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Is the stock market a leading indicator of economic activity in nigeria?

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Abstract:

In an effort to address the lacuna in leading indicator studies of African economies and Nigeria in particular, this paper examines the causal relationships among stock market prices, real GDP and the index of industrial production in Nigeria, using quarterly data from 1984Q1 to 2008Q4. Granger causality tests indicate bidirectional causality between stock prices and GDP but no causality between stock prices and industrial production or between GDP and industrial production. Stock prices and GDP are found to be cointegrated, leading to the estimation of vector error correction models. Out-of-sample forecasts constructed with AR(1), ARIMA, structural ARIMA, and VEC models indicate that stock prices contain information that can be used to improve the accuracy of GDP forecasts and enhance the conduct of macroeconomic policy in Nigeria.

Subjects:

Leading indicators

stock index

Granger causality

cointegration

vector error correction models

forecasting GDP

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