EFFECT OF EXCHANGE RATE VOLATILITY ON THE PERFORMANCES IN NIGERIA STOCK EXCHANGE

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BEING A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF POSTGRADUATE STUDIES, NASARAWA STATE UNIVERSITY, KEFFI, IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTERS IN BUSINESS ADMINISTRATION (MBA)

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DECLARATION

I hereby declare that this project has been written by me and it is a report work. It has not been presented in any previous application for state degree. All quotations are indicated and sources of information specifically acknowledged by means of references.

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Ekele, Sunday **Date**

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CERTIFICATION

This is to certify that this research work titled "effects of Exchange Rate Volatility on the performances in Nigeria Stock Exchange has, meets the regulation governing the award of Master in Business Administration, Nasarawa State University, Keffi and it has been read and approved by the undersigned for its contribution to knowledge.

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DEDICATION

This research work is dedicated to my family especially my wife, for her unflinching support throughout my study.

ACKNOWLEDGEMENT

I wish to acknowledge the Almighty God who has blessed me to have come this far despite all odds situation and unforeseen circumstances. I would like to express my profound appreciation to my dear wife, Mrs. Rose Sunday Ekele, my daughter Sofia Ojochegbe Ekele, my friends Ifeanyi, Ini, Terver, Benjamin, Ugo, Ruth, and Ernest. My gratitude goes to my project Supervisor Dr. (Mrs.) Ruth Andah who has guided this research work with all responsibility and mentorship without her scholarly supervision, no success would have been obtained.

ABSTRACT

This research study examined the effect of exchange rate volatility on performance in Nigeria Stock exchange. The main objective of the study is to show the effect of exchange rate on the economic growth of the country, three hypotheses were formulated, with the use of statistical techniques using Regression and Correlation with SPSS version 20, from the researchers finding of the study there were positive relationship between GDP and exchange rate that is, when the exchange rate increases by one percent, GDP increase as by 4.898% regardless of other independent parameters. Also an Ordinary Least Square (OLS) technique was introduced in estimating the relationship between the variables and also there was relationship between GDP and export rate that is, when the import rate increases by one percent, GDP increase as by 0.131% regardless of other economic indicators Dependency. The researcher recommended that the policy makers and government should concentrate on increasing the foreign exchange management policies that concerns both the foreign sector and domestic balance of the economy. This can be achieved if government focuses more attention on policies that will affect the accounts in balance of payment within the exchange and import rate. There should be further study on more technology should be made provisions for by both the public and private sector for improvement on the level of our productivity that later add to our foreign transaction.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The various exchange rates both Nigeria and the international market indicate the values of two currencies in terms of another. It is the price of one currency in terms of another currency. Customarily, exchange rate is defined as the price of one unit of the foreign currency in terms of the domestic currency Mejekomi (2000).The issue of exchange rate came in as a result of unequal resource endowed in different part of the world which demands the need for inter-dependence. In international transactions where countries require commodities and services for development purposes, they have to settle bills by paying for their purchases and balance for their sales. To effect such transactions, an international acceptable mode of payment is required and this brought about the idea of foreign exchange. Thus, the need for foreign exchange policy involves choosing an exchange rate system and determining the particular rate at which foreign exchange transactions will take place.

The instability in exchange rate has been happening started from the period prior to the independence when Nigeria's currency was closely tied to the British Pound sterling giving it colonial antecedent. The currency was minted in United Kingdom where the exchange rate was also determined. On June 29th, 1972 Nigeria terminated the fixed relationship between her currency and the Pound sterling, introduced the naira on January 1st 1973 and started managing the Naira exchange rate independently in April, 1974 through a policy of "progressive Appreciation". The reason was that giving the level of

development and the structure of the economy, exchange rate behavior was seen as an important link between inflation and monetary policy as well as the mechanism that brings long-term balance of payment adjustment. Exchange rate instability emerged as one of the controversial issues in developing countries in 1980's and the instrumental policy was made with intense opposition to devaluation for fear of its inflationary impact, among other effects. Nigeria faced such a situation and there has been interest, therefore, in economic performance as a result of exchange rate volatility in the process. This volatility is a topical issue. It is a key determinant that is affecting price signals in a market driven economy. It is generally accepted that exchange rate is a variable, which affect the rate of economic activity and developmental impact on investments, savings, production and consumption and inflation. In determining exchange rate volatility, it is important to consider the country's economic structure and international characteristics. The Nigerian economy has been over dependent on a single commodity - petroleum. This has subjected the economy to instabilities due to the policies in the international market for petroleum. Consequently, this has been posing serious socio-economic problems on the developmental aspiration of the national economy due to the unfavorable balance of payments necessitated by huge expenditures on imported inputs. In this connection, several measures have been embarked upon by successive administrations to rectify the structural imbalance in the nation's economy. Undoubtedly, these policies affected all organizations operating in Nigeria. The transformation engendered by Autonomous Foreign Exchange Market (AFEM) necessitated adjustment by these organizations. To achieve appropriate level of exchange rate, one of two approaches is usually adopted. The

authority can either fix it administratively or allow them to be determined by the market forces. The option that is eventually chosen usually reflects a country's historical experience and the monetary authorities' perception of the efficacy of a particular line of action in achieving the set of macroeconomics objectives. However, proper and timely adjustment cannot be made unless organizations monitor the environments where they operate with a view to identifying the factor capable of improvements. It therefore becomes important to look critically at the exchange rate volatility; its impact on Nigeria economy

1.2 **Statement of the Problem**

The foreign exchange reform that facilitated a cumulative depreciation of the effective exchange rate was expected to increase the domestic prices of agricultural exports and therefore boost domestic production (Adeniran et al, 2014).

The increase in exchange rate volatility leads to uncertainty, which has a negative effect on trade flows. This fluctuation in the exchange rate has created severe macroeconomic disequilibrium, which has led to balance of payment deficit. The Nigerian economy has been trying to resolve the problem of external and internal balance which is caused by the disequilibrium in our balance of payment and causing the economy balance of payment deficit but the many aim of this currency devaluation was to encourage export thereby improving the economy, however this objective of increasing export through devaluation of the naira has not been achieved, instead despite the various effort of the government to stabilize the exchange rate, the naira has continued to depreciate and making the naira worthless in terms of other country’s currency.

Due to the exchange rate fluctuations it is not easy for investors and policy makers to track the exchange rate of the economy. The main aim of this study is to investigate the effect of exchange rate volatility on international trade, how the volatility of the exchange rate can help in the growth of the economy because exchange rate fluctuations can influence the smooth functioning of the economy and reduce economic growth. Also this study sets out to find the major causes of the fluctuations between exchange rate volatility and trade volumes and how it affects the economy.

1.3 Research Questions

i. To what extent do exchange rate fluctuation impacts on the volume of Nigeria economic growth?
ii. What is the effect of exchange rate on Nigeria export?
iii. What is the relationship between Nigeria exchange rate of the naira to dollar?

1.4 Objectives of the Study

The main objective of the study is to determine the effect of exchange rate volatility on the Nigeria economy.

The specific objectives are

i. To examine the effect of exchange rate fluctuations on GDP growth.
ii. To evaluate the effect of exchange rate on Nigeria export.
iii. To examine the relationship between Nigeria exchange rate of naira to dollar.

1.5 Research Hypotheses

Base on the objective of the study the following hypothesis were formulated

H_0: Exchange rate has no significant effect on Nigeria economic growth

H_0: Exchange rate has no significant effect on export in Nigeria.

H_0: Exchange rate has no relationship between Nigeria naira to dollar.

1.6 Significance of the Study

This study will in no small measure contribute to the existing literatures on the subject matter, in such ways as follows:

1. To Corporate Managers/Investors; it will assist the corporate managers in knowing the long run impact of the Nigeria economic growth on organizations.
2. To Academicians; it will serve as a source of information to add to their knowledge on the effect of exchange rate volatility of Nigeria economy and corporate failures in Nigeria.
3. To future Researchers; it will serve as a data bank for future researcher who wishes to research further into the subject matter.
4. To the General Public; it will enlighten the general public more on the what, when and how the economy has been managed by various government leaders and how the challenges came into existence.

1.7 Scope and Limitations of the Study

This research work is made to cover the views on various years of the economic growth and then in analyzing the trends at exchange rate, import rate, export rate and CPI in Nigeria and examining the effect of exchange rate volatility on Nigeria economy from 2008-2017.

It involves the collection of the real exchange rate, import rate, and revenue in Nigeria from 2008-2017. It primarily aims at finding the causal relation or effect of exchange rate volatility on Nigeria economy.

The study was limited to some factor at the course of carrying out the study; the various challenges are as follows.

1. The study was limited to the core information economic growth in Nigeria from the stock exchange and on internet.

2. The challenges of financing at the cause of carrying out the study.

3. Time equally poised a limitation as well due to the frame work of the study.

However, all these did not allow the researcher have enough opportunity to give the project a comprehensive coverage. In spite of all these, enough information on major issues were collected and analyzed, and the research seeks for further study to be made in other to cover up all the challenges encountered at the course of the study.

1.8 **Definition of Terms**

Budget deficit: This occurs when the proposed expenditure surpasses the expected revenue. i.e. when the excess of a government's total expenditure is over its income.

Exchange rate: This is the values of two currencies in terms of another. It is the price of one currency in terms of another currency. Customarily, exchange rate is defined as the price of one unit of the foreign currency in terms of the domestic currency Mejekoni (2000). The issue of exchange rate came in as a result of unequal resource endowed in

different parts of the world which demand the need for inter-dependence. In international transactions where countries require commodities and services for development process; they have to settle bills by paying for their purchases and balance for their sales. To effect such transactions, an international acceptable mode of payment is required and this brought about the idea of foreign exchange. Thus, the need for foreign exchange policy involves choosing an exchange rate system and determining the particular rate at which foreign exchange transactions will take place.

Import Rate: Import rate is a tax collected on imports by the customs authorities of a country. It is usually based on the value of the goods that are imported. Depending on the context, import duty may also be referred to as customs duty, tariff, import tax and import tariff.

Export Rate: An export is a function of international trade whereby goods provided in one country is shipped to another country for future sale or trade. The sale of such goods adds to the producing nation's gross output. If used for trade, exports are exchanged for other products or services in other countries.

Exports are one of the oldest forms of economic transfer and occur on a large scale between nations that have fewer restrictions on trade, such as tariffs or subsidies. Most of the largest companies operating in advanced economies derive a substantial portion of their annual revenues from exports to other countries.

The ability to export goods helps an economy to grow, by selling more overall goods and services. Exports are a crucial component of a country's economy. Not only do exports

facilitate international trade, they also stimulate domestic economic activity by creating employment, protection and revenues.

Consumer Price Index (CPI): The consumer price index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services. Such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them, changes in the CPI are used to assess price changes associated with the cost of living: the CPI is one of the most frequently used statistics for identifying periods of inflation or deflation.

Gross Domestic Product (GDP): Gross Domestic Product (GDP) is the monetary value of all the finished goods and services produced with a country's borders in a specific time period. Though GDP is usually calculated on an annual basis, it can be calculated on a quarterly basis as well.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter discusses the introduction, conceptual framework, its empirical review, theoretical framework and summary.

2.2 Conceptual Framework

2.2.1 Concept of Exchange Rate and the Volatility on Export Development

Exchange rate is the price of one country's currency expressed in terms of some other currency. It determines the relative prices of domestic and foreign goods, as well as the strength of external sector participation in the international trade. Exchange rate regime and interest rate remain important issues of discourse in the International finance as well as in developing nations, with more economies embracing trade liberalization as a requisite for economic growth (Obansa, Okoroafor, Aluko and Millicent, 2013). In Nigeria, exchange rate has changed within the time frame from regulated to deregulated regimes. Ewa, (2011) agreed that the exchange rate of the naira was relatively stable between 1973 and 1979 during the oil boom era and when agricultural products accounted for more than 70% of the nation's gross domestic products (GDP). In 1986 when Federal government adopted Structural Adjustment Policy (SAP) the country moved from a peg regime to a flexible exchange rate regime where exchange rate is left completely to be determined by market forces but rather the prevailing system is the managed float whereby monetary authorities intervene periodically in the foreign

exchange market in order to attain some strategic objectives (Mordi, 2006). This inconsistency in policies and lack of continuity in exchange rate policies aggregated unstable nature of the naira rate (Gbosi, 2005).

Aliyu (2011) asserted that appreciation of exchange rate results in increased imports and reduced export while depreciation would expand export and discourage import. Also, depreciation of exchange rate tends to cause a shift from foreign goods to domestic goods. Hence, it leads to diversion of income from importing countries to countries exporting through a shift in terms of trade, and this tends to have impact on the exporting and importing countries' economic growth.

In the same vein, Hossain (2002) agreed that exchange rate helps to connect the price systems of two different countries by making it possible for international trade and also effects on the volume of imports and exports, as well as country are balance of payments position. Rogoffs and Reinhartl (2004) also opined that developing countries are relatively better off in the choice of flexible exchange rate regimes.

Adeniran (2014), the exchange rate is an important macroeconomic variable used as a parameter for determining international competitiveness and it has being regarded as an indicator of competitiveness of the currency of any economy and an inverse relationship between the competitiveness that exist. The Nigeria economy and exchange rate has being the challenge facing the country for the past decade, however, monetary approach to exchange rate determination postulates that the relative supply of and demand for monetary between two countries is the basis for the determination of exchange rate. It views increase in the supply of money as being able to generate inflation, hence, resulting

in exchange rate depreciation. The model opines that a situation of falling prices with a given nominal money supply results in exchange rate depreciation, while the traditional flow model is essentially based on the principle of the interplay of demand and supply. The forces of the market (interaction between demand and supply) determine the rate of exchange Gylfason and Schmid (2003).

However, Nigerian government like many other governments of developing countries until recently has been very slow in putting in place strict policy measures and legislative framework in combating the effects of economic growth especially in the area of import, export and exchange rate in the country. When there is speculation or expectation of a change in the rate of exchange, this could lead to the disequilibrium even without any change in the initial determined factors. Exchange rate can adversely affect the ability to import and therefore manufacturing output. Volatilities in exchange rate will cause instability in purchasing power and hence, negatively impact on investment in import of manufacturing inputs. On the other hand, the effect on manufacturing output and overall income level will also affect investment in import of inputs and invariably the exchange rate. This is because among the determining factors of the rate of exchange are the demand for foreign exchange the supply itself being influenced by an economy's productivity level.

In macroeconomic management, exchange rate policy as an important tool derives from the fact that changes in the rate of exchange have significant implications for a country's balance of payments position and even its income distribution and growth. It is not surprising since its behavior is said to determine the behavior of several other

macroeconomic variables (Oyejide, 1985). It is even more so for Nigeria which had embarked on a course of rapid economic growth with attendant high import dependency. The manufacturing sector plays as catalytic role in a modern economy and has many dynamic benefits that are crucial for economic transformation and also in achieving sustainable economic growth. Nigeria being an import dependent nation particularly for here capital goods and considering the centrality of the rate of exchange of such a country's currency to her trading partner's currency, a good number of writers have expressed their interest and position on this important subject. Interest in this area has significantly increased over the years as being generated by the volatilities and the depreciating nature of such an important economic variable as well as its effect on other sectors of the economy.

More recent data provided by Ekanem (1997) show that manufacturing companies are operating below 40% capacity and they are import dependent. For several years, the manufacturing sector has concentrated basically on the import of raw materials. This seems to be attributable to the overcrowding of this important sector of the Nigerian economy by multinational corporations. As a result, this sector has been deviled by high interest rates, rising inflation, naira depreciation, foreign shortages and consumer's strong resistance to local products. Perhaps one f the greatest development challenges that have confronted Nigeria since 1986 when the fixed exchange rate system was abolished and replaced with the flexible exchange rate system is the designing of policy measures to enhance exchange rate appreciation in Nigeria. This particularly the case after the

abysmal failure of the Structural Adjustment Programme (SAP) devaluation policy package designed to aggressively promote export in Nigeria.

Similarly, Nigeria as an import dependent nation particularly for here capital goods and considering the centrality of the rate of exchange of such a country's currency to her trading partner's currency, a good number of writers have expressed their interest and position on this important subject. Interest in this area has significantly increased over the years as being generated by the volatilities and the depreciating nature of such an important economic variable as well as its effect on other sectors of the economy. As a result, this sector has been deviled by high interest rates; rising inflation, naira depreciation, foreign shortages and consumers are in products higher prices. Olisadebe (1991) expressed that the naira exchange rate given its macroeconomic impact especially Nigeria is perhaps one of the most widely discussed topic today. According to Olisadebe (1991), one worrisome development in the naira exchange rate in recent years, especially since the introduction of the structural Adjustment Programme (SAP) in 1986 is that it has continued to depreciate as a result of which some people have called for fixing of the exchange rate even at par with the United States Dollar. On the equilibrium for exchange rate, the author remarked that such rate ensures the simultaneous attainment for internal and external balance.

2.2.2 **The Foreign Exchange Volatility and Export Development**

Foreign exchange market is designed to facilitate the operation of the international money system. It is the mechanism, by which one is able to transfer purchasing power, provided

credit for international trade transaction, and provides a means of avoiding the risk of exchange re-volatility.

According to David Eiteman and Arthur Stone (1983), 'transfer of purchasing power is necessary because international trade and capital transactions usually involves parties resident in countries with different national currencies, that each party eventually would like to hold its own currency, although the trade could be involve in any continent currency'. For instance, a Nigerian, an exporter might sell palm oil to an American firm in the Nigeria naira on the U. S. Dollars. The exact currency to be used is to be agreed upon by both parties beforehand. Whether Naira or Dollars were to be used the important thing is that one of the parties would need to transfer purchasing power to or from his own national currency. If dollars were to be used, the American importer would need to transfer purchasing power from Dollars to Naira to effect payment; it is the responsibility of the foreign exchange market to carry out these forms of purchasing power transfer transaction. On the other hand, export development strategy is an industrialization and trade strategy, which encourages production for exports. However, it does not necessarily imply a bias in favor of exports. It is a policy that is neutral in its bias between production for export and that for domestic consumption. Export implies a regime in which incentive for export and import substitution activities are equalized. It permits a country to establish an economic of efficient size and to maintain long production runs.

The exports development enables a country to realize the benefits of international specialization according to comparative advantage. It provides a stimulus to efficiency as a result of exposure of foreign exchange competition technology and a prospect of

worldwide market for product. Export development contributes more import substitution to the objectives of greater employment of surplus labor and improvement in income distribution.

Akeju (2014) on the discussion on export financing, he argued that it can be completed without a word being said about foreign exchange, it is so important to any international transaction. And involving in export one could lose money unnecessarily if one did not safeguard himself against volatility in foreign exchange rate (the price of currency) vary mainly as a result of volatility in demand for a particular currency. Many factors contribute to the volatility; among them include inflation, interest rate, political events and economic indicators. Foreign exchange rates are important in the foreign exchange market as spot or forward. Spot rate is a rate of exchange at which foreign currency is bought or sold for delivery in use for day - to - day dealing in currencies. The forward rate is a re quoted now for the purchase or sale of a stated amount of foreign currency at a specified time in the future, no matter how the spot rate might change in the intervening period. Banks arrive or adding a discount to the spot depending on interest rate in the economy concerned. Bank offering forward foreign exchange contracts use forward rates.

According to the literature on exchange rate volatility they argued that it has to do with the unusual movements of the exchange rate. Exchange rate is one of the economic indicators which directly affect investment as such as its role in the overall economic objectives of a country cannot be underestimated. This gives confidence to why the public sectors, foreign investor and private individual pay a lot of attention to the exchange rate volatility. Since September 1986, when the market determined exchange

rate system was introduced via the second tier foreign exchange market, the naira exchange rate has exhibited the features of continuous depreciation and instability. People have not been investing due to exchange rate volatility. This instability and continued depreciation of the naira in the foreign exchange market has resulted in declines in the investment, standard of living of the populace, increased cost of production which also leads to cost push inflation. It has also tended to undermine the international competitiveness of non-oil exports and make planning and projections difficult at both micro and macro levels of the economy. A good number of small and medium scale enterprises have been strangled out as a result of low dollar/ naira exchange rate and so many other problems resulting from fluctuations in exchange rates can also be identified.

Manalo, Perera and Rees (2014) examine the effects of exchange rate movements on the Australian economy using the structural vector auto-regression model using seasonally adjusted data at quarterly frequencies for the period of 1985 to 2013. They found out that a temporary 10 per cent appreciation of the real exchange rate that is unrelated to the terms of trade or interest rate differentials lowers the level of real GDP over the subsequent one-to-two years by 0.3 per cent and year-ended inflation by 0.3 percentage points.

Chowdhry and Wheeler (2008) in an empirical analysis studied the relationship between volatility of exchange rate for the four developed countries of Canada, Japan, United State and United Kingdom. Using a number of variables this study applied vector auto regressive (VAR) approach and found that shocks to exchange rate volatility have

positive and significant impact on flow of FDI. Akeju(2014) also examines the impact of real exchange rate on terms of trade and economic growth which relies on cointegration techniques and error correction model using annual data covering from 1980- 2012. It was revealed that a real exchange rate moves along the same direction with terms of trade in the long run. Rasaq (2013) examined the impact of exchange rate volatility on the macro economic variables in Nigeria and findings shows that exchange rate volatility has a positive influence on GDP, FDI and trade openness with a negative influence on the inflationary rate in the country. Dada and Oyeranti (2012) examine exchange rate and macroeconomic aggregates in Nigeria. The result shows that there is no evidence of a strong direction between changes in the exchange rate and GDP growth. Rather, the country's growth has been directly affected by fiscal and monetary policies and other economic variables particularly the growth of exports which is majorly oil. In short, the nature of the effect of exchange rate volatility on investment and growth is yet unresolved. There is therefore the need for more empirical research on the subject matter. This is particularly important in view of the nature of exchange rate in developing countries like Nigeria.

2.3 **Empirical Review**

2.3.1 **Previous Empirical Findings**

Hossain (2002) on his study on 'effect on the volume of imports and export' agreed that exchange rate helps to connect the price systems of two different countries by making it possible for international trade and also effects on the volume of imports and exports, as

well as country's balance of payments position. He also opined that developing countries are relatively better off in the choice of flexible exchange rate regimes.

Ayadi & Adegbite (2008) on the introduction of IMF - World Bank - sponsored structural adjustment programmed in 1986, the key objective of SAP were to: restructured and diversify the productive base of the economy so as to reduce dependence on the oil export and imports; Foreign exchange is one of the resources particularly in a developing country, he further stressed that the only way to overcome the change of exchange rate challenges is to invest more on locally produced goods and also reduce the tax rate of the investor within the challenging period.

Barkoulas et al (2002) examined the impact of exchange rate fluctuation on the volume and variability of trade flows. They concluded that, exchange rate volatility discourages expansion of the volume of trade thereby reducing its benefits. Eichengreen and Leblang (2003) carried out their research in 12 countries over a period of 120 years and found strong inverse relationship between exchange rate stability and growth. They concluded that the results of such estimations strongly depend on the time period and the sample.

Ogun (2006) studied on the impacts of real exchange rate on growth of non-oil export in Nigeria highlighted the effects of real exchange rate misalignment and volatility on the growth of non-oil exports. He employed the standard trade theory model of determinants of export growth and two different measures of real exchange misalignment, one of which entails deviation of the purchasing power parity (PPP), and the other which is model based estimation of equilibrium real exchange rate (ERER). He observed that

irrespective of the alternative measures of misalignment employed, both real exchange misalignment and volatility adversely affected growth of Nigerian non-oil exports.

Arize, Osang, and Slottje (2000) found a significant negative relationship between increases in exchange rate volatility and exports in developing countries. Servén (2003) showed that real exchange rate volatility negatively affects investment in a large panel of developing countries. This negative impact is significantly larger in countries with highly open economies and less developed financial systems. He also found evidence of threshold effects, whereby uncertainty only matters when it is relatively high.

A similar study, Eme and Johson (2012) investigated the effect of exchange rate movements on real output growth in Nigeria for the period 1986 – 2010. The result revealed that there is no evidence of a strong direct relationship between changes in exchange rate and output growth. Rather, Nigeria economic growth has been directly affected by monetary variables.

Nkwaopara (1985). On his study on the effort to promote growth via export development. His result in the study suggested that in the developing countries they have difficulties in their balance of payment which are due from high import bills of capital goods and low receipts from exports. This often results into trade deficit and sometimes falls to low investment growth within growing period.

Duke (1963), study on the development growth rate on the national output and import demand. The study articulated that in the source of development the rate of growth of national output and the demand for imports tends to exceed the export based capacity

especially during the early phase when the increase in investment is sizable and structural change are considerable, from Duku's observation. In the result of the study, it is instructive to note that unless a profit management framework of foreign exchange is articulated a country runs the risk of balance of payment problems. Moreover a country can only optimize the advantages of international trade of appropriate foreign exchange policy and management is initiated.

Obadan, (2014). In his study ‘foreign direct investment in Africa; the role of national resource, market size, Government policy, institution and political instability’ using a panel data estimation approach also found out that population

size, which proxies the market size to attracting FDI inflows, in the study, they found out that the practical and rational way of expanding the market size is to integrate economies of individual countries into regional blocks.

Soumyananda, (2009), In his study of factors attracting FDI to Nigeria, employed market size, exchange rate and economic impact, inflation rate, openness and natural resources as variables in his study. Using vector error correction model, the result shows that in the long run, the exchange rate will always fall and rise depending on the import and export index. The FDI and exchange rate are significantly negatively whereas that of resources flow and GDP are significantly positive.

Obida and Abu (2010), in their study on the determinant of FDI (foreign direct investment) and exchange rate index on the economic growth. They found out that both

foreign direct investment and exchange rate are sometimes affected by deregulation, political stability, and exchange rate depreciation is the main determinant of both FDI and exchange rate in Nigeria economy.

In another of study by Duku and Nkowpara (1985) on the impact of exchange rate and economic growth. The study carried out various views on the relevance of IMF in the world third countries of which Nigeria is inclusive. Foreign exchange as define by the international monetary fund (IMF) to include monetary claims on foreigner in the form of bank deposits, treasury bills, short-term and long-term government security and other claims usable in the events of balance of payment deficit, including non-marketable claims arising from inter-central bank and inter-government arrangement, without regard to whether the claims dominated in currency from debtor or creditor. Looking at this definition in everybody life, foreign exchange means foreign currency or another financial instrument acceptable as a means of exchange or payment. This, according to the Federal Republic of Nigeria Exchange Control Manuals, Foreign Currency means any currency other than Nigeria currency and includes any note as coins which are or have any time been legal tender in any territory outside Nigeria, postal order, draft letter of credit and travelers' cheques payable or expressed otherwise than in Nigeria currency, the study further suggest that any order being made outside Nigeria should be based on the bilaterally agreement existing between the two countries involved in the trade.

Lei Chen and Kang C. (2005) in their study on the impact of electronic commerce on international trade. The variable that makes up reserves determined to a large extent the quantity of foreign exchange available to a country. Therefore, any policy initiated by

government as the quantity or direction of these variable will constitute foreign exchange management as any policy that seek define foreign exchange management as any policy that seek to influence the supply and demand for such currencies is a derived one influenced by a countries balance of payment disequilibrium position in recent time. They study suggested that for a country to maximize any benefit in both investing and external exchange it has to become necessary to examine recent policy that measures in foreign exchange management.

Omotayo (2010) on his study on the impact of foreign exchange on Nigeria. The study measures on from 1981 to 2004. The objective is to determine how these can affect the availability of foreign exchange to the nation and their subsequent influence on foreign investment. Foreign exchange as part of economic science that deals with the ways and method by which right to wealth, expressed in the currency of one country is converted into right wealth expressed in the currency of another country. The role of foreign exchange in economic growth is so important. The classical and non-classical economic attached so much importance to foreign exchange transaction in a country development. It is regarded as an engine to growth. However, foreign exchange has led to international inequality, whereby the rich countries became richer at the expense of the poor countries. Despite the importance an advantage of foreign exchange in a country still have some negative impact on economy development of a country. In any country it will be difficult to achieve the aims and objectives under exchange rate volatility. Foreign exchange can involve someone in some degree of risk, as an exporter trading under volatility exchange could be losing money unnecessarily.

Cooper Richard (1971) on the study of currency devaluation in developing countries. The study reviews that floating foreign exchanges are usually characterized by unanticipated exchange rate volatility which commonly subject both exporters and importers to greater exchange rate. In the light of such risk, they argued that exporters and importers are willing to engage in international trade, but are sometimes affected by the increase of tax and some measures should be looked upon by the government in other to reduce the challenges facing the exchange rate within and other side the economic growth.

Majekodunmi (2000), on his Exchange rate volatility: impact on Nigeria economy. The study reveals from the perspective of government inducement arising from exchange rate volatility, suppose argument are based on the erection of generalized or sectoral trade barriers to offset the establishing effect of change to foreign exchange rate that do not changes in incomes, prices and other fundamental determination of comparative advantage and international trade. It has been said that foreign exchange volatility do reduce the volume and restrict the extent which trade bases can be diversified. The tight foreign exchange position lied to the emergency of trade areas in 1982 and subsequent rapid accumulation of debt which country was unable to settle the country become no longer credit worthy and all line of credit in the international trade were blocked.

Aliyu (2011) asserted that appreciation of exchange rate results in increased imports and reduced export while depreciation would expand export and discourage import. Also, depreciation of exchange rate tends to cause a shift from foreign goods to domestic goods. Hence, it leads to diversion of income from importing countries to countries

exporting through a shift in terms of trade, and this tends to have impact on the exporting and importing countries' economic growth.

2.4 **Theoretical Framework**

2.4.1 **Ethical Theory**

Ruland (1984) opined that generally most growing economy countries and progressing and stable economy prefer to report a steady trend of growth in profit(especially in export rate) rather than to show volatile profits with a series of dramatic rises and falls(Import rate). This is achieved by making unnecessary high provisions for external consumption and against values in goods produced within the country; this for years can be resolved by maintaining a high standard of production within the exchange rate in the economy, thereby improving reported profits in bad years. Advocates of this approach argue that it is a measure against the "short-termism" of judging an investment on the basis of the yield achieved in the immediate following years. Revinse (1991) investigated the problem in relation to both policies makers and shareholders, and argued that each can draw benefits from "loose" accounting standards that provide policies with latitude in timing the reporting of income gotten from all export rates.

2.4.2 **The Mundel – Fleming Theory**

The view of exchange rate effecting budget deficits start from the model-flaming model set fort (Independently) by Robert Modell (1963) and Marcos – flaming (1962) the model is an extension of IS-LM model. Whereas the traditional IS-LM model deals with economy under autarky (or a closed economy), the mundel- flaming model tries to

describe an open economy. Typically, the mundel-flaming model portrays the relationship between the nominal exchange rate and economy output (unlike the relationship between the interest rate and the output in the IS –LM model) in the short run. The mundel-flaming model has been used to argue that an economy cannot simultaneously maintain a fixed exchange rate, free capital movement and independent monetary policy. The principle is frequently called “the unholy trinity”, the “inconsistence trinity” or the Modell-framing “trilema"

The theory made use of traditional model which is based around the following equations:

Y=G+I+G+NX---------- (The IS curve).

Where Y = GDP, C = consumption, I = investment, G = government spending and MX = net exports

M/P = L(I,y) ------ (the LM Curve). Where m = money supply, P = average priced, L = the interest rate and Y = GDP.

BOP =CA +KA (The BOP curve (balance of payment). Where CA = current account and KA = capital account.

- **The IS component**

C = C {Y-T, I-E (TT)}.

Where C = consumption, Y = GDP, T = taxes, I = the interest rate, E (TT) = the expected rate of inflation.

I = I (I – E (TT), Y-I).

Where I = investment, I = interest rate, E (TT) = expected rate of inflation, Y-I = GDP in the previous period.

G = G.

where G = government spending, an exogenous variable.

NX = NX (e, y, y *)

Where

NX = net exports, e = real exchange rate, and y = GDP, y* = GDP of a foreign country.

The following explains the other components as follows

- **Balance of Payments (BOP) Components.**

  CA = NX.

  Where CA = current account and NX = net exports.

  KA = Z (i – i*) + K

  Where Z = level of capital mobility, i =interest rate, i * = foreign interest rate, k = capital investment not related to i, an exogenous variable

- **Mechanics of the model**

  One important assumption is the equalization of the local interest rate to the global interest rate

- **Under Flexible Exchange Rate Regime**

  We speak of a system of flexible exchange rates when government (or central bank) allows the exchange rate to be determined by market force alone.

- **Change in Money Supply**

An increase in money supply shifts the LM curve to the right to the right. This directly reduces the local interest rate relative to the global interest rate. This depreciates the exchange of local currency through capital outflow. (Hot money flow out to take advantage of higher interest rate abroad and hence currency depreciates) the depreciation makes local goods cheaper comparing to foreign goods and increase export and decrease import.

Hence, net export is increased. Increased net export lead to the shifting of the IS curve (which is Y = C+I+G+NX) to the right to the point where the local interest rate equalize with the global rate. At the same time the BOP is supposed to shift too, as to reflect

(1) Depreciation of home currency and

(2) An increase in current account or in other word, the increase in net export.

This increase the overall income in the local economy. A decrease in money supply causes the exact opposite of the prices.

- **Change in government spending**

  An increase in government expenditure shift the IS curve to the right. The shift causes the local interest to go above the global rate. The increase in local interest causes capital inflow, and the inflow makes the local currency stronger compared to foreign currencies. Strong exchange rate also makes foreign goods cheaper compared to local goods. This encourages greater import and discourages export and hence, lowers net export. As a result, the IS returns to its original level, where the local interest rate is equal to the global interest rate. The level of income of the local economy stays the same. The LM curve is not at all affected. A decree in government expenditure reverses the process.

- **Change in Global Interest Rate**

  An increase in the global interest rate causes an upward pressure on the local interest rate. The pressure subsidies as the local rate close in on the global rate. When a positive differential between the global rate and the local rate occurs, holding the LM curve Constant, capital flows out of the local economy. This depreciates the currency and help boost the local export. Increasing net export shift continues to take the right until the local interest rate becomes as high as the global rate. A decrease in global interest rate causes the reverse to occur.

- **Under Fixed Exchange Rate Regime**

We speak of a system of fixed exchange rate when government (Central Banks) announces an exchange rate (parity rate) of which there is prepared to buy and sell any amount of domestic currency.

- **Change in Money Supply**

Under the fixed exchange rate system, the local central bank or any monetary authority only charges the money supply to maintain a specific exchange rate. If there is pressure to depreciate the domestic currency's exchange rate because the supply of domestic exchange currency exceed its demand in foreign exchange markets, the local authority buys domestic currency's with foreign currency to decrease the domestic currency's supply in the foreign exchange market. This returns the domestic currency exchange rate back to its original level. If there is pressure to appreciate the domestic currency's exchange rate because the currency's demand exceeds its supply in the foreign exchange market, the local authority buys foreign currency with domestic currency to increase the domestic currency's supply in the foreign exchange market. This returns the exchange rate back to its original level. Revaluations occur when there is a permanent increase in exchange rate and hence, decrease in money supply.

Devaluation is the exact opposite of revaluation.

- **Changes in Government Expenditure**

  Increased government expenditure shift the IS curve to the right. The shift results are a rise in the interest rate and hence, an appreciation of the exchange rate. However, the exchange rate is controlled by the local monetary authority in the framework of a fixed system. To maintain the exchange rate an eliminate pressure from it, the monetary authority purchases foreign currencies with local currencies until the pressure is gone, i.e. back to the original level. Such action shift the LM curve in tandem with the direction of IS shift. This action increases the local currencies supply in the market and lower the exchange rate – or

  rather; return the rate back to its original state. In the end, the exchange rate stays the same but the general income in the economy increases.

- **Change in Global Interest Rate**

  To maintain the fixed exchange rate, the central bank must offset the capital flows (in or out), which are caused by the change of the global interest to the domestic rate. The central bank must restore the situation where the real domestic interest rate is equal to real global interest rate to stop net capital flows from changing the exchange rate.

  If the global interest rate increases above the domestic rate, capital flows out to take advantage of this opportunity. (Hot money flows out of the economy) this would depreciate the home currency, so the central bank may buy the home currency and sell some of its foreign currency reserves to offset this outflow. This decrease in the

money supply shifts the LM curve to the left until the domestic interest rate is the global interest rate.

If the global interest rate declines below the domestic rate, the opposite occurs. Hot money flows in, the home currency appreciates, so the central bank offset this by increasing the money supply (sell domestic currency buy foreign currency), the LM curve shift to the right, and the domestic interest rate becomes the global interest rate.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter is designed to explain the procedures used in carrying out the research. The chapter contains the sources of data used in this project work, the variables to be used as well as the methods of analyzing those data relevant to the study. It also involves the process undergone in collecting the data that are relevant to the study.

The model will make use of GOP as the explained variable, the explanatory variables are: exchange rate, import rate, export rate, CPI.

This chapter also treats subjects' areas as the research methodology, research design, population and sampling techniques, the methods of data collection, procedure for data analysis and model specification, justification of model and the summary. This will be treated in a sequential order to aid the researcher in his findings.

3.2 Research Design

According to Kazdin (1992, 2003a), research design refers to the plan used to examine the question of interest. "Research design" refers to the many ways in which research can be conducted to answer the question being asked.

The study adopted the *ex post facto* and *regression* research design. Ex post facto research is systematic empirical inquiry in which the scientist does not have direct control of independent variables because their manifestations have already occurred or because

they are inherently not manipulated. According to Kerlinger and Rint (1986) explained that in the context of social science research and ex post facto investigation seeks to reveal possible relationships by observing an existing condition or state of affairs and searching back in time for plausible contributing factors and is concerned with analyzing the trends of exchange rate, import rate, export rate and CPI in Nigeria and examining the effect of exchange rate volatility on Nigeria economy from 2008-2017. It involves the collection of the real exchange rate, import rate and export rate which equals the total expenditure and the revenue in Nigeria from 2008-2017. It primarily aims at finding the causal relationships or effect of exchange rate volatility on Nigeria economy.

3.3 **Population, Sampling and Sampling Techniques**

The population of the study consists of all territorial and sovereignty of the entity called Nigeria. This is without an exception of any state and geo-political zone in Nigeria including the Federal Capital Territory (FCT).

The duration of my research was basically from 2008-2017, which is in the range of 10 years. This duration was used because it is detailed enough to give a good result and analysis. This study employs annual data on the GDP, exchange rate, import rate, export rate, CPI for Nigeria over the period 1981 to 2015. Data were obtained from the CBN statistical bulletin.

3.4 **Method of Data Collection**

The study made use of secondary source, which were from the published documents of Central Bank of Nigeria (CBN) and World Bank bulletin.

The bulletin covers a time-series assembled from CBN and it ranges from 2008-2017 covering a total number of 10 years.

3.5 **Procedure for Data Analysis and Model Specification**

The operational methodology adopted is the multiple regression analysis with Ordinary Least Squares (OLS) econometric techniques and a time series secondary

data from 1981 to 2015 which were obtained from various sources of financial sectors were used for the analysis.

The model to be considered will seek to scrutinize the statistical relationship that exists between the variables under consideration. Therefore, the models for this study will be defined as;

$Y = F(x_1, x_2, x_3, x_4)$.

That is y is a function of xi,
Thus

$Y = F(x_1, x_2, x_3, x_4)$.
Where:
Y - GDP (dependent variable)

x_1, x_2, x_3, and x_4 (independent variables).

This can be specifically stated as;

GDP = F (exchange rate, import rate, export rate, (P1) (2)

Thus the multiple linear regressions based on the above functional relation will be;

$$y = \beta_o + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 \quad (3)$$

V_1 called is Mv is the stochastic error term. O is the slope of the equation while 1, 2, 1 represents the coefficient of independent variables. The inclusion of the error

term is to cover other variables which are relevant but are not included in the model. The model is multivariate in nature since it includes there variables (i.e. multiple regression).

3.6 **Justification of Methods**

The study made use of secondary source, which were from the published documents of Central Bank of Nigeria (CBN) and World Bank bulletin**.** Multiple regression analysis with Ordinary Least Squares (OLS) econometric techniques and a time series secondary data from 1981 to 2015 which were obtained from various sources of financial sectors were used for the analysis.

The model considered to scrutinize the statistical relationship that exists between the variables under consideration. This would be applied to the effect of exchange rate volatility on Nigeria economy. The successful conclusion and useful recommendations will be useful and beneficial to all.

3.7 **Summary**

This chapter has been able to describe the methods that will assist in justifying the effect of exchange rate volatility on Nigeria economy.

The introduction, research design, population and sampling technique, methods of data collection, procedure for data analysis and model specification, justification of methods and summary were unraveled to give direction and meaning to the study.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

The descriptive part of this analysis includes tabular form of Gross Domestic Product, foreign exchange and other economic indicators as shown in Table 1. The span of these data covers 10 years and above of some economic indicators and foreign exchange rate of Nigeria. The graphical presentations of figure 1 and 2 were also employed to portray the trend of Nigeria foreign trade and volatility in foreign exchange rate.

4.2 Trend Analysis of Nigeria Foreign Trade and GDP

From table 1 and figure 1 show the trends of Nigeria foreign exchange trade and economic factors considered for solving the research *problems. On* the horizontal or x-axis, number 1 to 10 represent the years from 2008 to 2017 respectively. While on the y-axis, the amount realized during the period were rated in millions of naira.

From the figure 1 and 2, it can be observed that the flowing of foreign trade (import and export) has an impact on the GDP which at the long run affect exchange rate of the country. It can be noted that the nation's exportation has been rising and filling from 2008 to year 2017, however due to the period the study covers, the increase and falls were limited as from 2015 without falling again as a result of country's reliance majorly on imported goods and services. The negative volatility was experience as a result of the nation's negligence to encouraging local industries or productions to meet international standard. The entire citizen of Nigeria both the rich and poor now prefer imported goods

and services to Nigeria locally made items instead of patronizing them to compete with imported and even encourage them to producing for exportation.

Testing of Hypotheses

4.3 Evaluation of Correlation and Significant Effects

The F- test;

Level of significant = 95%

Critical value: Fvi, v2 at 95% = 4.60

Decision rule: Reject Ho If F - cal > F - tab

From the table 3, F - cal is 24.580. This is extracted from the model of least residual error

Critical value: Fvi, v2 at 95% = 4.60

Decision rule: Reject Ho If F - cal > F - tab

From the table 3, F - cal is 24.580. This is extracted from the model of least residual error.

Therefore, **F -cal > F- tab,** we then reject Ho

Since the null hypothesis is rejected. We therefore conclude that there is significant impact of exchange rate volatility on Nigeria economy growth.

4.4 **Table 1: Model Summary**

Model	R	R Square	Adjusted R - Square	Std. Error of the Estimate	Durbin- Watson
1	.798	.637	.655	70252.49440	
2	.931	.933	.930	31824.38143	
3	.976	.953	.944	27226.97719	
4	.977	.955	.938	28072.87392	1.672

Source: Researchers computation SPSS ver20

**The SPSS analyses are in millions of naira *****example 1.213E11 means #21400000000.00.

a. Predictor: (Constant), Exchange Rate

b. Predictor: (Constant), Exchange Rate, Import

c. Predictor: (Constant), Exchange Rate, Import, Export

d. Predictor: (Constant), Exchange Rate, Import Export, CPI

e. Dependent Variable: GDP

Table 2: ANOVA

Model	Sum of Square	df	Means Square	F	Sig
1 Regression	1.212E11	1	T.2T3E11	24.580	.000
Residual	6.910E10	14	4.935E9		
Total	1.904E11	15			

2 Regression Residual	1.772E11 1.317E10	2 13	8.862E11 1.013E9	87.502	.000
Total	1.904E11	15			
3 Regression Residual	1.815E11	3	6.050E10	81.545	.000
Total					
4 Regression Residual	1.817E11 B.669E9	4 11	4.543E10 E8	57.6522 7.881	.000
Total	**1.904E11**	**15**			

Source: Researchers computation SPSS ver20

a. Predictor: (Constant), Exchange Rate

b. Predictor: (Constant), Exchange Rate, Import

c. Predictor: (Constant), Exchange Rate, Import, Export

d. Predictor: (Constant), Exchange Rate, Import Export, CPI

e. Dependent Variable: GDP

Table 3: Coefficients

Model	**Unstandardized**	**Std Error**	**Standardized**	**T**	**Sig**
	Coefficients B		**Coefficients**		
			Beta		

1 Constant	214312.571	35645.190	6.012	.000"	
Exchange Rate	1892.286	381.676	.798	4.958	.000
2 Constant	236845.804	16429.511	14.416	.000.	
Exchange Rate import	-506.745 .158	366.216 .021	-.214 1.148	-1.384 7.431	190 .000
3 Constant	239601.097	14108.126	16.983	.000	
Exchange Rate Import Export	-23.050 .137 -.022	362.747 .020 .009	-.010 .997 -.180	-.062 6.805 -2.397	.952 .000 .034
4 Constant	239372.117	14547.190	16.455	.000	
Exchange Rate Import Export CPI	4.898 .131 -.020 .788	387.606 .024 .010 1.449	.002 .948 -.168 .053	.013 5.405 -2.094 .544	.990 .000 .060 .597

Source: Researchers computation SPSS ver20

a. Dependent Variable: GPD

4.5 **Discussion of Findings**

From the ANOVA table 3, the probability of the regression coefficients P in the population as the probability p of the estimate 0.000 <0.005 proved the significant of the coefficient calculated. More so, Durbin Watson column of model summary in table 2

proved that i ≠ j and 0<p<1 and 0<d<2 (d = 1.672) meaning that there is a level of positive autocorrelation. This Durbin Watson method of testing autocorrelation coefficient confirmed the rejection of assumption that the satiability of the disturbance terms of independence variables used to estimate the multiple linear regression.

$Y = P_0 + pi\ Xi + P_2X_2 + Ur$ is equal to zero (i.e. E (UiUj) = 0)

Thus there is an existence of autocorrelation that is, the result of the estimated multiple ^J regression is not free from disturbance or stochastic error term.

Correlation of Parameters in F – Test

The multiple correlation of GDP and independent variables (Exchange rate, import, export, and CPI are estimated as; R = 0.798, 0.965, 0.976, and 0.977 respectively. This result of the R^2 indicates very strong, positive, degrees of relationship between the GDP and the exchange rate, import, export and Consumer Price Index. While the corresponding coefficient of determination R^2: 0.637, 0.931, 0.953 and 0.954 indicate that:

- The independent variable, exchange rate is able to explain the GDP (dependent variable) up to 64%
- The import rate (independent variable), is able to explain the GDP (dependent variable) up to 93%
- The export rate (independent variable), is able to explain the GDP (dependent variable) up to 95%.

- The Consumer Price Index (independent variable), is able to explain the GDP (dependent variable) up to 95%. While 36%, 7%, 5%, 5% of the variability in GDP is accounted for by factors (disturbance errors) which cannot be explained rate, import, export and Consumer Price Index respectively.

F - Test: The best model that was used for this analysis can be observed from the result of analysis of variance (ANOVA) in table 3. Model 1 is containing the least value of F - calculated (24.58 and therefore considered to be the best linear unbiased estimate (BLUE) which is used for the analysis.

Therefore, the regression coefficients;

$\beta 0$ (constant) $\beta 0 = 239372.117$ $\beta i = 4.898$, $\beta 3 = 0.020$, $\beta 4 = 0.788$ will result to the multiple regression result;

Y = 239372.117+ 4.898Xi + 0.131x3- 0.020x3+ 0.788 5x4- 0.020 (export) + 0.788 (CPI)

The outcome of this regression result confirmed the positive relationship between the GDP and the independent variables except the export. This means that

1. There is positive relationship between GDP and exchange rate that is, when the exchange rate increases by one percent, GDP increase as by 4.898% regardless of other independent parameters.
2. There is relationship between GDP and export rate that is, when the import rate increases by one percent, GDP increase as by 0.131% regardless of other economic indicators Dependency.

3. There is negative relationship between GDP and export rate that is, when the import rate increases by one percent, GDP increase as by 0.020% regardless of other independent parameters.

Finally, there is positive relationship between GDP and CPI rate that is, when the consumer price index rate increases (CPI) by one percent, GDP rate increases by 0.788%, regardless of other independent parameter.

4.6 **Summary**

This chapter has been able to look at the introduction, titles for research questions and hypotheses and discussion of findings were also done leading to the summary of the subjects of discussion, which gives the research work more credence.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 **Summary**

The study looks at the effect of exchange rate volatility on Nigerian economy from 2008-2017. Based on the statistical test carried out with the use of SPSS in the testing of the hypotheses, the following findings were made based on the period the study covers:

The study finds out from the following;

1. There is positive relationship between GDP and exchange rate that is, when the exchange rate increases by one percent, GDP increase as by 4.898% regardless of other independent parameters. Also an Ordinary Least Square (OLS) technique was introduced in estimating the relationship between the variables.

2. There is relationship between GDP and export rate that is, when the import rate increases by one percent, GDP increase as by 0.131% regardless of other economic indicators Dependency.

3. There is negative relationship between GDP and export rate that is, when the import rate increases by one percent, GDP increase as by 0.020% regardless of other independent parameters.

4. The major changes found in the Nigerian economy are characterized by different goals and achievements opted by different tenure of governments. Though, this, different

exchange rate policies also affected the exchange rate which in turn caused a major contribution to the Nigerian economy.

Thus, the evaluation from the correlation and significant effects was used to explain the direct estimate of speed at which a dependent variable returns to equilibrium after a change in the independent variable.

Exchange rate volatility proved to have a long run equilibrium relationship with Nigerian economy from the result obtained. It was conclusive that there is a casual relationship between Nigerian economy and exchange rate volatility. The result also showed the negative relationship between exchange rate volatility and Nigerian economy. The result also shows the significant negative relationship between export and import. The crux of this study is the exchange rate volatility affects Nigerian economy negatively and this in-turn has a negative effect on its operations.

5.2 **Conclusion**

The study examines the effect of exchange rate volatility on Nigeria economic. The study reveals the exchange rate which pre-devalues school of thought or the apostle of SAP have resolutely supported. It can be observed that in 2008 the exchange rate rose to N118.55 to a dollar and in 2009 it increased to N148.90 but from 2009 to 2008 it reduces from N125.07 to N117.78 while later rises again to N148.90 and N150.30 in 2009 and 2010.And rises from 2010 to 2017 to 153.86,157.50,157.31,158.55,192.44,253.49 and 305.3 respectively to a dollar. At this period exportation was totally discouraged and gradually importation was later encouraged to meet the vast population. The mining and

quarrying, manufacturing and processing sub-sector accounted for decrease in proportion of returns when the total cumulative foreign exchange rate in the economy increased.

Hence in the face of relatively on stable oil revenues, the real effective rate gradually appreciated in competiveness. In some way the exchange rate policy did not contribute to the development of non-oil export. Thus there is the need for proper management of the Nigeria foreign policy so as to achieve unproved level of export. The main attempt of this study has been to focus on the impact of exchange rate volatility on economic growth in Nigeria.

In conclusion, having validated the significant of the relationship between the GDP, export and exchange and other variables government should reactivate non-oil sectors of the economic to control the exchange rate volatility.

5.3 **Recommendations**

The study provided various recommendations, in other to increase the rate of export and increase the locally produced goods in Nigeria, therefore increasing the GDP of Nigeria economy.

1. The policy makers should concentrate on increasing the foreign exchange management policies that concerns both the foreign sector and domestic balance of the economy. This can be achieved if government focuses more attention on policies that will affect the accounts in balance of payment within the exchange and import rate.

2. There should be further study on more technology should be made provisions for by both the public and private sector for improvement on the level of our productivity that later add to our foreign transaction.
3. The government should try to check the floating exchange rate usually characterized with unanticipated exchange rate volatility, which is subject to both exporter and importer.
4. The exchange rate risk discourages them from engaging in international trade. And also, government should try also to desist from managing foreign exchange in line with foreign reserve position.

5.4 **Suggestions for further study**

Having gone so far in this research work, the researcher wishes to state those who might wish to research further on the subject under study should focus their attention on the following areas.

1. The impact of exchange rate risk on the Nigeria economy.
2. Relevance of Exchange rate and relationship with international trade.

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APPENDIX 1

Department of Business Administration

Faculty of Administration

Nasarawa State University, Keffi

20th September, 2018

Dear Sir/Madam,

LETTER OF INTRODUCTION

I am a student of the above named institution and department, conducting a research on the 'effect of Exchange rate volatility on Nigeria economy'.

This is in partial fulfillment for the award of Masters in Business Administration (MBA). I will be glad if you help fill the attached questionnaires to enable me carry out this research successfully.

I assure that you response will be treated in confidence and used solely for this research.

Thanks for you cooperation.

Yours faithfully,

Ekele, Sunday