THE EFFECT OF THE RECENT GLOBAL FINANCIAL MELTDOWN ON THE NIGERIA ECONOMY.
AN EVALUATION

BEING A PROJECT SUBMITTED TO THE DEPARTMENT OF BANKING AND FINANCE IN PARTIAL FULFILLMENT FOR THE AWARD OF THE AWARD OF MASTER OF BUSINESS ADMINISTRATION

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CERTIFICATION

This is to certify that this research work/project was carried out by NGENE DAVID PG/MBA/08/47482 of Banking and Finance Department.

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APPROVAL PAGE

This research work was approved in the department of Banking and Finance.

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DEDICATION

This work is solemnly dedicated to God Almighty who gave the grace, patience and wisdom o successfully complete it. I give him all the glory.

ACKNOWLEDGEMENT

"The end of every journey is better than the beginning thereof" therefore it is with so much joy in my heart that I want to express my indebtedness to the Almighty God who in his unquantifiable mercy, has given me the opportunity to study this course and to be able to develop and complete this research work/project. I will not forget to express my appreciation to all my lecturers in University Nigeria, Enugu Campus, especially in the Department of Banking and Finance.

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Finally I want thank God for blessing me with the most caring family on earth. Thanks to you all and may God bless you so much for me.

ABSTRACT

This study/research was necessitated owing to the recent financial crisis that enveloped the globe, commonly referred to as the global credit crunch. This crisis came about as a result of mismanagement of mortgaged that were made available to the masses abroad specifically the United States of America. The crisis has its root in a banking practice called sub-prime lending or supreme mortgage. Even when Banks got to realize that there was fire on the mountain, they were shy to admit it because they were scared of being undervalued. Like a wild fire, the whole globe was enveloped in the crisis. The researcher made use of secondary data, as many people had views that varied on the topic or issue. The research went a long way to show to what extent the meltdown affected the stock market capitalization and GDP of Nigeria during the specified period namely-March 2008 to February 2009, in doing this the researcher employed the technique namely regression and correlation analysis. From the study we came to see how adversely the stock market capitalization was affected whereas the GDP was not affected as such. More details are seen in the body of the research work.

CHAPTER ONE

1.0 INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Never since the 1930's Great depression has the world faced such level of financial crisis as the current credit crunch that has threatened to undermine the stability of the world's economic system and in turn rewrite economic theories that have hitherto been regarded as sacrosanct. The credit crisis which was ignited in the US, but took its first victims in the UK in 2007 resulting in the collapse of Northern Rock, was triggered by rising defaults by sub-prime US mortgage borrowers; (Simon E. and Tonia O. 2008). In US there are three types of mortgages namely:

Conventional, Interest-only and Sub-Prime

In conventional mortgages, part of each month's payment goes towards paying off the principal and part goes towards interest (Fiakpa, L. et al: 2008).

In an interest-only loan or mortgage, the borrower only pays interest each month. This makes it cheaper than a conventional mortgage.

Sub-prime mortgage is granted to borrowers whose credit history is not sufficient to get a conventional mortgage or who do not qualify for market interest rates owing to various risks factors such as income level, size of the down payment made, credit history and employment status. (Fiakpa, L. et al; 2008). As the defaults in sub-prime US mortgage mounted, institutions had a rethink on their attitudes to risks and suddenly became scared of losing money.

Banks became unwilling to lend to each other for fear of not getting their money back. The panic spread to shares and finally from financial markets to hit the wider economy.

But the damage had been done and the global economy has taken a beating, the extent of which is yet to be determined.

In Nigeria, it first came by a meltdown of the capital market, but as price depreciation continued unabated, the authorities decided to have a second look at the market. The market fundamentals were strong, what could therefore be wrong with the market? Questions were asked.

Secondly, dwindling petroleum prices means a severe reduction in foreign exchange earnings, which in our case, affected the economy severely as the nation depends so much on the petroleum sector.

Deriving from the above, is the deficit in Federal Government budget narrowing down to State and Local Government allocation, there is also loss of jobs and a slow down in fight against poverty.

Thus, as Komolafe Babajide (2008:6) rightly puts it, the tragedy of the US economy soon became a global nightmare US investors in a bid to save some of their investment at home started calling home their foreign investments including those in Nigeria. This gave rise to a glut of shares in the market, which promoted the sharp depreciation of share prices. The impact of this on the Nigerian stock exchange has been quite severe as the market capitalization tumbled more than 30 percent within the period (vanguard 2008:8).

Contrary to earlier claims that the Nigerian economy is insulated, the crisis soon infected the entire capital market. This was due to the decision of foreign investors to pull out

their funds from the market leaving it saturated with stocks. The problem thus spans from the indications that a sustained investment in stocks is needed to rally investor confidence. Unfortunately, almost one month after the Nigerian stock market prices took a nose-dive and three weeks after the US economy posted their signs that a recession was imminent, there hasn't been a coherent effort on the part of the organized private sector especially in Nigeria to salvage what is left of the economy.

This study is therefore out to investigate this global economic meltdown or downturn as it impacts on the Nigerian Economy. The basis of the study is on various sectors of our economy and because the Nigerian economy is mostly and hugely dependent on oil prices, the ongoing projects in Nigeria's oil and gas industry is dependent on foreign financing. This then implies that some key sectors of the economy may suffer a set back and our oil and gas sector may not be spared. Independent Daily (2009:43) captured it more vividly by saying that the crux of the project's down turn was due to step up

security concerns arising from the activities of militants operating in the Niger Delta region.

Economic meltdown may also attack a nation's bureaucratic sector. Hence, the decision making machineries have come to agree indeed that there is a huge complex theory threatening their propaganda instinct. Financial meltdown can also take a steep price of consequence on the entire population. This is revealed in financial vanguard (2009:26) that because of high energy costs, consumers have reduced their gasoline consumption at the fastest rate since the oil shock of the 1970's as prices peaked, oil consumption in Nigeria dropped by 12% in July to its lowest level since the return of democracy (Oti, B. 2008). The big question then was why did a domestic problem in faraway USA become so profound as to take a toll on the Nigeria people?

I personally, felt it is just one the negative consequences of globalization: as well as the evil side of capitalism as many authors have come to discover. The researcher also finds out that though not surprisingly that a complete new approach may prove to be a more viable solution to the current economic

nightmare. The reason being that, in spite of various governments' concerted efforts in re-aligning the economy, not much has been seen of the impact of the government's bailout packages and nationalization policies. It is therefore not surprising as it is only a repeat of the 1930's global depression method of correction.

However, as we watch events unfold, one thing is clear; the world's most vulnerable people have been rendered more vulnerable; there is fear of great deprivation ahead as investment losses in Nigeria may trigger factory shutdowns and generate more unemployment.

1.2   STATEMENT OF THE PROBLEM

The overwhelming effect of the world's credit crisis has called to question the efficacy of the global economic theories, be they capitalism or welfarism as practiced in the western and Eastern blocks respectively. As governments across the globe retreat to the drawing board in search of answers, operators and stakeholders in proffering solutions have stated that the

remedies lie with no economic theory, but in confidence building measures.

Although the Nigerian government has rolled out series of bail out packages to cushion the effect of the crisis on both the private sector and the public ones, it appears the economy is still sinking deep into recession.

The issue of government intervention and its efficacy remains the crux of this research. This is borne out of the fact that economic destabilization remains the bane of national tragedy. Thus finding a better medium of recovery is often the big problem confronting the authorities. The questions now are as follows: Has the CBN done enough to really insulate the Nigerian banking sector from the crisis? Can the informal sector of the Nigerian economy be proactive enough to rescue the entire economy like the one in Europe and America? These and more are really the problems militating against survival of the global, economic meltdown.

1.3 OBJECTIVES OF THE STUDY

From first principles, we must not forget that financial booms and busts are not a new phenomenon. What is disquieting about the current meltdown is that it is in the nature of a seismic tremor of earth showing proportions. Within a few months, some of the biggest financial giants have bellied-up while several more are in serious trouble.

Similar to this is the dwindling capacity of regulatory authorities. The reality is that the world of high finance has become so complex in our digital age, with capital traveling at the speed of light and several instruments engineered using the arcane language of quantum physics.

Thus, in the light of the problems identified in the preceding section, the objectives of the research are as follows:

i.   To examine the factors and sequences of event resulting in the meltdown and the impact of meltdown in Nigerian economy.

ii.   To determine the effectiveness of government monetary policies in addressing the situation.

iii. To find out the approximate collateral damage the impact must have had on the entire Nigerian economic system.

iv. And finally, to ensure through this research that suggested way out of the crisis is not only provided but appropriately streamlined.

1.4 HYPOTHESIS

1. H_o: The current financial crisis greatly affected marked capitalization on the Nigerian stock exchange.

  H_i: The current financial meltdown has not greatly affected market capitalization on the Nigerian Stock Exchange.

2. **H_o:** The financial meltdown has influenced the GDP of Nigeria.

  H_i: The financial meltdown has no impact on the GDP of Nigeria.

1.5 SIGNIFICANCE OF THE STUDY

With the festering financial crisis that is fast becoming a global hitch, declining national revenue, sharp fall on the value of shares and the continuing crash of the naira against foreign

currencies are some of the major indicators that the global crisis is already affecting Nigeria.

This research bears quite some significance as it will unveil the extent to which this meltdown has no far inflicted one national economy.

The study will present in concise form the measures already taken by the relevant authorities and stakeholders to cushion the effects of the crisis and will finally present the views though varied and complex of scholars which can be of immense help in getting Nigeria off the hook.

1.6   SCOPE AND LIMITATIONS OF STUDY

This research will focus primarily on the financial meltdown as affecting the Nigerian Economy. The work is not conclusive in nature as the crisis is till bedeviling the national economy. Because of global implications of the menace, only secondary data were consulted while the time horizon considered is from March 2008 to February 2010.

The scope of this study is quite broad. It pictures, from a historical perspective, the economic meltdown. However, quality

time was devoted to X-ray the Nigerian economy in order to ascertain the extent of damage or danger the local economy is up against.

The study therefore covers issues on monetary policies, stock market manipulations, government intervention packages as well as political economics within the country.

Again, due to the spill of this economic crisis from the developed world, attention was also paid to the perceived origin of the crisis the USA was constantly referred to because of the role the country played in spreading the meltdown.

Finally, some problems were encountered in the process of the research.

These are as follows:

i.   The problem of the complex nature of the study which was basically new to scholars of this century. Thus this hindered the availability of published materials.

ii.   Getting the various data and appropriate materials also proved very difficult and time consuming.

iii. Finally, due to the demand of other conventional academic engagements and constraints of financial resources, the

work is inconclusive in nature. Above that, harnessing all the information gathered within the short time allotted to this study was not possible.

1.7   RELEVANT RESEARCH QUESTIONS

To cover the scope of this project satisfactorily, the research topic is broken down into several research questions. By the time these questions are duly answered through objective reasoning and the use of informative facts, the researcher would have met the research objectives. Such questions include.

1.   To what extent has the meltdown affected the national economy?

2.   Has the CBN efficiently, played its role in maintaining macroeconomic and financial stability?

3.   What efforts are being put in place by the Federal Government in cushioning the effects of the crisis?

4.   How can confidence be built again in investing public?

1.8   DEFINITION OF SPECIAL TERMS

The following terms, were presented in their technical sense.

Budget: This is the annual financial statement containing an estimate of all anticipated revenue and expenditure of the government of the coming year.

Budget deficit: This occurs when an entity (often a government) spends more money than it receives. The opposite of budget deficit is budget surplus. Debt is essentially an accumulated flow of deficit. In other words, a deficit is a flow and debt is a stock.

Buy back: Buy back refers to the redemption of outstanding debts by the issuer before the maturity.

Asset backed security: security collateral by loans, leases unsecured received or installment contracts on personal property, automobiles or credit cards. The cash flows generated by the underlying obligations are used to pay principal and interest to the asset-backed security holders.

Correlation: A statistical measure of the closeness of the variations in the values of another.

The correlation value lies in the interval-1 to 1-Margin here refers to the borrowing of stock for the purpose of getting more leverage, OECO countries, that is the Word's net surplus and donor countries. (The Guardian: p.18).

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CHAPTER TWO
REVIEW OF RELATED LITETRATURE

2.1   An Overview

Since the adoption of floating exchange rates in the developing countries in 1973, the question of whether exchange rate changes/uncertainty have independent adverse effects on exports and trade has attracted a lot of attention in the literature. The introduction of structural adjustment programmes by many of these countries and the attendant liberalization of exchange rates have brought the discussion of this issue further into global focus.

A review of the literature shows that the issue is far from settled though not all studies are fully comparable. For example, Lastrapes and Koray (1990), Cushman (1988), and Caballaro and Corbo (1989), indicated a significant depressive effect of exchange risk. IMF (1984), Gotur (1985), and Chambers and Just (1991), however, supported a contrary view. Abel (1983) showed that if one assumes perfect competition, convex and symmetric costs of adjusting capital, and risk neutrality, investment is a direct function of price (exchange rate) uncertainty.

There is also a vast body of empirical literature on exchange rate effects on external trade and it is reasonable to focus on the most relevant ones. Much of this research concentrated on the manufactured goods trade and also produced inconclusive results (Hooper and Kohlhagen, 1978; Gotur, 1985; Lastrapes and Koray, 1990).

Maskus (1986), however, provided a link between his study and previous work by comparing the effects of exchange rate risk across major sectors of an economy, e.g., manufactured goods, agriculture, chemicals and others. He found that aggregate bilateral agricultural trade (the United States and its major western trading partners) is particularly sensitive to exchange rate uncertainty. Maskus argued that agriculture, compared with manufactured goods trade, is more responsive to exchange rate changes because (a) agricultural trade is relatively open to international trade (where openness is measured by the ratio of exports and imports to domestic agricultural output), and (b) agriculture exhibits a low level of industry concentration.

Exchange rate risk measures the volatility and erratic pattern of exchange rate movements: the more volatile the movements, the higher the risk. In a developing country, where export price increases, as a result of currency devaluation are expected to be an incentive for export growth, a primary concern is the nature and magnitude of risk introduced by the exchange rate movements. This concern has strengthened in recent years in response to increasing protectionist trends and slowing growth in world trade. Many related empirical studies have been conducted on the effect of price or exchange rate on trade (Schuh, 1974; Ihimodu, 1993; Ogiogio, 1993; Osuntogun et al., 1993; Obadan, 1994). However, most of these efforts have concentrated on the price and export effects in a static setting. These studies, either econometric or judgmental, are thus incapable of portraying the dynamic adjustment to a devaluation and exchange rate fluctuation.

In Nigeria, Ajayi (1988) and Osagie (1985), while taking the structuralist approach in their study of external trade flow, opposed the adoption of a more

flexible exchange rate policy in Nigeria. Their arguments were based on the structuralist thesis that exchange rate devaluation would be stagflationary and have no significant effects on the external trade balance in the less developed countries. This is because of low price elasticity generally associated with the excess import and export demand functions (Taylor and Krugman, 1977). The findings of Ajayi (1988) and Osagie (1985) support an earlier study by Ojo (1978), who suggested that exchange rate changes need not play any significant role in the explanation of Nigerian import-export balance.

Two other studies that are relevant to this research are Egwaikhide (1993) and Osuntogun et al. (1993). Egwaikhide worked on determinants of imports in Nigeria using a dynamic specification. The study concentrated on imports alone, however, and left out the effects on exports. The effects on domestic disappearance were also not examined. Osuntogun et al. (1993), in their analysis of strategic issues in promoting Nigeria's non-oil exports, determined the effects of exchange rate uncertainty on Nigeria's non-oil export performance as a side analysis. Theirs is the pioneering effort in Nigeria to determine the effects of exchange rate risk on exports. However, their model did not take into consideration the cross-price effects. Furthermore, estimates of the exchange rate risk obtained are not standard and are sensitive to the measure of exchange rate risk proxy that is used. As pointed out by Pick (1990), the measure of risk as postulated by Caballero and Corbo (1989) is faulty as it over-exaggerates the risk measure. Nevertheless, this was the risk measure used in Osuntogun et al. The present work, apart from introducing dynamism into the study, uses a standard measure of exchange rate risk that has been refined in the literature.

2.2   Nigeria Foreign Exchange System

The Nigeria foreign exchange market is new. Prior 1962, there was no formal foreign exchange market. As a result of long tie with former colonial master Britain, the Nigerian pound was tied to the British pound steeling, with easy convertibility. This scenario contributed largely to late development of an active foreign exchange market in Nigeria. During the period, foreign exchange earned by the private sector (mainly from agriculture) was held in balances abroad by commercial banks which acted as agents for local exporters (Okororie 2005).

The establishment of the central bank of Nigeria (CBN) in 1958, and the subsequent centralization of foreign exchange management in the bank, brought about the need to develop a local foreign exchange market. This ultimately led to the enactment of the first exchange control law in Nigeria- the exchange control act 1962. Under the act, the responsibility of the administration of exchange control was conferred on the minister of finance who in turn delegated this to the CBN.

Merchant and Commercial Bank in the country at that time were to serve as conduit through which applications for foreign exchange were channeled. They were designated Authorized dealers (i.e. they can buy and sell foreign exchange subject to CBN guideline). Similarly, a number of 'five star" hotels were designated authorized buyers (i.e. they can only buy but not sell foreign exchange). They could purchase foreign currency from foreign visitors into Nigeria and eventually resale (off-load) such currencies to authorized dealers.

Thus, most economic agents had to patronize the CBN for foreign exchange allocation to pay for international transactions.

Between 1962 and the present day, the development in the Nigeria foreign exchange market have been predicated on various factors which include, but not limited to the following:-

i.   Changing pattern in consumption

ii.   structural shifts in production

iii. changing pattern of international trade

iv.   institutional changes in the economy

v.   challenges of monetary integration

vi.   pressures from would bank and IMF

vii. globalization

2.3   Institutional Framework and Policy Shifts in Foreign Exchange System

The policy shifts in foreign exchange management is discussed here in phases:-

Phase 1: 1962 – 1984

Foreign exchange market in Nigeria with this period was characterized by the following:-

i.   Change of currency from pound to naira in 1973

ii.   Use of fixed exchange rate system

iii. Use of import license on same commodities

iv.   Use of export license. Export proceed was expected to be surrounded to authorized dealers for local currency.

v. The use of form "M" was introduced in 1979 when the comprehensive import supervision scheme (CISS) was put in place to guard against sharp import practices. Under the scheme, imported goods were subjected to pre-shipment inspection with respect to the quality, quality and prices.

Phase 2: 1984 – 1986

Between 1984 –1986 the following took place;

i. Promulgation of the trade and exchange (Anti-sabotage) Degree 1984.

ii. In 1985, the foreign currency (Domiciliary account) decree was promulgated. The decree gave Nigerian the opportunity to open accounts in Nigeria with their local banks but such accounts are designated in foreign currencies.

iii. With effect from September 1986, emphasis shifted from fixed exchange rate system towards a market based exchange rate mechanism.

iv. A dual exchange rate system (first tier and second tier) operated. The first tier exchange rate was fixed and it applied to debt service payments while the second tier exchange rate was determined by market forces and applied to all other transaction.

Phase 3: 1987 – 1995

On July 2, 1987, the first and second tier markets were merged into an enlarged foreign exchange market (FEM); where all transactions were guided by market forces.

In January 1989, Bureau de change was introduced as a segment of the Nigeria foreign exchange market for retailing foreign exchange to small users, with a view to reducing the demand pressure on the official market. In 1994, the authorities reverted to a fixed exchange rate system, only to re-introduce the dual exchange regime in 1995.

Phase 4: 1995 to date

Radical changes were introduced in the foreign exchange market in 1995 sequel to the abolition of the exchange control Act 1962 and the promulgation of the foreign exchange (monitoring and miscellaneous provision) Act, 1995. There was a policy shift from re-regulation to guided deregulation.

As at 2005, the foreign exchange market was still operational and foreign exchange was sold by the CBN to end users using the Dutch auction system. Under this system, banks simply submit bids made by their customers to CBN for processing.

The current legislation guiding foreign exchange operational in Nigeria is the foreign exchange (monitoring and miscellaneous provision) act 1995, which hitherto, replaced all previous enactments (Okonne 2005).

2.4   Foreign Exchange Market (FEM)

The foreign exchange market is the market for buying and selling different currencies (Charles 2006), it is the medium through which the interaction of demand and supply results in the determination of the rate of exchange of a local currency against other foreign currencies. It provides a framework and

an opportunity to trade in, deal on, off-load or procure foreign currencies for effecting or closing international transactions. In other words, a foreign exchange market provides a medium for interaction between the seller and buyer of foreign exchange in a bid to negotiate a mutually acceptable price for the settlement of international transactions.

In Nigeria, the foreign exchange market consist of the official window (DAS), the Open Inter-Bank (OIB) market and the Bureau De Change (BDC) which are legal markets; as well as the parallel market, which is not officially recognized but operates as the "underground" window.

According to Kalu "The objectives of the market include the provision of an avenue for the exchange of national currencies and the creation of an effective mechanism for the allocation of foreign exchange". Nations carry out their domestic or economic trading activities by means of their nation currencies.

However, once a nation wants to export its products abroad or wants to import some commodities from a foreign country, it will need a foreign exchange market. The exporting country will have to pay for its imports in the domestic currency of the export. Thus, if Nigeria exports palm oil to Cote d'Ivoire, she will expect Cote d'Ivoire to pay her in naira. Note that Cote d'Ivoire's national currency is the CFA franc. What happens is that Cote d'Ivoire will have to convert her CFA franc into naira so as to effect payment for her imports. This she can do in a foreign exchange market by shopping for, and exchanging her CFA franc for, the naira equivalent of her imports. Nigeria gets paid in naira while Cote d'Ivoire actually pays in CFA francs at

the ruling exchange rate between the naira and the CFA franc in her (Cote d'Ivoire's) foreign exchange market.

It is a very interesting practice and banks play a very crucial role in such transactions. All an importer does is to provide the local currency cover for his imports to his bakers. His bankers will exchange the local currency at the ruling exchange rate for the foreign currency of the exporting country. Thus, the exporter gets paid in his local currency, if the local currencies of both the importing and exporting countries are non-convertible, then there will be need for the importing country, for instance, to convert its national currency to a convertible currency like the US Dollar or Pounds Sterling that is, conversion to an international medium of exchange.

Foreign exchange market exists because nations want to maintain their sovereign rights and identities as nations. They want to administer and control this own currencies. There would have been no foreign exchange markets if all countries in this world over had, and transacted with a single currency.

2.5   Foreign Exchange:

This can be defined simply as foreign currency or any other financial instruments acceptable as a means of exchange or payment (Kalu 1998). Foreign exchange is defined by the international monetary fund (IMF) as "monetary authorities claims on foreigners in the form of bank deposits, treasury bills, short term and long-term government securities and other claims usable in the event of a balance of payments deficit, including non-marketable claims arising from inter-central bank and inter-governmental

arrangements, without regard to whether the claim is denominated in the currency of the debtor or creditor".

However, generally, foreign exchange is the means of payment for international transactions. It is made up of convertible currencies that are generally accepted for the settlement of international trade and other external obligations. Such currencies include those of the group of seven (G7) industrialized countries made up of the United State Dollar, British Pound Sterling, Deutsche Mark, Euro, Japanese Yen, French Franc, Italian Lira and Canadian Dollar.

The central bank of Nigeria also defined it as any currency and includes coins or notes, which are, or have at any time been legal tender in any territory outside Nigeria; poster orders, money orders, bills of exchange, promissory note, draft, letters of credit and travelers' cheques payable or expressed in a non-Nigeria currency (Odusola 2006).

2.6   Exchange Rate

Exchange rate has been defined as the price of one currency in terms of other (Charles 2006). It can be expressed in one or two way; as units of domestic currency per units of foreign currency; or unit of foreign currency per unit of domestic currency. For example, on April 25, 2010, the Nigerian currency the naira traded for ₦150.40 to a US Dollar in the foreign exchange market giving an exchange rate of ₦150.40 per US$1.00 or US$ 0.0006695 per ₦1.00 (Guardian newspaper 2010). At this juncture, perhaps, it is salutary to look at some countries and their currencies:

Table 1: World Currencies

COUNTRY	CURRENCY	CURRENCYCODE/SYMBOL	VALUE PER IMF SDR	VALUE PER USD
ALBANIA	LEK	ALL	195.201	134.4545
ALGERIA	ALGERIAN DINAR	DZD	103.8674	71.5439
ANGOLA	NEW KWANZA	ANO	118.90	81.8933
ARGENTINA	AUSTRAL & PESO	ARA/ARS	4.0942	2.8201
AUSTRALIA	AUSTRALIAN DOLLAR	AUD /$A	2.0942	1.38201
AUSTRIA	EURO	EUR/€	1.21523	0.8371
BANGLANDESH	TAKA	BDT	85.959	59.2086
BELGUIM	EURO	EUR/€	1.21523	0.8371
BENIN REP.	CFA FRANC	CF AF/XAF	797.14	549.0701
BOTSWANA	PULA	BWP	7.1998	4.9592
BRAZIL	CRUZEIRO REAL	BRR (Cr $)	4.274	2.9439
BULGARIA	LEV	BGL	2.377	1.6373
BURKINA FASO	BURKINA FASO FRANC	BFF	797.14	549.0701
CZECH REP.	CZECH KORUNA	CZK	39.548	27.1845
CAMEROON	CFA FRANC	CF AF	797.14	549.0701
CANADA	CANADIAN DOLLAR	CAD/CAN $	1.9900	1.33707
CHAD	CFA FRANC	CFAF /XAF	797.14	5490.701
CHILE	CHILEAN PESO	CLP	907.16	626.85
CHINA	YUAN RENMINBI	CNY	12.0169	8.2772
COLUMBIA	COLUMBIAN PESO	COP	3,842.98	2,647.05
COMOROS	COMORIAN FRANC	KMF	597.855	411.7991
CONGO DEM.REP.	NEW ZAIRE	CDZ	597.85	388.1389
CONGO REP.	CFA FRANC	CFAF/XAF	797.14	549.0701
COTE D'IVORE	CFA FRANC	CFAF/XAF	797.14	549.0701
CROATIA	KUNA & DINAR	HRK, HRD	9.242	6.3659
DJIBOUTI	DJIBOUTI FRANC	DJF	258.02	177.7242
EGYPT	EGYPTIAN POUND	EGP/$E	8.9926	6.1941
ETHIOPIA	BIRR	ETB	19.9751	13.7588
FRANCE	EURO	EUR	1.21523	0.8371
GABON	CFA FRANC	CFAF/XAF	797.24	549.0701
GAMBIA	DALASI	GMD	39.054	26.9003
GERMANY	EURO	EUR	1.21523	0.8371
GHANA	CEDI	GHC/¢	13137.58	9, 049.17
GREECE	EURO	EUR	1.21523	0.8371
GUINEA	SYLI	GNS	N/A	N/A
GUINEA BISSAU	PESO/ CFA FRANC	GWP/XAF	797.14	549.0701
GUINEA (EQUATORIAL)	CFA FRANC/EKWELE	XAF/GQE	797.14	549.0701
HAITI	GOURDE	HTG	54. 7985	37.7452

INDIA	INDIAN RUPEE	INR	64.418	44.3711
INDONESIA	RUPIA	RUP	12,574.30	8,661.18
IRAN	IRANIAN RIAL	IRR	12,420.46	8,552.21
IRAQ	IRAQI DINAR	IQD	0.43547	0.2995
ISREAL	SHEKEL	ILS	6,6610	4.2995
ITALY	EURO	EUR	1.21523	0.8371
JAMAICA	JAMAICAN DOLLAR	JMD	87.6795	60.3936
JAPAN	YEN	JPY/Y	159.99	110.2011
JORDAN	JORDANIAN DINAR	JOD	1.02935	0.7090
KENYA	KENYAN SHILLING	KES	113.746	78.3483
KUWAIT	KUWAITI DINAR	KWD	0.42785	0.2947
LESOTHO	LOTI, MALOTI $ S/AFRICAN RAND	LSL, LSM, ZAR	9.9523	6.8551
LIBERIA	LIBERIAN DOLLAR	LRD/L $	79.1247	54.5011
LIBYIA	LIBYAN DINAR	LYD	1.93237	1.3310
LUXEMBOURG	EURO	EUR	1.21523	0.8371
MADAGASCAR	MADAGASY FRANC	MKD	13.830.0	9.526
MALAWI	MALAWIAN KWACHA	MWK	158.1410	108.9275
MALAYSIA	RINGGIT	MYR	5.5170	3.8001
MALI	CFAF FRANC /MALIAN FRANC	XAF, MLF	797.14	549.0701
MALTA	MALTSES LIRA	MTL	0.51580	0.3553
MAURITANIA	QUGUIYA	MRO	390.11	268.7078
MEXICO	MEXICAN NEW PESO	MXN	16.4619	11.3390
MOROCCO	MOROCCAN DIRHAM	MAD	13.258	9.1321
MOZAMBIQUE	METICAL	MZM	34.621.4	23.847
MAURITUIS	MAURITUIS RUPEE	MUR	40.009	27.5582
N/KOREA	N.KOREAN WON	KPW	1,678.03	1,156
NAMIBIA	NAMIBIANDOLLAR S/AFRICAN RAND	ND/AD,ZAR	9.95229	6.8551
NETHERLAND	EURO	EUR	1.21523	0.8371
NIGER REP.	WEST AFRICAN FRANC/CFA FRANC	XOF, XAF	797.14	549.0701
NIGERIA	NAIRA	NGN/₦	192.803	132.8027
NORWAY	NORWEGIAN KRONE	NOK	9.9886	6.88801
PAKISTAN	PAKISTANI RUPEE	PKR	83.434	57.4693
PHILIPPINES	PHILIPPINES PESO	PHP	81.098	55.8589
POLAND	NEW ZLOTY	PLN	5.8442	4.0255
PROTUGAL	EURO	EUR	1.21523	0.8371
ROMANIA	ROMANIAN LEU	ROL	49,166.22	33,866.00
RUSSIAN FEDERATION	RUSSIAN ROUBLE	RUR	41.9338	28.8840
RWANDA	RWANDAN FRANC	RWF	863.04	594.4620
SOUTH KOREA	SOUTH KOREA WON	KRW	1,678.03	1,156.0

SAO TOME & PRINCIPE	DOBRA	STD	14,360.1	9,89.21
SAUDI ARABIA	SAUDI RIYAL	SAR	5.4371	3.7541
SENEGAL	W.AFRICANFRANC/CFA FRANC	XOF,XAF	797.14	549.0701
SIERRA LEON	LEONE	SLL	3954.06	2,723.56
SINGAPORE	SINGAPORE DOLLAR	SGD	2.4736	1.7038
SOUTH AFRICA	RAND	ZAR	9.9523	6.8552
SPAIN	EURO	EUR	1.21523	0.8552
SUDAN	POUND/SUDAN DINNAR	SDP, SDD	384.03	264.5299
SWAZILAND	LILANGENI	SZL	9.9523	6.8552
SWEDEDN	SWEDISH KRONE	SEK	11.1172	7.6579
SWITZERLAND	SWISS FRANC	CHF	1.8827	1.2968
SYRIA	SYRIAN POUND	STP	16.297	11.2254
TANZNIA	TANAANIAN SHILLING	TZS	1,625.32	1,119.52
THAILAND	BAHT	THB	58.007	39.95523
TOGO	CFA FRANC	CFAF/XAF	797.14	549.0701
TUNISIA	TUNISIAN DINAR	TND	1,844.40	1,270.42
TURKEY	TUKISH LIRA	TRL	1,994.47	1,373.791
UGANDA	UGANDAN SHILLING	UGS	2,774.8	1,911.28
UKRAINE	HRYVNA & KARBOVANET	UAH/UAK	7.6364	5.3288
UNITEDARAB EMIRATE	UAE DIRHAM	AED	5.3318	3.6725
UNITED KINGDOM	POUND STERLING	GBP/€	0.81876	0.5640
URUGUAY	URUGUATAN NEW PESO	UYU	43.119	29.7004
USA	US DOLLAR	USD/US$	1.5418	1.0000
VENEZUELA	BOLIVAR	VEB	2,317.12	1,596.03
VIETNAM	DONG	VND	23,322.9	16,064.82
YEMEN	RIYAL	YER	273.058	188.08
ZAMBIA	ZAMBIAN KWANCHA	ZMK	885.304	6.8551
ZIMBABWE	ZIMBAWIAN DOLLAR	ZWD/Z$	4,574.894	3,151.19

Sources: Computed From World Bank Statistical Bulletin, CBN Annual Reports and Statements of Account, and Economic and Financial Review.

Notes:

1) The values per SDR (i.e. IMF special Drawing Rights) are stated as at April 2006

2) The values of other currencies per US dollar were derived from their respective SDR values as at April 2006; when SDR 1= US$ 1.4518.

Practically every nation has a monetary unit different from that of other nations. In a few instances, the units appear similarly as in the case of the

united State of America and Canada but Canadian Dollar and the American Dollar are not the same.

The exchange rate is a key macroeconomic variable in the context of general economic policy making, and of economic reform programmes, in particular. It is a very important price which governments take very active interest in (Obadan 2006). They are often expressed in terms of two currencies, domestic and foreign. Exchange rate can also be expressed either in nominal or real exchange rates

2.6.1 Nominal Exchange Rate

Nominal exchange rate can be viewed from two angles; Domestic-currency terms and foreign–currency terms. Nominal exchange rate from the domestic –currency term (E_d) is defined as units of domestic currency per unit of foreign currency. From foreign-currency term (E_f), it is the units of foreign exchange per unit of domestic currency. The domestic –currency measure is the reciprocal of the foreign currency term (Odusola 2006). In general; the nominal exchange rate (NER) is a monetary concept which measures the relative price of two moneys or currencies, e.g. Naira in relative to the U.S dollar. (Obadan 2006).

2.6.2 Real Exchange Rate (RER)

Real exchange rate can be defined from both external and internal perspectives; External RER is the nominal exchange rate adjusted for price level differences between countries. It is the ratio of the aggregate foreign

price level or cost level to the home country's aggregate price level or cost measured in a common currency.

Internal RER measures the relative prices of two broad categories of goods tradable and non-tradable goods: ratio of the domestic price of tradable to non-tradable goods is to capture the internal relative price incentive in a particular economy for producing or consuming tradable as opposed to non-tradable goods. In general, the real exchange rate (RER) as the name implies, is a real concept that measure the relative price of two goods (goods and service produced and consumed locally).

2.7   Exchange Rate Fluctuations

Exchange rate fluctuations refer to the sings or fluctuations in the exchange rates over a period of time or the deviations from a benchmark or equilibrium exchange rate. Exchange rate will change whenever the values of either of the two component currencies change.

Empirically, fluctuation is measured in terms of the coefficient of variation which is the standard deviation divided by the mean for a series. Fluctuation and price volatility may be measured on any time-scale, from year-by-year to day by day. Exchange rate fluctuation over any time interval tends to be higher when supply, demand or both are liable to large random shocks and when the elasticity of both supply and demand is low.

Once an exchange rate is not fixed it is subject to variations, thus floating exchange rates tend to be more volatile. The degree of volatility and the extent of stability maintained are affected by economic fundamentals. Friedman in his 1953 thesis noted that "…instability of exchange rate is a symptom of instability in the underlying economic structure…". For instance, the theoretical argument that exchange rate fluctuation may hinder trade is based on the fact that fluctuation represents uncertainty and will impose costs on risk averse trades

2.8   Factors that Cause Fluctuations in Exchange Rate

The exchange rates of currencies are never constant for an indefinites period: it fluctuates in response to demand for and supply of foreign exchange in the foreign exchange market. The factors are as follows;

i) **Money Supply:** High-level money supply will usually impact negatively on the exchange rate. In Nigeria, excess liquidity in the system will usually buoy the demand for foreign exchange in the foreign exchange market; thus exerting pressure on the exchange rate.

ii) **Interest Rates**: Interest rate differentials between two financial centers usually result in capital flows from one centre to another. All things being equal, there is a natural tendency for funds to be attracted to centers where high interest rates prevail for investment or speculative purposes. The currency of the country receiving the funds is likely to appreciate because of the high demand for her currency.

iii) **Economic News:** Economic news usually have immediate effect on exchange rate. In Nigeria for instance, the impact of oil prices usually affect the exchange rate of the naira.

iv) **Inflation:** A run-away inflation at home will have the effect of making exports dearer and imports more cheaply. Since the demand for foreign currencies imply the supply of local currency, the high demand for foreign exchange to pay for imports will cause the value of foreign currencies to appreciate while the value of the home currency will depreciate.

v) **Capital Flight:** Capital fight in the form of over-invoicing of imports or under-invoicing of exports will have the effect of diminishing the volume of a country's foreign reserves, thus impacting negatively on the exchange rate.

vi) **Speculation:** Activities of speculators in the foreign exchange market can affect the exchange rate either positively or negatively. The activities of those who move "hot money" from one centre to another hoping to find a strong currency which will appreciate in value could cause the exchange rate of the recipient country to appreciate at the point of inflow. When the funds move out violently, it could have a destabilizing effect on the exchange rate

vii) **Political Situation:** A stable political system in a country will usually increase confidence on a country's economy in the eyes of the international community. This could lead to inflow of foreign capital for developmental and investment purposes.

viii) **Rumours:** Rumours of possible devaluation or revaluation will accelerate demand for or supply of currency for forward delivery at a latter date. Also rumours of possible change in bank rate will

affect future interest patterns. All these and a host of others will certainly impact either positively or negatively on the exchange rate.

ix) **Influence of Banks:** Banks' operations have significant influence on the demand for and supply of foreign exchange. If bank issue large number of letters of credits, promissory notes, bills of exchange, drafts on foreign banks, the demand for foreign currency rises. Furthermore, if the bank rate rises relative to other countries more funds will flow into the country from abroad to earn high interest rate.

x) **Exchange Control Regulation:** The introduction of exchange control regulation by a country will restrict movement of funds from a country. If this measure helps to reduce import dependency, exchange control regulations will cause an increase in the level of the economic activities in a country, and this could have direct effect on the exchange rate of the country's currency.

xi) **Balance of Payments Position:** A balance of payments surplus will create demand for the domestic currency because overseas buyers will be seeking to acquire the currency to pay for their imports from the country. Such demand will result to appreciation of exchange rate of the home currency and forward rates to swing to premium. A balance of payment deficit will have the opposite effect, and will cause the forward rate to swing to discount.

xii) **Leakage Economy:** In any economy characterized by leakages such as smuggling of imports and exports, the cumulative effect will be depreciation in the exchange rate of the domestic currency. If the economy is performing poorly generally, this will also be reflected in the exchange rate of that country's currency.

xiii) **Stock Exchange Influences:** Stock exchange operations in foreign securities exert significant influence on the exchange rate. When foreigners buy shares, stocks and debentures in the local foreign exchange markets, the demand of the currency will rise.

xiv) **Central Bank Support:** The support for a currency or lack of it by the central bank of a country will certainly affect the exchange rate of that currency. Sometimes, the central bank of a country may enter the foreign exchange market to buy the home currency or sell foreign currencies from the country's reserves; with a view to defending the value of the home currency. Such action also works in reverse when a particular currency is appreciating too rapidly. Given that over-valuation of a currency will cause imports to be cheaper and exports dearer, the Central Bank can intervene by selling the home currency or buying foreign currencies to boost the external reserve position.

2.9 Basic Background of International Trade

International Trade many be defined as the exchange, buying and selling of goods and services between two or more countries. International Trade is also known as foreign or external trade (Okororie 2004). It is also the system by which nation export and import goods, services and capital. International Trade according to Reem Heakal (2008), The Wall Street Journalist is the exchange of goods and service between countries. This type of trade gives rise to a world economy, in which prices, supply and demand, affect and are affected by global events. It is also called world trade.

In the 1920s, economists Eli Hechscher and Betil Ohlin noted that countries differ in their factor endowments. Some have abundant natural resources but less of labour whereas other have abundant labour and sophisticated technology relative to natural resources. It is this dichotomy in factor endowments that create the need for voluntary economic exchange among nations.

2.10   Comparative Advantage among Nations

Comparative Advantage provides the rationale for trade among nations. The principles of comparative advantage, propounded by David Ricardo in the 19th century states that a country should specialize in the production of goods and services in which she has comparative (cost) advantages over other countries or nations of the world. A producer has a comparative advantage in producing a good if the producer could expand production of the good at a lower opportunity cost (in terms of reduced production of other goods) than could other producers.

This principle is saying in essence that if countries of the world specialize in the production of those goods and services that they can produce at cheaper rates and leave other they can produce at higher costs to other nations to produce and they exchange, that production will increase and their cost reduced. At that point we say that the country exporting one good to the other has a comparative advantage in that good and the importing country has a comparative disadvantage in that good.

This principle, nevertheless, is based on certain assumption;

i)   There are only two countries for the exchange of good in the world

ii)   There are only two commodities for the exchange to take place

iii)   Labour is the dominant factor of production used in producing the two commodities and both countries' supply of labour is at par

iv)   There is no trade imbalance between the two countries

v)   Cost of production is not expected to rise significantly

This principle provides the unshakable basis for international trade.

2.11   Risks in International Trade

There are variegated risks implicit in international trade to both the seller and the buyer. Some of the main risks are summarized below:-

i)   **Sovereign Risk**

- Breach of payment of a government debt
- Failure to honour a guarantee by a government

ii)   **Country Risk**

- Punitive import/export regulations
- Outbreak of war
- Political and economic instability
- Failure of government to transfer foreign exchange equivalent of local currency paid by importers.

iii)   **Cross –Boarder Risk**

- Risks associated with mode of transport
- Differences in language that could result to misinterpretation of contract terms

iv)   **Importer Risk**

- Non- payment for good invoiced
- Undue delay in payment invoices

- Insolvency of buyers

v)   Exporter Risk

- Failure to supply goods in line with specification
- Problems in producing correct documentation
- Fraud

vi)   Industry Risk

- Change in taste and fashion
- Recession in particular industry
- Competitive product/ pricing

vii)   Foreign Exchange Rationing by Government

- Exchange exposure
- Blockade of convertibility of a currency

2.12   Benefits of International Trade

Some of the benefits derivable from international trade can be summarized as follows;

i)   **Voluntary Economic Exchange:** International trade makes it possible for a country to get products she cannot produce locally.

ii)   **Enjoyment of Special Skills:** International trade makes it feasible for countries to enjoy special skills of other countries that have enough.

iii)   **Specialization:** International trade encourages nations to specialize in the production of goods and services which they have comparative advantage over others. This leads to increase in world output.

iv) **Improved Standard of Living:** Since countries are enabled to have access to essential goods that are not available locally, it goes a long way to improve their standard of living.

v) **World Peace:** International trade encourages healthy relationship among trading parties. This reduces hostilities among nations thus helping to engender world peace.

vi) **Avoidance of Wastage:** Some countries produce more than they require for local consumption. International trade offers them a good window of opportunity to dispose the surplus thus avoiding wastages.

vii) **Employment Opportunities:** International trade creates opportunities for employment of more labour. When international businessmen establish operational bases in other countries, they help to create employment opportunities in the host country.

viii) **Source of Revenue:** Substantial revenue is derived from exports. Also tariff on imports, export duties and similar charges helps countries to generate substantial revenue.

2.13 Trade Policy Regimes and the Non-oil Sector

The balance of payment problems of the country in the late 1960s largely dictated the trade policies in the 1970s. The policies in the 1970s also sought to promote domestic production and generate revenue for government expenditure. There was considerable restriction and regulation of the trade sector before liberalization (i.e., between 1970 and 1985). Import duties and tariffs were quite high (as much as 70% in 1975) to discourage imports. There were also quantitative restrictions on some food imports through import licensing. On the other hand, the focus of export policy was on cash crops

(non-oil export crops), with the primary purpose being to raise revenue and to moderate farmers' returns and domestic food prices. Main export policy instruments were export duties, sales taxes and centralized marketing. Exchange rate was also administratively determined to ensure cheap imports of raw materials for import-substituting local manufacturing industries.

The oil boom of the mid 1970s and the resulting favourable balance of payments position led to an era of liberal food import policy (Adubi and Okunmadewa 1999). Import restrictions were lifted in some cases and import duties were either abolished or reduced in others. The short spell of depression in the oil market in the late 1970s gave rise to tightening of food import tariffs and import prohibition, which was again relaxed as the oil market situation improved. The period 1981-1986 was one of economic depression and balance of payment crisis. Trade controls were reintroduced to correct the severe distortion. Huge tariffs or outright bans were imposed on most food imports. Export bans and duties were also reviewed to address principally the domestic inflation problem. Centralized marketing was reinforced to increase government revenue.

The 1986 budget introduced the trade liberalization regime as a component of the structural adjustment programme (SAP). The regime included abolition of the import licensing system, reduction of import restrictions, modification of advance payment of import duties, overhauling of custom and excise duty schedules, establishment of tariff review board, allowance of domiciliary accounts operation, abolition of export prohibition, dissolution of commodity boards, and establishment of an export development fund, guarantee scheme, insurance scheme and export promotion zone.

Since 1995, there have been modifications to the liberalization era. Some import restrictions are again in place. A new tariff structure has been set up, with a range of custom duties, and some restrictions and exemptions. A dual exchange rate is now being used, and the export market is fairly liberalized.

2.14   Exchange Rate Changes and Non-oil Exports in Nigeria

In the early 1960s in Nigeria, there was little concern for exchange rate policy, as it had almost no significance in economic management. Between 1960 and 1967, the Nigerian currency was adjusted in relation to the British pound with a one-to-one relationship between them.

Between 1967 and 1974, another fixed parity was maintained with the American dollar. This system was abandoned between 1974 and late 1976, when an independent exchange rate management policy was ushered in that pegged the naira to either the U.S. dollar or the British pound sterling, whichever currency was stronger in the foreign exchange market. The main objective of exchange rate policy in this phase was to operate an independently managed exchange rate system that would influence real economic variables in the economy and bring down the rate of inflation.

Consequently, a policy of progressive appreciation of the naira was pursued over the period and was aided by the oil boom that occurred at the same time. Because of the huge earnings from crude petroleum exports over the period, Nigeria persistently ran appreciable external surpluses in the balance of payments, which supported the appreciation of the naira. This practice led to considerable stability in the naira exchange rate.

Towards the end of 1985, as the economic crisis deepened, the government allowed the exchange rate to be determined by market forces. This led to many rates that diverged widely from one another. The evidence between 1985 and 1993 showed elements of distortions in the exchange rate that made it difficult to predict the path towards stability of the rate (Ogiogio, 1993).

Prior to the policy reforms in 1986, and especially during the 196Os, Nigeria was known mainly as an exporter of non-oil commodities (primary agricultural commodities) and, to a relatively small extent, as an exporter of one or two solid minerals. From 1960, when Nigeria became an independent sovereign state, until 1970, its economy was largely sustained, at least from the point of view of off-shore commitments, by the export earnings from these basic non-oil and mineral commodities. The non-oil export list of the country within this period comprised groundnut, cocoa, beans, palm oil and palm kernel, cotton, rubber, ginger, hides and skins, timber, copra, zinc, columbite, tin, and lead.

The commencement of large-scale exploitation and exportation of crude petroleum began in the early 1970s. The huge inflow of foreign exchange revenues that accompanied the oil boom diverted the attention of the government and a considerable number of the producers of the traditional commodities into activities aimed at exploiting the economic opportunities created by the huge oil revenues.

This development heralded the decline of non-oil commodities production and the resultant drop in both volume and value of non-oil export

commodities. On the imports side, exchange rate devaluation has resulted in dramatic increase in the naira price of imports and this is expected to discourage importation of foreign food items, by raising the level of effective protection for domestic production. On the other hand, the naira costs of imported items have also risen astronomically, taking most of these goods almost out of the reach of many consumers. The sharp rise in the costs of imported inputs could discourage new investments in commercial ventures while the maintenance and rehabilitation of existing equipment would also pose a serious financial strain on modern entrepreneurship.

2.15 Trends and Outcomes of the Exchange Rate Management Strategies

• With the introduction of the market-based exchange rate system in 1986, the naira exchange rate has exhibited the features of continuous instability, for most of the period reflecting unidirectional depreciation in the official, bureau de change and parallel markets for foreign exchange.

• Frequent and often large devaluation/depreciation of the naira became an issue of serious concern at times.

- For example, in 2001 the parallel foreign exchange market premium widened to 18.3 per cent while sharp depreciations in the exchange rates elicited spontaneous reactions from various stakeholders including President Olusegun who declared that "I will not sit down here and allow Nigeria to hemorrhage to the point of death on the alter of liberalization. There will be no runaway devaluation here".

• And as has also been argued (Osaka, Masha and Adamgbe 2003:333), "constant variations in the foreign exchange market framework which was ostensibly aimed at creating better market efficiency, only succeeded in

crating instability in the market and, by the 1990s, the exchange rate was becoming more and more divergent from economic realities".

- Table 2, showing the movement of exchange rates, reveals that from its level of ₦0.89: US$1.00 in 1985, a year before the introduction of the market-based SFEM, the exchange rate moved to ₦2.02: US$ 1.00 in 1986 and ₦17.30: US$ 1.00 in 1992.

Table 2:
Naira Exchange Rate Movements in the Official and Parallel Exchange Markets

year	Rate(N:$)	Official FEM Depreciation/Appreciation (%)	Rate (N:$)	Parallel FEM Depreciation/Appreciation (%)	Premium
1985	0.89	-14.6	3.79	14.20	325.8
1986	2.02	55.9	4.17	9.1	106.4
1987	4.02	49.8	5.55	24.4	38.1
1988	4.54	11.5	6.-05	8.30	33.3
1989	7.39	38.6	10.55	42.7	42.8
1990	8.04	9.3	9.61	-9.8	19.5
1991	9.91	18.9	13.04	26.3	31.6
1992	17.30	42.7	20.03	34.9	15.8
1993	21.05	21.5	36.23	44.7	64.3
1994	21.89	-0.7	59.79	39.4	173.1
1995	31.20	73.0	59.79	39.4	3.1
1996	81.20	0.0	83.09	-0.7	2.3
1997	82.00	1.0	85.00	2.2	3.7
1998	84.00	2.4	87.90	3.3	4.6
1999	93.95	10.6	99.20	11.4	5.6
2000	102.10	8.0	112.00	11.4	9.7
2001	111.93	8.8	132.36	15.4	18.3
2002	121.0	7.5	137.42	3.9	19.1
2003	129.3	6.4	n.a	n.a	n.a
2004	133.5	3.1	n.a	n.a	n.a
2005	131.1	-1.8	n.a	n.a	n.a

- Source: Central Bank of Nigeria
- Notes: In columns 2 and 4, (-) indicates appreciation of the naira while the positive figured represent depreciation.

- As at 2002 and 2004, the exchange rate moved to ₦121.0: US$ 1.00 and ₦133.5: US$ 1.00, respectively.
- The corresponding Bureau de change rates were ₦137.8: US$1.00 and ₦140.8: US$1.00, respectively.

- The exchange rate in the parallel market moved from ₦4.17: US$1.00 in 1986 to 137.42: US$ 1.00 in 2002. Table 2 shows wide gaps between the official exchange rate and the parallel market rate.

- Thus, between 1985 and 2004, the naira had depreciated by 99.3 per cent.

- However, for sometime now since 2005, the exchange rate has featured some notable appreciation and stability (for example, an appreciation by 1.8 per cent in 2005). This is probably not unconnected with the huge foreign exchange inflows and external reserves occasioned by the phenomenal oil price increases in the international oil market.

    - The average crude oil price increased from $25.0per barrel in 2002 to 29.2 and 38.5 dollars in 2003 and 2004, respectively. Most of 2005 witness's prices of over $70.00 per barrel but the price averaged $55.4. Crude oil production also increased from 2.1 mbd in 2002 to 2.5mbd in 2004 and 2005.

    - External reserves increased from $16.95 billion in 2004 to $28.28 billion in 2005.

    - However, the foreign exchange market reforms entailing the wholesale DAS might have also contributed to the strengthening of the naira in the foreign exchange market.

- The instability and incessant depreciation in the foreign exchange value of the naira have several implications which have continued to cause great concern. Among these are (Obadan, 1993, 2004):

    - decline in people's standard of living, real value of output and assets;

    - increased cost of imported inputs machinery, spare parts, equipment and raw-materials- and hence increased rate of inflation in the economy which moved from 45.4 per cent in December 1986 to 50.5 per cent in 1989 and reduced slightly to 44.6 per cent in 1992; it increased to 72.5

per cent from 1997-99 in the year 2001, inflation at 18.9 per cent resumed a highly uncomfortable upward trend compared to 6.9 percent in 2000. it stood at 15.0 per cent in 2004;

- Planning and projections have become impossible tasks at the micro level while efficient industries find it difficult to fix appropriate price for their product.

- Uncertainties for long-term macroeconomic planning and growth; and

- There has been a tendency for the international competitiveness of a result of the non-oil exports to be undermined as a result of the inflationary effect of the naira depreciation.

• No doubt, the exchange rate policy objectives of SAP, by aiming at structural transformation, were in the right direction. But accomplishments have been less than satisfactory.

• Initially, following the introduction of the market-based exchange rate system, there were a few desired macroeconomic outcomes. For example: see table 3,

- non-oil GDP which had recorded an average growth rate of 5.4 per cent in the four years prior to 1986 grew at an average of 6.0 per cent in the 1986-90 period;

Table 3: Some Macroeconomic Indicators

Year	GDP Growth Rate (%)	Manufacturing Capacity Utilization (%)	Non-oil Export Earnings (US$ Mn)	Federal Govt. Revenue (₦Mn)	Net foreign private capital inflow (₦Mn)
1985	9.3	38.3	363.3	10,001.4	329.7
1986	3.7	38.8	394.4	7,969.4	2,499.6
1987	0.5	40.4	530.0	16,129.0	680.0
1988	9.2	42.4	612.7	15,588.6	1,345.6
1989	7.3	43.8	401.1	25,893.6	-439.4
1990	8.3	40.3	405.5	38,152.1	-464.3
1991	4.6	42.0	472.0	30,829.2	1,808
1992	3.0	38.1	244.4	53,264.9	8,269.2
1993	2.7	37.2	227.8	126,071.2	32,994.4

1994	1.3	30.4	244.4	90,622.6	3,907.2
1995	2.2	29.3	285.7	249,768.1	48,677.0
1996	3.4	32.5	287.2	325,144.0	2,731.0
1997	3.2	30.4	357.2	351,262.3	5,731.0
1998	2.4	23.4	406.5	124,573.0	24,078.9
1999	2.8	34.6	211.1	218,874.5	1,779.1
2000	3.9	36.1	244.2	502,294.4	3,347.0
2001	4.6	42.7	250.3	530,657.6	3,377.0
2002	3.5	44.3	785.7	859,014.9	8,206.8
2003	10.2	45.6	735.1	917,100.0	13,056.1
2004	6.6	45.0	852.0	1,147,900.0	19,908.7

Source: Central Bank of Nigeria. Statistical

Note: GDP growth rates for 2000 2005 are based on 1990 base year while those earlier have 1984 as base year

- However, non-oil exports, in dollars, have fallen far short expectations, declining from $ 612.7 million in 1988 to $405.5 million in 1990 and $ 244.4million in 1992. It initially increased from $363.3 million in 1985 to $394.4 million in 1986 and $530.0 million in 1987.

- Non-oil exports have, however, increased from $244.2 million in 2000 to $735.1 million in 2003.

- But the impact of the exchange rate on the naira revenue of the government has been phenomenal at both the federal, state and local government levels, thus easing the budgetary constraint. See table 3 for the phenomenal growth in government revenue.

- And initially, capacity utilization in industry also responded positively to the massive devaluation of the naira as a result of switching from imported to local inputs for manufacturing. Moser (1995) has shown that in those industries that substituted their imported inputs for domestically source inputs, average capacity utilization had risen to 60 per cent, post 1986, compared to44 per cent in sectors that relied more on imported inputs.

- But most of the positive macroeconomic outcomes were not sustained, except perhaps government revenue which continues to benefit from naira

depreciation. Non-oil production and real income fell during most of the 1990s.

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CHAPTER THREE
RESEARCH METHODOLOGY

3.1   Introduction

This chapter highlights the research methodology adopted for the study. It includes, among others things, the basic research design adopted, the nature and sources of data used, and the analytical techniques applied. The chapter also explains the descriptive statistics and the computational technicalities adopted to test the three hypothesis postulated in Chapter One.

3.2   Research Design

Nachmias and Nachmias [1984] observed that, research design is a blueprint crafted to address problems to scientific inquiry. They could manifest in three

major ways viz; survey experimental and ex-post facto design (Onwumere, 2005).

This study adopted a longitudinal survey design in obtaining, analyzing and interpreting data. This type of design allows the researcher the privilege of observing one or more variables over a period of time. For this reason, the independent variable; exchange rates was observed over the period 1987-2006. Data collected were used in plotting trends to determine their fluctuations. The same data were further analyzed and tested using regression analysis to determine the effect of their fluctuations on international trade (non-oil exports).

3.3   Sources of Data

In line with the approach adopted by Myer [1976], Bowman [1980] and Smith and Wakeem [1985], in their work on optimum level of lease financing for the firm, this research work made use of secondary data.

Consistent also with data source employed by Adubi and Okunmadewa [1999], in their work on price, exchange rate volatility, and Nigeria's agricultural trade flows, this research made use of secondary data on price indexes, export prices, exchange rates, and GDP figures obtained from the Central Bank of Nigeria Statistical Bulletin, Economic and Financial Review and Annual Reports and Statements of Accounts as well as Trade Summary

of the Abuja Securities and Commodity Exchange. The non-oil exports covered the basic agricultural export products of Cocoa, Cotton, and Palm oil.

Like the primary data, the purpose of the secondary data was to enable the researcher generate relevant information for the testing of the validity of the hypotheses. All the data were twenty (20) years time series span.

3.4   Sampling Procedure

Target Population: the research was designed to examine the influence of exchange rate fluctuations on international trade transactions in Nigeria. Some of the international trade variables often mentioned as being influence by exchange rate fluctuation are; foreign direct investment, currency crisis, debt servicing cost, oil and non oil exports, etc.

Sample size: the non-judgemental sampling method was adopted to select three (3) non-oil export products. The three (3) non-oil export commodities include cocoa, cotton, and palm oil.

3.5   Choice of Analytical Technique

It has been observed that the analytical framework and testing procedure employed to measure the effects of price and exchange rate volatility on trade often determine the conclusion thereof. Koray and Lastrapes [1999] adopted the vector autoregressive model [VAR] and could not find any statistically significant evidence against trade volatility. Kroner and Lastrapes [1991] used generalized Autoregressive Conditional Heleroskedastiaty [GARCH] and found divergent effect among countries based on country characteristics. Adubi and Okunmadewa [1999] followed the model adopted by Qian and

Varangis [1992] to test for the Nigerian environment. Utilizing local data on trade volume, relative prices, exchange rate and other exogenous variables for the periods 1970-1994, they employed the Autoregressive Moving Average [ARIMA] in mean model and found negative effect for exchange rate fluctuation.

Dhawan and Kumar [1991] used the Linear Regression model to test for the effect of exchange rate fluctuations on trade in the Pakistan environment. Their data comprised of export trade volume, exchange rate, and the country's GDP, which is measure of real economic activity for the periods 1971-1990. Three major primary commodity export products of coffee, wheat and cotton constituted the dependent variable they used, while the exchange rate and the GDP figure were the independent and moderator variable respectively. Their finding revealed statistically significant evidence that exchange rate fluctuation does impede international trade. So, the researcher used Linear Regression.

3.6   Proposed Regression Model

Critically, this research borrowed from the work Dhawan and Kumar [1991]. The Linear Regression Model used by Dhawan and Kumar [1991] is of the form;

$$Q_t \quad = \quad a_1 \ + \ \alpha_1 Y_t + \alpha_2 RP_t + e_t$$

Where;

Q_t =   volume of exports or volume of imports.

Y_t =   measure of real economic activity [i.e. GDP]

RP_t =   exchange rate or export/import prices relevant to the period
            under review.

e_t =   random error term.

A statistically significant and negative coefficient for α indicates the existence of a negative relationship between fluctuation and trade.

The above notations are adapted in this research for Nigeria data. By following the model of Dhawan and Kumar [1991], the variables employed in the analysis of this study comprised of dependent, independent and moderator variables.

i.   **Dependent variables:** these are the export volumes of the three sampled non-oil commodity exports. The commodities are as follows; cocoa, cotton and palm oil.

ii.   **Independent variables:** this is the variable considered to have effect on the volume of the commodities listed above. It is their exchange rates.

iii. **Moderator variables:** these are the GDP figures for the periods under review.

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CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

This chapter tested and analyzed the generated statistical data in respect of the dependent, independent and the moderator variables. As part of the descriptive analysis, and regression results arising from the study ore also presented, the main aim was to draw certain conclusions on the effect of exchange rate on volume of the three non-oil exports in Nigeria.

4.2 Data Presentation

The data utilized in this study are presented below. They include the volumes and values of each of the three non-oil exports (major agricultural commodity exports) of cocoa, cotton and palm oil. Others include annual average exchange rates for the period under study and the Gross domestic product, (GDP) at current market price. Below each of the table is a chart that reveals the behavioral trend of each of the variable within the time studied.
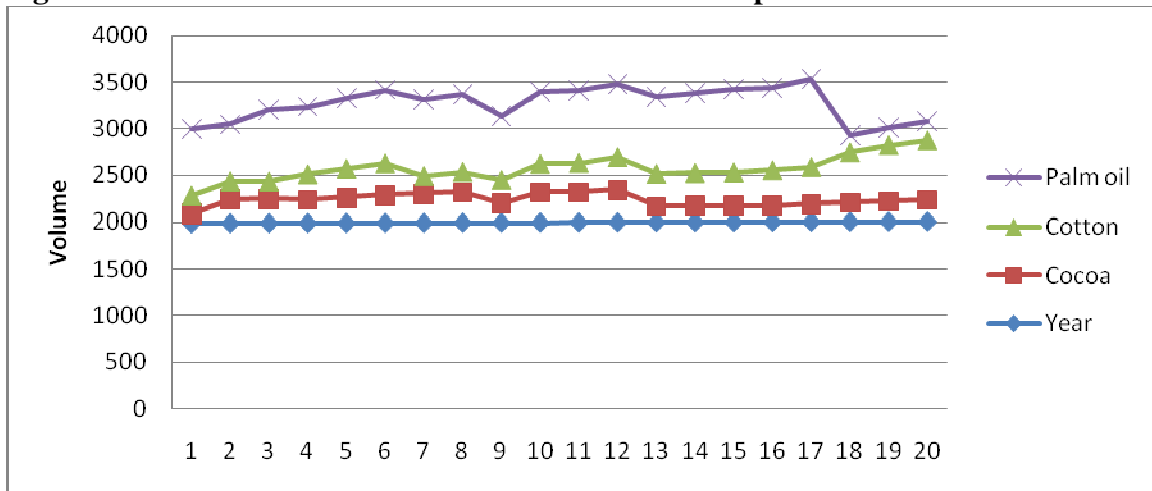
Table 4: Volumes of the Three Selected Non-oil Exports (Major Agricultural Commodity Exports) in Nigeria with Complete Data 1987-2006 ('000' tunes)

Year	Cocoa	Cotton	Palm oil
1987	100	195	715
1988	253	194	614
1989	256	187	770
1990	244	276	730
1991	268	309	760
1992	292	342	792
1993	306	192	825
1994	323	218	837
1995	203	251	687
1996	323	301	776
1997	325	309	780
1998	345	349	792
1999	165	351	825
2000	170	353	860

2001	171	358	894
2002	172	379	884
2003	185.5	398.8	949.4
2004	202.6	536.4	187
2005	215.4	600	196.4
2006	228	636.9	209.1

Source: CBN Statistical Bulletin, 2006

Figure 1: Volume Fluctuations of the Three Non-oil Exports

Source: Excel Processed

Table 4 and figure 1 above are schedule and chart representing the volume of the three sampled non-oil exports (major agricultural commodity exports) in Nigeria with complete data. A cursory look at the chart depicts a sharp drop in the volume of palm oil between 1992 to 1995 and 2003 to 2004 respectively. The reason for the drop could be linked to the external and internal imbalances created by price distortion at anytime as well as the government over reliance on crude oil exports (CBN/NISER, 1992). There was equally fluctuation on cotton but somewhat fairly gentle. However, there were strong marginal rise in volumes of the two products within the periods 1995-1996 and 2004-2006. Only cocoa volume appeared to be evenly stable over the period studied.

Table 5: Indices of Average World Prices (CIF) of the Three Selected Non-oil Exports (Major Agricultural Commodity Exports) in Naira per Tune (1985=100)

Year	Cocoa	Cotton	Palm oil
1987	367	557	296
1988	328	650	462
1989	330	963	586
1990	248	1,268	510
1991	511	1,431	751
1992	834	1,880	1,553
1993	1,090	2,429	1,893
1994	1,313	3,327	2,595
1995	4,356	13,219	10,198
1996	5,235.60	12,487.30	9,550
1997	5,354.40	12,189.10	9,857.10
1998	6,092.80	10,389	12,070
1999	4,594.50	8,950	9,182
2000	5,087.70	9,705.10	6,859.20
2001	5,354.30	7,817.20	7,064.30
2002	9,558.80	10,496.10	10,405.80
2003	8,965.80	13,982.50	12,135.90
2004	7,193.30	15,661. 80	14,344,40
2005	7, 070.30	13,656.80	12,454.90
2006	7,568.40	3,290.40	7,929.10

Source: CBN Statistical Bulletin, 2006

Table 5 above shows the indices of average world prices (CIF) of the selected three non-oil exports (agricultural commodity exports) in Nigeria. These average world prices were used as standard price estimate for the sampled Nigeria non-oil exports. It was the parameter used to compute the values of the three sampled non-oil exports studied as shown below.

Table 6: Values of the Three Selected Non-oil Exports (Major Agricultural Commodity Exports) with Complete Data in Nigeria 1987-2006 (₦ million)

Year	Cocoa	Cotton	Palm oil
1987	36,700	108,615	211,640
1988	82,984	126,100	283,688
1989	84,480	180,081	451,220
1990	84,912	349,968	372,300
1991	136,948	442,179	570,760
1992	243,528	650,480	1,229,976

1993	333,540	466,368	1,561,725
1994	424,422	725,286	2,172,015
1995	884,268	3,317,969	7,006,026
1996	1,691,098.80	3,758,677	7,410,800
1997	1,740,180	3,766,431.90	7,688,538
1998	2,102,016	3,625,761	9,559,440
1999	758,092.50	3,141, 450	7,575,150
2000	864,909	3,425,900	5,898,912
2001	915,585.30	1,916,839	6,315,484.20
2002	1,644,113.60	3,978.022	9,198,727.50
2003	1,663,155.90	5,576,221	11,521,823.50
2004	1,457,362.60	8,400,990	2,682,402.80
2005	1,522,942.60	8,194,080	2,446,142.40
2006	1,725,595.20	2,095,656	1,657,974.80

Source: Computed from Table 4 and 6 Above

Table 6 above and figure 2 below are schedule and chart representing the values of the three sampled non-oil exports (major agricultural commodity exports) in Nigeria with complete data. A glance at the chart depicts very strong and steep fluctuations in the values of both palm oil and cotton. Between late 80s and early 90s, prices of the three commodities were very gentle. Perhaps, this must be the fallout of the structural adjustment programme (SAP) of 1986. From 1994, prices of the three commodities skyrocketed till 1998 when it sharply dropped again. Palm oil and cotton sharply rose again to their highest peak in 2003 and 2004 respectively. Since this time, the market have been witnessing persistent decline in prices except for cocoa whose price has maintained very gentle movement overtime.

Figure 2: Value Fluctuations of the Three Selected Non-oil Exports
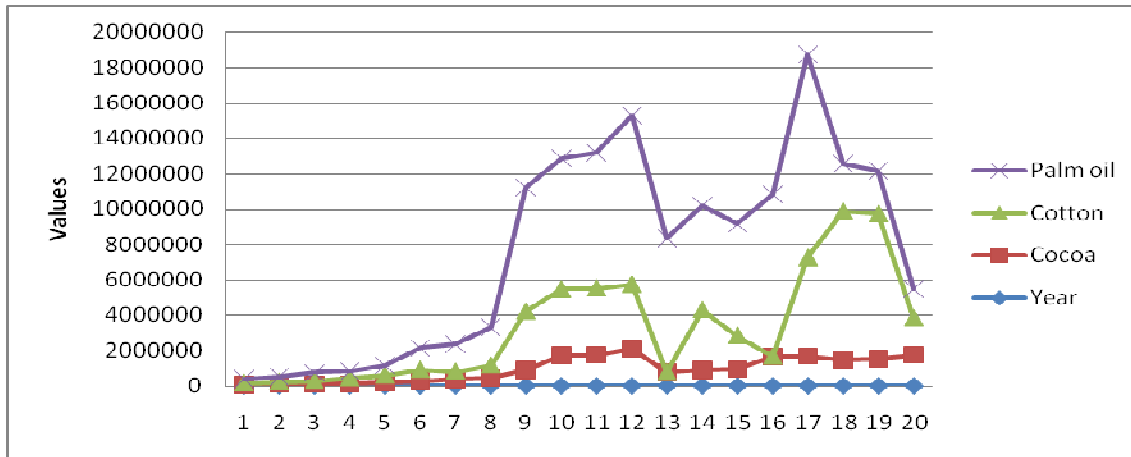
Source: Excel Processed

Table 7 and figure 3 below reveals a volatile exchange rate movement for Nigeria within the time covered in this study. With the introduction of SAP in 1986, comes the flexible exchange rate regime. Between 1986 and 1993, the exchange rate of naira depreciated against their major intervention currency, the US dollar by 449.71% from ₦4.079 to ₦22.0511 per dollar, respectively. Owning to the persistent depreciation, the policy was completely reversed in 1994 with the re-introduction of the fixed exchange rate regime (Mordi, C. 2006). The chart below captured the period of regulation from 1994 to 1998 in which the exchange rate for official transactions was pegged at ₦21.8861 per dollar. The dismal performance of the economy at the end of 1998 compelled the authorities to re-introduction the market based approach under the autonomous foreign exchange market (AFEM) in 1999. Consequently, more severe depreciation (represented in the chart by the steep slope) was experienced as the exchange rate jumped to ₦92.6934 towards the end of that year. However, some relative stability was achieved from 2003, with the rate actually appreciating in 2005 and 2006. This trend analysis actually showed that the exchange rate in Nigeria has remained unstable over the years.

Table 7: Annual Average Exchange Rates for the Periods 1987-2006

Year	Exchange Rate (₦ =$)

1987	4.0179
1988	4.5367
1989	7.3916
1990	8.0378
1991	9.9095
1992	17.2984
1993	22.0511
1994	21.8861
1995	21.8861
1996	21.8861
1997	21.8861
1998	21.8861
1999	92.6934
2000	102
2001	111.9433
2002	120.9702
2003	129.3565
2004	133.5004
2005	132.147
2006	128.6516

Source; CBN Statistical Bulletin, 2006

Figure 3: Annual Average Exchange Rate Fluctuations
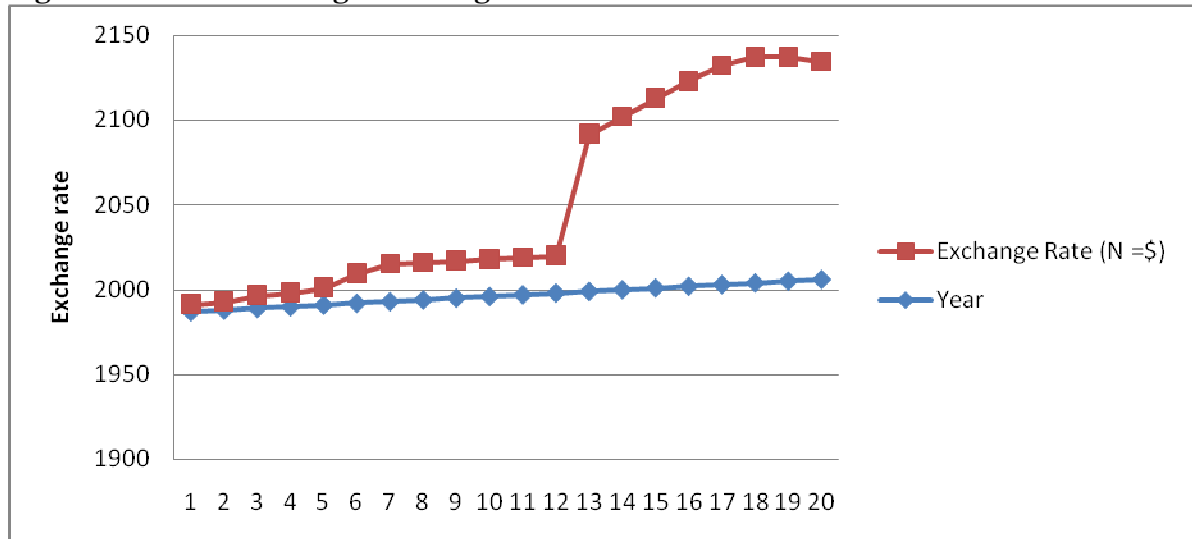
Source: Excel Processed

Table 8 and figure 4 below reveal a volatile movement in the country's gross domestic product (GDP) within the time covered in the study. A glance at the chart confirms a similar movement with that of the exchange rate above. This similarity in trend behavior justifies economic theory that exchange rate

instability is manifestations of economic volatility (Friedman, 1953). Exchange rate regime can influence economic growth through investment or increased productivity. Pegged regime has higher investment while floating regime has faster productivity growth (Nzekwu, 2006).

Table 8: Nigeria GDP at Current Basic Price 1987-2006 (₦Million).

Year	GDP Figures
1987	105,222.90
1988	139,085.30
1989	216,797.50
1990	267,550.00
1991	312,139.80
1992	532,613.80
1993	683,869.80
1994	899,863.20
1995	1,933,211.60
1996	2,702,719.10
1997	2,801,972.60
1998	2,708,430.90
1999	3,194,023.60
2000	4,537,640.00
2001	4,685,912.20
2002	5,403,006.80
2003	6,947,819.10
2004	11,411,066.90
2005	14,610,881.50
2006	18,564,594.70

Source; CBN Statistical Bulletin 2006

Figure 4: Fluctuation of Nigeria GDP at Current Basic Price 1987-2006
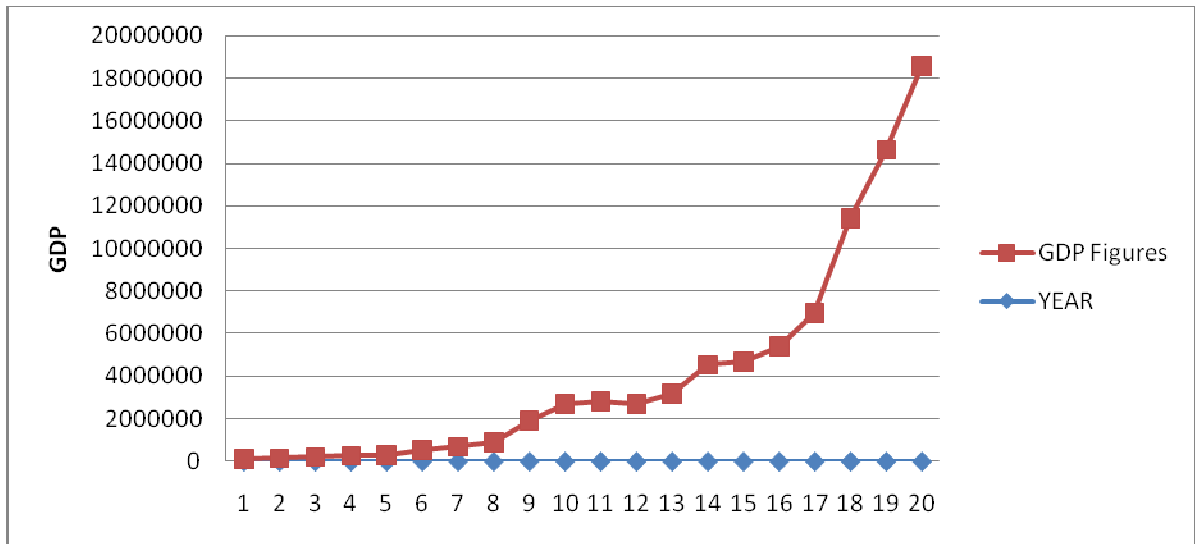
Source: Excel Processed

Table 9 and figure 5 below are schedule and chart representing the aggregate volume of the three sampled non-oil exports in Nigeria with complete data. The high volatility of palm oil and cotton is moderated by the low volatility of cocoa. The outcome is a gradual but undulating chart. A cursory look at the chart reveals a sharp drop in aggregate volume between the periods 2003 to 2004. The reason is because the decrease in volume of palm oil dropped at the rate of 80.4% while cotton and cocoa increased at the rate of 34.5% and 9.2% respectively.

Table 9: Aggregate Volumes of the Three Selected Non-oil Exports in Nigeria with Complete Data 1987-2006 ('000' tunes)

Year	Total Volumes
1987	1,010
1988	1,061
1989	1,213
1990	1,250
1991	1,337
1992	1,430
1993	1,323
1994	1,378
1995	1,141
1996	1,400
1997	1,414

1998	1,486
1999	1,341
2000	1,386
2001	1,423
2002	1,435
2003	1,533.70
2004	926
2005	1,011.80
2006	1,074

Source: Computed from Table 4 above
Note: The Three Selected Non-oil Exports with Complete Data are Coca, Cotton, and Palm oil.

Figure 5: Aggregate Volumes of the Three Selected Non-oil Exports
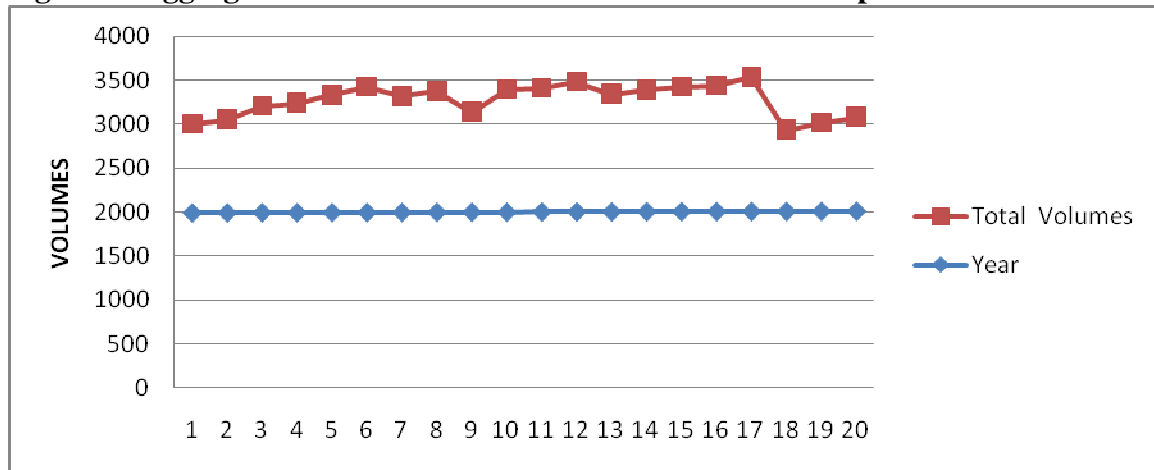
Source: Excel Processed

Table 10 and figure 6 below are schedule and chart representing the aggregate values of the three sampled non-oil exports in Nigeria with complete data. A cursory look at the chart however reveals weak volatility in the late 80s and early 90s when the trend reversed. The justification for this behavior in aggregate value over the period studied are as explained earlier in table 6 above. Although prices of cocoa appeared to be fairly stable over the period, cotton and palm oil exhibited very high fluctuation which affected the overall value.

Table 10: Aggregate Values of the Three Non-oil Exports with Complete Data in Nigeria 1987-2006 (₦ million)

Year	Total values
1987	356,955

1988	492,752
1989	715,718
1990	807,180
1991	1,149,884
1992	2,123,984
1993	2,361,633
1994	3,321,723
1995	11,208,263
1996	12,860,576.10
1997	13,195,149.90
1998	15,287,217
1999	11,474,692.50
2000	10,189,721.30
2001	9,147,908.90
2002	14,820,862.70
2003	18,761,200.40
2004	12,540,754.90
2005	12,163,165.00
2006	5,479,225.80

Source: Computed from table 6 above
Note: The three selected non-oil exports with complete data are cocoa, cotton, and palm oil.

Figure 6: Aggregate Value of Three Non-oil Exports
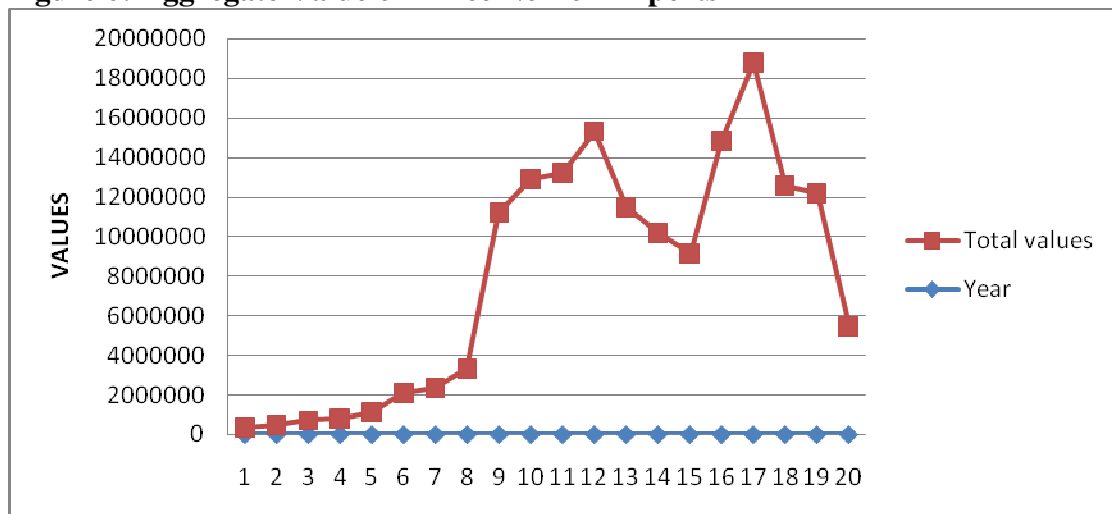
Source: Excel Processed

4.3   Analysis of the Regression Result.

As shown in 4.2 above, data for this study were presented first; they were equally tested and analyzed accordingly. The relevant areas of SPSS result as they relate to the formulated hypotheses are as shown below:

4.3.1 Regression Analysis for Hypothesis One

Null Hypothesis 1: Exchange rate fluctuations negatively and significantly affect the volume of cocoa exports in Nigeria.

Table 11: Relevant Areas of SPSS Result for Hypothesis One

Model Summary

Model	R	R Square	Adjusted R square	Std. Error of the Estimate
1	592^a	.350	.273	57.40253

Model Summary

	Change Statistics				
Model	R Square Change	F Change	d f1	df 2	Sig. F Change
1	.350	4.576	2	17	.026

a. Predictors (Constant), GDP, R_x

Coefficients^a

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model	B	Std. Error	Beta		
1 (constants)	276.279	19.075		14.484	.000
R_X	-1.186	.430	-.938	-2.761	.013
GDP	6.862 E-06	.000	.525	1.546	.141

Source: Regression Analysis Result using SPSSWING
Note: (1) Regression significant @ 5 level of significance
      (2) The larger the value of **t** the stronger the evidence that the coefficient is significant
      (3) If **t** calculated is greater than **t** tabulated, we reject the null hypotheses

The table 11 above represents the SPSS regression result on the effect of exchange rate fluctuations on the volume of cocoa exports in Nigerian for a 20 years period. The result from the standardized coefficient reveals a negative beta value of -0.938 and a computed t-value of -2.761 against the tabulated t- value of 1.7291. This implied the acceptance of the null hypothesis, giving rise to the conclusion that: exchange rate fluctuations

negatively but not significantly affects the volume of cocoa exports in Nigeria.

4.3.2 Regression Analysis for Hypothesis Two

Null Hypothesis 2: Exchange rate fluctuations negatively and significantly affect the volume of cotton exports in Nigeria.

Table 12: Relevant Areas of SPSS Result for Hypothesis Two

Model summary [b]

Model	R	R square	Adjusted R square	Std. Error of the Estimate
1	.946[a]	.896	.883	44.15227

Model Summary [b]

	Change statistics				
Model	R square change	F change	df1	df2	Sig. F change
1	.896	73.024	2	17	.000

a.   predictors: (constant), GDP, R_X Dependent variable: Q_{ct}

Coefficients[a]

	Unstandardized coefficients		Standardized coefficient	t	Sig.
Model	B	Std. Error	Beta		
1 (constants)	232.377	14.672		15.838	.000
R_x	.312	.330	.128	.943	.359
GDP	2.104E-05	.000	.839	6.163	.000

Source: Regression Analysis Result using SPSSWIN
 Note: (1) Regression significant @ 5% level of significance
        (2) The larger the value of **t** the stronger the evidence that the coefficient is significant
        (3) The closer the value R into one (1), the stronger the agreement.
        (4) Reject the null hypothesis if **t** computed is greater than the **t** value tabulated.

Table 12 is an SPSS regression result on the effect of exchange rate fluctuations on the volume of cotton exports in Nigeria. With a positive beta value of 0.128, tabulated t-value of 1.7291 and computed t-value of 0.943. This implied the rejection of the null hypothesis, giving rise to the conclusion that: exchange rate fluctuations positively but not significantly affect the volume of cotton exports in Nigeria. Confirming the result further using R^{-2} the result manifests a strong degree of agreement with R^{-2} value of 0.883.

4.3.3 Regression Analysis for Hypothesis There

Null Hypothesis 3: exchange rate fluctuation negatively and significantly affects the volume of palm oil exports in Nigeria.

Table 13: Relevant Areas of SPSS Result for Hypothesis Three

Model summary

Model	R	R square	Adjusted R square	Std. Error of the estimate
1	.866[a]	.749	.720	122.25263

Model summary

Model	Change statistics				
	R Square Change	F Change	df1	df2	Sig. F Change
1	.749	25.390	2	17	.000

a. predictors: (constant), GDP, R_X

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (constant)	772.069	40.625		19.005	.000
R_X	3.255	.915	.751	3.557	.002
GDP	-6. 109 E-05	.000	-1.364	-6.462	.000

Source: Regression Analysis Result using SPSSWIN
Note:
(1)   Regression significant @ 5% level of significance
(2)   The larger the value of t the stronger the evidence that the coefficient is significant
(3)   The closer the value of R is to one (1), the stronger the agreement.
(4)   Reject the null hypothesis if t-value computed is greater than the t-value tabulated.

Table 13 is an SPSS result on the effect of exchange rate fluctuation on the volume of palm oil exports in Nigeria. The result reveals a positive beta value of 0.751 and a computed t-value of 3.557 against the tabulated t-value of 1.7291. This implied the rejection of the null hypothesis. This means that the alternative hypothesis is accepted; exchange rate fluctuations positively and significantly affect the volume of palm oil exports in Nigeria.

4.4   Aggregate Regression Analysis
Table 14: Relevant Areas of SPSS Result for Aggregate

Models Summary [b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
I	.550[a]	.302	.220	159. 56890

Model Summary [b]

Model	Change Statistics				
	R Square Change	F Change	df1	df2	Sig. F Change

1	.302	3.682	2	17		.047

Coefficients ᵃ

	Unstandardized Coeficient		Standardized Coefficients	t	Sig.
Model	B	Std. Error	Beta		
1 (constant)	1280.726	53.025		24.153	.000
R_X	2.380	1.194	.702	1,993	.063
GDP	-3.319E-05	.000	-.947	-2.690	.016

Source: Regression Analysis Result Using SPSSWIN
Note: (1) Regression significant @ 5% level of significance.
      (2) The larger the value of *t* the stronger the evidence tha**t** the coefficient is significant.
      (3) The closer the value of R is to one (1) the stronger the agreement.

Utilizing the aggregate volumes of the three non-oil export commodities under study, the test table above emerged. The result reveals a positive beta value of 0.702 and a computed t-value of 1.993 against the tabulated t-value of 1.729. This means that exchange rate fluctuations positively and significantly affect the volume of non-oil exports in Nigeria.

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CHAPTER FIVE

5.1 SUMMARY, RECOMMENDATIONS AND CONCLUSION

SUMMARY OF FINDINGS

The objective of this research work was to establish in the wake of the global financial meltdown, the extent to which it affected Nigerian economy. In the course of conducting this research, several findings as related to this work were identified. A historic back ground to the study.

In the course of the study, various findings and implications of the economic crisis were identified in the most detailed fashion.

Although the financial meltdown originated from the United States of America, it soon spread to virtually all the nations across the globe.

The study reveals that the fast spread of the financial pandemic was not unconnected to the pains and adverse effect of globalization. The world economy had been close-knit into a global spectrum such that one problem, in a country, not adequately addressed, many in a matter of time spread to other parts of the world. Also the researcher was able to prove the

extent to which the crisis impacted on the Nigerian economy. This was done through the consultation of other researchers work on the subject, written articles and view of some experts in the field of global economies.

In the analysis that followed, we attempted to sort out the major immediate causes of this financial shake up in Nigerian economy, the sectors that were most hit, the ones that escaped it entirety. Economic model which involved the use of regression analysis, correlation coefficient and coefficient of determination as well as table analysis were used to show the relationship between the global financial meltdown and Nigeria's key economic variables.

Thus the hypotheses stated were empirically tested and the results were found to be positive for hypothesis one and negative for the other. This research has given rise to further detailed research and some valid conclusion can be drawn from its.

At the end of the findings, it was discovered that there exists a significant relationship between the dependent variable and the independent variables.

In the second hypothesis, it was discovered that the relationship between the dependent and independent variable is less significant to the research by cross referencing it within the financial development table.

It was shown that interest rate regime was reviewed downward in spite of the pressures from universal banking, it did less to hamper on the production activities of the countries. Unlike hypothesis two, that of one was most significant because the pressures coming from foreign capitalist, was felt severely on Nigerian capital market. The withdrawal of funds to rescue their ailing economy prompted the decision to divest from Nigerian. This was clearly shown in the correlation that there exists a perfect relationship between foreign capital investment and Nigeria Stock Market Capitalization Indexes.

Also findings on the study reveal that government response to the crisis was not all encompassing. This was proven through the confirmation that while interest rate policy was reviewed downward, the stock market got less assistance hence the huge impact.

The researcher also did findings on past data and presented as a mode of comparison, the basic periods relevant for the analysis. The data presented were analyzed and presented in a table format. (See table 4.5). Thus, it was confirmed at the end that truly the global financial meltdown have impacted on the Nigerian economy.

5.2   RECOMMENDATIONS

In other to revamp the situation, government should be more realistic. As the global economy becomes more interconnected, we need better global oversight. The recent crisis provides an example of the dangers of globalization. While some foreign governments provided blanket guarantees for their deposits, money started to move to what seemed like safe havens. Nigeria also needs to respond to these international investments by ensuring they have leverage through their foreign reserve.

Also government should increase the bailout packages as to accommodate more sectors of the economy in the rescue mission, we need increased unemployed insurances so that our youths and the dependants will be less hit by the crisis.

They will also have to reduce expenditures so that it will lead to a contraction in the economy. Investments in technology and infrastructure will also stimulate the economy in the short-run so that there will be an increased output to enhance growth of the economy in the long run.

Another recommendation is the need for the regulatory agencies to restore confidence in both the banking and stock market sectors. These must be addressed if confidence in our financial system is to be restored. Corporate governance structures that land to flowed incentives structure designed to generously reward CEOs should be changed and so should many of the inventive systems themselves.

Finally, the stock market should be insulated from external shock through the insurance schemes so that more foreclosures of the market is done. More pragmatic methods like stemming foreclosures, recapitalization of banks, stimulating the economy, protecting the unemployed, sharing up state finance, providing guarantees where needed and appropriate, reforming regulatory agencies with more

responsible entities are all important for the resolution of the global financial crisis.

5.3 CONCLUSION

In every economy, there can be three basis periods that emerge at different times namely; the Boom period, the normal period and the recess period or recession. We have had many periods of booms as well as normal and recess; they have all rotated after another. Currently we are experiencing recession, it will still be done away with while the boom period takes over. But we all should learn from this experience especially the regulatory bodies, so that havocs brought about by such periods of recession will be minimized if not entirely eliminated.

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