

Topic

A Money Supply Function for Nigeria: An Econometric Analysis

Abstract

This project examines empirically the nature of money supply function for Nigeria as well as its stability and ability to predict economic activity. On the basis of extensive literature review and evidence, two simultaneous equation models were specified reflecting the asset portfolio of the non-bank public and the banking sector. A linkage function for the two models was further specified as the central bank reaction function. A fourth model was specified to test the forecasting ability of money.

Utilizing two functional forms: linear and log-linear, and decomposing our data into three periods viz; 1960-1993, 1960-1976; 1977-1993 to effectively apply the Chow stability test, we had forty regression equations, estimated by two stage least squares techniques. Aside from the identification of the main determinants of money supply function the major conclusion which emerged from the study is that although interest rate is regarded as an important monetary policy variable, it is nevertheless a weak variable in our estimated relationship; that money supply has been relatively stable over time and that money supply cannot predict economic activity.