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MONETARY THEORIES AND POLICIES: AN APPRAISAL OF ITS APPLICATION TO THE NIGERIAN ECONOMY

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Abstract
The meaning of theory and economy including the views of the older economist like Keynes and the classical scholars were analyzed especially in relation to some economic theories. Consequently, the quantity theory of money and the Cambridge schools of thought. Their applications and implication to the modern economy, with respect to Nigeria were equally discussed. Some key monetary policies in Nigeria which are expansionary and contractionary measures in the control of the volume of money in circulation were equally studied and discussed. Problems militating against the performance of monetary policies in Nigeria were highlighted and recommendations made accordingly on ways of improving on the already existing status-quo. Some of the recommendations include: that existing monetary policies should not be distorted, economy of Nigeria should be diversified and that policy planners should be involved in the implementation of formulated policies to avoid deviation.

Keywords: Monetary theories and policies.s

Introduction

In some economic theories, the economy is conceptually divided into a "real part" and a "monetary part". The real part determines the allocation of resources through the forces of demand and supply. This allocation depends on the structure of relative prices. In such theories, the price level is determined in the monetary part of the economy. An increase in the money supply leads to an increases in the money prices at which all transactions take place.

The doctrine that the quantity of money influences the level of prices but has no effect on the real part of the economy is referred to as the "neutrality of money". The doctrine of the neutrality of money concerns an economy that is in a static equilibrium with full employment of all its resources and a stable price level, when there is unemployment and/or a rising price. There is no gain saying therefore, that monetary theories allow for interconnection between the monetary and the real part of the economy.

The term "value of money" means the reciprocity of the general price level that is the quantity of money as being exchangeable for real movement of goods in the price index which are

usually interpreted as its measure. The value of money is determined by its demand and supply. (Obi and Nwaogu, 1992).

Thus to maintain the quantity and value of money demanded and supplied to the economy forced the various government to formulate different monetary policies as a course of action or a guide mapped out for the regulation of the volume of money in circulation. There is no gain saying therefore, that in the world today their exist two major monetary policies namely concretionary and expansionary monetary policies and the Nigerian economy is not an exception (Okeke, 2011).

The Concept of Money

The origin of money is lost in antiquity. Most primitive tribe use of some form of it and its ability to free people from the cumbersome necessity of barter made it a significant theme in all economic activities to date.

Money is defined as any commodity which is widely accepted as a means of exchange and as a measure of value, in payment for goods and services, or discharge of debts. Or obligations and confers complete liquidity on its holder, example, bank notes, coins, and bank deposits.

The modern economic world is based on specialization, few people except farmers, produce for themselves as much as one tenth of goods which they consume. Most productions take place for the market. The products are sold and the producer buys what they want with money raised (Obi and Nwaogu, 1992). In effect, they exchange their products with others but through a medium of money. Moreover, the production of most goods and their distribution to consumers involve a long chain of processes in which many different factors of production take part.

Prior to the use of money as a medium of exchange, barter system of trade was in place. This is the act of using goods to exchange for other goods, it was an exchange without the use of money. This system posed lot of problems to the economy which necessitated the introduction of money as a medium of exchange.

Some of these problems according to Nwankwo (2011) Okeke (2011), Ogbueghu (2011) include:

i. The double coincidence of wants.
ii. Lack of a common unit of value.
iii. Lack of satisfactory unit for deferred payment.
iv. Lack of any method of storing generalized purchasing power.

To avert the above problems, money was introduced in the system to serve the following purpose:

i. Medium of exchange.
ii. Measure of value.
iii. Standard for deferred payment and
iv. Store of value.

Money may take the form of notes, and coins of token or intrinsic value, but in the modern economy, the total supply of money available exceeds the quality of notes, etc in circulation because of credit. Thus, credit cards, cheques and drafts are universally acceptable as a means of exchange and in settlement of debts, they are also money (Okeke, 2011).

The Qualities of Money

Money has the following qualities:

- It has the principle of general acceptability.
- Durable: Money must be able to last for a long period of time.
- Quality of divisibility: Money must be divisible into small units in order to facilitate the smallest transactions.
- Homogenous: It is better if all units of money are identical.
- Recognition: This is closely connected with the necessary conditions of acceptability.
- Stability of value: To maintain value, government can control the supply of money to avoid inflation.

The supply of money in the Economy

This depends on:

i. Issued note from the central bank.
ii. Volume of bank deposits.
iii. Financial and monetary policy of financial authorities.
iv. Lending policy of commercial banks.
v. Use of bills of exchange, cheque, credit transfer and mutual debt cancellation and
vi. The rapidity with which money instruments are turned over.

As money is being supplied, it is also being demanded. And demand for money has two aspects:

namely; the active demand and passive demand. The active demand depend on the amount of goods and services produced and offered for sale, the regularity at which with debts are settled, and the extent o vertical industrial integration. These leads to demand for money to use for exchange, and is in some measure identifiable with the "T" in fisher's equation. Which advocated the adoption of a compensated dollar containing a given value of gold, instead of the conventional given weight of gold to prevent extreme price level fluctuation.

The passive one is demand for money to hold, not for immediate use. Keynes (1936) called this the "liquidity preference". The desire to hold money in preference to other assets cab be ascribed to three main motives; namely: transaction, precautionary and speculative motives respectively (Nweze, 2006).

Monetary theory and policy

Keynesian theory, as well as some of the more sophisticated classical theories, which centered on employment interest and money. He in 1936 prepare a new analysis of the trade cycle stressing changes in investment ie buying of capital goods as the key to changes in total demand. As a measure of economic control, he advocated interest rate changes, public work to ensure full employment and income distribution such that the purchasing power of consumers should grow proportionately with the development of the means of production indirectly through its effect on interest and credit availability an increase in the money we supply, lowers the relative supply of alternative financial assets. This then reduces interest rate and this in turn, reduces expenditure on newly produced goods and services. Critical question are, how elastic are the demand for and the supply of money with respect to the rate of interest and how responsive are spending on consumption and various categories of investment to changes in the rate of interest. Ogbueghu (2016).

Modern monetary thinking has produced two schools of thought that have in common the idea that the interest elasticities of the various functions are of little importance. One view, known as the "monetarist" or "modern quantity" theory holds that monetary policy will be effective even without interest rate changes. The other, known as the "Radeliffe" or Curely-Shaw" view maintains that the demand for money will shift under the impact of monetary tightness so that the effect of tightness may be negligible even though the values of the elasticities of given demand and supply functions may lead one to believe otherwise.

For many years, monetarism gained increasing influence under the able leadership of Milton Freidman of University of Chicago. The monetarist idea seems to be that an increase in the money supply changes asset holding and that this by implication, produces adjustment just as in the Keynesian way.

However, monetary policy effected through the purchase and sale of securities in the open market has no effect on wealth except in so far as the policy changes the interest rate. On the other hand, if the interest rate does fall when the money supply is increased, there will be an increase in private wealth as a result capital gain. The analysis of wealth effects is extremely strictly. For example, the foregoing has ignored the role of multiple credit expansion. If bank reserves are increased through expansionary monetary policy and if this leads to subsequent multiple credit expansion, the total supply of money will increase by a multiple of the initial increase in reserves.

Although monetary policy may get some added punch this way, it is nevertheless difficult to see how it can acquire the magic potency that it supporters claim for it. One possible way is to alter the assumptions with respect to how the money supply is increased. Monetarists right now agree that the foregoing policy involves both monetary and fiscal elements. However, they would probably argue that it is the money and wealth transfer rather than the disposable income changes that affects spending.

Consequently, the term "Keynesian" and "Classical" theorists have fallen out of fashion and have been replaced by the term "fiscalist" and "monetarist". The fiscalist is the modern counterpart of the Keynesian who think for various reasons as discussed above, that the monetary system is so elastic with respect to the rate of interest when the total simply of money is increased. The monetarist of course takes the opposing view, preferring to place faith in the efficiency of the monetary policy. Dernbury and McDoughall (1980) and Keynes (1936)

Some Policies and Theories that are Applicable to Nigeria Situations are:

Financial policies: These are the financial statement or directives used in the regulation of money in circulation, (Ugwuanyi, 2004).
Examples of some of them are:

(1) **Open Market Operation (OMO)**: This involves expansionary and contractionary policies. When there is excess money in circulation (rise in price and inflation exist), the central bank of Nigeria (CBN) will issue bonds and compel the commercial banks to buy there by, reducing the excess money which they use in the mobilization of loan (contractionary approach). But when there is scarcity of money in circulation, the Central Bank will buy into these bonds from the commercial banks, thereby pushing out much money into circulation this is an expansionary approach.

(2) **Special directives from Central Ban**k on the deregulation policies in the Nigeria economy.

(3) **Interest rate policies** visa-vis on lending and borrowing in Nigeria are based on deregulated policy where the force of demand and supply are allowed to determine the interest rate (equilibrium rate).

(4) **Exchange rate policies** visa-vis the value of Nigeria to other currencies in the worlds.

(5) **Assets base policies of banks:** This has led to the contraction of banks in Nigeria from 85 to the present number of 25. Thus, a paragraph of the year budget speech of Nigeria is normally devoted to state the monetary policy of the year in question. Ogbueghu (2016).

Theory of money

Quantity theory of money championed by Iry Fisher (a classical Economist) stated an analysis based on the role of money as medium of exchange. He related to the circulation of stock of money to the amount of money expended in the economy during a given period of time. In every transaction there are both a buyer and seller hence the value of sales must be equal to the rate of receipts. Example: P is the price and Q is the quantity of commodities sold. If we have 3 bike's the vale in the economy becomes:
QI X Q1 + P2 X Q2 = P3 X Q3 =
This is for each house hold (p1q1 = p x Q t = 1.
The average price level X quantity of the commodity sold within that period which is the same as P x T that is, No of transaction while P x Q is the measure of monetary expenditure under taken in the economy.

On the other hand, the value of the purchase must be equal to the amount of money in circulation in the economy times the average no of times the money changes hand over the same period.

If M is volume of money in circulation and V is the no of time it exchanged hand then the total sales becomes MV.

That is MV = PQ….. (1) = PQ/M ……………… (2) Equation (1) is residual in the relation while (2) is an identify. M is determined independent of any of the 3 other variables and any may be taken as given, that is money supply is exogenously determined.

In an economy operating at full employment level of income, which is one of the basis of assumption of the classical, O, T, can be regarded as constant at least in short run.

V is treated as variable independent of others in the identity. Factors that changes V is not rapid. Example institutional arrangements. He did not tell us how change in money supply can affect price level.

But further assumption made us to translate the identity of fisher (equation) into the quantity theory of money. A theory of the determination of the price level. The demand for money therefore depends on the value of transaction to be undertaken in the economy. And equal to the constant function of those transactions. Since the supply of money is given and in equilibrium, the demand for money must be equal to the supply.
Md = Ms ……………………………………. (3)
Md = KPQ ………………………………….. (4)
that is, the fraction of the total transaction K is constant fraction, that is what the public wants to hold in order to effect their transaction. If we combine the tw equations, we have
Ms = KPQ
Msl/k = VPQ
We combine 3 and 4 equation to get the last one.

From the above therefore this approach to monetary theory then tend to the hypothesis that demand for money is a constant proportion of the level of transaction which in turn bears a constant relationship to the level of National income. Ogbueghu (2016).

This approach has a lot of recommendations

i. It links demand for money to the volume of trade an economy leading it to the ream of

micro-economic theory where its property belong.

ii. The theory directly makes it easy to establish the size coefficient in the way of demand for money.

iii. It equally implies that aggregate level of income or price level at full employment can not be influenced by fiscal policy.

Cambridge School Approach in Demand for Money: Thus school was championed by Pigue Marshal & Co. Held the view that money is capable of yielding utility or satisfaction in and of itself. To them money provides two needs for individuals who have it. The needs are convenience and security. They were of the opinion that with money one can obtain any type of security he/she want for himself and also command all sort of respect among his contemporaries. The issue of convenience deals with the relaxation of mind and comfort of individuals that possess money.

Their views are similar to what is happening in the present day economy of Nigeria. Those who have money are more honoured and respected with different titles more than a professor and the rest of the country. The Cambridge School thought later developed their own formula which took into accounts the demand for money to hold as:

M = KRP

Where M = the quantity of money

R = National output (National income)

P = the price level.

K = the promotion of R which the community desire to hold in money (liquidity preference). Chang e in price level reflect net changes in desirable formula. Ogbueghu (2005). To them, the following are the economic effects of changes in the price level.

Rice in prices		**Fall of prices**
(Fall in value of money)		(rice in value of money)
It increases profit	i.	It decreases profit
It stimulate production	ii.	Inhabits enterprises
It increases employment	iii.	It increases unemployment
It makes borrowing profitable	iv.	It makes leading profitable
It reduces living standard of those of fixed income	v.	It increase real value of fixed money income.

Gresham's Law of Moneyz

The early experience of currency debasements led to the famous economic law that has many applications even today. The hypothesis that has come to be known as Gresham's Law after the financial expert who first explained its working to Queen Elizabeth the 1st is that bad money drives out good ones. Assuming that the currency has been seriously debased so that there are gold sovereign in circulation containing only half of their alleged gold content in order to make trade more secured and decides to improve the coinage by minting new sovereign with the correct gold content and feeding them into circulation hoping eventually to replace the entire stock of debased sovereigns. What will happen is that the new sovereigns will disappear as fast as they are mined and the debased sovereigns will remain the coinage in circulation. The bad money will have driven out the good ones, why? They answer lies in the fact that the two kinds of sovereigns have the same face value but one has twice the precious metal content of the other. Any one who has both kinds will pay his bill with the debased coin and melt down the new ones, gaining enough metal to make two debased sovereigns.

Gresham's law is as valid today as it was when it was first propounded, nearly five hundred years ago. It also has wide application in Nigeria. If one is holding two note of 5–naira, and one is dirty while the other is clean, whenever he wants to make payment, he will part will the dirty one first while the clean one is kept. This is exactly what the Gresham's law is all about behaviors of individuals toward demand and holding of money in the economy (Okeke 2011).

Problems of Monetary Policies in Nigeria

Some of the problems of Monetary policy in Nigeria are:

I. Political Interference: A well articulated, ed

formulated and planned policies are usually distorted in Nigeria by faceless politicians such as case when there is a violent a change in the government. Once a policy is distorted, it can no longer achieve the original goals it was meant to achieve.

ii. The separation of the Policy Formulation from the implementation: The formulator or planner of any policy in Nigeria is never allowed to be part of the team to implement such policies. Thus, there is always a deviation in the implementation of such policies vis-à-vis their stated objectives.

iii. Poor Economic Situation as well as a Mono Base Economy like Nigeria: Honestly, whatever shock that affects the international market affects Nigeria economy directly because the prices of oil determine the direction of the economy. The economy is oil based and monetary policies can not survive in such a situation where foreigners detects the pace and directions.

iv. Use of Unqualified Personal: Most professionals who are grounded in monetary policies are never given the free hand to operate and show case their skill, and this has greatly hampered the performances of monetary policies in Nigeria (Okafor, Emeka and Enebe (1999).

CONCLUSION

In recent years, economist has made great strides in testing of these theories against pertinent data and in measuring the parameters of the macroeconomic system. (Dernbury and McDougall, 1980). Indeed there is a wealth of elegant and careful studies that have attempted to measure the slopes and the elasticity with which these theories are aligned with which has show to a larger extent that definitive results, of course do not exist. There are unfortunately innumerable ingenious ways to make facts fit theories and the worst problem perhaps, is that economic data do not originated in laboratories where they can be generated under controlled experiment, like in some other disciplines in the social science. The entire society or economy is the laboratory of an economist. As theories are tested to improve on them, policies should be verified and tested for accuracy and reliability in order to be relevant in the dynamic society and economy like Nigeria.

RECOMMENDATIONS

For monetary policies to perform and achieve their stated objectives in Nigeria, the following condition must apply;

i. Any planned existing monetary policies should be implemented without being distorted by the politicians. There is equally need for continuity in the implementation of the various government policies.

ii. The economy of Nigeria should be diversified. It should not be dependent on oil alone. Agriculture and mining sub sectors should be developed in order to generate more revenue for the government.

iii. Policies formulators should be include in the team that is mandated to implement the policies. Also the implementer of these policies should be given free hand to operate.

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