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Influence of Broad Money on Household Living Condition in Nigeria

Saidu, Sani Alhaji Tuta & Babangida Ibrahim

Accounting Department, Adamawa State University, Mubi – Nigeria.

Corresponding email: sanisaidu1987@gmail.com

Abstract

This study is aimed at assessing the influence of broad money on household living condition in Nigeria, the study will go a long way in revealing the household living condition of Nigerians and the way forward in addressing the consequences of the issue under study. The quantity theory of money was used to support the study variables usage and to also strengthen the study findings. The study adopts/uses secondary data from World Bank, International Monetary Fund (IMF) and Central bank of Nigeria on monetary and microeconomic variables from 1973 to 2020.The collected data was analysed using correlation and simple regression with aid MINITAB 16. The study found that broad money has a negative effect on the household living condition in Nigeria. In-line with the finding, the study recommends that Policy makers specifically apex banks of Nigeria should put more attention on controlling persistent increase of broad money which is majorly caused by money multiplier and money creation by private banks that could be detrimental to household living condition and the general economic wellbeing of Nigerians.

Keywords*:* Cost of living, Money supply, Quantity theory of money.

1. Introduction

A stable economy may be attained by implementing a stable monetary strategy that governs and manages daily dealings both inside and outside the nation. The role of monetary policy in a country's transactional activities, particularly with respect to ensuring business related contracts efficiency and effectiveness cannot be over emphasized. The job of developing monetary policy that would offer a conducive atmosphere to basic actors in transactions to participate in their routine activities with minimal difficulty was entrusted with the nation's apex bank (Singh, 2020). Controlling the money supply is critical in national policy, and it has gotten a lot of attention throughout the years since it was found to have a huge impact on people's living conditions and the economy's health. The Central Bank utilizes several measures to manage the money supply in opposition to this since an unregulated money supply will impair the nation's economic activity and cause suffering for the people.

Central banks have done their best to control and regulate the money supply (money in circulation) through policies, but the reality is that countries are experiencing an excess money supply, which has resulted in inflation and a serious deterioration in household standard of living as argued by monetary theorist. Inflation is primarily produced by a rise in the money supply especially when there is no equivalent increase in actual economic aspect. The most difficult task for policymakers in any system is to strike a balance between inflation and recession, because too much money in circulation creates inflation, while too little money triggers recession (Nikhil & Deene, 2021). This is how most monetary systems work, because the primary weapon for controlling the amount of money in circulation is interest rate management, which may either stimulates or discourage borrowing or loan taking.

Monetary policy plays a substantial role in the realization of the economic stability and better living condition of people because every human or nation partakes in one transaction or the other in the day-to-day activities. It is believed that a stable and efficient monetary system is capable of fostering economic stability through actual economic growth by a means of inflation control, poverty reduction, creation of employment opportunities, housing affordability, inequality control, crime reduction and provision of sustainable economic, environmental and social atmosphere that will trigger better living standard of people and the economy at large. Base on foregoing this study is aimed at examining the influence of broad money supply on the household living condition in Nigeria

2. Literature Review

This section provides the relevant explanation of the selected study variables and the support from relevant literatures on the combination of the said variables. Likewise, the section will provide empirical evidences of previous studies conclusions and findings in regards to the concepts under study as well as providing the theoretical backing to concepts and variables under study.

2.1 Money supply (Broad money) and Household Living Condition

Control of money supply especially broad money is key in any nation since uncontrolled increase in money supply has the propensity of depleting the value of monetary units, thereafter leading to overwhelming rise in living cost and consequently discourages business activities which will trigger loss in investment as a result of high cost of doing business (Chude & Chude, 2016)).

Therefore, it critical for every economy in the globe to control its spending through proper monetary mechanism that will not have detrimental effect to the economic development and overall wellbeing of the households. According to economic fundamentalist high cost of living is primarily caused by excess money supply especially the credit aspect (fractional reserve banking) of money which approximately contributed to over 90% of the money in circulation in most of the economies in the globe as reported by Bank of England in 2016. Whenever there is too much money in circulation which are not supported by real economic activities there are high tendencies of people bidding for more money goods and services which is imbalance with supply of money and this will automatically raise the cost of goods and services.

Moreover, as much as there is persistent increase in money supply the cost of living like housing and other goods and services especially when the economy reaches its full growth and output capacity (Ahuja, 2011). Interestingly, the increase in price of goods and services is not always associated with the availability or scarcity of such items but it could be as a result of interrelated factors which monetary system is key. The control of the increase in money supply has received a lot of attention from many authors in the academia and economist that partake in the routine analyses of economic happening in the globe.

Authors such as Amassoma, Sunday and Onyedikachi (2018) has also argued that the most simple and reliable solution of the major issues affecting the economy especially the monetary system is the control of government expenditures which they believed have contributed to less development in many nations and this have also lead to the following consequences in the economy: the consistent depreciation of monetary unit, rises in cost of living, less saving and consequently reduces the economic growth. Omodero (2019) concluded that money supply and interest rate explained significantly the variation in rising cost while on contrary the exchange rate has not explained such variation.

Over the years, researchers have mixed reactions on the factors that influences living condition of household in developing countries. The most widely discusses concept and its linkage to living condition monetary policy concepts which covers inflation, exchange rate, interest rate manipulation and the expansionary money supply consequences in the economy. Quantity theory of money which was propounded by Irvin Fishers (1911) as cited in Ahuja, (2011) stipulates that living condition as it relates to the cost of living is majorly the product of money supply where the author opined that "there would be no inflation without a continuous increase in money supply". He argued that a well structure monetary system will contribute immensely to the betterment of household living condition and the general economic wellbeing of the nation. An economic driven monetary system will attract domestic and foreign investors to invest in the real sector of the economy that will boost the government revenue through tax, create employment opportunity and also contribute to the economic stability and vise-versa (Ihsan & Anjum, 2013). Consequently, the uncontrolled increase in money supply are leading elements that contributed to the 2008-2009 financial crises where most of the world economy were affected negatively. Mohamed Aslam (2016) have concluded that credit retrenchment and other monetary related policies have contributed to the difficulties of adverse economic growth experienced by sub-Saharan African (SSA) countries during and after the financial crises. The general goal of macroeconomic policy is to maintain a low inflation rate that will lead to moderate cost of living which will generally provide a better environment for businesses and investors (Fischer, 1993). Increase in prices of goods and services especially necessities like food and shelter causes a shrink in a living standard which in turn affects the common man's life brutally (Asongu & De Moor 2017). They added that high cost of living demoralizes foreign and domestic investors' confidence of the future monetary policy since it is among key determinants of growth, investment, and liveliness of an economy.

Behera, (2016) concluded in the study that money supply and the real exchange rate has a positive effect on the GDP growth in the economy while the living standard have is constant for some period and it started to decrease overtime as the growth goes up. *(*Mohsin, Taib and Saidu (2019) in their study which utilizes Equation of Exchange' (MV =PY) in analyzing money supply and rising cost of living have documented that excess of fiat money is responsible for the high cost of living specifically with non-proportionate increase in the real economy activity. They also argue that the none asset backing of money expansion has caused a widen gap between the increased money and the real economic activity which could lead to high cost of living and devaluation currency.

Theoretically, increase in money supply according to the quantity theory of money could trigger an overwhelming increase in prices of goods and services. the structural inflation directly impacts on the quality of life and living standard of the populace through government policy decreasing the supply while the demand for essential goods and services remains constant (Emmanuel, Udoh, Prince, Okoh & Ndu, 2019). A Huge amount of unemployment, low standard of living, low level of saving, a surplus of unskilled labor, acute balance of trade deficit and low growth rates are prevailing in the economy are attributable to uncontrolled money supply (Ahmed, Muzib & Saha, 2015). They also found that currency devaluation could conceivably lead to an instantaneous increase in the general price level of consumer products as a result of increase in production cost.

The money supply and its prudent management and control through the monetary policy pursued by the central bank of a country can play a significant role in the managing and controlling the real sector to achieve low cost of living and unemployment and high economic.

2.2 Theoretical support

The quantity theory of money was selected in this study to support the selection of the study variable broad money supply and household living condition. The quantity theory of money is among the long-lasted theories in monetary economics which was propounded by Henry Thornton in 16th century and supported by the number of authors in the 19th and 20th centuries like Friedman, (1959); Balassa, (1964); Allais, (1966); Lucas, (1980); Friedman, (1989); Minsky, (1992); Blaug, Eltis, O'Brien, Patinkin, Skidelsky and Wood, (1995); Graziani, (1996); Fisher, (2006); Ishaq and Mahjabeen, (2015). The idea was used to define the connection between money and other basic economic factors (Koti & Bixho, 2016). According to the quantity theory of money, changes in the value of money are determined mainly by the quantity of money in circulation as such the amount of currency in circulation and the purchasing power of such money is in strong connection.

Money is regarded as a valuable commodity of trade, with an increase in supply lowering the relative utility of one unit of currency's purchasing power. This means that any expansionary fiscal policy will result in an increase in commodity prices (inflation), which acts as a payoff for the money's marginal value drop. The theory is expressed formally in the Fisher equation, which reads as follows: $MV = PT$: where: M= Money Supply (M2, M3, M4), V= Velocity of Circulation, P= Average Price Level, T= Volume of Transactions of Goods and Services.

This theory has provided the basis for the selection of the study variables of broad money, as supported by neoclassical growth model, Barro Dynamic Theory of Public Spending (1979) and Aschauer's (2000) model as used by McCallum (1991) and Gujarati (2003), Fasanya, Onakoya, and Agboluaje (2013), Lee and Ng, (2015) and Matiti (2013). The theory has shown clearly that an increase in broad money could results in financial uncertainty, rising cost of living, unemployment, and other social and economic problems.

3. Methodology

Quantitative method of data collection was adopted for the study as the study variables were readily available data that can be quantified, measured and analysed. The data for the study was collected from the published world bank data on the World Development Indicator (WDI), International Monetary Fund (IMF) and some specific data and information form the publish annual reports by the central bank of Nigeria. The sampling technique adopted for this study was purposive non-judgemental sampling techniques where the sample was selected based on the specific research criteria which are believed to provide adequate data for the study (Russell, 2002). The strict adherence to the set criteria resulted in a selection of Nigeria as a working population.

The correlation was used to test the association among the study variable with the aim of ascertaining the level of such association between all the variables selected and the regression analysis was conducted to test the level and nature of influence of the broad money on the household living in Nigeria. The study variables were dependent and independent variables. The dependent variable of the study is household living standard (HLC) measure by household final consumption expenditure as suggested by Human Development Index (HDI), United Nation (UN) and international Monetary Fund (IMF) as used by Capelli and Vaggi (2009). The independent variable is broad money measured by M2. The collected data was analysed using correlation and regression with the aid of MINITAB software.

This model was utilized in explaining the influence of broad money on household living condition in Nigeria is represented thus:

$HLC = \beta_0 + \beta_1 M2_t + + e_t$

Where:

M2 = Broad Money

HLC = Household living condition

e = Error term

t = time or period

4. Result and discussion

The collected data from World Development Indicators and published annual reports of Nigerian central bank were analysed using correlation and multiple regression techniques which were supported by a diagnosis test of stationary using normal probability distribution graph and data validity and reliability from Durbin-Watsont which will help in strengthening the findings of the study.

4.1 Diagnosis tests

The normality test was conducted using the normal probability plot in order to ascertain the distribution pattern of the collected data. The graph shows that all the data have concentrated around the straight line on the plot which implies that the data are normally distributed and the data outliers has been properly handled during the data collection process. The ADF unit root result shows that the variables are stationery at level since they are all significant at 5% level of significance as indicated by a P-vale of 0.0046 and 0.0016, for HLC and M2 respectively. The stationarity result suggests that the study data variables are normally distributed and they are also stationery at level as such the study will continue with normal regression analysis.

4.2 Correlation Matrix

The correlation test focuses on ascertaining the association between the dependent variable (Household living condition) and independent variable (broad money) The established association will help in determining the suitability of the data in providing the relevant and reliable result.

Table 1: Correlation Result

Variables	HLC	M2
HLC	1.000	
M2	0.991 0.000**	1.000

**,* significant at 1% and 5% level of significance respectively.

The correlation result presented in table 1 shows that there is positive, strong and significant relationship between the dependent variable (HLC) and independent variable broad money measured by M2, which indicates that variables was properly selected since changes in the dependent variable will lead to a reasonable change in the independent variable. The independent results shows broad money has positive and significant correlation with HLC as shown by a correlation coefficient of 0.991. This implies that broad money and household living condition move in the same direction as the broad money increases the household living condition increase at relative rate.

4.3 Simple regressions

The study utilized simple regression in testing the influence of broad money on household living condition of Nigeria using this model as stated thus:

$HLC = \beta_0 + \beta_1 M2_t + + e_t$ i

Table 2: *Regression for household living condition and increase in broad money*

Predictor	Standardized Coefficients	t-value	Sig.
Constant (HLC)	0.7296	0.996	0.043**
M2	-0.6319	-3.302	0.000**
Adjusted R-Square	0.872		
F-value	0.000		

, significant at 1 and 5% level of significance
Source: Minitab Computation (2021)

The result of the analysis shows an adjusted R-square of 0.872 which indicates that the independent variable (M2) has explained over 87 percent of the variation in the dependent variable measured by gross disposable income which is the measure of the household living condition. This implies that the model is fit and variable are properly selected and the finding from the study would be relied upon.
The result shows that broad money measured by M2 has negative and significant influence on household living condition with the regression coefficient of -0.6318 which implies that any value increase in M2 will lead to almost 0.6 value decreases in the household living condition of the sampled country and this shows that inflation affects household living condition negatively. This finding is in agreement with the reality that uncontrolled increase in M2 will lead to deteriorating living condition of household in Nigeria as excess supply of money supply especially broad money reduces the purchasing power of money and it will cause rise in the prices of major commodities. This finding is in-line with the quantity theory of money as argued by Werner, (2005) and the study findings of Asongu and De Moor (2017); Amassoma, et. al. (2018) who found that living standard is negatively affected by uncontrolled increase in money supply. The finding aligns with the submission of great economist like Werner, (2018) and Sieron, (2019) who posit that an uncontrolled increase in money supply measured by broad money usually triggers a detrimental consequence on the general wellbeing of household and the entire economy.

5. Conclusion and Recommendations

This section covers the study finding the conclusion arrived at and the recommendations that were proposed with the aim of solving the problem associated with broad money (M2) and household living condition. The major finding of the study is uncontrolled increase in money supply measured by broad money of a given economy has caused a deteriorating household living condition of Nigerians. The findings indicated that to better the living condition of household in Nigeria proper measures need to put in place to control unnecessary increase of money in circulation.
The study concludes that uncontrolled increase in money supply under expansionary monetary system has leads to continue decrease in household living standard as a result of persistent rise in cost of living during the period under review. The said increase in money supply is caused by the interconnected factors of oversupply of money, private money creation and interest rate manipulation which resulted to devaluation of currency, economic instability and consisted recession.
Therefore, this study recommends that policy makers specifically central banks of countries should put more attention on controlling persistent increase of money supply and inflation which is majorly

caused by money multiplier and money creation by private banks that could be detrimental to living standard of household in Nigeria. The most critical policies that nations put more attention on is the fiscal and monetary policy since its serves as tools used for stimulating economic activities together with determining the living style of the people. It is believed that having a comprehensive economic policy will trigger national economic growth and as such will foster better living condition to the populace. It is also critical for national policy makers to focus and capture issues in the policy formulation that will provide better business environment, economic stability, security and good living condition for the people and the nation at large.

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