The Dynamics of Inflation, Money Growth, Exchange Rates and Interest Rates in Ghana

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Abstract

Does money supply really influence inflation in Ghana? This study investigates the dynamics of inflation, money growth, exchange rate and interest rates in Ghana from 1990-2017. The autoregressive distributed lag model (ARDL) and error correction model (ECM) were employed in the study because the studied variables were found to be integrated and co-integrated at different intensities. The results revealed that money supply has no impact on inflation in the short and long run in the study period. Exchange rate and nominal interest rate were however found to influence inflation rate significantly in both the short and long run and in the same direction. It is recommended that the Bank of Ghana should maintain a stable economic growth by establishing a rigorous pecuniary polices as well as derivatives conveyance for financial institutions in the country to act in comaplance.

Keywords: Inflation, autoregressive distributed lag model, co-integration, Bank of Ghana, financial institutions.