

**EXCHANGE RATE CRISIS AND INDUSTRIAL OUTPUT IN NIGERIA**

**BY**

**ADENIRAN ANJOLAOLUWA DEBORAH**

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**BY**

**ADENIRAN ANJOLAOLUWA DEBORAH**

**16PAG01403**

**BEING**

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COVENANT UNIVERSITY, OTA, OGUN STATE, NIGERIA**

**MAY, 2018**

## **DECLARATION**

I, Adeniran AnjolaOluwa Deborah hereby declare that this dissertation is my original work and that no portion of this work has been or will be submitted in support of an application for another degree or qualification of this or any other Universities or other institution of learning

Adeniran AnjolaOluwa Deborah

.....

**Signature and Date**

**CERTIFICATION**

This is to certify that this research work, written by Adeniran AnjolaOluwa Deborah was supervised and approved in partial fulfilment of the requirements for the award of Master of Science (M.Sc.) Degree in Finance of the Department of Banking and Finance, Covenant University, Ota, Ogun State, Nigeria.

Dr. Kehinde Adetiloye

.....

(SUPERVISOR)

**SIGNATURE AND DATE**

Dr. Kehinde Adetiloye

.....

(HEAD OF DEPARTMENT)

**SIGNATURE AND DATE**

Prof. S.T Wara

.....

(Dean of Postgraduate Studies)

**SIGNATURE AND DATE**

.....

.....

External Examiner

**SIGNATURE AND DATE**

## **DEDICATION**

I dedicate this research work to the glory of the only wise and gracious loving God who had brought my humble self this far in my academic pursuit and also to my lovely and beautiful parents Mr Olusoji and Mrs Rachael Adeniran.

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## **ABSTRACT**

*Exchange rate crisis occurs when there is a significant currency devaluation. The weakness in the currency can hurt local production in an import dependence nation as well as reduce aggregate demand in the country due to the lower purchasing power that arises due to an exchange rate shock. Thus this study therefore focuses on analyzing the effect of exchange rate crisis on industry sector in Nigeria using time series data gotten from CBN Statistical Bulletin and WDI from 1986 to 2016. The main objective of this study is to examine the effect of exchange rate crisis on industrial output in Nigeria. The study employed the use of Augmented Dickey Fuller, Normalised Cointegration, Unrestricted Vector Autoregression Techniques, Granger causality, as well as impulse response function (IRFs) and variance decomposition in achieving its objectives. The Granger causality test showed that exchange rate volatility does not granger cause industry output after two lags at 5% level of significance. The study found that exchange rate volatility has a negative long run association with industry output. The relationship is statistically significant at 5% level of significance. The VAR model was presented and the impulse response function of the effect of exchange rate shock on industrial output showed that innovations to exchange rate volatility has a negative impact on industry output. The variance decomposition of exchange rate volatility accounted for 4.6% of variations in industry output in the study. In summary, the study found that although exchange rate volatility has a significant positive relationship with industry output, shocks to exchange rate does not significantly influence industry output based on findings from Granger causality test and Impulse/Variance Decomposition analysis. Therefore the study recommends that government should introduce a raw material import substitution policy strategy as a long term solution to the over dependence of raw materials import in Nigeria.*