Expectations and Macroeconomic Variables in Nigeria: An Analysis of the Phillip’s Curve

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Abstract

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Relationship between inflation and unemployment has attracted the attention of many scholars over the years. In Nigeria, most scholars believe that the Phillip’s curve does not hold because of structural rigidities and distortions, weak institutions etc. The main aim of this research is to model expectations. The specific objectives were to evaluate the short and long run impact of unemployment on inflation in Nigeria, to pin-down the direction of causality between inflation and unemployment, to examine the long run relationship between inflation and unemployment and finally, the rate of adjustment from the short run disequilibrium to the long run equilibrium. The Ordinary Least Square Method (OLS) and Generalized Least Square (GLS) were adopted to analyze the time series data from 1970 to 2013. The theoretical framework for analysis was the Phillip’s curve model. Koyck’s Transformation was used to factor in expectations into the Phillip’s curve model. The regression result supports the Phillip’s curve in the short run, which shows a negative relationship between inflation and unemployment. The Granger Causality test shows that there is no causality between inflation and unemployment in Nigeria. Also, the Johansen Cointegration test shows a negative relationship between inflation and unemployment in the long run. The Generalized Least Square technique was used to analysis the ECM; and the result shows that it will take approximately two years for the disequilibrium in the short run to be cleared. This paper recommended that a good blend of monetary and fiscal policies should be adopted by technocrats and policy makers. Also, economists and policy makers should reconsider the classical dichotomy thesis in the light of a significant and robust long run inflation-unemployment tradeoffs among others.