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Inflation Illusion and Price to Book Value of Quoted Manufacturing Firms in Nigeria

Gabriel Queen Ibim[1]* & Sampson Ikenna Ogoke[2]

[1]Department of Finance, Faculty of Administration and Management, Ignatius Ajuru University of Education, Port Harcourt, Rivers State.
[2]Department of Banking and Finance, Kingsley Ozumba Mbadiwe University, Ideato, Imo State.

***Corresponding Author**: Gabriel Queen Ibim
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Abstract

This study examined the effect of inflation illusion on price-to-book value of quoted companies in Nigeria. Using panel data of 35 quoted firms and the Statistical Bulletin of the Central Bank of Nigeria from 2012 to 2021. The dependent factor was price-to-book value and the explanatory variables were real inflation rate, core inflation rate, nominal yield, real cash flow, nominal interest rate and money supply. Methods: Panel data techniques were applied, with a fixed-effects model being estimated at the 5% level of significance. Detailed information on pooled, fixed-effects, and random effects estimations were calculated in the first place and a Hausman specification test was performed to obtain the best-suited model. Model One results found inflation illusion differences explained 90% of the variation in quoted firms' price value. Moreover, nominal yield created a positive impact on price value in the study period while real inflation rate and core inflation rate reflected negative effects. The results of Model Two illustrated that 89.7% of the variation in the price value of the sampled firms was explained by those inflation-illusion variables contained within the regression model. In this model nominal interest rate and money supply had positive effects all through the period examined, while real cash flow followed suit as price value decreasing. Based on the analysis, it was therefore concluded among others that inflation illusion is a major factor influencing market value of quoted firms in Nigeria. Managerial implications Given these findings, the results suggest management policies for proper management of the misleading unfavourable implications of inflation illusion in order to control the lump sum overvaluation of quoted firms.

Keywords: *Inflation Illusion, Price to Book Value, Core Inflation Rate, Nominal Yield, Real Cash Flow, Normal Interest Rate, Money Supply Manufacturing Firms.*

Introduction

This pattern led to the widespread perception that financial markets are quick to react to news about economic events; for example, stock prices tend to adjust quickly in response to new information concerning their financial performance and macroeconomic conditions. Falls in equity prices may be triggered off by negative economic indicators, while even favorable inflation-related information can lead to positive market reactions. These responses are largely consistent with standard finance theories, which argue that corporate value incorporates systematic economic information and that investors should not expect higher returns for taking on diversifiable risk. However, evidence about the state variables that drive asset pricing is still preliminary. This is especially important to inflation since it may change the investors' required returns on capital, risk perception including real discount rates (Kullaporn & Lalita 2010). Furthermore, it also needs to look forward to rising inflation which may limit the growth of financial markets (Owolabi & Adegbite, 2013). The theoretical discussions on inflation and firms value are mainly based on Fisher (1930) hypothesis, which argues that corporate assets may act an effective hedge given companies prices during high price growths cause investors to prefer real not financial assets (Osagie & Emeni, 2015; Mbulawa, 2015). Contrary to this, Fama (1981) asserts that the negative correlation between inflation and stock return does not show any sign of causal link between both variables rather their joint relationship with other economic factors presents a spurious association (Owolabi & Adegbite, 2013). It also documents that the inflation increases equity valuation indirectly through real economic activities which are among the major drivers of corporate value. Likewise, under the Efficient Market Hypothesis (EMH), security prices adjust to information availability suggesting that stock prices can change with changes in inflation. In the Arbitrage Pricing Theory (APT), we expect equity prices to be influenced by macroeconomic variables which can affect expected cash flows and required rates of return. Accordingly, some economic variables have been discovered relevant to stock return and risk behaviour through empirical researches (Gangemi et al., 2000).

Inflation surprises affect financial markets due to transmission channels that go beyond subsequent revisions in inflation expectations. Investors may react to an increase in inflation by predicting the bank will respond with tighter monetary policy which can cause corporate cash flows to decline and equities prices to fall. In the same way, positive or negative inflation surprises lead to less saving which provides an upward force on rates and, therefore, a downward pressure on stock prices. But these channels of transmission are what leads us to expect that a surprise inflation announcement can have an either positive or negative impact on firm value. One especially salient behavioural explanation for such valuation responses is the inflation illusion hypothesis developed by Modigliani and Cohn (1979). The hypothesis states that nominal growth rates of dividends may reflect a deeply-rooted aversion to correctly adjusting passively for the impact of inflation on nominal dividend growth and yet investors continue to use historical nominal growth rates after these have decidedly changed relative to past environments. As a result, stocks could sell at discounts in times of higher inflation and premiums when inflation is lower. At its core, inflation illusion is a kind of behavioral bias whereby investors struggle to tell the difference between changes in nominal financial variables that are due to real fundamentals or those due to the general price level. Similar to money illusion, which is the tendency of people to not be able to see the difference between nominal and real amounts of currency. This tendency Fisher called nominal (rather than real) thinking about money and Keynes too wrote of the non-neutrality of money in his General Theory of Employment, Interest and Money (1936). This leads to the inflation illusion and tax-effects hypotheses which differ in their expectations about which firms benefit from increases in expected inflation. Unlevered firms that use first-in first-out inventory accounting and have significant depreciation allowances may therefore receive relatively larger benefits from inflation illusion since their financial profits are more likely to rise relative to levered firms. The tax-effects hypothesis predicts the opposite, because it suggests that such firms face larger increases in their real tax burdens as a result of inflation (Mbulawa, 2015).

The theoretical literature on inflation expectations, the methods for estimating them since they cannot be directly observed, determinants of corporate value and the macroeconomic implications of inflationary developments are well covered. The Fisher effect, which posits that nominal interest rates rise or fall with inflation in the long run through systematic association while expected real interest rates generally remain constant (Fisher, 1930), is at the centre of this discussion. This is an important implication for inflation-targeting policies since monetary authorities use the nominal interest rate as a tool for affecting inflation. Fisher also contended that equity shares, which represent claims on the physical assets of companies, can provide protection against expected inflation. Also consistent with this proposition are the estimates of nominal financial asset's long-term expected interest rate, which in general is assumed to adjust roughly one-for-one with inflation expectations (Fisher, 1930). Thus, an increase in short- and long-term interest rates may subsequently change discount rates in the same direction via the nominal risk-free rate (Mukherjee & Naka 1995). Yet, the interest rate itself may not be the only relevant variable since previous studies demonstrate that yield spreads and default spreads could better explain equity-return fluctuations (Chen et al. Consequently, inflation illusion can have real implications for corporations by impacting how nominal changes in financial variables are priced in the marketplace and ultimately affect the market value of the firm. Experimental price-setting games were conducted by Fehr and Tyran (2016) to investigate this behavioural mechanism underlying nominal inertia. Their analysis, ruling out as much as they could information frictions, adjustment costs, staggered contracts, and other standard suspects of nominal inertia in favour of inflation illusion explaining nominal rigidity.

Consequently, the relationship between inflation illusion and corporate value has garnered significant theoretical and empirical interest. The first building block of the Fisher (1930) framework for explaining the inflation-equity relationship is to consider equity securities as claims on firms' real assets, which may represent an effective hedge against inflation. Given this, if investors anticipate a relatively high level of inflation, they may adjust their portfolios away from financial securities and onto real assets (Ioannides, Katrakilidis, & Andreas, 2005). In terms of market efficiency, the information flows through international and domestic economic settings (such as macroeconomic variables like inflation) in security pricing in capital markets. Under perfect market conditions, Mahedi (2013) found similar results and even noted that inflation can affect stock indices when actual inflation does surpass expectations and is taken as adverse information about the economy with consequences to firm value. Recent theoretical advances have underscored the potential role of inflation illusion in determining asset prices (e.g., see Modigliani and Cohn 1979). Fehr and Tyran (2001) have proved that inflation illusion may have important behavioural repercussions, particularly if a critical mass of market participants falls under the spell of this bias, even if they represent only a small part of the whole number. Building on this view, Piazzesi and Schneider (2008) provided an asset-pricing framework consistent with general equilibrium where some investors suffer from inflation illusion. These speculators may misinterpret movements in nominal interest rates as changes in real interest rates, while rational investors apply the Fisher relationship correctly. While rational investors do participate to maintain equilibrium nominal interest rates in response to expected inflation, differences in perceived real interest rates by rational versus inflation-illusion investors can create borrowing and lending activity as well as capital gains on collateral.

Literature Review

Fisher Effect Theory

According to Fisher (1930), equities can act as an inflation hedge since if investors expect inflation, they should also expect a rise in nominal stock returns, so both variables go hand in hand. According to this proposition, investors are compensated for increases in the general price level through higher nominal returns, rendering real stock returns little changed. Therefore, in real terms equities should be fairly sheltered from inflation. Several postwar studies indicated stock returns are not a hedge against inflation. In line with Fama (1981), the correlation was re-evaluated by taking into consideration that stock returns are driven by expectations of not only inflation but also income growth. Fama's first specification linking proxies for expected inflation to stock returns without expected income growth was thus confounded by omitted-variable bias. Controlling for expected income growth, Fama (1981) found evidence that the Fisher hypothesis could not be rejected. The Fisher effect (Fisher, 1930) additionally holds that nominal interest rates include information of expected inflation. This proposition supports the perspective that monetary policy needs to pay close attention to inflation expectations in order to keep real interest rates relatively flat over time and hence promote saving and investment (Laichena & Obwogi, 2015). The theory is applied to common stocks, suggesting that expected stock returns are a combination of a real return and an inflation component, where the real return is held reasonably constant in time. Therefore, nominal stock returns are expected to respond in proportion to changes in inflation, such that the variation of nominal returns will be directly related about one-for-one with inflation (Mahonye & Mandishara 2014).

In particular, the Fisher effect posits that nominal interest rates on financial assets will respond to expected inflation in roughly the same proportion. As a result, movements in both short- and long-term interest rates are expected to affect discount rates similarly via their impact on the nominal risk-free rate (Kuwornu, 2012). According to the Fisher hypothesis, real interest rates are also assumed to be exogenous to developments in the monetary sector Floros (2004). It means that real equity returns should not systematically predict the rate of inflation when nominal stock returns are used, meaning that the proposition is analysed/re-examined using real rather than nominal stock returns (Shanmugam & Misra, 2008). Consequently, the Fisher framework in its most general form differentiates between nominal and real returns so that nominal returns on financial assets are assumed to rise with inflation while real returns are expected to be invariant to changes in the price level. By contrast, when narrowing the focus to stock-market returns, the theoretical and empirical literature has explored both direct and indirect channels for inflation to influence equity valuation; thereby, it has also contemplated potential negative relationships between expected and unexpected inflation on stock returns.

Debtor-Creditor Hypothesis

The debtor-creditor hypothesis is grounded in the proposition that unexpected inflation transfers wealth from creditors to debtors because the purchasing power of fixed monetary claims declines as the general price level rises (Kessel & Alchian, 1962). Although this proposition has been widely recognised in economic theory, empirical investigations have generated inconsistent evidence. Kessel (1956), examining the inflationary period from 1942 to 1948, reported an inverse relationship between movements in the stock prices of sixteen banks and thirty industrial firms and their net monetary positions. Subsequent studies questioned the extent to which this mechanism explains equity-market behaviour. Bach and Ando (1957), using an approach similar to Kessel's analysis for the 1939–1952 period, identified a significant positive relationship but found limited support for the debtor-creditor proposition, arguing that other determinants, particularly sales volume and the lead-lag effects associated with different costs and prices, exerted more substantial influences, thereby assigning a relatively minor role to debtor-creditor effects. Similarly, Broussalian (1961), using data covering 200 firms between 1949 and 1956, obtained evidence inconsistent with the predictions of the hypothesis. De-Alessi (1964) also investigated the debtor-creditor proposition, while Bach and Stephenson (1974) examined United Kingdom data for the 1952–1970 period to assess the relationship between market returns and net monetary positions during high-inflation years. Their findings suggested that stock prices did not adequately incorporate debtor-creditor effects, possibly because accounting reports reflected such effects only after considerable time lags, if they were reflected at all. Further evidence from Johnson, Cogger, and Huttman (1980), based on observations from 1965 to 1972, provided no empirical support for the debtor-creditor hypothesis, reinforcing the view that inflation-related wealth transfers alone may not adequately explain movements in stock-market values.

Tobin's Q Theory of investment

Tobin (1969) suggested an investment theory that relies on the neoclassical NPV-based investment theory. The theory states that the rate of investment is related to q which expresses the market value of capital as a ratio to its replacement cost. Tobin (1969) defines q as follows:

$$q = \frac{M}{C} \qquad (1)$$

where, $M =$ market value of capital, $C =$ replacement cost of capital. Economic theory suggests that at equilibrium, q is 1 for reproducible assets and less than 1 for other assets. If $q > 1$ (that is, when market value of capital is high relative to its replacement cost), then investment is encouraged. On the other hand, if $q < 1$, then acquiring new plants and equipment is less attractive. The link between inflation and q can be expressed can be expressed as follows:

$$M \uparrow \Longrightarrow \ i \uparrow \Longrightarrow P \uparrow \Rightarrow q \uparrow \Rightarrow I \uparrow \qquad (2)$$

An expansionary monetary policy which increases the money supply $M \uparrow$ and raises the rate of inflation $i \uparrow$ would lead to the increase in demand for equity and would consequently lead to the increase in the price of equity$P \uparrow$. This would increase the value q which would in turn increase investment $I \uparrow$. Thus; Tobin q theory implies that there is a direct relationship between inflation, equity prices and investment.

Conceptual Review

Inflation Illusion

Modigliani and Cohn (1979) put forward what we call the inflation illusion hypothesis, which assigns a key role for money illusion in determining a large part of the instigated real impacts of inflation. This framework implies that the yields on bonds will increase with inflation, but when equity investors use nominal discount rates rather unwisely on real cash flows—this increases the nominal yield offering downward pressure onto stocks as equities would be considered undervalued with higher nominal yields from bonds—and vice versa (when inflation falls) (Owolabi & Adegbite 2013). Carnes et al. (1980) Modigliani and Cohn (1979) also maintained that disinflation generates valuation errors as inflation illusion influences earnings expectations among investors so that they interpret the changing state of inflation incorrectly, transmitting a wrong signal to the stock market itself on the flip side, an even lower volatility of inflation might result in less mispricing as well as efforts towards improving market efficiency. The consequences of money illusion are more severe for investors, since equity investment relies on expectations of high returns. In times of high inflation, investors expect perceptively much higher equity risk premia and rationally so; while their less than sufficient subjective expectations feed an undervaluation of shares. One of the main difficulties in this respect, however, is that inflation expectations are not directly observable. One sort of expectation formation is given by Lucas and Sargent on rational expectations hypothesis in which economic agents base their forecasts, not solely upon past experience, rather exclusively upon currently available and relevant information. Thus, rational expectations mean that expectations are formed using the information of the time rather than depending on historical values alone (Gujarati & Porter, 2011, p. 637). Though theoretically relevant, the rational expectations hypothesis has faced criticism because of the challenges to empirically pinpoint mechanisms through which expectations form. Whether for instance Dynamic Stochastic General Equilibrium (DSGE) frameworks, such as those documented by Goutsmedt, Pinzon-Fuchs, Renault and Sergi (2016), individual models seem less apt to capture economic policy changes. Another model that provides an alternative framework for explaining the evolution of expectations is the adaptive expectations model.

Inflation

Gill (1973) defines inflation as a persistent or average rise in the general price level of an economy, classifying it separately from the microeconomic phenomenon where the price of one good increases in value against others. Therefore, if microeconomic analysis isolates changes in relative prices of single goods, inflation denotes increases affecting almost all products and services or (more frequently) variation of an index intended to reflect the average regulation of prices within economies. According to Maddison (2106, 12), This common definition brings into play the complexity of which prices are included in the inflation index. In Nigeria, the most frequently cited measures are the Consumer Price Index Wholesale Price Index and Gross National Product (GNP) Price Deflator — GNP price deflator would give a better broad-based measure than either CPI or WPI because it separates changes in real GNP from those change attributable only to monetary values. A Keynesian explanation of inflation was given by Gill (1975) who defined the phenomenon as a condition that occurs when aggregate demand for goods and services exceeds the level of national income normally associated with full employment. Inflation also has bearing on how we assess corporate profits. According to Sizer (2000), inflation leading to distortion in reported profits results from accounting measurements also being dependent on how revenues, expenses and net assets are determined. The standard way to calculate profit according to the accounting model is from the change in net assets over an accounting period with revenues and expenses being matched to determine any surplus that follows. Nonetheless, the historical-cost-accounting instrumentation of expenses matched with ciurrent-period revenues may represent costs that were incurred in prior periods instead of current replacement or market values. Therefore, the reported profit can be misleadingly high because this is such a dynamic time and prices are changing rapidly.

Empirical Review

Whether inflation affects the stock-market performance over the period 1991–2010 in Nigeria, has been studied by Daferighe and Charlie (2012). Applying the OLS estimation method and different measures of stock-market performance, the study found that inflation had a detrimental impact on market capitalisation, total value traded ratio, and All-Share Index change. Yet, the negative impact of inflation on turnover ratio was not statistically corroborated. The authors recommended that it will be useful if the government should strengthen public enlightenment on company ownership and decision making and also encourage better corporate governance practices to increase market transactions especially given the low level of the activities in this market. In an international context, Diaz and Jareño (2013) investigated the reaction of Spanish stock-market returns to inflation announcements while controlling for market conditions and pass-through analysis between sectors. They used the Autoregressive Moving Average (ARMA) technique to analyse 179 monthly IPC announcements from February 1990 to December 2004. The results showed that non-announced surprises in inflation have a significant effect on abnormal stock returns, and the responsiveness is based on the categorized announcement including whether it favors or hurts an industry, economic conditions, flow-through ability of sectors. Additionally, Mogire (2014) explored inflation and stock-market returns on the sample of 65 firms listed in the Nairobi Securities Exchange. Using both the Granger Causality test and OLS estimation, the study proved a bilateral cause-and-effect relationship between inflation and stock returns. Stock-market returns were also positively correlated with inflation but negatively correlated with interest rates and stock returns.

Data covering the period 1997–2010 was used to study both factor (Ibrahim and Agbaje, 2013) in Nigeria. Using the Autoregressive Distributed Lag (ARDL) model, it was determined that inflation had a significant impact on stock returns. They also point out that Using OLS regression analysis to investigate the impact of inflation on capital-market performance in Nigeria, Owolabi and Adegbite (2013). They found that inflation indirectly influenced the various stock-market performance indicators evaluated in the analysis but did not have a negative effect on market volume over the period assessed. This suggests that the inflation-stock-market relationship might depend on the specific dimension of market performance being studied. Stock-market returns are then affected by inflation expectations; Iwegbu and Adeoye (2020) later analysed the relationship between inflation expectations with stock-markets returns in Nigeria for both the financial-crisis and post-financial-crisis periods. Based on the Fisher effect, quarterly observations from 1T07 to 4T18 were used in this study. Once the stationarity was confirmed by means of the Augmented Dickey-Fuller (ADF) test and once long-run stability was determined via the Bounds cointegration test, researchers applied an ARDL estimation method between variables. The findings suggested that inflation expectations were significant drivers of stock-market returns and further showed that equities did not hedge the real return from inflation very well. Fisher therefore hypothesis for Nigeria for the post-global-financial-crisis period authors rejected.

Alimi (2014) investigated the short-run and long-run argument between inflation—financial-sector development in Nigeria from 1970 to 2012 guaranteed further evidence on inflation as well as financial-sector outcomes. Results showed inflation hampered financial development across the study. Although Taofik and Omosola (2013) investigated the long-run relationship between inflation and stock returns in Nigeria, they provided evidence that supports a long-run association between inflation and stock returns. In Pakistan, the implications of high-inflation on stock-market returns using monthly observations on inflation and stock returns were studied by Ahmad and Naseem (2011). Their results showed a negative documented impact of inflation on stock-market returns. By employing multivariate regression analysis on a dataset of firms across 77 countries, Fallah and Hashem (2017) investigated the link between inflation, public operating cycles, corporate cash holdings. Their results showed firms in the sample had less cash during periods of high inflation. Together these studies illustrate that inflation affects financial-market behaviour through various channels, however, the sign and strength of this relationship depend on the specific circumstances in each country, state of the market, and financial indicators.

Indian Journal of Finance, 12(5), pp. Reza, G. (2017). Inflation uncertainty and the capital structure: evidence from non-financial firms listed on Tehran Stock Exchange. Using a sample of 186 firms from the manufacturing sector for the period 2007–2014, inflation uncertainty is estimated using the Generalized Autoregressive Conditional Heteroskedasticity (GARCH) model. More than 50% of the examined firms revealed negative effects of inflation uncertainty on leverage, while positive responses were noted for other firms according to the type of uncertainty suffered. In summary, the review of empirical evidence suggests inflation and inflation expectations are relevant to understanding stock returns, market performance, financial development, corporate cash holdings and capital-structure decisions. However, such results are not without exception as mixed (positive and negative) relations were found in some other studies with different economic and institutional environments. In the research context of contemporary Nigeria, this inconsistency and the relatively scant empirical evidence focusing more on inflation illusion and quoted firm valuation begs further examination. This study thus, attempts to shed light on the relationship between inflation illusion and market value of quoted firms in Nigeria.

William et al. A study by Banzon et al. (2016) used a sample of 73 diversified firms and investigated the effects of inflation on stock-price growth among large companies in the Philippines using data from 1998 to 2014. To understand these patterns, the changes were examined through data on stock-price growth every month, focusing on various factors contributing to them. The researchers used a descriptive correlational design and analyzed the panel data with regression analysis. They found a positive correlation, but statistically insignificant one, between inflation and stock-price growth. Some research has examined the influence of financial performance, capital structure and several macroeconomic variables on firm value (Jubaedah and AbdulRazak 2016), particularly inflation. They analysed the cross-sectional time-series data derived from the audited financial statements of 20 textile corporations that are listed on the Indonesian Stock Exchange by employing panel regression analysis. Findings The findings confirmed that the explanatory variables had a significant overall effect on firm value. Utilizing profitability as measured by return on assets (ROA) and economic value added, Nnado & Ugwu (2016) explored the association between inflation, firm value within manufacturing firms in Nigeria. Data, which is secondary in nature, was drawn using the financial accounts of a sample entities and various analytical tools such as multiple regression along with ANOVA were employed to analyse the data. It was found that inflation has a strong negative relationship with firm value and an insignificant negative association between inflation and ROA. Moreover, the links between inflation and ROA & economic value-added sides were also unrelated for any statistically significant. The authors concluded that even moderate levels of inflation could significantly reduce the real value of corporations and contended that true assessment of capital gains or losses should take into account both fixed and other long-term investments.

Zufigar and Nizam (2015) used a panel data of 50 firms listed on the Karachi Stock Exchange to investigate the effects of inflation, interest rates, and firm performance in Pakistan. Using Ordinary Least Squares (OLS) estimation, they found that return on assets was positively and significantly influenced by inflation and interest rates; but the inflation effect on ROAwas also reported positive but not statistically significant. The study thus advised the inflation at single digit ranges to ensure better firm performance and overall economic conditions. Pervan et al. (2015) studied the bank performance persistence and determinants of 46 Croatian banks during the period 2002–2010. Method of data accumulation the study used dynamic panel Generalized Method of Moments (GMM) and Markov Chain stochastic processes, ROA as measure bank performance. The major positive determinants were lagged profitability, bank size, intermediation, solvency risk, industry concentration (Herfindahl index), market growth and GDP growth; whereas inflation rate, credit risk and operating-expense management had significant negative effects on profitability. Likewise, Zulfiquar and Din (2015) explored the impact of inflation and interest rates on capital structure of 50 quoted textile companies of Pakistan and found that both these macroeconomic variables are positively related with ROA as well as ROE. The study of Köksal and Orman (2015) on the determinants of capital structure in Turkey analysed 11,726 unbalanced panels based on non-financial firms from 1996 to 2009. Their model included firm-specific, tax-related, industry-specific and macroeconomic variables in addition to the evaluations of the trade-off and pecking-order theories predictions. The trade-off perspective predicts a positive relationship between inflation and capital structure, whereas the pecking-order theory does not include a meaningful role for inflation. Empirical panel regression results supported the trade-off perspective, indicating that inflation had a significant positive impact on capital structure; the authors also indicated that a 5% decrease in average firm leverage can only be explained by a decrease in own inflation.

Literature Gap

In the Nigerian setting, there have been a handful of empirical studies that examined how inflationary developments signal the stock market and affect local market activities (Daferighe & Charlie, 2012; Ibrahim & Agbaje, 2013; Mogire, 2014; Owolabi & Adegbite, 2013). For example, Toby (2021) explored how inflation correlated with the value of firms in Nigeria over a ten-year time period (2007–2016) utilizing firm-level panel observations from 21 quoted companies. For instance, Nnado and Ugwu (2016) examined the effect of inflation on firm value in Nigeria manufacturing industry. Even if they contributed to the debate, empirical evidence specifically related to the effects of inflation illusion on quoted firms market value is still scarce and rather mixed. Thus, the unresolved gap leads to this study which therefore examines the effect of inflation illusion on the market valuation of listed manufacturing firms in Nigeria.

Methodology

This study is mainly quantitative in nature and utilises statistical and operational methods to realise its aims. Thus, an ex-post facto research design was employed for this study to determine the influence of inflation illusion on the market value of listed manufacturing companies in Nigeria. The population, which is defined by Asika (1991) the total group of individuals or elements relevant to a study (finite or infinite), from where sample can be taken. Based on this definition, the selection of the population in this study as a sample consists of quoted manufacturing firms where 163 companies were listed with respect to Nigerian Exchange Group (NGX) which represents the firms under consideration for this study. Data of the chosen sample is provided in the table below. The information needed for the research was from the two sources of data collection which were primary sources and secondary sources; however, the study used secondary data obtained from published documents particularly those in respect of the annual reports and financial statements of the quoted firms.

Model Specification

A linear model was proposed for this study. The influence of inflation illusion and market value of quoted enterprises in Nigeria is assumed to have interest rate spread as the dependent variable. The model is also influenced by the data type, which is time series and cross sectional, collecting various manufacturing enterprises listed on the stock exchange. Below is a summary of the model;

$$MV_{it} = a_i + X'_{it}b + \mu_{it} \qquad (3)$$

Where

$$\mu_{it} = \lambda_{it} + \eta_{it} + v_{it} \qquad (4)$$

; t – denotes time and i – denotes individual manufacturing firms

μ_{it}– two way error component

η_{it} – country effects

λ_{it}– time effects

v_{it} – usual error term

a and b – usual constants

Final Estimation Model

The following model with support from theoretical and empirical literature is deemed appropriate. The model will aid in examining the determinants of market value of quoted firms

$$PV_{it} = a_0 + a_1RIR_{it} + a_2CIF_{it} + a_3NY_{it} + U_{it} \qquad (5)$$

$$PV_{it} = a_0 + a_1NITR_{it} + a_2RCF_{it} + a_3MS_{it} + U_{it} \qquad (6)$$

Where; a_0, a_1, ...,$a_{11}$are constants to be estimated.

PV - Price-to-book value

RIR = Real inflation rate

CIF = Core inflation rate

NY = Nominal yield

RCF = Real cash flow

NITR = Normal interest rate

MS = Money supply

Pooled Ordinary Least Squares Model

The Pooled OLS model is easy to estimate and interpret as data is pooled and an OLS regression model is run. The Pooled OLS is mathematically expressed as follows;

$$y_{it} = \alpha + X'_{it}\beta + \mu_i + v_{it} \qquad (7)$$

Where; α is the intercept, $\mu_i$is the unobserved cross sectional individual effect and v is the idiosyncratic error. The model assumes away any important individual and time effects. However, the assumption is not reasonable and the results are likely to be biased. Hsiao (2003) cautioned that "serious bias may result from unconditional pooling unless both cross-section and time-series analyses of covariance indicate the acceptance of homogeneity of regression coefficients. Furthermore, the OLS assumption of no autocorrelation can easily be violated in the case of multi-period data implying the estimator becomes biased (Moyo, 2013). The Pooled OLS model has been criticised by numerous scholars for its inadequacies. The current study will automatically dismiss the usage of Pooled OLS model (however model testing will be completed). More usage of efficient models with less biased outcomes is needed for effective policy.

Fixed Effects Model

The fixed-effects model is used when the units to which observations pertain are not regarded as random and are assumed to have common slope coefficients but different cross-sectional intercepts. The specification of this model acknowledges interindividual differences by letting the differences be represented by distinct constants (Greene, 2003). An added benefit of the fixed-effects model is that it allows an arbitrary association between the unobserved individual heterogeneity and the explanatory variables. According to Moyo (2013), the model does not require that the explanatory variables be independent of the unobserved individual-specific effects; therefore, it is possible to have regressors that are correlated with the error components. Depending on whether the analysis calls for the inclusion of individual effects only or for the inclusion of both individual and time effects, the fixed-effects model can be specified as a one-way or a two-way error-component model. The model's expression is provided below:

$$y_{it} = X_{it}'\beta + D_i\mu_i + v_{it} \quad (8)$$

In the fixed-effects specification, the dummy variable represents the individual-unit effects, the unobserved cross-sectional component captures unit-specific characteristics, and the remaining disturbance term represents the idiosyncratic error. This estimation approach is particularly suitable when the analysis is concerned with a defined set of Nobservational units and the resulting inferences are intended to apply specifically to those units rather than to a broader randomly selected population (Baltagi, 2005). One of the principal advantages of the fixed-effects framework is that it does not require the unobserved individual effects to be independent of the explanatory variables, thereby permitting correlation between the unobserved heterogeneity and the included regressors. Despite this advantage, the approach has certain limitations, including a reduction in degrees of freedom because numerous unit-specific dummy variables may need to be estimated, potentially intensifying multicollinearity among the regressors. In addition, variables that remain constant over time are removed during the transformation procedure and therefore their coefficients cannot be directly estimated. The reliability and effectiveness of the fixed-effects estimators also depend on the presence of sufficient variation in the exogenous explanatory variables across the observation periods (Moyo, 2013).

Random Effects Model

The random effects model formulation is acceptable if n cross-sectional units are randomly picked from a large population (Lei, 2013). The specification of random effects assumes homoscedastic disturbances variances and serial correlation only for disturbances of the same cross-sectional unit (Hsiao, 2003). The Random effects are mathematically stated as;

$$v_1 = \alpha + X^1B + \mu_1 + \lambda_1 + v_1 \quad (9)$$

Where; t l is the unobserved time series effects, a is the intercept, u_i is the unobserved cross-sectional individual effects and it $v$is the idiosyncratic error. The main advantage of the random effects model is that the number of parameters is fixed and efficient estimation methods can be derived. However, one has to make specific assumptions about the pattern of correlation between the effects and the included explanatory variables (Hsiao, 2003).

Hausman Test

The key advantage of the Random Effects model is that they keep both the observed individual heterogeneity and the n-degrees of freedom in the regression model, while the Fixed Effects model loses this heterogeneity and lose degrees of freedom (Dougherty, 2006). Hausman test is used to decide which model is better between Fixed Effects model and Random Effects model. The test is for a substantial correlation between the unobserved individual specific random effects and the regressors. The Hausman test statistic is;

$$H = q'^{\left[V(\hat{q})\right]^{-1}} q \sim x^2(k), \quad (10)$$

Where V and k denotes variance and degrees of freedom respectively, the

null and alternative hypotheses are stated as below;

$$H_0: E(u_{it}\ X_{\text{it}}\ 0) = 0 \quad - \quad Random\ Effects\ Model \quad (11)$$

$$H_1: E(u_{it}\ X_{\text{it}}\ 0) \neq 0 \quad - \quad Fixed\ Effects\ Model \quad (12)$$

The decision rule for the Hausman specification test is based on a comparison of the calculated test statistics and its critical value. If the former exceeds the latter, the null hypothesis is rejected, implying that the Random Effects model is inconsistent and that the Fixed Effects model should be used instead. On the other hand, if the calculated statistic does not exceed its critical value, the null hypothesis is not rejected, and thus the Random Effects specification should be used. Nevertheless, the Hausman test may yield biased or unstable results if applied to relatively small samples (Baltagi, 2005). As a result, the test may reject the Random Effects specification statistically when the numerical differences between the Fixed Effects and Random Effects estimates appear relatively small in practice. In such circumstances, Wooldridge (2002) argued that it is appropriate for researchers to consider the assumptions of the Random Effects specification as acceptable and to put more emphasis on its estimates.

Analysis And Results

Real Interest Rate, Core inflation and Nominal Yield and Price Value

Table 1: Presentation of Panel Unit Root Results

Series: PV				
Method	**Statistic**	**Prob.****	**Cross-sections**	**Obs**
Levin, Lin & Chu t*	-8.78852	0.0000	36	288
Im, Pesaran and Shin W-stat	-1.81266	0.0349	36	288
ADF - Fisher Chi-square	95.1304	0.0354	36	288
PP - Fisher Chi-square	125.680	0.0001	36	324
Series: RIR				
Levin, Lin & Chu t*	-10.2808	0.0000	36	288
Im, Pesaran and Shin W-stat	-5.16669	0.0000	36	288
ADF - Fisher Chi-square	153.569	0.0000	36	288
PP - Fisher Chi-square	142.314	0.0000	36	324
Series: NY				
Levin, Lin & Chu t*	-21.3466	0.0000	36	288
Im, Pesaran and Shin W-stat	-8.62792	0.0000	36	288
ADF - Fisher Chi-square	228.054	0.0000	36	288
PP - Fisher Chi-square	175.311	0.0000	36	324
Series: D(PV,2)				
Levin, Lin & Chu t*	-27.6391	0.0000	36	216
Im, Pesaran and Shin W-stat	-8.63047	0.0000	36	216
ADF - Fisher Chi-square	174.660	0.0000	36	216
PP - Fisher Chi-square	401.197	0.0000	36	252
Series: D(RIR,2)				
Levin, Lin & Chu t*	18.2251	0.0000	36	216
Im, Pesaran and Shin W-stat	-0.52562	0.0006	36	216
ADF - Fisher Chi-square	67.1832	0.0000	36	216
PP - Fisher Chi-square	807.880	0.0000	36	252
Series: D(NY,2)				
Levin, Lin & Chu t*	-2.07612	0.0189	36	216
Im, Pesaran and Shin W-stat	-5.46502	0.0000	36	216
ADF - Fisher Chi-square	169.868	0.0000	36	216
PP - Fisher Chi-square	741.791	0.0000	36	252
Series: D(CIF)				
Levin, Lin & Chu t*	16.3886	0.0000	36	252
Im, Pesaran and Shin W-stat	2.04349	0.9795	36	252
ADF - Fisher Chi-square	28.5480	0.0000	36	252
PP - Fisher Chi-square	354.840	0.0000	36	288
Series: D(CIF,2)				
Levin, Lin & Chu t*	34.2308	0.0000	36	216
Im, Pesaran and Shin W-stat	2.22209	0.9869	36	216
ADF - Fisher Chi-square	27.3551	0.0000	36	216
PP - Fisher Chi-square	571.683	0.0000	36	252

Source: Computed from E-view 9.0, 2026

A panel unit root test was conducted to determine the stationarity properties of the variables included in the study. Panel unit root procedures differ from conventional time-series unit root tests because they account simultaneously for the cross-sectional and temporal dimensions of panel data. Two principal forms of panel unit root processes can be distinguished according to the treatment of persistence parameters across cross-sectional units. Where the persistence parameter is assumed to be common across all cross-sections, the process is referred to as a common unit root process, an assumption underlying the Levin, Lin, and Chu (LLC) test. Conversely, when persistence parameters are permitted to differ freely across cross-sectional units, the process is regarded as an individual unit root process. The Im, Pesaran, and Shin (IPS), Fisher-ADF, and Fisher-PP tests are based on this latter specification. The results at the 5% level of significance indicated that the null hypothesis of a unit root could not be rejected for some of the variables, suggesting non-stationarity, whereas other variables were stationary at their levels. However, after taking the first differences, the null hypothesis was rejected at the 5% significance level for all variables, indicating that the series became stationary at first difference. Thus, the panel unit root results establish that the variables are stationary after first differencing at the 5% level of significance.

Table 2: Pedroni Residual Cointegration Test

	Statistic	**Prob.**	**Weighted Statistic**	**Prob.**
Panel v-Statistic	-2.331312	0.9901	-2.405131	0.9919
Panel rho-Statistic	1.442813	0.9255	1.491326	0.9321
Panel PP-Statistic	-5.776850	0.0000	-6.365510	0.0000
Panel ADF-Statistic	2.924964	0.9983	1.775273	0.9621
Alternative hypothesis: individual AR coefs. (between-dimension)				
	Statistic	**Prob.**		
Group rho-Statistic	4.211626	1.0000		
Group PP-Statistic	-6.893511	0.0000		
Group ADF-Statistic	4.450088	1.0000		

The probability value of the variables is less than 0.05, we accept the alternate hypotheses that there is presence of long run relationship between the dependent and the independent variables as the results of cointegration test showed that the variables are cointegrated.

Table 3: Presentation of Granger Causality Test

Null Hypothesis:	Obs	F-Statistic	Prob.
NY does not Granger Cause PV	288	2.09914	0.1245
PV does not Granger Cause NY		0.98807	0.3736
RIR does not Granger Cause PV	288	1.54403	0.2153
PV does not Granger Cause RIR		0.59601	0.5517
CIF does not Granger Cause PV	288	1.68454	0.1874
PV does not Granger Cause CIF		2.53356	0.0812

Source: Computed from E-view 9.0, 2026

From the causality test presented in table 3, there is independent relationship among the variables. We accept the null hypothesis that there is no causal relationship between inflation illusion and price value of the quoted firms within the time scope of the study.

Table 4: Panel Regressions Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
NY	3.618505	0.006830	0.005281	0.9958
RIR	-0.005555	0.006001	-0.925567	0.3555
CIF	-0.008158	0.004376	-1.864315	0.0633
C	4.126597	0.123786	33.33655	0.0000
ECM(-1)	0.623890	0.047410	13.15934	0.0000

	Effects Specification			
Cross-section fixed (dummy variables)				
R-squared	0.912175	Mean dependent var		4.048395
Adjusted R-squared	0.900115	S.D. dependent var		1.377402
S.E. of regression	0.435323	Akaike info criterion		1.289686
Sum squared resid	53.81968	Schwarz criterion		1.756445
Log likelihood	-168.9292	Hannan-Quinn criter.		1.475991
F-statistic	75.63365	Durbin-Watson stat		2.217492
Prob(F-statistic)	0.000000			
NY	0.002816	0.006820	0.412929	0.6799
RIR	-0.003948	0.005998	-0.658194	0.5109
CIF	-0.005920	0.004366	-1.955954	0.0361
C	4.072204	0.123578	32.95247	0.0000
ECM(-1)	0.956961	0.017885	53.50748	0.0000
	Effects Specification			
			S.D.	Rho
Cross-section random			0.000000	0.0000
Idiosyncratic random			0.435323	1.0000
	Weighted Statistics			
R-squared	0.888019	Mean dependent var		4.048395
Adjusted R-squared	0.886615	S.D. dependent var		1.377402
S.E. of regression	0.463809	Sum squared resid		68.62278
F-statistic	632.4246	Durbin-Watson stat		2.430796
Prob(F-statistic)	0.000000			
	Unweighted Statistics			
R-squared	0.888019	Mean dependent var		4.048395
Sum squared resid	68.62278	Durbin-Watson stat		2.430796
Correlated Random Effects - Hausman Test				
Test Summary		Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random		32.563006	4	0.0000

Source: Computed from E-view 9.0, 2026

In the study, several panel regression method alternatives were considered between Fixed Effects Model and Random Effects Model and Hausman specification test was used to select the best estimation technique. The null hypothesis (H0H_0) suggests that Random Effects specification is correct while the alternate hypothesis (H1H_1) states that the Random Effects assumptions are violated indicating Fixed Effects Model should be preferred instead the result of Hausman robustly favoured the Fixed Effects Model in terms of the model specification estimated. The Adjusted R2R^2 from the fixed-effects regression shows that approximately 90% of the variation in price value of selected firms is due to inflation illusion and only the 10% can be ascribed to factors outside the variables included in the model. The reported F-statistic and probability value established the significance of the estimated model as a whole. Moreover, as the findings show the Durbin–Watson statistic of 2.217492 implies there is no sign of serial autocorrelation. The constant term (non-empty interfixed term) was positive and statistically significant, suggesting that the price value of manufacturing firms would rise by 4.1 units on average ceteris paribus. The realised coefficients estimate explain that nominal yield has a positive effect on the price value, however real inflation rate and core inflation rate impose negative effects on the firms with quoted price value across the studied period.

Real cash flow, Normal interest rate, Money supply and Price Value

Table 5: Presentation of Panel Unit Root Results at Levels

Method	Statistic	Prob.**	Cross-sections	Obs
Levin, Lin & Chu t*	-8.66434	0.0000	36	288
Im, Pesaran and Shin W-stat	-1.72859	0.0419	36	288
ADF - Fisher Chi-square	94.7734	0.0373	36	288
PP - Fisher Chi-square	126.472	0.0001	36	324
Series: D(RCF)				
Levin, Lin & Chu t*	-14.9127	0.0000	36	252
Im, Pesaran and Shin W-stat	-5.25654	0.0000	36	252
ADF - Fisher Chi-square	160.586	0.0000	36	252
PP - Fisher Chi-square	242.506	0.0000	36	288
Series: NITR				
Levin, Lin & Chu t*	-6.21963	0.0000	36	288
Im, Pesaran and Shin W-stat	-1.67247	0.0472	36	288
ADF - Fisher Chi-square	92.7610	0.0503	36	288
PP - Fisher Chi-square	83.3479	0.1698	36	324
Series: D(MS)				
Levin, Lin & Chu t*	-9.32701	0.0000	36	252
Im, Pesaran and Shin W-stat	-1.69364	0.0452	36	252
ADF - Fisher Chi-square	100.767	0.0142	36	252
PP - Fisher Chi-square	190.567	0.0000	36	288
Series: D(PV,2)				
Levin, Lin & Chu t*	-27.4139	0.0000	36	216
Im, Pesaran and Shin W-stat	-8.72422	0.0000	36	216
ADF - Fisher Chi-square	176.643	0.0000	36	216
PP - Fisher Chi-square	411.893	0.0000	36	252
Series: D(RCF,2)				
Levin, Lin & Chu t*	-14.8892	0.0000	36	216
Im, Pesaran and Shin W-stat	-4.27584	0.0000	36	216
ADF - Fisher Chi-square	143.993	0.0000	36	216
PP - Fisher Chi-square	283.987	0.0000	36	252
Series: D(NITR,2)				
Levin, Lin & Chu t*	-53.1748	0.0000	36	216
Im, Pesaran and Shin W-stat	-13.4637	0.0000	36	216
ADF - Fisher Chi-square	263.268	0.0000	36	216
PP - Fisher Chi-square	290.123	0.0000	36	252
Series: D(MS,2)				
Levin, Lin & Chu t*	-1.50398	0.0663	36	216
Im, Pesaran and Shin W-stat	-1.26205	0.1035	36	216
ADF - Fisher Chi-square	82.4653	0.1873	36	216
PP - Fisher Chi-square	330.830	0.0000	36	252

Source: Computed from E-view 9.0, 2026

Panel unit root tests were used to determine the stationarity of the risk, agency cost and financing policy panel data of quoted manufacturing firms. As a panel unit root testing approach, it can sufficiently take into account both the cross-sectional and temporal dimensions of the data set, unlike traditional time-series unit root procedures. Typical panel unit root processes Can be grouped into two types. The one common unit root process, where the persistence parameter is assumed to be equal across all cross-sectional units, I as stated in Levin, Lin & Chu (LLC) test. The second one is the individual unit-root process that allows for variation in persistence parameters across cross-sectional units. This last methodology is the basis for I'm, Pesaran and Shin (IPS), Fisher-ADF and Fisher-PP panel unit root tests. Thus, both types of panel stationarity tests were used in this research. We apply the LLC procedure to study common unit root process and IPS test, ADF-Fisher Chi-square test, PP-Fisher Chi-square to an individual unit root process. The findings reveal that at 5% significance levels the null hypothesis of a unit root could not be rejected for most variable indicating that these series were non-stationary at levels while other variables were stationary.

Table 6: Pedroni Residual Cointegration Test

		Statistic	Prob.	Weighted Statistic	Prob.
Panel v-Statistic		-1.657186	0.9513	-2.793464	0.9974
Panel rho-Statistic		3.227484	0.9994	2.945892	0.9984
Panel PP-Statistic		-2.769329	0.0028	-5.050367	0.0000
Panel ADF-Statistic		-0.593919	0.2763	-1.734824	0.0414
Alternative hypothesis: individual AR coefs. (between-dimension)					
		Statistic	Prob.		
Group rho-Statistic		5.646123	1.0000		
Group PP-Statistic		-8.491713	0.0000		
Group ADF-Statistic		-3.475039	0.0003		

Source: Computed from E-view 9.0, 2026

The results of the cointegration test proved that the variables are cointegrated as the probability coefficient of the variables are less than 0.05, we accept the alternate hypotheses that there is presence of long run relationship between the dependent and the independent variables.

Table 7 Presentation of Granger Causality Test

Null Hypothesis:	Obs	F-Statistic	Prob.
RCF does not Granger Cause PV	288	0.13419	0.8745
PV does not Granger Cause RCF		0.12159	0.8856
NITR does not Granger Cause PV	288	0.35962	0.6983
PV does not Granger Cause NITR		0.10464	0.9007
MS does not Granger Cause PV	288	0.06613	0.9360
PV does not Granger Cause MS		0.76093	0.4682

Source: Computed from E-view 9.0, 2023

From the causality test presented in the above table, there is independent relationship from inflation illusion and price. We accept the null hypothesis that there is no causal relationship between the variables within the time series.

Table 8 Panel Regressions Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
RCF(-1)	-0.010486	0.010769	-0.973723	0.3310
NITR	0.500909	0.209948	0.091396	0.0272
MS	0.048667	0.025062	1.941842	0.0331
C	4.311686	0.182458	23.63109	0.0000
ECM(-1)	0.603121	0.048011	12.56203	0.0000
	Effects Specification			
Cross-section fixed (dummy variables)				

R-squared	0.910309	Mean dependent var		4.051358
Adjusted R-squared	0.897992	S.D. dependent var		1.374011
S.E. of regression	0.438841	Akaike info criterion		1.305786
Sum squared resid	54.69319	Schwarz criterion		1.772545
Log likelihood	-171.5374	Hannan-Quinn criter.		1.492091
F-statistic	73.90808	Durbin-Watson stat		2.212991
Prob(F-statistic)	0.000000			
RCF(-1)	-0.006175	0.010625	-0.581215	0.5615
NITR	-0.001029	0.009755	-0.105489	0.9161
MS	-0.038047	0.023677	-1.606898	0.1091
C	4.235236	0.177696	23.83423	0.0000
ECM(-1)	0.954945	0.018062	52.86995	0.0000
	Effects Specification			
			S.D.	Rho
Cross-section random			0.000000	0.0000
Idiosyncratic random			0.438841	1.0000
	Weighted Statistics			
R-squared	0.884432	Mean dependent var		4.051358
Adjusted R-squared	0.882983	S.D. dependent var		1.374011
S.E. of regression	0.470018	Sum squared resid		70.47250
F-statistic	610.3209	Durbin-Watson stat		2.453374
Prob(F-statistic)	0.000000			
	Unweighted Statistics			
R-squared	0.884432	Mean dependent var		4.051358
Sum squared resid	70.47250	Durbin-Watson stat		2.453374
Correlated Random Effects - Hausman Test				
Test Summary		. Chi-Sq Statistic	Chi-Sq. d.f.	Prob.
Cross-section random		62.769927	4	0.0000

Source: Computed from E-view 9.0, 2026

From the fixed-effects regression results, we can see according to adjusted R2 that 89.7 percent of price value quoted firms can be explained from changes in inflation illusion states as specified by the regression and remaining part also comes from factors other than the model. F-statistic and its p-value affirms the statistically significant of estimated model. A Durbin–Watson statistic of 2.212991 reveals serial autocorrelation among its variables. The regression intercept is also positive and significant further implying that holding other variables constant, the price value of the manufacturing firms would increase by about 4.3 units. The coefficient estimates also indicate that real cash flow negatively affects price value of quoted firms while nominal interest rate and money supply exercised positive effects over the period under consideration. One of the strongest arguments put forward for pursuing inflationary policies has been that such policies will lead to a higher rate of growth (Griffiths, 1979). The positive association of real inflation rate and value of quoted firms in this paper is contrary to previous studies by Maria (2014), who indicated a strong adverse relationship between control leverage, liquidity, inflation and commercial-bank profitability. This also contrasts with the findings of Ochieng and Kinyua (2013) that exchange rate and Treasury bill rate positively affects dividend payout, money supply however had no significant effect on dividend payout, Mohammed (2014) also established that inflation is positive in where increase or maintenance of firms' dividend decisions are concerned.

Conclusion

Findings from Model One suggest that about 90% of variation in the price value of the firms selected for this study is explained by inflation illusion and kept constant in the regression model (with about 10% left unexplained). The significant positive value of the estimated intercept indicates that price value of the targeted manufacturing firms at mean level will increase to 4.1 units when all other explanatory variables are constant. The coefficient estimates also further confirm that the nominal yield has a positive influence on the price value of firms while both real inflation rate and core inflation rate has negatively affected price value in study area. Model two then indicates that 89.7% of the variation in the price value given over the quoted firms as a whole may be explained by variations to inflation illusion property which are represented by the explanatory variables included in its regression specification. The regression intercept is also positive and significant, suggesting that the price value of manufacturing firms would rise by 4.3 units, other factors equal. These estimates also (indicate that) real cash flow negatively influence price value of quoted firms, while nominal interest rate and money supply positive as seen during the examined period.

Recommendations

i. Based on the observed consistent high inflation rate and its effect on value of quoted manufacturing firms, the management and policy makers of firms in Nigeria should come up with better strategies of countering inflation effect to allow sustained increase on value and attract investors and prevent them from being liquidated.

ii. Moreover, the outcome of this study would allow the Central Bank of Nigeria to formulate better policies to stabilise the inflation rates to a minimum value that does not significantly effect on the value of Nigeria quoted enterprises.

iii. The monetary authority should formulate policies of managing inflation in Nigeria for positive effect on corporate valuation through the interest rate channels.

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