Money Supply and Inflation in Nigeria: The Myth of Monetarist Theory of Inflation

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Abstract:
Objective: The main aim of this paper is to empirically investigate whether money supply is the sole determinant of inflation in Nigeria as maintained by monetarist theory that “inflation everywhere is monetary phenomenon”.

Methodology: A time series data for a period of 46 years was used. Unit root was conducted and the results showed that variables are mixed, they are not integrated in the same order, and this necessitated the use of Autoregressive Distributed Lag Model (ARDL) as the tool for econometric analysis. Results: Even though, money supply increment is inflationary, the results show that other factors influence inflation in the country. This justifies the myth of monetarist theory of inflation for agitating money supply increment to be the sole source of inflation.

Research Limitation: The findings of this research are limited to the country whose data were used (Nigeria), based on the econometrics techniques applied (ARDL) and the time period utilized (annual data from 1970 – 2015). Implication: An explanation of a theory regarding inflation in Nigeria and the rest of the developing nations should not be taken for granted. Generalizations need not to be done without been empirically tested.

Originality/Value: The paper was able to empirically prove the myth of monetarist theory of inflation in Nigeria and also suggest for other theories to be empirically tested for the purpose of checking whether their arguments explain the dynamics of inflation of the country.

Keywords: Inflation, Nigeria, money supply, myth of monetarist

Paper ID: MYEC75

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