Income Policy and Price Instability in Nigeria

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Abstract
This study investigates the relationship between income policy and price stability in Nigeria from 1985 to 2024 by utilizing the Autoregressive Distributed Lag (ARDL) model. Annual time-series data on minimum wage adjustments (MWA), inflation rates (CPI), broad money supply (M_2), exchange rates (EXR), and international oil prices (Brent crude) were sourced from the Central Bank of Nigeria (CBN) bulletin, National Bureau of Statistics (NBS) and Organization of Petroleum Exporting Countries (OPEC). The findings revealed that, minimum wage adjustments have a negligible and insignificant long-run effect on inflation, challenging the wage-price spiral hypothesis, though short-run lagged effects indicate temporary cost-push pressures. Broad money supply (M_2) emerges as a significant driver of inflation, consistent with monetarist theory, while exchange rates and oil prices exhibit negative long-run relationships with price stability. The model is robust, with no autocorrelation and a 66% annual adjustment to long-run equilibrium. Thus, the study concluded by highlighting the limited efficacy of reactive income policies in Nigeria's oil-dependent, structurally rigid economy, where monetary expansion predominantly fuels inflation. The study recommends stricter control of M_2 growth, productivity-linked wage adjustments, a managed exchange rate regime, and diversified fiscal revenues to achieve sustainable price stability.

Key Words:
ARDL, Broad, Income, Money supply, Price instability, Wage adjustment.

1. Introduction

Income policy and price stability are two pivotal elements in macroeconomic management, particularly in developing economies like Nigeria, where structural weakness and external shocks amplify their economic interactions. Income policy refers to government measures designed to regulate wages, salaries, and income distribution to achieve key economic objectives such as inflation control, equitable wealth distribution, and labour market stability (Okon,1978). These measures include stationary minimum wages, collective bargaining agreements, tax-based incentives, and social wage policies.

In Nigeria, income policies have historically been reactive rather than proactive, often implemented in response to inflationary pressures, labour union agitations or political considerations. For example, the 2019 upward revision of the national minimum wage from ₦18,000 to ₦30,000 was a direct response to mounting cost-of-living pressure and prolonged negotiations with the Nigeria Labour Congress (NLC). Similarly, the 2024 adjustment to ₦70,000 was necessitated by the inflationary surge following the removal of fuel subsidies, which eroded workers' real income and triggered nationwide protests (National Bureau of Statistic (NBS, 2024).

Price stability, on the other hand, denotes the maintenance of low and predictable inflation rates to preserve the purchasing power of a nation's currency (CBN, 2023). The Central Bank of Nigeria (CBN) has long targeted single-digit inflation as a part of its monetary policy framework, but this goal has remained elusive due to structural rigidities and exogenous shocks. For instance, inflation rate in Nigeria has been fluctuating above 30% and has been in double digits since 2015 with a peak of 34.19% in June 2024 (NBS, 2024), driven by factors such as exchange rate depreciation, rising food prices, and supply chain disruptions.

The relationship between income policy and price stability is often contentious because while wage increases aim to improve workers' living standards, they can inadvertently fuel

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inflation if not matched by corresponding productivity gains - a phenomenon widely recognized in economic literature as the wage-price spiral (Blanchard, 1986).

In Nigeria, this dynamic is further complicated by several structural and institutional factors. First, the country's heavy oil dependency means the fiscal and monetary policies are often swayed by volatile global crude prices. For example, the 2016 oil price crash led to a severe economic recession, forcing the government to freeze wages despite high inflation, while the post 2021 oil price recovery did not translate into significant inflation relief due to declining production volumes and subsidy-related fiscal strains. Second, chronic fixed deficits have constrained the government's ability to sustainably fund wage increase without resorting to inflationary financing methods such as central bank overdrafts. Third, Nigeria's large Informal sector, which accounts for over 90% of total employment (NBS, 2024), operates outside the horizon of formal wage regulations. A case in point is the 2024 minimum wage increase to ₦70,000, which, while necessary to cushion workers from rising living costs, was particularly undermined by concurrent inflationary pressures. Food inflation, for instance, soared to 22.74% of July in the same year (NBS,2024), driven by rising transportation costs, insecurity in farming regions, and exchange rate depreciation, which pushed the naira to an all-time low of around ₦1,400 to ₦1,500 per US dollar as at 2024 in the official market.

The core problem, this study addresses is the apparent contradiction between income redistribution goals and price stability objectives in Nigeria, on the one hand, the government faces immense pressure from labour unions to raise wages in response to soaring living costs (MAN, 2024). Furthermore, existing studies on Nigeria's income policies have predominantly focused on labor welfare impacts, with limited attention to their macroeconomics consequences, particularly inflation dynamics, there is also insufficient research on how external shocks (e.g., oil price volatility, exchange rate fluctuations) mediate the relationship between wage growth and price stability. Thus, this study seeks to understand why minimum wage adjustments might contribute to inflation despite being intended to improve workers' purchasing power. Therefore, the objectives of the study are to: analyze the impact of minimum wage adjustments, broad money supply, oil price fluctuations and exchange rate movements on price stability.

2. Literature Review

2.1 Conceptual Review

Income Policy

Income policy, as a critical component of a nation's macroeconomic management, refers to a deliberate set of government strategies and interventions designed to influence the level, distribution, and dynamics of wages, salaries, and other forms of income. In the context of Nigeria, the government's pursuit of an effective income policy is primarily motivated by the dual objectives of promoting social equity and fostering economic stability (Ezeani, 2018). This policy operates through various instruments, most notably the implementation and periodic review of the national minimum wage, public sector wage adjustments, and the use of fiscal tools like taxation and subsidies to redistribute income. The central rationale is that by directly influencing income, the government can stimulate aggregate demand, reduce poverty, and address widening income inequality. For instance, the increase of the national minimum wage to ₦70,000 in 2024 was a direct income policy measure intended to bolster the purchasing power of workers against the backdrop of soaring inflation and the removal of fuel subsidies. However, the efficacy of this policy is often debated, particularly concerning its impact on price stability. While an income policy can serve as a vital tool for social welfare, it can also become a significant driver of inflation, creating a complex and often contradictory dynamic. A rise in the minimum wage, for example, can trigger a cost-push inflation spiral, where firms, faced with higher labor costs, respond by increasing the prices of their goods and services to maintain profitability (Okafor & Nnamdi, 2023). This effect is particularly pronounced in a developing economy like Nigeria, where supply-side rigidities, such as inadequate infrastructure, high energy costs, and foreign exchange volatility, limit the ability of the economy to absorb the shock of increased labor costs without raising prices.

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Simultaneously, an income increase can also lead to demand-pull inflation, as the newfound disposable income boosts consumer spending, putting pressure on a domestic supply chain that may be unable to keep pace with the surge in demand (Ahmed & Idris, 2024).

Price Stability

Price stability is a macroeconomic condition in which the general price level of goods and services within an economy remains low and stable over time, avoiding both prolonged inflation and deflation (CBN, 2007). It does not imply a complete absence of price changes but rather a state where inflation is low, predictable, and non-volatile, typically within a target range set by the Central Bank of Nigeria (CBN). The pursuit of price stability is a primary mandate of the CBN because it is considered a fundamental prerequisite for sustained economic growth and development (CBN, 2007). When prices are stable, consumers and businesses can make informed decisions about spending, saving, and investment without the uncertainty of future price levels. This stability protects the real value of incomes and savings, encourages long-term contracts, and promotes confidence in the local currency. Conversely, a state of price instability, characterized by high and unpredictable inflation, can have devastating effects on an economy. It erodes the purchasing power of households, particularly for low-income earners who spend a larger portion of their income on essential goods. This creates a situation where a nominal increase in income, such as from a wage raise, is quickly offset by a disproportionate rise in prices, rendering the income policy ineffective (Adebayo & Oladimeji, 2023).

In Nigeria, the challenge of maintaining price stability is often compounded by a confluence of factors, including supply-side bottlenecks, foreign exchange volatility, and fiscal deficits, which can trigger inflationary pressures that are difficult to control with monetary policy alone (ResearchGate, 2024).

2.2 Theoretical literature: Keynesian Theory of Income and Employment

John Maynard Keynes's Keynesian Theory of Income and Employment fundamentally reshaped macroeconomic thought by challenging the classical view that free markets would always self-correct to full employment. In his seminal 1936 work, The General Theory of Employment, Interest and Money, Keynes asserted that the level of national income and employment is not determined by market forces alone, but is primarily a function of aggregate demand (AD), which can be insufficient to absorb all available labor and capital. The key concepts of this theory are: first, that aggregate demand is the primary driver of economic activity; second, the consumption function which links income to household spending; and third, the multiplier effect, which magnifies the impact of initial spending. The theory posits that AD is composed of household consumption (C), investment by firms (I), government spending (G), and net exports (X-M), expressed as the identity

$AD=C+I+G+(X-M)$.

A cornerstone of this framework is the consumption function, which mathematically models household spending as a direct function of disposable income:

$C=a+bYd$,

where 'a' represents autonomous consumption (spending independent of income), and 'b' is the marginal propensity to consume (MPC), representing the fraction of each additional unit of income that is spent. This MPC is central to the theory's most powerful concept, the multiplier effect, which states that an initial injection of spending into the economy leads to a much larger overall increase in national income. The simple spending multiplier is given by the formula $k=1/(1-MPC)$, illustrating how a government's expenditure on an income policy, such as a minimum wage increase, can have a magnified impact on the economy as the recipients of the new income increase their consumption, which in turn becomes income for others in a cascading effect.

In the context of Nigeria, this theory provides the primary conceptual basis for using income policy as a tool for economic management. The government's decision to raise the national minimum wage is a direct Keynesian-inspired measure aimed at boosting household consumption and stimulating aggregate demand to spur economic growth and alleviate poverty (Okoro & Oladele, 2024). However, the practical application of this theory in Nigeria is significantly challenged by a set of complex realities that the original model did not fully address (Ahmed & Idris, 2024).

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Therefore, while the Keynesian theory of income and employment provides a compelling rationale for government intervention, its effectiveness in Nigeria is significantly contingent upon the resolution of these supply-side rigidities, which can transform a well-intentioned income policy into a catalyst for price instability.

2.3 Empirical Literature

Aleye et al. (2021) employed a sophisticated Dynamic Stochastic General Equilibrium (DSGE) model to analyze the effects of Nigeria's four historical minimum wage increases. The study finds no positive effect on broader economic growth. A critical negative outcome identified is the significant strain placed on government finances, likely due to the increased wage bill for public sector employees. The stark implication of these findings is that, the minimum wage is an ineffective and potentially counterproductive policy tool for achieving distributive and welfare objectives in Nigeria.

Okeowo et al. (2023) analyzed the impact of exchange rates, oil prices, inflation, and wage structures on Nigeria's economic growth from 1991 to 2022 using an ARDL model. It found that in the short run, inflation and wages positively relate to growth, while the exchange rate and oil price have a negative relationship. In the long run, the exchange rate, inflation, and wages show a positive relationship with growth, while the oil price remains negative. The study concludes that effective management of these variables is crucial for stability and growth, recommending policies such as exchange rate management, economic diversification, and strategic wage and human capital investment.

Bello (2023) examined the impact of money supply and exchange rate on Nigeria's manufacturing sector from 1980 to 2019. It found that an increase in money supply has a significant positive effect on manufacturing output. Conversely, the exchange rate has a significant negative impact, indicating that a weaker Naira harms the sector. The study concludes that these variables are crucial for manufacturing growth and recommends that monetary authorities ensure consistent policies to aid long-term planning.

Oniore & Aigbedion (2023) investigated the impact of monetary policy on inflation targeting in Nigeria from 1986 to 2022. Using the Autoregressive Distributed Lag (ARDL) approach, the research found that both the volume of currency in circulation and the monetary policy rate had a negative relationship with inflation targets. This suggests that increases in these monetary policy tools were associated with a reduction in inflation, highlighting their importance for achieving price stability in Nigeria.

Nenbee and Denwi (2023) explored the relationship between monetary policy, institutional quality, and macroeconomic stability in Nigeria from 1981 to 2019. Using Granger causality tests, it found no causal link between money supply (monetary policy) and macroeconomic stability (inflation). However, it identified a one-way causal relationship where inflation influences institutional performance (measured by the rule of law), but not vice versa.

Olaoye and Anyanwu (2024) revalidated the relationship between money supply and inflation in Nigeria using data from 1980 to 2023. Applying cointegration, ARDL, and Granger causality tests, it found that growth in the money supply has a significant positive impact on inflation in both the short and long run, with a stronger effect observed over the long term. Furthermore, a unidirectional causal relationship was identified, running from money supply growth to inflation. This implies that the Central Bank of Nigeria can effectively influence and control the rate of inflation by strategically managing the growth of the money supply.

Akobundu et al. (2024) investigated the impact of the national minimum wage on industrial sector growth in Nigeria from 1981 to 2022. Using a Dynamic Ordinary Least Squares (DOLS) model, it found that increases in the minimum wage had a significant negative correlation with industrial output. Conversely, the inflation rate showed a positive and significant impact on industrial growth, while the broad money supply (M2) had a significant negative association.

Akpan (2024) conducted an econometric analysis of the relationships between exchange rates, inflation, money supply, and economic growth in Nigeria. Utilizing an Error Correction Model (ECM). The research found a significant connection where exchange rate fluctuations contribute to inflationary pressures. It also confirmed that money supply and economic growth are significant factors

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influencing inflation rates, collectively explaining a substantial portion of the variation in real GDP. The ECM confirmed statistically significant long-term relationships among these variables.

Ugwu et al. (2024) examined the relationship between inflation, monetary policy rates, and economic growth in Nigeria from 1981 to 2022 using cointegration and error correction modeling. The analysis found that both a higher inflation rate and an increased monetary policy (interest) rate have a statistically significant negative impact on GDP growth. Conversely, a broad money supply was found to have a positive and significant effect on GDP. The exchange rate, however, showed no significant impact. The study concludes that inflation is detrimental to growth.

Amoo (2024) investigated the effect of wage increases and exchange rate fluctuations on inflation in Nigeria using an ARDL model. Contrary to conventional expectations, the results reveal that wage hikes have a negative, though statistically insignificant, long-run impact on inflation. Exchange rate fluctuations (a weakening currency) also demonstrate a significant negative effect on inflation, likely by suppressing investment and demand. The model explains a very high proportion (98.8%) of inflation variation, also finding that GDP growth reduces inflation while interest rate increases have a positive but insignificant effect.

Ogbonnaya et al. (2025) analyzed the impact of monetary policy on price stability in Nigeria from 1981 to 2023. Using an ARDL model, it found that money supply, petrol prices, and import prices are significant positive drivers of inflation. In contrast, the monetary policy rate (interest rate) and lending rate were found to have statistically insignificant effects, suggesting that traditional interest rate tools are ineffective at controlling inflation in this context. A key finding from Granger causality tests is a one-way causal relationship where exchange rate fluctuations lead to changes in inflation.

Nwaigwa et al. (2025) examined the relationship between exchange rate dynamics and inflation targeting in Nigeria from 1986 to 2023. It finds a positive relationship between the real exchange rate and inflation targeting, indicating that managing the exchange rate is a crucial tool for reducing inflation. A key insight from Granger causality tests is the absence of a feedback effect, meaning that while exchange rate management influences inflation targeting, the reverse is not true.

Oladejo et al. (2025) examined the relationship between monetary policy, inflation, and economic growth in Nigeria from 2006 to 2023. It found that, while an increase in the Monetary Policy Rate (MPR) was effective in reducing core inflation by tempering demand, it had a limited impact on persistently high food inflation, which is driven more by external supply shocks like weather and supply chain disruptions. Also, Anyanwu et al. (2025) analyzed the relationship between exchange rate dynamics and inflation-targeting monetary policy in Nigeria from 1986 to 2023. The findings indicate that while the exchange rate premium has a positive but insignificant link to inflation targeting, oil prices show a negative relationship. Notably, the nominal interest rate is negatively related to inflation, but food prices have an insignificant impact.

3. Methodology

This study employs an ex-post facto research design utilizing a quantitative approach to analyze the relationship between income policy and price stability in Nigeria from 1985 to 2024. An ex-post facto design is appropriate because it involves the analysis of historical data where the variables have already occurred and cannot be manipulated. This work used the Autoregressive Distributed Lag Model (ARDL) to analyze the dynamic relationship between income policy and price stability in Nigeria, because it is specifically designed to handle time series data, which often have different orders of integration.

Model Specification

The functional form of the model is expressed as:

$INFt = f(MWA_t, M_{2t}, IOP_t, EXR_t)$

For the purpose of estimation, the log form of the model is adopted. The econometric form of the model is expressed as:

$INF = \beta 0 + \beta 1\ MWA + \beta 2\ LOGM_2 + \beta 3\ LOGEXR + \beta 4\ LOGIOP + \mu$

Where: INF_t = Inflation Rate at time t, MWA_t = Minimum Wage Adjustments at time t, M_{2t} = Money Supply (M2) at time t, IOPt = International Oil Price at time t, EXRt = Official Exchange Rate (Naira/USD) at time t, LOG denotes the natural logarithm of the

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variables, β0 is the constant intercept., β1, β2, β3, β4 are the coefficients of the explanatory variables, μ is the stochastic error term.

Apriori Expectations

β1 > 0: Minimum wage adjustment is expected to have a positive relationship with inflation.

β2 > 0: Money supply (M_2) is expected to have a positive impact on inflation. An expansion in the money supply, according to the Quantity Theory of Money, increases liquidity and aggregate demand, leading to higher price levels (demand-pull inflation).

β3 > 0: Oil price is expected to be positively related to inflation. An increase in global oil prices raises the cost of production (e.g., transportation, energy) and import costs.

β4 > 0: Exchange rate is expected to have a positive effect on inflation. A depreciation of the Naira (an increase in EXR) makes imported goods, raw materials, and capital equipment more expensive.

4. Results and Discussion

Table 1: Descriptive Statistics

	INF	MWA	M_2	EXR	IOP
Mean	19.76825	0.175000	14.21137	175.6077	48.63925
Median	12.95000	0.000000	2.550000	127.2400	40.03000
Maximum	72.80000	1.000000	113.3300	1478.970	111.6300
Minimum	5.400000	0.000000	0.026280	0.890000	12.80000
Std. Dev.	17.01341	0.384808	23.52589	255.5107	32.21261
Skewness	1.670418	1.710674	2.573177	3.581079	0.598295
Kurtosis	4.676906	3.926407	10.12328	18.22746	2.001394
Jarque-Bera	23.28866	20.93976	128.7101	471.9533	4.048405
Probability	0.000009	0.000028	0.000000	0.000000	0.132099
Sum	790.7300	7.000000	568.4547	7024.310	1945.570
Sum Sq. Dev.	11288.79	5.775000	21585.24	2546143.	40468.43
55 Observations	40	40	40	40	40

Source: E-views 12 software output

On the average, Nigeria's inflation rate stood at 19.77%**,** with the lowest level of 5.40% and the highest level of 72.80% during the period. The minimum wage dummy variable recorded an average value of 0.175**,** indicating that minimum wage adjustments occurred in about 17.5% of the observed years, with a minimum of 0.000 and a maximum of 1.000**.** Broad money supply (M_2) averaged 14.21**,** ranging from a minimum value of 0.0263 to a maximum of 113.33**,** suggesting a substantial expansion in money supply over time. The official exchange rate (EXR) averaged ₦175.61 per US dollar, fluctuating between ₦0.89 at its minimum and ₦1,478.97 at its maximum, reflecting a significant depreciation of the Naira over the study period. Industrial output (IOP) recorded an average value of 48.64**,** with the smallest being 12.80 and the largest reaching 111.63**,** indicating fluctuations in Nigeria's industrial performance during the period under review.

Table 2: Correlation Matric

	LOGINF	MWA	$LOGM_2$	LOGEXR	LOGIOP
INF	1	-0.13687634	-0.1422208	-0.06418602	-0.27171965
MWA	-0.1368763	1	0.084302587	0.133892240	0.0222701421
$LOGM_2$	-0.1422208	0.084302587	1	0.956772180778	0.8554404653
LOGEXR	-0.06418	0.13389224	0.956772180	1	0.7449100506
LOGIOP	-0.27171	0.02227014	0.8554404	0.744910057	1

Source: E-views 12 software output

The correlation results indicate that broad money supply ($LOGM_2$) is strongly linked to both the exchange rate (LOGEXR) and industrial output (LOGIOP). Likewise, the exchange rate and industrial output show a high degree of connection, meaning that changes in one are often reflected in the other. In simple terms, when money supply expands, both the exchange rate and industrial output

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tend to move in the same direction. This suggests that monetary growth and exchange rate movements often go hand in hand with changes in industrial performance.

On the other hand, inflation (INF) shows weak and negative relationships with all the other variables, implying that shifts in monetary, exchange rate, or industrial conditions have only a mild inverse effect on the general price level. The minimum wage adjustment (MWA) also displays weak positive correlations with money supply, exchange rate, and industrial output, suggesting only limited co-movement.

Table 3: Unit Root Test at Levels

VARIABLE	ADF	1%	5%	10%	DECISION
INF	-4.129695	-3.615588	-2.941145	-2.609066	Stationary
MWA	-7.074056	-3.610453	-2.938987	-2.607932	Stationary
$LOGM_2$	-1.099535	-3.610453	-2.938987	-2.607932	Stationary
LOGEXR	-2.248981	-3.610453	-2.938987	-2.607932	Stationary
LOGIOP	-1.086144	-3.610453	-2.938987	-2.607932	Stationary

Source: E-views 12 software output

Table 4: Unit Root Test at 1st Difference

VARIABLE	ADF	1%	5%	10%	DECISION
INF	------	-------	-------	--------	
MWA	------	-------	--------	--------	
$LOGM_2$	-4.290473	-3.615588	-2.941145	-2.609066	Stationary
LOGEXR	-5.117604	-3.615588	-2.941145	-2.609066	Stationary
LOGIOP	-5.656402	-3.621023	-2.943427	-2.610263	Stationary

Source: E-views 12 software output

The Augmented Dickey-Fuller (ADF) unit root test results in Table 4 showed that at levels, two variables (INF and MWA) were stationary, while $LOGM_2$, LOGEXR, and LOGIOP were not. However, after first differencing, all the non-stationary variables became stationary as presented in Table 4.1.4. Given this outcome, which indicates a mix of I(0) and I(1) variables, the Johansen cointegration method was chosen to test for the existence of a long-run relationship among the variables.

Table 5: ARDL Bound Test

F-Bounds Test		Null Hypothesis: No levels relationship		
Test Statistic	Value	Signif.	I(0)	I(1)
			Asymptotic: n=1000	
F-statistic	5.16767	10%	2.2	3.09
K	4	5%	2.56	3.49
		2.5%	2.88	3.87
		1%	3.29	4.37

Source: E-views 12 software output

The F-Bounds test result presented in Table 5 showed that the computed F-statistic value of 5.1677 exceeds the upper critical bound value of 4.37 at the 1% significance level. This implies that the null hypothesis of no long-run relationship among the variables was rejected. Therefore, the result confirms the existence of a long-run equilibrium relationship **b**etween the dependent variable and its regressors within the ARDL framework. In other words, the variables in the model move together over time, suggesting a stable long-run association.

Table 6: Long Run Coefficient Result

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Variable	Coefficient	Std. Error	t-Statistic	Prob.
MWA	-0.00158	0.767676	-0.002061	0.9984
$LOGM_2$	0.54628	0.323458	1.688892	0.1028
LOGEXR	-0.74746	0.446368	-1.674542	0.1056
LOGIOP	-0.61815	0.364214	-1.697224	0.1012
C	7.04889	2.366363	2.978787	0.0061

Source: E-views 12 software output

The long-run ARDL results presented in Table 6 showed that broad money supply ($LOGM_2$) has a positive coefficient of 0.5463, indicating that an increase in money supply is associated with a rise in the dependent variable. However, this relationship is not statistically significant at the 5% level (p = 0.1028), meaning the effect is not strong enough to be conclusive. The exchange rate (LOGEXR) and industrial output (LOGIOP) both have negative coefficients of −0.7475 and −0.6182**,** respectively. This suggests that exchange rate depreciation and higher industrial output tend to slightly reduce the dependent variable, though these effects are also statistically insignificant (p = 0.1056 and 0.1012). The minimum wage adjustment (MWA) shows a very small and insignificant negative effect (−0.0016, p = 0.9984), implying that changes in minimum wage policy have little or no meaningful long-run impact on the dependent variable.

Table 7: ARDL Short Run Error Correction Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(INF(-1))	0.536248	0.143345	3.740953	0.0009
D(MWA)	0.119610	0.156704	0.763285	0.4519
D(MWA(-1))	0.374980	0.158167	2.370786	0.0251
$D(LOGM_2)$	1.056180	0.564167	1.872106	0.0721
D(LOGM2(-1))	1.656262	0.559932	2.957971	0.0064
CointEq(-1)*	-0.663038	0.109376	-6.062004	0.0000
R-squared	0.599243	Mean dependent var		0.046371
Adjusted R-squared	0.536625	S.D. dependent var		0.616559
S.E. of regression	0.419702	Akaike info criterion		1.245394
Sum squared resid	5.636785	Schwarz criterion		1.503960
Log likelihood	-17.66249	Hannan-Quinn criter.		1.337390
Durbin-Watson stat	1.821861			

Source: E-views 12 software output

The result showed that in the short run, the previous period's inflation (D(INF(-1) has a positive and significant impact on the dependent variable, suggesting that past changes in inflation continue to influence current economic conditions. Similarly, the lagged value of money supply ($D(LOGM_2(-1)$ is positive and significant, meaning that increases in money supply from earlier periods help stimulate short-run economic activity. The lagged minimum wage adjustment (D(MWA(-1) also shows a positive and significant effect, indicating that adjustments in minimum wage policies have a delayed but meaningful impact. The error correction term (CointEq(-1) is negative and highly significant, confirming that a stable long-run

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relationship exists among the variables. Its suggests that about 66% of any short-run imbalance is corrected each period, showing a relatively fast return to equilibrium. Overall, the model explains around 60% of the short-run variations in the dependent variable (R^2 = coefficientof−0.663
0.599), which indicates that it fits the data quite well and provides meaningful insights into the short-run dynamics.

Table 8: Post Estimation Serial Correlation Test

Breusch-Godfrey Serial Correlation LM Test:			
F-statistic	0.220854	Prob. F(2,25)	0.8034
Obs*R-squared	0.659740	Prob. Chi-Square(2)	0.7190

Source: E-views 12 software output

The Breusch-Godfrey LM test result indicated that the model does not suffer from serial correlation. This is because the probability values (0.8034 and 0.7190) are greater than the 5% significance level, meaning we accept the null hypothesis. Therefore, the residuals are not correlated across time, and the model's estimates can be considered reliable and consistent.

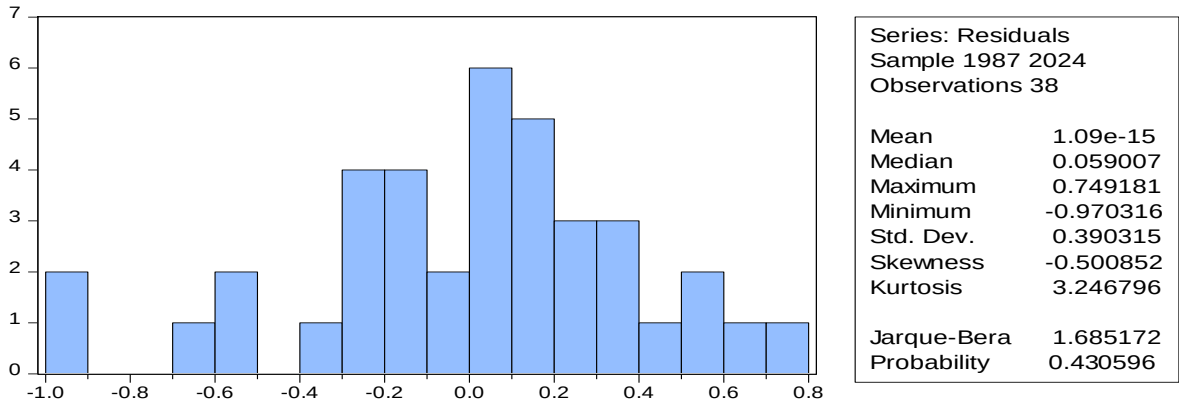

Figure 1: Post Estimation Normality Test

The Jarque-Bera normality test result showed that the residuals are normally distributed. This is evident from the probability value of 0.4306**,** which is greater than the 5% significance level. Therefore, we accept the null hypothesis of normality. In addition, the skewness value of -0.500852 (close to zero) and kurtosis value of 3.246796 (close to 3) further confirm that the residuals follow a normal distribution. This suggests that, the model is well-specified and its estimations are statistically reliable

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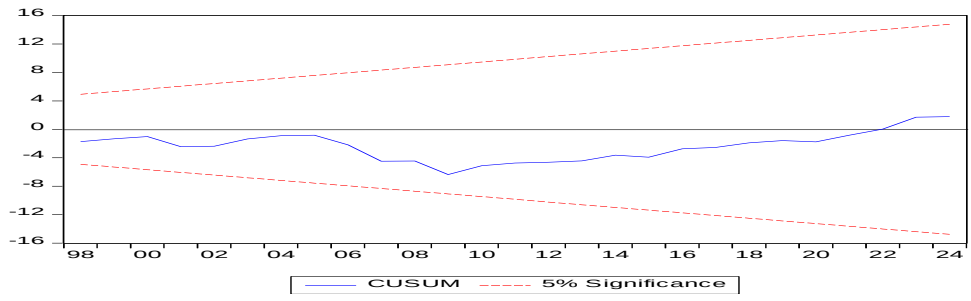

Figure 2: Post Estimation Stability Test

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The CUSUM stability test result showed that the blue line (representing the cumulative sum of recursive residuals) remains within the 5% significance boundaries throughout the sample period. This indicates that the model's parameters are stable over time and that there are no structural breaks. In other words, the relationship among the variables is consistent and reliable across the study period.

5. Conclusion and Recommendations

This study investigated the relationship between income policy and price stability in Nigeria from 1985 to 2024, using minimum wage adjustments as a proxy for income policy, while controlling for broad money supply ($M_{2)}$, exchange rate (EXR), and international oil prices (IOP). Employing an ARDL econometric approach on annual time-series data sourced from the National Bureau of Statistics (NBS), Central Bank of Nigeria (CBN), World Bank, and OPEC, the analysis revealed mixed results aligned with the study's objectives. The also findings revealed that, minimum wage adjustments have negligible long-run inflationary impacts, challenging the wage-price spiral narrative, though short-run lags suggest temporary cost-push effects. Monetary expansion emerges as the primary long-term inflation driver, while external factors like oil prices and exchange rates exhibit counterintuitive stabilizing influences, likely due to policy interventions and economic adaptations.

Based on the findings, the following recommendations were made: Central Bank of Nigeria (CBN) should enforce stricter control on M_2 growth, limiting fiscal monetization through ways and means advances. Also, future hikes in minimum wage adjustments should be tied to productivity improvements, such as investments in skills training. Furthermore, the CBN should pursue a more flexible yet managed exchange rate regime to reduce pass-through inflation. There should be implementation of regular NBS surveys to track real wage erosion, informing timely adjustments that protect purchasing power without fueling spirals, particularly post-subsidy reforms.

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