Impact of Money Supply on Some Macroeconomic Variables on The Nigerian Economy

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Abstract
The link between aggregate money supply, inflation and economic growth has raised a lot of scholarly debate in the field of economics and finance. The study sets to investigate the impact of money supply on macroeconomic variables in Nigeria from 1985 to 2016. The specific objectives of the paper were to ascertain the impact of narrow money supply, broad money supply, inflation rate, and exchange rate on real gross domestic product on one hand, and narrow money supply, broad money supply and exchange rate on consumer price index in Nigeria. The ex post facto research design and descriptive statistics were used to observe the variables in retrospect. To achieve the objectives of the study, two models were built to mimic the tread. To avoid spurious results, the Augmented Dickey Fuller test was used to solidify the data, which integrated at first difference I(1). The ordinary least square technique was employed to determine the magnitude and direction of the variables in the models. It emerged that narrow money supply has a positive and significant impact on inflation and real gross domestic product; conversely, broad money supply does not have any significant impact on inflation and real gross domestic product Empirical evidence further showed that exchange rate has an insignificant impact on inflation and real gross domestic product. Inflation rate on the other hand, has an inverse and statistically insignificant impact on real gross domestic product in Nigeria. Ceteris Paribus, the results suggest that economic growth and inflation is a function of money supply (narrow money supply) and exchange rate in Nigeria. The paper recommends that efforts should be put in place to better the exchange rate between the naira and other currencies. This will help avoid the imported inflationary pressure on goods and services in the country.

Key word: Money supply, inflation, real gross domestic product, narrow money supply, exchange rate.

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