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BY

CHUKWUEMEKA, MARTINA O.

PG/M.Sc/07/46901

**DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT OF THE
REQUIREMENT FOR THE AWARD OF MASTERS OF SCIENCES
(M.Sc) IN ACCOUNTANCY**

**DEPARTMENT OF ACCOUNTANCY
FACULTY OF BUSINESS ADMINISTRATION
UNIVERSITY OF NIGERIA,
ENUGU CAMPUS**

AUGUST, 2014

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SUPERVISOR: PROF. A.U NWEZE

AUGUST, 2014

**INFLUENCE OF INFLATION ON REPORTED PROFIT FOR
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DECLARATION

This is to declare that this Dissertation by Chukwuemeka Martina O. with Registration number PG/M.Sc/07/46901, submitted to the Department of accountancy, faculty of Business Administration, University of Nigeria, Enugu Campus (UNEC) is original and has not been submitted in part or in full for the award of any diploma or degree either of this University or any other one.

Chukwuemeka Martina O.
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APPROVAL PAGE

This is to certify that **Chukwuemeka Martina O** a Post Graduate Student of the Department of Accountancy, Faculty of Business Administration, University of Nigeria, Enugu Campus (UNEC), with registration Number PG/M.Sc/07/46901, has satisfactorily completed the requirements, for Dissertation research in partial fulfillment of the requirement for the award of Master of Science Degree in Accountancy of the University of Nigeria.

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DR. (MRS) G.N OFOEGBU
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DATE

DEDICATION

This work is dedicated to God Almighty, the Author and finisher of my faith, with Him nothing is impossible.

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ABSTRACT

The study is on Influence of inflation and reported profit: implication on decision-making. The study was set to achieve the following objectives: to determine the extent to which lending decision in Nigeria banks were affected by inflation between 2006 – 2011, to ascertain the extent to which inflation has impacted on the reported profits of commercial banks in Nigeria between 2006 – 2011, to examine the extent to which reported profits under inflationary period affect investment decision of Nigeria banks between 2006 – 2011, to find out other factors that influence decisions on reported profit apart from inflation. The research design adopted in this study is ex-post factor research design which is characterized as events that have taken place in the past. The target population of the study is all the banks quoted in Nigeria stock exchange. The sample size is the first two new generation banks (FBN and UBA Plc). Secondary data were sourced from Annual Reports of the banks under study. The data will be presented using sample table frequency and the formulated hypotheses will be tested using linear regression technique. The study discovered that there is no significant positive relationship between lending decision and inflation on Nigerian banks and it is revealed that it could not be established that inflation has adversely affected reported profits on Nigerian banks within 2006 to 2011 fiscal year. Also it was found that investment decisions within the reported profits of Nigerian banks have no direct relationship with inflation within the period under review and finally that inflation on other decision factors (Gearing and Solvency) has no significant relationship on reported profit on Nigerian banks. Also the decision of organization obeys the trends and situation of the economy either in lending or reported profits, investment decisions, gearing and solvency. Thus in the presence of all these factors inflation and reported profit have negative influence on decision-making.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Inflation is a word that most people hear these days and virtually nobody would like to experience or come in contact with. Unfortunately it has come to stay with us. Clautier and Underdown (2001) described it as what hits the consumer's pocket by eroding the purchasing power of the currency and sometimes acts as hidden tax. It reduces nation competitiveness in world markets and can have a general debilitating effect on almost all type of economic activities. When one thinks of inflation what comes to mind is the dynamic situation of persistent increase in the price level which results in the diminution of real purchasing power of naira at your disposal at any time.

Inflation, be it creeping, cost push, wage push or profit push is a condition of unrelenting price spiral. It has been generally described as a situation of rising prices arising from too much money chasing too few goods and always results when the aggregate demand exceeds the aggregate supply of goods and services. It has the net effect of reducing the purchasing power of the monetary unit. When this reduction in the purchasing power of money is gradual as it was the case in the early 60s, the recipient of fixed income is not worried. However, when change in price is a run-away (hyper) inflation as has been experienced in Nigeria since late 70's the entire economic system will be at the brink of collapse (Emekekwe, 2008).

However, inflation is not completely dreadful. A certain level of inflation is desirable in order to ensure sustainable economic growth. Beyond that level, it becomes a hydra –headed monster that has baffled monetary economics over the years, (Emekekwe, 2008). At the undesirable level, inflation greatly affects financial decisions thereby constituting big source of uncertainty in the economic world.

According to Gill (1997), the issue of inflation in decision making had received very little or no attention. He attributes this to the fact that much of the literature existing then on economic analysis has been developed in the USA and other technically advanced nation where the rate of

inflation are comparatively small. In recent time the need has risen for a more precise analysis because even in some of the advanced economies, the impact of inflation and decision can no longer be overlooked.

According to Sizer (2000), in the case of consumer price index, Nigeria leads with an annual rate of 34%. To this effect, virtually all developed and developing countries, capitalist and non-capitalist have woken up to the reality of the need for accountants to strive to produce inflation adjusted accounts. This gives rise to the study of “The impact of inflation on reported profit and its implication for decision-making”.

Decision making requires information which is measured on appropriate basis. Glautier and Underdown (2001) argue that the monetary unit of measurement decreases in value because its purchasing power falls according to the degree of inflation. The consequences of the instability in the dimension of the unit of measurement in accounting are that objects and events which are measured in one period of time cannot be compared with similar goods and events which were measured in subsequent period.

It is important to note that Accountants are still unwilling to provide information to external users about future expectations, which will be useful for decision making since this will mean abandoning a tradition based on objectivity. The development of accounting as an information science concerned with the need for decision makers to require measurements which are relevant and useful for these needs. In particular, such measurement should possess a high degree of predictive ability. Unfortunately, the practice in this country possesses serious obstacle to the use of reported profit for decision-making by external users. The two financial institutions to be examined in this study are United Bank of Africa (UBA) Plc and First Bank of Nigeria (FBN) Plc between the years 2006 to 2011. The two banks are quoted on the Stock Exchange and are deemed to be investment opportunities. UBA was founded in 1949 when the British and French Bank Limited (“BFB”) commenced business in Nigeria, following Nigeria’s independence from Britain UBA was incorporated in 1961 to take over the business of BFB. First Bank was formally known as British Bank for West Africa and was founded in 1894. These two expatriate Banks dominated the Nigerian Banking scene, until 1933 when National Bank of Nigeria was

established. The two banks were taken over by the Nigeria Government in 1972 and 1977 respectively, and were later privatized to the Nigerian public.

1.2 STATEMENT OF PROBLEM

The world is in the grip of soaring inflation. The inflation if it crosses the single digit is an index of a weak economy. Inflation can prompt trade unions to demand higher wages, to keep up with consumers prices. Rising wages in turn can help fuel inflation.

Inflation has negative effects, because it reduces the value of money, resulting in uncertainty of the value of gains and losses of borrowers, lenders, and buyers and sellers. The increasing uncertainty which inflation brings discourages saving and investment. It also has serious effect on reported profits because of high increase in the devaluation of money. The value of the reported profit today might be less tomorrow because of inflation and the decision made today on that reported profit may be misleading tomorrow because of inflation.

These problems arise because the financial reporting concept is based on age old concepts which for long have ignored the presence of inflation and its implication for decision making both by management and external users of reported profit. Overstated profits are measured in monetary terms; rising prices will induce external users to make investment decision without appreciating the consequences of the reduced value of their investment.

The financial institutions that benefit from rising prices also suffer from decreases in savings and investments. This is because people have become used to the idea that inflation reduces the purchasing power or their savings and investments.

1.3 OBJECTIVES OF THE STUDY

The main objective of this study is to examine inflation and reported profit: it's implication for decision-making. Specifically, the study will achieve the following objectives:

- (i) To determine the extent to which lending decision in Nigeria banks were affected by inflation between 2006 – 2011.
- (ii) To ascertain the extent to which inflation has impacted on the reported profits of commercial banks in Nigeria between 2006 – 2011.

- (iii) To examine the relationship between reported profits under inflationary period and investment decision of Nigeria banks between 2006 – 2011.
- (iv) To find out other factors that influence decisions on reported profit apart from inflation.

1.4 RESEARCH QUESTIONS

The research questions were formulated from the specific objectives of the study as follows;

- i. To what extent can inflation affect lending decision on Nigeria banks?
- ii. How does inflation impact on reported profit of commercial banks?
- iii. To what extent does inflation affect investment decision in Nigeria banks?
- iv. How do other factors other than inflation influence decision on reported profit of Nigeria Banks?

1.5 RESEARCH HYPOTHESES

Based on the objectives of this study, the following Null hypotheses were formulated to guide the study.

- i. There is no positive and significant relationship between lending decision and inflation on Nigeria banks.
- ii. Inflation has not adversely affected reported profits on Nigeria banks within 2006 – 2011 fiscal year.
- iii. Investment decisions within the reported profits of Nigeria banks have no direct relationship with inflation within the period under review.
- iv. Inflation on other decision factors (Gearing and Solvency) has no significant relationship on reported profit on Nigeria banks.

1.6 SIGNIFICANCE OF THE STUDY

The study will be significant to the researcher, to Government, to management of banks, to the general public and to educationist.

To the researcher: This study will add more to the knowledge bank of the researcher in the subject area of the impact of inflation on reported profit and its implication for decision making.

To the management of banks and Government: This study will spur them to have a rethink on the need for inflation accounting and appropriate profit report.

To the general public: The study will help them make more rational decisions through understanding the value of their future savings and investments.

To educationists: The study will not only serve as a basis for further research into impact of inflation on investment decisions, but also add to the existing knowledge base in this crucial economic study.

1.7 SCOPE OF THE STUDY

This study focuses on the impact of inflation on reported profit and its implication for decision-making in selected financial institutions in Nigeria. It will focus on the period of 2006 to 2011. The two banks under study are all the banks whose shares are quoted on the Nigeria Stock Exchange before the 2005 concluded consolidation exercise. The choice of this to ensure data availability to enhance the achievement of the study objectives.

1.8 OPERATIONAL DEFINITION OF TERMS

1. **Inflation:** According to Spencer (1974), inflation is: What hits the consumer's pocket by eroding the purchasing power of the currency, sometimes acts as a hidden tax, reduces a nation's competitiveness in world markets, and can have a general debilitating effect on almost all types of economic activity. The adorer is Inflation.
2. **Discount cash flow (DCF):** Is a technique of financial analysis that is applied under (a) Net present value (NPV)
(b) Profitability index (pi)
(c) Internal Rate of Return (IRR)
3. **Net Present value (NPV):** According to Nagarajan (2010), NPV of a project is the present values of all the cash flows, be it negative or positive from the project that are expected to occur over the life of the project.
4. **Decision making:** According to Ugbam (2001) decision making is a process whereby management when confronted by a problem selects a specific course of action from a set of possible courses of action.

5. **Reported profit:** This is the annual report of the performance of a firm or an organization at a particular period.

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CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 INTRODUCTION

An extensive review of conceptual, theoretical and empirical, examine the micro foundations of the links between inflation and profit. In contrast, little research has been done on how inflation affects profit margins. The accounting profession has spent a lot of time examining how inflation affects a firm's financial statements with emphasis on how inflation changes the way companies report revenues and costs. Research on the inflation and reported profit generally focuses on behaviour of a markets and the operation of the business. A model of the inflation underlies the aspect of the origin and characteristics that embodies the operationalizing, tracing and reaction of the marketing. Each of these models constructs inflation as a shock to the supply function.

2.2 Conceptual Framework

Sheshinski and Weiss (1977) study a monopolistic firm that faces a cost for adjusting its selling price. The seller optimally follows an S,s pricing rule in an inflationary environment. He maintained that a constant nominal price until inflation erodes his real price below s , and then he will increase his nominal price to S . As inflation increases, S increases and s falls; thus the magnitude of a price change increases.

Given monopolistic competition, Benabou (1988, 1992a) introduces the idea that the larger and more frequent price adjustments of S,s pricing during inflation offers consumers a scope for search. In equilibrium, consumer search is optimal given the price dispersion that results from the staggering of S,s pricing rules. Welfare effects depend upon the size of consumer search costs. Low search costs allow consumers to take advantage of price differences that lead to increased competition and positive welfare effects. High search costs imply even greater

equilibrium prices and more price dispersion. The wasteful search costs and higher prices have negative implications for welfare.

Diamond (1993) follows a similar strategy, but develops his model with “sticker” prices. Prices are literally affixed to the good itself. The “sticker” can only be changed at some cost. Inflation reduces the real price of a “stickered” product sitting in inventory. The presence of the older priced goods lowers the reservation price of the consumers. Inflation actually reduces market power because consumers search for goods with the old sticker price. There is price dispersion, but less market power.

Only a few theoretical papers touch on the issue of how inflation affects profit levels. This work follows Lucas (1973) and studies the impact of inflation uncertainty on price markups. Benabou and Gertner (1993) introduce a stochastic shock on the costs of producers and examine the effect of inflation uncertainty on price dispersion. In this model, consumers cannot distinguish between aggregate and relative shocks. Consumers can decide to enhance their information with search and must infer from prices whether it is worth the cost to search. Benabou and Gertner find increased inflationary uncertainty has two effects on welfare. First, there is a correlation effect. If seller prices are correlated, inflation makes consumers search less when they observe a high price. However, consumers search more when they observe a low price because they believe better prices may be available. Second, there is a variance effect, because buyers can return to the first seller costlessly, an increase in inflation uncertainty increases the option value of search. Increased inflation uncertainty promotes search and lowers the sellers’ market power.

Benabou and Gertner show that increases in inflationary uncertainty lead consumers to seek more information. In equilibrium, consumers are better informed and prices adjust to the increase in competition. The main result of Benabou and Gertner (1993) is that the effect of inflationary uncertainty on market efficiency depends critically on the magnitude of buyer search cost. Low search costs make it possible that the benefits from an increase in inflation uncertainty outweigh the costs. Increased price competition may result in a benefit that is higher than the buyer’s search cost. High search costs lead to the opposite result. An increase in inflationary noise allows sellers to charge higher real prices as they take advantage of the consumers’ reduced information. Thus, high buyer search costs imply higher firm profit margins and decreased efficiency.

Van Hoomissen (1982) and Tommasi (1994) show that inflation lowers the informativeness of current prices about future prices. Prices become outdated quickly, which leaves the consumer less well informed. Tommasi shows that the lower information stock translates into higher consumer reservation prices. Repeat purchase consumers thus have less incentive to acquire price information. Less well informed consumers permit firms to raise their markups which results in price dispersion.

The empirical literature on inflation and price dispersion generally supports the above theoretical papers, but there are some exceptions. Weiss (1993) provides an excellent survey of empirical findings from microeconomic data on the issue of inflation and price adjustment. Two empirical regularities are generally recognized. First, nominal price changes occur in discrete jumps. This is clearly consistent with S,s pricing theory. Second, as inflation increases, the variance of relative prices (price dispersion) also increases. This supports all of the aforementioned theoretical models.

Benabou interprets his findings as support for the prediction that S,s pricing theory under inflation would lead to higher price dispersion. With low consumer search costs, price dispersion promotes search and competition intensifies leading to a decrease in markups. Borenstein, Cameron, and Gilbert (1997) document asymmetric gasoline price responses to crude oil price changes and argue that the data is not inconsistent with the implications of the Benabou and Gertner model. In gasoline markets, increases in inflation uncertainty do translate into higher profit margins.

Gill (1973) defines inflation as any general increase in the price level of the economy in the aggregate. This is a Macroeconomic concept while in microeconomics, one may be concerned with a rise in the price of one commodity relative to other commodities, inflation involves a rise in the price of all commodities or of most commodities or most commonly of some index that measures the average of various prices taken together. This definition is still a bit general; Maddison (2006) observes that one might wish to know exactly what prices are being included in any particular index of inflation. In Nigeria there are three main indices of inflation in common use:

1. Index of consumer prices
2. The wholesale price index and
3. The GNP Price deflator

The third index which reflects the distinction between changes in real GNP and changes merely in money GNP is the most general of these indices, Maddison observes that in less developed countries and especially in Latin America and Africa rapid year –to-year or even month –to-month inflation is a fairly common occurrence. Gill (1975) posited that Keynesian view of inflation is one where inflation is caused by an aggregate demand for goods and services that exceeds national income at the full –employed level.

Sizer (2000) observes that the problem of inflation on reported profit stems from the way the profits are measured by accountants. He posited that accountants measure profit by finding the difference between the net assets at the beginning and end of the accounting period. They match the actual revenues of the period with the actual expenses of the period, and to the extent that revenue exceeds expenses, there is a profit. However under the historical cost accounting system, the matching process may be of revenue of the period with cost of an earlier period, they do not necessarily match current values. Further more the balance sheet is made up of a mixture of naira of different periods, depending upon the mix of assets, the age structure of the assets and depreciation policies. He concluded that an overstatement of profits and an understatement of assets employed will occur in time of rising prices if any output costs of one date are matched without output revenues of a later date, and if assets are shown in the balance sheet at their historical cost this will arise in the case of:

1. Depreciation in the profit and loss account and fixed assets in the balance sheet
2. The charge for stocks and work –in- progress consumed in the profit and loss account and stocks and work –in- progress in the balance sheet.

Lucey (2000) posits that if the assets are depreciated on the basis of historical cost and stocks and work-in progress on a first-in-first-out (F.I.F.O) or similar basis, part of what accountants calculate as profit will be required to maintain the capital of the business intact. Part of the profit will be required to cover the increased cost of replacing fixed assets and stocks which were bought or produced at prices considerably lower than those ruling as at the date of consumption.

If a company distributed as dividend the whole of its historical cost profit, it will have insufficient cash left to maintain its present level of stocks and work –in progress and replace its fixed assets

Wood and Townsely (1980) argue that if as a result of inflation profit is seriously overstated, the burden of taxation on the business will be greater than that implied by the nominal rate of taxation. If reported profit, which result merely from a change in the value of money, or capital gains arising for the same reason, are taxed as if they are real income to the business, then the ability of the company to maintain the capital of the business intact and sustain real growth will be diminished furthermore, if historical cost profit are the basis for profit margin control under price legislation, a company's ability to generate adequate cash during a period of high rate of inflation will be seriously impaired.

2.2.1 Account for inflation

Seizer (2000) maintains that the problem of how the effects of inflation should be reflected in accounting statements is indicated in the provisional statement of standard accounting practice No.7, issued in May 1974. The United Kingdom accounting standard steering committee recommended that companies should employ the current purchasing power method (C.P.P) to produce for their shareholders a supplementary statement in terms of the value of the pound at the end of the period to which the accounts relate. The provisional standard was issued pending the report of the independent committee of inquiry (The Sandilands Committee) established in July 1973 by the then Secretary of State to consider the various method of adjusting company accounts and whether, and if so, how company accounts should allow for changes in cost and prices. According to Sizer (2000) in its Report the Sandilands Committee rejected the C.P.P method; largely on the basis of its application of general indices to specific assets, but also because it involves expressing accounts in terms of Purchasing power units rather than money .It recommended the current cost accounting system (C.C.A.) which is based on maintaining the value to the company of its existing assets. The main features of C.C.A are:-

- i. Money is the unit of measurement.
- ii. Assets and Liabilities are shown in the balance sheet at valuation.
- iii. Operating profit is struck after charging the value to the business of assets consumed during the period, this excluding holding gains (i.e. differences between original cost and value to the business) from profit and a showing them separately.

According to Sizer (2000) observes that the consultative committee of accounting bodies informed the Government that the current cost accounting system proposed by the Sandilands committee could prove to be an acceptable and practical method of accounting for non- monetary assets (fixed assets and stocks) as their Current value. The consultative committee considered that the current cost accounting system proposal by the Sandilands committee does not deal at all or does not deal adequately, with the effect of inflation on the value of the proprietor's interest in the company or other organization concerned. The consultative committee recommended that at least the reporting organization should show prominently the change in the purchasing power of the capital invested during the period covered by the report. The government announced that it agreed that the current cost accounting system method could lead to a better understanding of the economic performance of companies. It also endorsed the recommendation that the detailed practical problems should be examined urgently and the accountancy profession agreed to set up a steering group for this purpose with a view to the implementation of current cost accounting system. in company accounts for all periods beginning after 24th December 1977. An inflation accounting steering Group under the chairmanship of Mr. Douglas Morpeth was established by accounting standards steering committee in January 1976, and its ninety three page Exposure Draft (E.D.18), current cost accounting was published at the end of November 1976.

2.2.2 The Nature of Financial Statement

The group consultative committee of accounting set by HMS proposed a phased introduction of the accounting standard to be based on the exposure draft for accounting periods beginning on or after 1st July 1978. The system of current cost accounting system proposed in E.D 18 to replace historical cost accounts distinguished between.

Operating profit: Revenue less current expenses, including in those expenses the value to the business of the physical assets consumed during the year.

Extraordinary items: Losses and gains arising not in the normal course of the business.

Holding Gains and Losses: The surpluses or deficits for the year arising from revaluing physical assets to their current value to the business.

Operating profit and extraordinary items would appear in the profit and loss account and holding gains or losses in a profit and loss appropriation account. In the balance sheet Physical assets (fixed assets and stocks and work –in –progress) would appear at their current value to the business. Sizer (2000) maintains that the E.D. 18 proposals contained no precise recommendations on how accounts should be taken in the current cost accounting system of the effects of inflation on monetary items, which partially offset the effects of inflation on operating profits. It stated that the director should transfer from the net surplus on revaluation of assets to a revaluation reserve in the balance sheet an amount they consider should be retained having regard to the needs of the business. He observed that there was limited guidance as to how this transfer should be determined. It was also proposed that the published accounts should include a statement, by way of a note, setting out prominently the gain or loss for the period of account in the shareholders net equity interest after allowance has been made for the change in the value of money during the period.

The relationship between the profit and loss account, the profit and loss appropriation Account, and the balance sheet under the E.D 18 system of current cost accounting system, as perceived by the author, is illustrated in figure. Exposure Draft 18 was widely Criticized by accountants in the Profession, in industry, and in commerce their concerns included the complexity of the Proposals, the element of subjectivity inherent in their application, their inappropriateness to small and medium-sized companies, the failures to make an adjustment specially to the account of the effect of inflation on monetary items, and the replacement of historical cost accounts by current cost accounts before current cost accounting system has been proven to be the appropriate system of accounting for price level changes. The Criticism culminated in a

resolution being passed at a special meeting on 6 July 1977, 'that the member of the institute of chartered Accountants in England and Wales do not wish system of Current cost accounting to be made compulsory; in the light of this rejection of E.D.18, the Accounting Standards steering committee accepted the need for a 'Substantial simplification and modification of the E.D.18 Proposals. They requested the morpeth Group to make a careful assessment of comments on the Proposal and to prepare a new exposure draft. As an interim measure they established a new group under the chairmanship of Mr. William Hyde, to prepare Simple guidelines for Supplementing historical cost result with a current cost accounting system profit-and-loss Account whether practical for the year to 31 December 1977.

The Hyde Group Guideline were approved and published by the Accounting Standards steering Committee in November 1977. The Accounting Standards Committee recommends that the published financial statements of companies listed on the stock Exchange should include a prominent statement showing the financial results as amended by three adjustments, each shown separately.

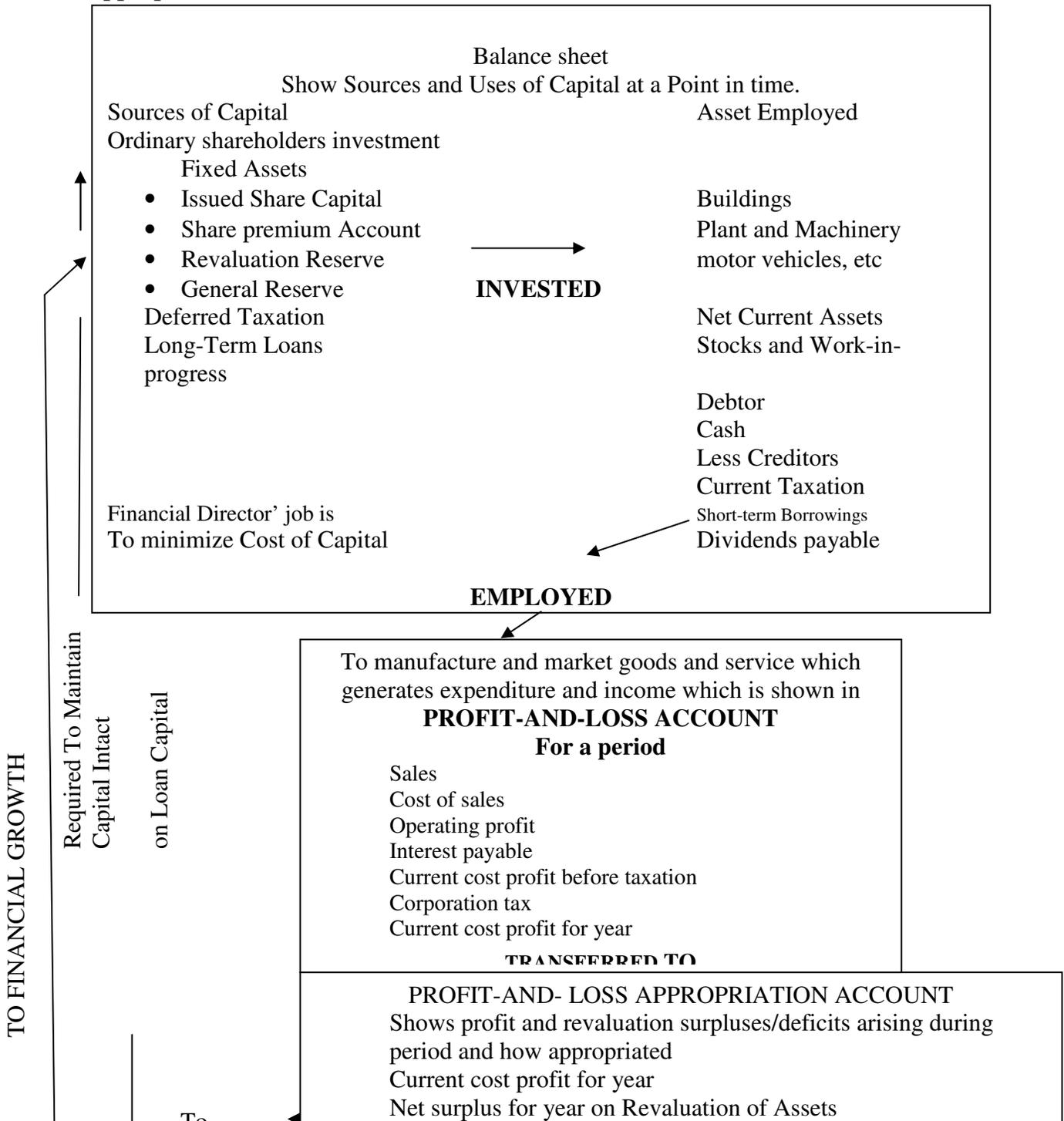
- (1) **Depreciation:** An adjustment should be made for the difference between depreciation based upon the current cost of fixed assets and the depreciation charged in computing the historical cost result. Where other appropriate methods have not been developed, the charge for current cost depreciation may be computed by use of an appropriate index of price movements.
- (2) **Cost for Sales:** An adjustment should be made for the difference between the current cost stock at the date of sale and the amount charged in computing the historical cost result.
- (3) **Gearing of monetary items:** It is recognized in the guidelines that there are differing views on the question of how monetary items should be dealt with in inflation- adjusted accounting but argued that an adjustment must be made if an incomplete and potentially misleading picture is not to be given to share holders and other users of the accounts. They recommend the following approach to the calculation of the gearing adjustment unless another method is preferred.
 - a) Where the total Liabilities of the business, including preference Share capital, exceed its total monetary assets, a Calculation should be made of the Proportion of the net balance

of monetary assets to the net balance of monetary liabilities Plus equity and share capital. An amount equal to this Proportion of the depreciation and cost of sales is to be shown in the statement.

- b) Where the total monetary assets of the business exceed its total Liabilities, an adjustment should be calculated by applying to the net balance of monetary assets, the Percentage change in an appropriate index during the accounting year. This adjustment should be charge as a separate item in the statement.

Despite the Crudeness of the gearing adjustment, the interim guidelines were welcomed by the auditing profession, accountants in industry and commerce, and by the stock Exchange as a workable step towards a more comprehensive system of current cost accounting. The Morpeth Group continues its work on the development of such a system for consideration by the Accounting Standards committee. Many large organizations are pressing ahead with the development of comprehensive system of current cost accounting to produce inflation adjusted accounts for use by management and investors.

Relationship between Balance sheet, Profit and loss account and Profit and loss appropriation account under E.D 18



~~S2.2.3: Inflation and Capital Investment Appraisal~~ (Now the Stationery Office, TSO)

According to Sizer (1989) the persistent high rate of inflation in some western European countries and north America during the 1970's has led accountants to consider more carefully how to take the effects of inflation into consideration when determining a company's cost of capital and evaluating investment project as well as in the preparation of financial statement. He observed that the higher the rate of inflation the greater the value of the money receivable today compared with money receivable in the future. The implication of this statement to decision-making means that in the theory, the higher the rate of inflation the higher the rate of interest the investors will require if he is to be persuaded not to consume his income today but to invest money in return for receiving annual dividends or interest payments and the repayment of his investment in the future.

Lucey (2000) posits that in practice, investors do not always act rationally. Therefore the higher the rate of inflation, the higher the rate of interest the investor requires and the higher a company's cost of capital in money terms. How much higher a company's cost of capital in money terms will be compared with its cost of capital in real terms will depend not only upon the expected future rate of inflation but also upon the company's gearing and when it raises fixed interest loan capital. He observed that in case of loan capital, once raised, the fixed interest payments in money terms remain constant, unless the interest payment are index-linked for inflation and under conditions of inflation the cost of existing loan capital in real terms declines over the period of the loan.

Sizer (2000) argues that not only does inflation affect a company's cost of capital; it will also affect the cash flows arising from an investment project. He went on to state that when evaluating proposed investments under condition of inflation a company has to decide whether:

- 1) To forecast the cash flows arising from an investment project in today's pounds throughout the expected life of the project and ignores inflation i.e. In real terms or
- 2) To take account of expected future rates of inflation and to forecast the cash flow in terms of the actual cash receipts and payment that are expected to arise during each year of the project expected life. i.e. in money terms.

Lucey (2000) observes that if a company forecasts cash flow for a proposed capital project in money terms the D.C.F rate of return or NPV of a project is likely to be higher than the D.C.F rate of return or NPV in real terms. He stated that the higher the rate of inflation the greater will be the difference between a companies' cost of capital in real terms and its cost of capital in money terms. For these reasons it is important that if the cash flows are calculated in money terms the D.C.F. rate of return for the project is compared with the company's cost of capital in money terms.

Sizer (1998) posits that if a company ignores inflation and determines cost of capital and evaluates investment projects in real terms it is in effect; assuming that future rates or inflation will affect equally the cost of different types of finance and all elements of an investment project. In fact, this is likely to be an unrealistic assumption. He recommends that a company evaluates investment projects not only in money terms and compares these with the company's cost of capital in money terms but also the separate rates of inflation are forecast for the different elements of a project. He concluded that it is important when testing the sensitivity of the profitability of a project to variations in the key assumptions in the evaluation that the assumptions about rates of inflation are treated as key assumptions and included in the sensitivity analysis. Similarly if risk analysis is under taken, subjective probabilities should be attached to the fore cast range of rates of inflation

2.2.4. Best Alternatives

According to Sizer (2000) the importance of selecting the best alternatives for investigation and evaluation cannot be over emphasized. A creative search for investment opportunities is

required. He observed that a number of surveys undertaken in the 1960s of the methods of investment appraisals employed in the U.K. came to the conclusion that companies used methods which are not likely to lead to the optimal choice of investment projects. As a result D.C.F techniques which have not been widely used in the U.K. received Considerable Publicity. Successive governments have emphasized the importance of increasing the level of industrial investment in the U.K. This means that firms should be seeking profitable investment opportunities and correctly appraising them. He concluded that where D.C.F techniques are important is in choosing between alternative projects in a capital rationing Situation. Account should be taken of expected rates of inflation and cost of capital should be determined by appraisal in money terms.

Davis and Hughes (1975) argue that if we take account of inflation, it becomes clear that discounting by the firms cost of capital is no longer sufficient to indicate the desirability of accepting a project. The discount rate must therefore be adjusted to allow for inflation and in addition to this, the cash flows must also be adjusted to show their future inflated value. Projects will otherwise continually be made to look less desirable than they actually are. The formula for this adjustment is $m = n$

$$\sum_{m=0}^n \frac{(\text{money value of net cash flow})^m}{(\text{money rates of interest})^m}$$

2.2.5 The object of measurement.

According to Glautier et al (2001) measurement are required not only to express objectives as clearly defined targets about which decisions must be made, but they are also required to control and to assess the results of activities involved in reaching those targets. In accounting, the standard of measurement is the monetary unit. Unfortunately the use of a money standard of measurement has its disadvantages. To begin with the accuracy and reliability of standards of measurements depends upon the stability of the unit of measurement.

Lucey (2000) argues that an essential requirement is that the dimensions of the unit of measurement should remain constant. Unfortunately the monetary unit of measurement decreases in value because it's Purchasing power falls according to the degree of inflation. This

problem, he observed, are common to all countries which is suffering the effects of inflation. The consequence of the instability in the dimensions of the unit of measurement in accounting is that objects and events which were measured in one period of time cannot be compared with similar goods and events which were measured in Subsequent period. He concludes that it is now admitted that a correction is needed to the unit of measurement if accurate measurements and comparisons are to be made.

Glautier et al (2001) postulate that the development of accounting as an information Science concerned with the needs of decision makers requires measurements, which are relevant and useful for these needs. In particular such measurements should possess a high degree of Predictive ability.

2.3 EFFECTS OF INFLATION AND DEFLATION

2.3.1 Effects of Inflation

Inflation is generally regarded as undesirable because it produced serious social and economic problems. It leads to arbitrary redistribution of real income, According to Okoro Okoro (2004) Although a rise in the price level produces a corresponding increase in money incomes, all prices do not rise to the same degree, and different income groups will be affected in different ways.

- i. **Price instability distorts choices and Redistributors' income:** Inflation and its opposite deflation, is a disorder of choices and a capricious redistributors of income. Erratics changes in the price level distort choice because people base their decisions not only on the benefits and cost they incur when buying and selling but also on their assessment of changes in price level. Erratic changes in the price level inevitably cause changes in the distribution of income. There is always gainer and loser as a result of inflation. Inflation tends to increase inequalities in distribution of income and wealth.
- ii. **Inflation Distorts Savings and Investment:** Erratic inflation is particularly troublesome for longer contracts. It increases the risks involved in estimating the returns on investment prices. This might lead to distortions in decisions to save and invest and cause investment to be reduced below the efficient level. Inflation can adversely affect the

growth of the economy by reducing the willingness of households to supply funds to businesses for productive investment. If inflation soars, savers might seek to liquidate their financial assets and purchase lands or items like antiques and other collectibles. Inflation not only distorts current choices but also can decrease confidence in the nation's financial markets, thereby adversely affecting future opportunities as the amount of savings channeled into productive investment is reduced and a nation's real GNP growth rate can be adversely affected.

- iii. **Impact on International Trade:** Changes in interest rates, money supply and the price level can affect the ability of Government firms to compete with foreign suppliers. High interest rate on loans resulting from high inflation in the economy discourages individual-investors and business who need funds to make productive investment from taking loans.
 - iv. **Effect on Income Groups:** The effects on incomes derived from profit depend upon the type of inflation. The losers, during an inflationary period, are those whose incomes are fixed, or relatively fixed in money terms. This group includes those incomes derived from fixed interest securities controlled rents and some private pensions Schemes. In Similar category are those people receiving salaries or pensions, which are adjusted only after long time interval. All income recipients in this group will suffer a fall in their real income. During demand pull inflation profits will tend to rise. The prices of final goods and services are often more flexible in and upward direction than factor prices and the margin between the two price levels tends to widen because of time lag. When cost- push inflation is being experienced, profits tend to be squeezed since there is no excess demand.
- I. **Effects on Debtor-Creditor Relationship:** Inflation has important effect on debtor-creditor relationship. Debtors tend to gain since the purchasing power of the money repaid at the end of the loan is less than the purchasing power of the money borrowed. This may encourage spending rather than lending and hence reduce funds available for investment it may lead to higher interest rate as creditors demand some additional return as a compensation for the falling value of money.
 - II. **Effect on Balance of Payments:** In developing economics that are dependent upon a high level of exports and imports, inflation usually leads to balance of payments difficulties. If other counties are not experiencing inflation to the same extent, the rise in

the domestic price level will make exports less competitive and imports more competitive. This process if not checked may lead to a deficit on the current account of the balance of payments. This problem is particularly acute during a Demand- pull type of inflation. Other significant effects of inflation include:

- a) Effects on trade.
- b) Effects on wage Earners.
- c) Effects on Equity holders.
- d) Effects on Businessmen.
- e) Effects on Agricultural workers.
- f) Effects on Production.
- g) Effects on Government.
- h) Effects on inflation or Deflation.

Opposition to deflation tends to be greater than that to inflation. Inflation may mean rising prices but most people have at least the appearance of comfort in the form of rising money incomes even though these incomes do not represent increased purchasing power. With deflation people only see the idle factories and shops and the dole queues and that makes deflation a more unpleasant alternative.

Deflation

According to Rockery (1993), deflation shows the same spiraling effects as inflation. Lower prices will mean lower factor incomes and a fall in expenditure because the incomes out of which expenditures come have been reduced. The main difficulty which a government faces in trying to deal with an inflationary situation is that if it reacts too violently it runs the risk of leaching the economy from inflation to deflation, which would merely mean a jump from the frying pan into the fire. In pre-war years Britain, in common with the rest of the world, unemployment made people fearful even of the sound of the word. The measures taken in post-war years to deal with the effects of inflation have therefore been referred to as measures of distribution indicating that their main purpose was to cut down expenditure, but not to such an extent as to lead to deflation.

2.3.2 Effect of Deflation

Rockery (1993:64) cited the following effects of inflation. They are.

a. Restriction of Production

Production becomes less profitable as prices will fall short of costs of production already incurred.

b. Redistribution of the National Income

This will be in the reverse direction of that described for inflation. The gainers will be the recipients of fixed incomes and the losers will be producers, the traders, and the workers, and latter suffering mainly through loss of employment.

c. Increased Saving

Savers and lenders will gain at the expense of borrowers, though some of these gains may be spurious as many borrowers may be driven to bankruptcy. Because in every country there are more borrowers than lenders and because also the government is the largest borrower of all, public.

2.3.3 General Effects

Inflation and deflation, in economics, are terms used to describe, respectively, a decline or an increase in the value of money, in relation to the goods and services it will buy. Inflation is the pervasive and sustained rise in the aggregate level of prices measured by an index of the cost of various goods and services. Repetitive price increases erode the purchasing power of money and other financial assets with fixed values, creating serious economic distortions and uncertainty. Inflation results when actual economic pressures and anticipation of future developments cause the demand for goods and services to exceed the supply available at existing prices or when available output is restricted by faltering productivity and marketplace constraints. Sustained price increases were historically directly linked to wars, poor harvests, political upheavals, or other unique events.

Deflation involves a sustained decline in the aggregate level of prices, such as occurred during the Great Depression of the 1930s; it is usually associated with a prolonged erosion of economic activity and high unemployment. Widespread price declines have become rare, however, and inflation is now the dominant variable affecting public and private economic planning.

The specific effects of inflation and deflation are mixed and fluctuate over time. Deflation is typically caused by depressed economic output and unemployment. Lower prices may eventually encourage improvements in consumption, investment, and foreign trade, but only if the fundamental causes of the original deterioration are corrected. Inflation initially increases business profits, as wages and other costs lag behind price increases, leading to more capital investment and payments of dividends and interest. Personal spending may increase because of "buy now, it will cost more later" attitudes; potential real estate price appreciation may attract buyers. Domestic inflation may temporarily improve the balance of trade if the same volume of exports can be sold at higher prices. Government spending rises because many programs are explicitly, or informally, indexed to inflation rates to preserve the real value of government services and transfers of income. Officials may also anticipate paying larger budgets with tax revenues from inflated incomes.

Despite these temporary gains, however, inflation eventually disrupts normal economic activities, particularly if the pace fluctuates. Interest rates typically include the anticipated pace of inflation that increases business costs, discourages consumer spending, and depresses the value of stocks and bonds. Higher mortgage interest rates and rapidly escalating prices for homes discourage housing construction. Inflation erodes the real purchasing power of current incomes and accumulated financial assets, resulting in reduced consumption, particularly if consumers are unable, or unwilling, to draw on their savings and increase personal debts. Business investment suffers as overall economic activity declines, and profits are restricted as employees demand immediate relief from chronic inflation through automatic cost-of-living escalator clauses. Most raw materials and operating costs respond quickly to inflationary signals. Higher export prices eventually restrict foreign sales, creating deficits in trade and services and international currency-exchange problems. Inflation is a major element in the prevailing pattern of booms and recessions that cause unwanted price and employment distortions and widespread economic uncertainty (Miller and Benjamin, 2004).

The impact of inflation on individuals depends on many variables. People with relatively fixed incomes, particularly those in low-income groups, suffer during accelerating inflation, while those with flexible bargaining power may keep pace with or even benefit from inflation. Those dependent on assets with fixed nominal values, such as savings accounts, pensions, insurance policies, and long-term debt instruments, suffer erosion of real wealth; other assets with flexible values, such as real estate, art, raw materials, and durable goods, may keep pace with or exceed the average inflation rate. Workers in the private sector strive for cost-of-living adjustments in wage contracts. Borrowers usually benefit while lenders suffer, because mortgage, personal, business, and government loans are paid with money that loses purchasing power over time and interest rates tend to lag behind the average rate of price increases. A pervasive "inflationary psychology" eventually dominates private and public economic decisions

(<http://www.uefap.com/vocab/exercise/awl/inflat.htm>).

If the economy is dealing with deflation the only thing that is worth investing in is bonds because they are considered a low risk. Also the reason investing in treasury bonds when deflation is occurring is because the treasury bonds are not affected by deflation like stocks and other investments are. Since they are not affected by deflation they are not considered risky investments during a time of deflation. The main reason that bonds are not affected by deflation is because treasury bonds and other bonds have fixed interest payments each year. This makes them a great investment risk during deflation because during deflation interest rates are being pushed down, but investor interest rate is guaranteed, so investors payments are worth more during a period of deflation than inflation. If organizations are only considering investing in stocks then they are a great risk to take during a period of inflation. The reason for this is that the price you pay for stocks is not going to be affected by a period of inflation. The main reason behind this theory is that in most cases a business's revenue and earnings are going to increase at the same rate as inflation, so things are going to stay pretty much the same. The biggest risk taken when investing in stocks during a period of inflation is that inflation can cause a company's returns to be overstated because of the technique that is used to value the company's inventory. If the return is overstated, that can be harmful to people who are investing in the business because the numbers are not accurate.

When it comes to inflation it is going to affect investments in one way or another, but how it is going to affect your investments is going to depend on what type of investments people have. The reason for this is that stocks are going to be affected by inflation and deflation because of interest rates and prices, real estate will be affected by these periods because of the interest rates going up and down. The good news is that not all investments are going to be affected by inflation or deflation, so when investing it is important to spread out the risk so that the investors do not suffer a large loss if things go wrong. Bonds are the best example of investments that are not affected by inflation or deflation because of their fixed interest rates. Deflation can affect most of investments because deflation is going to push down the interest rate and when the interest rates go down, so does the value of the dollar. Deflation will affect any stocks or payments you receive from dividends because it causes investors to accept a lower payment amount because of the lower interest rate. In other types of investments, such as real estate, deflation can be a positive influence. The reason for this is that when interest rates are low in real estate more people are likely to buy property, which makes it an easier investment to afford (<http://www.businessknowledgesource.com/investing>).

2.4 IMPACT OF INTEREST RATES ON INFLATION:

Changes in Federal interest rates influences interest rates charged for overdrafts, mortgages, loans and savings accounts. This change then affects the price of financial assets such as bonds and shares as well as the exchange rate of the currency. This in turn affects the consumer and business demand and thereby the output. Inflation has a significant impact on the time value of money (TVM). Changes in the inflation rate (whether anticipated or actual) result in changes in the rates of interest. Banks and companies anticipate the erosion of the value of money due to inflation over the term of the debt instruments they offer. To compensate for this loss, they increase the interest rates. This then impacts the employment levels and wage costs - which finally influence producer and consumer prices and thus the Consumer Price Index and Purchasing Power Index. Contributors:

1. A change in interest rates changes the cost of borrowing and thereby affects spending decisions. Interest rates impact the attractiveness of spending today versus spending tomorrow, as mentioned earlier. An increase in interest rates makes saving more attractive

and borrowing less, which reduces spending, by both consumers and producers. Conversely, a reduction in interest rates increases spending by both consumers and producers.

2. A change in interest rates impacts consumers' and producers' cash flow or the amount of cash at hand. For savers, a rise in interest rates increases the money received from interest on their saving. But it will also imply higher interest payments for those with loans as they end up paying variable interest rates (as opposed to fixed rates which do not change). These fluctuations in cash flow affect spending.
3. A change in interest rates affects the value of certain investments, such as homes and stocks. Higher interest rate increases the return on savings, thereby encouraging people to invest less in property and stocks. A fall in demand for these reduces their prices, thereby eroding the wealth of investors. This, in turn, influences them to spend less.
4. A rise in interest rates in the Nigeria relative to other countries increases the amount of funds flowing into the Nigeria, as investors are attracted to the returns on a higher dollar rate of interest. This appreciates the exchange rate of the dollar against other currencies. In reality, the exchange rate is set by expectations about future interest rates and any unexpected changes in interest rates, as when investors expect interest rates to rise, they increase the amount they invest in a currency before interest rates actually rise. An increase in the value of the \$ reduces the price of imports and, because many imported goods are included in the CPI, this has a direct influence on inflation. Also, a stronger dollar reduces the global demand for Nigeria goods and services. This reduces the exports which then reduces the output, and shifts domestic spending to imported goods.

A change in interest rates takes around 2 years to have its full impact on inflation, as it takes time for these changes to affect the interest payments made by consumers or producers. It takes even longer before these changes lead to changes in spending, and longer still for this spending to work its way all the way through the supply chain to the producers. Changes in production, in turn, lead to changes in employment and wages, increasing the unemployment rates and eventually changing the prices. It is impossible to predict with any certainty the exact size or timing of these influences as the effects vary based on factors such as the stage of the economic

cycle. For example, the impact of higher consumer demand on inflation just after a recession is quite different than that after several years of expansion and boom.

A change in interest rates has an instant impact on consumers' confidence, which influences spending immediately. To be practical, these interest rate changes take much longer to actually influence consumers' and producers' behavior, decisions and psyche. However, it provides a great platform and framework for the sea change. Net-net, interest rates should track and pivot on the inflation targets for the future years, and not on current targets. They have to be forward looking and proactive versus stagnant and reactive

(<http://www.investopedia.com/university/inflation/inflation3.asp>).

2.4.1 Stabilization Measures

Sizer (2000) maintains that it is frequently suggested that chief remedy for inflation is an increase in production. This is not entirely true. Every thing depends on whether the increased Production can be obtained without the generation of addition incomes. If higher production means higher incomes as well, then while there are more goods to be bought there is also more income to buy them with and the position is not improved. What we really want is increased productivity, which means that more is produced at a falling cost of per unit. This can be achieved not only by harder work (which is in any case difficult to achieve in many occupations) but also by better organization of the productive efforts and particularly by the use of more roundabout methods of production, i.e. the employment of more capital in connection with a given quantity of Labour.

Jones (1970:45) stated the effect of inflation as follows:

a) Rapid Increase in Production

Production will be more profitable at a time of rising prices since the prices of finished goods rise faster than the cost of production. Thus a producer cannot help making a profit. The prices of customer goods will generally rise faster than the price of capital goods, with the effects that economy will concentrate on the making of more consumer goods. In the long run this policy may be fatal to the economy as the existing capital goods tends to wear

out and the productive efficiency of the economy is bound to suffer if it is compelled to work with ancient equipment.

b) Redistribution of the National Income

The classes of the community who are likely to gain by inflation are those who are able to adjust their incomes quickly to rising prices so that their income will have an undiminished purchasing power.

These sections include producers, traders and also manual workers whose unions are generally able to secure for their members frequent adjustments of their wages. On the other hand, Salary earners whose salaries are fixed for longer periods of time, pensioners, and generally all recipients of fixed incomes such as landowners and renters, will tend to lose.

c) Decreases in Saving

A period of inflation represents a serious disincentive to save. Once the general public has become used to the idea of rising prices they will not be prepared to save, as the purchasing power of their savings is bound to decline. In a period of inflation, borrowers benefit at the expense of lenders.

d) Injury To The Countries International and Economic Position

Rising prices at home will lead to a fall in exports and to an increase in import because the country whose currency has been inflated is a good country to sell to and a bad country to buy from. This will lead to a worsening of the country's balance of payments, a loss of its international reserves or a fall in the international value of its currency.

Any serious anti-inflation effort will be difficult, risky, and prolonged because restraint tends to reduce real output and employment before benefits become apparent, whereas fiscal and monetary stimulus typically increases economic activity before prices accelerate. This pattern of economic and political risks and incentives explains the dominance of expansion policies.

Stabilization efforts try to offset the distorting effects of inflation and deflation by restoring normal economic activity. To be effective, such initiatives must be sustained rather than merely occasional fine-tuning actions that often exaggerate existing cyclical changes. The fundamental requirement is stable expansion of money and credit commensurate with real growth and

financial market needs. Over extended periods the Federal Reserve System can influence the availability and cost of money and credit by controlling the financial reserves that are required and by other regulatory procedures. Monetary restraint during cyclical expansions reduces inflation pressures; an accommodative policy during cyclical recessions helps finance recovery. Monetary officials, however, cannot unilaterally create economic stability if private consumption and investment cause inflation or deflation pressures or if other public policies are contradictory. Government spending and tax policies must be consistent with monetary actions so as to achieve stability and prevent exaggerated swings in economic policies.

Since the mid-1960s the rapid growth of federal budget spending plus even greater percentage increases in off-budget outlays and a multitude of federal lending programs have exceeded the tax revenues almost every year, creating large government deficit borrowing requirements. Pressures to provide money and credit required for private consumption and investment and for financing the chronic budget deficits and government loan programs have led to a rapid expansion of the money supply with resulting inflation problems. Effective stabilization efforts will require a better balance and a more sustained application of both monetary and fiscal policies.

Important supply-side actions are also required to fight inflation and avoid the economic stagnation effects of deflation. Among the initiatives that have been recommended are the reversal of the serious deterioration of national productivity by increasing incentives for savings and investment; enlarged spending for the development and application of technology; improvement of management techniques and labour efficiency through education and training; expanded efforts to conserve valuable raw materials and develop new sources; and reduction of unnecessary government regulation.

Some analysts have recommended the use of various income policies to fight inflation. Such policies range from mandatory government guidelines for wages, prices, rents, and interest rates, through tax incentives and disincentives, to simple voluntary standards suggested by the government. Advocates claim that government intervention would supplement basic monetary and fiscal actions, but critics point to the ineffectiveness of past control programs in the United States and other industrial nations and also question the desirability of increasing government

control over private economic decisions. Future stabilization policy initiatives will likely concentrate on coordinating monetary and fiscal policies and increasing supply-side efforts to restore productivity and develop new technology.

Government fights inflation by controlling the economic growth through the monetary policy, which is simply the management of the money supply by the banks. Monetary policy aims to influence the overall level of monetary demand in the economy so that it grows broadly in line with the economy's ability to produce goods and services.

Raising and lowering interest rates is the most common mechanism for implementing monetary policy. Interest rates are increased to moderate demand and inflation and they are reduced to stimulate demand. If rates are set too low, this may encourage the build-up of inflationary pressure; if they are set too high, demand will be lower than necessary to control inflation.

1. Raising short-term rates has the exact opposite effect as it discourages borrowing, thereby decreasing the money supply. This dampens the economy but in turn controls inflation. Whereas decreasing short-term rates encourages smaller banks to borrow more from the Feds and from each other, thereby increasing the money supply within the economy. Banks, in turn, give out more loans to producers and consumers, which stimulate spending and overall economic activity.
2. Feds can tighten or relax banks' reserve requirements requiring banks to always hold a % of their deposits with the Feds as cash on hand. This raising of the reserve requirements restricts banks' lending capacity, thereby slowing the economy. Easing reserve requirements, on the other hand, stimulates economic activity.

Sometimes Feds fight inflation through fiscal policy- this includes raising taxes or reducing federal spending, thus dampening the economic activity. Conversely, deflation is addressed through tax cuts and increased spending to stimulate economic activity.

2.5 MANAGEMENT AND CONTROL OF INFLATION IN NIGERIA

The presence of inflation in the economy is difficult to detect especially at the incubation period. This makes its management and control very difficult. Since there are numerous causes of

inflation, the panaceas do not lie in one probable solution. Thus attempt to apply the wrong therapy to root cause may rally to enormous problems than was set to solve. In Nigeria, two main control measures are constantly in use to control inflation. These are fiscal measures and monetary policy.

2.5.1 Money Policy

One of the objectives of monetary policy is the maintenance of confidence in the Nigeria currency through measures to stabilize domestic rise in prices. Under the monetary policy, the Central Bank controls the commercial banks through:

- 1) Prescribing minimum ratios of loans advances and discounts which each commercial bank shall grant to indigenous
- 2) Borrowers.
- 3) Prescribing from time to time the cash reserve deposit ratio, which banks should maintain with the central bank.
- 4) Call for special deposits from commercial banks.
- 5) Impose credit ceilings on commercial banks.
- 6) Vary the composition of special liquid assets of commercial bank.
- 7) Approve commercial bank loans to certain sizes.
- 8) Issue, allocate to and repurchase from finance institutions stabilization securities.

These monetary measures are heavily applied on the commercial banks because of the power of the banks to create money. Another monetary policy adopted by the government is the open market operation (OMO). When government notices that there is a large volume of currency in circulation it issues out treasury bills and or treasury certificates to the public and financial institutions. By enquiring these financial assets, the purchaser pays money, which reduces the amount of currency in circulation. In this way, price increases is checked. Conversely when there is less money in circulation, the government buys back these financial assets and increases the currency in circulation. Open market operation serves to achieve three purposes.

- a) To influence interest rate (that is, the price of securities)

- b) To change the cash reserve of commercial banks and hence their ability to grant credit and
- c) To directly affect the money supply as it affords the public, the alternative of holding cash balance or the securities involved.

Studies have all shown that nominal yield on stock on listed stocks are negatively related to both anticipated and unanticipated inflation. Thus the effects of inflation are not uniform across all common stocks. However this risk appears to reflect the greater risk being assumed by investors because common stock is an inferior hedge against unanticipated inflation (Khourg 1983).

The effect of inflation on common stock prices is seen through its effect on the balance sheets and the income statements of the firms. Inflation distorts the “true” earnings of the firm when earnings are calculated in accordance with generally accepted accounting principles. Reported profits are based on historical data.

The earning yield on the common stock market and long-term bond rates move generally together, although the earning yield is more subject to change with the economic environment. That is, it rises in recessionary times and falls during economic recoveries. Otherwise, the earning yield and the bond rate move very much with the inflation rate - earnings yield being relatively more negatively affected by rising inflation. In addition, the relationship between the earning yield of the market and long term bond yield measures the relative willingness of investors to reinvest the cash flow from their investment versus having the companies reinvest it through retained earnings at the company’s return on equity rate, Finally, the earnings yield and bond yield should provide a real rate of return to investors or the yield should be higher than he inflation rate.

2.5.2 Determinants of Inflation

A widely dispersed price increase as it is, inflation is the immediate result of firms' decisions. These decisions may result from coordination and monopoly/oligopoly dynamics, as well as from the attempt to increase margins and profits. But there is no need for formal coordination: a favourable demand situation, with higher income and booming propensity to consumption,

makes price increase easier. A generalized cost increase, as with wages, energy prices (especially oil prices), devaluation, and certain taxes, is clearly conducive to inflation.

Mediation is given by productivity improvements, which reduce unitary costs of production. Conversely, extensive liberalizations in sectors where prices were rising can lead to a lower inflation rate, thanks to the new entrants and the tougher competition. Large increases in money quantity, especially if clearly exceeding nominal GDP growth, risk accelerate the current inflation rate. In other words, if present inflation plus real GDP growth is (much) less than money-quantity rate of growth, there is a consistent risk of acceleration, unless other factors push in the opposite direction.

A pro-inflation pressure may come also from fiscal deficit, with different dynamics depending on ways of financing it (bonds sold to the market or to the central bank, i.e. with a sharp increase of money quantity). An important determinant of inflation is given by expectations on future rate of inflation, to the extent they are widely accepted and exert influence on decision-making processes, as with long and medium-term wage contracts. Oil price fluctuations exert a distinctive important influence on inflation throughout the world. The increase abroad of prices for products that our country purchase, if not counteracted by a re-valuation of the currency, exerts a pressure on the price level, possibly inducing "imported inflation". Inflation in the country's trade partners then spread out and can feedback there.

Another sector where there are wide fluctuations is agriculture: food prices are volatile, especially when a number of real world events are amplified by speculation. A relatively similar phenomenon relates to raw materials and industry inputs such as minerals. The attempt by statistical offices to ignore price movements in volatile sectors generates the computation of "core inflation". By contrast "headline" inflation is what the media report more often (being easier to communicate) and tend to influence the perception of inflation by the (media-exposed) population.

2.5.3 Impact of Inflation on Investment

Inflation also muddies inventory planning, as can be gathered from the references to LIFO-FIFO accounting methods. Ideally, the inventory-sales ratio should be kept as low as feasible so as to minimize the cost of storage and the cost of money tied up in inventory. But inflation creates all manner of uncertainties because of rising prices in raw materials, semi-finished and finished goods. As these prices rise, purchasing managers naturally undergo temptations to "beat the gun" by accelerating their forward buying. The purchasing manager of course realizes that his cost of storage and tied-up money will thereby go up. But they may hold that these costs are more than offset by being able to obtain inventory at lower prices than he could later. Too, with a surge of buying he may also begin to worry about availability and delivery delays. So, this inadvertently adds to speculative activity and puts pressure on prices, as it accelerates forward buying. With all this, however, his inventory-sales ratio may not advance if other purchasing managers adopt the same hedging behavior and also increase their forward buying; the result is that as his inventory climbs, so do his sales. This would be especially true if the purchasing manager is in a basic materials industry. But such inventory build-up behavior, stimulated by surging demand, tends to be short-lived.

For on this score alone, inflation may be contributing to a key factor in the business cycle inventory buildups, which can lead to a boom, and inventory liquidations, which can lead to a bust. Ironically, the liquidations in effect contribute to deflationary pressures on the very price-inflated commodities and goods that brought on the inventory build-up in the first place.

In like manner, inflation disrupts capital planning. Business may be good and the backlog long, but the long-run outlook remains unclear. The planning manager is thus put in the same quandary as the purchasing manager. On the one hand, investor does not want to tie up his financial resources in the fixed costs of under-utilized plant and equipment and incur the burden of unnecessary overhead. On the other hand, he is lured by the possibility of obtaining capacity at a significantly lower cost than he could in later stages of inflation; and, he hopes, maybe his order backlog would not evaporate. This quandary is especially visible in the basic materials industries such as energy, metals, paper, chemicals, and so on. These industries are extremely capital-intensive. Moreover, because these industries lend themselves to significant economies of scale and require long lead times for new facility construction, new capacity demands tend to come in lumps rather than in evenly spaced-out requirements.

The process is exacerbated by inflation and the business cycle which give wider swings and a feast-famine aspect to the capital goods industry. This aspect is inherent in the capital goods industry anyway, as the accelerator theory of J. M. Clark demonstrates. This theory says that a change in demand for consumer goods tends to have an accelerated change in the demand for capital goods, assuming that the economy is operating at full capacity. Inflation accentuates the problem of the accelerator by giving exaggerated indications of consumer and capital goods demand.

Inflation and the business cycle itself seem to be initiated by credit expansion and artificially low interest rates, both aided and abetted by the central bank. The low interest rates give businessmen false signals of genuine capital availability made possible by savings when the fact of the matter is usually a central bank speedup of money supply growth. The speedup provides the familiar scenario of too much money chasing too few goods, winding up in "stagflation" a combination of inflation, extremely high interest rates and economic stagnation. The scenario comes at a bad time. Capital formation has lagged for a long time in America. The American economy must modernize and expand its plant and equipment to accommodate its growing labor force, to reach its energy and ecological goals and to compete in an increasingly competitive one-world economy.

One impact of inflation is political a tendency for governments to react to inflation with wage and price controls. The irony of such government reaction is twofold: First, government itself is overwhelmingly responsible for the inflation it seeks to correct; and second, wage and price controls treat symptoms, not causes; they repress inflation, mask it, causing shortages and distortions while allowing inflationary forces to become even more virulent. Corporate managers in this period generally experienced a cost-price squeeze. In other words, they found their prices lagging behind their costs, chiefly labor and interest costs. In such a squeeze, many of them fled the regulated domestic market and shipped to unregulated markets abroad. This situation merely worsened the distortions in relative prices and the shortages endemic to the entire wage-price control era. Besides shortages, corporate managers had to contend with rampant demand, shipment delays, quality lapses, multiplying bureaucratic interferences and, ultimately, breakdown of the controls themselves. This breakdown in turn led to a rash of "catch-up" wage and price increases, which haunt us down to this very hour.

The controls led not only to a profit squeeze, but to a capital investment squeeze. Many basic materials industries, for example, knew that they had exhausted their capacity limits and that their backlogs could be measured not in months but in years. Yet they still could not set aside expansion funds by the retained earnings route, with earnings so squeezed; they could not raise equity funds with their stock prices so depressed; and they could not go to the bond market, with inflated interest rates reaching double-digit levels. The upshot was that supply became tighter and tighter across the country.

2.6 RELATIONSHIP BETWEEN INFLATION AND PROFIT (PRODUCTIVITY)

Rational decisions by businessmen about production, investment, borrowing, cash management, wage settlements, and international trade all require the use of information from the price system to make longer term decisions. It is easier to detect emerging changes in relative prices on both input and output prices when the general price level is stable than when all prices are going up. Furthermore, a high average rate of inflation normally involves greater variations in individual price changes. In this sense we can say that inflation affects profitability in four ways. It changes the cost of funds used to finance an enterprise; it increases costs of labour, materials and the price of the product; it affects the tax bill to be paid; it causes shifts in demand patterns.

Most companies make forecasts of the number of units of output they will produce and sell the man-hours and machine-hours that production will require and the volume of material purchases. These forecasts in terms of physical units can be converted to cash flows by multiplying by the appropriate prices. In situation of the cost of funds to a company is related to the level of interest rates. Because business enterprise is risky, the overall cost of funds is higher than the interest rate, but will rise and fall as the interest rate changes.

Overall cost of funds = Interest rate + Risk premium

The interest rate reflects expectations of inflation. The proposition that the interest rate completely reflects the expected inflation rate is known as the Fisher effect. In a normal times; interest rate equal to expected inflation rate. This relationship between expected inflation and the cost of funds is useful in two ways if we wish to forecast inflation, one of the best places to start is by looking at interest rates. Second, if you choose to make financial decisions by forecasting real cash flows and discounting at a real rate, the Fisher effect tells us roughly what real rate we should be using. It should be the real interest rate of approximately zero plus a risk premium of approximately 6 per cent for the average risk company (Ian Cooper, 2003).

Higher rates of inflation in goods prices eventually end up in higher interest rates normally. There are also larger differences in the rates of price changes internationally, and the differential experiences in prices and interest rates among countries are reflected in exchange rate changes. Market prices become less effective in decision making and in the coordination of economic activity during inflation, so senior business leaders spend more time trying to find out what is going on in the economy with increased environmental uncertainty and thus have less time to manage and coordinate internal decision making within their organizations effectively. This assertion and relationship can be visualized in the financial records of First bank Nigeria plc on the movement of profit from 2007-2011 reciprocate to the inflationary trend of the economy (see the appendix).

Peter Clark has published a recent study on inflation and the productivity decline in the United States. He finds a close connection between the deviations in the levels of prices and the levels of productivity from their longer term trends and presents some evidence that the causal direction is from high price level deviations to low productivity level deviations Clark (1982). A duplication of his methods for Canada yielded very similar results.

A study on the interrelations between inflation and productivity in Canada concluded that "the increased inflation rates of the 1970s are sufficient to explain virtually the entire recent slowdown in productivity growth" [Jarrett and Selody (1982). A study on Japan also shows similar negative effects of inflation on productivity and economic growth [Oritoni (1981). It may be significant that the rate of economic growth in Japan has continued higher than in the other industrialized countries since the inflation of the early part of the 1970s has been controlled.

A number of studies of periods of hyperinflationary episodes indicate that such periods lead to sharp drops in productivity as individuals and businesses revert to barter types of trade with the collapse in the use of money for transactions purposes.

Earlier studies of productivity over business cycles have established that productivity increases slow down in the early stages of recession in demand, and can even become negative in more severe recessions. This theme was an integral part of theory of business cycles, and the empirical evidence was studied by Thor Hultgren (1965). Okun emphasized the degree to which changes in the unemployment rate and the related fluctuations in actual output relative to potential output were related to variations in productivity [Okun, 1970). A number of studies of economic growth

and its shorter-term variation have quantified the effects of shorter term demand fluctuations [Denison, 1979]. These cyclical variations in prices, costs, productivity and profits are an important and integral part of business cycles and these timing interrelations have persisted for decades [Moore, 1980].

The increased importance of inflation and studies of its effect on productivity suggest that steady non-inflationary growth in demand would be favorable to high productivity growth over extended periods while either weakening in demand or inflationary pressures of demand would have adverse effects on productivity growth. The only result consistent with Benabou (1988) and Diamond (1988) is that the coefficient on inflation for quarterly data is negative. However, neither annual nor quarterly data shows that inflation has a significant effect on industry contribution margins. Benabou (1992b) predicts profit margins will increase or decrease with inflation dependent upon buyer search cost. Benabou (1992b) predicts profit margins will increase or decrease with inflation dependent upon buyer search cost. Tommasi (1994) show that inflation lowers the informativeness of current prices about future prices which translates into higher consumer reservation prices. Less well informed consumers permit firms to raise their markups resulting in increased price dispersion. The industry annual and quarterly data both have the expected signs on inflation and the product of inflation and search cost. The size of the effect of inflation on an industry's contribution margin does indeed depend on buyer search cost. Seller (industry) contribution margins are relatively higher in an inflationary environment if the seller's associated buyer's search cost is relatively high.

Dramatic results are obtained with three major corrections:

1. *Under depreciation of plant and equipment, due to depreciation allowances based on original cost rather than replacement cost.* This practice has long led to a general overstatement of corporate profits, with consequent overpayment of corporate income taxes and even overpayment of dividends. These result in diminution of potential capital formation. Tax authorities have recognized this problem and have dealt with it to some extent by setting up investment tax credits and accelerated depreciation methods. Financial managers have taken advantage of these provisions to varying degrees. Yet these provisions have proven to be inadequate in view of our two-digit inflation. Both tax authorities and financial managers would be well advised to recognize this depreciation deficiency and the drag it imposes on

economic growth — on the economy as a whole and on each individual enterprise. The average age of American plant and equipment continues to lag behind that of our major industrial competitors overseas, and behind what is needed to meet the expectations of our growing population

2. *Allowance for the inflation that has diminished the profit naira.* Inflation has eroded the purchasing power of the dollar by more than 40 per cent since 1965. So on this count alone, and despite more than a trillion dollars (in today's prices) poured into plant and equipment, corporate profits have shown but minor increases since 1965 in real terms. For as sensible is the conversion of money wages into real wages, so financial managers can sensibly convert money profits into real profits. To be sure, second quarter results in 1974 were about 25 per cent ahead of those of the second quarter of 1973. But price controls came off completely April 30, 1974, allowing many firms to catch up with true supply and demand. Moreover, if the spectacular gains of some basic materials industries are excluded, along with the atypical profits of the auto industry, the bulk of industrial companies made only a moderate increase of 10 to 11 per cent in the first half of 1974 just about equal to the rate of inflation.

In any event, corporate financial and public relations managers may want to deflate their profit figures and remind the public of the corporate return in *real* terms. Yet these managers are frequently reluctant to do so, beholden as they are to shareholders and given to pointing with pride to "record" profits. The economy therefore suffers because of management's desire to show good earnings during an inflationary era.

3. *Overstatement of profits because of the understatement of inventory values.* Some authorities call inventory gains "phantom profits," which disappear the moment inventory is replaced. To put their own corporate profits in a truer light, quite a few financial managers are switching from first-in, first-out (FIFO) to last-in, first-out (LIFO) for more accurate inventory valuation. It's about time. In an editorial on 1974, the *Wall Street Journal* criticized those financial managers who got caught up in the earnings-per-share mystique and used FIFO to that end. With rising inventory prices, FIFO permitted higher reported earnings all right, but it also permitted in fact, required higher taxes on those earnings. Indeed, FIFO thereby fostered

less capital to invest for long run returns. Capital markets don't ignore such unrealistic accounting.

The portent for real capital investment and real economic growth in the immediate future is hence not very great, mainly because of the disastrous inflation we have been incurring for the past years.

According to Wood *et al* (1975), inflation may occur in one or two possible forms; it may be demand inflation or it may be cost inflation.

- a) **Demand Inflation:** This takes place when, at a time of stable prices additional expenditure is generated with the effect that given full employment, Prices of goods and services rise. This will eventually lead to higher rewards for factors of production as well, i.e. wages and profits will go up. The proper remedy appears to be some curtailment of demand, either by higher interest rates or by a suitable taxation policy which will deprive spenders of some of the income which they would have spent on the purchase of goods.
- b) **Cost Inflation:** This Kind of inflation, on the other hand, originates in higher factors prices, e.g. in wage awards which are not justified by increases in the productivity of labour. Higher cost will then lead to higher prices of goods and services.

Whichever form inflation may take, however, it will have a snow balling effect, i.e. the inflationary spiral will set to work. Higher prices will lead to demands by the factors of production for higher rewards to maintain the real value of their incomes and these higher factors rewards will mean higher costs of production and will thus lead to a further rise in prices. And so it will go on. This is the main danger of inflation, once it has started, it is difficult to put a stop to it without being unfair to one particular section of the community, namely that section whose incomes have not yet been adjusted the higher prices prevailing all round.

2.6.1 Measurement of Inflation

Inflation in its simplest form has been described as a period of sustained rise in prices. In order to determine this increase price, a mechanism for measurement and analysis of price movement is very necessary. However, in Nigeria due to poor system of data collection, analysis, storage and

reliability, the price level and hence the inflation figures published can best be described as conceptual.

The rate of inflation is stated as percentage increase in prices of any given data as compared to the same data of previous year.

Three main types of price indices are often used to describe inflationary tendencies in an economy (Case and Fair 1994:198). These indices are:

1. Consumer price index (CPI),
2. Whole price index (WPI) and
3. Implicit price index (IPI) or the GDP deflector.

There is always the problem as to which method provides the best statistical approach towards the measurement of inflation. Conceptually, the IPI or the GDP deflector provides the best measure of price inflation because it is the only index, which attempts to measure the overall price behaviour of goods and services in the country. Specially, the index measures price behaviour of the gross domestic products. Griffiths (1977), agree that the GDP implicit deflector is a measure of the price level of all final goods and services, which enter the GNP including those of government sector. Because of this, its coverage is much greater than either of the other indices. The index is in fact the ratio between the current money value of GNP and current real value of GDP. Mathematically, this is expressed as the ratio between GDP at current price and GDP at constant prices multiplied by 100.

$$\text{GDP deflector} = \frac{\text{GDP at current Price}}{\text{GDP at constant price}} \times \frac{100}{1}$$

This method however, has been criticized as being too broad for any meaningful practical purpose. The WPI is mainly concerned with prices of raw materials, intermediate materials, producers finished goods and consumer finished goods, which are sold to producers. Since it covers prices at different stages of production, it permits the tracing of price rise through successive stages from raw materials to finished goods.

The most commonly way to measure the overall price level is the Consumer price index, popularly known as the CPI (Samuelson and Nordhaus 1985). From the standpoint of consumer welfare, the index is the most useful because it provides some indications as to the extent to which consumers are being affected by price changes thereby committing the measurement of the changes in the real income to consumers. However, due to the difficulties that becloud the CPI stem from considerable amount of time and expense required, the system has come under great criticisms. To compensate for this shortcoming it is now a practice to use a fixed set of weights for a period extending up to 10 years.

Shows the consumer price index in Nigeria

Years	Composite Consumer price index
1985	98.0
1986	111.4
1987	122.2
1988	197.0
1989	285.0
1990	295.3
1991	363.1
1992	540.3
1993	871.3
1994	1540.1
1995	2334.6
1997	2941.4
1998	3291.8
1999	3299.2
2000	3778.4
2001	4401.7
2002	4937.3
2003	6112.9
2004	6729.3
2005	7927.1

Source: 1 **Central Bank of Nigeria Statistical Bulletin,**
2 Central Bank of Nigeria Annual Report and
Statement of
3 Accounts for the year ended 31st December
2004 and 2005.

In the light of the above and coupled with the fact that CPI record price changes as it affect households and that it is these households that pull resources for investment. For this reason, the CPI index will be used as the measure of the rate of inflation in this work.

2.6.2 Reasons for the Post-War Inflation

Sizer (1977) posted that the reasons for the inflation which affected Great Britain from 1945 until about 1956 may be briefly summarized as follows:

- a. During the war people were compelled to save because there were no goods available on which to spend their income. Thus most people built up cash balances which they wanted to spend as soon as the war ended and rationing was relaxed
- b. Cost of production after the war rose steeply mainly because of the increased bargaining power of wage-earner resulting from the existence of full employment. Reconstruction needs of all countries were such that there was a scramble for raw materials and for essential equipment and the prices of these increased as well.
- c. Peacetime military expenditure was not drastically reduced and in fact after the outbreak of the Korean War military expenditure began to increase again thus adding to the pressure of total expenditure on limited productive capacity.
- d. The government decided to make Britain into a welfare state and this involved full employment and an increased rate of the public expenditure
- e. Certain forms of investment were unduly expanded because of the cheap money policy (low interest rates) which was pursued by the labour government from 1945 to 1951. This policy was mainly intended to assist local authorities with their large building programmes and to the extent to which it succeeded in this objective it meant a further strain to the national resources.

- f. Inflation might possibly have been avoided or delayed if post-war government had been willing to use the weapons of fiscal policy up to the hilt. A rise in taxes after a long war would have been too unpopular however and although taxes remained at a very high level for a long time they were not increased to the point where private expenditure would have been curtailed sufficiently to make up for the large volume of public expenditure.

2.6.3 Inflation Since 1956

Egginton (1977) Observed that retail prices in the UK between 1956 and 1968 have risen on average by 3% a year, while over the same period average weekly earnings of manual workers have gone up by about 5½% a year. Company profits tend to be somewhat erratic but since 1956 and especially since 1961 they have increased more slowly than employment incomes. The government, recognizing the urgent need for a stable price level set up a national Board for prices and incomes in April 1965. The Board investigated all questions of prices and incomes referred to it by the government.

A white paper “productivity, price and incomes policy in 1968 and 1969” published in April 1968 emphasized the government’s intention to curb inflation by relating wage increases to productivity. The government fixed a ceiling of 3½% on all wage and salary agreements reached after 20th March 1968. Exceptions to this ceiling were only to be considered where productivity and efficiency were sufficient to justify an increase in fact, wages rose faster than the ceiling by 8% in the years April 1969-70.

It would appear from Britain’s experience and that of other countries that the successful operation and enforcement of these types of artificial control over prices and incomes is certainly not automatic. The prices and incomes Board was abolished in March 1971. Incomes policy is discussed more fully in the next lecture.

Stagflation in the Early 1970

Gill (1973:313) argues that the term stagflation is used when inflation, unemployment are stagnant or declining production and balance of payments deficits occur simultaneously. This combination was unknown until the 1970s when Britain USA and other countries experienced it.

Stagflation is the result of cost inflation. Employers reduce employment and curtail production and the government introduces anti-inflationary measures. If these fail, balance of payment problems is likely. The government has to decide whether to continue disinflation or to inflate the economy to reduce unemployment.

2.6.4 The Element of a General Theory of Price Level Analysis

By definition whatever approach to analysis of an inflationary situation one adopts, some assumption has to be made as to what determines the price level at each point on time. It is equally obvious that something has to be said about cost but less obvious why some authors concern themselves with the demand for real cash balance. To provide some justification for this concern, consider again the equation of Exchange $MV=PY$. Let us adopt a very Simple theory of wage inflation, which states that prices are proportional to money wages and wages rise cautiously at a constant percentage rate per annum. We assume that the nominal supply of money M is fixed. By assumption prices will be rising at the same percentage rate as the wage unit, it follow from the equation of Exchange that if real income is rising concomitantly with the rise in the general price level, the income velocity of money is also rising, or to put it another way, the ratio of real cash balances to real income is falling. Now to the cost of inflationist and indeed to others, the decline in the ratio of real cash balances to real income may be of no concern at all. For them, velocity may have no independent significance. Note the Elasticity of income velocity in the absence of any apparent limit on its value permits a continual growth in the price level without affecting the level of real income and employment. In this Situation the wage fixing and price determining relationships alone are important from the point of view of general price level analysis.

2.7 DECISION MAKING

Is defined as a process whereby, management when confronted by a problem to selects a specific course of action from a set of possible courses of actions. According to (Vohra p²) Situations under which decisions are made vary, and there various ways of classify them thus,

- (1) **Decisions under uncertainly:** Here the event or state of nature that will occur is not known for sure but probability estimated can be assigned to the possible outcomes and decision, making under certainty where all facts are known. When a firm is trying to decide the amount to invest in government Securities and the type of government Security to invest in, it is a good example of decision, making under certainty. The rates of interests here are fixed and government rarely defaults. On the other hand a decision to invest in a machine that will be used in vending a new brand of ice cream is a decision making under uncertainty because the relevant facts are not known.
- (2) **Static decision Situation and dynamic decision Situation:** A Static decision is that which is made once and for only one time period. A dynamic decision on the other hand is a sequence of interrelated decision over several time periods.
- (3) **Decision can also be classified in terms of the nature of the opponent.** The opponent could be either nation or thinking opponent. For a firm that is prospecting for Tin, gold or oil, the opponent is nature. The outcome will depend on whether nature has endowed the area or land with which the firm is seeking for or not.

2.8 Theoretical Framework

2.8.1 Positivists theory

This theory accepts fundamentally that inflation has an impact on investment and that the impact is positive. In other words, inflation tends to encourage investment. According to Griffiths (1979), one of the major arguments, which have been used to justify the pursuit of inflation policies by governments, is that inflation results in a more rapid economic growth. Furthermore, he added that inflation tends to redistribute income from wages to profits, As the marginal propensity to consume out of profit is allegedly much lower than that of wages, this leads to forced savings in the economy as whole with a corresponding increase in investment and in the rate of growth. Going by this argument, inflation also increases the level of saving by maintaining Gross National Product (GNP) at its full capacity level.

Another point pursued by this school is that inflation increases investment because it reduces the real rate of interest, which is relevant in investment decision. Rapid economic growth they argued has taken place in countries with high rate of inflation. There is a widespread belief that inflation and development are related. This relationship could be that economic development, is a cause of inflation, or that inflation fosters economic development. Moderate rate of inflation may be the accompaniment of an increase in the production of wealth. The government policy of economic expansion by increasing the money supply almost inevitably leads to increase demand and, where there are spare resources, an increase in production. Even if the expansion leads to inflation, this may stimulate individuals to produce articles of real wealth instead of leaving their resources in depreciating money. Thus economic activities and the standard of living have in recent years risen appreciably in many parts of the world in greater competition for primary products and a consequence of increases in world prices. In conclusion, it is the view of this school that inflation is an inevitable ingredient if the economic growth and development are to be achieved. In other words, inflation does not depress but encourages investment.

2.8.2 Negativist Theory

The negativist theory views inflation as contributing adversely to increase in investment. In their view, the mention of inflation introduces a risk component which investors dread except there is a commensurate rate of returns. Hagger (1977), believe that inflation reduces the value of money and increases risk. This argument is correlated to the fact that inflation is a tax on money; expenditure in the private sector of the economy is reduced because of such tax. This school has the following, which made their views, echo prominently in many literatures.

The effect of inflation upon a business can briefly be described as distorting its profit performance and valuations of its capital, which in turn affects the judgments and decisions of its management and investors, Case and Fair (1993), asserts that when unanticipated inflation occurs regularly, the degree of risk associated with investments in the economy. Increases in uncertainty may make investors reluctant to invest in capital and to make long-term commitments. He believes that the effect of raising capital makes new investment relatively unattractive. They suggests that the fear of resurgent inflation and the public policies it might call forth have clouded the outlook and contribution to the weakness in the investment climate. Further, they stress that inflation exerts a negatives influence on other parameters of economic

activities, especially the growth of private investment. To achieve this aggregate effect on investment, inflation impact on separate systems that make up investment.

2.8.3 Neutralists Theory

A probe into the neutralist analysis of investment and inflation shows that inflation has no visible impact on investment, Inflation is a unambiguously evil phenomenon, it is by no means obvious to the economists that inflation is a bad thing. It has often been argued for example, that a price level which is changing at a constant proportional rate and which is fully anticipated and acted upon by all economic agents will have negligible effect upon economic welfare (Trevithick, and Mulvey, 1975). There is no convincing evidence of any clear association, positive or negative, between inflation and the rate of economic development and investment. They warned that it is naïve to conclude that anyone is harmed by inflation. Until calculations are made, we cannot be sure if inflation was helpful or harmful to a specific entity. As a result, the neutralists concluded that investment is indifferent to inflation.

Taken together, the three schools seem to agree on one issue, that a little amount of price rise (inflation) is necessary for economic growth, hence investment. But the major line of divide lies in the agreement of a trade-off between desired level and the point at which inflation becomes injurious. In broad terms, the findings of the studies carried out by staff members of all International Monetary Fund (IMF) have been the same. Rapid economic growth has taken place in countries with high rates of inflation, and in countries with low rates of inflation Griffiths (1977).

A more recent study suggests that an inflation of between 3 and 10 percent tends to be a positive encouragement to growth, while inflation of more than 10 percent tends to retard growth. The mechanism by which this allegedly takes place is that such a moderate rate of inflation tends to be a stimulus to savings and investment.

2.10 EMPIRICAL REVIEW

Extensive review both theoretical and empirical, examines the micro foundations of the links between inflation and price dispersion. In contrast, little research has been done on how inflation affects profit margins.

Sheshinski and Weiss (1977) study a monopolistic firm that faces a cost for adjusting its selling price. The seller optimally follows an S, s pricing rule in an inflationary environment. He maintained that a constant nominal price until inflation erodes his real price below s , and then he will increase his nominal price to S . As inflation increases, S increases and s falls; thus the magnitude of a price change increases.

Given monopolistic competition, Benabou (1988, 1992a) introduces the idea that the larger and more frequent price adjustments of S, s pricing during inflation offers consumers a scope for search. In equilibrium, consumer search is optimal given the price dispersion that results from the staggering of S, s pricing rules. Welfare effects depend upon the size of consumer search costs. Low search costs allow consumers to take advantage of price differences that lead to increased competition and positive welfare effects. High search costs imply even greater equilibrium prices and more price dispersion. The wasteful search costs and higher prices have negative implications for welfare.

Diamond (1993) follows a similar strategy, but develops his model with “sticker” prices. Prices are literally affixed to the good itself. The “sticker” can only be changed at some cost. Inflation reduces the real price of a “stickered” product sitting in inventory. The presence of the older priced goods lowers the reservation price of the consumers. Inflation actually reduces market power because consumers search for goods with the old sticker price. There is price dispersion, but less market power.

Only a few theoretical papers touch on the issue of how inflation affects profit levels. This work follows Lucas (1973) and studies the impact of inflation uncertainty on price markups. Benabou and Gertner (1993) introduce a stochastic shock on the costs of producers and examine the effect of inflation uncertainty on price dispersion. In this model, consumers cannot distinguish between aggregate and relative shocks. Consumers can decide to enhance their information with search and must infer from prices whether it is worth the cost to search. Benabou and Gertner find increased inflationary uncertainty has two effects on welfare. First, there is a correlation effect. If seller prices are correlated, inflation makes consumers search less when they observe a high price. However, consumers search more when they observe a low price because they believe better prices may be available. Second, there is a variance effect, because buyers can return to the first seller costlessly, an increase in inflation uncertainty increases the option value of search.

Increased inflation uncertainty promotes search and lowers the sellers' market power. Benabou and Gertner [1993] show that increases in inflationary uncertainty lead consumers to seek more information. In equilibrium, consumers are better informed and prices adjust to the increase in competition. The main result of Benabou and Gertner (1993) is that the effect of inflationary uncertainty on market efficiency depends critically on the magnitude of buyer search cost. Low search costs make it possible that the benefits from an increase in inflation uncertainty outweigh the costs. Increased price competition may result in a benefit that is higher than the buyer's search cost. High search costs lead to the opposite result. An increase in inflationary noise allows sellers to charge higher real prices as they take advantage of the consumers' reduced information. Thus, high buyer search costs imply higher firm profit margins and decreased efficiency.

Van Hoomissen (1982) and Tommasi (1994) show that inflation lowers the informativeness of current prices about future prices. Prices become outdated quickly, which leaves the consumer less well informed. Tommasi shows that the lower information stock translates into higher consumer reservation prices. Repeat purchase consumers thus have less incentive to acquire price information. Less well informed consumers permit firms to raise their markups which results in price dispersion.

The empirical literature on inflation and price dispersion generally supports the above theoretical papers, but there are some exceptions. Weiss (1993) provides an excellent survey of empirical findings from microeconomic data on the issue of inflation and price adjustment. Two empirical regularities are generally recognized. First, nominal price changes occur in discrete jumps. This is clearly consistent with S,s pricing theory. Second, as inflation increases, the variance of relative prices (price dispersion) also increases. This supports all of the aforementioned theoretical models.

Benabou interprets his findings as support for the prediction that S,s pricing theory under inflation would lead to higher price dispersion. With low consumer search costs, price dispersion promotes search and competition intensifies leading to a decrease in markups. Borenstein, Cameron, and Gilbert (1997) document asymmetric gasoline price responses to crude oil price

changes and argue that the data is not inconsistent with the implications of the Benabou and Gertner model. In gasoline markets, increases in inflation uncertainty do translate into higher profit margins.

Sizer (2000) observes that the problem of inflation on reported profit stems from the way the profits are measured by accountants. He posited that accountants measure profit by finding the difference between the net assets at the beginning and end of the accounting period. They match the actual revenues of the period with the actual expenses of the period, and to the extent that revenue exceeds expenses, there is a profit. However under the historical cost accounting system, the matching process may be of revenue of the period with cost of an earlier period, they do not necessarily match current values. Further more the balance sheet is made up of a mixture of naira of different periods, depending upon the mix of assets, the age structure of the assets and depreciation policies. He concluded that an overstatement of profits and an understatement of assets employed will occur in time of rising prices if any output costs of one date are matched without output revenues of a later date, and if assets are shown in the balance sheet at their historical cost this will arise in the case of:

3. Depreciation in the profit and loss account and fixed assets in the balance sheet
4. The charge for stocks and work –in- progress consumed in the profit and loss account and stocks and work –in- progress in the balance sheet.

Lucey (2000) posits that if the assets are depreciated on the basis of historical cost and stocks and work-in progress on a first-in-first-out (F.I.F.O) or similar basis, part of what accountants calculate as profit will be required to maintain the capital of the business intact. Part of the profit will be required to cover the increased cost of replacing fixed assets and stocks which were bought or produced at prices considerably lower than those ruling as at the date of consumption. If a company distributed as dividend the whole of its historical cost profit, it will have insufficient cash left to maintain its present level of stocks and work –in progress and replace its fixed assets

Wood and Townsely (1980) argue that if as a result of inflation profit is seriously overstated, the burden of taxation on the business will be greater than that implied by the nominal rate of

taxation. If reported profit, which result merely from a change in the value of money, or capital gains arising for the same reason, are taxed as if they are real income to the business, then the ability of the company to maintain the capital of the business intact and sustain real growth will be diminished furthermore, if historical cost profit are the basis for profit margin control under price legislation, a company's ability to generate adequate cash during a period of high rate of inflation will be seriously impaired.

Maria (2014) study focused on investigating the collision of leverage, liquidity and inflation on firm's profitability of the food industries of Pakistan with the aim of ascertaining the effect of leverage, inflation and also liquidity on dependent variable, i.e. firm's earning (profitability). Using a sample of the population of the foodstuff sector in Pakistan, the research come to the conclusion that there's a solid bad negatively relating to the changing control leverage, liquidity, inflation and also the firm's earning(profitability). Liquidity ratios are insignificantly related with return on asset and return on equity. Debt ratios are negatively associated with return on assets and return on sales. Profitability ratios are positively associative with return on assets and return on equity.

Earlier studies conducted have a mixed opinion on the effect of inflation on dividend payout. Due to the nominal increase in the volumes of money, which result from the increase in inflation, at least for a short run, some studies have concluded that inflation has a positive effect on dividend payout. Ochieng and Kinyua (2013) studied the relationship between inflation and dividend payout for Companies listed at the Nairobi Securities Exchange which considers a sample of all the firms that consistently paid dividend between the year 2002 to 2011 and were listed at the Nairobi Security Exchange showed that, inflation rate has no impact on the dividend payout. The study reveals that, the exchange rate and the T-Bill rate have a positive correlation with dividend payout, while volume of money supplied has no impact on the dividend payout.

Mohammed (2014) studied the asymmetric effect of inflation on dividend policy of Iran's stocks market and surveys the asymmetric effect of inflation on dividend policy of Iran's stock market since 2005. Reaction of dividend policy maker to hedge shares against double-digit inflation of Iran depends on the company status in making a profit or loss. They used panel data approach to

test the non-symmetric effect of inflation on the companies' decision in decreasing, increasing and maintaining of dividends. The results show that inflation has the positive effect on increasing and maintained dividend decision of companies. But it has the inverse and negative effect on decreasing a dividend. Inflation has significant contribution to the dividend policy maker decision according to the status of companies as making profit or loss they concluded.

Tobias (2209) in their study of dividend policy and inflation in Australia: results from cointegration tests examined the relationship between dividends and inflation in Australia by testing for cointegration between these two variables. The results of the tests indicate that inflation is contributing to dividend growth. This finding can be interpreted in different ways. Trying to follow a dividend policy which is perceived to be optimal Australian firms may, for example, believe that there is a desirable level of real dividend income to be paid out to their investors. A second possible interpretation of the results would be that inflation simply increases the nominal volume of corporate earnings and thereby leads to higher dividend payments.

Khurram and Muhammad (2013) analyzed the relationship that exists between stock prices and cost of equity with inflation. A sample of fifty three firms was selected, for which data was collected covering a period of ten years from 2000 – 2009. A combination of both time series analysis and WLS panel regression were used to examine the relationship. The findings of the study suggest that a positive relationship exists between stock prices and inflation, a negative relationship between cost of equity and inflation.

2.10 Summary of Literature Review

The review of literature reveals studies examining the effect of inflation and profit on Decision making. From the above literature review, we can see that most of these people concentrated on the impact inflation has on interest rate, dividend, among others on profit which is not in consistent with this study. This study focuses to determine the extent to which lending decision in Nigerian banks were affected by inflation and also, how reported profits under inflationary period affect investment decision of Nigerian banks between 2006 to 2011. To the best of researchers knowledge, no Nigerian had studied on this perspective empirically. This fills the gap.

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CHAPTER THREE

METHODOLOGY

3.1 RESEARCH DESIGN

This research basically, related inflation to profitability and its implication on decision making and therefore, relied heavily on historic data. The data that were used in the analysis were generated from annual financial reports of the sampled banking firms between the period of 2006 to 2011. Therefore, this research employed the *Ex Post Facto* research design. This is because it involves events which have taken place.

3.2 NATURE AND SOURCES OF DATA

This research made use of data from the balance sheet and income statements of sampled firms, and information from the Central Bank statistical bulletin. Basically, the nature and sources of data for the analysis of this study was secondary data. This is because it was ideal in answering our research questions and to empirically test our research hypotheses. Such financial statements were sourced, among others, from the firm's corporate headquarters and websites; as well as the zonal offices of the Nigerian Stock Exchange Onitsha.

3.3 POPULATION OF THE STUDY

The population of the study consists of all the banks quoted in the Nigerian Stock Exchange. These banks are fifteen, namely; Access, Diamond, ETI, FBN, FCMB, Fidelity, Guaranty, Skye, Stanbic, Sterling, UBA, UBN, Unity, WEMA and Zenith Banks.

3.4 SAMPLE SIZE OF THE STUDY

In determining sample size of a study, Nwana (1981) in Onwumere (2009) noted that samples should be calculated as thus;

- 40% of population if the population is in few hundreds and below
- 20% of population if the population is in many hundreds

- 10% of the population if the population is in a few thousands
- 5% of the population if the population is in several thousands.

Using this, the sample size of the study is calculated as 40% of 15 banks. That is,

$$\frac{40}{100} \times 15 = 6$$

Hence, the sample size of the study is 6 banks.

Based on this, three first generation banks (First Bank, Union bank, UBA) and three new generation banks (Access Bank, Diamond Bank, and Zenith Bank) were selected for the study.

3.7 TECHNIQUES OF ANALYSIS

For the analysis of the gathered data, Standard Ordinary Least Squares (OLS) were applied to a panel series of data to test all the hypotheses. The signs of the coefficients were relied upon in describing the direction and strength of linear relationship between variables while the t-statistics and p-value were relied upon in determining the magnitude of the effect between inflation, lending rate, profit, investment, gearing and solvency in the collection of our data series.

3.8 MODEL SPECIFICATION

The linear regression model was used for the hypotheses one and three. The general model is:

$$Y = \alpha + \beta X + e \quad \dots (1)$$

where; Y = Dependent variable

X = Independent Variable

α = constant

β = coefficient of independent variable

e = error margin

Adopting this to the study, the models for hypotheses one and three are:

Hypothesis One

$$LR = \alpha + \beta In + e \quad \dots (2)$$

where; LR = Lending rate (dependent variable)

In = Inflation (independent variable)

α = constant

β = coefficient of independent variable (inflation)

e = error margin

Hypothesis Two

$$P = \alpha + \beta In + e \quad \dots (3)$$

where; P = Profit (dependent variable)

In = Inflation (independent variable)

α = constant

β = coefficient of independent variable (inflation)

e = error margin

Hypothesis Three

$$INV = \alpha + \beta In + e$$

where; INV = Investment (dependent variable)

In = Inflation (independent variable)

α = constant

β = coefficient of independent variable (inflation)

e = error margin

Hypothesis four

$$GS = a + \beta in + e$$

Where; GS = Gearing and solvency [Dependent variable]

In = inflation [independent variable]

a = constant

β = coefficient of independent variable [inflation]

e = error margin

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CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 INTRODUCTION

The study relied heavily on the secondary data generated the Statement of Accounts and Annual Reports of six (6) banks in Nigeria; namely: Access Bank, Diamond Bank, First Bank, Union Bank, UBA, and Zenith Bank. The Equity, Total Assets, Profit, Investment, Gearing and Solvency were extracted used in the test of the various hypotheses. Also Inflation rate was extracted from the Securities and Exchange Commission Statistical Bulletin and Lending rate was extracted from the CBN Statistical Bulletin. These values are presented in Appendices 1-8.

4.2 TEST OF HYPOTHESES

In testing hypotheses one and two, the summary tables have the following notations;

R	= Regression Coefficient	R^2	= Coefficient of determination
DW	= Durbin Watson value	RegSS	= Regression Sum of Squares
ResSS	= Residual Sum of Squares	F	= F (ANOVA) value
Sig.	= Significance value of F-value	α	= Model Constant
β	= Coefficient of Independent variables	t	= t-value

4.2.1 Test of Hypothesis One

There is no positive and significant relationship between lending decision and inflation on Nigerian banks

Result

$$LR = 3.395 + 0.482In + 0.495$$

$$R = 0.438 \qquad R^2 = 0.192$$

DW = 1.310 RegSS = 10.190
ResSS = 42.945 F = 0.949
Sig. = 0.385 t-value = 0.974 (*See Appendix 9 for details*)

R, the correlation coefficient, which has a value of 0.0438 indicates that there is an average relationship between the Lending Rate and the independent variable (Inflation). R square, the coefficient of determination, shows that 19.2% of the variation in the dependent variable is explained by the model. The Durbin Watson value of 1.310 indicates there is no autocorrelation.

The regression sum of squares (10.190) is less than the residual sum of squares (42.945) which indicates that fewer of the variation in the dependent variable that is explained by the model. The significance value of the F statistics (0.385) is greater than 0.05, which means that the variation explained by the model is due to chance. The IN coefficient of 0.482 indicates a positive relationship between Inflation and Lending Rate, which is not statistically significant (with $t = 0.974$).

These results reveal that Inflation has a positive impact with Lending Rate. However, this impact is not significant. Therefore, the null hypothesis is accepted. Hence, there is no significant positive relationship between lending decision and inflation on Nigerian banks.

4.2.2 Test of Hypothesis Two

Inflation has not adversely affected reported profits on Nigerian banks within 2006 – 2011 fiscal year

In testing this hypothesis, inflation was regressed against the reported profits of the six (6) selected banks. The results are presented in Table 1. A bank by bank analysis is presented to show whether inflation has adversely affected reported profits in each bank. Also, an aggregate analysis is presented.

Table 1: Summarised Regression Results for Hypothesis Two

Bank	Aggregate Result	Access Bank	Diamond Bank	First Bank	Union Bank	UBA	Zenith Bank
R	0.127	0.423	0.272	0.810	0.065	0.340	0.734
R²	0.016	0.179	0.074	0.656	0.004	0.115	0.538
DW	3.190	3.190	1.208	2.566	2.905	0.600	1.918
RegSS	1.505E9	6.207E7	5.597E7	1.698E8	3.839E8	2.017E8	4.997E8
ResSS	9.143E10	2.844E8	6.992E8	8.892E7	9.189E10	1.546E9	4.288E8
F	0.066	0.655	0.320	5.727	0.008	0.522	4.661
Sig.	0.810	0.478	0.602	0.096	0.935	0.510	0.097
A	-13667.371	-3008.956	-10524.362	4001.443	3710.541	-11383.972	-8875.477
βIn	5855.864	1272.286	1129.181	1972.026	-3204.631	2143.811	3373.887
t-value	0.257	0.809	0.566	2.393	-0.091	0.722	2.159

Source: See Appendix 10

Analysis of Aggregate Result

R, the correlation coefficient, which has a value of 0.127 indicates that there is a weak relationship between the aggregated Profit and the independent variable (Inflation). R square, the coefficient of determination, shows that 1.6% of the variation in the dependent variable is explained by the model. The Durbin Watson value of 3.19 indicates there is autocorrelation.

The regression sum of squares (1.505E9) is less than the residual sum of squares (9.143E10) which indicates that the fewer of the variation in the dependent variable is explained by the model. The significance value of the F statistics (0.810) is greater than 0.05, which means that the variation explained by the model is due to chance. The INcoefficient of 5855.864 indicates a positive relationship between Profit and Inflation, which is not statistically significant (with t = 0.257).

These results reveal that the aggregated Profit of the six (6) banks is impacted upon positively by Inflation. However, this impact is not significant, as such does not enhance profit. Hence, the aggregated profit is not significantly, though positively, influenced by Inflation.

Analysis of Access Bank

R, the correlation coefficient, which has a value of 0.423 indicates that there is an average relationship between the Profit of Access Bank and the independent variable (Inflation). R square, the coefficient of determination, shows that 17.9% of the variation in the dependent variable is explained by the model. The Durbin Watson value of 3.19 indicates there is autocorrelation.

The regression sum of squares (6.207E7) is less than the residual sum of squares (2.844E8) which indicates that the fewer of the variation in the dependent variable is explained by the model. The significance value of the F statistics (0.478) is greater than 0.05, which means that the variation explained by the model is due to chance. The IN coefficient of 1272.286 indicates a positive relationship between Access Bank's Profit and Inflation, which is not statistically significant (with $t = 0.809$).

These results reveal that Access Bank's Profit is impacted upon positively by Inflation. However, this impact is not significant, as such does not enhance profit. Hence, inflation, though positively, has not significantly influenced profit in Access Bank.

Analysis of Diamond Bank

R, the correlation coefficient, which has a value of 0.272 indicates that there is a weak relationship between the Profit of Diamond Bank and the independent variable (Inflation). R square, the coefficient of determination, shows that 7.4% of the variation in the dependent variable is explained by the model. The Durbin Watson value of 1.208 indicates there is no autocorrelation.

The regression sum of squares (5.597E7) is less than the residual sum of squares (6.992E8) which indicates that the fewer of the variation in the dependent variable is explained by the model. The significance value of the F statistics (0.602) is greater than 0.05, which means that

the variation explained by the model is due to chance. The IN coefficient of 1129.181 indicates a positive relationship between Diamond Bank's Profit and Inflation, which is not statistically significant (with $t = 0.566$).

These results reveal that Diamond Bank's Profit is impacted upon positively by Inflation. However, this impact is not significant, as such does not enhance profit. Hence, inflation, though positively, has not significantly influenced profit in Diamond Bank.

Analysis of First Bank

R, the correlation coefficient, which has a value of 0.810 indicates that there is a strong relationship between the Profit of First Bank and the independent variable (Inflation). R square, the coefficient of determination, shows that 65.6% of the variation in the dependent variable is explained by the model. The Durbin Watson value of 2.566 indicates there is autocorrelation.

The regression sum of squares (1.698E8) is greater than the residual sum of squares (8.892E7) which indicates that the more of the variation in the dependent variable is explained by the model. The significance value of the F statistics (0.096) is greater than 0.05, which means that the variation explained by the model is due to chance. The IN coefficient of 1972.026 indicates a positive relationship between First Bank's Profit and Inflation, which is statistically significant (with $t = 2.393$).

These results reveal that First Bank's Profit is impacted upon positively and significantly by Inflation. Hence, inflation has positively and significantly influenced profit in First Bank.

Analysis of Union Bank

R, the correlation coefficient, which has a value of 0.065 indicates that there is an extremely weak relationship between the Profit of Union Bank and the independent variable (Inflation). R square, the coefficient of determination, shows that 0.4% of the variation in the dependent variable is explained by the model. The Durbin Watson value of 2.905 indicates there is autocorrelation.

The regression sum of squares (3.839E8) is less than the residual sum of squares (9.189E10) which indicates that the fewer of the variation in the dependent variable is explained by the model. The significance value of the F statistics (0.935) is greater than 0.05, which means that the variation explained by the model is due to chance. The IN coefficient of -3204.631 indicates a negative relationship between Union Bank's Profit and Inflation, which is not statistically significant (with $t = -0.091$).

These results reveal that Union Bank's Profit is impacted upon negatively by Inflation. However, this impact is not significant. Hence, inflation, though negatively, has not significantly influenced profit in Union Bank.

Analysis of UBA

R, the correlation coefficient, which has a value of 0.340 indicates that there is a weak relationship between the Profit of UBA and the independent variable (Inflation). R square, the coefficient of determination, shows that 11.5% of the variation in the dependent variable is explained by the model. The Durbin Watson value of 0.600 indicates there is no autocorrelation.

The regression sum of squares (2.017E8) is less than the residual sum of squares (1.546E9) which indicates that the fewer of the variation in the dependent variable is explained by the model. The significance value of the F statistics (0.510) is greater than 0.05, which means that the variation explained by the model is due to chance. The IN coefficient of 2143.811 indicates a positive relationship between UBA's Profit and Inflation, which is not statistically significant (with $t = 0.722$).

These results reveal that UBA's Profit is impacted upon positively by Inflation. However, this impact is not significant, as such does not enhance profit. Hence, inflation, though positively, has not significantly influenced profit in UBA.

Analysis of Zenith Bank

R, the correlation coefficient, which has a value of 0.734 indicates that there is a strong relationship between the Profit of Zenith Bank and the independent variable (Inflation). R square, the coefficient of determination, shows that 53.8% of the variation in the dependent

variable is explained by the model. The Durbin Watson value of 1.918 indicates there is no autocorrelation.

The regression sum of squares (4.997E8) is greater than the residual sum of squares (4.288E8) which indicates that the more of the variation in the dependent variable is explained by the model. The significance value of the F statistics (0.097) is greater than 0.05, which means that the variation explained by the model is due to chance. The IN coefficient of 3373.887 indicates a positive relationship between Zenith Bank's Profit and Inflation, which is statistically significant (with $t = 2.159$).

These results reveal that Zenith Bank's Profit is impacted upon positively and significantly by Inflation.

Decision

Based on the analysis presented above, only First Bank's and Zenith Bank's profit were significantly and positively impacted upon by Inflation. The impact of Inflation on Profit for the other banks was not significant. This reveals that it could not be established that inflation has adversely affected reported profits on Nigerian banks within 2006 to 2011 fiscal year. To this end, the null hypothesis is accepted.

4.2.3 Test of Hypothesis Three

Investment decisions within the reported profits of Nigerian banks have no direct relationship with inflation within the period under review

In testing this hypothesis, inflation was regressed against the investment decisions of the six (6) selected banks. The results are presented in Table 2. A bank by bank analysis as well as an aggregate analysis is presented.

Table 2: Summarized Regression Results for Hypothesis Three

Bank	Aggregate Result	Access Bank	Diamond Bank	First Bank	Union Bank	UBA	Zenith Bank
R	0.411	0.496	0.676	0.420	0.122	0.185	0.260
R²	0.169	0.246	0.457	0.176	0.015	0.034	0.068
DW	1.372	0.900	1.960	1.186	1.246	0.490	0.639
RegSS	1.879E11	2.627E9	6.823E8	8.100E9	9.416E8	6.374E9	4.036E9
ResSS	9.235E11	8.061E9	8.118E8	3.790E10	6.218E10	1.798E11	5.575E10
F	0.814	0.652	1.681	0.641	0.030	0.142	0.290
Sig.	0.418	0.504	0.324	0.482	0.878	0.726	0.619
A	-	-	-	-	-	-	-
βIn	26280.896	-15346.575	12512.207	38607.292	89452.650	84903.646	32980.468
t-value	65418.936	8383.844	4006.718	13621.873	5019.088	12050.467	9589.150
t-value	0.902	0.807	1.296	0.801	0.174	0.377	0.538

Source: See Appendix 11

Analysis of Aggregate Result

R, the correlation coefficient, which has a value of 0.411 indicates that there is an average relationship between the aggregated Investment and the independent variable (Inflation). R square, the coefficient of determination, shows that 16.9% of the variation in the dependent variable is explained by the model. The Durbin Watson value of 1.372 indicates there is autocorrelation.

The regression sum of squares (1.879E11) is less than the residual sum of squares (9.235E11) which indicates that the fewer of the variation in the dependent variable is explained by the model. The significance value of the F statistics (0.418) is greater than 0.05, which means that the variation explained by the model is due to chance. The IN coefficient of 65418.936 indicates a positive relationship between Profit and Inflation, which is not statistically significant (with t = 0.902).

These results reveal that the aggregated Investment of the six (6) banks is impacted upon positively by Inflation. However, this impact is not significant, as such does not enhance investment. Hence, the aggregated investment is not significantly, though positively, influenced by Inflation.

Analysis of Access Bank

R, the correlation coefficient, which has a value of 0.496 indicates that there is an average relationship between the Investment of Access Bank and the independent variable (Inflation). R square, the coefficient of determination, shows that 24.6% of the variation in the dependent variable is explained by the model. The Durbin Watson value of 0.900 indicates there is autocorrelation.

The regression sum of squares (2.627E9) is less than the residual sum of squares (8.061E9) which indicates that the fewer of the variation in the dependent variable is explained by the model. The significance value of the F statistics (0.504) is greater than 0.05, which means that the variation explained by the model is due to chance. The IN coefficient of 8383.844 indicates a positive relationship between Access Bank's Investment and Inflation, which is not statistically significant (with $t = 0.807$).

These results reveal that Access Bank's Investment is impacted upon positively by Inflation. However, this impact is not significant, as such does not enhance Investment. Hence, inflation, though positively, has not significantly influenced Investment in Access Bank.

Analysis of Diamond Bank

R, the correlation coefficient, which has a value of 0.676 indicates that there is an average relationship between the Investment of Diamond Bank and the independent variable (Inflation). R square, the coefficient of determination, shows that 45.7% of the variation in the dependent variable is explained by the model. The Durbin Watson value of 1.960 indicates there is autocorrelation.

The regression sum of squares (6.823E8) is less than the residual sum of squares (8.118E8) which indicates that the fewer of the variation in the dependent variable is explained by the model. The significance value of the F statistics (0.324) is greater than 0.05, which means that the variation explained by the model is due to chance. The IN coefficient of 4006.718 indicates a positive relationship between Access Bank's Investment and Inflation, which is not statistically significant (with $t = 1.296$).

These results reveal that Diamond Bank's Investment is impacted upon positively by Inflation. However, this impact is not significant, as such does not enhance Investment. Hence, inflation, though positively, has not significantly influenced Investment in Diamond Bank.

Analysis of First Bank

R, the correlation coefficient, which has a value of 0.420 indicates that there is an average relationship between the Investment of First Bank and the independent variable (Inflation). R square, the coefficient of determination, shows that 17.6% of the variation in the dependent variable is explained by the model. The Durbin Watson value of 1.186 indicates there is autocorrelation.

The regression sum of squares (8.100E9) is less than the residual sum of squares (3.790E10) which indicates that the fewer of the variation in the dependent variable is explained by the model. The significance value of the F statistics (0.482) is greater than 0.05, which means that the variation explained by the model is due to chance. The IN coefficient of 13621.873 indicates a positive relationship between First Bank's Investment and Inflation, which is not statistically significant (with $t = 0.801$).

These results reveal that First Bank's Investment is impacted upon positively by Inflation. However, this impact is not significant, as such does not enhance Investment. Hence, inflation, though positively, has not significantly influenced Investment in First Bank.

Analysis of Union Bank

R, the correlation coefficient, which has a value of 0.122 indicates that there is a weak relationship between the Investment of Union Bank and the independent variable (Inflation). R square, the coefficient of determination, shows that 1.5% of the variation in the dependent variable is explained by the model. The Durbin Watson value of 1.246 indicates there is autocorrelation.

The regression sum of squares (9.416E8) is less than the residual sum of squares (6.218E10) which indicates that the fewer of the variation in the dependent variable is explained by the model. The significance value of the F statistics (0.030) is greater than 0.05, which means that the variation explained by the model is due to chance. The IN coefficient of 5019.088 indicates a positive relationship between Union Bank's Investment and Inflation, which is not statistically significant (with $t = 0.174$).

These results reveal that Union Bank's Investment is impacted upon positively by Inflation. However, this impact is not significant, as such does not enhance Investment. Hence, inflation, though positively, has not significantly influenced Investment in Union Bank.

Analysis of UBA

R, the correlation coefficient, which has a value of 0.185 indicates that there is an weak relationship between the Investment of UBA Bank and the independent variable (Inflation). R square, the coefficient of determination, shows that 3.4% of the variation in the dependent variable is explained by the model. The Durbin Watson value of 0.490 indicates there is autocorrelation.

The regression sum of squares (6.374E9) is less than the residual sum of squares (1.798E11) which indicates that the fewer of the variation in the dependent variable is explained by the model. The significance value of the F statistics (0.726) is greater than 0.05, which means that the variation explained by the model is due to chance. The IN coefficient of 12050.467 indicates a positive relationship between UBA's Investment and Inflation, which is not statistically significant (with $t = 0.377$).

These results reveal that UBA's Investment is impacted upon positively by Inflation. However, this impact is not significant, as such does not enhance Investment. Hence, inflation, though positively, has not significantly influenced Investment in UBA.

Analysis of Zenith Bank

R, the correlation coefficient, which has a value of 0.260 indicates that there is a weak relationship between the Investment of Zenith Bank and the independent variable (Inflation). R square, the coefficient of determination, shows that 6.8% of the variation in the dependent variable is explained by the model. The Durbin Watson value of 0.639 indicates there is autocorrelation.

The regression sum of squares (4.036E9) is less than the residual sum of squares (5.575E10) which indicates that the fewer of the variation in the dependent variable is explained by the model. The significance value of the F statistics (0.619) is greater than 0.05, which means that the variation explained by the model is due to chance. The IN coefficient of 9589.150 indicates a positive relationship between Union Bank's Investment and Inflation, which is not statistically significant (with $t = 0.538$).

These results reveal that Zenith Bank's Investment is impacted upon positively by Inflation. However, this impact is not significant, as such does not enhance Investment. Hence, inflation, though positively, has not significantly influenced Investment in Zenith Bank.

Decision

Based on the analysis presented above, the impact of Inflation on Investment for all the banks was not significant. To this end, investment decisions within the reported profits of Nigerian banks have no direct relationship with inflation within the period under review. Hence, the null hypothesis is accepted.

4.2.4 Test of Hypothesis Four

Inflation on other decision factors (Gearing and Solvency) has no significant relationship on reported profit on Nigerian banks

In testing this hypothesis, Gearing and Solvency was regressed against the reported profit of the six (6) selected banks. The results are presented in Table 3. A bank by bank analysis and an aggregate analysis is presented.

Table 3: Summarised Regression Results for Hypothesis Four

Bank	Aggregate Result	Access Bank	Diamond Bank	First Bank	Union Bank	UBA	Zenith Bank
R	0.744	0.546	0.050	0.967	0.350	0.142	0.898
R²	0.553	0.298	0.002	0.936	0.123	0.020	0.806
DW	1.998	1.488	0.819	1.422	1.745	2.185	2.096
RegSS	0.001	0.007	0.000	0.023	0.015	0.000	0.004
ResSS	0.001	0.015	0.041	0.002	0.106	0.005	0.001
F	4.954	0.848	0.010	43.601	0.279	0.082	16.593
Sig.	0.090	0.454	0.926	0.007	0.650	0.788	0.015
A	0.078	0.044	0.098	-0.068	0.174	0.099	0.078
βIn	0.006	0.013	0.002	0.023	-0.020	0.002	0.009
t-value	2.226	0.921	0.100	6.603	-0.528	0.287	4.073

Source: See Appendix 12

Analysis of Aggregate Result

R, the correlation coefficient, which has a value of 0.744 indicates that there is a strong relationship between the aggregated Gearing and Solvency and the independent variable (Inflation). R square, the coefficient of determination, shows that 55.3% of the variation in the dependent variable is explained by the model. The Durbin Watson value of 1.998 indicates there is no autocorrelation.

The regression sum of squares (0.001) is equal to the than the residual sum of squares (0.001) which indicates that the variation in the dependent variable that is explained by the model is the same as that not explained by the variable. The significance value of the F statistics (0.090) is greater than 0.05, which means that the variation explained by the model is due to chance. The IN coefficient of 0.006 indicates a positive relationship between Gearing and Solvency and Inflation, which is statistically significant (with $t = 2.226$).

These results reveal that the aggregated Gearing and Solvency of the six (6) banks is impacted upon positively by Inflation.

Analysis of Access Bank

R, the correlation coefficient, which has a value of 0.546 indicates that there is an average relationship between the Gearing and Solvency of Access Bank and the independent variable (Inflation). R square, the coefficient of determination, shows that 29.8% of the variation in the dependent variable is explained by the model. The Durbin Watson value of 1.488 indicates there is no autocorrelation.

The regression sum of squares (0.007) is less than the residual sum of squares (0.015) which indicates that the fewer of the variation in the dependent variable is explained by the model. The significance value of the F statistics (0.454) is greater than 0.05, which means that the variation explained by the model is due to chance. The IN coefficient of 0.013 indicates a positive relationship between Access Bank's Gearing and Solvency and Inflation, which is not statistically significant (with $t = 0.921$).

These results reveal that Access Bank's Gearing and Solvency is impacted upon positively by Inflation. However, this impact is not significant, as such does not enhance Gearing and Solvency. Hence, inflation, though positively, has not significantly influenced Gearing and Solvency in Access Bank.

Analysis of Diamond Bank

R, the correlation coefficient, which has a value of 0.050 indicates that there is an extremely weak relationship between the Gearing and Solvency of Diamond Bank and the independent variable (Inflation). R square, the coefficient of determination, shows that 0.2% of the variation in the dependent variable is explained by the model. The Durbin Watson value of 0.819 indicates there is no autocorrelation.

The regression sum of squares (0.000) is less than the residual sum of squares (0.041) which indicates that the fewer of the variation in the dependent variable is explained by the model. The significance value of the F statistics (0.926) is greater than 0.05, which means that the variation explained by the model is due to chance. The IN coefficient of 0.002 indicates a positive relationship between Diamond Bank's Gearing and Solvency and Inflation, which is not statistically significant (with $t = 0.100$).

These results reveal that Diamond Bank's gearing and Solvency is impacted upon positively by Inflation. However, this impact is not significant, as such does not enhance Gearing and Solvency. Hence, inflation, though positively, has not significantly influenced Gearing and Solvency in Diamond Bank.

Analysis of First Bank

R, the correlation coefficient, which has a value of 0.967 indicates that there is an extremely strong relationship between the Gearing and Solvency of First Bank and the independent variable (Inflation). R square, the coefficient of determination, shows that 93.6% of the variation in the dependent variable is explained by the model. The Durbin Watson value of 1.422 indicates there is no autocorrelation.

The regression sum of squares (0.023) is greater than the residual sum of squares (0.002) which indicates that the more of the variation in the dependent variable is explained by the model. The significance value of the F statistics (0.007) is less than 0.05, which means that the variation explained by the model is not due to chance. The IN coefficient of 0.023 indicates a positive

relationship between Access Bank's Gearing and Solvency and Inflation, which is not statistically significant (with $t = 6.603$).

These results reveal that First Bank's gearing and Solvency is impacted upon positively and significantly by Inflation.

Analysis of Union Bank

R, the correlation coefficient, which has a value of 0.350 indicates that there is a weak relationship between the Gearing and Solvency of Union Bank and the independent variable (Inflation). R square, the coefficient of determination, shows that 12.3% of the variation in the dependent variable is explained by the model. The Durbin Watson value of 1.745 indicates there is no autocorrelation.

The regression sum of squares (0.015) is less than the residual sum of squares (0.106) which indicates that the fewer of the variation in the dependent variable is explained by the model. The significance value of the F statistics (0.650) is greater than 0.05, which means that the variation explained by the model is due to chance. The IN coefficient of -0.020 indicates a negative relationship between Union Bank's Gearing and Solvency and Inflation, which is not statistically significant (with $t = -0.528$).

These results reveal that Union Bank's Gearing and Solvency is impacted upon negatively by Inflation. However, this impact is not significant, as such does not enhance Gearing and Solvency. Hence, inflation, though negatively, has not significantly influenced Gearing and Solvency in Union Bank.

Analysis of UBA

R, the correlation coefficient, which has a value of 0.142 indicates that there is a weak relationship between the Gearing and Solvency of UBA and the independent variable (Inflation). R square, the coefficient of determination, shows that 2% of the variation in the dependent

variable is explained by the model. The Durbin Watson value of 2.185 indicates there is autocorrelation.

The regression sum of squares (0.007) is less than the residual sum of squares (0.015) which indicates that the fewer of the variation in the dependent variable is explained by the model. The significance value of the F statistics (0.788) is greater than 0.05, which means that the variation explained by the model is due to chance. The IN coefficient of 0.002 indicates a positive relationship between UBA's Gearing and Solvency and Inflation, which is not statistically significant (with $t = 0.287$).

These results reveal that UBA's Gearing and Solvency is impacted upon positively by Inflation. However, this impact is not significant, as such does not enhance Gearing and Solvency. Hence, inflation, though positively, has not significantly influenced Gearing and Solvency in UBA.

Analysis of Zenith Bank

R, the correlation coefficient, which has a value of 0.898 indicates that there is a strong relationship between the Gearing and Solvency of Zenith Bank and the independent variable (Inflation). R square, the coefficient of determination, shows that 80.6% of the variation in the dependent variable is explained by the model. The Durbin Watson value of 2.096 indicates there is autocorrelation.

The regression sum of squares (0.004) is greater than the residual sum of squares (0.001) which indicates that the more of the variation in the dependent variable is explained by the model. The significance value of the F statistics (0.015) is less than 0.05, which means that the variation explained by the model is due to chance. The IN coefficient of 0.009 indicates a positive relationship between Zenith Bank's Gearing and Solvency and Inflation, which is not statistically significant (with $t = 4.073$).

These results reveal that Zenith Bank's Gearing and Solvency is impacted upon positively and significantly by Inflation.

Decision

Based on the analysis presented above, only First Bank's and Zenith Bank's Gearing and Solvency were significantly and positively impacted upon by Inflation. The impact of Inflation on Gearing and Solvency for the other banks was not significant. Hence, Inflation on other decision factors (Gearing and Solvency) has no significant relationship on reported profit on Nigerian banks. Hence, the null hypothesis is accepted.

CHAPTER FIVE
SUMMARY OF FINDINGS, CONCLUSION, RECOMMENDATIONS,
AND AREAS FOR FURTHER RESEARCH

5.1 SUMMARY OF FINDINGS

The findings include the following:

1. The regression coefficient test shows that aggregate F statistics (0.385) is greater than 0.05 given t-value of 0.974, therefore there is no significant positive relationship between lending decision and inflation on Nigerian banks.
2. The regression coefficient test shows that aggregate F statistics (0.066) is greater than 0.05 given a t-value of 0.257, hence it is revealed that it could not be established that inflation has adversely affected reported profits on Nigerian banks within 2006 to 2011 fiscal year.
3. The regression coefficient test shows that aggregate F statistics (0.814) is greater than 0.05 given t-value of 0.902, thus investment decisions within the reported profits of Nigerian banks have no direct relationship with inflation within the period under review.
4. The regression coefficient test shows that aggregate F statistics (4.954) is greater than 0.05 given a t-value of 2.226, therefore Inflation on other decision factors (Gearing and Solvency) has no significant relationship on reported profit on Nigerian banks.

5.2 CONCLUSION

Based on this study, the inflation and reported profit: implication on decision making underscores much relevance in Nigerian banks. As a matter of fact the relationship between inflation and accounting profit is obvious because the increase or decrease of inflation

determine the favourability and unfavourability of the economic stability, measure of spending and investment. Also the decision of organization obeys the trends and situation of the economy either in lending or reported profits, investment decisions, gearing and solvency. Thus in the presence of all these factors inflation and reported profit have negative influence on decision-making.

5.3 RECOMMENDATIONS

The following suggestions can be of help in the minimizing the effects of inflation.

1. There should be a frantic effort to increase the expansionary policy mechanism as a tool to checkmate lending decision in the economy.
2. Monetary and credit regulatory procedure should be maintain in line with real economic growth and financial market needs.
3. There should be a reversal or transformation of the serious deterioration of national productivity by increasing incentives for savings and investment.
4. The government and organization partnering effort is also required in controlling the economic growth through the monetary policy.

CONTRIBUTION TO KNOWLEDGE

These work tells us that inflation is significantly aline (integrated to) with profit maximization as against profit minimization. Also it show a way to solve issue of fluctuations and policy framework to the economy.

AREA OF FURTHER STUDIES

1. Determinance of inflation and profit maximization in organization performance.
2. The impact of inflation in the growth and development of financial sector.

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APPENDIX 1

FIRST BANK'S EQUITY, TOTAL ASSETS, GEARING RATIO, INVESTMENT AND PROFIT

	Equity	Asset	gearing ratio (equity/aset)	profit	investment
2006	60980	540129	0.112899	16053	63729
2007	77351	762881	0.101393	18355	135525
2008	339847	1165461	0.291599	30473	164928
2009	351054	1667422	0.210537	35074	216447
2010	340735	1957258	0.174088	26936	350713
2011	-	-	-	-	-

APPENDIX 2

UNION BANK'S EQUITY, TOTAL ASSETS, GEARING RATIO, INVESTMENT AND PROFIT

	Equity	Asset	gearing ratio (equity/aset)	profit	investment
2006	-	-	-	-	-
2007	96630	619800	0.155905	12126	60333
2008	64603	907074	0.071221	24737	72602
2009	-253910	921230	-0.27562	-286168	90287
2010	-135894	845231	-0.16078	118016	363459
2011	-	-	-	-	-

APPENDIX 3

UBA BANK'S EQUITY, TOTAL ASSETS, GEARING RATIO, INVESTMENT AND PROFIT

	Equity	Asset	gearing ratio (equity/aset)	profit	investment
2006	47621	851241	0.055943	11468	13030
2007	164821	1102348	0.149518	19831	80228
2008	188155	1520091	0.123779	40002	105454
2009	187719	1400879	0.134001	12889	199161
2010	187730	1432632	0.131039	2167	374857
2011	170058	1655465	0.102725	-16385	513947

APPENDIX 4

ZENITH BANK'S EQUITY, TOTAL ASSETS, GEARING RATIO, INVESTMENT AND PROFIT

	Equity	Asset	gearing ratio (equity/aset)	profit	investment
2006	100401	610769	0.164385	11489	14582
2007	112833	883941	0.127648	17509	45524
2008	338483	1680032	0.201474	46524	71526
2009	328383	1573196	0.208736	18365	180285
2010	350414	1789158	0.195854	33335	209119
2011	360868	2154713	0.167478	37141	295347

APPENDIX 5

ACCESS BANK'S EQUITY, TOTAL ASSETS, GEARING RATIO, INVESTMENT AND PROFIT

	Equity	Asset	gearing ratio (equity/aset)	profit	investment
2006	-	-	-	-	-
2007	28385	328616	0.086377	5083	10564
2008	172002	1031812	0.166699	16056	64351
2009	184830	674865	0.273877	22886	91986
2010	182505	726961	0.251052	-880	154016
2011	-	-	-	12931	-

APPENDIX 6

DIAMOND BANK'S EQUITY, TOTAL ASSETS, GEARING RATIO, INVESTMENT AND PROFIT

	Equity	Asset	gearing ratio (equity/aset)	profit	investment
2006	30788	218866	0.140671	-332	5763
2007	53892	312250	0.172592	6931	18974
2008	116983	603327	0.193897	11822	38353
2009	116545	650892	0.179054	6931	56746
2010		64176	0	6522	
2011		63537	0	-22188	

APPENDIX 7

INFLATION RATES (2006 TO 2011)

YEAR	INFLATION RATE
2006	8.6
2007	6.6
2008	15.1
2009	12.1
2010	11.8
2011	10.3

APPENDIX 8

LENDING RATES (2006 TO 2011)

YEAR	LENDING RATE
2006	8.35
2007	8.10
2008	11.84
2009	12.85
2010	5.67
2011	4.64

APPENDIX 9

Regression Result for Test of Hypothesis One

Descriptive Statistics

	Mean	Std. Deviation	N
Lendingrate	8.5750	3.25992	6
Inflation	10.7500	2.96294	6

Correlations

		lendingrate	inflation
Pearson Correlation	lendingrate	1.000	.438
	inflation	.438	1.000
Sig. (1-tailed)	lendingrate	.	.193
	inflation	.193	.
N	lendingrate	6	6
	inflation	6	6

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.438 ^a	.192	-.010	3.27663	1.310

a. Predictors: (Constant), inflation

b. Dependent Variable: lendingrate

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10.190	1	10.190	.949	.385 ^a
	Residual	42.945	4	10.736		
	Total	53.135	5			

a. Predictors: (Constant), inflation

b. Dependent Variable: lendingrate

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.395	5.482		.619	.569
	inflation	.482	.495	.438	.974	.385

a. Dependent Variable: lendingrate

Residuals Statistics^a

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	6.5754	10.6709	8.5750	1.42760	6
Residual	-3.71818	3.62454	.00000	2.93070	6
Std. Predicted Value	-1.401	1.468	.000	1.000	6

Std. Residual	-1.135	1.106	.000	.894	6
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a. Dependent Variable: lendingrate

APPENDIX 10
REGRESSION RESULT FOR TEST OF HYPOTHESIS TWO
RESULTS FOR FIRST BANK
Descriptive Statistics

	Mean	Std. Deviation	N
FBNprofit	25378.2000	8041.71870	5
inflation	10.8400	3.30348	5

Correlations

		FBNprofit	inflation
Pearson Correlation	FBNprofit	1.000	.810
	inflation	.810	1.000
Sig. (1-tailed)	FBNprofit	.	.048
	inflation	.048	.
N	FBNprofit	5	5
	inflation	5	5

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.810 ^a	.656	.542	5444.24338	2.566

a. Predictors: (Constant), inflation

b. Dependent Variable: FBNprofit

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.698E8	1	1.698E8	5.727	.096 ^a
	Residual	8.892E7	3	2.964E7		
	Total	2.587E8	4			

a. Predictors: (Constant), inflation

b. Dependent Variable: FBNprofit

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4001.443	9258.211		.432	.695
	inflation	1972.026	824.016	.810	2.393	.096

a. Dependent Variable: FBNprofit

RESULT FOR UNION BANK

Descriptive Statistics

	Mean	Std. Deviation	N
UBNprofit	-32822.2500	1.75375E5	4
Inflation	11.4000	3.52987	4

Correlations

		UBNprofit	inflation
Pearson Correlation	UBNprofit	1.000	-.065
	inflation	-.065	1.000
Sig. (1-tailed)	UBNprofit	.	.468
	inflation	.468	.
N	UBNprofit	4	4
	inflation	4	4

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.065 ^a	.004	-.494	2.14343E5	2.905

a. Predictors: (Constant), inflation

b. Dependent Variable: UBNprofit

ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	3.839E8	1	3.839E8	.008	.935 ^a
	Residual	9.189E10	2	4.594E10		
	Total	9.227E10	3			

a. Predictors: (Constant), inflation

b. Dependent Variable: UBNprofit

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3710.541	413783.203		.009	.994
	inflation	-3204.631	35058.191	-.065	-.091	.935

a. Dependent Variable: UBN profit

REGRESSION RESULT FOR UBA

Descriptive Statistics

	Mean	Std. Deviation	N
UBAprofit	11662.0000	18698.77301	6

Descriptive Statistics

	Mean	Std. Deviation	N
UBAprofit	11662.0000	18698.77301	6
inflation	10.7500	2.96294	6

Correlations

		UBAprofit	inflation
Pearson Correlation	UBAprofit	1.000	.340
	inflation	.340	1.000
Sig. (1-tailed)	UBAprofit	.	.255
	inflation	.255	.
N	UBAprofit	6	6
	inflation	6	6

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.340 ^a	.115	-.106	19662.66981	.600

a. Predictors: (Constant), inflation

b. Dependent Variable: UBAprofit

ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2.017E8	1	2.017E8	.522	.510 ^a
	Residual	1.546E9	4	3.866E8		
	Total	1.748E9	5			

a. Predictors: (Constant), inflation

b. Dependent Variable: UBAprofit

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-11383.972	32898.236		-.346	.747
	inflation	2143.811	2967.802	.340	.722	.510

a. Dependent Variable: UBAprofit

REGRESSION RESULT FOR ZENITH BANK

Descriptive Statistics

	Mean	Std. Deviation	N
Zenithprofit	27393.8333	13626.89606	6
Inflation	10.7500	2.96294	6

Correlations

		Zenithprofit	inflation
Pearson Correlation	Zenithprofit	1.000	.734
	inflation	.734	1.000
Sig. (1-tailed)	Zenithprofit	.	.049
	inflation	.049	.
N	Zenithprofit	6	6
	inflation	6	6

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.734 ^a	.538	.423	10353.74145	1.918

a. Predictors: (Constant), inflation

b. Dependent Variable: Zenithprofit

ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4.997E8	1	4.997E8	4.661	.097 ^a
	Residual	4.288E8	4	1.072E8		
	Total	9.285E8	5			

a. Predictors: (Constant), inflation

b. Dependent Variable: Zenithprofit

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-8875.447	17323.173		-.512	.635
	inflation	3373.887	1562.751	.734	2.159	.097

a. Dependent Variable: Zenithprofit

REGRESSION RESULT FOR ACCESS BANK

Descriptive Statistics

	Mean	Std. Deviation	N
Accessprofit	11215.2000	9307.02190	5
Inflation	11.1800	3.09629	5

Correlations

		Accessprofit	inflation
Pearson Correlation	Accessprofit	1.000	.423
	inflation	.423	1.000
Sig. (1-tailed)	Accessprofit	.	.239
	inflation	.239	.
N	Accessprofit	5	5
	inflation	5	5

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.423 ^a	.179	-.094	9736.67090	3.190

a. Predictors: (Constant), inflation

b. Dependent Variable: Accessprofit

ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	6.207E7	1	6.207E7	.655	.478 ^a
	Residual	2.844E8	3	9.480E7		
	Total	3.465E8	4			

a. Predictors: (Constant), inflation

b. Dependent Variable: Accessprofit

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-3008.956	18109.748		-.166	.879
	inflation	1272.286	1572.313	.423	.809	.478

a. Dependent Variable: Accessprofit

REGRESSION RESULTS FOR DIAMOND BANK

Descriptive Statistics

	Mean	Std. Deviation	N
Diamondprofit	1614.3333	12289.46561	6
Inflation	10.7500	2.96294	6

Correlations

		Diamondprofit	inflation
Pearson Correlation	Diamondprofit	1.000	.272
	inflation	.272	1.000
Sig. (1-tailed)	Diamondprofit	.	.301
	inflation	.301	.
N	Diamondprofit	6	6
	inflation	6	6

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.272 ^a	.074	-.157	13221.06763	1.208

a. Predictors: (Constant), inflation

b. Dependent Variable: Diamondprofit

ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	5.597E7	1	5.597E7	.320	.602 ^a
	Residual	6.992E8	4	1.748E8		
	Total	7.552E8	5			

a. Predictors: (Constant), inflation

b. Dependent Variable: Diamondprofit

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-10524.362	22120.587		-.476	.659
	Inflation	1129.181	1995.533	.272	.566	.602

a. Dependent Variable: Diamondprofit

AGGREGATE REGRESSION RESULTS

Descriptive Statistics

	Mean	Std. Deviation	N
Aggregateprofit	49283.1667	1.36337E5	6
Inflation	10.7500	2.96294	6

Correlations

		Aggregateprofit	inflation
Pearson Correlation	Aggregateprofit	1.000	.127
	inflation	.127	1.000
Sig. (1-tailed)	Aggregateprofit	.	.405
	inflation	.405	.
N	Aggregateprofit	6	6
	inflation	6	6

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.127 ^a	.016	-.230	1.51189E5	3.190

a. Predictors: (Constant), inflation

b. Dependent Variable: Aggregateprofit

ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.505E9	1	1.505E9	.066	.810 ^a
	Residual	9.143E10	4	2.286E10		
	Total	9.294E10	5			

a. Predictors: (Constant), inflation

b. Dependent Variable: Aggregateprofit

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-13667.371	252959.891		-.054	.960
	inflation	5855.864	22819.914	.127	.257	.810

a. Dependent Variable: Aggregateprofit

APPENDIX 11 REGRESSION RESULT FOR TEST OF HYPOTHESIS THREE

REGRESSION RESULT FOR FIRST BANK

Descriptive Statistics

	Mean	Std. Deviation	N
FBNinvestment	186268.4000	1.07237E5	5
Inflation	10.8400	3.30348	5

Correlations

		FBNinvestment	inflation
Pearson Correlation	FBNinvestment	1.000	.420
	inflation	.420	1.000
Sig. (1-tailed)	FBNinvestment	.	.241
	inflation	.241	.
N	FBNinvestment	5	5
	inflation	5	5

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.420 ^a	.176	-.099	1.12397E5	1.186

a. Predictors: (Constant), inflation

b. Dependent Variable: FBNinvestment

ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	8.100E9	1	8.100E9	.641	.482 ^a
	Residual	3.790E10	3	1.263E10		
	Total	4.600E10	4			

a. Predictors: (Constant), inflation

b. Dependent Variable: FBNinvestment

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	38607.292	191136.428		.202	.853
	inflation	13621.873	17011.862	.420	.801	.482

a. Dependent Variable: FBNinvestment

REGRESSION RESULT FOR UNION BANK

Descriptive Statistics

	Mean	Std. Deviation	N
UBNinvestment	146670.2500	1.45048E5	4
Inflation	11.4000	3.52987	4

Correlations

		UBNinvestment	inflation
Pearson Correlation	UBNinvestment	1.000	.122
	Inflation	.122	1.000
Sig. (1-tailed)	UBNinvestment	.	.439
	Inflation	.439	.
N	UBNinvestment	4	4
	Inflation	4	4

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.122 ^a	.015	-.478	1.76316E5	1.246

a. Predictors: (Constant), inflation

b. Dependent Variable: UBNinvestment

ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	9.416E8	1	9.416E8	.030	.878 ^a
	Residual	6.218E10	2	3.109E10		
	Total	6.312E10	3			

a. Predictors: (Constant), inflation

b. Dependent Variable: UBNinvestment

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	89452.650	340374.205		.263	.817
	inflation	5019.088	28838.541	.122	.174	.878

a. Dependent Variable: UBNinvestment

REGRESSION RESULT FOR UBA

Descriptive Statistics

	Mean	Std. Deviation	N
UBAinvestment	214446.1667	1.92940E5	6
Inflation	10.7500	2.96294	6

Correlations

		UBAinvestment	inflation
Pearson Correlation	UBAinvestment	1.000	.185
	inflation	.185	1.000
Sig. (1-tailed)	UBAinvestment	.	.363
	inflation	.363	.
N	UBAinvestment	6	6
	inflation	6	6

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.185 ^a	.034	-.207	2.11987E5	.490

a. Predictors: (Constant), inflation

b. Dependent Variable: UBAinvestment

ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	6.374E9	1	6.374E9	.142	.726 ^a
	Residual	1.798E11	4	4.494E10		
	Total	1.861E11	5			

a. Predictors: (Constant), inflation

b. Dependent Variable: UBAinvestment

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	84903.646	354682.360		.239	.823
	inflation	12050.467	31996.460	.185	.377	.726

a. Dependent Variable: UBAinvestment

REGRESSION RESULT FOR ZENITH BANK

Descriptive Statistics

	Mean	Std. Deviation	N
Zenithinvestment	136063.8333	1.09347E5	6
Inflation	10.7500	2.96294	6

Correlations

		Zenithinvestment	inflation
Pearson Correlation	Zenithinvestment	1.000	.260
	Inflation	.260	1.000
Sig. (1-tailed)	Zenithinvestment	.	.310
	Inflation	.310	.
N	Zenithinvestment	6	6
	Inflation	6	6

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.260 ^a	.068	-.166	1.18055E5	.639

a. Predictors: (Constant), inflation

b. Dependent Variable: Zenithinvestment

ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4.036E9	1	4.036E9	.290	.619 ^a
	Residual	5.575E10	4	1.394E10		
	Total	5.978E10	5			

a. Predictors: (Constant), inflation

b. Dependent Variable: Zenithinvestment

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	32980.468	197521.508		.167	.875
	inflation	9589.150	17818.730	.260	.538	.619

a. Dependent Variable: Zenithinvestment

REGRESSION RESULT FOR ACCESS BANK

Descriptive Statistics

	Mean	Std. Deviation	N
Accessinvestment	80229.2500	59688.27782	4
Inflation	11.4000	3.52987	4

Correlations

		Accessinvestment	inflation
Pearson Correlation	Accessinvestment	1.000	.496
	Inflation	.496	1.000
Sig. (1-tailed)	Accessinvestment	.	.252
	Inflation	.252	.
N	Accessinvestment	4	4
	Inflation	4	4

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.496 ^a	.246	-.131	63484.93715	.900

a. Predictors: (Constant), inflation

b. Dependent Variable: Accessinvestment

ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2.627E9	1	2.627E9	.652	.504 ^a
	Residual	8.061E9	2	4.030E9		
	Total	1.069E10	3			

a. Predictors: (Constant), inflation

b. Dependent Variable: Accessinvestment

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-15346.575	122555.949		-.125	.912
	inflation	8383.844	10383.674	.496	.807	.504

a. Dependent Variable: Accessinvestment

REGRESSION RESULT FOR DIAMOND BANK

Descriptive Statistics

	Mean	Std. Deviation	N
Diamondinvestment	29959.0000	22316.80418	4
Inflation	10.6000	3.76386	4

Correlations

		Diamondinvestment	inflation
Pearson Correlation	Diamondinvestment	1.000	.676
	Inflation	.676	1.000
Sig. (1-tailed)	Diamondinvestment	.	.162
	Inflation	.162	.
N	Diamondinvestment	4	4
	Inflation	4	4

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.676 ^a	.457	.185	20147.37363	1.960

a. Predictors: (Constant), inflation

b. Dependent Variable: Diamondinvestment

ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	6.823E8	1	6.823E8	1.681	.324 ^a
	Residual	8.118E8	2	4.059E8		
	Total	1.494E9	3			

a. Predictors: (Constant), inflation

b. Dependent Variable: Diamondinvestment

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-12512.207	34272.836		-.365	.750
	inflation	4006.718	3090.466	.676	1.296	.324

a. Dependent Variable: Diamondinvestment

AGGREGATE REGRESSION RESULT

Descriptive Statistics

	Mean	Std. Deviation	N

Aggregateinvestment	676972.6667	4.71446E5	6
Inflation	10.7500	2.96294	6

Correlations

		Aggregateinvestme nt	inflation
Pearson Correlation	Aggregateinvestment	1.000	.411
	Inflation	.411	1.000
Sig. (1-tailed)	Aggregateinvestment	.	.209
	Inflation	.209	.
N	Aggregateinvestment	6	6
	Inflation	6	6

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.411 ^a	.169	-.039	4.80482E5	1.372

a. Predictors: (Constant), inflation

b. Dependent Variable: Aggregateinvestment

ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.879E11	1	1.879E11	.814	.418 ^a
	Residual	9.235E11	4	2.309E11		
	Total	1.111E12	5			

a. Predictors: (Constant), inflation

b. Dependent Variable: Aggregateinvestment

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-26280.896	803910.149		-.033	.975
	inflation	65418.936	72522.014	.411	.902	.418

a. Dependent Variable: Aggregateinvestment

APPENDIX 13 REGRESSION RESULTS FOR TEST OF HYPOTHESIS FOUR

REGRESSION RESULT FOR FIRST BANK

Descriptive Statistics

	Mean	Std. Deviation	N
FBNGs	.1781	.07760	5
inflation	10.8400	3.30348	5

Correlations

		FBNGs	Inflation
Pearson Correlation	FBNGs	1.000	.967
	inflation	.967	1.000
Sig. (1-tailed)	FBNGs	.	.004
	inflation	.004	.
N	FBNGs	5	5
	inflation	5	5

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.967 ^a	.936	.914	.02273	1.422

a. Predictors: (Constant), inflation

b. Dependent Variable: FBNGs

ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.023	1	.023	43.601	.007 ^a
	Residual	.002	3	.001		
	Total	.024	4			

a. Predictors: (Constant), inflation

b. Dependent Variable: FBNGs

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.068	.039		-1.764	.176
	inflation	.023	.003	.967	6.603	.007

a. Dependent Variable: FBNGs

REGRESSION RESULT FOR UNION BANK

Descriptive Statistics

	Mean	Std. Deviation	N
UBNGs	-.0523	.20021	4

Descriptive Statistics

	Mean	Std. Deviation	N
UBNgs	-.0523	.20021	4
inflation	11.4000	3.52987	4

Correlations

		UBNgs	Inflation
Pearson Correlation	UBNgs	1.000	-.350
	inflation	-.350	1.000
Sig. (1-tailed)	UBNgs	.	.325
	inflation	.325	.
N	UBNgs	4	4
	inflation	4	4

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.350 ^a	.123	-.316	.22969	1.745

a. Predictors: (Constant), inflation

b. Dependent Variable: UBNgs

ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.015	1	.015	.279	.650 ^a
	Residual	.106	2	.053		
	Total	.120	3			

a. Predictors: (Constant), inflation

b. Dependent Variable: UBNgs

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.174	.443		.392	.733
	inflation	-.020	.038	-.350	-.528	.650

a. Dependent Variable: UBNgs

REGRESSION RESULTS FOR UBA

Descriptive Statistics

	Mean	Std. Deviation	N
UBAgs	.1162	.03322	6
inflation	10.7500	2.96294	6

Correlations

		UBAgs	Inflation
Pearson Correlation	UBAgs	1.000	.142
	inflation	.142	1.000
Sig. (1-tailed)	UBAgs	.	.394
	inflation	.394	.
N	UBAgs	6	6
	inflation	6	6

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.142 ^a	.020	-.225	.03676	2.185

a. Predictors: (Constant), inflation

b. Dependent Variable: UBAgs

ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.000	1	.000	.082	.788 ^a
	Residual	.005	4	.001		
	Total	.006	5			

a. Predictors: (Constant), inflation

b. Dependent Variable: UBAgs

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.099	.062		1.610	.183
	inflation	.002	.006	.142	.287	.788

a. Dependent Variable: UBAgs

REGRESSION RESULTS FOR ZENITH

Descriptive Statistics

	Mean	Std. Deviation	N
Zenithgs	.1776	.03048	6
inflation	10.7500	2.96294	6

Correlations

		Zenithgs	Inflation
Pearson Correlation	Zenithgs	1.000	.898
	inflation	.898	1.000
Sig. (1-tailed)	Zenithgs	.	.008
	inflation	.008	.
N	Zenithgs	6	6
	inflation	6	6

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.898 ^a	.806	.757	.01502	2.096

a. Predictors: (Constant), inflation

b. Dependent Variable: Zenithgs

ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.004	1	.004	16.593	.015 ^a
	Residual	.001	4	.000		
	Total	.005	5			

a. Predictors: (Constant), inflation

b. Dependent Variable: Zenithgs

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.078	.025		3.117	.036
	Inflation	.009	.002	.898	4.073	.015

a. Dependent Variable: Zenithgs

REGRESSION RESULTS FOR ACCESS BANK

Descriptive Statistics

	Mean	Std. Deviation	N
Accessgs	.1945	.08556	4
Inflation	11.4000	3.52987	4

Correlations

		Accessgs	inflation
Pearson Correlation	Accessgs	1.000	.546
	inflation	.546	1.000
Sig. (1-tailed)	Accessgs	.	.227
	inflation	.227	.
N	Accessgs	4	4
	inflation	4	4

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.546 ^a	.298	-.054	.08782	1.488

a. Predictors: (Constant), inflation

b. Dependent Variable: Accessgs

ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.007	1	.007	.848	.454 ^a
	Residual	.015	2	.008		
	Total	.022	3			

a. Predictors: (Constant), inflation

b. Dependent Variable: Accessgs

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.044	.170		.258	.820
	inflation	.013	.014	.546	.921	.454

a. Dependent Variable: Accessgs

REGRESSION RESULTS FOR DIAMOND BANK

Descriptive Statistics

	Mean	Std. Deviation	N
Diamondgs	.1144	.09028	6
Inflation	10.7500	2.96294	6

Correlations

		Diamondgs	inflation
Pearson Correlation	Diamondgs	1.000	.050
	inflation	.050	1.000
Sig. (1-tailed)	Diamondgs	.	.463
	inflation	.463	.
N	Diamondgs	6	6
	inflation	6	6

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.050 ^a	.002	-.247	.10081	.819

a. Predictors: (Constant), inflation

b. Dependent Variable: Diamondgs

ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.000	1	.000	.010	.926 ^a
	Residual	.041	4	.010		
	Total	.041	5			

a. Predictors: (Constant), inflation

b. Dependent Variable: Diamondgs

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.098	.169		.582	.592
	Inflation	.002	.015	.050	.100	.926

a. Dependent Variable: Diamondgs

AGGREGATE REGRESSION

Descriptive Statistics

	Mean	Std. Deviation	N
Aggregategs	.1372	.02212	6
Inflation	10.7500	2.96294	6

Correlations

		Aggregategs	inflation
Pearson Correlation	Aggregategs	1.000	.744
	Inflation	.744	1.000
Sig. (1-tailed)	Aggregategs	.	.045
	Inflation	.045	.
N	Aggregategs	6	6
	Inflation	6	6

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.744 ^a	.553	.442	.01653	1.998

a. Predictors: (Constant), inflation

b. Dependent Variable: Aggregategs

ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.001	1	.001	4.954	.090 ^a
	Residual	.001	4	.000		
	Total	.002	5			

a. Predictors: (Constant), inflation

b. Dependent Variable: Aggregategs

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.078	.028		2.803	.049
	inflation	.006	.002	.744	2.226	.090

a. Dependent Variable: Aggregategs