
Author: Matthew A.O., Fasina F.F., Olowe O. and Adegboye B.


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Abstract: Financial innovation refers both to technological advances which facilitate access to information, trading and means of payment. The demand for money is very crucial in the conduct and determination of the effectiveness of monetary policy. This study attempts to analyse whether financial innovations that occurred in Nigeria after the Structural Adjustment Programme of 1986 has affected the demand for money in Nigeria using the Engle and Granger Two-Step Cointegration technique. Though the study revealed that demand for money conforms to the theory that income is positively related to the demand for cash balances and interest rate has an inverse relationship with the demand for real cash balances, it was also discovered that the financial innovations introduced into the financial system have not significantly affected the demand for money in Nigeria. Based on the results obtained, a policy of attracting more participants (non-government) and private sector funds to the money market is necessary as this will deepen the market and make the market more dynamic and amenable to monetary policy. Therefore, the study concludes that financial innovation has had no significant impact on the demand for money in Nigeria and the SAP era financial liberalization policies have had no indirect impact on the demand for money as well.

Keywords: stock exchange, market capitalization, all-share index, multiple regressions, policy formulation.