

THE NEXUS BETWEEN BOND PRICE AND INTEREST RATE IN NIGERIA: EVIDENCE FROM NIGERIA STOCK EXCHANGE. (1988-2014)

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ABSTRACT

The study evaluates the nexus between Bond price and Interest rate in Nigeria from 1988 to 2014 using time series data from the Central Bank of Nigeria. The financial systems of most developing countries including Nigeria have been under financial stress as a result of the *economic shock of the 1980's*. Consequently, the researcher tried to investigate the possibility of short run and long run relationship between Bond price and Interest rate, causality between Bond price and Interest rate, the co integration between Bond price and Interest rate was also carried out. The study employs Estimated co integration test, Johansen co integration, Vector Error Correction model and Granger Causality test procedure. The result obtained shows that all the variables under consideration are stationary at order one in the Augmented Dickey Fuller unit root test procedure. The Johansen co integration test result indicates at most two Co integrating equations. The result on the relationship between bond price and interest rate shows that there exist a long run relationship between bond price and other variables used in the model and also an inverse relationship exist between bond price and interest rate during the period under review. The Vector Error Correction result conducted indicates that none of the independent variables except all share indexes has a significant short run impact on bond price during the period under study. The result of the Granger Causality test equally shows that the null hypothesis that interest rate does not granger cause bond price is accepted at 5% significant level. Based on the findings, the researcher recommends that the government should introduce a low interest rate regime that will enhance economic growth in Nigeria also, the government should employ means of correcting the structural rigidities that is experienced in the country so as to normalize the relationship between Interest rate and bond market in Nigeria