THE IMPACT OF FISCAL FUNDAMENTAL ON UNEMPLOYMENT IN NIGERIA (1981-2015)

BY

ADEKOYA ABIODUN EMMANUEL
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THE DEPARTMENT OF ECONOMIC STUDIES,
FACULTY OF SOCIAL SCIENCE,
FEDERAL UNIVERSITY OYE EKITI, EKITI-STATE, NIGERIA.

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CERTIFICATION

This is to certify that this research work titled the impact of fiscal fundamental on unemployment in Nigeria was carried out by Adekoya Abiodun Emmanuel with matriculation number EDS/13/1192 under the supervision in the department of Economics and Development Studies, Faculty of Social Sciences; Federal University Oye Ekiti.

………………………………..   …………………………
DR. OMOLADE ADELEKE   SIGNATURE AND DATE
SUPERVISOR

………………………………   ………………………….
PROF. AKINLO E. A.   SIGNATURE AND DATE
HEAD OF DEPARTMENT

DEDICATION

This project is dedicated to the Almighty God who has given me the privilege to complete this project. Also to my parents; Mr. and Mrs. Ologungbede for their support, encouragement, caring, and financial assistance; even in times of difficulty, made sure I finished my university education and to all those who has contributed in one way or the other to my success up to this stage in life. Glory Be To God.

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ABSTRACT

This study empirically examined the impact of fiscal fundamental on unemployment in Nigeria. The study employed the Annual data on government expenditure, government revenue, interest rate, and public debt from Central Bank of Nigeria Statistical Bulletin covering the period of 1981-2015. The result of this study shows that government expenditure (GX) and interest rate (IR) exerts significant positive impact on unemployment rate in Nigeria where government revenue (GR) and public debt (PDT) has insignificant positive impact on unemployment rate in Nigeria. The result equally shows that unemployment granger cause government expenditure and government revenue in Nigeria. It was concluded that fiscal fundamental does not ganger cause the rate of unemployment in the country, thus, the pass values of government expenditure, government revenue and public debt does not significantly influence the rate of unemployment in the country. Consequently, the study recommends that government should refocus expenditure in the country to areas such as development of infrastructural facilities so as to increase the rate of productivity in the country and bate economic growth necessary for increase employment of labour. Government should also redefine its priority to include harnessing of other courses of revenue of the country, such as massive investment in the exportable agricultural products in the country. In contrast, government should also design framework that will ensure effective implementation and completion of project and programmes in the country so as to ensure that objectives of each project and programme is achieved most effectively and efficiently.

Keyword: Government Expenditure, Government Revenue, Interest Rate, Public Debt.

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CHAPTER ONE

INTRODUCTION

1.1   Background of the Study

Nigerian government over the years had reliably set out on different macroeconomic policy options in order to straight the economy on the way of growth and development. One of the policy options the government frequently utilized is the fiscal policy. Fiscal policy alludes to a deliberate effort by the government to operate its expenditure, taxes and public debts to complete macroeconomic goals of the governments among which are economic growth. Several factors have militated against the development and growth of the economy which include high rate of unemployment, inflation, poor infrastructures and a host of other issues which required the regular government mediation in the management of the economy through its fiscal policies. Fiscal policy is indisputably one of the profoundly admired policies utilized by the government to monitor and accomplish 'macroeconomic stability of the economy of most developing nations (Siyan and Debayo, 2005).

Fiscal policy thus is the means by which a government modifies its level of spending in order to monitor and control a country's economy. It is utilized alongside the monetary policy which the central bank uses to control money supply in a country. These two approaches (fiscal policy and monetary policy) are utilized to accomplish macroeconomic objectives in a country. In other words, fiscal policy is a key economic stabilization weapon that includes measure taken to regulate and control the volume, cost and accessibility and in addition heading of money in an economy to accomplish some predetermined macroeconomic policy objective and to offset undesirable trends in the Nigerian economy (Gbosi, 1998). Consequently, they cannot be left to the market forces of demand and supply and in addition different instruments of stabilization, for

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example, monetary and exchange rate policies among others are used to offset problems identified such as inflation and high rate of unemployment (Ndiyo and Udah, 2003).

One of the objectives of a modern government is to moderate unemployment and make the environment favorable for investors to put resources into other to make work or create job and ensure price stability in the economy through compelling and appropriate accomplishment of fiscal policies. Fiscal policy is the government's management of the economy through the control of its wage and spending energy to complete some pursued macroeconomic goals amongst which are price stability, negligible unemployment rate and economic growth (Ozurumba, 2012). Fiscal policy is the methods by which a government adjusts its level of spending to curtain and impact a country's economy. It is utilized alongside the monetary policy, which the central bank utilized to influence money supply in a country. These two policies (fiscal policy and monetary policy) are utilized to accomplish macroeconomic objectives in a country. These objectives incorporate price stability, full employment, reduction of poverty levels, high and sustainable economic growth, favorable balance of payment, and reduction country's debt.

Unemployment on the other hand is one of the major fundamental development challenges confronting Nigeria right now. Investigation have demonstrated that unemployment was high in the 1980s, yet the accessible reports from different local and universal bodies, and the glaring proof of joblessness in this decades are clear signs that there was no time in Nigeria's checkered history where unemployment is as serious as now. One cannot generally presume that the governments at one level or the other have not done anything at one time or the other, to lessen unemployment in Nigeria. For example, the formation of National Directorate of Employment (NDE) and its aptitudes acquisition programs, NAPEP, PAP, the SURE-P,YOUWIN, just to specify a couple, are a portion of the different arbitration components aimed

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at ensuring economic growth that is rich with job creation opportunities (Aganga, 2010 and Ogunmade, 2013).

Unemployment has been prescribed as one of the serious obstacles to social advance. Aside from representing a massive waste of a country's labor assets, it creates welfare misfortune as far as lower output in this manner prompting to lower income and well-being (Raheem, 1993). Consequently, over the years unemployment has increased tremendously in Nigeria. It is a social and economic malady that has eaten deep into the Nigerian economy. The effect is extremely disastrous on the government and her citizens. It decreases the way of life of individuals from the society. It has been confirm that the instability, revolt and psychological oppression assaulting the North East region of Nigeria and also militancy, abducting, sea piracy and pipe line vandalism in the Niger Delta are as a result of high rate of unemployment in the nation (Egbulonu and Amadi 2016). Unemployment alludes to the condition and degree of joblessness within an economy, and is measured as far as the unemployment rate, which is the number of unemployed people who are ready and capable to work divided by the total civilian labor force.

Notably, Gbosi (1997) denote that unemployment is a condition in which individuals who are willing to work at the prevailing wage rate are incompetent to find jobs. Unemployment is as a consequence of the inability to cultivate and exploit the nations manpower resources effectively particularly in the rural sector (Fadayami, 1992; Osimubi, 2006).

1.2   Statement of the Problem

A critical examination of the data on unemployment in Nigeria between the vicinity of 1960 and to mid-1980 shows the modest level of unemployment. This was because Nigeria, as at that time was in economic boom, hence making unemployment something that no one could dream about. However, today unemployment has turned out to be severe to the point that no one

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jumps at the chance to grip it. Past governments in their own particular limits have been setting out on different strategies to control inflation and lessen the level of unemployment in the country. Though, government efforts have not yielded the required outcomes as these issues are known to skyrocketing instead of plummeting.

Over the years, the Nigerian Government had embraced different fiscal policy measures to decrease the issue of unemployment, yet the issue has been on the up surge. Regardless the lofty place of fiscal policy in the management of the economy, the Nigerian economy is yet to come on the path of sound growth and development. For instance, scholars like Agiobenebo (2003), Gbosi (2002) and Okona (1997) demonstrate that the economy is still hitched by chronic unemployment, rising rate of inflation, reliance on outside innovation (foreign technology), monoculture foreign exchange earnings from unrefined petroleum (crude oil), and more. Moreover, stagnating revenue mobilization specifically and some upward movements in expenditures led to a reversal of the fiscal stabilization procedure since the second half of the Nineties. An enhanced fiscal performance amid 2003-2004 induced by control of the non-planned expenditures and supported by high revenue mobilization on the back of bright genuine activity made ready for re-established commitment towards fiscal alliance in Nigeria. The present study is aimed at further examination of how fiscal fundamentals can contribute to unemployment in Nigeria. In achieving the aforementioned objectives the study seeks to provide answers to the following questions:

1. What are the effects of federal government expenditure on rate of unemployment?

2. Is there any trade-off relationship between unemployment and inflation in Nigeria?

3. Do fiscal fundamentals causes unemployment in Nigeria or is there any causality between fiscal fundamentals and unemployment in Nigeria?

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1.3 Objectives of the Study

The fundamental target of the study is to evaluate the impact of fiscal fundamental via (government revenue, public debt, interest rate, and government expenditure) on unemployment in Nigeria from 1981-2015. The specific objectives of this study are:

1. To determine the effect of federal government expenditure on the rate of unemployment in Nigeria.

2. To ascertain the causal relation between fiscal policy and rate of unemployment in Nigeria.

3. To analyze the trend of fiscal policy instruments in Nigeria.

1.4 Hypotheses Testing

The hypotheses to be tested in this research work are:

1 H_0: That the fiscal policy instrument do not have significant effect on unemployment in Nigeria.

H_1: That the fiscal policy instrument have significant effect on unemployment in Nigeria.

2 Ho: There is no significant relationship between federal expenditure and unemployment.

Hi: There is significant relation between federal expenditure and unemployment.

Where Ho: Null hypothesis

Hi: Alternative hypothesis

1.5 Significance of the Study

This research work is aimed at showing the impact of fiscal fundamental on unemployment in Nigeria from 1981-2015. Specifically, the study will help in restructuring the

apparatuses of fiscal policy, such as tax system and federal government capital expenditure in Nigeria with a view to broaden the economy, lessen the current high inflation rate and furthermore raising the living standard. The results of this research will also assist monetary authorities in measuring the performance of the fiscal policy in Nigeria, mostly in terms of how its impact on unemployment and how the policy can be used to influence the Nigeria economy at large.

1.6   Scope of the Study

This research work intends to study the impact of fiscal fundamental on unemployment within the Nigeria. The study will cover the time period 1981-2015 (a period of 35 years); this is to confirm updated information. The range was selected based on data availability and to have sufficient perception for a significant investigation.

1.7   Definition of Terms

Fiscal Policy: Fiscal policy as indicated by Reem (2009) is characterized as the methods by which a government adjusts its levels of spending in order to monitor and influence a country's economy.

Government Expenditure: According to Anyanwu (1997) Government expenditure can simply be viewed as the retention of assets by public sector. Here, the public sector broadly branded is that bit of the national economy in which economic and non-economic activities are under the control and general way of the state. It can likewise be viewed as the costs government incur for its own particular support, additionally for the general public and the economy as a whole (Bhati, 1976).

Taxation: Taxes are compulsory transfer/payments of money from private individuals, institutions, organizations and groups of government. As indicated by Powell (1993), tax can be well-defined as a compulsory levy for its outflow. It could equally allude to impose on an

individual's income by the government which is utilized to give social amenities to the general public. It might be levied on wealth, income, or as additional charge on costs, tax assessment, being a standout amongst the best instruments of fiscal policy is forced to diminish private consumption, increment speculation (increase investment), exchange asset (transfer resource) to the government for economic surplus.

Public Debt: According to Eze (2010) Public debt is a term used to indicate commitments of government to pay expressed aggregates of money to debt holders at some future time.

Unemployment: Beggs (2012) denoted that unemployment is a circumstance in which an individual in an economy is searching for a job and cannot discover one. Pettinger (2010) considers unemployment to be a circumstance where somebody of working age is not ready to get. Job but rather might want to be in full time employment.

1.8   Organization of the Study

Following this introduction, Chapter two will review both the theoretical and empirical literature relating to the relationship between fiscal policy and unemployment in Nigeria. Chapter three shall discuss the methodology and the sources of the data to be utilized in this study. Chapter four shall estimate the ordinary least square estimation technique and interpret the outcomes. Findings, conclusion, and policy recommendations shall be illustrated in Chapter five.

CHAPTER TWO

LITERATURE REVIEW

2.0   Introduction

This section examines the pertinent interaction to clarify the relationship between fiscal fundamental and unemployment. Likewise, this section shall comprise the conceptual issues, theoretical framework and the empirical literature as reviewed by various researchers In the course of exploring the accessible literature, it is seen that there are various volume of literature regarding the matter of fiscal policies. Henceforth, there exist different definition and distinctive ideas on the issues of fiscal policies. Nevertheless, this research shall pay attention to some particular contributors.

2.1   Conceptual Issues

2.1.1   Unemployment

There appear to be a consensus on the definition and utilization of the idea, unemployment. Similarly, Udu and Agu (2005), suggest that unemployment is "a circumstance in which people skilled and willing to work cannot discover reasonable paid employ men". As categorized by International Labour Organization (2007), unemployed specialists are the individuals who are presently not working but rather are willing and ready to work for pay, currently available to work and have actively search for work. Hornby (2010) stated that unemployment is "the actualities of various individuals not having an occupation; the number of individuals without an occupation; the situation of not having job". In a similar vein, an operational meaning of unemployment for this work will incorporate the underemployed, consequently unemployment occurs when individuals who are capable and willing to work are without job, or cannot look for some kind of employment that is powerful and gainful to do. It likewise happens when individuals attempt job that are opposite or lower than their academic

capabilities or areas of specialization. For example, a first or second degree holder that enrolls as a recruit into any of the military or paramilitary or a degree holder working as a clerk in an office is incredibly underutilized and as such could be called as unemployed even when such person is on a job.

Unemployment has no exact definition in economics literature. To the layman, unemployment implies a condition of joblessness, while to economists; it is viewed as the rate of the labour force that is without employment yet is capable, willing, and qualified to work. In other words, regardless of how unemployment is defined; the underlying philosophy is that the individuals who are relied upon to work are without a doubt not working (Gbosi, 2004).

2.1.1.1 Underemployment

Underemployment by and large indicates to one of a few circumstances that outcome in employment in an economically inadequate position. In this situation the underemployment rate alludes to the portion of those employed who are "underemployed." Some researchers use an option variant of this definition by considering some non-employed people as underemployed. Notwithstanding the definition of underemployment, the idea developed from insufficiencies in the unemployment rate in catching work related hardships (Jensen and Slack 2003). Underemployment displays to a circumstance where employees work fewer hours than they desire. Such an occasion may happen on account of real-world labor-market rigidities, for example, a fixed-hour weeks' worth of work. For instance, workers craving a thirty-hour weeks' worth of work at an occupation that requires forty hours for full-time employees or twenty hours for low maintenance workers will be viewed as underemployed if they accept the low maintenance position. A comparable case happens when laborers acknowledge low maintenance work without decision, frequently referred to as "automatic low maintenance." This is the most broadly cited reference to the underemployment rate, possibly because it is easier to measure

than the other forms of underemployment. John Ham (1982) estimates that in the United States in 1970 over a quarter of the labour force was either unemployed or underemployed as indicated by the hours worked estimation of underemployment.

2.1.1.2 Types of Unemployment

1. **Seasonal Unemployment:** According to Udu and Agu (2005) seasonal unemployment happens for the most part in industrial sector, and in the undertaking that are seasonal in nature. Such activities involve labour temporarily during peak periods. For instance, during the rainy season, numerous men who are working with fishing and building may leave work during bad weather. Fishing, for example is not normally done during rainy season in many parts of Nigeria. All the more along these lines, during Christmas season, shop owners and organizations utilize additional hands for the seasonal sales. These additional hands are normally alleviated of their jobs when demand for goods reduced.

2. **Structural Unemployment:** Structural unemployment happens when certain industries decrease as a result of long term changes in economic situations. Globalization is an undeniably huge reason for structural unemployment in numerous nations.

3. **Frictional Unemployment:** Frictional unemployment is another kind of unemployment within an economy. It is the time period between works when a specialist is searching for or transitioning from one job to another. Frictional unemployment is constantly present to some degree in an economy. It happens when there is a mismatch between the workers and jobs. The mismatch can be identified with abilities, installment, work time, location, seasonal industries, state of mind, taste, and other factors. Frictional unemployment is impacted by voluntary decision to work in view of every individual's valuation of their own work and how that compares to current wage rates and also the time and exertion required to discover a job.

4. **Classical unemployment:** Classical unemployment is brought on when wages are "as well" high. This clarification of unemployment dominated economic hypothesis before the 1930s, when workers themselves were rebuked for not tolerating lower compensation, or for requesting too high wages. Classical unemployment is additionally called real wage unemployment.

2.1.2 Fiscal Policy

Fiscal policy refers to the ponder effort of government policy to control its expenditure and the raising of gross or tax revenue through taxation and different sources and deciding on the level and figure of utilization for the purpose of regulating economic activities (Munogo, 2012). It can likewise be viewed as a policy whereby the government utilizes its expenditure and revenue project to create commendable influences and avoid unworthy consequences for national wage, production and usage. Jhingan (2003) suggested that fiscal policy is a deliberate spending and tax collection activities attempted by government in order to control inflation, attain economic growth, and to bring about country's output and work to required levels. Fiscal policy can be understood in two different ways that is discretionary and non- discretionary. The discretionary fiscal policy is a deliberately effort or measure by the government or its agencies to influence the economy in a craved direction so as to accomplish macroeconomic targets through taxes and government expenditure. On the other hand, non-discretionary fiscal policy we mean the activities that happen unsurprisingly with no deliberate attempt but due to the presence of programmed built in stabilizers within the economy, for instance, unemployment benefits and progressive tax system. Since this non discretional fiscal policy tends to help the economic consequently it's allude to as automatic built-in stabilizers. Fiscal policy is that part of government policy that is upset with the utilization of tax collection, public expenditure and other budgetary projects existing in the yearly budget and choosing how best the collected revenue have to be utilized in order to accomplish national objective. Fiscal policy focused on

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government's management of the country's economy by changing the greatness and composition of taxation and public expenditure done with much favor to their influence on the economy. It is adaptable changes in the level, structure and timing of government favor (Anyafo, 1996, Anyanwu, 1993).

There is need for government to balance out the economy, particularly by making some adjustment to the level and designations of taxes and expenditure. Federal taxation and expenditure strategies are intended to level the business cycle and accomplish full employment, price stability and sustained growth of the economy. Fiscal policy can similarly be expansionary and contractionary. An expansionary fiscal policy is desired to stimulate aggregate demand thereby increasing economic activities in order to decrease or fight depletion, unemployment and to accomplish economic growth. This strategy is constantly received when government needs to drag the economy out of recession. While contractionary fiscal policy refers to the policy designed by the government to moderate aggregate demand in order to fight inflation and correct balance of payments difficult.

2.1.2.1 Tools of Fiscal Policy

A rational government basically utilizes government expenditure, taxes and subsidy as great apparatuses to accomplish its stated objectives of macroeconomic factors through the control of fiscal policy.

1. **Government Expenditure:** If government needs to set out on an expansionary fiscal policy in order to stimulate the aggregate demand, it will shape its expenditure. This is usually embraced during the time of recession when there is high rate of unemployment, low demand and reduction in output of goods and services. On the opposite side if the goal of the government is to set out on a contractionary fiscal policy it will reduce its expenditure and increase taxes in order to

lessen the aggregate demand. This is typically embraced within the time of inflation or when balance of payment is in shortage.

2. **Taxation:** Tax is another apparatus or instrument utilized by the government to achieve the expressed macroeconomic objectives. If the government wishes to embark on an expansionary fiscal policy taxes could be declined and thus decline in taxes, money is made accessible in the hands of people and this will result to an increment in demand for goals and services. This will stimulate producers or manufacturers to contract more factors of production and this will raise the level of output. This policy is generally adopted during the time of recession and low aggregate demand. Then again, if the government to set out on contractionary fiscal policy will boost taxes, this will thus prompt to a falling in the obtaining power of individuals and aggregate demand will likewise fall. This policy is adopted in time of inflation or when the nation's balance of payment is in disequilibrium.

3. Government Subsidy: Government has to subsidize when it is setting out on an expansionary fiscal policy. This is typically put into exploitation when there is unemployment. For a contractionary fiscal policy, the governments have to lessen its subsidy. This is generally done during the period of inflation and during the period of balance of payment deficits.

2.2   Literature Review

Fiscal policy has been defined as the preparation of revenue and expenditure levels and decoration by government to control the circular flow, or particularly to advance full employment production, price stability and national welfare (Fashola, 2001). This constitutes essentially the goals of fiscal policy. These goals are to be accomplished through expansionary or contractionary fiscal policies. Governments directly and indirectly control the way assets are utilized as a part of the economy. Fiscal policy that aggregate demand directly through an expansion in government spending is often called expansionary or "loose."In addition, fiscal

policy is often considered contractionary or "tight" if it " on the off chance that it reduces demand by means of lower spending (Horton and El-Ganainy, 2009). Horton and El-Ganainy (2009), survey that, other than providing goods and services, fiscal policy goals differ. In the short term, governments may concentrate on macroeconomic stabilization.

Adawo et al. (2012) reviewed matters relating with high unemployment rate in Nigeria. The review surveyed that labor force in Nigeria matured at more or less a steady rate of 0.3% consistently gross domestic product (GDP) growth rate matured at 3.5% over a time of 33 years, recommending that the Nigerian economy encountered a jobless progress. The review likewise noticed that the reasons for unemployment in Nigeria include: poor infrastructure; non-diversification of the economy; insecurity and poor educational system that does not promptly deliver employable graduates. The review prescribed that legislatures at all levels ought to cooperate with the private part and enhance the economy keeping in governments at all levels should partner with the private sector and diversify the economy in order to create jobs.

Danjuma and Bala (2012) investigated role of governance in employment generation in Nigeria. The review employed primary data obtained using interviews. The findings of the study demonstrated that unemployment rate in Nigeria had made pressure and hatred between those who are well off and have not prompting to mutual conflicts; brought about the emergence of militants groups (like the Boko Haram order and Niger Delta militant), prostitution, armed robbery and child trafficking, constituting hiccups to security of lives and properties. The review prescribed that investment in education will help in skills development and training.

Meanwhile, Obayori (2014) opined that the reduction in the rate of unemployment is the most difficult challenge facing any country in the developing world where on the average majority of the population is considered poor. Evidence in Nigeria shows that the number of those in poverty has continued to increase. For example the number of those in poverty increased

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from 27 percent in 1980 to 46 percent in 1985; it declined slightly to 42 percent in 1992, and increased very sharply to 67 percent in 1996 by 1999 it estimates had it that more than 70 percent of Nigerians lived in poverty (Gbosi, 2015). The increase in poverty level is accounted for by high rate of unemployment.

Over the years there has been an attempt to solve the case of unemployment in Nigeria. In 1986, the Babangida administration introduced the national directorate of employment (NDE) programme which aimed at creating job for the youths, thereby reducing the incidence of unemployment in the country. Others are; the rural electrification scheme, rural banking scheme, agricultural development programme, family support programme etc.

Elizabeth (2013) examined fiscal deficit and macroeconomic aggregates in Nigeria for the period 1980 to 2010. The study employed the Ordinary Least Square in estimating the equation and the co-integration test using the Engle Granger procedure. The empirical findings showed that fiscal deficits did not significantly affect macroeconomic output. The result also shows a bilateral causality relationship between government deficit and unemployment.

Owolabi (2011) examined the relative effectiveness of fiscal policy management in Nigeria, between 1970 and 2007. The study employed reduced forms model in addition to Beta coefficient, Theil‟s inequality and Root Means Square Error (RMSE) techniques to investigate the satiability and effectiveness of the estimated fiscal model which represent government spending, during and after estimation periods. The results revealed stability of the models and further confirmed the fact that government spending is the major determinant which influences and predict Nigeria macroeconomic activity. There is what appears to be a manifestation of the so-called „crowding out‟ effects of fiscal policy actions in Nigeria. These are associated with the negative sings assumed by coefficients of the lagged fiscal policy variables (except recurrent expenditures).

Damachi (2001) in his study of past policy measures for solving unemployment problems in Nigeria suggests that there is a strong need for institutional collaboration and improved coordination of policy measures for dealing with unemployment. He stated that while there are some discernable lapses, the overall policy direction for employment appears to be adequate. According to him, what is required is the political will to pursue the policy measures backed by adequate steps to make the policy work as well as transparency in programme implementation. Okekukola (2006) in his study recommends that given the level of unemployment in Nigeria, the development of entrepreneurial skills and initiatives should be of paramount important especially in the higher education sector. This will facilitate employability of graduates who will increasingly be called upon to be not only job seekers, but above all to become job creators. He opined that emphasis should be placed on facilitating the acquisition of skills, competencies and ability which are required by employees of labour. He concluded that government has a pivotal role to play in an effort at finding real and lasting solution to this malaise. Kahn (1993) offers some explanation for the high rate of unemployment in the United States of America (USA). Technological advancement is one explanation. The computers, which were introduced into the production process, were effectively utilized to their full capacity by 1990. The complete absorption of computer technology into the factories may have resulted in a drastic cut in labour force. Again, the global recession has contributed somewhat to the unemployment rate now ravaging the US economy. The recession showed the economies of US trading partners and consequently reduced demand for its experts.

Sanusi (1997) in his study titled stimulating investment through interest rate management reported that interest rate has positive relationship with unemployment that is; a lower interest rate encourages private investment spending which will increase the demand for labour and reduce unemployment. According to him, high interest rate (Prime Lending Rate) has

characterized the Nigerian economy over the years and this has adversely affected the manufacturing sector which ought to significantly reduce unemployment. He concluded by urging the authorities to reduce the prime lending rate as this could reduce unemployment problem in the economy.

From the above Literature review, it can be inferred that studies such as Danjuma and Bala (2012) demonstrated that unemployment rate in Nigeria had made pressure and hatred between those who are well off and have not prompting to mutual conflict. Obayori (2014) opined that increase in poverty level is accounted for by high rate of unemployment. Elizabeth (2013) stated that fiscal deficit did not significantly affect macroeconomic output and the result also shows a bilateral causality relationship between government deficit and unemployment. Damachi (2001) suggest that there is a strong need for institutional collaboration and improved coordination of policy measures for dealing with unemployment. Okekukola (2006) recommends that given the level of unemployment in Nigeria, the development of entrepreneurial skill and initiatives should be of paramount important especially in the higher education sector. Sanusi (1997) reported that interest rate has positive relationship with unemployment that is; a lower interest rate encourage private investment spending which will increase the demand for labour and reduce unemployment.

2.3   Theoretical Framework

2.3.1   Theories of Fiscal Policy

The fiscal policy investigation in the light of macroeconomics is established by a few hypotheses. Specifically, we have Keynesian and Ricardian Equivalence theories. The instrument behind the fiscal policy is clarified by the Keynesian income-expenditure technique. According to Keynesians, fiscal policy has a significant cause on income, employment and productivity in the short term without money supply. It declares that aggregate demand is a

determinant of output. An expansion in government expenditure will reveal a cause and surge in domestic income. As internal income rises, imports will likewise rises lastly lessen the surplus in the trade cycle. Additionally, the Keynesians open economy model proves that a casual relation runs from budget deficit to aggregate demand. Particularly rise in budget deficit will increase the interest rates as a compensation of the misfortune and a wellspring of fund. Thus, as capital flows rises, the demand on local currency as well rising (Barro, 1989). The Keynesian theory advocates the utilization of fiscal policy to offset imbalances in the economy. Keynes stated that a government should use fiscal policy to stimulate an economy slowed down by recession through deficit, which infers it should to spend more than what it gathers from taxes. On the other hand, to slow down an economy that is undermined by inflationary weights, government ought to increase taxes or cut expenditure to fashion a spending surplus that would act as a drag on the economy (Grossman 1987). Stabilization policy requires that policy makers can decide possible targets and can successfully control the instrumental variables for which the government seeks desirable values.

Enders and Lee (1990) opined that public debt is as vital as the stock of money. A nation with balance of payments will acquire assets from the rest of the world and give a negative representation of that nation's economic situation. For instance, if a nations' invests the hired funds into well profitable opportunities, paying back hired funds to outsiders will be no conceivable. This will prompt to the nation to discount and cutoff its obligation in the future. In contrast the Ricardian equivalence theory stated that if the balance of payments is utilized to simply raise the share of consumption and no concrete enhancement in the economies capital stock or exports, this increment will lead to less capacity to repay the hired funds in the future.

The Ricardian Equivalence theory opposed that the budget deficit has no impact on the present account deficit. This is justified that when the government take actions to cut taxes by

then increases its default, general society assumes a later rise of the taxes in future. As a result customers reduce their utilization spending and boost their savings to face the expected upsurge in the taxes latter on.

Particularly, Keynesian point of view, which makes up the subject that government, can assume a noteworthy part in deciding the level of national income. Ricardian point of view on the other hand, which expresses that, the level of national output is fundamentally impartial to government policy. The effectiveness of fiscal policy will consequently depend especially on which view perseveres (Chamberlin and Yueh, 2006). The distinction between the Keynesian and the Ricardian perspective of the world comes down to the kind of consumption function is utilized, while the Keynesian model expresses that advance of government expenditure (expansionary fiscal policy) accelerates actual GDP, endogenous growth models do not dispense any noteworthy role to government in the growth procedure, however Barro and Sala-Martin (1992); Easterly and Rebelo (1993) underlined the significance of government intervention in economic activities to enhance economic growth.

2.3.2 Theories of Unemployment

There are divergent perspectives by researchers in economics on the theoretical bases of unemployment. Though, the some prominent schools of thoughts will be linked in this exploration work to examine the multidimensional circumstance of unemployment in Nigeria. These are: Keynesian Economic Theory of Unemployment, Classical Theory of Unemployment, The Marxist Theory of Unemployment, The Search Theory of Unemployment, and The Theory of Real Business Cycles.

2.3.2.1 The Keynesian Unemployment Theory

This theory is likewise called the cyclical or deficient-demand unemployment. The cyclical or Keynesian economists hold the view that unemployment happens when there is

insufficient aggregate demand in the economy to offer employment to everybody who needs to work. As indicated by these economists " when demand for most goods and services falls,, fewer production is required and thus fewer workers are required, wages are sticky and do not fall to meet the equilibrium level, and mass unemployment results.

Nigeria appears to be one of the worst hit. For example, while many government agencies and parastatal place embargo on employment in the most recent decades, within a similar period, governmental reforms disengaged about 121,731 laborers from public service between 2006 and 2007. During the first phase of the rightsizing procedure of the 2005 public service reform, around 30,000 officers of the core civil service were disengaged from service (Adegoroye, 2006). The banking industry also suffered adverse impacts of the financial related emergency. A few banks in the sector massively 'swept out' their work drive in an offer to stay in business and this has definitely expanded the rate of unemployment in Nigeria. The Keynesian economists claim further that the number of unemployed laborers surpasses the number of occupation opportunities, so that even if full employment were achieved and every single open job were filled, a few laborers would at present stay unemployed because of some mismatch in the economy. Some associate this theory with frictional unemployment because the factors that cause the friction are mostly because of cyclical variables. For instance, an unexpected decrease in the money supply may shock rational economic characters and all of a sudden inhibit aggregate demand. Subsequently, Keynesian economists see the absence of demand for jobs as possibly resolvable by government mediation. Their prescription for lessening unemployment is deficit spending by government to boost employment and increase in total aggregate demand. They also proposed mediation through an expansionary monetary policy that increase the rates thus prompting to an expansion in non-government spending (Haris, 2005), and policies that inspire more private investment (Obadan and Odusola, 2010).

The Keynesian framework, as inspected by Thirlwal(1979), Grill and Zanalda(1995) and Hussian and Nadol(1997), hypothesize that increase in employment, capital stock and innovative change are to a great extent endogenous. Accordingly the growth of employment is demand determined and that the principal determinants of long-term growth of output likewise power the growth of employment.

2.3.2.2 The Classical Theory of Unemployment

The fundamental principle of the classical theory is that the economy is automatic. The classicists expect the presence of full employment without inflation. Given wage-price flexibility, there are programmed compels in the economic system that has a tendency to keep up full employment, and produce output at that level.

In the classical model, the equilibrium income and employment are determined to a great extent in the labour market. At lower wage rate more laborers will be utilized. That is the reason why the demand curve of labour is downward sloping. The classicists equally hold that there is constantly full employment, so that the presence of unemployed workers is a coherent impossibility. Any unemployment which existed at the equilibrium wage rate was because of frictions or restrictive practices in the economy. In this way full employment is viewed by the classicists as a usual circumstance, while unemployment is unusual.

2.3.2.3 Marxist Theory of Unemployment

This theory was developed by Karl Marx in 1863. From his Theory of Surplus Value comes the quotation below: "It is the very way of the capitalist mode of production to overwork a few employees while keeping the rest as a save armed force of unemployed homeless people" Karl Marx, (1863). Karl Marx, in this theory, assurances that unemployment is intrinsic inside the unstable capitalist system and periodic disasters of mass unemployment are to be expected. Capitalism to the Marxists unjustifiably controls the labour market by perpetuating

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unemployment which brings down worker's interest for reasonable wages. Workers are pitted against each other with the intention of expanding paybacks for their employees. In the conception of Karl Marx, the best way permanently eliminate unemployment is to eradicate capitalism and the system of forced rivalry for wages, and after that move to the socialist or communist economic system. For the contemporary Marxists, the presence of diligent unemployment is a proof of powerlessness of capitalism to guarantee full employment. The socio-economic distress the Nigerian residents confronted under imperialism (colonialism) led the population to clamor for socialism as advocated by the Marxists. The socialist movement was at first a response against outrageous poverty brought about by capitalism on the masses. It lays great stress on the state embarking on a broad programme of welfare for the people, "the program that would give social insurance to defend the masses against unemployment and economic grief "; for example, the post-independent Africa preached socialism. The NCNC government under Dr. NnamdiAzikiwe and Dr. Michael Opara, preached "Welfarism and Pragmatic Socialism". The Action Group, under Chief Obafemi Awolowo supported "Democratic Socialism ". Besides, in Ghana, under Dr. Kwame Nkrumah, many state industries were established (Udu and Agu, 2005).

2.3.2.4 The Search Theory of Unemployment

This theory was put forward by Terry (1998) who believes that laborers have distinctive abilities requirements. Consequently, laborers need to discover well-paying, attractive jobs, while firms need to locate the most productive workers. According to Terry (1998) neither firms nor laborers have all the data they require about the choices accessible to them accordingly, they should participate in pursuit since, search is costly and time consuming hence; both firms and workers must utilize some of their belongings to find a good match.

With respect to laborers, it is assumed that they only survey when they are unemployed. Therefore, they are faced with an uncertain environment as firm do on their part. At the point when a laborer lands a place wage offer, for example, he/she should choose whether to acknowledge it or keep hunting down a superior offer in light of the fact that tolerating such offer means foregoing the chance of a higher wage offer later; while proceeding with the inquiry implies losing the wages he/she would have earned on the off chance that she had acknowledged the offer and began working. The wage at which the laborer is indifferent between proceeding with the inquiry and tolerating the present place of employment is known as the reservation wage accordingly the workers acknowledge all job offers over the wage and turn down all offers underneath it.

Sequel to the above when a pursuit is fruitful, that is when there is a match between the requirements of the laborers and the firm. The laborer leaves unemployment. Consequently, the theory pinpointed that, the wage offered by the firm is specifically identified with the laborers' effectiveness in light of present circumstances. Assume that there is an economy-wide increase in efficiency that laborers do not know about. At that point, there is the tendency that such higher efficiency can make it more tempting for the firm to expand work by permitting it to do as such by expanding the wage it offers to workers. This thus improves the likelihood that the normal laborer will detect a worthy employment offer and lessens the time she is probably going to spend searching. Hence, the unemployment rate will decrease because of the expansion in efficiency.

In addition, the search theory of unemployment is a path in which change in innovation could have an enduring impact on the rate of unemployment if it leads to permanent increase in the rate at which seeking firms and laborers discover the precise match. The prior further buttressed the investigation of Gomme (1998) which recommended that the internet has made

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this conceivable in light of the fact that organizations now routinely post vacancies on the internet, with the goal that laborers can search for employments in various areas at no cost.

2.3.2.5 The Theory of Real Business Cycles

This theory contents that the growth of efficiency of input which reforms innovation is the fundamental wellsprings of employment and unemployment that is, if the growth of output rises more than the growth of inputs, which makes the aggregate factor profitability or the Solow's remaining to get expanding attention. For example, if total factor profitability is not developing then firms and economies become inefficient. This therefore, follows that reallocation of work and capital cannot be attained and that work and capital will be utilized as a part of less productive opportunities Thus, the rate of unemployment will ascend as stated by (Chatterjee, 1995 and 1999).

Indeed, many factors are probably going to be in responsible for the slowdown in the total factor productivity (TFP). Subsequently, innovation may not be an enhancing factor of the production of goods and services while workers abilities are not being improved. Once there is no invention in a firm and country at large and there is consistent increment in the costs of imported products. This in turn pinpoints a propensity for the TFP to be stagnant, to such an extent that, the co-movements in other essential co-movements are probably going to be similarly back off, henceforth leading to fall in efficiency growth.

2.4   Empirical Evidence

Various researchers in both industrialized and unindustrialized countries have embarked on surveys on fiscal policy as fundamental in stabilization and repositioning the economy. But there are disparities in findings due to the nature and pattern of economic system.

Nwosa (2014) reviewed the impact of government expenditure on unemployment and poverty rates in Nigeria for the period 1981 to 2011. Utilizing an Ordinary Least square (OLS) estimation approach, the review proven that government expenditure has positive significant impact on unemployment rate, but negatively insignificant on poverty rate. The review suggested that urgent attention ought to be concurred to rising unemployment and high poverty rate. Akinni and Osinowo (2013) examine the effect of fiscal instability on economic growth in Nigeria utilizing distinct and quantitative strategy for the period 1970 to 2010 and found that both the genuine gross domestic product and real total fiscal spending were very unpredictable; add up to total fiscal spending was counter- repeated in the vicinity of 1970 and 1986 and seemed stationary between 1987 to 2010 with genuine output being moderately unstable.

Amassoma and Nwosa (2013) studied the relationship between unemployment rate and productivity growth in Nigeria for the period 1986 to 2010. The review used co-integration and error correction model approach. .Results of the study suggested that there is still the need for government to make serious steps against the rising unemployment rate, since unemployment is a noteworthy hindrance to social progress and results in misuse of trained manpower.

Bassani and Duval (2006) investigated the impact of fiscal policies and institutions on unemployment in the previous decades. They assessed decreased figure unemployment equations utilizing cross-country/time series data for 21 OECD countries during 1982 – 2003. They found that high rate of tax collection increases the rate of unemployment. Hammer and Sturn (2012) analyze the impact of monetary policy on unemployment covering the year (1980-2007). The outcome demonstrates that the degree to which hysteresis happens in the outcome of recessions relies on upon monetary policy reactions.

Fatas and Mihov (2001) and Burnside et al. (2004) in their reviews on United States found a positive impact of government expenditure shocks on employment. Monacilli et al.

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(2010) evaluated a VAR model to examine the effect of fiscal policy on labour market variables in the United States. According to their review, increase in government spending of 1 percent of GDP created output and unemployment multiplier around 1.3 and 0.6 respectively, showing that every rate point increase in GDP brings an extension in employment of around 1.3 million jobs. In addition, hour and employment equally rise significantly in reaction to a government spending stock.

Umut (2015) explored the effect of fiscal policy in Netherland, using VAR method. The review revealed that fiscal shocks exert significant impact on GDP, Unemployment rate, Consumption and Investment. The work proposes that unemployment ascends in response to a fiscal contraction although it falls to fiscal expansion. Holden and Sparrman (2016) evaluated the effect of government purchases on unemployment in 20 OECD countries, for the period 1980-2007. Their review discovered that an expansion in government purchases equivalent to one percent of GDP lessens unemployment by around 0.3 percentage point in the same year. The effect is more noteworthy and more persevering under less "employment-friendly" labour market institutions, and more prominent and more diligent under a fixed exchange rate regime than under a floating regime. The effect is additionally more prominent in downturns than in booms. The effect on unemployment reflects a consistent positive effect of enhanced government purchases on employment to population rate.

Samira and Khalil (2015) studied the government civil expenditures effect on unemployment rate in Iran from period of 1997-2013. Utilizing the generalized ADF unit root test, Johansen co-integration test, (VAR) technique and VEM. The long period relationship was explored and a negative and significant connection of aggregate government civil expenditure on unemployment rate was established. Iyeli and Azubuike (2013) accurately scrutinized the effect of fiscal policy variables on Nigeria's growth between 1970 and 2011. The approach for co-

incorporation and error correction mechanism was utilized in the scrutiny of real gross domestic product (dependent variable) on federal government expenditure, federal government revenue, inflation rate and capital inflow (the independent variables). The review discovered a long-run equilibrium relationship between economic growth and fiscal policy variables in Nigeria.

Abachi Phillip (1998) reviewed the trade-off between unemployment and inflation in Nigeria, utilizing a trade-off model used by Rea (1983). His reviews shown that there is no trade-off between inflation and unemployment. Rather, the appraisals established a non-linear curve that slopes upwards. Moreover, his discoveries demonstrated that causality existed amongst inflation and unemployment, which suggests that any endeavor to control inflation results to the worsening of unemployment and vice-versa. Arratibel et al. (2002) examined the New Keynesian Phillips curve with forward-looking desires by utilizing panel data. They found that the unemployment rates have huge association with no tradable inflation rates.

Masso and Staehr (2005) utilized the dynamic panel data strategy and neglected to recognize a critical relationship between unemployment rate and inflation rates. Adefeso and Mobalaji (2010) composed on the fiscal-monetary policy and economic growth in Nigeria. Their significant target was to re- estimate and reconsider the relative effectiveness of fiscal and monetary policies on economic growth in Nigeria using annual data from 1970-2007. The Error correction mechanism and co-integration method were employed to scrutinize the data and draw policy inferences .Their outcome demonstrated that the effect of monetary policy is much stronger than fiscal policy. They recommended that there ought to be more attention and dependence on monetary policy for the purpose of economic stabilization in Nigeria.

In a similar vein, Olawunmi and Ayinka (2007) reviewed the contribution of fiscal policy in the achievement of sustainable economic growth in Nigeria utilizing slow growth model estimated with the use of ordinary least square method. It was found that fiscal policy has not

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been compelling in the area of stimulating sustainable economic growth in Nigeria. Their study, expressed that factors such as wasteful spending, poor policy implementation and lack of response mechanism for implemented policy obvious in Nigeria which are without a doubt fit for hampering the effectiveness of fiscal policy have made it difficult to dream up such a conclusion. Mueller (2011) examined economic, political and institutional constraints to fiscal policy implementation in sub-Saharan Africa. It was found that arranged fiscal adjustments or expansions are more averse to be actualized. The bigger they are, the more mistaken the growth forecasts they depend on. The discovering bolsters on going endeavors in the district to enhance the quality and timeliness of economic data, improve forecasting volume, embrace sensible fiscal plans, and reinforce governance, budgetary institutions, and public financial management procedures.

Ogboleet al. (2011) composed fiscal policy: its impact on economic growth in Nigeria (1970-2006). The review includes similar investigation of the impact of fiscal policy on economic growth in Nigeria throughout regulation and deregulation periods. Econometric breakdown of time series data from Central Bank of Nigeria was conducted. Outcomes showed that there is distinction in the effectiveness of fiscal policy in stimulating economic growth during and after regulation period. Suitable policy blends, prudent public spending, setting of attainable fiscal policy targets and divergence of the nation's economic base, among others, were suggested.

Njoku and Ihugba (2011) observed at the relationship between unemployment and growth in Nigeria (1985-2009). One noteworthy discoveries of the review is that the economy developed by 55.5 percent between 1991-2006 and the population expanded by 36.4 percent. This should typically have come about to a reduction in the rate of unemployment yet rather unemployment increased by 74.8 percent. Enache (2009) researched the association between

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fiscal policy and economic growth in Romania using Forecasted time series data which covered periods between 1992 and 2013. The experimental outcomes showed powerless proof for the positive impact of fiscal policy on economic growth. The review inferred that government authorities could utilize fiscal policy to affect economic growth in a doubtful way.

Karimi and Khosravi (2010) examined the impact of monetary and fiscal policies on economic growth in Iran using autoregressive distributed approach to co-integration between 1960 and 2006. The exact outcomes showed presence of long-run relationship between economic growth, monetary policy and fiscal policy. The outcomes also discovered a negative impact of exchange rate and inflation (as proxies for monetary policy), but a positive and significant impact of government expenditure on growth. On Nigeria, Ekpo (1994) analyzed the contributions of public expenditure to economic growth in Nigeria over the periods 1960 to 1992.The discoveries from the review offered help for fiscal policy-led growth through crowd-in private investment consequential from government expenditure on infrastructure.

Nurudeen and Usman (2010) broke the impact of government expenditure on economic growth in Nigeria over the period 1970 – 2008. The paper publicized that government total capital expenditure total recurrent expenditures and expenditure on education have negative effect on economic growth while expenditures on wellbeing, transportation and communication are growth enhancing. Dauda (2010) studied effect of investment spending in education on economic growth in Nigeria utilizing thirty-one (31) years' time data from 1977 to 2007. The review utilizes co-integration and error correction procedures. The outcome indicates positive and significant effect of educational expenditure on economic growth.

From the Empirical evidence above, it can be deduced that studies such as Nwosa (2014) proven that government expenditure has positive effect on unemployment rate. Umut (2015) revealed that fiscal shocks exert significant impact on unemployment rate was established.

Samira and Khalil (2015) the long period relationship was explored and a negative and significant connection of aggregate government civil expenditure on unemployment rate. Lyeli and Azubuike (2013) discovered a long run equilibrium relationship between economic growth and fiscal policy variable in Nigeria. Abachi Phillip (1998) shown that there is no trade-off between inflation and unemployment. Arratibel et al. (2002) proved that the unemployment rate have huge association with no tradable inflation rates. Masso and Staehr (2015) demonstrated that there is a relationship between unemployment rate and inflation rate. Enache (2009) indicated powerless proof for the positive impact of fiscal policy on economic growth.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0   Introduction

This chapter focuses on the methodology and the model that is estimated in this study. The definitions of the variables used in the model, and also explains data sources and types of data employed. Also, this chapter sets the econometric analytical framework used in this study. This appraisal embraces ordinary least square estimation technique to evaluate the relationship between variables. Finally it presents the estimation result using the econometric methodology discussed on this chapter. The time series data on government expenditure, government revenue, interest rate, and public debt for the period under review (1981-2015) and its implication on unemployment rate in Nigeria. The secondary data shall be used in this studies and the data was gotten from the Central Bank of Nigeria Statistical Bulletin. The model that demonstrates the relationship among unemployment rate (UEP), Government Expenditure (GX), Government Revenue (GR), Interest Rate (IR), and Public Debt (PDT) is indicated as:

UEP = f (GX, GR, IR, PDT)…………………………………..… (1)

$$U_t = {}_0 + \alpha_1 G_t + \alpha_2 G_t + \alpha_3 I_{l_t} + \alpha_4 P_t + U_t \ldots\ldots\ldots\ldots (2)$$

α_0 Is the constant term, α_1, α_2, α_3, and α_4 are the slope parameters, "t" is the time trend, and "U" is the random error term. On the apriori, it is expected that; $\alpha_1 < 0$, $\alpha_2 < 0$, and $\alpha_3 < 0$

3.1   Estimation Techniques

This study adopts linear regression analysis.

Regression Analysis: The estimating technique adopted for this research work is the Ordinary Least Square Estimating technique, precisely the multiple regression version. Two models are employed in order to empirically investigate the impact of fiscal fundamentals on unemployment rate in Nigeria. The ordinary least square method of multiple regression is adopted because the

ordinary least square appears appropriate as it yields estimator which are best linear, um-biased and efficient. The following are the reasons for employing the ordinary least square method.

1.   The mechanisms of ordinary least square are easy to understand

2.   The ordinary least square interpretation procedure is fairly simple.

3.   The ordinary least square has been used in a wide range of economic relationship with fairly satisfactory results and

4.   The ordinary least square is an essential component of most other econometric techniques.

Following the model in equation 3.2 where all the variables are as previously defined, a number of standard assumptions are made about the error term or the stochastic variable, some of which are stated thus:

(i) The error term is a random variable whose summation equal to Zero i.e. $U_t = O$, that is to say that the value which it may assume in any one period depends on chance, this could be normality: thus implies that the error term (U_t) is normally and systematically distributed around its mean.

(ii) Hanosk elasticity: this implies that the variances of the error term is a constant with an unknown value, i.e. the parameter estimates which is $_1$ to $_7$ are estimated using the stata 11 econometric software. The standard error R square value and the t statistics value and their P values are also computed by the same software stata 11.

The R square shows the variation in exchange rate that is explained by the identified determinants. The R^2 which is the square of correlation co-efficient or as it popularly known as the co-efficient of determination will show the percentage of the total variation of the dependant various being explained by the changes of the explanatory variables. It measures the goodness of fit of the model i.e., it measures the extent to which the explanatory variables are responsible for

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the changes in the dependent variable. The standard error test which is a measure of the dispersion of the estimates around the true parameter will be carried out; this judges the reliability or significance of the estimates, of the regression co-efficient i.e. the parameter estimates. The standard "t" ration performs the same function with the standard error test but given due consideration to the level of significance which are traditionally 95% and 99% level.

Again the validity of the model used in this study can be tested by conducting the 'F' test, which describes the overall significance of the model; it would also be used in this study. Tests shall basically be econometric in nature, which also extends to the test for presence of multicollinearity. This is the consideration of the co-efficient of determination "R" and correlation co-efficient 'r' if r> R^2, it means there is problem of multicollinearity which means that the explanatory variables are correlated.

3.2   Sources of Data

This study uses of secondary data are extracted from the Central Bank of Nigeria statistical bulletin 2016 edition.

CHAPTER FOUR

RESULTS AND DISCUSION

4.1   Introduction

This chapter presents results of analyses conducted in the study to track the impact of fiscal fundamentals on the rate of unemployment in Nigeria. Presented in this chapter include correlation analysis of variables, regression analysis of variables and analysis of granger causality between fiscal fundamental and unemployment rate in Nigeria, followed by discussion of major findings

4.2   Correlation Analysis

Table 4.1: Correlation Matrix

	UEP	GX	GR	IR	PDT
UEP	1				
GX	0.48866697	1			
GR	0.48719795	0.96189507	1		
IR	0.09285503	-0.44094372	-0.4166455	1	
PDT	0.410419845	0.86837828	0.8202015	-0.1363067	1

Source: *Author's Computation, (2017)*

Table 4.1 presents correlation coefficient for pairs of variables used in the study. Specifically the table reported correlation statistics of 0.48866697, 0.48719795, 0.09285503, 0.410419845, 0.96189507, -0.44094372, 0.86837828, -0.4166455, 0.8202015, -0.1363067 for UEP and GX, UEP and GR, UEP and IR, UEP and PDT, GX and GR, GX and IR, GX and PDT, GR and IR, GR and PDT, IR and PDT respectively. The result revealed that there is positive relationship between most pairs of all variables used in the study, with few pair including GX and IR, GR and IR, IR and PDT showing negative correlation.

4.3 Regression Analysis

Table 4.2: Regression Estimation Result

Dependent Variable: UEMP

Variable	Coefficient	Std Error	t-statistics	Prob.
C	5.683718	2.817836	2.017051	0.0527
GX	0.042212	0.012018	3.512398	0.0000
GR	9.07E-05	0.000754	0.120180	0.9051
IR	0.320942	0.159138	2.016752	0.0085
PDT	0.000628	0.000598	1.051260	0.3015

R-Squared=0.731319   Adjusted R-Square=0.728828
F-statistics=12.256968   Prob(F-statistics)= 0.006394

Regression estimation presented in table 4.2 revealed coefficient estimates of 0.042212, 9.07E-05, 0.320942, 0.000628 alongside probability values of 0.0000, 0.9051, 0.0085, and 0.3015 respectively for government expenditure, government revenue, interest rate and public debt. The result revealed that all the explanatory variables exert positive impact on unemployment, with government expenditure and interest rate showing significant impact on the rate of unemployment in the country. Estimation result revealed that unemployment over the years increase with increase in government expenditure, revenue, interest rate and public debt. In specific terms the result showed that unemployment rate in Nigeria rise by 4% for every billion naira increase in government expenditure, and an increase of 32% for every 1% increase in interest rate. R-square statistics reported in table 4.2 stood at 0.731319, which implies that about 73% of the systematic variation in unemployment rate in the country can be explained by variation in all the explanatory variables combined. F-statistics and probability values reported in table 4.2 reflect that the model is a good fit, with the probability value of the reported statistics less than 0.05

4.4   Post Estimation Test

Post estimation test conducted in the study include linearity test (using Ramsey Reset Test). Normality test (using Jarque-Bera test), serial correlation test (using LM test) and

heteroscedasticity test (using Breusch-Pagan Godfrey test). Summary of the aforementioned post

estimations are presented in table 4.4 below

Table 4.3: Post Estimation Test Result

Linearity Test		
Statistics	*Values*	*Probability*
T-statistic	0.963820	0.3431
F-statistic	0.928950	0.3431
Likelihood ratio	1.103564	0.2935
Normality Test		
Statistics	*Values*	*Probability*
Jarque-Bera Stat	0.087964	0.956971
Serial Correlation LM Test		
Statistics	*Values*	*Probability*
F-statistic	4.35427	0.2341
Heteroscedasticity Test		
Statistics	*Values*	*Probability*
F-statistic	1.09738	0.6489

Source:*Author's Computation, (2017)*

Result of Ramsey test presented in table 4.3 report three statistics including t-statistics, f-

statistics and likelihood ratio statistic, alongside their respective probability values. Specifically

table 4.3 reported t-statistics of 0.963820, f-statistics of 0.928950, and likelihood ratio statistics

of 1.103564 alongside respective probability values of 0.3431, 0.3431 and 0.0739. Hence

overview of the reported statistics and their corresponding probability values revealed that there

is no enough evidence to reject the null hypothesis that the model is correctly specified. As such

the test established that there is linear relationship between the unemployment and fiscal

fundamentals like government expenditure, government revenue, interest rate and public debt in

Nigeria

The Jarque-bera statistics and probability values of the estimated models, stood at

0.087964, and 0.956971. The result revealed that there is no enough evidence to reject the null

that the error term of the estimated model is normally distributed, given the probability value that

is greater than 0.05, thus confirming that the error term normally distributed. The histogram of

the distribution is presented in the following figure 4.1

Figure 4.1 Normality test

NORMALITY TEST

Series: Residuals	
Sample 1981 2015	
Observations 35	
Mean	-2.08e-15
Median	0.215738
Maximum	8.481500
Minimum	-8.552846
Std. Dev.	4.091981
Skewness	0.031950
Kurtosis	2.762862
Jarque-Bera	0.087964
Probability	0.956971
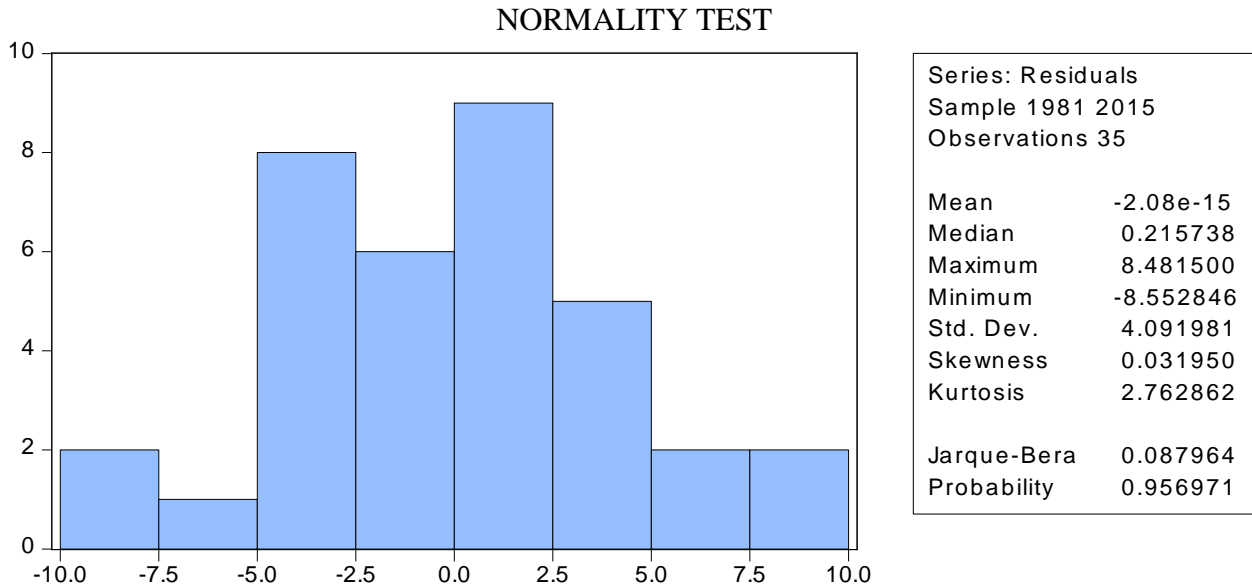
Source:*Author's Computation, (2017)*

The result displayed is an indication that the error term is normally distributed and the estimated model is in order. Breusch-Godfrey serial correlation LM test result presented in table 4.3 revealed f-statistics and probability values of 4.35427 and 0.2341 respectively. The statistics showed that there is no evidence to reject the null hypothesis of no serial correlation between successive values of error terms of the estimated models. Hence there is no problem of serial autocorrelation in the estimated models.

Table 4.3 report f-statistics and probability values of 1.09738 and 0.6489. Given the probability of the reported f-statistics it stands that there is no evidence to reject the null hypothesis of constant variance of the error term (homoscedasticity). Hence the test confirmed that there is no problem of heteroscedasticity in the error term of the estimated models.

4.5 Granger Causality Analysis

Table 4.4 Pairwise Granger Causality Test Result

Null Hypothesis	F-statistics	Probability
GX does not Granger Cause UEP	0.02560	0.9747
UEP does not Granger Cause GX	5.78880	0.0079
PDT does not Granger Cause UEP	0.01704	0.9831
UEP does not Granger Cause PDT	0.27061	0.7649
GR does not Granger Cause UEP	1.56989	0.2258
UEP does not Granger Cause GR	9.02471	0.0009

Source: *Author's Computation, (2017)*

Result of granger causality test conducted in the study as presented in table 4.4 revealed that there is unidirectional causality running from unemployment to government expenditure, and from unemployment to government revenue, which implies that pass values of unemployment rate in the country has significant impact on the current level of government expenditure and revenue in Nigeria. Thus the study established that unemployment granger cause fiscal fundamentals in Nigeria.

4.6   Discussion

Analysis conducted in an attempt to ascertain the impact of fiscal fundamentals on unemployment rate in Nigeria revealed the following: the study discovered in the study that government expenditure exert significant positive impact on the rate of unemployment in Nigeria, meaning increase in government expenditure will significantly culminate into increase in unemployment in the country. However, it can be traceable to the pattern of government expenditure in the country over time. Government expenditure without mincing word has been lopsided over time focusing on more of recurrent rather than on capital expenses. Moreover most of government expenditure on capital project has been moribund given the misalignment in the country due to high level of corruption, and public fund misappropriation. The study found that government revenue has positive but insignificant impact on the rate of unemployment in the

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country. Thus reflecting that over time increase in government revenue further engenders rise in the rate of unemployment in the country. this discovery can be validated based on the fact that, over time increase in government revenue especially revenue from taxation has left both individual, as well as corporate organization worse off, with no dividend of taxation been felt in the country especially in areas of infrastructural development that can help boost the productivity both at firms level and individual levels respectively. Government charge statutory 30% tax on companies to which they render little or no service to in terms of provision of infrastructural facilities and or protection from threat from factors within and outside the country. Public debt was also found to influence the rate of unemployment in Nigeria positively, as higher public debt culminates into increase in the rate of unemployment. Argument supporting this discovery is not far fetch because increase in public debt (domestic and external debt) implies increase in government expenses on debt servicing, which often time attract resources that could have been channeled toward development projects, and programmes in the country. This study also established that there is unidirectional causal relationship running from unemployment to fiscal fundamentals such as government expenditure and government revenue in Nigeria. The above discoveries established that the role of fiscal fundamentals cannot be undermined in a country like Nigeria, with fiscal fundamentals such as government expenditure, government revenue and public debt spurring unemployment rate in the country. It becomes evidence therefore that the null hypothesis that fiscal policy instruments has no significant effect on the rate of unemployment, and the hypothesis that there is no significant relationship between government expenditure and unemployment rate in Nigeria can be rejected, in favour of the alternative hypothesis that fiscal policy instruments has significant effect and relationship with unemployment rate in Nigeria.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1   Summary of Findings

This study evaluated the impact of fiscal fundamentals on unemployment rate in Nigeria. Specifically the study determined the effect of federal government expenditure on the rate of unemployment in Nigeria, ascertained the causal relation between fiscal policy and rate of unemployment in Nigeria and analyzed the trend of fiscal policy instruments in Nigeria. The study made use of secondary data covering a period of 35 years spanning from 1981 to 2015. Data were collected from sources including the statistical bulletin of the central bank of Nigeria, as well as World Bank Development Indicator database. Techniques of analysis including correlation analysis, regression analysis, and granger causality test analysis were employed in the study.

Result of analysis conducted in the study showed that:

(1) government expenditure has significant positive impact on unemployment rate in Nigeria

(2) government revenue has insignificant positive impact on unemployment rate in Nigeria

(3) interest rate exert significant positive impact on unemployment rate in Nigeria

(4) public debt has insignificant positive impact on unemployment rate in Nigeria

(5) unemployment granger cause government expenditure in Nigeria

(6) unemployment granger cause government revenue in Nigeria

5.2   Conclusions

From discoveries made in the study it can be concluded that fiscal fundamentals such as government expenditure, government revenue and public debt has an explosive influence on the rate of unemployment in Nigeria, with increases in the values of each of these variables culminating into increases in the rate of unemployment in the country. It was concluded that

fiscal fundamentals does not ganger cause the rate of unemployment in the country, reflecting therefore that the pass values of government expenditure, government revenue and public debt does not significantly influence rate of unemployment in the country.

5.3   Recommendations

The study thus recommends that:

(1) Government should re-focus on its expenditure in the country especially in the area of infrastructural development so as to increase the rate of productivity in the country and bate economic growth necessary for increase employment of labour.

(2) Government should also design framework that will ensure effective implementation and completion of projects and programmes in the country so as to ensure that objectives of each project and programme is achieved most effectively and efficiently.

(3) Government should also redefine its priority to include harnessing of other sources of revenue generation that will boost the aggregate and international relevance of the country, such as massive investment in the exportable agricultural products in the country.

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APPENDIX

DESCRIPTIVE STATISTICS

	UEP	GX	GR	IR	PDT
Mean	9.868571	1421.473	2916.495	15.89955	2902.726
Median	7.600000	487.1100	582.8100	16.61667	1194.599
Maximum	23.90000	5185.320	11116.90	31.65000	10948.53
Minimum	4.500000	9.640000	10.51000	6.000000	13.52380
Std. Dev.	5.023461	1768.144	3667.713	6.322413	3064.486
Skewness	0.976000	1.047195	1.002276	0.356027	0.984886
Kurtosis	3.472909	2.560263	2.582058	2.308288	2.999399
Jarque-Bera	5.882839	6.678925	6.114649	1.437168	5.658337
Probability	0.052791	0.035456	0.047013	0.487442	0.059062
Sum	345.4000	49751.57	102077.3	556.4842	101595.4
Sum Sq. Dev.	857.9954	1.06E+08	4.57E+08	1359.079	3.19E+08
Observations	35	35	35	35	35

CORRELATION STATISTICS

	UEP	GX	GR	IR	PDT
UEP	1				
GX	0.48866697	1			
GR	0.48719795	0.96189507	1		
IR	0.09285503	-0.44094372	-0.4166455	1	
PDT	0.410419845	0.86837828	0.8202015	-0.1363067	1

REGRESSION RESULT

Dependent Variable: UEP

Method: Least Squares

Date: 08/15/17   Time: 02:37

Sample: 1981 2015

Included observations: 35

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.683718	2.817836	2.017051	0.0527
GX	0.042212	0.012018	3.512398	0.0000
GR	9.07E-05	0.000754	0.120180	0.9051
IR	0.320942	0.159138	2.016752	0.0085
PDT	0.000628	0.000598	1.051260	0.3015

R-squared	0.731319	Mean dependent var	10.44857

Adjusted R-squared	0.728828	S.D. dependent var	4.667243
S.E. of regression	4.356247	Akaike info criterion	5.912662
Sum squared resid	569.3065	Schwarz criterion	6.134855
Log likelihood	-98.47159	Hannan-Quinn criter.	5.989363
F-statistic	12.256968	Durbin-Watson stat	1.693093
Prob(F-statistic)	0.006394		

NORMALITY TEST
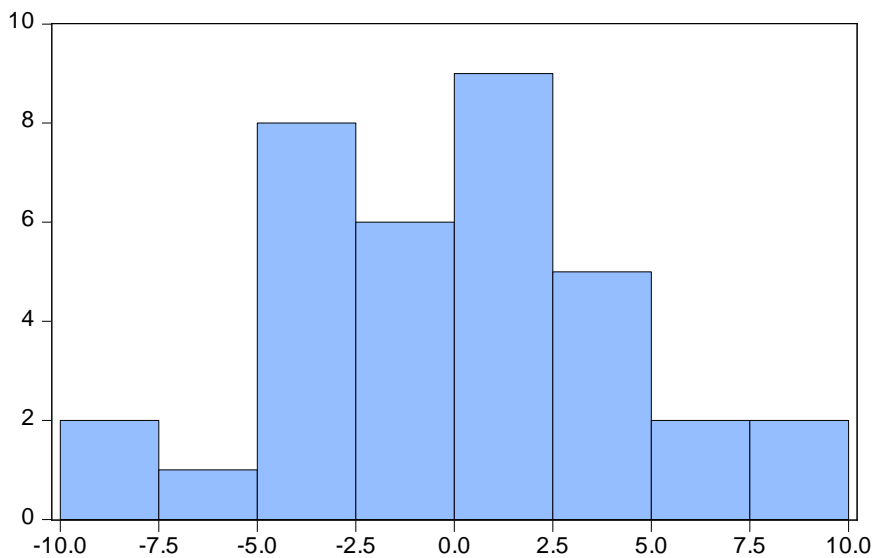
Series: Residuals	
Sample 1981 2015	
Observations 35	
Mean	-2.08e-15
Median	0.215738
Maximum	8.481500
Minimum	-8.552846
Std. Dev.	4.091981
Skewness	0.031950
Kurtosis	2.762862
Jarque-Bera	0.087964
Probability	0.956971

SERIAL CORRELATION

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	4.35427	Prob. F(2,28)	0.2341
Obs*R-squared	7.71865	Prob. Chi-Square(2)	0.4361

Test Equation:

Dependent Variable: RESID

Method: Least Squares

Date: 08/15/17   Time: 02:39

Sample: 1981 2015

Included observations: 35

Presample missing value lagged residuals set to zero.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.092579	2.054602	-0.045059	0.9644
GX	0.002595	0.001569	1.653868	0.1093
GR	-0.001281	0.000628	-2.039152	0.0510
IR	0.024928	0.115845	0.215187	0.8312
PDT	-0.000115	0.000435	-0.264384	0.7934
RESID(-1)	0.800596	0.179305	4.465000	0.0001
RESID(-2)	-0.018829	0.209998	-0.089665	0.9292

R-squared	0.506247	Mean dependent var	-2.08E-15
Adjusted R-squared	0.400443	S.D. dependent var	4.091981
S.E. of regression	3.168464	Akaike info criterion	5.321228
Sum squared resid	281.0967	Schwarz criterion	5.632297
Log likelihood	-86.12148	Hannan-Quinn criter.	5.428609
F-statistic	4.784757	Durbin-Watson stat	2.142060
Prob(F-statistic)	0.001791		

HETEROSCEDASTICITY TEST

Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	1.09738	Prob. F(4,30)	0.6489
Obs*R-squared	0.88511	Prob. Chi-Square(4)	0.4353
Scaled explained SS	3.52482	Prob. Chi-Square(4)	0.4390

Test Equation:

Dependent Variable: RESID^2

Method: Least Squares

Date: 08/15/17   Time: 02:40

Sample: 1981 2015

Included observations: 35

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.447141	9.582273	0.046663	0.9631
GX	0.009149	0.006861	1.333465	0.1924
GR	2.28E-05	0.002565	0.008904	0.9930
IR	0.108253	0.541162	0.200038	0.8428
PDT	0.000353	0.002032	0.173925	0.8631

R-squared	0.596717	Mean dependent var	16.26590
Adjusted R-squared	0.542946	S.D. dependent var	21.91199
S.E. of regression	14.81376	Akaike info criterion	8.360554

Sum squared resid	6583.426	Schwarz criterion	8.582746
Log likelihood	-141.3097	Hannan-Quinn criter.	8.437255
F-statistic	11.09738	Durbin-Watson stat	1.423279
Prob(F-statistic)	0.000012		

LINEARITY

Ramsey RESET Test

Equation: UNTITLED

Specification: UEP C GX GR IR PDT

Omitted Variables: Squares of fitted values

	Value	Df	Probability
t-statistic	0.963820	29	0.3431
F-statistic	0.928950	(1, 29)	0.3431
Likelihood ratio	1.103564	1	0.2935

F-test summary:

	Sum of Sq.	Df	Mean Squares
Test SSR	17.67043	1	17.67043
Restricted SSR	569.3065	30	18.97688
Unrestricted SSR	551.6361	29	19.02194

LR test summary:

	Value	Df
Restricted LogL	-98.47159	30
Unrestricted LogL	-97.91981	29

Unrestricted Test Equation:

Dependent Variable: UEP

Method: Least Squares

Date: 08/15/17   Time: 02:40

Sample: 1981 2015

Included observations: 35

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	8.567498	4.112335	2.083366	0.0461
GX	0.010446	0.008778	1.189945	0.2437
GR	0.000578	0.000909	0.635853	0.5299
IR	0.885302	0.728662	1.214970	0.2342
PDT	-0.003027	0.002560	-1.182580	0.2466
FITTED^2	-0.174827	0.181390	-0.963820	0.3431

R-squared	0.255177	Mean dependent var	10.44857
Adjusted R-squared	0.126760	S.D. dependent var	4.667243
S.E. of regression	4.361414	Akaike info criterion	5.938275
Sum squared resid	551.6361	Schwarz criterion	6.204906

Log likelihood	-97.91981	Hannan-Quinn criter. 6.030316
F-statistic	1.987088	Durbin-Watson stat 0.832069
Prob(F-statistic)	0.110416	

GRANGER CAUSALITY TEST

Pairwise Granger Causality Tests

Date: 08/15/17   Time: 10:39

Sample: 1981 2015

Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
GX does not Granger Cause UEP	33	0.02560	0.9747
UEP does not Granger Cause GX		5.78880	0.0079
PDT does not Granger Cause UEP	33	0.01704	0.9831
UEP does not Granger Cause PDT		0.27061	0.7649
GR does not Granger Cause UEP	33	1.56989	0.2258
UEP does not Granger Cause GR		9.02471	0.0009
PDT does not Granger Cause GX	33	0.58182	0.5655
GX does not Granger Cause PDT		5.45083	0.0100
GR does not Granger Cause GX	33	0.66386	0.5228
GX does not Granger Cause GR		7.49263	0.0025

55

GR does not Granger Cause PDT	33	4.12228	0.0270
PDT does not Granger Cause GR		0.83681	0.4436