2nd International Conference on Management and Business

18 - 20 July 2025 London, United Kingdom

# Test Of Capital Account Monetary Model of Exchange Rate Determination: Empirical Evidence from Selected African Countries

**Prof. Oloyede John Adebayo**

*Department of Finance, Faculty of Management Sciences, Ekiti State University, Ado Ekiti, Nigeria*

## Abstract

This study tested a variant of the monetary model of exchange rate determination, called Frankel's Capital Account Monetary Model (CAAM) based on Real Interest Rate Differential using the floating exchange rate experiences of three developing countries of Africa; viz: Ghana, Nigeria and the Gambia. The CAAM model hypothesised that such macroeconomic variables as money supply, income, interest rate and inflation differentials, in a situation of perfect substitution of domestic and foreign bonds, perfect capital mobility, uncovered arbitrage condition and sticky prices, are significant determinants of exchange rate behaviour in a floating exchange rate regime. The study adopted the Auto regressive Instrumental Package (AIV) and Almon Polynomial Lag Procedure of Regression Analysis based on the assumption that the coefficients follow a third-order Polynomial with zero-end constraint. The results found some support for the CAAM proposition that exchange rate responds proportionately to changes in money supply, inversely to income and positively to interest rates and expected inflation differentials. On this basis, the study points the attention of monetary authorities and researchers to the relevance and usefulness of CAAM as appropriate tool and useful benchmark for analysing the exchange rate behaviour of most developing countries.

**Keywords**: exchange rate, monetary model, real interest, capital account