



AN ANALYSIS OF THE IMPACT OF PURCHASING POWER PARITY (PPP) ON NON-OIL EXPORTS IN NIGERIA

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Abstract

The study sought to examine the impact of purchasing power parity on non-oil export in Nigeria. Time series data were obtained from the Central Bank of Nigeria, World Fact Book and National Bureau of Statistics for 28 years (1986-2014). Augmented Dickey-Fuller (ADF) unit root test indicated a mixed degree of stationarity of the variables, thereby necessitating the use of Autoregressive Distributed Lag (ARDL) methodology. The Multiple ARDL Regression Result for Non-oil export (NOX), exchange rate (EXR), purchasing power parity (PPP) and inflation rate (INF) shows that purchasing power parity has a negative but insignificant impact on non-oil exports in Nigeria which is consistent with economic theory. The variables in the model are jointly significant; the model is fit and also non-spurious. The LM Version to the Diagnostic statistic indicated that the model passed the test of serial correlation, normality and heteroscedasticity tests. Based on the result of the Granger causality test, it revealed that no causation existed between purchasing power parity (LOGPPP) and Non-oil Export (LOGNOX). The absence of causation between PPP and NOX is a clear indication of the negative impact of purchasing power parity on non-oil exports in Nigeria. Following this, the study recommended that monetary authority should ensure exchange rate stability to stem inflationary tendencies in Nigeria which have an adverse effect on the growth of non-oil exports. The government should effectively reintroduce EGGS to improve the value and volume of non-oil export products for exports to have stronger purchasing power in the international market.

Keywords: LOOP- Law of One Price, Non-oil Export, PPP- Purchasing Power Parity

JEL Classifications: F18, F32, F41, F43

Introduction

Nigeria is a middle-income, mixed economy and emerging market, with expanding manufacturing, financial, service, communications, technology and entertainment sectors. It is ranked as the 21st-largest economy in the world in terms of nominal GDP, and the 20th-largest in terms of purchasing power parity as of 2014. It is the largest economy in Africa, and its re-emergent manufacturing sector became the largest on the continent in 2013, it produces a large proportion of goods and services for the West African subcontinent. Also, the debt-to-GDP ratio is 11 percent, which is 8 percent below the 2012 ratio.

The Export Expansion Grant (EEG) scheme has been effective in the diversification of the Nigerian economy, by way of increased foreign exchange earnings from non-oil exports, creation of employment opportunities, and value addition to primary commodities. It has contributed significantly to investments in processing, particularly in tanning of hides and skins, cocoa, rubber, cotton and textiles, sesame, gum Arabic and cashew products. It also lead to increase in exports of downstream oil derivatives, thus, enhancing the non-oil export sector as a source of livelihood to over 10 million Nigerians, especially in the agro-allied sector.

Nigerian non-oil products like processed leather articles, cashew, cocoa, ginger, rubber, sesame seeds, and textiles have earned a distinction in several quality-conscious markets like the European Union (EU) and the USA, in spite of their stringent regulatory standards for agricultural products (Ibrahim, 2013).

EEG is one of the policies incentives which aimed at diversification of the economy, and it operates under the legal context provided under the export (incentives and Miscellaneous Provision) Act no. 1 of 1986. The EEG policy, as a fiscal policy instrument, is implemented under the guidelines issued by the Federal Ministry of Finance. Nigerian Export Promotion Council is the apex agency responsible for the administration of the policy, in conjunction with other key implementation agencies, such as the Central Bank of Nigeria and Nigeria Customs Service. The export grant is given to exporters to cushion the impact of infrastructural disadvantages faced by Nigerian exporters and make our exports competitive in the international market. (Adeloye, 2012).

According to Nigerian Export Promotion Council official, "a positive feature of the EEG scheme has been the tendency on the part of exporters to operate through official channels, which compliments CBN efforts to discourage the unofficial forex market in Nigeria." This stressed that "boosting export earnings becomes even more pertinent today in view of weakening exchange rate of naira and the shrinking foreign exchange reserves." Despite the positive features of the EEG scheme, some encumbrances, including fiat decisions to suspend EEG by some administrations, have engendered the tendency on the part of exporters to neglect official modes. Another challenge has to do with forex sourcing, which had not been easy, despite the Central Bank of Nigeria's efforts to discourage the unofficial FOREX market. (Adeloye, 2012)

Non-oil exports are the products which are produced within the country in the agricultural, mining, and quarrying and industrial sectors that are sent outside the country to generate revenue for the growth of the economy excluding oil product. These non-oil export products are coal, cotton, timber, groundnut, cocoa, beans etc. The non-oil export comprises mainly agricultural product, minerals and manufactured products.

Non-oil sector growth was driven by growth in activities recorded in the Crop Production, Trade, Textile, Apparel and Footwear, and Real Estate sectors. In the Fourth quarter of 2014, the non-oil sector recorded 6.44 percent growth in real terms, lower when compared to the 8.78 percent recorded

in the corresponding period in 2013, and the 7.51 percent recorded in the Third quarter of 2014.

PPP (purchasing power parity) compares the gross domestic product (GDP) or value of all final goods and services produced within a nation in a given year. A nation's GDP at purchasing power parity (PPP) exchange rates is the sum value of all goods and services produced in the country valued at prices prevailing in the United States.

The National Bureau of Statistics has announced that the Real Gross Domestic Product (GDP) of the economy, grew by 5.94 percent (year-on-year) on an aggregate basis in 2014. This was lower by 0.83 percentage points from rates recorded in 2013. The nominal GDP at basic prices for 2014 was estimated at N24, 205,863.34 million, up by 13.10 percent from N21, 401,519.78 million estimated for 2013. The strength of a Country's currency depends on the volume of exportable Products which determine its Purchasing Power in the world market. Various scholars have researched the role of purchasing power parity in international transaction ignoring the impact of purchasing power parity on exports particularly non-oil exports sector, this paper, therefore aimed at examining the impact of purchasing power parity on non-oil export in Nigeria. In order to achieve this, the question was asked as to how does purchasing power parity impacted on non-oil export in Nigeria? To achieve this also a Null Hypothesis was formulated to guide the study, as to whether there is no significant relationship between purchasing power parity and Non-oil export in Nigeria. In achieving this objective, the study is divided into five parts. This is an introduction, followed by literature review as the second part. The third part is methodology and the fourth part is result and analysis, while the last part is conclusion and policy implication.

Theoretical Literature Purchasing Power Parity

The theory of purchasing power parity (PPP) illustrates the relation between prices and exchange rate. Even though the origins of the PPP concept is traceable to the Salamanca School back in the 16th-century Spain, its modern use as a theory of exchange rate determination began with the work of Gustav Cassel (1918), who recommended PPP as a means of amending pre-World War I exchange rates parities for countries resolved to return to the gold standard system after the conflicts ended. Some modification was necessary because countries that left the gold standard in 1914 witnessed extensively different rates of inflation during and after the war. As a principle of exchange rate determination, the easiest and powerful form of PPP (i.e. absolute PPP) is based on an international multi-good edition of the law of one price. Absolute PPP envisages that the

exchange rate should adjust to equate the prices of national baskets of goods and services between two countries because of market forces driven by arbitrage (Devereux and Engel, 2003).

Purchasing power parity (PPP) is a theory which states that exchange rates between currencies are in equilibrium when their purchasing power is the same in each of the two countries. This means that the exchange rate between two countries should equal the ratio of the two countries' price level of a fixed basket of goods and services. When a country's domestic price level is increasing (i.e., a country experiences inflation), that country's exchange rate must depreciate in order to return to PPP.

GDP (PPP based) is gross domestic product converted to international dollars using purchasing power parity rates. An international dollar has the same purchasing power over GDP as a U.S. dollar has in the United States. A purchasing power parity (PPP) between two countries, A and B, is the ratio of the number of units of country A's currency needed to purchase in country A the same quantity of a specific good or service as one unit of country B's currency will purchase in country B. PPPs can be expressed in the currency of either of the countries. In practice, they are usually computed among large numbers of countries and expressed in terms of a single currency, with the U.S. dollar (US\$) most commonly used as the base or "numeraire" currency (Opera, Emenike and Ani, 2015).

The basis for PPP is the "law of one price". In the absence of transportation and other transaction costs, competitive markets will equalize the price of an identical good in two countries when the prices are expressed in the same currency

There are three caveats with this law of one price. (1) As mentioned above, transportation costs, barriers to trade, and other transaction costs can be significant. (2) There must be competitive markets for the goods and services in both countries. (3) The law of one price only applies to tradeable goods; immobile goods such as houses, and many local services, are of course not traded between countries.

Different Types of PPP

Apart from different uses, there are different types (analytical concepts) of PPP.

(1) Tradable PPP versus non-tradable PPP: if we use the prices of "tradable goods" (those that are traded internationally or whose prices are strongly affected by foreign prices: oil, wheat, steel, cars, electronics, industrial parts, etc.), we have tradable PPP. If we use the prices of "non-tradable goods" (those which are not traded or not affected by foreign prices: house rents, taxi rides, school fees, etc), we have non-tradable PPP. Whether a good is

tradable or not depends on its physical character (portability) as well as policy (tariffs, quotas, trade bans). Haircut service is naturally non-tradable because it is too costly to invite hairdressers from abroad, so people go to local shops. On the other hand, agricultural products are transportable but governments often prevent free importation, so they are artificially non-tradable. PPP holds ($E = E^{PPP}$) more readily for tradable than non-tradable because, by definition, arbitrage is easier for the former than the latter.

(2) Absolute PPP versus relative PPP: PPP has absolute and relative versions. Absolute PPP compares price levels, while relative PPP compares price changes (or movements). The former assures that prices are equalized across countries, but the latter only assures that the exchange rate moves by the same amount as the bilateral inflation gap (without asking whether the original prices were equal). Relative PPP is a weaker condition than the absolute one.

(3) Short-term PPP versus long-term PPP: it is empirically known that PPP does not hold (actual and PPP rates are different) within a day, a week, a month, a year, and even within a few years. But it is often observed that PPP is more firmly established as a long-term tendency (decades or even centuries). For prices, LOOP is assumed to work better in the long run.

Versions of Purchasing Power Parity

Economists use two versions of Purchasing Power Parity; they are absolute PPP and relative PPP.

Absolute Purchasing Power Parity, this theory assumes that equilibrium in the exchange rate between two currencies will force their purchasing powers to be equal. It also refers to the equalization of price levels across countries. This theory is likely to hold well for commodities which are easily transportable between the two countries (such as gold, assuming this is freely transferable) but is likely to be false for other goods and services which cannot easily be transported because the transportation costs will distort the parity. Put formally, the exchange rate between Nigeria and the United States $N_{AIRA/USD}$ is equal to the price level in Nigeria P_{NG} divided by the price level in the United States P_{USA} . Assume that the price level ratio P_N/P_S implies a PPP exchange rate of 1.6 NAIRA per 1 US Dollar. If today's exchange rate $N_{AIRA/USD}$ is 1.8 NAIRA per 1 USD, PPP theory implies that the NAIRA will appreciate (get stronger) against the USD, and the USD will, in turn, depreciate (get weaker) against the NAIRA. This proposition holds well empirically especially when the inflation differences are large.

Relative Purchasing Power Parity is an economic theory which predicts a relationship between the inflation rates of two countries over a specified period and the movement in the exchange rate

between their two currencies over the same period. It is a dynamic version of the absolute PPP theory. It also refers to rates of changes in price levels, that is, inflation rates. This proposition states that the rate of appreciation of a currency is equal to the difference in inflation rates between the foreign and the home country. For example, if Nigeria has an inflation rate of 3% and the US has an inflation rate of 15%, the US Dollar will depreciate against the Nigerian Naira by 12% per year (Kenneth, 1996)

Different Uses of PPP

PPP (and its derivative concepts) are typical cases of the law of one price (LOOP). It has many applications other than IMF conditionality for currency devaluation. The main uses include the following:

(1) Theory of exchange rate determination: PPP can explain why the actual exchange rate moves in a certain way. Typically, high inflation countries have depreciating currencies, and low inflation countries have appreciating currencies (especially during hyperinflation or in the long run). This is called the "positive" (factual) use of PPP.

(2) The pointer of the correct level: PPP can indicate the "correct" or "desirable" exchange rate when the actual rate deviates from it. The government and the central bank may try to narrow the gap between the actual and the desirable rate, either by devaluation or domestic adjustment (macroeconomic austerity). When the government wishes to stabilize the exchange rate, PPP can provide the appropriate target level. This is called the "normative" (policy) use of PPP.

(3) Indicator of competitiveness: the real exchange rate (RER) is frequently used as an indicator of international price competitiveness. When RER rises (domestic currency depreciates in real terms, $E > E^{PPP}$), the home country gains competitiveness because domestic prices become relatively lower. This is called the undervaluation. By contrast, when RER falls (real appreciation, $E < E^{PPP}$), the home country loses competitiveness because domestic prices are relatively higher. This is called the overvaluation.

(4) International income comparison: international organizations like the World Bank must compare GDP size and per capita GDP of each member country, for statistical or policy purposes. Sometimes, the salaries of professional workers or the stipends of foreign students in different countries are adjusted using such data. PPP information is necessary to determine the relative costliness of living in each country.

(5) The pressure of Imported inflation: in macroeconomic modelling, deviation from PPP is often considered as the determinant of imported inflation. For example, $[\text{Inflation}] = k [E - E^{PPP}] + [\text{other factors}]$, where $0 < k < 1$. In this case, LOOP is assumed to hold gradually at speed proportional to

the size of the domestic and foreign price gap. This may hold in a small open economy but maybe not in China or the United States.

Literature Review

For decades, the Purchasing Power Parity (PPP) hypothesis postulates an underlying tendency for changes in the nominal exchange rate to be fully offset (at least after some time) by changes in the ratio of foreign to domestic price levels. Therefore, even if PPP does not hold at all times, any deviations from it should be eliminated eventually, thus implying that the real exchange rate should be mean-reverting (Gelbard and Nagayasu, 2004).

Empirical studies have produced little evidence in favour of this hypothesis and in those that supported it, the speed of convergence of the actual exchange rate to its PPP level very low, with half-lives of three years or more. Such slow convergence has been attributed to nominal price rigidities, either related to price-wage stickiness or to market segmentation and pricing to market policies (Phylaktis and Kassimatis, 1994; Macdonald, 1995).

A well-known blend of PPP with the monetary model contends that, since nominal rigidities prevent a quick adjustment of prices and wages in goods markets, monetary innovations are the cause of the temporary deviations from PPP (Dornbusch, 1976). This view, however, which implies that there should be minimal persistence in the real exchange rate (i.e. it could not follow a random walk), is supported mainly by the analysis of high-inflation episodes, where movements in prices appear to dominate other factors that could lead to deviations from PPP (Zhou, 1997).

In a different line of research, attempts were made to model and test for deviation from PPP, as a more permanent phenomenon, by highlighting those real exchange rate movements might be caused by changes on the real side of the economy (Neary, 1988).

China is the top country by GDP based on PPP in the world. As of 2014, GDP based on PPP in China was 18,228.36 billion international dollars that account for 16.32 % of the world's GDP based on PPP as of 2014. China and the United States contributes 32.46% of the world's GDP. The top 10 countries contribute 60.71% of the world's GDP. Top ten countries are China, United States, India, Japan, Germany, Russia, Brazil, Indonesia, France and the United Kingdom. The world's total GDP based on PPP was estimated at 107,921.345 billion international dollars in 2014 (Opera, Emenike and Ani, 2015).

The Nigeria non-oil export since independence has been dominated by primary agricultural and unprocessed minerals products. According to Olurorunsola (1996), the main interest of the colonial master was and still is the exportation of products needed for their home industries. The Nigerian economy until today is still dependent on primary products both as foreign exchange earner and contributor to Gross Domestic Product (GDP) (Ajakaye, 1997).

Ogun (2006) carried out a studied on the impact of real exchange rate on growth of non-oil export in Nigeria and highlighted the effects of real exchange rate misalignment and volatility on the growth of non-oil exports. He employed the standard trade theory model of determinants of export growth and two different measures of real exchange misalignment, one of which entailed deviation of the purchasing power parity (PPP), and the other which was model based on the estimation of equilibrium

real exchange rate (RER). He observed that irrespective of the alternative measures of misalignment employed, both real exchange rate misalignment and volatility adversely affected the growth of Nigerian non-oil exports.

Methodology

Sources of Data

This study made use of secondary data. These data were collected from CBN annual report and statement of account, CBN Bullion, World fact book, Economic and Financial Reviews, National Bureau of Statistics (NBS), Federal Ministry of Finance, The Nigerian Export Promotion Council (NEPC).

Models Specification

The models estimated in the course of this study are stated below:

The functional form of the model is:

$$NOX=f(EXR, PPP, INF)..... (1)$$

Where:

- NOX = Non-oil Export
- EXR = Exchange rate
- PPP = Purchasing Power Parity
- INF = Inflation Rate
- f =functional relationship

ARDL Model of NOX into the Exchange rate fluctuation in Nigeria

$$\Delta LOGNOX_t = \alpha_0 + \phi_1 LOGNOX_{t-1} + \phi_2 LOGEXR_{t-1} + \phi_3 LOGPPP_{t-1} + \phi_4 LOGINF_{t-1} + \sum_{i=1}^{k1} \sigma_{1i} \Delta LOG NOX_{t-1} + \sum_{i=0}^{k2} \gamma_{2i} \Delta LOG EXR_{1t-i} + \sum_{i=0}^{k3} \varepsilon_{3i} \Delta LOG PPP_{2t-i} + \sum_{i=0}^{k4} \phi_{4i} \Delta LOG INF_{3t-i} + \mu_t (2)$$

Where:

- NOX = Non-oil Export
- EXR = Exchange rate
- PPP = Purchasing Power Parity
- INF = Inflation Rate
- LOG= Natural Log
- t-1 = Variable lagged by one period
- μ_t = Error term

Result and Discussion

Table 1: Unit Root Test Results

Var.	Critical Val.	ADF	Prob.	Percent	Remark
LOGNOX	-4.339330	-7.254121	0.0000*	1%	1(1)
LOGEXR	-4.339330	-5.736570	0.0004*	1%	1(1)
LOGPPP	-4.741781	-4.741781	0.0040*	1%	1(1)
LOGINF	-3.580623	-3.616683	0.0464	5%	1(0)

Source: Author's computation using E-Views 7

Note: *Stationary at 1percent, ** Stationary at 5percent

ADF = Augmented Dicky Fuller Statistics.

Table 2: Multiple ARDL Regression Result for NOX, EXR, PPP and INF

Autoregressive Distributed Lag Estimates

ARDL(1,0,1,0) selected

Dependent variable is LOGNOX

28 observations used for estimation from 1987 to 2014

Regressor	Coefficient	Standard Error	T-Ratio[Prob]
LOGNOX(-1)	.29313	.20998	1.3960[.177]
LOGEXR	.26458	.12476	2.1207[.045]
LOGPPP	-.032146	.038286	-.83961[.411]
LOGPPP(-1)	-.013903	.040791	-.34084[.737]
LOGINF	.016259	.10086	.16120[.873]
C	11.2296	3.5358	3.1760[.005]
T	.12645	.052292	2.4181[.025]

R-Squared	.97849	R-Bar-Squared	.97234
S.E. of Regression	.32210	F-stat. F (6, 21)	159.1850[.000]
Mean of Dependent Variable	19.3063	S.D. of Dependent Variable	1.9367
Residual Sum of Squares	2.1787	Equation Log-likelihood	-3.9817
Akaike Info. Criterion	-10.9817	Schwarz Bayesian Criterion	-15.6444
DW-statistic	2.0613	Durbin's h-statistic	*NONE*

Source: E-Views 7 output.

Diagnostic Tests

* Test Statistics *	LM Version *	F Version *
* A:Serial Correlation*CHSQ(1) =	.57319[.449]*F(1, 20)	= .41798[.525]*
* B:Functional Form *CHSQ(1) =	11.5637[.001]*F(1, 20)	= 14.0709[.001]*
* C:Normality *CHSQ(2) =	4.3632[.113]*	Not applicable *
* D:Heteroscedasticity*CHSQ(1) =	1.3490[.245]*F(1, 26)	= 1.3160[.262]*

Source: E-Views 7 output.

- A:Lagrange multiplier test of residual serial correlation
 - B:Ramsey's RESET test using the square of the fitted values
 - C:Based on a test of skewness and kurtosis of residuals
 - D:Based on the regression of squared residuals on squared fitted values
- Source: Microfit Output.

Table 3: Pairwise Granger Causality Test Result

Pairwise Granger Causality Tests

Sample: 1986 2014

Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
LOGEXR does not Granger Cause LOGNOX	27	1.33278	0.2842
LOGNOX does not Granger Cause LOGEXR		2.54531	0.1013
LOGPPP does not Granger Cause LOGNOX	27	3.29591	0.0560
LOGNOX does not Granger Cause LOGPPP		2.54831	0.1011
LOGINF does not Granger Cause LOGNOX	27	0.32061	0.7290
LOGNOX does not Granger Cause LOGINF		4.47589	0.0234
LOGPPP does not Granger Cause LOGEXR	27	0.00790	0.9921
LOGEXR does not Granger Cause LOGPPP		7.94673	0.0025
LOGINF does not Granger Cause LOGEXR	27	4.11482	0.0303
LOGEXR does not Granger Cause LOGINF		2.70515	0.0890
LOGINF does not Granger Cause LOGPPP	27	0.38898	0.6823
LOGPPP does not Granger Cause LOGINF		0.25593	0.7765

Source: E-Views 7 output.

Discussion of Result

The results of unit root ADF test revealed that all the variables of the model are stationary at 1 per cent except inflation which is stationary at 5 per cent as indicated by their probability values. The result further indicated that Non-oil export (NOX), Exchange rates (EXR) and Purchasing Power Parity (PPP) were stationary at first difference I(1) while Inflation rate (INF) was stationary at level I(0). The ADF statistics for all the variables are less than the critical values in negative direction. Since the variables in the model are in mixed degree of stationarity, therefore, ARDL statistical test developed by Pesaran, Shin and Smith (2001) is appropriate.

The multiple regression results for the impact of Purchasing Power Parity on Non-oil export in Nigeria. The result revealed that trend and constant were found to be statistically significant as indicated by their probability values of 0.025 and 0.005 respectively. The coefficient of Non-oil Export (NOX) and Purchasing Power Parity (PPP) were found to be statistically insignificant at 5 per cent significance level as indicated by their high probability value of 0.177 and 0.411 respectively; the coefficient of PPP were rightly signed negative and consistent with the theoretical expectation of the study. The coefficients of PPP were obtained as -0.32146. This result therefore, implied that as PPP increase by 1 unit NOX decrease by 32.146 per cent.

The F-statistics of 159.150, which measured the joint significance of the parameter estimates, was

found to be statistically significant at 1 per cent level as indicated by the corresponding probability value of 0.000.

The model is fit as indicated by its R^2 value of 0.97849 (97.849%) and its high R-Bar-square of 0.97234 (97.234%) after adjusting for the degree of freedom. The model was also tested for non-spurious regression and it was observed that the Durbin-Watson statistics is greater than the R-squared value ($DW > R^2$) which asserts the non-spurious nature of the model (meaningful).

The probability values of the LM Version to the Diagnostic statistic have indicated that the model has passed the test for serial correlation, normality and heteroscedasticity, but there exists the problem of functional form 11.5637[0.001]. Therefore, the presence of this problem does not affect the estimates (Laurenceson and Chai 2003). Since the variables constituting the equations are of mixed order of integration, i.e., I(0) and I(1),

The results of Granger causality test revealed that One-way causation existed between Non-oil Export (LOGNOX) and inflation rate (LOGINF) but the causation runs from Non-oil Export (LOGNOX) to inflation rate (LOGINF) implying that NOX can cause INF but not the other way round (Unidirectional causation). One-way causation existed between purchasing power parity (LOGPPP) and exchange rates (LOGEXR) but the causation runs from exchange rates (LOGEXR) to purchasing power parity (LOGPPP) implying that EXR can

cause PPP but not the other way round (Unidirectional causation), one-way causation existed between inflation rate (LOGINF) and exchange rates (LOGEXR) such that the causation runs from inflation rate (LOGINF) to exchange rates (LOGEXR) implying that INF can cause EXR but not the other way round (Unidirectional causation). The result further indicated no causation existed between Exchange rates (LOGEXR) and Non-oil Export (LOGNOX), between purchasing power parity (LOGPPP) and Non-oil Export (LOGNOX), between inflation rate (LOGINF) and purchasing power parity (LOGPPP).

Conclusion and Recommendations

This research work found that all the variables in the model are stationary at I(1) except for the inflation rate which is stationary at I(0). The coefficients of Purchasing Power Parity (PPP) are found to be statistically insignificant at 5 percent level, implying that Purchasing Power Parity (PPP) have an insignificant impact on non-oil export in Nigerian which hurts non-oil export in Nigeria which is consistent with the economic theory. The variables in the model are jointly significant as indicated by F-statistics; the model of the study is fit and non-spurious.

The LM Version to the Diagnostic statistic has indicated that the model has passed the test for serial correlation, normality and heteroscedasticity, but there exists the problem of functional form based on its probability value. Therefore, the presence of this problem does not affect the estimates (Laurenceson and Chai 2003.). Since the variables used in the

study are of mixed order of integration, i.e., I(0) and I(1).

One-way causation (Unidirectional causation) existed between Non-oil Export (LOGNOX) and inflation rate (LOGINF), Exchange rates (LOGEXR) and purchasing power parity (LOGPPP), inflation rate (LOGINF) and exchange rates (LOGEXR). No causation existed between purchasing power parity (LOGPPP) and Non-oil Export (LOGNOX). The absence of causation between PPP and NOX is also a clear indication of Negative impact the purchasing power parity has on Non-oil export in Nigeria.

Based on the findings of the study, it is recommended that:

1. Government should effectively reintroduce EGGS in order to improve the value and volume of non-oil export products for exports to have stronger purchasing power in international market.
2. The Nigerian government should ensure an appropriate policy mix that not only ensures a realistic exchange rate but also a conducive atmosphere for production.
3. Government should encourage the production of Non-oil product for export in order to stabilise the fluctuation of Naira.
4. Government should encourage stability in macroeconomic variables and employ such growth oriented and stabilization policies especially at macro level which will induce the diversification, growth and development of Nigerian economy.

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