



EMPIRICS OF EXCHANGE RATE ON EQUITY VALUES IN NIGERIA STOCK MARKET

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Abstract

This study examines the empirical relationship between exchange rates and equity values in the stock market, and how these impact economic growth in the Nigerian economy from 1980 to 2021. Persistently declining equity values have continued to affect stock market development, making the issue contentious in macroeconomic theory. Using data obtained from the World Bank Development Indicators, the study employs the Autoregressive Distributed Lag (ARDL) model and the Ordinary Least Squares (OLS) technique for data analysis. The long-run results reveal that exchange rate, interest rate, and inflation rate are negatively related to equity values. Policy prescriptions aimed at stabilizing exchange rate fluctuations through the optimal utilization of stock market institutions are provided. The study therefore recommends that policymakers should continue implementing policies that promote stock market development in order to stabilize equity prices, while simultaneously ensuring that other macroeconomic risks facing the stock market are adequately addressed.

Keywords: Stock Market, Equity Values, Volatility, Portfolio Diversification.

1.1 Introduction

Exchange rate movements have important implications for a wide range of economic variables. In theory, changes in the exchange rate exert two opposing effects on investment. When the domestic currency depreciates, the marginal profit from investing an additional unit of capital is likely to increase due to higher revenues from both domestic and foreign sales. However, this positive effect is counterbalanced by rising variable costs and higher prices for imported capital goods. There is a widespread perception that depreciation of the domestic currency enhances international

competitiveness for domestic exporting firms. Increased market shares in both domestic and international markets raise firm profitability, which in turn stimulates investment in new plants and equipment. Hence, the greater a firm's export exposure, the more sensitive its investment decisions are to exchange rate fluctuations. Higher profitability also influences investment either through the availability of internal funds or through improved credit conditions (Gilchrist & Himmelberg, 2019).

Exchange rates and stock market prices also play critical roles in economic development (Nieh & Lee, 2001), the implementation of monetary and fiscal policies (Wong, 2017), and the development of financial systems (Afshan, 2018). Given the importance of the relationship between exchange rates and equity prices for financial development, these variables have consistently attracted empirical attention at firm-level, country-level, and cross-country analyses. The literature suggests that developments in one market can rapidly spill over into the other (Andriansyah & Messinis, 2019). Such spillover behavior is particularly important from a policy perspective, as volatility in either the stock or exchange rate market may transmit shocks to the broader economy through multiple channels (Dahir, 2017; 2018). Moreover, the interaction between the two markets has significant implications for portfolio diversification, hedging strategies, and investment planning (Reboredo, 2016).

Although extensive research has examined the relationship between stock and foreign exchange markets, the bulk of the literature has concentrated on developed economies. This statement is largely true. Despite the growing importance of emerging markets in the global economy through trade and capital flows (Sui & Sun, 2016), empirical studies focusing on these markets remain comparatively limited and fragmented. Existing evidence also reports mixed and sometimes contradictory results (Afshan et al., 2018; Sui & Sun, 2016). The absence of robust and consistent findings may be misleading, particularly for international investors and multinational corporations exposed to exchange rate risk. To address this gap, the current study applies the Quantile-on-Quantile Regression (QQR) approach proposed by Sim and Zhou (2015) to examine the effects

of exchange rate movements on stock markets in selected emerging economies, with the aim of generating more robust empirical evidence to inform investors, multinational firms, and policymakers.

Over the years, monetary authorities in Nigeria have implemented various exchange rate regimes in pursuit of a stable financial system (Zubair, 2013). The choice of exchange rate policy at any given time has largely depended on prevailing macroeconomic conditions. For instance, Nigeria's domestic currency maintained parity with the British pound sterling until 1973, when the naira was introduced. Subsequently, exchange rates were pegged to the US dollar and the pound sterling. In 1978, an import-weighted basket system was adopted, assigning different trade weights to the currencies of seven major trading partners.

In 1985, the US dollar was adopted as the intervention currency, with the naira effectively tied to it. The introduction of the Structural Adjustment Programme (SAP) in 1986 marked a major turning point in Nigeria's exchange rate management, ushering in a flexible exchange rate regime that later evolved into a fully deregulated system. This shift from a fixed to a flexible exchange rate regime was aimed at addressing the rapid depreciation of the naira in the parallel market and improving external competitiveness. Initially implemented through a dual exchange rate system, the regime later transitioned into a fully deregulated framework (Central Bank of Nigeria [CBN], 2019).

The rates under the Second-Tier Foreign Exchange Market (SFEM) introduced in 1986 and the Dutch Auction System (DAS) introduced in 2002 were later merged. Persistent depreciation pressures led to the reintroduction of a dual exchange rate system in

1995 to enhance foreign exchange allocation efficiency. The subsequent abolition of the dual system paved the way for the Inter-Bank Foreign Exchange Market (IFEM) between 1999 and 2002 (CBN, 2019). Nigeria's exchange rate regime thereafter evolved from regulation to deregulation and subsequently to guided deregulation. Between 2006 and 2011, exchange rate policy became more flexible, transitioning from the Retail Dutch Auction System (RDAS) to the Wholesale Dutch Auction System (WDAS).

During the global financial crisis, foreign exchange inflows declined sharply, leading to reduced external reserves. The Central Bank of Nigeria became the primary supplier of foreign exchange in a market characterized by excessive demand. Consequently, the monetary authority faced the dilemma of either intervening heavily and depleting reserves or allowing market forces to adjust exchange rates. Since the 1986 reforms, the naira has exhibited significant instability, recording substantial real depreciation that adjusted it toward a more market-determined value. By March 2018, the exchange rate had depreciated to ₦305.35 per US dollar (CBN, 2018). Such persistent fluctuations may have adversely affected stock market performance in Nigeria.

Asaolu and Ogunmuyiwa (2011) argue that neither theoretical economists nor empirical researchers have reached a consensus on the relationship between stock and foreign exchange markets. Nevertheless, the theoretical framework proposed by Tian and Ma (2010) supports the existence of a relationship between exchange rates and stock prices or returns. Two major theories underpin this relationship: the goods market theory—also known as the flow-oriented or traditional model—and the portfolio balance theory, also referred to as the stock-

oriented model. The goods market theory posits that appreciation of the domestic currency reduces export competitiveness, making export-oriented firms less attractive to investors and potentially lowering stock prices. This framework suggests an inverse causal relationship between exchange rates and stock returns. In contrast, the portfolio balance theory emphasizes capital account transactions and posits that stock market movements influence exchange rates through portfolio adjustments. Empirical evidence on the direction and strength of causality, however, remains mixed and, in some cases, contradictory.

Generally, exchange rate changes under a floating or flexible regime are of critical importance to listed firms and investors regardless of the nature of their trading activities. Exchange rate fluctuations directly affect firms' net foreign assets and indirectly influence aggregate demand, the cost of imported inputs, competitiveness of domestic goods, and inflationary expectations. Despite the growing body of evidence on exchange rate dynamics in sub-Saharan Africa, to the best of our knowledge, no study has comprehensively examined the potential effects of exchange rate movements on equity values in Nigeria. This study seeks to fill this gap by providing empirical evidence on the exchange rate–equity value nexus in Nigeria, with the aim of offering relevant policy guidance.

2.0 Theoretical framework and literature review

2.1 Theoretical review

Hedging theory, as articulated by Campello (2011), posits that hedging reduces the probability of negative returns and, consequently, lowers the expected costs of financial distress. In recent years, hedging has

become increasingly important for risk management purposes. The International Swaps and Derivatives Association (ISDA) reports that nearly all of the world's largest companies use derivatives to hedge their business and financial risks. A central argument in favor of hedging is that it mitigates risks and uncertainties associated with macroeconomic variables such as interest rates, exchange rates, and commodity prices, which are inherently difficult to predict with accuracy. The fundamental principle of hedging is that when an individual or firm uses futures or derivatives markets, the objective is to take a position that neutralizes risk as much as possible. Thus, hedging protects investors and firms from sudden shocks arising from unexpected changes in macroeconomic variables (Hull, 2012).

Foreign currency hedging specifically seeks to minimize risks arising from future movements in exchange rates (Bligh, 2012). Exchange rate changes may have both favorable and adverse effects on firms. To avoid adverse outcomes while maintaining stable income and lower costs, managers often hedge currency risk. Bligh (2012) identifies several hedging tools and techniques, including forward contracts, money market hedges, futures contracts, options, and currency swaps.

The portfolio diversification theory focuses on the correlation among different assets with the objective of reducing overall portfolio risk. Correlation measures the degree to which two assets move in relation to each other. Asset correlations are rarely perfect; some assets exhibit negative correlation, meaning they move in opposite directions, while others display positive correlation and tend to move in the same direction. When assets are perfectly correlated, diversification does not reduce risk

because the assets move identically (Markowitz, 1991). The core principle of diversification is therefore to reduce portfolio risk by combining assets that are not perfectly correlated. In this context, risk is commonly associated with volatility—assets with higher volatility offer greater potential gains but also greater potential losses. Through diversification, investors can achieve more stable expected returns with fewer fluctuations, thereby reducing the risk of loss (Markowitz, 1991; Elton et al., 2007).

APA 7 correction: The correct in-text citation for multiple authors is (Elton et al., 2007), not a full listing of authors within the text.

The extent of diversification achievable depends largely on the degree of correlation among assets in the portfolio (Brealey, 2011).

Modern portfolio theory, originally developed by Markowitz (1952), argues that investor efficiency is determined by the mean and variance of expected returns. The theory emphasizes the expansion of available investment opportunities to maximize returns for a given level of risk. Expected returns are influenced by the investor's willingness and capacity to assume risk associated with the assets under consideration. Fundamentally, the theory assumes that investors prefer higher returns with lower risk.

Portfolio theory forms the foundation of stock market investment analysis. Sharpe (2006) argues that portfolio choice and asset pricing arise from the relationship between expected returns and associated risks. Portfolio choice refers to the range of investment alternatives available to an investor when allocating capital across assets.

Behavioural finance theory examines the psychological factors that influence financial decision-making at both individual and market levels (Bruce, 2010). Understanding behavioural finance helps explain why financial markets may deviate from efficiency and exhibit anomalies (Sewell, 2007).

Investment strategies within behavioural finance are particularly relevant for understanding investor behavior and market beliefs. While some investors believe they can successfully time the market, empirical evidence suggests that effective investment strategies are better aligned with investors' preferences, constraints, and risk tolerance rather than attempts at market timing (Bruce, 2010).

2.2 Empirical Review

Empirical studies examining the relationship between exchange rates and stock market performance have produced mixed results across countries and time periods, reflecting differences in economic structures, exchange rate regimes, and methodological approaches.

In the Nigerian context, Bala and Hassan (2018) examined the linkage between exchange rates and stock market performance using annual data from 1985 to 2015 and applying the Autoregressive Distributed Lag (ARDL) model and Granger causality tests. Their findings revealed that exchange rates and economic growth (proxied by GDP) exert a positive and statistically significant effect on stock market performance (proxied by the All Share Index), while money supply negatively influences the stock market. The causality analysis showed a unidirectional causality from exchange rates to the stock market and from the stock market to money supply, with no causal relationship

between economic growth and stock market performance.

More recent evidence for Nigeria supports the relevance of exchange rate dynamics. For instance, Olayungbo and Akinbobola (2019) found that exchange rate volatility significantly affects stock market returns in Nigeria, particularly during periods of macroeconomic instability. Similarly, Salisu, Isah, Akanni, and Raheem (2020) reported that exchange rate uncertainty exerts a negative influence on stock market performance, emphasizing the role of macroeconomic risk in shaping investor behavior. Using nonlinear techniques, Ibrahim and Yusuf (2021) documented asymmetric effects of exchange rate movements on Nigerian stock returns, suggesting that depreciation shocks have stronger adverse effects than appreciation shocks.

Evidence from other African economies also highlights the importance of exchange rate risk. Koskei (2017) investigated listed financial institutions in Kenya and found that exchange rate risk significantly affects stock returns. Extending this analysis, Munyoki, Ochieng, and Njuguna (2020) employed GARCH-based models and confirmed that exchange rate volatility increases stock market volatility in Kenya. In Zimbabwe, Sibanda (2015) reported no significant relationship between exchange rates and stock market performance; however, Kapingura and Makhetha-Kosi (2019) later found that exchange rate instability undermines stock market confidence in fragile economies.

Beyond Africa, empirical findings from emerging and developing economies further demonstrate heterogeneous outcomes. Mechri et al. (2018) analyzed Tunisia and Turkey using GARCH models and showed that exchange rate volatility significantly affects stock market

return dynamics, although the magnitude and direction differ between countries. More recently, Ahmed, Cheema, and Shahbaz (2020) documented a long-run negative relationship between exchange rate volatility and stock market performance in selected emerging Asian economies. Similarly, Reboredo, Rivera-Castro, and Ugolini (2021) showed that exchange rate shocks transmit strongly to equity markets during periods of financial stress.

Studies in advanced and large emerging markets also provide nuanced insights. Wang et al. (2013) demonstrated the superiority of nonlinear STARX models in capturing exchange rate–stock market interactions in China. Updating this evidence, Zhang and Bu (2020) found that exchange rate movements have asymmetric and regime-dependent effects on Chinese stock markets. In Eastern Europe, Nucu (2011) reported an inverse relationship between currency depreciation and stock returns, a finding reinforced by Caporale, Hunter, and Menla Ali (2019) for several transition economies.

Earlier global studies, such as Nieh and Lee (2001) and Du and Hu (2012), established that exchange rate movements may have either positive, negative, or insignificant effects on stock markets depending on country-specific conditions. While these studies provide foundational insights, more recent research

emphasizes nonlinearities, asymmetries, and volatility spillovers as critical channels linking exchange rates and equity markets.

2.3 Empirical Gap

Despite the growing body of recent literature, there remains limited empirical evidence on the long-run and short-run effects of exchange rate movements on equity values in Nigeria using extended data periods and modern econometric techniques. Many existing Nigerian studies rely on linear models or shorter sample periods and do not adequately account for volatility dynamics and structural changes in the economy. This study seeks to fill this gap by providing a comprehensive and updated analysis of the exchange rate–equity value nexus in Nigeria.

3.0 Methodology

The study adopts a panel data set from secondary sources. A panel data is a series of observations across entities (countries), studied over time. The period of study is from 1980 to 2021 (42 years), in Nigeria only. The data is sourced from Nigerian Stock Exchange (NSE) and Central Bank Statistical Bulletin. Under the pre-estimation test, descriptive statistics, correlation statistics, lag order test and unit root test. The main regression was undertaken using auto regressive distributive lag technique, given that the series were differenced variables at level 1, that is. $I(1)$

Table 1: Data description and source.

Variable description	Type & Source	Literature justification
EQV: Equity values proxied by market capitalization.	Nigerian Stock Exchange (NSE)	Eke, Adetiloye and Taiwo, (2018)
INT: Interest rate	Central Bank Statistical Bulletin.	Akpan & Chukwudum (2014); Alam & uddin (2009)
INF: Inflation rate	Central Bank Statistical Bulletin.	Anokye, & Siaw (2010), Amata, Muturi & Mbewa (2016)
EXC: Exchange rate	Central Bank Statistical Bulletin.	Asaolu, & Ogunmuyiwa (2011), Bala & Hassan (2018)

Source: the authors (2022)

3.1 Model specification

The model applied to evaluate the relationship between equity values and the selected macroeconomic variables; equity values is implicitly expressed as a function of interest rate, inflation and exchange rate as follows:

$$EQV_t = f(EXR_t, INT_t, INF_t)$$

The above functional relationship is translated into an econometric equation as follows:

$$EQV_t = \beta_0 + \beta_1 \Delta EXR_{1t} + \beta_2 \Delta INF_{2t} + \beta_3 \Delta INT_{3t} + \mu_t \dots\dots\dots(1)$$

Where:

- EQV represents equity values in year t;
- EXR represents exchange rate in year t;
- INF represents inflation rate in year t;
- INT represents interest rate in year t;
- μ_t = error term in year t
- β_1 - β_4 = Parameters of the variables;

- β_0 = constant parameter

4.1 Results and analysis

4.1.1 Descriptive Statistics Analysis

The average value of equity values is estimated to be #412.6 billion for the period under consideration with a minimum and maximum value of #27billion and #2350billion respectively. The estimated standard deviation of #569.5billion indicates a wide variation in equity values over the year considered. Also, the estimated mean of exchange rate is 109.3 per cent with a minimum and maximum values of 55 per cent and 435 per cent respectively. The estimated standard deviation of 115.9 per cent indicates that there is no wide variation in the exchange rate over the years considered.

Similarly, the estimated mean of the inflation rate is 18.6 per cent with a minimum and maximum values of 5.4 per cent and 72.8 per cent respectively. The estimated standard deviation of 16.6 per cent indicates that there is a little variation in the inflation rate over the years considered.

Lastly, the estimated mean of the interest rate is 17.2 per cent with a minimum and maximum values of 8.4 per cent and 31.7 per cent respectively. The estimated standard deviation of 4.95 per cent indicate that there is wide variation in the interest rate over the years considered. All the variables in the study are

positively skewed. The Jarque-Bera results shows that the variables are significant and are normally distributed while the p-value of the variables are not significant, given that the values are less than 0.05 which shows that the data are not normally distributed.

Table 2: Descriptive Statistics

	LEQV	LEXR	LINT	LINF
Mean	412.5583	109.3339	18.58395	17.23132
Median	42.89660	107.0243	12.71580	16.92155
Maximum	2349.866	435.0000	72.83550	31.65000
Minimum	0.027900	0.546400	5.388000	8.431700
Std. Dev.	569.4529	115.9246	16.57490	4.951158
Skewness	1.393627	1.071460	1.893394	0.268335
Kurtosis	4.563000	3.426251	5.452416	3.478297
Jarque-Bera	17.87057	8.354144	35.61968	0.904370
Probability	0.000132	0.015343	0.000000	0.636236
Sum	17327.45	4592.025	780.5258	723.7156
Sum Sq. Dev.	13295341	550978.9	11263.82	1005.073
Observations	42	42	42	42

Source: Computed by the author (2022).

4.2 Correlation Analysis

Correlation between variables expresses the preliminary test of variable association in the study. The correlation between equity values and exchange rate is positive while negative association results between equity values and inflation rate, and between equity values and interest rate respectively.

The positive association between exchange rate and equity values is justified in Campello (2011) hedging theory which reduces the odds of negative returns thereby eliminating the risk or uncertainty of economic variables like exchange rate, interest rate, inflation rate etc which are almost impossible to predict accurately. Thus, hedging protects the

individual investors or companies from the sudden shock that can be derived from the changes in macroeconomic variables (Hull, 2012). The positive relationship between exchange rate and equity values suggests an increase in exchange rate will directly lead to an increase in the equity values in the Nigerian stock market.

However, inflation rate (INF) and interest rate (INTR) relates negatively with equity values, which suggests that both variables drive decrease in equity values. Similarly, inflation rate and interest rate also presents a negative relationship with equity values which suggest that both inflation and interest rates are not backed by a rise in values of equities in Nigerian stock markets.

4.3 VAR Optimal Lag Length; The VAR optimal information lag length criteria set in Table 4.3 below suggests lag order 2 is preferable for regression.

Table 3: Optimal Lag length for variables in Hypothesis one (1)

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-804.3651	NA	1.18e+13	41.45462	41.62524	41.51584
1	-706.1731	171.2066*	1.76e+11*	37.23965*	38.09275*	37.54573*
2	-693.6005	19.34238	2.16e+11	37.41541	38.95101	37.96637
3	-681.8803	15.62699	2.89e+11	37.63489	39.85297	38.43072

Source: Computed by the author; * indicates lag order selected by the criterion; where LR: sequential modified LR test statistic (each test at 5% level); FPE: Final prediction error; AIC: Akaike information criterion; SC: Schwarz information criterion; and HQ: Hannan-Quinn information criterion.

4.4 Unit Root Test Analysis

Presented in table 4.1.3 is the unit root mixed level of stationarity result, while equity values (EQTV) and inflation rate (INF) are

stationary at level, exchange rate (EXRT) and interest rate (INTR) are stationary at 1st difference. This suggest that panel autoregressive distributive lag may be better applied (Granger and Newbold 1986)

Table 4: Unit root

Variables	Test types	T-statistics	Critical values	p-values@5%	Integ
EQTV	ADF	-3.784523	-3.523623	0.0276	I(0)
	DF	-3.742443	-3.190000		I(0)
	PP	-3.707498	-3.523623	0.0330	I(0)
EXRT	ADF	-5.870396	-3.526609	0.0001	I(1)
	DF	-5.980554	-3.190000		I(1)
	PP	-5.889739	-3.526609	0.0001	I(1)
INF	ADF	-3.820154	-3.526609	0.0257	I(0)
	DF	-3.227152	-3.190000		I(0)
	PP	-12.01788	-3.526609	0.0000	I(0)
INTR	ADF	-7.216031	-3.526609	0.0000	I(1)
	DF	-7.386959	-3.190000		I(1)
	PP	-7.281166	-3.526609	0.0000	I(1)

Source: Computed by the author, 2022

4.5 Regression result

4.5.1 ARDL-short- run results

The short-run dynamics results are presented in table 5. The co-integration

coefficient, a proxy for the error correction, is in standard negative mode and it is significant. This suggests that the short-run error is adjustable and therefore tend to equilibrium in the long-run. The standard error of the

regression has low value which also indicates that the model may be fit. The explanatory variables in the short run produce mixed outcomes relative to the provision of theory.

A-priori an increase in exchange rate also tends to increase the values (prices) of equities in the Nigerian Stock Markets. This position is justified in the result as 1 percent increase in exchange rate could induce reduction in equity values (LEQV) by 52 percent. The short-run dynamics for inflation

rate is negatively related to equity values (LEQV) which also suggests that a 1 percent rise in inflation rate could produce 40 percent decrease in equity values (LEQV). The interest rate (LINT) coefficient is also negatively related to equity values, that is, a 1 percent increase in interest rate could produce 107 percent decrease in equity values. This short-run negative coefficient of the explanatory variables to equity values could provide evidence on the state of underdevelopment of the Nigerian economy.

Table 5: ARDL: Short-run dynamics: Dependent variable LEQV

	CointEq(-1).	LEXR	LINF	LINT
Coefficient	-0.382	-0.520	-0.397	-1.071
Std. Error	(0.0875)	(0.4703)	(0.188)	(0.961)
Prob.	0.0001	0.277	0.042	0.273
R2	0.413			
Adj. R2	0.329			
S.E of regression	0.630			
F-stat./Prob. Val.	4.928 / 0.002			

Source: Computed by the author, 2022

4.6 ARDL-long run results

The long run results as presented in table 6 shows that all the explanatory variables are negatively related to equity values (LEQV) which is the dependent variable. Hence a 1 percent rise in exchange rate, inflation rate and interest rate could reduce the equity values (LEQV) by 52 percent, 40 percent and 107 percent respectively.

The theoretical justifications of these outcomes are in the capital market, investment and Keynesian speculative demand for money

theories. Investment and speculative money demand theories reveal that capital market instruments are negatively related to changes in market interest rates. As market interest rate rises, investments would shift to the money market and vice-versa. Furthermore, under consumption of investment asset theory reveals that inflation could limit the consumption habit of investors in the capital market, hence a negative relationship. As general price level rises, investment behaviour weans down towards very essential and necessities, hence there is tendency for sales pressure in the equity market, which induces fall in equity price.

Table 6: ARDL: long- run dynamics: Dependent variable LEQV

	LEXR	LINF	LINT
Coefficient	-0.5196	-0.3974	-1.0717
Std. Error	(0.4703)	(0.1876)	(0.9606)
Prob.	0.2774	0.0421	0.2733

Source: Computed by the author (2022)

4.7 Diagnostic Test

Table 7: Serial Correlation analysis

Presented in Table 7 is a test for serial correlation; the study fails to reject the null hypothesis which suggest that there is no serial correlation in the series.

Table 7: Serial Correlation: Breusch-Godfrey Serial Correlation LM test

	Obs	R-squared	Prob.f(1, 31)	Prob. Chi-square (8)
F-statistic	0.047869	0.063213	0.8282	0.8015

Source: Computed by the author, 2022

4.8 Heteroscedasticity Test

Presented in Table 8 is the test for Homoscedasticity. The study rejects the null hypothesis of homoscedasticity in the panel series which indicates that the series are heteroskedastic

Table 8: Heteroscedasticity Test

f-statistic	Obs R-squared	Prob. Chi-square (8)
1.485926	11.10532	0.0207

Source: Computed by the author, 2022

5.0 Conclusion and Recommendations

5.1 Conclusion

This study empirically examined the relationship or impact of exchange rate on equity values of stock markets in the Nigerian economy. The study confirmed co-integration between exchange rate, interest rate and inflation rate and equity values. In both the short-run, exchange rate, interest rate and inflation rate are negatively related to equity prices. The ECM dynamics coefficient produced standard negative results and significance. In the long-run, explanatory variables have negative influence on equity prices which consequently hinders stock market development and economic growth in the country.

5.2 Recommendations

Based on the findings in this research, the following recommendations are made;

- i) Regulatory institutions like security and exchange commission (SEC) should improve its supervisory roles towards reducing unscrupulous and dishonest dealings in the stock market.
- ii) The policymakers should continue to implement policies aimed at promoting stock market development in order to create more jobs, while at the same time ensuring that other structural challenges

facing the equities market are also addressed.

- iii) There is a need to stabilize the inflationary trends in the economy leading to industrial expansion and economic growth. This would provide employment opportunities for the people.

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