THE EFFECT OF MONETARY AGGREGATES ON DOMESTIC ABSORPTION OF COCOA IN NIGERIA

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ABSTRACT
The main objective of this study is to examine the effect of monetary aggregates of demand and supply on domestic cocoa absorption in the country. Data from 1970-2000 were obtained from official sources including the Central Bank of Nigeria (CBN) Annual Reports and Statistical Bulletins and the Statistical Database of the Food and Agriculture organization (FAO) of the United Nations, among others. While the semi-log functional form was used (as the lead equation) to estimate the aggregate demand and supply models, the exponential form was preferred for the agricultural domestic absorption model. Both models used the adaptive Nerlovian partial adjustment mechanism. Domestic price level was identified to affect cocoa absorption negatively and significantly while exchange rate depreciation had a significant and positive effect. Real income was found to affect money demand by 4.4 percent in the short run and 24 percent in the long run. On the strength of these findings, the study recommends policies towards a lowering of interest rate and the rate of inflation now and the streamlining of the existing extension service programmes to include provision of easy access to inputs for farmers so as to increase cocoa supply.

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