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Dynamics of the Exchange Rate in Nigeria

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Abstract

Exchange rate act as the backbone of the development of the economic .Nigeria is also facing the problem of instability of exchange rate Most of the studies have been done that stock market has the crucial role for the economic deployment of the economy .In this study; we have taken the daily data and applied the natural logarithm model .our results are showing the results that there is association between exchange rate and stock returns .Our study is suggested that there is need of stability in exchange rate..

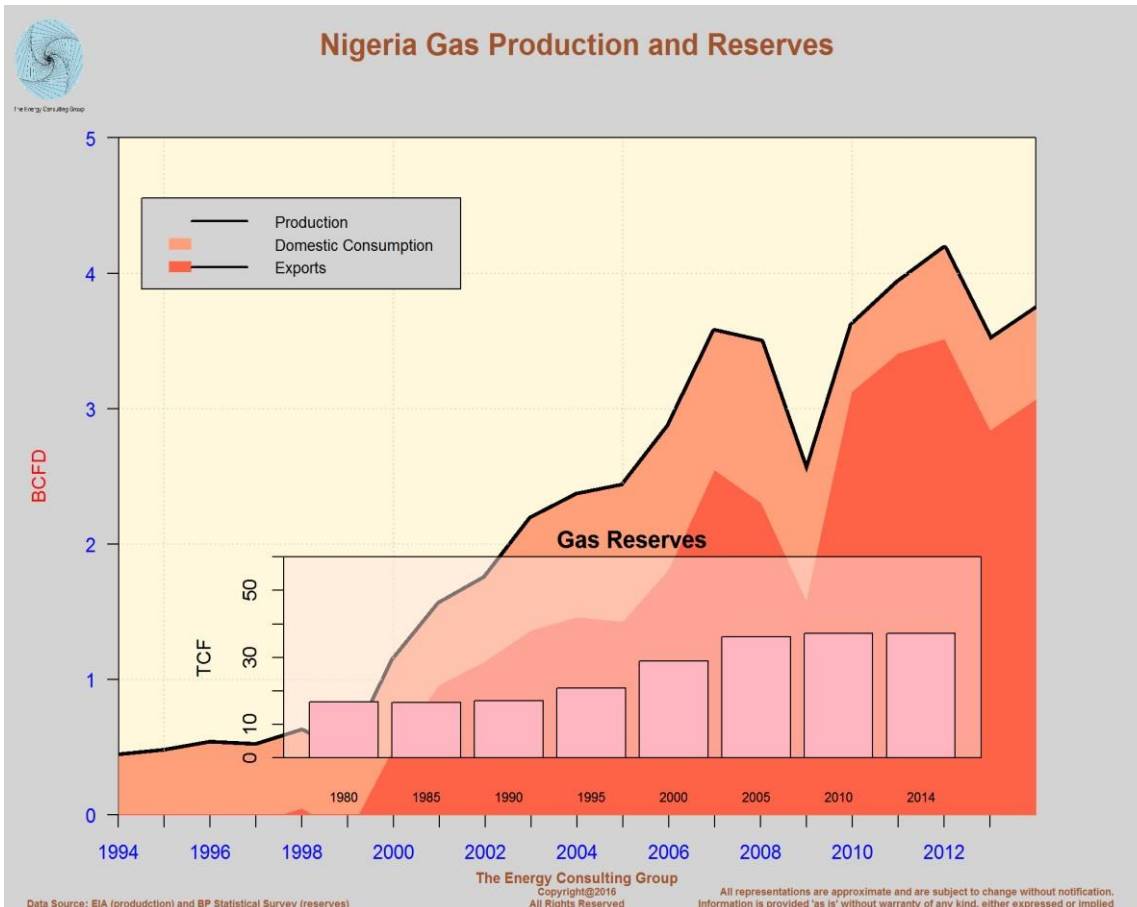
Keywords: Exchange rate, natural logarithm, stability, economy.

History Of Nigeria Stock Exchange:

First time the Nigeria stock exchange was established in 1960 and it was famous with the name of Lagos stock exchange .Nigeria stock exchange is known as the third largest stock exchange of Africa. There are 180 companies are listed here. In 1961, there were 19 companies were listed here .The trading volume of Nigeria stock exchange were 80,500 and it was raised till 250000 ponds .There are a lot of branches of companies of Nigeria in the established cities of the country .The stock exchange of Nigeria was regulated by the exchange commission .Nigeria stock exchange has the automated trading system. The ATS are being utilized for the purposes of trading .All the dealers are operating the system through server .The trading time of stock exchangestarted at 9.30 to 2.30.There are almost 30 branches across the country.

Stock Exchange:

Stock exchange is known as the backbone of the economy .For the healthy economy, there is need have the healthy stock exchange .Stock exchange is considered the best way of the trading across the world .New York stock exchange is the best stock exchange in the world because E trading are adopted by the New York stock exchange first time .E banking is the known as the best way of the trading in the world .Most of the studies haveproved that stock market has the crucial role for development of the economy .It is act as the channel between internal lenders and surplus .It is very interesting topic to discuses that reason of the volatility .According to Joseph, 2002 there is association between exchange rate and stock market of Nigeria .Some studies have proved that exchange rate have also influenced on the import and export. Exchange rate influence on the foreign operations.



Objectives:

- 1) Impact of exchange rate on the stock exchange of Nigeria.
- 2) Impact of exchange rate on the interest rate.
- 3) Impact of exchange rate on the foreign direct investment.
- 4) Impact of exchange rate on the external debts.
- 5) Impact of exchange rate on the GDP of Nigeria.

Hypothesis study:

- H1: There is association between exchange rate and stock exchange of Nigeria.
- H2: There is association between exchange rate and interest rate.
- H3: There e is association between exchange rate and foreign direct investment.
- H4: There is assoation between exchange rate and external debts.
- H5: There is association between exchange rate and GDP of Nigeria.

Problem statement:

Impact of exchange rate on the growth of the economy.

Literature review:

Rabianajaf ,khakan najaf ,Augured that impact of exchange rate on the development of the Malaysia .For this purpose, they had taken the data from 1998 to 2008 and applied the Pearson’s correlation and taken the results that there is negative association between exchange rate and stock market returns .This study is suggested that there should need of proper planning about the stability of the stock exchange [1].

Aggarwal, R ,Suggested that impact of exchange rate on the development of the Pakistan .For this purpose, they had taken the data from 1996 to 2006 and applied the OLS model and taken the results that there is negative association between exchange rate and stock market returns .This study is suggested that there should need of

proper planning about the stability of the stock exchange [2].

Babu, M. S., & Prabheesh, K. Employed that impact of exchange rate on the development of the France .For this purpose, they had taken the data from 1993 to 2004 and applied the ARDL model and taken the results that there is negative association between exchange rate and stock market returns .This study is suggested that there should need of proper planning about the stability of the stock exchange [3].

Ajayi, R. A., & Mougoue, M ,Analyzed that impact of exchange rate on the development of the India .For this purpose, they had taken the data from 1991 to 2005 and applied the VAR model and taken the results that there is negative association between exchange rate and stock market returns .This study is suggested that there should need of proper planning about the stability of the stock exchange [4].

Doong, S.-C., Yang, S.-Y., & Wang, A. T. Analyzed that impact of exchange rate on the development of the Greece .For this purpose, they had taken the data from 1992 to 2002 and applied the GARCH model and taken the results that there is negative association between exchange rate and stock market returns .This study is suggested that there should need of proper planning about the stability of the stock exchange [5].

Joseph, N. Examined that impact of exchange rate on the development of the Romania .For this purpose, they had taken the data from 1993 to 2003 and applied the VECM model and taken the results that there is negative association between exchange rate and stock market returns .This study is suggested that there should need of proper planning about the stability of the stock exchange [6].

Yau, H.-Y., & Nieh, C. -C ,observed that impact of exchange rate on the development of the UK .For this purpose, they had taken the data from 1991 to 2010 and applied the ARCH model and taken the results that there is negative association between exchange rate and stock market returns .This study is suggested that there should need of proper planning about the stability of the stock exchange [7].

Wu, Y. Analyzed that impact of exchange rate on the development of the USA .For this purpose, they had taken the data from 1994 to 2006 and applied the multi regression model and taken the results that there is negative association between exchange rate and stock market returns .This study is suggested that there should need of proper planning about the stability of the stock exchange [8].

Takeshi, I. Analyzed that impact of exchange rate on the development of the China .For this purpose, they had taken the data from 1996 to 2009 and applied the OLS model and taken the results that there is negative association between exchange rate and stock market returns .This study is suggested that there should need of proper planning about the stability of the stock exchange [9].

Parkinson, J. M. Examined that impact of exchange rate on the development of the Japan .For this purpose, they had taken the data from 1994 to 2006 and applied the VECM model and taken the results that there is negative association between exchange rate and stock market returns .This study is suggested that there should need of proper planning about the stability of the stock exchange [10].

Methodology:

In this study, we have seen the association between Nigeria stock exchange and stock returns .The main focus of our paper is moving towards the Nigeria currency movements and exchange rate movement .For this purpose; we have taken the daily data.

$$r = \ln P(t)/P(t-1)$$

Table No1:

	Stock returns	Exchange rates
Observations	350	350
Mean	-0.003165	0.000326
Median	-0.000315	0.000217
Maximum	0.07572	0.07269
Minimum	-0.130130	-0.031264
Std. Deviation	0.026261	0.003247
Skewness	-0.295281	0.297228
Kurtosis	4.212681	9.026138
Jarque-Bera	07.31652	520.9171
Probability	0	0
Sum	-0.743532	0.215188
Sum Sq Dev.	0.232016	0.013118
Result	Not Normal	Not Normal

ADF Test Statistic -9.522265

1% Critical Value* -3.9898

5% Critical Value -3.4227

10% Critical Value -3.1372

*MacKinnon critical values for rejection of hypothesis of a unit root.

Table No 2:

	Coefficient	Std. Error	t-Statistic	Prob.
RETURN(-1)	-1.15121	0.120892	-9.52632	0
D(RETURN(-1))	0.203932	0.104892	1.944732	0.0592
D(RETURN(-2))	0.187592	0.090452	2.073492	0.0322
D(RETURN(-3))	0.158122	0.074292	2.128202	0.032
D(RETURN(-4))	0.040232	0.054392	0.739232	0.462
C	0.000112	0.002892	0.039132	0.9612
1	-1.45E-02	1.44E-02	-1.00612	0.3122
R-squared	0.479672	Mean dependent var	5.87E-02	
Adjusted	R-0.4703253 dependent var	S.D.	0.035232	
S.E. of regression 0.0261573 Akaike info criterion	4.442912			
Sum squared resid	0.228492	Schwarz criterion	4.350212	
Log likelihood	762.1732	F-statistic	51.31292	
5Durbin-Watson	2.009112	Prob(F-statistic)	0	
	Stock exchange	Exchange Rates		
Nifty Returns	2	-0.08672		
Exchange Rates	-0.09772	2		

Empirical Analysis:

We have collected the data from different steps, Firstly; we have applied the normality test for the purpose of checking the nature of the data .for purpose of applied the Jarque-Bera statistics is disturbing. The results of skeweness and Kurtosis are showing the normally disturbed. The results of mean and Variance are showing that data are stationary at level form.the results of mean and variance are constant.

Conclusion:

Our results are showing that there is association between stock prices return and volatility .According to Nish (2010) there is inverse relationship between stock return and stock prices .Thus, we have observed that volatility of exchange rate influence on the performance of the stock exchange.

Policy Recommendation;

- 1) Investors should be awareness about the increase and decrease the stock exchange.
- 2) Government should need advisors for the proper planning.
- 3) Government should introduce new incentives for the attraction of the foreign investors.

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Notes

Note 1. This is Quantitative Review Paper.