

Does Inflationary Expectations Affect The Services Sector In Nigeria?

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Abstract

In an attempt to understand how the rising inflation in Nigeria due to the border closure and other internal factors affect the largest contributor to the gross domestic product of Nigeria, this paper is set out to investigate the effect of inflationary expectation on the services sector. Using the Autoregressive Distributed Lag (ARDL) estimation technique on data collected between 1981 and 2018, we provide useful insight on how expectation of future rise in price affect the services sector of Nigeria. The results obtained imply that the demand for the output of the service sector is inelastic while the supply is elastic. As a result, inflationary expectation affects the services sector positively in the long run as it induces more production in expectation of an increase in the general price level due to the possibility of increased profit. Therefore, inflationary expectation is growth enhancing for the services sector of Nigeria. The government of Nigeria should ensure that inflation is properly managed while targeting a moderately high single digit inflation rate, which in the long run, promotes the further growth of the services sector.

Keywords: Inflationary Expectation; Services Sector; Autoregressive Distributed Lag Model (ARDL)

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