ISSN 2056-5992

MANUFACTURING PRICE DISTORTIONS AND THEIR EFFECTS ON THE NIGERIAN ECONOMY: AN EMPIRICAL ANALYSIS

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ABSTRACT

This research examines the effects of manufacturing Price Distortions on output in the manufacturing sector of Nigeria. Specifically, the study tests the hypothesis that manufacturing price distortions are inversely related to output growth in the same sector. The conclusiveness of all previous studies on this problem has not been without doubt largely because their analyses were based on multi-country cross-section data and aggregate price distortion indices. The present study seeks to overcome this failing by disaggregating the price distortions sector-wise for a single country; namely, Nigeria. The study adopts a model based on a modified neoclassical production function where manufacturing exports are taken as inputs. Manufacturing price distortions causes a wedge between the domestic and foreign price of manufacturing exports and thereby reduces the volume of trade and, in consequence, the real GNP as well. And to derive consistent, unbiased, and efficient estimators of the structural equations, the model so developed was estimated by Ordinary Least Square (OLS) method. The analysis confirms the view that manufacturing price distortions have a significant and negative influence on manufacturing output. An important implication of the study is that reforms of manufacturing pricing policies should constitute a major component of any remedial program designed to accelerate economic growth in a country like Nigeria. If her manufacturing sector is to become modern and efficient, it should be given the opportunity and the motivation to reduce costs. Indiscriminate reduction of the rate of protection and the reduction of the implicit taxes on exports alone are not the correct or adequate solution. Better physical infrastructure, better education and training, and more modernized manufacturing experience can contribute to the ability to reduce costs and raise productivity.

Keywords: Price distortions, Nominal Protection Rate, Subsidies, Misallocated resources, and Economic growth.