

REAL EXCHANGE RATE MISALIGNMENT AND TRADE FLOWS IN NIGERIA (1960-2013)

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Abstract

The paper examines the effects of real exchange rate misalignment on trade flows in Nigeria between the year 1960 and 2013. Trade flows were divided into export flow, import and trade balance. The paper employed behavioural equilibrium exchange rate (BEER) approach to obtain equilibrium real exchange rate for Nigeria and a single equation cointegration approach to determine the effect of exchange rate misalignment on trade flows. It was observed that Nigeria's real effective exchange rate appreciated in most periods between 1960 and 1985 and depreciated in most periods between 1986 and 2013. The result of the study further indicates that real exchange misalignment has no significant effect on volume of export but it has significant depreciating effect on import and trade balance in the country. The study recommends a flexible exchange rate system to reduce real exchange rate misalignment and diversify export products to enable volume export respond to real exchange rate movements in the country.

Keywords: real exchange rate, misalignment, trade flows, BEER, Nigeria, cointegration, export, import, flexible exchange rate, trade balance.

JEL Classification: F17, F31.