MONETARY POLICY AND FOREIGN TRADE PERFORMANCE IN NIGERIA

(1980-2020)

BY

OGBANGA IBITAMUNO EL-ROI

Matric Number: 16020301005

DEPARTMENT OF ECONOMICS

COLLEGE OF HUMANITIES, MANAGEMENT AND SOCIAL SCIENCES

MOUNTAIN TOP UNIVERSITY

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CERTIFICATION

I certify that this work titled “MONETARY POLICY AND FOREIGN TRADE PERFORMANCE IN NIGERIA” was submitted by OGBANGA IBITAMUNO EL-ROI with the matriculation number 16020301005 to the Department of Economics, Mountain Top University, Ogun State, Nigeria.

Name of supervisor: DR OLOGUNDUDU, MOJEED M.

Signature & Date _____

Head of Department: DR OLOGUNDUDU, MOJEED M.

Signature & Date _____

DEDICATION

This project is dedicated to God almighty who has made it possible for me to complete this work and also to my family members who always believed in me.

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I give glory to God almighty who has made the completion of this project possible because without him this project will not have been accomplished, I say may his name be forever glorified. My sincere appreciation goes to my lovely parents Mr and Mrs Ogbanga for their love and support. I also deeply appreciate my H.O.D who is also my project supervisor Dr Ologundudu, Mojeed M. for his massive support, his time, guidance and advice towards the successful completion of this project. I appreciate my lecturers Mr Oluyomi, Dr (Mrs) Akinsola and Dr Ademola Young for assisting me in various ways to ensure I complete this work successfully. Also to my wonderful colleagues and friends who have contributed to my work, I say a big thank you.

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ABSTRACT

This research work examines Monetary Policy and Foreign Trade Performance in Nigeria. The research made use of secondary data which are collected from the Central Bank of Nigeria Statistical Bulletin. The data were collected for the period of forty years (1980-2020). The study employed quantitative analysis approach. Money Supply, Interest Rate, Exchange Rate, Inflationary Ratio, and Liquidly Ratio were the variables deemed appropriate indicators for monetary policy. A multiple regression analysis model that is based on the assumed functional relationship between monetary policies and foreign trade in Nigeria serves as the primary analytical tool. A multiple regression model was designed to create a connection between the variable sets, using foreign trade as the explanatory variable and the others as the explanatory variables. With the help of ordinary least squares (OLS) techniques, the model was estimated, and it was then assessed using pertinent information from the results of the regression. There was no first order serial correlation in the explanatory variable, and the model also demonstrated good explanatory power. Based on the research's findings, it was concluded that there was a clear-cut and obvious link between Nigeria's monetary policy and its performance in international trade. It was therefore advised that deliberate efforts be made to fine-tune the various monetary variables in order to create a conducive environment for international trade.

Key words: Monetary policy, Foreign Trade, Economic Growth.

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND TO THE STUDY

One of the macroeconomic instruments that nations (including Nigeria) use to manage their economies is monetary policy. It refers to activities taken by monetary authorities with the goal of affecting credit costs and availability. It covers a broad range of actions or products intended to manage or control the amount, value, and flow of money within an economy. It permeates all deliberate efforts made by the monetary authorities to manage the money supply and credit conditions in order to accomplish honorable macroeconomic goals. Moreover, the availability or price of money may have an important effect on on the economy.

According to (Nnana, 2006), macroeconomic policies in developing countries are frequently designed to stabilize the economy, encourage growth, and reduce poverty. The major purpose of Nigeria's monetary policies has been to maintain stability of domestic prices and currency rates, which is vital for achieving long-term expansion and the external sector feasibility. Economists have historically been fascinated by the factors that cause countries to grow at different rates and experience different degrees of financial success. One of these elements is foreign trade. Nigeria has a very open economy, with a sizable portion of total output coming from foreign trade. Nigeria's economic progress is heavily reliant on the possibilities of its export commerce with other countries. Foreign commerce generates foreign exchange and acts as a market stimulant, allowing for faster economic growth Several countries have achieved growth an export-led strategy. Small economies, in particular, have a limited ability to improve productivity and efficiency so as to continue development. Nigeria's relatively large domestic market may be able

to sustain growth without access to a sizable external market, but it won't be able to do so at the rates necessary to have a meaningful impact on the eradication of poverty. As a result, Nigeria has maintained its reliance on the international market. Openness to foreign trade, according to many economists, hastens development. It seems sense to imply that expanded international trade openings accelerate growth rather than just change the steady state growth rate since faster growth may have a more significant transitional impact on the rate of steady state of growth. It is legitimate to state that more foreign trade openness causes an unexpected one-time adjustment in net income because the tradition often takes a few decades or more. As a result, rather than merely causing growth to accelerate. These objectives will either be attained or not depending on how the Nigerian government's monetary and fiscal policies are implemented. Money supply and credit availability are factors that are taken into consideration while creating monetary policy. The central bank, through deposit money banks, ensures monetary stability by implementing policies that ensure the economy's orderly development by adjusting the money supply appropriately. The central bank, through its many monetary policy instruments, has an impact on bank reserves. These tools, which have an effect on reserve movement, include the liquidity ratio, open market operations, and primary operations. One could be tempted to conclude from our discussion thus far that Nigeria's use of monetary policy is not bringing about the necessary level of economic stability. This assessment is based on the economy's dismal performance in recent years. It is not surprising that a number of policies targeted at restoring the Nigerian economy have been put in place given the several crises that have impacted the growth of the economy over the past two decades, according to (Donli, 2004). Our economic system's fundamental imbalances were recognized as a primary cause of the difficulties. The imbalance was created during the colonial era, made worse by weak policies implemented after

independence in 1960, and made worse by windfall profits from oil in the 1970s. (Donli, 2004) further claims that the structural flaws were caused by undiversified monolithic and monoculture production bases, as well as an over-reliance on agricultural goods beginning in 1973. As an outcome of these occurrences, the growth process became heavily reliant on external rather than internal forces. However, of all the independences, relying only on petroleum proved to be the most detrimental to the economy. Because of the bleak economic prognosis in Nigeria, it is necessary to investigate if monetary policy, as asserted by monetarists, has an impact on Nigeria's economic stability and international trade.

Nigeria has gone through numerous stages of putting monetary policy into practice. The period of direct controls, the era of market instruments (or indirect controls), and the era of intense strategy and institutional transformation are all plainly identifiable. The major policy objectives, namely price stability and long-term economic growth, have remained constant. The CBN evaluates economic events over time, articulates the primary pressures on and risks to price stability, and formulates a framework to direct the execution of its monetary policy. The framework, which effectively acts as monetary management strategy, is built upon a macroeconomic aggregate forecasting program. The monetary program specifies the quantitative goals that must be met. In the medium term, the CBN employs the IMF's financial programming framework. To account for changes that take place throughout the course of the two-year scheduled period, this program is updated frequently.

Prior to the introduction of open market operations (OMO) in 1993, the CBN depended nearly entirely on different combinations of direct instruments of monetary management. Interest rate limitations, sectoral credit allotment, and credit ceiling, special deposits, persuasion of morals, withdrawal of government deposits, stabilization securities, and exchange control were

among the instruments used. Due to the macroeconomic developments that started in the middle of the 1980s, the CBN started the process of moving away from direct instruments and toward market-based instruments in June 1993. Along with OMO, other market-based instruments include reserve requirements, which outline the proportion of a bank's total deposit liabilities that must be retained with the central bank, and discount window operations, in which the central bank serves as the deposit money banks' lender of last resort. Outright transactions or repurchase transactions are two ways to conduct open market activities repurchase transactions are short-term and are frequently reversed when the contract expires. They entail the purchase of securities in connection with an agreement to sell shares back at a later time for a fee. The sale of securities to a third party in a reverse repo, on the other hand, involves a promise to buy the securities back with interest at a later time. At the moment, OMO is the CBN's primary monetary policy tool. Discount window activities, persuasion tactics, and currency exchange sales/swaps, and the standing facility, which was established in December, are further supportive instruments.

performance of the economy's international trade In the research on financial economics, nexus has been identified as one of the areas that can speed up economic development and progress in nations like Nigeria. Consequently, the contribution of global trade to the promotion of industrialization and economic development cannot be overemphasized. This is so that industrial development may take place, especially in emerging nations like Nigeria whose manufacturing activities significantly rely on imported inputs. Foreign trade does this by making inputs available for domestic industry. The research of (Omoju and Adesanya 2012) showed that trading with other countries widens the market for domestic industrial production (exports), which boosts investment, employment, output, and income. Foreign trade broadens consumers' options for consumption and opens up new production opportunity frontiers in the economy

(Adewuyi & Adeoye, 2008). Regardless of a country's degree of economic development, foreign trade enables the interchange of products and services between nations. Thus, Trade across international borders is permitted by mutual consent, thus a nation participating in it need not be concerned about losing its sovereignty. Consequently, a country that doesn't participate in international trade runs the danger of experiencing delayed development and progress. Nigeria (1960–2003) was used as a case study.

(0viemuno, 2007) as he examined how foreign trade might spur economic growth in developing countries. Four main factors were employed in the study: export, import, inflation, and exchange rate. The findings show that Nigeria's inflation rate is not a growth catalyst for the nation and that neither the country's export value nor its import value nor its increase in gross domestic product do anything to advance the economy of the nation.

In order to gauge a nation's economic development, including that of Nigeria, one metric that is still used is its GDP. However, some authors hold different views about GDP as a predominantly measure of development. (Manish and Andre, 2019) argued that it is crucial to use the GDP as a tool to gauge economic progress often since manufactured goods and activities are simpler to quantify than multi-dimensional indices and can measure other welfare achievements.

1.2 STATEMENT OF THE RESEARCH PROBLEM

The pursuit of countries and the formalization of how money works impacts economic aggregates dates back to advocating for the Adams Smith and water by monetary economists, the use of monetary policy as a strategy of economic management to promote international trade and achieve long-term, sustainable economic growth. Since the beginning of the function regarding monetary policy in affecting macroeconomic objectives such as economic development, price

stability, and balance of payments equilibrium, monetary authorities have been tasked with utilizing monetary policy to expand their economies. Since the Nigerian Central Bank was entrusted with the role of establishing and implementing monetary policy through the Central Bank Act of 1958. This position has aided the formation of an active money market, where treasury bills, a financial instrument used for open market operations and issuing government debt, have risen in volume and value, becoming a popular earning asset for investors and a source of market balancing liquidity. In Nigeria, there have been numerous monetary policy regimes over the years; at times, monetary policy is tight, and at other times, it is loose. Monetary policy is primarily used to keep prices stable.

The economy has had periods of increase and collapse, but it is clear that the stated growth in foreign commerce is not sustainable, as evidenced by rising poverty levels among the population.

In Nigeria, the central bank (CBN), Nigeria's main bank, has continued to struggle with restoring the country's ailing economy and placing it on a growth path. Unprecedented job losses, growing poverty levels, rapid inflation, sluggish economic development, and trade imbalances have all occurred in the economy. A number of initiatives have been used over the years to bring the system under serious scrutiny, but no long-term results have been achieved. Before and after 1986, there were two basic ways to navigating the Nigerian monetary system. The first method relied on direct monetary regulations, while the second method relied on market mechanisms. (Udude,2015) posits that an examination of Nigeria's monetary policy performance prior to 1986 reveals that the monetary policy was influenced by an economic climate that was characterized by the oil sector's dominance and over-dependence for the purpose of preserving price stability and a sound balance of payments position, on the external sector. Direct monetary

mechanisms such as credit limits, selective credit controls, managed interest and exchange rates, as well as the stipulation of cash reserve requirements and special deposits were used by the monetary management authority.

With the creation of a market-oriented financial system for effective mobilization of financial savings and efficient resource allocation, the situation has gotten more limiting as the Country continues to experience trade imbalance. However, a monetary framework known as a measure of monetary policy rate (MPR) was implemented with the ultimate goal of achieving stability in terms of the worth of the native currency through short-term interest rate stability around the "operational target." Despite several actions taken to remedy the anomaly, the level of disequilibrium in Nigeria's trade balance continues to rise, necessitating an empirical examination of this nature.

1.3 RESEARCH OBJECTIVES

The study's major goal is to look into how monetary policy affects foreign trade performance in the Nigerian economy and how it impacts economic development. Specifically this seeks to;

1. To examine the impact of Monetary Policy Rate on Economic Development.
2. To examine the relationship between Interest Rate Policy and Foreign Trade.
3 To examine the effect Prudential Guideline on foreign trade and Economic Development.

1.4 RESEARCH QUESTIONS

The subsequent are some of the questions that this research will attempt to address:

1. How does Monetary Policy Rate relate to Economic Development?

2. How does Interest Rate Policy influence Foreign Trade?

3. How does Prudential Guidelines impact Foreign trade and Economic Development?

1.5 RESEARCH HYPOTHESIS

The following are the operational theories that guide this research:

Ho: Monetary Policy Rate has no significant impact on Economic Development in Nigeria.

Hi: Monetary policy Rate has a significant impact on Economic Development in Nigeria.

H2: Interest Rate Policy has no significant impact on Foreign Trade in Nigeria.

H2: Interest Rate Policy has a significant impact on Foreign Trade in Nigeria.

H3: Prudential Guideline has no significant impact on Foreign Trade and Economic Development.

H3: Prudential Guideline has a significant impact on Foreign Trade and Economic Development.

1.6 SIGNIFICANCE OF STUDY

The need for a better economy and the undeniable link between a nation's economy and its foreign trade drives the creation of a better and more stable international trade relationship. Different actions have been taken in developing nations like Nigeria to attain the intended balance of trade if the desired destination has not been obtained. This study focuses on how monetary policies can be utilized to manage foreign trade in Nigeria, along with the positive and adverse impact on the Nigerian economy. With regards to foreign or international trade, this study will be valuable to policymakers, economists, and a number of stakeholders. The study will also serve as a starting point for others interested in conducting future research in this area.

1.7 SCOPE OF THE STUDY

The focus of the research will be on the origins, operations, goals and impact of monetary policies on international trade market management in deciding Nigeria's foreign trade for the average period of (1980-2020). This research will be limited to the pre-oil and post-oil boom periods in the mid 1981, in order to be able to compare them rationally.

1.8 ORGANIZATION OF THE STUDY

This study is divided into five chapters

The first chapter will provide a broad introduction that includes the study's history, research objectives, research questions, and research hypotheses. The conceptual and theoretical reviews, as well as the empirical review and its implications for the current study, will be presented in Chapter two. The third chapter provides the study's theoretical foundation as well as the technique and methodology used, as well as the specification. The empirical analysis and

interpretation of the estimated models will be presented in Chapter four. The summary, conclusion, and recommendations will be presented in Chapter five.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

Due largely to globalization and the growing effect of international interdependence, the strategic relevance of foreign trade in the growth of global economies has increased. Fundamentally, foreign trade is premised on comparative advantage of countries in ensuring efficient allocation of national resources in a free global market system. Countries and regional blocs are committed to sustainable alternatives to trade discussions at the bilateral, regional, and multilateral levels that provide the necessary safeguards for mutually beneficial exchanges in order to reap the full benefits of international trade. Optimization of mutual benefits emphasizes the need to make sure that economic principles are reflected in the framework of individual nations' and regional blocs, international trade policies and practices rather than leaving such crucial decisions up to political whims and caprices.

2.2 CONCEPTUAL REVIEW

2.2.1 FOREIGN TRADE

Foreign trade is the term used to describe the exchange of products, services, and money across national borders or jurisdictions. In most countries, it represents a sizeable share of the total economic production (GDP). International trade has been around for a long time, but in recent years its importance in terms of the economy, society, and politics has increased. All nations require products and services to fulfill their citizens' needs. The process of creating goods and services requires resources. Each nation has a certain amount of resources. No nation can supply all of its own needs in terms of commodities and services. It must purchase from other

nations what it cannot create or can only generate insufficiently to meet its needs. In a similar vein, it exports the excess products it produces. In general, no nation is self-sufficient. It must rely on importing the products from other nations that are either unavailable or available in insufficient quantities within it. Similar to that, is able to export commodities that are both in excess of its needs and in high demand elsewhere.

Foreign trade is the practice of exchanging goods and services among two or more nations. International trade employs a range of different currencies and is governed by the laws, rules, and regulations of the participating nations. Foreign trade has been cited by several economists as a driving force behind growth and development. There is currently hardly a nation on earth that does not engage in trade with another nation. Around the world, there are more bilateral and multilateral trade agreements than ever before. The impact of technology and globalization has been a major factor in the increased emphasis given to international trade during the past 40 years, both in developed and developing countries. There is currently hardly a nation on earth that does not engage in trade with another nation. As a result, there are now more trade pacts that are both bilateral and multilateral in place all over the world.

Nigeria's experience with international trade has had a mixed impact on development and prosperity. (Fajana, 1979) studies the relationship between commerce and growth and discovers that export and output changes have a very significant positive association. His finding also implies that, in comparison to foreign capital flow, exports have a greater influence on Nigeria's economic performance. On the other hand, (Eravwoke, K. E. and Oyovwi, D. O., 2012) analyzed the perspective on growth through trade in Nigeria and came to the conclusion that overall trade and export did not statistically significantly contribute to the explanation of Nigeria's economic growth. They also suggested that Nigeria diversify its economy in order to benefit from trade.

There is no denying that Nigeria is endowed with a variety of natural resources that may help it establish itself as a major participant on the global stage and achieve economic growth through commerce, but only crude oil makes up the majority of the country's exports. To establish a clear and unambiguous empirical link between foreign trade and economic growth, however, has proven difficult due to the wide range of country sizes, natural resource availability, fluctuations in the external environment, and internal policy variations. Recent years have seen the beginning of study on the relationship between commerce and growth using the potent vector auto-regression method developed by Sims (1986). The VAR technique is attractive because it facilitates the study of non-stationary time-series variables with respect to one another while treating each as endogenous. The use of VARS for time-series forecasting, forecast error variance decomposition, and both short- and long-run dynamical impulse response functions has been successfully demonstrated. VAR models were used by (Obiora, 2009) to evaluate the scope and causes of growth spillovers in Nigeria from significant trading partners as well as from the country's exchange rate. The outcomes refuted the "Decoupling Theory" and validated the existence of substantial cross-country spillovers from the US and other large trading partners to Nigeria.

2.2.2 ECONOMIC GROWTH AND DEVELOPMENT

Economic growth is a measurement of the increase in an economy's output. These quantitative changes are measured in finite terms by using the percentage increase of the country's gross domestic product. A relatively little time frame, often one year, is used to explain changes in the manufacturing of materials while describing economic progress. Economic theory uses the word "economic growth" to describe an annual rise in the value of material production, which is implied by the GDP or national income growth rate. Since it does not fully realize the

economic system's direction of development, growth is possible. So economic development comprises not only a rise in material production but also all the other socioeconomic processes and adjustments brought about by reasons that are beyond just economic. So, the expression of economic development occurs across a longer time frame. Several fundamental changes are necessary for an economy to develop economically.

The country's economic development will require a greater contribution from the secondary sector, which at higher levels is increasingly dominated by the service industry (tertiary sector).

Economic development is a very complicated phenomenon and process. Economic growth cannot accurately reflect the amount of economic progress that has been attained when it is expressed as a percentage rise in national income per capita.

2.3 THEORETICAL REVIEW

2.3.1 MERCANTILIST THEORY

Mercantilism, which was developed in the sixteenth century, was one of the earliest attempts to form an economic theory (Coleman, D. C. 1980). This idea holds that a nation's prosperity is determined by the amount of gold and silver it possesses. A nation should increase its gold and silver reserves by promoting exports while discouraging imports, according to mercantilist theory in its most basic form. To put it another way, if people from other nations purchase more of your exports than you purchase of theirs (imports), they must compensate you in gold and silver. Each nation wanted to avoid a trade deficit, or a circumstance in which imports were greater than exports, and instead enjoy a trade surplus, or a condition in which exports were greater than imports (Magnusson, L. Ed. 2012). Understanding why mercantile capitalism flourished can be better understood by looking at world history from the 1500s to the

late 1800s in greater detail. In the 1500s, new nation-states began to emerge, and their leaders sought to strengthen their governments by building bigger armies and national institutions. These monarchs accumulated greater money and prosperity for their nations by boosting exports and trade. Import limitations were one of the ways in which several of these new countries promoted exporting. Protectionism is the name given to this technique, which is still in use today. Nations used the colonies they had established all over the world to expand their trade dominance and wealth collection. One of the more effective instances was the British colonial empire, which attempted to enhance its wealth by importing raw materials from the regions that are today the Americas and India, Spain, Portugal, France, the Netherlands, were all successful in establishing massive colonial empires that brought enormous wealth to their own governments.

Mercantilism is still important today despite being one of the oldest trading ideologies (Pincus, S. 2012). Through a form of neo-mercantilism that mixes protectionist policies, restrictions, and domestic-industry subsidies, nations like Japan, China, Singapore, Taiwan, and even Germany continue to favor exports over imports. To protect critical industries in their economies, nearly every country has imposed some type of protectionist policy at some point. While export-oriented businesses tend to support measures that benefit their industry or businesses, protectionism hurts other businesses and consumers. Higher taxes are paid by taxpayers to cover government subsidies for certain exports. Consumers Spend more money on products created abroad because of import restrictions. Free-trade proponents emphasize how free trade benefits all members of the global society, whereas mercantilism's protectionist policies benefit only a few industries at the expense of customers and other businesses both within and outside the industry.

2.3.2 ABSOLUTE ADVANTAGE THEORY

When The Wealth of Nations was published in 1776, it opposed the prevalent mercantile theory of the day. Adam Smith's An Inquiry Into the Nature and Causes of Nation-State Wealth (London: W. Strahan and T. Cadell, 1776). Recent revisions have been made by academics and economics. Absolute advantage was a novel trade theory proposed by Smith that centered on a country's ability to manufacture a good more effectively than another. Government policy or involvement, according to Smith, should not limit or restrict cross-border trade. According to him, trade should be allowed to flow spontaneously as dictated by market forces. In a fictitious two-country scenario, if Country A could make an item less expensively and quicker in both cases than another Country, then Country A would have the upper hand.

2.3.3 COMPARATIVE ADVANTAGE THEORY

According to the rule of comparative advantage, a country must specialize in things that it can manufacture more efficiently than other countries (Krugman & Obstfeld, 2003). This indicates that even while a country experiences cost disadvantages when producing goods and services that have a fixed cost, it can still export the goods and services with the fewest fixed costs and import the goods and services with the highest fixed benefits. Additionally, it suggests that a nation with unbeatable cost advantages across the board will concentrate in producing only those goods that have the biggest unbeatable advantages, while importing goods with the lowest unbeatable advantages. Thus, comparative advantage promotes specialization, but it varies from absolute advantage specialization in that a nation will always import, whether or not it is more or less efficient overall in producing all commodities and services. Only the labor theory of value serves as the conceptual underpinning of Ricardo's concept of comparative advantage (Salvatore,

2002). This demonstrates the fact that labor is the only production element and that it is a fixed quantity used in the manufacturing of all items. The theory also presupposes that labor is uniform (Salvatore, 2002). Due to these implausible assumptions, opportunity cost was included in relation to the comparative theory of advantage's explanation. A country will have a comparative advantage in the production of goods and services if they can be produced at a lower opportunity cost, according to a reinterpretation of the Ricardian hypothesis on comparative advantage that takes opportunity cost into account. This indicates that a country will have a production advantage based on comparative costs that have a lower opportunity cost than those generated in other countries. Despite the fact that the concept of comparative cost advantage is based on a number of strict assumptions. This in no way disproves the theory's acceptability as a technique of illuminating trade advantages. This is further highlighted by the fact that the World Trade Organization (WTO) rests the majority of its principles on the legality of the rule of comparative advantage (Root 2001). The theory's broad validity is not dramatically impacted even if most of the assumptions are modified, (Harkness 2003, sweikausks 2003, Balassa 2000), and enough empirical evidence exists to support the comparative advantage theory (Bernhofen& Brown 2004, Schott, 2004, uchida & cook 2005, Krugman & Obstfeld, 2003). The comparative advantage theory is preferable because it summarizes a significant amount of relevant information in a clear and concise manner. It shows the production circumstances, such as the autarky point of production and consumption, the relative commodity price equilibrium in the absence of trade, and the relative merit of each course of action. Along with the profits made by merchants and the proportion of these profits that go to each trading nation, it also shows the degree of production competence. It is this power at the theory that provides a persuasive explanation why trading is a positive-sum game..

The idea of comparative advantages, as presented thus far, does not explain where these benefits are located. Although the Ricardian model of trade explains the fundamental idea of comparative advantage, it does not explain how trade really occurs. As a result, economists needed a new comparative advantage framework to explain trade trends. The Heckscher-ohlin (H-O) theory is an essential hypothesis for explaining the reasons, or causes, for disparities in comparative advantages between countries. According to this theory, countries differ based on their factor intensities, or the quantity of capital and labor used during the production of goods and services. There are numerous resources that explain comparative advantage. The theory classifies the primary factors that determine comparative advantage as factor abundance or endowments. Although the H.O theory is founded on a series of simplifying assumptions, relaxing these assumptions changed the theory but did not invalidate it. The H.O theory has been supported by a large body of empirical evidence. In one of the earliest such studies, Leontief (1953) discovered that, contrary to common perception, while the United States was expected to be a net exporter of capital goods and an importer of labor goods, the data actually supported the opposite. Later research by (Baldwin, 2001) supported the contradiction. Similar results were reported in studies based on data for Japan, Germany, India and Canada, (Baldwin, 2003).

Using the Leontief paradox, it prompted economists to explore for other explanations for the H.O. hypothesis. The introduction of human capital differences as a solution to the paradox was the most notable of these. Other ideas include the technology gap theory (Gurber, Metha, and Vernon 2002; Gold 2001), which views time as a dynamic addition to the fundamental H.O. theory, and the product cycle theory (Vernon, 2006). The reliability of the H.O theory in explaining the direction of commerce between countries was not harmed by most of these hypotheses, which were simply treatments and extensions of the core H.O. theory.

2.3.4 HECKSHER-OHLIN THEORY

Smith and Ricardo's theories didn't help governments figure out which items would provide them an advantage. Both theories anticipated that free and open markets would encourage countries and producers to figure out which items they could manufacture more effectively. Two Swedish economists, Eli Heckscher and Bertil Ohlin, focused their research in the early 1900s on how a nation could gain comparative advantage by producing goods using resources that were abundant in the nation (Lundahl, M. 2015). Their strategy is built on the three factors that make up a nation's economy: land, labor, and money, which provide the capital needed to invest in plant and equipment. They found that supply and demand determine the price of any factor or resource. Factors with a high supply compared to demand would be in high demand**.** Other names for the H-0 Theory are the Modern Theory and General Equilibrium Theory. In this idea, factor endowments and factor pricing were the most crucial global trade variables (Subasat, T. 2003). The two theorems that make up the H-O are the Factor Price Equalization Theorem and the H-O Theorem. The H-0 theory predicts trade patterns, but the factor-price equalization theorem deals with the impact of foreign trade on factor prices. The H-0 theorem is split into two sections: factor intensity and factor abundance. Physical units and relative factor pricing can employable to explain factor abundance. Physical units comprise capital and labor, whereas relative factor pricing covers costs such as rent, labor, and so on. On the contrary, factor intensity means capital, labor or technology, etcetera, any factor that a country has.

Due to its reliance on fewer simplifying assumptions, some economists favor the Heckscher-Ohlin theory over the Ricardo theory. An economist investigated the validity of the Heckscher-Ohlin theory in a research report that was released in 1953. According to the research,

the United States possesses more capital endowment than other countries, thus it will Export capital-intensive products and import labor-intensive products. Wassily Leontief remarked that compared to its imports, the United States' exports required less capital.

2.3.5 LEONTIEF PARADOX

American economist Wassily W. Leontief, who was born in Russia, conducted a thorough analysis of the US economy in the early 1950s and came to the conclusion that the country should export more capital-intensive goods since it had an excess of capital (Maharjan, D. 2017). His investigation, which was based on actual data, revealed the opposite: more imports from the US were capital-intensive. According to the factor proportions hypothesis, the United States ought to have imported labor-intensive products, but it was instead exporting them. Leontief Paradox was named after his study, which was the polar opposite from what the theory of factor proportions predicted.

In succeeding years, economists have noted that, at the In the US, time and labor were both plentiful and more effective than manual work in many other nations, therefore exporting labor-intensive items made sense. Many economists have utilized data and theories to explain and mitigate the paradox's impact over the years. What is clear, though, is that there are many different factors that drive global trade, and they are complicated and always shifting. Trade is not easily explained by a single theory, and our comprehension of theories relating to international trade is constantly changing (Deardorff, A. V. 1984).

2.3.6 COUNTRY SIMILARITY THEORY

A Swedish economist named Steffan Linder developed the nation similarity theory in 1961 in an effort to explain the concept of intra-industry trade (Ohlin, B. 1924). The Linder

theory states that when people are in similar developmental stages throughout different countries, their tastes are similar. Linder suggested that corporations create initially for domestic demand utilizing the firm-based paradigm. When organizations consider exporting, they frequently discover that markets with client preferences that are comparable to their domestic market have the most potential for success (Madsen, T. K. 1998). According to Linder's nation similarity theory, most manufactured goods trade will be between nations that have comparable per capita incomes, with intra-industry trade being common. This theory is particularly relevant in analyzing goods commerce, as names of brands and product standing play a significant role in customers' processes for choosing and buying.

2.3.7 PRODUCT LIFE CYCLE THEORY

The product life cycle idea was invented in the 1960s by Harvard Business School professor Raymond Vernon. The idea, which has its roots in marketing, states that a product life cycle is made up of three distinct stages: new product, maturing product, standardized product (Feng, Y. 1995). The idea held that the country where the new product was conceived would be its sole location for manufacture. This was a good notion to explain the United States' manufacturing prowess in the 1960s. Following WWII, US manufacturing became the world's main producer in numerous areas.

The theory of the product life cycle has struggled to explain current trade patterns around the world, where invention and manufacturing take place (Martin, R., & Sunley, P. 2011). Global corporations, for example, perform research and development in developing countries, where highly skilled people and facilities are typically less expensive. Developing or emerging markets like India and China provide both highly skilled labor and new research facilities at a significant

cost advantage for multinational corporations, despite the fact that research and development is typically associated with the first or new product stage and is thus finished in the home country.

2.3.8 GLOBAL STRATEGIC RIVALRY THEORY

The theory of global strategic rivalry, which was based on the work of economists Paul Krugman and Kelvin Lancaster, came into being in the 1980s. Their concept concentrated on MNCs and their efforts to get an advantage over other foreign businesses operating in their industry. Companies will face international competition in their industry, and in order to succeed, they must create competitive advantages. Crucial ways for businesses to maintain a competitive edge over the long run are through the industry's entry barriers. The difficulties a new business may face while trying to join a new market or industry are referred to as barriers to entry. The barriers to entry refer to the obstacles a new firm may face when trying to enter into an industry or new market. Intellectual property rights in research and development, economies of scale, unique commercial procedures or techniques, widespread industry, the management of resources, or preferential access to raw materials are some of the entrance barriers that corporations may seek to reduce (Todeva, E., & Knoke, D. 2005).

2.3.9 PORTER'S NATIONAL COMPETITIVE ADVANTAGE THEORY

As part of the continual evolution of innovate and upgrade, which defines a country's competitiveness in that industry, Michael Porter of Harvard Business School developed a new model in 1990 to explain national competitive advantage. His hypothesis sought to explain why certain nations compete better than others in particular markets. Porter compiled a list of four determinants and connected them to form his theory. The four factors are: local company

characteristics, local market resources and competencies, local market demand conditions, local suppliers and adjacent industries (Porter, M. E. 1990).

2.4 EMPIRICAL REVIEW

To ascertain how monetary policy has influenced factors in developing countries' macroeconomic performance through international trade links, numerous empirical studies have been conducted. New research supporting the export-led growth theory have piqued attention, making it critical for developing nations like Ethiopia to discover monetary policies that boost exports while stabilizing imports. As a result, a summary of these connected studies is provided below.

(Onuchuku, et al., 2018) looked at how monetary policy considerations impacted economic development and the balance of payments in Nigeria using the Ordinary Least Squares (OLS) methodology. According to the research, the amount of money in the economy has a positive impact on GDP growth and the balance of payments, but a negative impact on the rate of inflation.

In a similar vein, (Chipote and Makhetha-Kosi, 2014) used an error correction mechanism to examine the impact of monetary policy variables on South Africa's economic growth and found that while the money supply and exchange rate have negligible effects on economic growth in South Africa, they have significant effects on inflation. The work of an unnamed author was featured on Articles.com.ng (2017), who looked at the influence of monetarist strategy on international commerce in Nigeria. The study used a quantitative method to analysis. An examination of multiple regression was used to evaluate data on suitable monetary policy indicators (exchange rate, inflationary ratio, money supply, interest rate, and

liquidity ratio) gathered from 1981 to 2010. The model for the inquiry was estimated using the ordinary least squares method. According to the results, the money supply, exchange rate, and inflationary rate all had a detrimental effect on foreign exchange. According to the research, there is a clear and obvious connection between monetary policy and foreign trade, and intentional efforts should be made to fine-tune the various financial components in order to create an environment that is conducive to foreign trade. (Nenbee and Madume, 2011) examined the effects of monetary policy on the macroeconomic stability of Nigeria between 1970 and 2009. In the study, price stability was used as a proxy for macroeconomic stability. Tools for data analysis included co-integration and error correction modeling (ECM). The results show that in the long run, only 47% of the overall model changes are explained by the monetary policy variables Money Supply (MS), Minimum Rediscount Rate (MRR), and Treasury Bills (TRB). The study discovered that monetary policy tools had conflicting results in terms of how they affected inflation in Nigeria. As a result, the research advised that Nigeria use a macroeconomic mix of monetary, fiscal, and exchange rate policies to manage inflation, fostering price stability and, in turn, macroeconomic stability. The impact of monetary policy tools on economic development in Nigeria from 1981 to 2012 was examined by (Udude, 2014) using the Vector Error Correction Mechanism. According to the analysis, only the exchange rate had a significant impact on economic growth in Nigeria over the course of the investigation (VECM). (Nwoko et al. 2016) used OLS in their investigation on the effects of monetary policy actions on the Nigerian economy. According to the findings, average cost and labor force have a substantial impact on gross domestic product, whereas money supply has a little impact on the Nigerian economy's growth. Co-integration and related error correction model (ECM) techniques were utilized between 1970 and 1998 by (Ajisafe & Folorunso, 2002) to evaluate the relative

effectiveness of financial and budgetary policies on economic development in Nigeria. The study revealed that the government's focus on fiscal action has led to more economic distortion and that monetary policy has a greater impact on economic growth in Nigeria than fiscal policy. Finding the monetary and fiscal policy instruments with a significant impact on Nigeria's economic growth was the study's main objective. Ordinary least squares (OLS) analysis was used to examine the data. Government money has a large and favorable influence on economic growth, according to the findings. The study also discovered that money supply has a considerable beneficial influence on economic growth. The study also discovered such that the exchange rate had a favorable influence on the Nigerian economy's performance (Imoisi et al , 2013). On the other hand, examined the impact of monetary policy on the stability of Nigeria's payments balance from 1981 to 2010. In the analysis, the researchers used the OLS approach. According to the study, Nigeria's payments balance was significantly and favorably impacted by interest rates and the availability of money. Few research examined it from a sectoral viewpoint, examining and figuring out how monetary policies affect the international trade channels that significantly contribute to economic growth. The majority of studies examined the relationship between monetary policy and economic expansion in Nigeria. However, economic theory suggests that obtaining optimal international trade, i.e. achieving a balance between imports and exports, is the fastest way to achieve long-term economic growth. Second, most of the studies evaluated did not cover a longer time period, leaving them unprepared to account for numerous shocks and causal effects that may arise from switching from one monetary policy to the other. As a result, a more dynamic model is needed, one that illustrates the short- and long-term connections between monetary policy and foreign trade. The total imports and exports of goods and services for the studied period were separated for the first time in this examination of foreign

trade. The study used a broader range of monetary implementations, such as the exchange rate, interest rate, monetary supply cash reserve ratio, and minimum rediscount, as well as an analytical strategy that was different from the variables used in prior studies.

2.5 GAP IN LITERATURE

There has been little examination of the Nigerian economy as a case study despite the vast amount of research on the impact of monetary policy on international trade. This paper will be among the most recent studies on the subject when the time period is taken into account. employing multiple regression models in the OLS approach, (Akinjare et al., 2016) analysis. According to research, Nigeria's economy is favorably influenced by the money supply, interest rates, and exchange rates. The impacts of a monetary policy's impact on gross domestic product have been the subject of similar studies in other industrialized economies, such as the one done in the Czech Republic (Borys et al., 2009). The VAR model's outputs have shown that currency shocks have a negative impact on inflation levels and economic growth. Additionally, some other authors draw the conclusion that there is a direct connection between monetary policy and economic growth. The others adjust for one another's effects of different monetary policy tools on economic growth. (Akujuobi, 2011) employed data spanning the years 1990 to 2011.

OLS results the trend was statistically significant, it was further explained that the average price and labor force had a positive and significant link., but negatively, while money supply kept supporting the growth. Similar to this, (Lashkary & Kashani, 2011) examined data from 22 countries between 2004 and 2010, and their findings demonstrated a significant relationship between interest rates and growth. The study also observes that changes in interest rates were unimportant in the sample countries chosen. Additionally, a study looking into the co-

integration of the real interest rate with growth was conducted in the United States of America (Adda et al., 1997). Twenty nations were based, and data from 1960 to1994 were considered. It described the correlation between these factors are markedly negative. According to a study conducted in the same context, interest rates and economic development in Ghana are inversely associated (Mensah & Okyere, 2015). (Fasanya et al, 2013) the writers looked into the effects of monetary policy on Nigeria's economic growth. This investigation made use of the time-series data examined by Augmented Dickey-Fuller (ADF) and Phillip-Perron (PP). The findings showed that the factors influencing the nation's growth were those relating to monetary policy, notably the exchange rate, inflation rate, and foreign reserve. An analogous study was carried out in South Africa, and its authors looked at the cause and effect relationship between financial management and economic growth. Between the years of 2000 and 2010, the study used the (ADF) and (PP) unit root test. The results proved that the study's parameters had a co-integration over the long run. While money quantity and exchange rate were unimportant, the finding shows that inflation played a substantial influence (Precious & Palesa, 2014). This study adds to the corpus of information on Nigeria's foreign trade performance and monetary policy.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION

This chapter discusses the research's theoretical framework, the data sources that will be used in the empirical study, and the methods of analysis that will be used. This chapter also contains the model specifications for this study's empirical analysis.

3.2 THEORETICAL FRAMEWORK

A nation must focus on those goods that it can manufacture substantially more effectively than other nations, according to the law of comparative advantage (Krugman & Obstfeld 2003). This suggests that a country can still export goods and services where its absolute disadvantages are the smallest and import things where its absolute disadvantages are the greatest, despite having absolute cost disadvantages in the production of those goods and services (Smith, 2010). Furthermore, it suggests that a nation with absolute cost advantages across the board will specialize on and export the goods with the biggest advantages, while importing goods with the smallest benefits. Comparative advantages cause specialization, but unlike specialization based on absolute advantage, a country will always import, regardless of whether it is more or less efficient overall in the production of all goods and services in compared to other nations. The labour theory of value serves as the foundation for Ricardo's notion of comparative advantages (Salvatore 2002).

This suggests that the single factor of production is labor, and that it is employed in fixed amounts in the creation of all things. In addition, the theory presupposes that labor is homogeneous. Opportunity cost was integrated into the theory of comparative advantage's justification because of these improbable assumptions. If the opportunity cost definition of the Ricardian theory of comparative advantage is used, a nation will have a comparative advantage in the production of goods and services if they can be produced at a lower opportunity cost. This indicates that a nation will have a comparative cost advantage in the production of goods and services that have a lower opportunity cost than those produced in other nations (Salvatore, 2002). Although the theory of comparative cost advantage is predicated on a number of rigid premises, this does not negate the theory's widespread acceptance as a means of explaining trade-related advantages (Krugman 1990, Culberson 1986, Keesing 1966, Vernon 1979). This is further supported by the fact that the World Trade Organization's (WTO) most guiding principles are predicated on the legitimacy of the law of comparative advantage.

FIG 3.1: THE LINK BETWEEN MONETARY POLICY TOOLS AND FOREIGN TRADE.

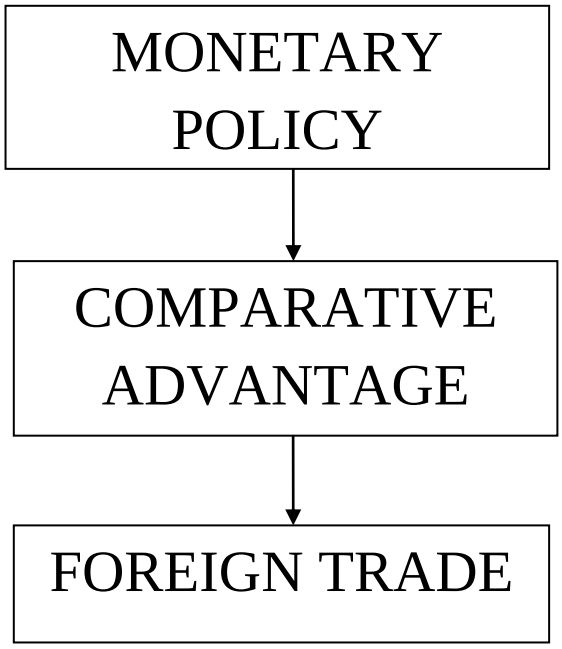
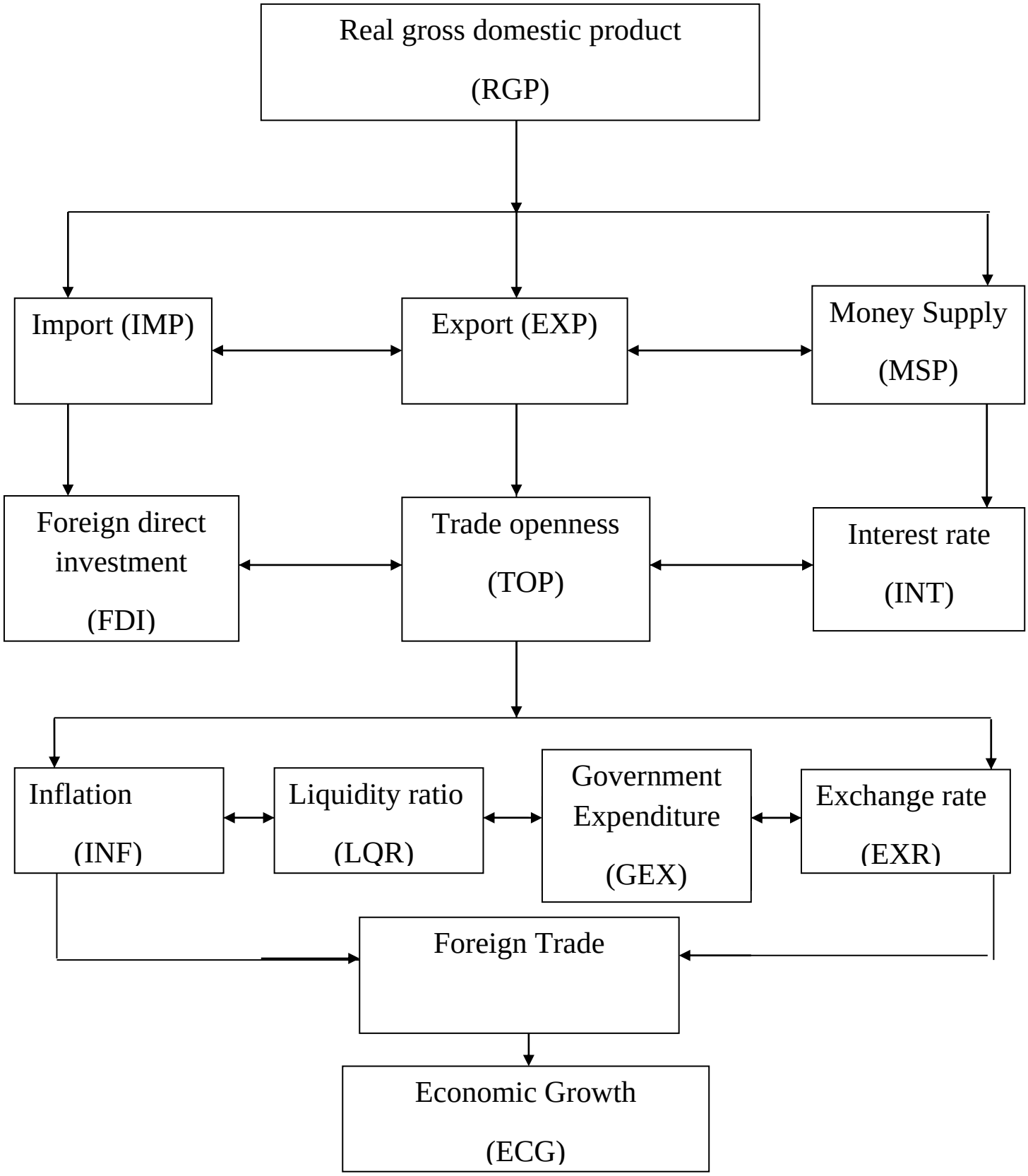


FIG 3.2: LINK BETWEEN MONEY SUPPLIED, GOODS PRODUCED, IMPORTED, EXPORTED, GOVERNMENT EXPENDITURE AND ECONOMIC GROWTH.

The table below illustrates how the supply of money, the production of goods, exportation and importation of those items, the exchange rate, the rate of inflation, and the impact on economic growth all relate to one another.


Real gross domestic product
(RGP)
Import (IMP)
Export (EXP)
Money Supply
(MSP)
Foreign direct investment
(FDI)
Trade openness
(TOP)
Interest rate
(INT)
Inflation
(INF)
Liquidity ratio
(LQR)
Government Expenditure
(GEX)
Exchange rate
(EXR)
Foreign Trade
Economic Growth
(ECG)

3.3 Model Specification

To derive the first objective, the study takes after the work of Victoria & Tochukwu (2016)

RGDP=f(IMPT,EXPT,MS,INFL) (1)

The above equation can be defined econometrically as

$$\ln RGDP_t = \partial_0 + \partial_1 \ln IMPT_t + \partial_2 \ln EXPT_t + \partial_3 \ln MS_t + \partial_4 \ln INFL_t + \varepsilon_{1t} \quad (2)$$

To investigate objective two, the study employed the work of Akujuobi (2010)

RGDP=f(GEXP, FDI,RIR,EXR) (3)

Econometrically, the equation can be defined as;

$$\ln RGP_t = \beta_0 + \beta_1 \ln GEX_t + \beta_2 \ln FDI_t + \beta_3 \ln RIR_t + \beta_4 \ln EXR_t + \varepsilon_{2t} \quad (4)$$

To investigate objective three, the study employed the work of Twinoburyo & Odhiambo (2018)

EXPT =f(RGDP,MS, TOP) (5)

Econometrically, the equation can be defined as;

$$\ln EXPT_t I = b_0 + b_1 \ln RGP_t + b_2 \ln MS_t + b_3 \ln TOP_t + \varepsilon_{3t} \quad (6)$$

where,

RGDP is the Real Gross Domestic Product which is a proxy for Economic Growth, IMPT which is Import, EXPT is Export, MS which is Money Supply, INFL is Inflation rate, GEXP is represents Government expenditure, FDI represents Foreign Direct Investment, , RIR is Interest Rate, EXR is Exchange Rate, TOP is Trade Openness and ∂_i, β_i and b_i are parameters of the

models and ε is the error term. The model has formulated RGP as the dependent variable, as IMP, EXP and ECG the independent variables and MSP,INF, GEX, FDI, INR,EXR, LQR, TOP as control variables.

3.4Sources of Data Collection

The study will make use of secondary data sourced majorly from the publications of Central Bank of Nigeria (CBN) Statistical Bulletin, and the World Development Indicators (WDI 2020). The specific sources are highlighted in the table below;

3.4 SOURCES OF DATA COLLECTION

Variables	Definitions/Measurement	SOURCE
RGDP	The real GDP reflects the output that was created in a specific year. Since it has been adjusted for inflation and offers a more accurate statistic, it is used to reflect economic growth. It is valued in US dollars.	WDI 2020
IMPT	the process by which a nation imports commodities or materials for trade or sale from another nation.	CBN statistical bulletin 2020
EXPT	An item that is exported into another country is one that was made in one country and traded internationally.	WDI 2020
MS	The total amount of cash and other liquid assets in an economy's money supply at a given time.	WDI 2020

	measured.	
INFL	The general rise in the cost of goods and services in an economy during a specific time period is known as inflation.	WDI 2020
GEXP	Money that the government spends is referred to as a government expenditure.	CBN statistical bulletin 2020
FDI	When a company or individual from one country invests directly in a company in another, it is known as a foreign direct investment.	CBN statistical bulletin 2020
RIR	The interest rate is the amount of interest that is charged on a loan, deposit, or borrowing on a periodic basis.	CBN statistical bulletin 2020
EXR	The exchange rate is the price at which one currency can be converted into another.	CBN statistical bulletin 2020
ECG	Economic growth is the rise or improvement in the market value of the goods and services produced over a given period of time by an economy, adjusted for inflation.	CBN statistical bulletin 2020
TOP	The degree to which economic policies encourage or impede trade between nations is known as trade openness.	CBN statistical bulletin 2020

3.5 Estimation Techniques

This study will employ the econometric simulation method using a single equation. The model specification parameters of the functions' signs and sizes, the model's functional form, and the mathematical form of the equation take into account the determinants of the dependent and independent variables as well as the prior expectation of the independent variables. The traditional least-squares regression model will be employed as the model in this investigation (OLS). The cornerstones of OLS are the foundation of this strategy.

Identifying the relationship between monetary policy and foreign trade performance is the major objective, while other relevant macroeconomic effects on both variables are also taken into consideration.

3.6 Steps in the Estimation Technique

The OLS estimation approach would be used here. The emphasis would be on determining whether or not the variables are properly coordinated. We want to know how statistically significant they are, and if they aren't, the model's output will be assessed using three (3) criteria: economic a priori expectation, statistical test of significance, and econometric test.

3.6.1 The economic criteria

The economic a priori expectation evaluates the parameter in terms of whether it meets the expectations of traditional economic theory.

3.6.2 The Statistical Criteria

Statistical tests are used to assess the estimated parameter's reliability using statistical theory and expectation. The following is a list of the statistical tests that were performed:

A) The T-test, which is used to assess the importance of each parameter in the regression model. Whether or not to accept the null hypothesis depends on the value of the test statistics derived from the data.

B) The F-test is used to determine whether or not an

i. Individual regression co-efficient is statistically significant.

ii. There are no partial slope co-efficient.

iii. Two or more co-efficient have the same statistical significance.

iv. The regression model has structural stability

v. Co-efficient fulfils some linear constraints.

C) Coefficient of determination (R2): The goodness of fit test uses the square of the correlation coefficient. It shows or explains the percentage of the total variation in the endogenous variable that is accounted for by changes in the explanatory variables. In determining the explanatory power of the regression, it evaluates how responsive the explanatory variables are.

3.6.3 Econometric tests

The test will be run on the regression result in order to assess it using OLS Classical assumptions.

These tests are briefly mentioned below:

a) Multi-collinearity test: This will be utilized to determine the Linear collinearity among explanatory variables, and a correction matrix will be used in this test.

b) Auto-correlation test: This is used to determine if the errors corresponding to distinct observations are uncorrelated, as well as the error term's unpredictability. For this test, the Durbin-Watson (DW) approach would be used, because D.W. produces estimates that have qualities and are more efficient for all samples of all sizes, according to Koutsoyannis (1997).

c) Heteroscodasticity test: This determines if the error terms of the estimated model's explanatory variables have equal variance.

c) Normality test: This will determine if the estimated model's error term is normally distribute

CHAPTER FOUR

RESULT PRESENTATIONAND ANALYSIS

4.1 INTRODUCTION

This chapter contains the analysis of the figures of the independent variables affecting the dependent variables and also the interpretation of the results. Section 4.2 talks about the presentation of results and section 4.3 show the interpretation of the analysis.

4.2 PRESENTATION OF RESULTS

Three models were estimated in this research work based on the topic being discussed. The models were estimated using the ordinary least square method (OLS) method. The results of the model are presented in the regression tables below:

Table 4.2.1: Regression Table for model 1

MODEL 1
Dependent Variable: INRGDP
Method: Least Squares
Date: 08/22/22 Time: 10:15
Sample: 1980 2020
Included observations: 41

Variable	Coefficient	Std. Error	t-Statistic	Prob.
INEXPT	-0.109589	0.126138	-0.868802	0.3907
ININPT	-0.276833	0.146296	-1.892286	0.0665
INMS	0.290806	0.018381	15.82113	0.0000
ININFL	0.065300	0.059060	1.105640	0.2762
C	5.741319	0.499476	11.49469	0.0000

R-squared	0.900555	Mean dependent var	12.90294
Adjusted R-squared	0.889506	S.D. dependent var	0.734829
S.E. of regression	0.244262	Akaike info criterion	0.132696
Sum squared resid	2.147896	Schwarz criterion	0.341669
Log likelihood	2.279726	Hannan-Quinn criter.	0.208792
F-statistic	81.50267	Durbin-Watson stat	1.336664
Prob(F-statistic)	0.000000		

Sources: E-views 10

Table 4.2.2: Regression Table for model 2

MODEL 2

Dependent Variable: INRGDP
Method: Least Squares
Date: 08/22/22 Time: 10:17
Sample: 1980 2020
Included observations: 41

Variable	Coefficient	Std. Error	t-Statistic	Prob.
INGEXP	0.188566	0.035656	5.288443	0.0000
INFDI	-0.030142	0.074285	-0.405764	0.6873
RIR	-0.001683	0.003767	-0.446708	0.6578
INEXR	0.065121	0.057089	1.140684	0.2615
C	7.817874	0.754692	10.35903	0.0000

R-squared	0.845744	Mean dependent var	12.90294
Adjusted R-squared	0.828604	S.D. dependent var	0.734829
S.E. of regression	0.304219	Akaike info criterion	0.571711
Sum squared resid	3.331771	Schwarz criterion	0.780684
Log likelihood	-6.720082	Hannan-Quinn criter.	0.647807
F-statistic	49.34446	Durbin-Watson stat	1.011229
Prob(F-statistic)	0.000000		

Sources: E-views 10

Table 4.2.3: Regression Table for model 3

MODEL 3

Dependent Variable: INEXPT
Method: Least Squares
Date: 08/22/22 Time: 10:47
Sample: 1980 2020
Included observations: 41

Variable	Coefficient	Std. Error	t-Statistic	Prob.
INMS	-0.042683	0.025179	-1.695189	0.0984
INDOP	1.113704	0.056073	19.86154	0.0000
INRGDP	0.059679	0.084742	0.704248	0.4857
C	-0.525465	0.582284	-0.902420	0.3727

R-squared	0.943222	Mean dependent var	2.848852
Adjusted R-squared	0.938619	S.D. dependent var	0.517154
S.E. of regression	0.128126	Akaike info criterion	-1.179136
Sum squared resid	0.607403	Schwarz criterion	-1.011958
Log likelihood	28.17229	Hannan-Quinn criter.	-1.118259
F-statistic	204.8885	Durbin-Watson stat	1.182691
Prob(F-statistic)	0.000000		

Sources: E-views 10

4.3 RESULT INTERPRETION

4.3.1 ANALYSIS OF RESULTS BASED ON ECONOMIC CRITERIA

MODEL 1

The above result in terms of coefficients pf regression can be interpreted as follows:

The intercept of Real Gross Domestic Products when all other explanatory variables are held constant is 5.741319

IMPORT RATE (IMPT)

Import rate has a negative coefficient of -0.276833. This indicates that import rate has a negative relationship with RGDP, showing that a unit increase in Import rate (IMPT) will reduce RGDP by -0.276833.

EXPORT RATE (EXPT)

The coefficient has a negative of -0.109589. Which means that there is a negative relationship between export rate and RGDP, showing that with a unit increase in export rate (EXPT) RGDP will decrease by0.109589.

MONEY SUPPLY (MS)

The coefficient is 0.290806. This indicates a positive relationship between money supply and RGDP, showing thata unit increase in money supply the RGDP will increase by 0.290806.

INFLATION RATE (INFL)

The coefficient has a negative of 0.065300. Which means that there is a positive relationship between inflation rate and RGDP, showing that with a unit increase in inflation rate (INFL) RGDP will increase by 0.065300.

MODEL 2

The intercept of Real Gross Domestic Products when all other explanatory variables are held constant is 7.817874

GOVERNMENT EXPENDITURE (GEXP)

The coefficient is 0.188566. This indicates that there is positive relationship between government expenditure and RGDP, showing that with a unit increase in unemployment rate RGDP will increase by 0.188566.

FOREIGN DIRECT INVESTMENT (FDI)

FDI has a negative coefficient of -0.030142. which means that there is a negative relationship between FDI and RGDP, showing that with a unit increase in FDI the RGDP will decrease by 0.030142.

REAL INTEREST RATE (RIR)

The coefficient is -0.001683. This shows that there is a negative relationship between real interest rate and RGDP, showing that a unit increase in RIR will decrease RGDP by 0.001683.

EXCHANGE RATE (EXR)

The coefficient is 0.065121. This shows that there is a positive relationship between exchangerate and RGDP, showing that a unit increase in EXR will increase RGDP by 0.0065121

MODEL 3

The intercept of Unemployment rate when all other explanatory variables are held constant is -0.525465

MONEY SUPPLY (MS)

The coefficient is -0.042683. This indicates a negative relationship between money supply and EXPT, showing thata unit increase in money supply the EXPT will decrease by0.042683.

DEGREE OF OPENESS (DOP)

The coefficient is 1.13704. This indicates a positive relationship between degree of openness (dop) and export rate, showing thata unit increase in DOP the export rate will increase by 1.13704.

REAL GROSS DOMESTC PRODUCTS (RGDP)

The coefficient is 0.0525465. This indicates a positive relationship between RGDP and Export rate, showing that with a unit increase in RGDP, export rate increases by 0.0525465.

4.3.2 ANALYSIS BASED ON STATISTICAL CRITERIA

4.3.2.1 The R^2 (coefficient of determination)

In our model, model 1 has R^2 of 0.900555 which implied that about 90% of the variation in real GDP is explained by the independent variable (Import, Export, Money supply, Inflation rate).

In model 2, R^2 is 0.845744, which implies that about 85% of the variation in real GDP is explained by the independent variable (Government expenditure, foreign direct investment, real interest rate, exchange rate).

In model 3, R^2 is 0.94322,Which implies that about 94% of the variation in export rate is explained by the independent variable (money supply, degree of openness, real gross domestic products).

4.3.2.2 The T-test (Student T test) statistics

The t-test in table 4.3 are used to test if the independent variables are statistically significant to the dependent variables. Under n-k degrees of freedom at 5% level of significance,

Test Hypothesis

H_0: $B_1=0$ (The parameter is statistically insignificant)

H_1: $B_1 \neq 0$ (The parameter is statistically significant).

Decision rule

Reject H_0 if t-cal> t-tab

Accept H_0 if otherwise

From our data n=41 and K =5

Therefore d.f = n-k=41-5=36 for model 1 and 2

For model 3

N=41 and k=4

Therefore d.f=n-k=41-4=37

Critical tabulated at 0.05 significance level is equal to 2.021

Below shows the result of the t- stats for model 1, model 2, and model 3 in the tables below

Table 4.3.2.2.1: T table (Model 1)

MODEL 1

Variable	T-calculated	T- tabulated	Decision	Conclusion
EXPT	-0.868802	± 2.021	Accept H_0	Not Significant
IMPT	-1.892286	± 2.021	Accept H_0	Not Significant
MS	15.82113	± 2.021	Reject H_0	Significant
INFL	1.105640	± 2.021	Accept H_0	Not Significant

Sources: E-views 10

Table 4.3.2.2.2: A T table (Model 2)

MODEL 2

Variable	T-calculated	T- tabulated	Decision	Conclusion
GEXP	5.28843	± 2.021	Reject H_0	Significant
FDI	-0.405764	± 2.021	Accept H_0	Not Significant
RIR	-0.446708	± 2.021	Accept H_0	Not Significant
EXR	1.140684	± 2.021	Accept H_0	NotSignificant

Sources: E-views 10

Table 4.3.2.2.3: A T table (Model 3)

MODEL 3

Variable	T-calculated	T- tabulated	Decision	Conclusion
MS	1.6915189	± 2.021	Accept H_0	Not Significant
GDP	0.704248	± 2.021	Accept H_0	Not Significant
DOP	19.8614	±2.021	Reject H_0	Significant

Sources: E-views 10

4.3.2.3 The F- statistics Test

The Test is carried out to determine if the independent variables in the model are simultaneously significant or not it has K-1 degree of freedom in the numerator and n-k degree of freedom in the denominator. Hence, the analysis shall be carried out under the hypothesis below:

H_0:$X_1=X_2=X_3=0$ (The model is insignificant)

H_1:$X_1\neq X_2\neq X_3\neq 0$ (The model is significant)

Decision Rule

Reject H_0 if f-cal> f- tab otherwise accept H_0

V_1=K-1=5-1=4 (numerator)

V_2=n-k=41-5=36 (denominator) (model 1 and 2)

For model 3

V_1=K-1=4-1=3 (numerator)

V_2=n-k=41-4=37 (denominator)

Table 4.3.2.3.1: F- test (Model 1)

MODEL 1 below analysis the result

F-calculated	F-tabulated	Decision rule
81.50267	2.6060	Reject H_0

Sources: E-views 10

From the result, since F-cal> f-tab (i.e81.50267>2.6060), We therefore reject the null hypothesis H_0 and accept the alternative hypothesis H_1 and conclude that at 5% level of significance the overall regression is statistically significant.

Table 4.3.2.3.1: F- test (Model 2)

MODEL 2 below analysis the result

F-calculated	F-tabulated	Decision rule
49.34446	2.6060	Reject H_0

Sources: E-views 10

From the result, since F-cal> f-tab (i.e 49.34446>2.6060), We therefore reject the null hypothesis H_0 and accept the alternative hypothesis H_1 and conclude that at 5% level of significance the overall regression is statistically significant.

Table 4.3.2.3.1: F- test (Model 3)

MODEL 3 below analysis the result

F-calculated	F-tabulated	Decision rule
204.885	2.8387	Reject H_0

Sources: E-views 10

From the result, since F-cal> f-tab (i.e 204.885>2.8387), We therefore reject the null hypothesis H_0 and accept the alternative hypothesis H_1 and conclude that at 5% level of significance the overall regression is statistically significant.

4.3.3 ANALYSIS BASED ON ECONOMETRIC CRITERIA

(2nd Order Test)

This test is at ascertaining if autocorrelation occurred in the model. To achieve this, we assume that the values of the random variables are temporarily independent by employing the technique of dubin- Watson (d) statistics.

Decision rule

Null Hypothesis (Ho)	Decision	If
No positive autocorrelation	Reject	$0 < d < du$
No positive autocorrelation	No decision	$DL \leq d \leq du$
No negative autocorrelation	Reject	$4 - dL < d \leq 4$
No negative autocorrelation	No decision	$4 - du \leq d \leq 4\text{-}dL$
autocorrelation (positive or	Do not reject	$Du < d < 4 \leq dL$

negative)		

Sources: E-views 10

Where:

dL = lower unit

du = upper unit

d = durbin Watson calculated

From Durbin-Watson table

MODEL 1	MODEL 2	MODEL 3
dL= 1.287	dL= 1.287	dL= 1.336
du= 1.776	du= 1.776	du= 1.720
d^*= 1.336664	d^*= 1.011229	d^*= 1.182691

Decision rule

MODEL 1: 0< d^*< dL

0<1.336664>1.287

MODEL 2: 0< d^*< dL

0<1.011229<1.287

MODEL 3: 0< d^*< dL

0<1.182691<1.383

Conclusion

The durbin-Watson test shows that there is positive autocorrelation in the model 1 but in model 2 and 3 there is no positive autocorrelation. Therefore, we accept the null hypothesis for model 1 but reject the null hypothesis for model 2 and 3

4.3.4 MULTICOLLINEARITY TEST

Multicollinearity means the existence of a perfect linear relationship among the explanatory variable of a regression model. Below in table 4.3.3.4.1 shows the result of the multicollearity test

Table 4.3.3.4.1: Multicollinearity Test

	INRGDP	INMS	ININFL	INIMPT	INGEXP	INFDI	INEXR	INEXPT	INDOP	RIR
INRGDP	1.000000	0.923813	-0.185149	0.374040	0.916308	0.274483	0.839575	0.167345	0.276523	0.377337
INMS	0.923813	1.000000	-0.233887	0.584590	0.989502	0.293833	0.919567	0.367711	0.489792	0.450260
ININFL	-0.185149	-0.233887	1.000000	-0.043696	-0.263003	0.277761	-0.102545	0.019106	-0.011038	-0.514108
INIMPT	0.374040	0.584590	-0.043696	1.000000	0.538076	0.384761	0.708013	0.796463	0.926937	0.185523
INGEXP	0.916308	0.989502	-0.263003	0.538076	1.000000	0.286372	0.881033	0.340813	0.452025	0.431194
INFDI	0.274483	0.293833	0.277761	0.384761	0.286372	1.000000	0.478468	0.598859	0.533339	0.124740
INEXR	0.839575	0.919567	-0.102545	0.708013	0.881033	0.478468	1.000000	0.557093	0.658275	0.428234
INEXPT	0.167345	0.367711	0.019106	0.796463	0.340813	0.598859	0.557093	1.000000	0.963424	0.173037
INDOP	0.276523	0.489792	-0.011038	0.926937	0.452025	0.533339	0.658275	0.963424	1.000000	0.187842
RIR	0.377337	0.450260	-0.514108	0.185523	0.431194	0.124740	0.428234	0.173037	0.187842	1.000000

Sources: E-views 10

Decision Rule

From the rule of thumb, if correlation coefficient is greater than 0.8, we conclude that there is multicollinearity but if the correlation coefficient is less than 0.8, there is no multicollinearity

Conclusion: Multicollinearity exist only between

RGDP and MS

RGDP and GEXP

RGDP and EXR

MS and GEXP

MS and EXR

IMPT and DOP

EXPT and DOP

POLICY IMPLICATION

The empirical analysis concluded that monetary policy has a significant impact on Nigerian foreign trade. As a result, the study recommends that the government make deliberate efforts to fine-tune the various monetary variables in order to provide an enabling environment for stimulating foreign trade while effectively curtailing import trade, which has a negative effect or strain on the economy.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND POLICY RECOMMENDATION

5.1 INTRODUCTION

This chapter basically talk about the summary of findings in chapter four the conclusion and the policy to be recommended for an improvement on the foreign trade performance in Nigeria

5.2 SUMMARY OF FINDINGS

This study looks at the impact of monetary policies on foreign trade in the Nigerian economy. The primary goal of this study is to determine the impact of monetary policies on foreign trade. The study relied on secondary data obtained from the World development indicators. The information was gathered over a fourty-year period. In the data analysis, the ordinary least square regression technique was used.

According to the findings, there is a positive relationship between Money Supply, Inflation rate, when used as a proxy for Gross domestic products; and a negative relationship between import and export when used as a proxy for economic growth. Money supply, import rate, export rate, and inflation rate, on Real gross domestic product account for 90% of total variation in economic growth.

Government expenditure, Exchange Rate, has a positive relationship with real gross domestic products while foreign direct investment and real interest rate exerted a negative relationship with economic growth. Both Government expenditure, Exchange Rate, foreign

direct investment and real interest rate are able to explain 84% of the total variation in the economic growth.

The results also reveal a positive relationship between degree of openness and Gross Domestic Product used as a proxy for export performance; while money supply has an inverse relationship on export performance

Both Money Supply, degree of openness and Gross Domestic Product able to explain 94.3% of the total variation in Export performance.

5.3 CONCLUSION

The purpose of this research was to investigate the impact of monetary policies on foreign trade in the Nigerian economy. Based on the empirical findings, it is concluded that there is a clear and obvious relationship between monetary policies and foreign trade in Nigeria, and it is thus recommended that the government make conscious efforts to fine-tune the various monetary variables in order to provide an enabling environment to stimulate foreign trade.

5.4 RECOMMENDATIONS

Based on the findings of this research, the following are the basic recommendations for the government.

- It is necessary for the government to make conscious efforts to fine-tune the various monetary variables in order to provide an enabling environment for stimulating foreign trade while effectively curtailing import trade, which has a negative effect or strain on the economy.

- Export diversification should be encouraged by the government. Non-oil sector exports should be encouraged, while the emphasis on oil sector exports should be reduced.
- Nigeria should reframe its excessive consumption of foreign goods and services in order to reduce imports
- Manufacturing industries should improve their output so that it is competitive in the global market. Excise duties should be reduced to encourage domestic industries to export goods and services. The removal of trade barriers on domestic output should not be followed by the imposition of new ones. Only essential imports of capital goods should be encouraged, as not all imports are required for economic growth.

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