008). Today, the majority of fixed exchange rates are tied to the dollar. The currencies of nations are also fixed to those of their main trading partners.

Currency values in the past were set to an ounce of gold. Countries agreed to tie all of their currencies to the dollar under the 1944 Bretton Woods Agreement. The US agreed to exchange all currencies for gold. To combat the recession in 1971, President Nixon removed the dollar off the gold standard. The 100-year gold standard era was ended by Nixon's decision. Although the dollar remains the world's reserve currency, several nations nonetheless maintained currency pegs to it (Driscoll, 2012). A fixed exchange rate assures you that you may always exchange the same amount of money in one currency for another. You are able to choose how much of one currency you can exchange for another. For instance, you always know that a dollar will buy you 3.75 Saudi riyals if you travel to Saudi Arabia since the exchange rate between the two currencies is fixed. Because the price of its main export, oil, is denominated in US dollars, Saudi Arabia took that action. Most commodity contracts, including all oil contracts, are drafted and performed in dollars globally (Irwin, 2011).

Under the floating exchange rate policy, exchange rates are decided by the mechanism of market demand and supply. As a result, if there is a lot of demand for money, the rate will rise. A strong currency has a significant economic impact by making imports cheaper for the country (Momodu and Akani, 2016). Differences in economic strength and interest rates between countries have a significant impact on floating exchange rates. Short-term rate movements are also caused by investor speculation, natural or man-made disasters, and rumours. The Bretton Woods Conference was held in July 1944, with 44 countries in attendance (the Allies in World War II). As a result, the International Monetary Fund (IMF) and the World Bank were established. It also resulted in a fixed exchange rate system that was regulated. It set gold prices at $35 per ounce, with participating countries pegged to the US dollar. Adjustments of 1% were permitted. The dollar became the reserve currency because central banks used it to intervene in rates to stabilize or adjust them. Most

major currencies floated freely when the Bretton Woods arrangement collapsed between 1968 and 1973.

For the same nation, exchange rates might differ. Some governments have banned currency exchange within their boundaries. There are onshore and offshore rates in some circumstances. In general, a better exchange rate may be found within a country's boundaries than outside of them. The government can also establish the value of a limited currency (Chen, 2015)

As a result, domestic manufacturing and financing costs are affected in comparison to international items and capital. A compromise between various diverse, and sometimes competing, aims must be established when deciding on exchange rate policy (Frankel, 2003). In particular, the use of the exchange rate to increase the competitiveness of domestically produced goods must be evaluated against the currency's global buying power and, more specifically, the effect of exchange rate changes on domestic inflation. Changes in exchange rates have major effects on a country's balance of payments situation, income distribution, and even economic growth, making exchange rate policy an essential instrument in macroeconomic management. It is not unexpected given that it is claimed that its behavior affects the behavior of a number of other macroeconomic variables (Oyejide, 1985). This is especially true for Nigeria, which has started on a path of fast economic expansion and significant import dependence.

2.2.3 Macroeconomic performance

The success of an economy is measured by its macroeconomic performance. In order to evaluate an economy's macroeconomic success, economic goals are often achieved (Stone, 2005). These goals, which include balanced budgets, inflation, long-term economic growth and development, and others, can be short-term or long-term.

2.2.3.1 Inflation

Inflation is a situation of rising prices in a country. Inflation is also a general increase in prices and a decrease in the purchasing power of money (Odusola and Akinlo, 2001). In lay terms, it means ₦1 won't get you as much now as it did a decade ago. Inflation may appear to have little immediate effect, but over the course of several years and decades, it may significantly reduce the buying power of your investments, savings, and purchases. An economy's price stability is evaluated using the rate of inflation. Inflation can be split into two sides; the supply side and the demand side. Inflation comes from national variables and factors from overseas for nations with open economy. Essentially, inflation is measured using three approaches; (1) Gross National Product (GNP) implicit deflator; (2) the Consumer Price Index (CPI) and (3) the wholesome or producer price index (WPI or PPI). The period to period which could be year on year or month on month changes in the consumer price index (CPI) and Wholesome Price Index (WPI) are seen as direct measures of inflation. in practice, none of the measures is considered as aptly measuring inflation. As noted by (Fatukasi, 2006), the Consumer Price Index (CPI) approach, though it is the least efficient of the three is used to measure inflation rates in Nigeria as it is easily and currently available on monthly, quarterly and annual basis (CBN, 1991), this assertion is however corroborated on the fact that Demberg and McDougall in their discourse explicitly refer to inflation as a continuing rise in prices as measured by an index such as the Consumer Price Index (CPI) or by the implicit price deflator for Gross National Product (Jhingan, 2002)

Inflation occurs when there is an increase in the price of goods and services. This increase in price is seen as inflation when it is persistent and above the specified benchmark. An rise in the money supply, for instance, may eventually lead to higher prices. Inflation can take many different forms, some of which are described in the literature. If aggregate demand grows without a matching growth

in supply, the effect is demand-pull, supply push, or cost-push. When the cost or price of the produced good increases and the supply of the good decreases, inflation occurs (Anochiwa and Maduka, 2015). Additionally, structural inflation, which results from modifications in monetary policy, is a possibility.

Inflation is viewed as a sign of a thriving economy by some while a faltering economy is indicated by it for others. One of the major impacts of inflation is a reduction in the buying power of money since prices are rising across the economy. Inflation has a variety of other repercussions on an economy (Akinlo, 2001). it is obvious that Nigeria as a nation has been battling with the challenge of price instability, an instance of the general price level; measured by inflation hovering around a single digit and double-digit figure. Within living memory, the five naira had massive value. Today, the five-naira note is hard to see cause of there is less or no value attached to it now simply because of the inflation.

2.2.3.2 Balance of Payments

Balance of Payment (BOP) is a statement that reflects all monetary transactions that take place between citizens of a nation and the rest of the world over a certain period (Felix, 2021).This statement includes all the transactions made by/to individuals, corporates and the government and helps in monitoring the flow of funds to develop the economy. The transactions can be both factor payments and transfer payments. A country's BOP statement reflects whether the country has a fund surplus or deficit, i.e., when a country's export exceeds its import, its BOP is considered to be in surplus. The BOP deficit, on the other hand, implies that imports exceed exports.

The balance of payment (BOP) is a statistical statement that systematically describes an economy's economic transactions with the rest of the world during a given time period (Oluwatosin, Olusegun

and Abimbola 2011). It reflects changes in the claims and liabilities of an economy vis-à-vis the rest of the world that are ascribed to transactions. Over the last two decades, there has been growing trend in the fluctuations of the Nigerian BOP (Nwani, 2006).

2.2.3.3 Economic Growth

Economic growth is defined as "an increase in the amount of goods and services produced per head of the population over time," according to a definition published in so many sources. "Economic growth is the increase in the output of goods and services per head of population over a certain period of time," according to the Oxford Dictionary. The Cambridge Dictionary has a similar definition. Economic growth is defined as "a rise in the economy of a country or a region, particularly in the value of products and services produced by the country or area." In simple terms, Economic growth can be defined as an increase in the quantity and quality of the economic goods and services that a society produces.

Economists often quantify economic growth in terms of gross domestic product (GDP) or related metrics derived from the GDP calculation, such as gross national product (GNP) or gross national income (GNI). Economic growth is commonly expressed as a percentage rise in real GDP over a given year. Real GDP is computed by adjusting nominal GDP for inflation, which would otherwise make growth rates look considerably larger than they are, particularly during high inflation times. GDP is estimated using yearly statistics on revenues, expenditures, and investment for each sector of the economy from a country's national accounts. It is feasible to estimate a country's total revenue earned in any given year (GDP) or the total income earned by its population using these facts (GNP or GNI). GNP is calculated by modifying GDP to include repatriated money earned overseas and excluding expatriated income generated by foreigners in Nigeria.

Without a question, the most developing countries with high GDP per capita, such as Nigeria, are statistically the prosperous. GDP per capita, on the other hand, plainly does not reflect the entire picture. GDP per capita is calculated by dividing GDP by the population. It says nothing about how earnings are distributed or spent. Increases in the wages of the wealthiest parts of society may be driving up GDP per capita, while the incomes of the poorer portions of society remain relatively stable It refers to spending habits that benefit the rich while neglecting the needs of the poor (Ahmad, 2010). Growth in per capita GDP does not always imply a reduction in poverty or more widespread social and economic development. Indeed, others claim, whether or incorrectly, that in many nations, economic progress is related with rising poverty levels, rather than the other way around which is currently happening in Nigeria.

2.3 Theoretical review

There are a number of conflicting theories that address the subject of exchange rate policy and macroeconomic performance; each theory has its own set of strengths and weaknesses, as well as various ideologies. Alternative theories of macroeconomic performance that are explained in this part, and these theories are explained below.

2.3.1 The Purchasing Power Parity Theory (PPP)

Purchasing power parity is used worldwide to compare the income levels in different countries. PPP thus makes it easy to understand and interpret the data of each country.The purchasing power parity between two countries is defined as either the ratio of the countries' price levels (absolute PPP) or the product of the exchange rate in a base period and the ratio of the countries' price indices (relative PPP). The theory seeks to ascertain the changes that two currencies' exchange rates should undergo in order to bring their buying power to parity. In other words, after taking into account

exchange rates, the cost of a comparable good must be the same in both currencies. Each currency's buying power is calculated during the procedure.

Cassel, (1918) coined the phrase "purchasing power parity," however he published his PPP theory nearly three years earlier under the comparable name "theoretical rate of exchange." While many regard Cassel as the inventor of the PPP theory, some observers believe the founders were English economists writing during the so-called Bank Restriction Period (1797-1821), when the pound was floating. They specifically credit Wheatley, who wrote in 1803, with the first thorough explanation of the idea. Others claim that the hypothesis was predicted even earlier. According to (Brisman, 1933), the PPP hypothesis initially existed in Sweden more than 20 years before the Bank Restriction Period. (Einzig, 1970) attributes the theory's beginnings to Spanish authors of the sixteenth and seventeenth centuries. Nonetheless, Cassel was the first economist to set PPP inside a systematic framework, establishing it as an operational theory.

2.3.1.1 Absolute Price Parity (APPP)

Cassel's PPP theory is aptly named, as it is based on the idea that the value of a currency, and thus demand for it, is determined primarily by the amount of goods and services that a unit of the currency can purchase in the country of issue, i.e., by its internal purchasing power, which is defined as the inverse of the price level for goods and services. When this statement applies to two nations, the short-run equilibrium exchange rate is the value of one country's currency relative to the others, and the ratio of internal buying capabilities or price levels determines the APPP. As a result, an absolute price parity hypothesis emerges.

The internal purchasing power of a currency is sometimes known as buying power or paying power and is also referred to simply as purchasing power. (Lawrence, 2005) It is obvious that the price

levels used to calculate the absolute PPP are the nations' general price levels, which reflect the prices of all products and services available for purchase or the entire mass of commodities offered in the country. Only a general price level may indicate a country's purchasing power of money, according to Cassel, and price metrics confined to traded items (exports and imports) are inadequate (Khim-Sen, Kian-Ping and Huzaimi, 2007).

2.3.1.2 Relative price parity (RPPP)

Relative purchasing power parity (RPPP) is an expansion of the traditional purchasing power parity (PPP) theory to include changes in inflation and the cost of products in both nations over time. Purchasing power is the power of money expressed by the number of goods or services that one unit can buy, and which can be reduced by inflation. RPPP suggests that countries with higher rates of inflation will have a devalued currency (Chen, 2019). This theory is based on the idea of purchasing power theory and propels the absolute purchasing power parity (APPP).

2.3.2 Interest Rate Parity Theory (IRP)

One of the most significant ideas in international finance is interest rate parity, which is perhaps the best approach to explain how exchange rate values are set and why they vary as they do. Because the majority of foreign currency transactions occur for investment objectives, knowing the primary incentives for international investment is crucial. Many scholars appeared to examine the causality between the interest rate and the exchange rate in order to verify the Interest Rate Parity hypothesis, which is characterized as a regularly utilized approach in forecasting exchange rates (Zhang and Dou, 2010).

The theory of Interest rate parity is very significant in the field of international finance. It helps us to understand the exchange rate values of two or more countries and the reason for their fluctuations.

A myriad of international investments takes place daily through the exchange of international currency with the motive of profiting from differences in exchange rates (Krugman 2003). According to this theory, the rates of return on two or more similar assets or the assets that are comparable should be the same between two countries.

Interest rate parity is a condition in which the rates of return on equivalent assets in two countries are equal. On the basis of how it is presented above, the phrase is a misnomer; it should truly be called rate of return parity. The word originated during a time when the world's currency rates were set. Rate of return parity meant the equalization of interest rates in certain conditions, as will be proved in a later chapter. Interest rate parity becomes rate of return parity when exchange rates fluctuate, however the name was never changed. Interest parity, which is the result of investor activity in asset markets, can also explain why the exchange rate rises and falls in reaction to market developments (Bakare, 2011). In other words, interest parity can be utilized to create a model for determining exchange rates. The asset strategy, often known as the interest rate parity model, is used in this situation. The interest rate parity consists of two parts which include the Covered Interest rate Parity and the Uncovered Interest rate parity

In international finance, covered interest parity (CIP) is the closest thing to a physical law. It states that in the cash money markets, the interest rate differential between two currencies should match the difference between forward and spot exchange prices (Balassa, 1964). Market participants could otherwise generate an apparently riskless profit. For example, if the dollar is cheaper in terms of yen in the forward market than CIP stipulates, anyone who can borrow dollars at current cash market rates could profit by conducting a Currency swap, selling dollars for yen at the spot rate today and repurchasing them inexpensively at the forward rate later.

The assumption of uncovered interest parity (UIP) is a key component of open economy macroeconomic analysis. It establishes a straightforward link between the interest rate on a currency-denominated asset, the interest rate on a similar asset denominated in a different currency, and the predicted rate of change in the spot exchange rate between the two currencies (Balassa, 1964).

2.3.3 International Fisher Effect (IFE)

The International Fisher Effect (IFE) theory, which relates interest rates, inflation, and currency rates, is a key idea in economics and finance (Hassan, 2013). IFE attributes fluctuations in exchange rates to interest rate differentials rather than inflation rate differentials among countries, similar to the Purchasing Power Parity (PPP) hypothesis (Engel, 2014). A purchasing power parity or no-arbitrage system would automatically reflect disparities in inflation in nominal interest rates. Because of the high correlation between interest and inflation rates, the two ideas are inextricably linked. The IFE hypothesis states that any nation's currency will depreciate if its interest rate is much higher since high nominal interest rates signify anticipated inflation.

The International Fisher Effect, which Irving Fisher initially theorized, contends that nominal interest rates and anticipated inflation are positively correlated. Additionally, according to this theory, the real interest rate is constant and unaffected by monetary policies (Fapetu and Oloyede, 2014). According to this idea, the nominal interest rate is made up of the real interest rate plus the anticipated inflation rate. Therefore, the nominal interest rate will fluctuate when it is anticipated that the inflation rate would change. When more inflation is anticipated, the nominal interest rate will be higher; conversely, when lesser inflation is anticipated, the nominal interest rate will be lower. There is a relationship between interest rates and currency rates because predictions about

inflation are reflected in interest rates. According to Fisher's Open Proposition, International Fisher Effect, or Fisher's Hypothesis, the difference in interest rates between two nations would cause the exchange rate of the two currencies to fluctuate in a similar but different way.

A country with higher nominal interest rate would experience depreciation in the value of its currency (Onyekachi, 2012). Investors would like to invest in assets denominated in the currencies which are expected to depreciate only when the interest rate on those assets is high enough to compensate the loss on account of depreciation in the currency value. However, if the loss caused by the lower nominal interest rate is projected to be offset by the currency's value increasing, investors may be ready to invest in assets denominated in currencies that are predicted to increase even at a lower nominal interest rate (Chinweuba and Sunday,2014). According to Fisher's effect, the predicted change in the exchange rate between two currencies would therefore equal the difference in inflation rates between the two countries, which would then equal the difference in nominal interest rates between these two nations.

2.3.4 The Mint Parity

The theory of mint parity describes how the exchange rate between the two gold standard countries is determined (Akani, 2014). The currency of a country on the gold standard is either manufactured of gold or has its value stated in gold. The exchange rate under the gold standard is equivalent to the gold content of one currency relative to another, according to the mint parity theory. This rate is sometimes referred to as the mint rate. When countries are on the gold standard, this notion holds true. The value of currency is fixed under the gold standard as the value of gold of a specific weight and purity. The monetary authorities consent to purchase or sell gold in any quantity at a set price in order to maintain price stability. When two nations are on the gold standard, their respective

currencies' relative gold contents are used to calculate the exchange rate between them (Jakob, 2016).

This theory is associated with the working of international gold standard (gold standard operated between 1880-1914). The earliest establishment of gold standard was in the United Kingdom in 1821 Canada in 1853. According to the mint parity hypothesis, while the gold standard is in place, the exchange rate tends to be fairly constant (Mordi, 2006). In other words, the gold equivalents of the respective currencies are what decide the exchange rate between the nations that adhere to the gold standard.

Thomas, S.E. (2003), the mint parity is a statement of the proportion between the statutory bullion equivalents of the standard monetary units of two nations that use the same metallic standard. Therefore, when the currencies of other nations are defined in terms of gold, the exchange rate between those nations is automatically calculated on a weight-to-weight basis of the gold content of their respective currencies, after taking into account the purity of such gold content.

2.4 Empirical Literature

The relationship between exchange rate policy and macroeconomic performance has sparked a lot of debate, and as a result, a variety of literatures have been written on the subject. The uncommon publications discovered have aided in the development of a template and insight into empirical analysis for this papers' objective. They include;

Zdenek and Josef (1998) used believes that exchange rate policies cannot be blamed for all the loss of competitiveness in the Czech Republic or in the other transitional economies. Other factors, including market imperfections, inflexible management of currency baskets, and in general, factors that determine the domestic growth of output and inflation, have also played a role. The pursuit of

nominal-anchor exchange-rate policies has been based, inter alia, on the belief that a stable nominal exchange rate would provide consistent signals to investors, both domestic and foreign, about the comparative advantages of the country. This belief has obviously proven to be false. The actual effective exchange rate, which has altered significantly in many transition countries over the past several years, is what determines whether comparative advantage remains steady, not the level of the nominal exchange rate.

Williamson (2003) argued that developing countries would be ill advised to allow the current enthusiasm for floating exchange rates to lead them into a policy of abandoning any attempt to target the real exchange rate. He believed that for developing countries the best and suitable option for the economy to grow is for such countries to limit the capital inflow such as borrowing in such situations, it may also make it possible to avoid a subsequent crisis and the highly undervalued exchange rates that are prone to arise as a result.

Opaluwa (2011) believes that exchange rate policies are not the cause of macroeconomic problems, they mentioned that countries should begin to embark on improving basic amenities like electricity, transportation, water supply, telecommunication, human resource development, instead of implementing policies in an unhealthy economic and social structure. They believe that the fact that Nigeria is highly dependent on the external sector for import of inputs has made the effect of exchange rate worse especially in the manufacturing sector worse because the capacity to import was constrained by the depreciating currency leading to a corresponding decline in output thereby affecting macroeconomic performance.

Oriavwote (2011) according to his research found out that the current flexible exchange rate has a lag impact from technological productivity, foreign private investment and the ratio of government spending to Gross Domestic Product appreciates the real effective exchange rate. He then

recommends that the government and policy makers should continue to employ policies that could increase productivity in all sectors of the economy. This could be through investment in both the private and public sectors. Also, government consumption should encourage and promote investment which will increase domestic demand.

Adesoye (2012) says, although there is no prescribed rate of exchange that guarantees economic growth, monetary authorities should always strive through policies to maintain a stable exchange rate system devoid of frequent volatility, in other words there should be a fixed exchange rate. Also, that there should be a few backing up policy enforce the fixed exchange rate policy, cause the exchange rate policy cannot work all by itself, there has to be addition policies to back up the stable exchange rate system.

Eze and Okpala (2014) tested the impact of both exchange rate policies (fixed and floating) practiced in Nigeria. The research split the period in two- before and after the introduction of the SAP. After conducting a chow test, they showed that there is no statistically significant impact of the exchange rate regime of economic growth. They suggested that what mattered was the management of such policy. Still in 2014, Oladapo and Oloyede employed the OLS (ordinary least squares) methodology and the ECM (error correction model), and they did not find any significant impact of exchange rate management on the level of economic growth.

Adelowokan, Adesoye and Balogun (2015) assessed the effect of exchange rate policy on investment and growth in Nigeria over the period of 1986-2014. The interactions between the variables were captured using the vector error correction approach, impulse response's function, co-integration, and Augmented Dickey Fuller (ADF) test for stationarity. The results confirm that GDP, inflation, interest rates, investment, and exchange rate policy are all correlated over the long

run. The research also shows that in Nigeria, exchange rate policy is positively correlated with interest rates and inflation but negatively correlated with investment and growth.

Sebastian (2016) analyzes the findings of several research articles in his study on the influence of the choice of exchange rate regimes and its impact on economic growth across different stages of country development. The choice of exchange rate regime has no statistically significant effect on economic development, according to a cross-sectional analysis used in the study. The Autoregressive Distributed Lag model (ARDL) was also used in this study by (Isola, Oluwafunke, Victor, and Asaleye, 2016), and based on their sample, they observed no long-term impact of exchange rate policy on economic growth. However, in the short run an effect exists. Similar research aimed at ascertaining the impact of the various regimes on economic growth found that fixed exchange rate regime in Nigeria constrains growth. (Obi, Oniore and Nnamdi, 2016)

Ismaila (2016) examined the exchange rate regime and the macroeconomic performance of Nigeria from 1986 and 2012, both during and after the SAP. After performing the stationary test, the results of the Johansen co-integration test and error correction model analyses show that broad money supply, net export, and total government expenditure have significant effects on real output performance over the long term, while exchange rate policy has little to no direct impact on Nigeria's economic growth over the short and long terms.

Atish (2019) in his research concludes that one aspect of a country's overall macroeconomic policy is the exchange rate regime. It is unlikely that any regime will always benefit all nations. Pegging the currency rate may be a useful strategy for nations dealing with deflation. However, a more flexible approach may be required if development has been slow and real exchange rate misalignments are frequent. The decision is up to the nation, as is the trade-off.

Taiwo (2019) concludes that the effect of exchange rates on the macroeconomic performance in Nigeria in the long run is negative and significant. Also, that the exchange rate policies in Nigeria are not effective specifically in promoting exports of our goods in Nigeria, as well as in reducing the importation of consumer goods. As a result of significant negative effect of exchange rate policy reform on the trade balance. He therefore recommends that government should through the Central Bank of Nigeria embark on a fixing realistic exchange rate in a stronger official market while allowing the market forces to fluctuate within the rigid parameter.

2.5 Trend in Macroeconomic performance in Nigeria

Inflation, balance of payment in terms of rate of imports and exports, and economic growth are the three main macroeconomic performance indicators in Nigeria over the period 1970-2020. This aspect will focus the overall trend for all of these variables.

2.5.1 Trend in Inflation rate in Nigeria

As shown in Figure 2.1 below, Nigeria has had high and erratic inflation rates since the 1970s. Before 1970, Nigeria experienced modest inflation in the single digits, which was not high enough to produce financial instability. With the exception of 1972, 1973, and 1982, the country's inflation rate rose to double digits after the 1970 civil war and the discovery of crude oil. The impact of the 1974 increase in money supply through the Udoji Salary Awards in the face of limited commodities supply was reported to be 33.7 percent in 1975. In 1980, 11.4 percent, 21% in 1981, 7.7% in 1982, 23.3 percent in 1983, and 40% in 1984, it was 11.4 percent, 21 percent, 7.7% in 1982, 23.3 percent in 1983, and 40 percent in 1984. According to Adenekan and Nwanna (2004), Nigerian inflation spiked to nearly 50% between 1988 and 1989. It reached an all-time high of 72.8 percent in 1995, but progressively declined to a single digit in 1997. (Gbadebo and Mohammed, 2015). According

to Mordi (2007), the sharp increase was caused by a glut of money, a scarcity of foreign currencies, and severe commodities supply constraints, as well as continued labor and political instability following the annulment of the June 1993 elections. In the late 1990s, inflation was brought down to a single rate of 8.5 percent and 6.6 percent in 1997 and 1999, respectively. Single-digit inflation did not continue long, with inflation reaching two digits in 2001, 2002, 2003, and 2004, with 18.9%, 13.2%, 14.4%, and 15%, respectively. It reached an all-time high of 72.8 percent in 1995, but progressively declined to a single digit in 1997. (Gbadebo and Mohammed, 2015). According to Mordi (2007), the sharp increase was caused by a glut of money, a scarcity of foreign currencies, and severe commodities supply constraints, as well as continued labor and political instability following the annulment of the June 1993 elections. In the late 1990s, inflation was brought down to a single rate of 8.5 percent and 6.6 percent in 1997 and 1999, respectively. Single-digit inflation did not continue long, with inflation reaching two digits in 2001, 2002, 2003, and 2004, with 18.9%, 13.2%, 14.4%, and 15%, respectively. However, the rate peaked at 17.9% in 2005, then dropped to 8.4% in 2006, then 5.4 percent in 2007. The onset of the global economic crisis in 2008-2009 increased inflation by 11.6 percent and 12.0 percent, respectively. In 2010, 2013, and 2014, it fell to 11.8 percent, 12.3 percent, and 9.6 percent, respectively. In 2010, 2013, and 2014, it fell slightly to 11.8 percent, 12.3 percent, and 9.6 percent, respectively. Inflation was 9.0 percent in 2015, increasing to 15.7 percent and 16.5 percent in 2016, 12.1 percent in 2018, and 11.4 percent in 2019.

Trend in Inflation rate in Nigeria (1970-2020)
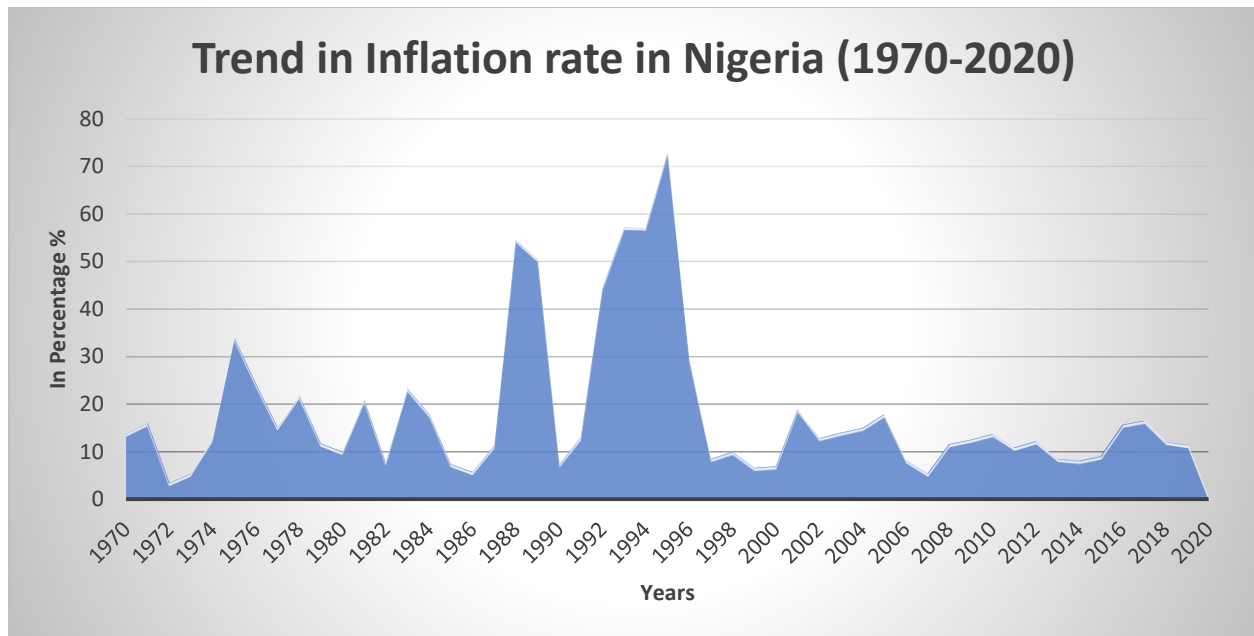
Figure 2.1 Trend in Inflation rate in Nigeria (1970-2020).   Source: Researcher's chart from WDI, 2022.

2.5.2 Trend in economic growth in Nigeria

The gross domestic product (GDP) is a measure of a country's national revenue and output. The gross domestic product (GDP) is the total expenditures for all final products and services produced inside a nation over a certain time period.

Between 1960 and 2020 as shown in Figure 2.2 below, Nigeria's GDP increased by 134.82 USD billion on average, with a record high of 546.70 USD billion in 2014 and a record low of 4.20 USD billion in 1960. Nigeria GDP is shown in the graph below along with prior releases, historical high and low values, short- and long-term forecasts, news, and consensus findings from surveys. The statistics, historical data, and charts for Nigeria's GDP were last updated on June 2022. Nigeria is still recovering from the 2016 recession, with an expected 2% growth rate in 2019. The drop in global oil prices from 2014 to 2016, along with decreasing local oil output, caused an abrupt downturn in economic activity. Nigeria's yearly real GDP growth rate decreased to 2.7 percent in

2015 and -1.6 percent in 2016, after averaging 7 percent from 2000 to 2014. Growth recovered to 0.8 percent in 2017, then 1.9 percent in 2018, before plateauing at 2 percent in the first half of 2019, where it is forecast to remain for the remainder of the year. According to verified statistics from the World Bank, Nigeria's Gross Domestic Product (GDP) was valued 432.30 billion US dollars in 2020. Nigeria accounts for 0.38 percent of the global economy by GDP.

Figure 2.2 Trend in Economic growth in Nigeria (1970-2020.)   Source: Researcher's chart from WDI, 2022.

2.5.3 Trend in Balance of Payment in Nigeria

Balance of payments (BOP) transactions consist primarily of imports and exports of commodities, services, and capital, as well as transfer payments such as foreign aid and remittances. The international accounts of a country are made up of its balance of payments and its net foreign investment position.

In terms of commerce, Nigeria ranked 61st in worldwide imports. According to Nigeria import figures, the country imported items worth USD 47.3 billion in 2019, an increase of around 30%

over 2018. According to Figure 2.3 below, data shows that the country's imports totaled USD 36.4 billion in 2018. Given Nigeria's 201 million population, the value of Nigeria imports in 2019 equated to around USD 240 in annual product demand from per individual in the West African area country. The graph below customs data and research reports that provides with a more detailed view of the overall Nigeria import and export trend.

Trend in Balance of Payment (Imports and Exports) in Nigeria (1970-2020).
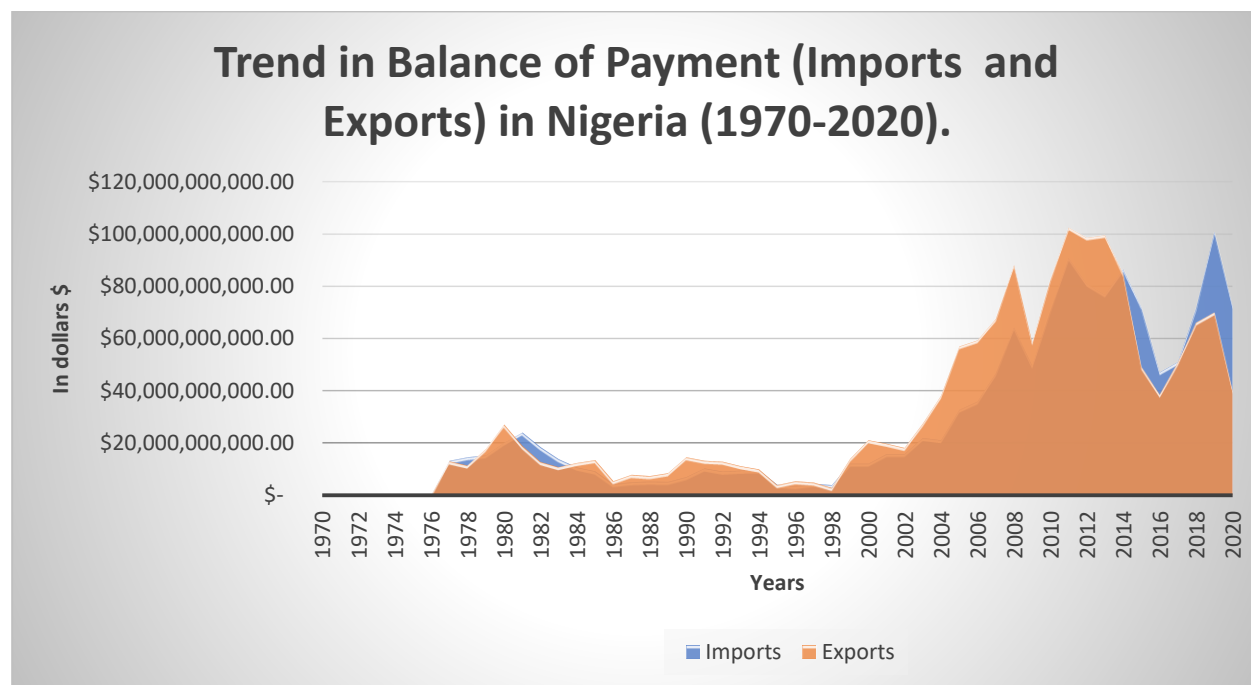
Figure 2.3 Trend in Balance of Payment (Exports and Imports) in Nigeria (1970-2020).   Source: Researcher's chart from WDI, 2022.

2.6 Trend in Exchange rate policy in Nigeria

Nigeria operates a system of multiple exchange rates in a bid to control demand for dollars. The system, which has been criticized by the International Monetary Fund, has kept the official rate at about 415 naira per dollar. Nigeria's currency rate system has seen considerable modifications from the 1960s to the present. The fixed exchange rate system was in place in the 1960s. When SAP was first introduced in the 1970s and 1980s, however, numerous types of variable exchange rate systems were adopted. The fixed exchange rate regime overvalued the naira and was supported by exchange

control regulations that caused significant distortions in the economy, resulting in massive imports of finished goods with negative consequences for domestic production, the balance of payments position, and the level of the nation's external reserves (Onyekachi, 2012).

With the failures associated with these exchange rate systems, the CBN re-introduced the Dutch Auction System (DAS), which appears flexible and adaptive, in July 2002 with the objectives of realigning the naira's exchange rate, conserving external reserves, enhancing market transparency, and reducing capital flight from the country (Imoisi, Uzomba & Olatunji, 2010). Regarding all of the improvements in Nigeria's currency rate system, it is still evident and obvious that the goals associated with these reforms were never met. Thus, monetary authorities are constantly on the lookout for methods to improve and manage exchange policy in order to promote economic growth and long-term development. Exchange policy is an influential tool that improves the efficiency of resource allocation and government stability aims.

2.7 Gap in Literature

The analysis of the current literature on exchange rate policy and macroeconomic performance from developed and developing countries has been carried out and most specifically that of the Nigeria economy revealed that the topic is been carried out and some references were noted in the review. This study will address the correlation and also fill in the study on macroeconomic performance and exchange rate policy, this study will look beyond the effect of exchange rate policy on specific or single macroeconomic performance variable, as it would include the following variables like balance of payment, inflation, domestic price. Despite, the fact that different studies use different analyses and approaches on different variables, the majority of previous research are not updated. This study, thus, fill these gaps as it will at the time frame of 1970-2020.

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CHAPTER 3

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the theoretical framework of the research, the data sources to be used in the empirical study, and the analysis techniques to be applied. The model definition for this study's empirical analysis is also included in this chapter. Here are also discussed other methodological issues as well as estimation techniques, a priori specification, data sources, and description.

3.2 Theoretical framework

Independent variables   **Dependent variable**

Figure 3.1 Theoretical framework on Exchange rate policy and Macroeconomic performance.   Source: Researcher's chart, 2022.

Figure 3.1 solely depicts the relationship between Nigeria's exchange rate policy and macroeconomic performance. Since there are two main types of exchange rate policies in use in Nigeria which includes the fixed exchange rate policy and the flexible exchange rate policy, this

study seeks to determine the impact of each of these policies on the country's macroeconomic performance.

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                        ┌─────────────────────────────┐
                        │   Exchange rate Theories    │
                        └─────────────────────────────┘

┌──────────────────┐    ┌──────────────────┐    ┌──────────────────────┐
│ Purchasing Power │    │ Interest Rate    │    │ International Fisher │
│   Parity (PPP)   │    │   Parity (IRP)   │    │    Effect (IFE)      │
└──────────────────┘    └──────────────────┘    └──────────────────────┘

                   ┌─────────────────────────────┐
                   │    Exchange Rate Policy      │
                   └─────────────────────────────┘

┌──────────────────┐                          ┌──────────────────┐
│ Fixed Exchange   │                          │ Flexible Exchange│
│   Rate Policy    │                          │   Rate Policy    │
└──────────────────┘                          └──────────────────┘

┌──────────────────┐                          ┌──────────────────┐
│   Inflation,     │                          │   Inflation,     │
│ Balance of       │                          │ Balance of       │
│  Payment,        │                          │  Payment,        │
│ Economic Growth  │                          │ Economic Growth  │
└──────────────────┘                          └──────────────────┘

                ┌─────────────────────────────────┐
                │  Macroeconomic Performance      │
                └─────────────────────────────────┘
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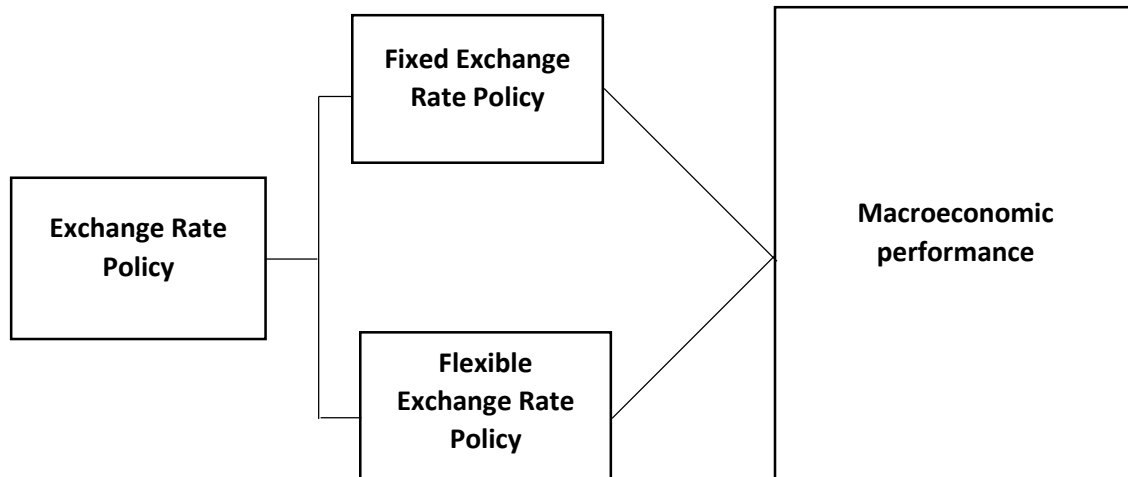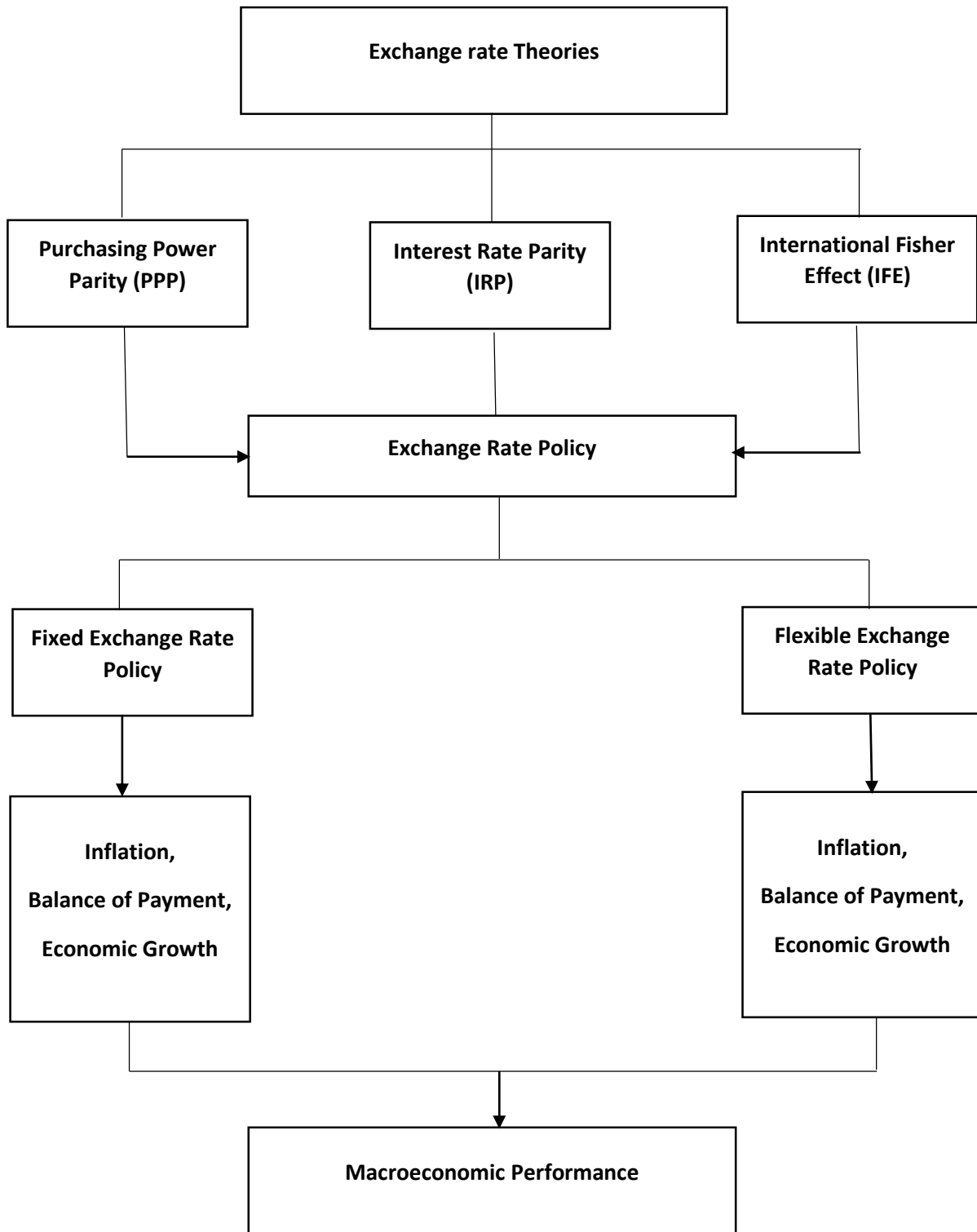*Figure 3.2 Theoretical framework on Exchange rate policy and Macroeconomic performance.   Source: Researcher's chart, 2022*

Figure 3.2, which is illustrated above, attempts to clarify how exchange rate policies are generated entirely from exchange rate theories. The Purchasing Power Parity, the International Fisher Effect, the Mint parity, and many more ideas are among the numerous that discuss exchange rate theories. Purchasing Power Parity Theory, which will be employed in this study, is the model that best represents the study's primary goal. The success of the exchange rate policy will then be evaluated using two different approaches: the fixed exchange rate policy and the flexible exchange rate policy. To determine the total impact on Nigeria's macroeconomic performance, the success of these two policies will be evaluated in relation to the macroeconomic variables of inflation, balance of payments, and economic growth.

3.3 Sources of data and variable description

In order to complete this study, secondary data from the World Development Indicators (WDI), and Central Bank of Nigeria statistics bulletin were used for the yearly time series from 1970 to 2020.

The theoretical framework and existing empirical studies served as the sources for the variables employed in this study. These variables' definitions and measurements are divided into dependent and independent variables. The independent variable is the exchange rate policy in use, which may either be a fixed or flexible exchange rate policy. Macroeconomic performance is the dependent variable, which is measured by numerous variables including inflation, balance of payments, economic growth, etc.

Table 3.1 List of Variables and Description

Identifier	Variable	Description	Sources of Data
BOP	Balance of Payment	This is the difference in total value between payments into and out of a country over a period.	Central Bank of Nigeria Statistical Bulletin

ERP	Exchange Rate policy	The exchange rate policy, which can either be a fixed exchange rate policy or a flexible exchange rate policy, refers to how a country handles its currency in relation to other currencies and the foreign exchange market.	Central Bank of Nigeria Statistical Bulletin
EXCH	Exchange rate	A relative price of one currency stated in terms of another currency is called an exchange rate (or group of currencies).	Central Bank of Nigeria Statistical Bulletin
FDI	Foreign Direct Investment	This refers to the form of long-term international capital amount which is carried out for productive activity, which is supplemented by the intention of managerial control or the impact in the management of a foreign business	World Development Indicators (WDI)
Ms	Money supply	This is the total stock of money circulating in an economy.	Central Bank of Nigeria Statistical Bulletin
EG	Economic growth is measured as change in GDP over a required ratio.	Economic growth is the rise or improvement in the market value of the products and services generated by an economy over a predetermined period of time, adjusted for inflation.	World Development Indicators (WDI)
H.C	Human capital proxied as secondary enrolment rate (SER)	This refers to the current state of education and a systemic overview. The economy will have a lower unemployment rate as a result of individuals being able to find jobs that match their talents as more people are educated with the appropriate skills for the proper occupations.	World Development Indicators (WDI)
INF	Inflation Rate	The price change over a certain time period, often a month or a year, expressed as a percentage increase or reduction is known as the inflation rate.	Central Bank of Nigeria Statistical Bulletin
RGDP	Gross Domestic Product	This is the monetary value of the goods and services produced over a period of time in the economy, regardless of the	Central Bank of Nigeria Statistical Bulletin

		nationality of the individual who produced the goods and services.	

Source: Researcher's compilation, 2022

3.4 Methodological approach

3.4.1 Model specification

The effectiveness of exchange rate policy on macroeconomic performance in Nigeria will be investigated in this study using a time series data model; as a result, this model illustrates the mathematical relationship between the dependent and independent variables used in particular order to achieve the three study objectives. The model specifications are as follows:

3.4.1.1 Model specification for objective (1)

$BOP = f$ (ERP, EXCH, FDI, MS)

$BOP = \beta_0 + \beta_1 ERP_t + \beta_2 EXCH_t + \beta_3 FDI_t + \beta_4 MS_t + e_t$ -------------------- (1)

Where,

BOP = Balance of Payment

ERP = Exchange rate policy

EXCH = Exchange rate

FDI = Foreign Direct Investment Inflow

MS = Money supply

3.4.1.2 Model specification for objective (2)

$EG = f$ (ERP, EXCH, FDI, HC)

$$EG = \beta_0 + \beta_1 ERP_t + \beta_2\, EXCH_t + \beta_3\, FDI_t + \beta_4\, HC_{t} + e_t \text{------------------- (2)}$$

Where,

EG = Economic growth

ERP = Exchange rate policy

EXCH = Exchange rate

FDI = Foreign Direct Investment inflow

HC = Human capital

3.4.1.3 Model specification for objective (3)

$$INF = f\,(ERP,\ EXCH,\ MS,\ RGDP)$$

$$INF = \beta_0 + \beta_1 ERP_t + \beta_2\, EXCH_t + \beta_3 MS_t + \beta_4\, RGDP_t + e_t \text{------------------- (3)}$$

Where,

INF = Inflation

ERP = Exchange rate policy

EXCH = Exchange rate

MS = Money supply

RGDP = Gross Domestic Product

3.5 *A priori* specification

A priori specification for the relationship between the independent and dependent variable are shown in the tables below.

Table 3.2 *A priori* **specification for objective (1)**

Coefficient	Variable	*A priori* expected sign
B_0	Intercept	positive
B_1	ERP	positive
B_2	EXCH	positive
B_3	FDI	negative
B_4	MS	negative

Source: Researcher's compilation, 2022

Table 3.3 *A priori* **specification for objective (2)**

Coefficient	Variable	*A priori* expected sign
B_0	Intercept	positive
B_1	ERP	positive
B_2	EXCH	positive
B_3	FDI	positive
B_4	HC	positive

Source: Researcher's compilation, 2022

Table 3.4 *A priori* **specification for objective (3)**

Coefficient	Variable	*A priori* expected sign
B_0	Intercept	positive
B_1	ERP	positive
B_2	EXCH	negative
B_3	MS	negative
B_4	RGDP	positive

Source: Researcher's compilation, 2022

3.6 Estimation techniques

Descriptive statistics and econometrics are some of the methodologies employed in this study. First, using the mean, standard deviation, skewness, and kurtosis, descriptive statistics were utilized to describe the data from the univariate study. Additionally, time series econometric methods like unit root and cointegration are used to ascertain the integrated order of every variable and the long-term co-movement stability of the joint variables. The OLS regression method is used to estimate the study's goals.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS OF RESULTS

4.1 Introduction

This chapter presents the data analysis and interpretation of results for the three objectives in this study. The results presented are in three broad sections as follows: descriptive statistics, pre-tests estimation, and the results for the objectives in the study.

4.2 Data presentation

This section presents the data used to evaluate the impact of exchange rate policy on the macroeconomic performance in Nigeria in this study.

Table 4.1 Data representation for this study

YEAR	BOP	ERP	EXCH	MS	FDI	HC	RGDP	INFL	EG
1970	NA	0	0.714286	641.5	NA	-0.3669	12545849083	13.76	25.00724193
1971	NA	0	0.712855833	670	NA	0.6331	9181769911.5	16	14.23753156
1972	NA	0	0.657894999	747.4	2.484843267	0.65999	12274416017.8	3.46	3.364262035
1973	NA	0	0.657894999	925.8	2.459956251	-2.27797	15162871287.1	5.4	5.392760484
1974	NA	0	0.630282046	1357.2	1.034345032	-1.27797	24846641318.1	12.67	11.16067455
1975	NA	0	0.615501553	2605.4	1.692361519	-0.27797	27778934624.7	33.96	-5.227747555
1976	NA	0	0.626601004	3864.1	0.933655816	0.72203	36308883248.7	24.3	9.042351726
1977	-296261339.1	0	0.644701062	5557.8	1.222448337	0.75333	36035407725.3	15.09	6.02411785
1978	-3256872676	0	0.635271994	5260.7	0.577458572	0.74564	36527862208.7	21.71	-5.764158394
1979	2506591914	0	0.604007374	6351.5	0.655098278	0.74349	47259911894.3	11.71	6.759430935
1980	7057671651	0	0.546780892	9650.7	-1.150855803	0.75174	64201788122.6	9.97	4.204831044
1981	-5238719724	0	0.617708175	9915.3	0.329731934	0.74734	164475209515	20.81	-13.12788049
1982	-5663280456	0	0.673461262	10291.8	0.301613208	0.7013	142769363313	7.7	-6.803388815
1983	-3061802647	0	0.724409851	11517.8	0.375338495	0.67649	97094911790.7	23.21	-10.92408503
1984	1634644658	1	0.766527449	12497.1	0.257421832	1.67649	73484359521.1	17.82	-1.115623217
1985	4326596701	1	0.893774083	13878	0.65845266	0.79799	73745821156.3	7.44	5.913027459
1986	1090894788	1	1.754523004	13560.4	0.352544297	0.81294	54805852581.2	5.72	0.060945274
1987	2830650969	1	4.016037344	15195.7	1.159069795	1.81294	52676041930.6	11.29	3.200125467
1988	2079803687	1	4.536966667	22232.1	0.762696402	0.83242	49648470439.8	54.51	7.334025488
1989	3355314210	1	7.364735	26268.8	4.282087862	0.78217	44003061108.3	50.47	1.919381296
1990	7641622023	1	8.038285	39156.2	1.08795099	-7.17665	54035795388.1	7.36	11.77688593
1991	2878710925	1	9.909491667	50071.7	1.450317769	-6.17665	49118433047.5	13.01	0.358352603
1992	3853246869	1	17.298425	75970.3	1.87601773	-5.17665	47794925814.8	44.59	4.631192947
1993	1685012648	1	22.0654	118753.4	4.847790004	-4.17665	27752204320.1	57.17	-2.035118776
1994	311829423.5	1	21.996	169391.5	5.790847305	-3.17665	33833042987.8	57.03	-1.814924483

Year									
1995	-155213290.1	0	21.89525833	201414.5	0.762195576	-2.17665	44062465800.2	72.84	-0.072664767
1996	1749727568	0	21.884425	227464.4	0.977520982	-1.17665	51075815092.5	29.27	4.195924045
1997	543132296.1	0	21.88605	268622.9	0.862276325	-0.17665	54457835193.5	8.53	2.93709942
1998	-1003652735	0	21.886	318576	0.548616188	0.82335	54604050168.2	10	2.581254103
1999	1792044671	0	92.3381	393078.8	1.692557514	0.81514	59372613485.7	6.62	0.584126895
2000	8947932361	0	101.6973333	637731.1	1.641739329	0.82727	69448756932.6	6.93	5.015934757
2001	3908840366	0	111.23125	816707.6	1.608284185	0.81157	74030364472.1	18.87	5.917684652
2002	2339989712	0	120.5781583	946253.4	1.964726797	-0.17196	95385819320.6	12.88	15.32915574
2003	5582237051	0	129.22235	1225559.3	1.911463474	0.82804	104911947834	14.03	7.34719497
2004	17120483279	0	132.888025	1330657.8	1.374086175	0.83964	136385979322	15	9.250558228
2005	24367471605	0	131.2743333	1725395.8	2.828830019	0.84907	176134087150	17.86	6.438516525
2006	23321457683	0	128.6516667	2280648.9	2.056023761	0.85558	236103982432	8.23	6.059428031
2007	20849760439	0	125.8081083	3116272.2	2.189934296	0.87303	275625684969	5.39	6.591130361
2008	23811692805	0	118.5666667	3591267.7	2.413739613	0.88796	339476215684	11.58	6.764472778
2009	8909094157	0	148.88	4182477.3	2.900249401	0.89722	295008767295	12.55	8.036925102
2010	11846225807	0	150.2975	4773686.9	1.667213359	0.90817	361456622216	13.72	8.005655915
2011	11643919498	0	153.8625	5364896.6	2.183012813	0.9544	404993594134	10.84	5.307924204
2012	17649614311	0	157.5	5956106.2	1.552115206	0.95258	455501524576	12.22	4.230061175
2013	22765118897	0	157.3116667	6547315.8	1.093559063	0.95682	508692961937	8.48	6.671335393
2014	-1860415124	0	158.5526417	7138525.4	0.858611941	-0.06968	546676374568	8.06	6.309718656
2015	-22899676713	0	192.4403333	7729735	0.629447034	0.93032	486803295098	9.01	2.652693295
2016	-8550719264	1	253.492	8320944.6	0.853393884	1.93032	404650006429	15.68	-1.61686895
2017	-86132009.91	1	305.7901092	8912154.3	0.64218166	2.93032	375746469539	16.52	0.80588662
2018	-3729352216	1	306.0836882	9503363.9	0.195182773	3.93032	397190484464	12.09	1.922757342
2019	7677420135	1	306.9209515	10094573.5	0.514392932	4.93032	448120428859	11.4	2.208429277
2020	14274976210	1	358.8107973	10685783.1	0.551772382	4.885255	432293776262	9.61	-1.794253082

Note that: the fixed exchange rate policy is represented by 0 and flexible exchange rate policy by 1 to compare the effectiveness of macroeconomic performance.

Source: World Development Indicators (WDI) 2022; CBN Statistical Bulletin, 2020.

4.3 Descriptive statistics results

4.3.1 Descriptive Statistics for Exchange Rate Policy and Macroeconomic Performance (1970-2020)

Table 4.2 Descriptive Statistics for each variable in this study (1970 - 2020)

	BOP	ERP	EXCH	MS	FDI	RGDP	HC	INFL	EG
Mean	4.88E+09	0.363636	91.65537	2429653.	1.393390	1.83E+11	0.336276	18.51864	3.006300
Median	2.67E+09	0.000000	57.20175	355827.4	1.090755	8.47E+10	0.819245	12.38500	4.200378
Maximum	2.44E+10	1.000000	358.8108	10685783	5.790847	5.47E+11	4.930320	72.84000	15.32916
Minimum	-2.29E+10	0.000000	0.546781	5260.700	-1.150856	2.78E+10	-7.176650	5.390000	-13.12788
Std. Dev.	9.47E+09	0.486607	100.2527	3375496.	1.263488	1.67E+11	2.391325	16.21082	5.415974
Skewness	0.188398	0.566947	0.999184	1.188055	1.516957	0.826778	-1.298363	1.941626	-0.818224
Kurtosis	3.817721	1.321429	3.172932	2.958047	6.089756	2.093617	5.547592	5.707449	4.347031
Jarque-Bera	1.486180	7.522747	7.376191	10.35404	34.37725	6.518919	24.26088	41.08485	8.236163
Probability	0.475642	0.023252	0.025020	0.005645	0.000000	0.038409	0.000005	0.000000	0.016276
Sum	2.15E+11	16.00000	4032.836	1.07E+08	61.30916	8.04E+12	14.79614	814.8200	132.2772
Sum Sq. Dev.	3.85E+21	10.18182	432176.3	4.90E+14	68.64531	1.20E+24	245.8928	11299.99	1261.309
Observations	44	44	44	44	44	44	44	44	44

Source: Researcher's computation from EViews 10, 2022

The descriptive statistics for each of the nine variables utilized in this study are shown in Table 4.2 above. Balance of payments (BOP), exchange rate policy (ERP), exchange rate (EXCH), money supply (MS), foreign direct investment (FDI), real gross domestic product (RGDP), human capital (HC), inflation rate (INFL), and economic growth (EG) are the nine variables for the study period (1970 – 2020). Each descriptive statistics is discussed below;

Mean: The average value for each variable is calculated using the mean. The maximum number of observations in this study is 44, making it a big sample that covers the years 1970 to 2020. RGDP and exchange rate policies in this research had the highest and lowest average values of 1.83E+11 (183,000,000,000) and 0.36, respectively.

Skewness: Skewness is a metric for how much a distribution deviates from being symmetrical. According to Table 4.2, none of the variables in this study have symmetrical distributions since all of the variables are far from the symmetry value of zero. Instead, the variables have both positively and negatively skewed distributions.

Jarque-Bera: In order to determine if a variable is normally distributed or not, the Jarque-Bera test is used. Both normal and abnormal distributions are possible for a variable. When the probability value is either more than 5% or the null hypothesis is that a normal distribution does not exist, the Jarque-Bera test is employed to test against the null hypothesis. All variables aside from the balance of payment (BOP) were shown in Table 4.2 to not follow a normal distribution.

4.4 Time series Econometric result

The unit root test and the cointegration test are used to determine the individual stationary level and the long-term co-movement of the included non-stationary variables, respectively, in order to

evaluate the time series econometrics results in order to prevent false regression. In this work, these estimate procedures are carried out with EViews 10.0 econometric software.

4.5 Objective one result

4.5.1 Pre-tests estimation

4.5.1.1 Unit root test result

Table 4.3: Unit Root test using Augmented Dickey Fuller (ADF)

Variable	Unit Root @ Level		Unit Root @ 1st Difference		Unit Root @ 2nd Difference		Order of Integration
	ADF Value	Prob.	ADF Value	Prob.	ADF Value	Prob.	
BOP	-2.72	0.08	-6.25***	0.00	-	-	I (1)
ERP	-1.66	0.45	-6.90***	0.00	-	-	I (1)
EXCH	2.96	1.00	-4.47***	0.00	-	-	I (1)
FDI	-4.15***	0.00	-	-	-	-	I (0)
MS	-0.04	0.95	-0.43	0.89	-9.79***	0.00	I (2)
HC	-1.76	0.39	-7.02***	0.00	-	-	I (1)
RGDP	-0.57	0.87	-4.98***	0.00	-	-	I (1)

Note: ***, ** and * denote 1%, 5% and 10% level of significance. The null hypothesis is rejected if the ADF statistics is greater than critical values of 1%, 5% and 10% significant values respectively

For each included variable, the Augmented Dickey Fuller (ADF) unit root test is presented in Table 4.3. With the exception of the money supply (MS), which is stationary at the second difference in the ADF unit root test, not all variables are stationary at level and first difference. Importantly, the ADF unit root test created a mixed integrate order of zero, I (0), one, I (1), and two, I (2) for all the variables; as a result, the application of the ARDL co-integration limits test is justified in this study.

4.5.1.2 ARDL Cointegration Bound test for Objective (1)

Table 4.4: ARDL Cointegration Bound Test

Variable	F-statistic	Degree of Freedom (k)	Upper Critical Values		
			10%	5%	1%
All variables	3.73	4	3.52	4.01	5.06

Source: EViews 10 output

Table 4.4 found that all variables in this model have long-run relationship because the F-statistics value is greater than the critical values of 10% and not 5% and 1% respectively within the study period (1970-2020).

4.5.2 Ordinary Least Squares ARDL Estimates

Table 4.5 ARDL OLS Short Run and Long Run Estimate for Objective (1)

ARDL Cointegrating And Long Run Form				
Dependent Variable: BOP				
Selected Model: ARDL(1, 0, 1, 0, 0)				
Date: 08/18/22 Time: 12:26				
Sample: 1970 2020				
Included observations: 43				
Cointegrating Form				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(ERP)	2300583671.101339	2436786208.579550	0.000000	0.0000
D(EXCH)	-14092641.277210	70066480.064685	0.000000	0.0000
D(FDI)	-171797237.723053	929246278.655098	0.000000	0.0000
D(MS)	-2580.033328	932.016205	-2.768228	0.0088
CointEq(-1)	-0.363431	0.142523	-2.549973	0.0152
Cointeq = BOP - (6330185352.8748*ERP + 288673527.0742*EXCH -472709761.2486*FDI -7099.1068*MS -2798277388.9601)				
Long Run Coefficients				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
ERP	6330185352.874828	8121801478.781763	0.779407	0.4408
EXCH	288673527.074248	140989055.411558	2.047489	0.0480
FDI	-472709761.248635	2640884893.855611	-0.178997	0.8589
MS	-7099.106800	3971.824485	-1.787367	0.0823
C	-2798277388.960079	5742141220.557613	-0.487323	0.6290

The results of Table 4.5 supported the presence of the variables in this model over both the short and long terms. This finding indicates that short-run rise changes in the regressors with the exception of the exchange rate (EXCH), foreign direct investment inflow (FDI), and money supply (MS) balance of payment (BOP) are positive. As a consequence, a favorable adjustment in exchange rate policy would result in an improvement of 2,300,583,671.10 units in the balance of payments. This improvement is statistically significant, indicating that if tested, the outcome would be positive. However, the ARDL cointegration test's long-run co-efficient showed that the exchange rate policy (ERP) and exchange rate (ER) have a significant impact on the balance of payments while the other two regressors, foreign direct investment inflow (FDI) and money supply, do not over the study period of 1970 to 2020 in Nigeria. This suggests that the exchange rate policy affects the macroeconomic variable of the balance of payments in a way that is both positive and substantial over the short-run and long-run terms.

4.6 Objective two result

4.6.1 Unit root Test

Table 4.3 Augmented Dickey Fuller (ADF) test reveals that, except from the money supply (MS), which is stable at the second difference, not all variables are stationary at level and first difference. Importantly, the ADF unit root test created a mixed integrate order of zero, I (0), one, I (1), and two, I (2) for all the variables; as a result, the application of the ARDL co-integration limits test is warranted in this study.

4.6.2 ARDL Cointegration Bound test

Table 4.6: ARDL Cointegration Bounds test for Objective (2)

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Variable	F-statistic	Degree of Freedom (k)	Upper Critical Values		
			10%	5%	1%
All variables	5.79	4	3.52	4.01	5.06

Source: EViews 10 Output

Table 4.6 reveals that all the variables in this model have a long-run relationship because the F-statistics values is greater than the critical values of 10%, 5% and 1% respectively within the study period.

4.6.3 Ordinary Least Squares ARDL estimates

Table 4.7 ARDL OLS Short-run and Long-run estimate for Objective (2)

ARDL Cointegrating And Long Run Form				
Dependent Variable: EG				
Selected Model: ARDL(1, 0, 0, 1, 1)				
Date: 08/18/22 Time: 12:29				
Sample: 1970 2020				
Included observations: 48				
Cointegrating Form				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(ERP)	-0.771573	1.770917	-0.435692	0.6654
D(EXCH)	0.004030	0.010547	0.382104	0.7044
D(FDI)	-0.202494	0.745748	-0.271531	0.7874
D(HC)	-0.751160	0.672999	-1.116138	0.2710
CointEq(-1)	-0.744298	0.152270	-4.888001	0.0000
Cointeq = EG - (-1.0366*ERP + 0.0054*EXCH + 1.8645*FDI + 0.3769*HC + 0.3586)				
Long Run Coefficients				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
ERP	-1.036646	2.315384	-0.447721	0.6568
EXCH	0.005415	0.013843	0.391155	0.6978
FDI	1.864483	1.202751	1.550182	0.1290
HC	0.376895	0.730287	0.516092	0.6086
C	0.358558	2.141175	0.167459	0.8679

Table 4.7 confirms the short and long-run existence among the variables in this model. The results shows that all regressors including exchange rate policy (ERP), Foreign Direct Investment inflow (FDI), and human capital (HC) all have a negative impact but exchange rate does have positive impact on economic growth by 0.004030 in the short- run, this result shows that this result is statistically significant. Therefore, a positive change on the exchange rate, such as the steady appreciation of the Naira rate, can bring about positive change in the economic growth in Nigeria. On the other hand, the long- run co-efficient form the ARDL cointegration result reveals that all the regressors except exchange rate policy has a positive effect and significant impact on the economic growth in the long-run over the study period. Specifically, the result found out that exchange rate (ER), Foreign Direct Investment inflow, and human capital (HC), all have a positive and significant effect on Economic growth in Nigeria in the long-run by 0.0054, 1.8644, and 0.3768 respectively.

4.7 Objective three result

4.7.1 Unit root test

With the exception of the money supply (MS), which is stable at the second difference, Table 4.4's Augmented Dickey Fuller (ADF) test indicates that not all variables are stationary at level and first difference. The ADF unit root test produced a mixed integrate order of zero, I (0), one, I (1), and two, I (2) for all the variables; hence, the use of the ARDL co-integration limits test is justified in this study.

4.7.2 ARDL Cointegration Bound test for Objective (3)

Table 4.8: ARDL Cointegration Bounds test

Variable	F-statistic	Degree of Freedom (k)	Upper Critical Values		
			10%	5%	1%
All variables	4.60	4	3.52	4.01	5.06

Source: EViews 10 Output

Table 4.8 found that all variables in this model have long-run relationship because the F-statistics value is greater than the critical values of 10% and not 5% and 1% respectively within the study period (1970-2020).

4.7.3 Ordinary Least Squares ARDL estimate

Table 4.9 ARDL OLS Short-run and Long-run estimate for Objective (3)

ARDL Cointegrating And Long Run Form				
Dependent Variable: INFL				
Selected Model: ARDL(1, 1, 0, 0, 0)				
Date: 08/18/22 Time: 12:31				
Sample: 1970 2020				
Included observations: 50				
Cointegrating Form				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(ERP)	-6.721830	7.553991	-0.889838	0.3785
D(EXCH)	-0.008436	0.056244	-0.149984	0.8815
D(MS)	-0.000001	0.000003	-0.303341	0.7631
D(RGDP)	0.000000	0.000000	0.155789	0.8769
CointEq(-1)	-0.563915	0.123925	-4.550438	0.0000
Cointeq = INFL - (18.8864*ERP -0.0150*EXCH -0.0000*MS + 0.0000*RGDP + 15.5647)				
Long Run Coefficients				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
ERP	18.886354	8.411807	2.245220	0.0299
EXCH	-0.014959	0.099476	-0.150380	0.8812
MS	-0.000001	0.000005	-0.301589	0.7644
RGDP	0.000000	0.000000	0.155195	0.8774

C	15.564716	7.391771	2.105682	0.0411

According to the result shown in Table 4.9, reveals that there is a short-run and a long- run existence among the variables used. The result shows that all regressors including exchange rate policy (ERP), exchange rate (ER), and money supply (MS) all have a negative effect on the Inflation rate in the short-run, while the RGDP has a positive impact on the Inflation rate in Nigeria for the study period. This improvement is statistically significant, indicating that if tested, the outcome would be positive. On the other hand, the long-run co-efficient from the ARDL cointegration result revealed that all the regressors except from exchange rate policy, and real gross domestic product do not have any significant impact on the Inflation rate in the long-run over the study period of 1970 – 2020 in Nigeria. However, the result found out that exchange rate policy (ERP) has a positive and significant effect on the Inflation rate overtime by 18.88 within the study period (1970-2020), the same applies to real gross domestic product (RGDP) which has a neutral impact on the inflation rate in Nigeria in the long-run by 0.00.

4.8 Discussion of the results

Following the hypothesis to be tested in this course of study, from the results, this study confirms and concludes H1 in hypothesis one, which states that exchange rate policy has impact on balance of payment in Nigeria. The results from the cointegration test shows that both the flexible and fixed exchange rate policy contributed negatively to the balance of payment in the short-run, by -497,693,717.9 and -2,798,277,388.96 respectively. From this result, we can clearly see that both policies have a negative effect on the balance of payment in the short-run, but the flexible exchange rate policy has a lesser negative effect on the balance of payment as compared to the fixed exchange rate policy. However, in the long-run, the flexible exchange rate policy has a positive effect on the

balance of payment by 3,531,907,964 than compared to the fixed exchange rate that is contributes negatively to the balance of payment by -2,798,277,388.96. This result therefore shows that the flexible exchange rate policy can bring about significant and steady increase to the balance of payment in the long-run.

For hypothesis two, the results from this study confirms that H1 which states that the exchange rate policy has an impact on economic growth in Nigeria. Based on the result gotten from the cointegration test shows that the flexible exchange rate policy, has a negative impact on the economic growth in the short-run by -0.412973 while the fixed exchange rate policy which contributes to the economic growth positively by 0.3586 in the short-run. While, in the long-run still the flexible exchange rate policy contributes negatively to the economic growth by -0.678088 while the fixed exchange contributes positively to the economic growth in the long-run. This result therefore shows that the fixed exchange rate policy is better and more effective policy to promote increase the economic growth in Nigeria.

For hypothesis three, the results from this study confirms that H1 which states that the exchange rate policy has an impact on the inflation rate in Nigeria. Based on the result gotten from the cointegration test shows that the flexible exchange rate policy, had an impact on the inflation rate in the short-run by 8.84287 same with the fixed exchange rate policy which contribute to the economic growth positively by 15.5647 in the short-run. While, still in the long-run the flexible exchange rate policy continuously increases the inflation rate in Nigeria by 34.451054 while the fixed exchange still contributes positively to the inflation rate by 15.5647 in the long-run. This result therefore shows that the fixed exchange rate policy is a more preferable policy in terms of regulating the inflation rate in Nigeria.

CHAPTER 5

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of the findings

The summary of this study's conclusions is based on the empirical evidence for three hypotheses, which are described in the order listed below:

Hypothesis one investigated the effectiveness of exchange rate policy on balance of payment in Nigeria from 1970-2020. It employed both descriptive statistics and econometric methodology. In the descriptive statistics, the results showed that all the variables used where all not normally distributed except for the balance of payment, which was normally distributed. The econometrics time series methodology, on the other hand, used the short-run and long-run ordinary least squares, along with the unit root test, cointegration test, and ordinary least squares. The unit root tests established a mixed integrate order of zero, I (0), one, I (1), and two, I (2) for all the variables, thus, ARDL co-integration method is appropriate to determine the long-run cointegration among the variables used in this study. The findings revealed that the model's variables had a long-term relationship since the F-statistics value was higher than the 10% critical value but not more than the 5%, and the 1% over the 1970–2020 research period. Results revealed that the cointegration test shows that both the flexible and fixed exchange rate policy contributed negatively to the balance of payment in the short-run, but still however, in the long-run, the flexible exchange rate policy has a positive effect on the balance of payment compared to the fixed exchange rate that is contributes negatively to the balance of payment. This result therefore shows that the flexible exchange rate policy can bring about significant and steady increase to the balance of payment in the long-run.

Hypothesis two investigated the effectiveness of exchange rate policy on economic growth in Nigeria from 1970-2020. It employed both descriptive statistics and econometric methodology. The econometrics time series methodology, on the other hand, used the short-run and long-run ordinary least squares, along with the unit root test, cointegration test, and ordinary least squares. The findings revealed that the model's variables had a long-term relationship since the F-statistics value was higher than the 10%, the 5%, and the 1% critical values over the 1970–2020 research period. Results from the cointegration test reveals that the flexible exchange rate policy, has a negative impact on the economic growth in the short-run while the fixed exchange rate policy which contributes to the economic growth positively in the short-run. While, in the long-run, still the flexible exchange rate policy contributes negatively to the economic growth while the fixed exchange contributes positively to the economic growth in the long-run. This result therefore shows that the fixed exchange rate policy is better and more effective policy to promote increase the economic growth in Nigeria.

Hypothesis three investigated the effectiveness of exchange rate policy on the inflation rate in Nigeria from 1970-2020. It employed both descriptive statistics and econometric methodology. The econometrics time series methodology, on the other hand, used the short-run and long-run ordinary least squares, along with the unit root test, cointegration test, and ordinary least squares. The findings revealed that the model's variables had a long-term relationship since the F-statistics value was higher than the 10% and the 5% critical values but not more than the 1%, over the 1970–2020 research period. Results based on the cointegration test shows that both the flexible and fixed exchange rate policy contributed positively to the inflation rate in the short-run and the long-run in Nigeria. However, the effect of the fixed exchange rate policy on the inflation rate in Nigeria, is less critical compared to that of the flexible exchange rate policy.

5.2 Conclusion

The overall conclusion of this study based on the empirical results from the three hypotheses and research objectives, the study concludes that the exchange rate policy has an effect on the macroeconomic performance in Nigeria. In specific, the fixed exchange rate policy has a positive effect on the balance of payment and the economic growth respectively in the long-run excluding inflation rate because both policies impact the inflation rate significantly overtime.

5.3 Recommendations of the study

This study recommends based on the findings of this study that the monetary authorities should place more emphasis on the fixed exchange rate policy rather than the flexible exchange rate policy simply because of the overall and long-run effect on the macroeconomic performance like economic growth, and balance of payment. Furthermore, there should be other supporting policies and development in the infrastructural aspect, in order to improve the results and effects of the fixed exchange rate policy on the balance of payments, and economic growth in Nigeria.

5.4 Limitations of the study

This study was constrained due to the following factors:

- Scope of the study: The study is limited to the timeframe of 1970-2020.
- The use of a single country study is another limitation to this study when compared to other studies.

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