

MODELING EXCHANGE RATE IN NIGERIA

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ABSTRACT

Exchange rate is essential in today's economy because of the huge trading volume between countries. Exchange-rate movement is regularly monitored by central banks for macroeconomic-analysis and market-closewatch purposes. Despite its significance, forecasting exchange rate has been a challenge since the crumple of the Bretton Woods System. We fit the Argumented Dickey Fuller test by testing for Stationarity of the series (naira and dollar exchange rate). This study employs unit root test and granger causality test to estimate the relationship between exchange rate and its potential determinants after constructing the econometric model.

Main contribution of this paper is it provides complete guide to foreign exchange market forecast. The research shows that it will be better for the policy researchers to look at other variables before making any future prediction on exchange rate and gives proper monitoring if there are any slight changes in other variables to help policy decision makers.

KEYWORDS: Exchange Rate, Unit Root, Augumented Dickey Fuller, Granger Causality