

## Communication

# **“Inflationary Expectations and Monetary Adjustment in Nigeria: 1960–1978”: Some Comments**

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## INTRODUCTION

In the Winter 1979 issue of the *Pakistan Development Review*, Shahi and Sheikh presented some empirical results on inflationary expectations and monetary adjustment in Nigeria [9, pp. 333–339]. In this note we intend to offer some comments on the above article. In doing so, we concentrate on four main grounds. In the first place, we give a general information intended for a public that is not familiar with the Nigerian academic scene. Secondly, we look at their model specification after which we abundantly show that their article is a duplication of another one published five years earlier. Finally, we offer our doubts about their results within the framework of their article.

## GENERAL INFORMATION

Our first comment is that the article gives the impression that the authors (Shahi and Sheikh) are pioneers in the field of Economic Research in Nigeria. We should like to point out that when their article was published, the Nigerian Economic Society was twenty years old. This society has been publishing a periodical, *The Nigerian Journal of Economic and Social Studies*, since 1959. It also edits the Society's annual conference proceedings. When Shahi and Sheikh wrote their article, they were lecturing in one of the Nigerian Universities, viz. the Ahmadu Bello University. It is therefore unthinkable that they were not aware of these facts. They *deliberately* ignored the articles and conference papers published by the Nigerian Economic Society on the same subject they wrote on. This led them to misspecification of their model, duplication of already published works and inconclusive results, as we shall show below.

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The exact similarities with Ojo's model did not stop at the general model formulation. They also penetrated into the details of variable specification. From Shahi and Sheikh's article we read [9, p. 336] :

$$P_t^* = P_{t-1}^* + \partial (P_t - P_{t-1}) \quad 0 \leq \partial \leq 1 \quad \dots \quad (9)$$

Expanding equation (9) and collecting we obtain :

$$P_t^* = \partial P_t + (1 - \partial) P_{t-1}^* \quad \dots \quad (10)$$

From Ojo's work we read [8, p. 239] :

$$P_t^e = \alpha P_t + (1 - \alpha) P_{t-1}^e \quad 0 < \alpha \leq 1 \quad \dots \quad (11)$$

From visual evidence these price equations are indetical. Unfortunately, Shahi and Sheikh misspecified the expectation coefficient. Indeed, the expectation coefficient must be  $0 < \partial \leq 1$  so that expectations are updated each period by a fraction of the discrepancy between the current observed value of the variable and the previous expected value: [3, pp. 302-303] and [5, p. 304].

### CASE OF INCONCLUSIVE RESULTS

In a final reaction, we intend to offer some comments on their model and their statistical results. They claim that their model is overidentified [9, p. 337]. This is questionable. We pointed out earlier that exclusion of income as an explanatory variable constitutes a misspecification of the model. In addition, we know that real income is influenced by the supply of money as well as real factors such as growth of labour force, capital stock and technology. Thus income is not truly an exogenous variable. The implication is clear: not only income is missing but also the income equation is missing. Therefore, their model is underidentified with the consequence that its parameters can not be statistically tested by any known econometric technique [5, p. 357]. Also, without the knowledge of the  $R^2$  values in the first stage, one can not know whether or not the 2SLS makes sense [4, p. 392]. In addition, running regressions for periods as short as 1967-70 is bound to create problems of inadequate degrees of freedom and this has implications for the test of hypothesis. If their intention was to catch the impact of the Nigerian civil war (1967-70), the use of a dummy variable would have been sufficient. Furthermore, as time-series data are used and at least one variable is excluded from the model, the Durbin-Watson statistic should have been given along with the results in order to allow one to say anything about serial correlation [4, p. 159]. Finally, it would have been good if

Chow test results were provided along with the other results to allow one to speculate about the stability of the short-run demand function for money without which all results become inconclusive.

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