Review of: "Exchange Rate Pass-Through and Inflation on Unemployment in Nigeria"

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The introduction would benefit from better contextualising the Nigerian economy and how the endogenous and exogenous variables have evolved and interacted over these years in the country. i.e., the management of the fiscal and monetary policies, the vulnerability to the external shocks under analysis and their consequences on the economy, or to explain the structural adjustment program (SAP), etc.… This approach would attract attention towards the inquiry by stressing the need to conduct the analysis.

Some explanatory variables are not explained in equation (1). For example: “interior” or “productivity”. Nonetheless, in the rest of the equations, these variables disappear. On the contrary, at least one new variable emerges in equation 2 (INFR) without further explanation. Ultimately, neither “interior” nor “productivity” are explanatory variables.

I miss some monetary policy variables (for example, the interest rate) and fiscal policy one (for example, governmental budget position). Both are also crucial for this kind of analysis. Productivity is also a key variable explaining the unemployment performance. Including these variables would enrich the results and scope of the analysis, while avoiding the omission of relevant variables that cause biased estimates.

Why do you use trade openness instead of the terms of trade?

In Figure 4, the CUSUMq falls outside the critical 5% bounds from 2016 to 2020. Hence, to what extent can you affirm that the parameters are stable?

I wonder if the implementation of the structural adjustment program (SAP) should be captured with dummy variables.

The interpretation of the parameters is weird. For instance, in Table 4, you affirm that:*“The coefficient of RER is 0.002736, which implies that an appreciation of RER by 1% will lead to a 0.27% increase in labour force participation.”.* I think RER appreciation increases unemployment (reduction in labour force participation). Please revise all interpretations.

Similarly, you also affirm that: *“On the contrary, the inflation coefficient is negative and statistically significant at 5%. The coefficient value of -0.056764 implies that an increase in inflation by 1% will lead to a 5.7% decrease in labour force participation when all other variables are held constant in the long run.”* Once again, as far as I can deduce from your estimates, inflation would cause a reduction in unemployment (i.e., an increase in labour force participation).

The shocks are not explained in the impulse response function section, figure 7.

As far as I know, the Central Bank of Nigeria has adopted different exchange rate regimes over these years. I wonder if these changes are adequately captured, considering that the exchange rate is embedded in the real exchange rate. Perhaps, dummy variables may allow capturing these changes.

Regarding the conclusion, according to your analysis, you can not infer that the decline in productivity and efficiency results from the rise in unemployment triggered by the trade of openness. You do not use productivity or efficiency in your analysis. How do you infer these macroeconomic relations?

You also recommend that *“The Central Bank of Nigeria (CBN) should develop suitable monetary policies in response to changes in the real exchange rate to address the negative impact of currency rates on unemployment in Nigeria”.* However, what about the role of the interest rate? Is it more important to the former than the latter? In this sense, It should be noted that the real Exchange rate depends on the nominal exchange rate and domestic prices. Both variables are endogenous for the Nigerian economy. Hence, both can be affected by the monetary policy.

Finally, you also affirm that *“Domestic currency appreciation causes a smaller increase in the unemployment rate compared to a depreciation of the same value.”* But, as I understand, you refer to real exchange rate. Please include the term “real” to avoid misunderstanding with the nominal exchange rate.

Greetings and good luck.