American University of Nigeria Senior Research Project

# ECONOMIC EFFECT OF UNEMPLOYMENT IN THE NIGERIAN ECONOMY

By

KUCHA TERHEMBA HYCINTH

Submitted in partial fulfillment of the Requirements for a degree of Bachelor of Arts

# ECONOMIC EFFECT OF UNEMPLOYMENT IN THE NIGERIAN ECONOMY



By

# KUCHA TERHEMBA HYCINTH

A00016896

Supervised by John Leonard PhD

A project submitted in partial fulfillment for the degree of Bachelor of Arts (Economics)

American University of Nigeria

CERTIFICATION STATEMENT

This is to certify that this research project “**ECONOMIC EFFECT OF UNEMPLOYMENT IN THE NIGERIAN ECONOMY”** was conducted by Kucha Terhemba Hycinth of the Department of Economics, School of Arts and Sciences, American University of Nigeria.

Kucha Terhemba Hycinth

Supervisor: John Leonard PhD

Department Chair: Natina Yaduma PhD

DEDICATION

This project is dedicated to the almighty God and my lovely family. I am happy to be here because of their help, support and prayers.

ACKNOWLEDGMENT

I would like to first of all thank the almighty God for enriching me with the wisdom, strength and perseverance to take up and complete this project.

To my beloved parents, I can never repay you for all you have invested in me over the years, Thank you for believing in me and my dreams. My gratitude also goes out to my friends and relatives who helped me in the process of this research. Thank you for your support and encouragement.

Lastly to the Economics department of the American University of Nigeria, I owe a great debt of respect and gratitude to my supervisor Dr. John Leonard, Our Departmental Chair Dr. Natina Yaduma and Dr. Wasiq Khan who has also been major contributors to this project. Thank you for all the assistance. I am very glad to have worked with such amazing experts in economics throughout my undergraduate years.

ABSTRACT

The term unemployment can be defined as an economic condition marked by the fact that individuals actively seeking jobs remain unemployed. Unemployment is expressed as a percentage of the total available work force not working. The rate of unemployment varies with economics conditions and other circumstances. Unemployment is frequently seen in graduates of big institutions of learning most especially in under developed nations such as Nigeria. The study was formed to investigate the effect of unemployment on economic growth in Nigeria. The research focuses on determining the cause and impacts of unemployment, and how the problem of unemployment in Nigeria will be reduced to a minimal level or even eradicated. Its focus on this objective is to determine the relationship between unemployment and economic growth in Nigeria (GDP). The method of analysis used in testing the hypothesis is the T-test, F-test etc.

The major findings were that unemployment has a negative impact on the gross domestic product (GDP) of the Nigeria economy. Some suggestions and policy recommendations were made

based on the findings.

TABLE OF CONTENTS CHAPTER ONE: INTRODUCTION

* 1. GENERAL BACKGROUND OF UNEMPLOYMENT
  2. PEOPLE ASSOCIATED WITH THE SUBJECT MATTER
  3. THE PROBLEM OF HOW TO RESTRAIN RURAL AND URBAN MIGRATION
  4. THE IMPORTANCE OF STUDYING THE AREA CHAPTER TWO: LITERATURE REVIEW
  5. THEORETICAL LITERATURE
  6. THE CLASSICAL THEORY OF UNEMPLOYMENT
  7. KEYNESIAN THEORY OF UNEMPLOYMENT
  8. THE RELATIONSHIP BETWEEN ECONOMIC GROWTH AND UNEMPLOYMENT CHAPTER THREE: METHODOLOGY
  9. THE MODEL
  10. MODEL SPECIFICATION
  11. ESTIMATION TECHNIQUES AND RESULT VALIDATION
      1. THE ECONOMIC CRITERIA
      2. THE STATISTICAL CRITERIA
      3. ECONOMETRIC TESTS
  12. NATURE AND SOURCES OF DATA

CHAPTER FOUR: DATA PRESENTATION AND INTERPRETATION OF RESULTS

* 1. PRESENTATION OF RESULTS
  2. INTERPRETATION OF RESULTS
     1. ANALYSIS OF REGRESSION COEFFICIENTS
     2. EVALUATION BASED ON ECONOMIC PRIOR EXPECTATIONS
     3. EVALUATION BASED ON STATISTICAL CRITERIA
     4. EVALUATION BASED ON ECONOMETRIC CRITERIA

CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSION AND POLICY RECOMMENDATIONS.

* 1. SUMMARY OF FINDINGS
  2. CONCLUSION
  3. POLICY RECOMMENDATIONS REFERENCES

# CHAPTER ONE

**INTRODUCTION**

# GENERAL BACKGROUND OF UNEMPLOYMENT

In accordance to the advanced learner dictionary, Unemployment is defined as the amount of Labor unused. But according to the World Bank (1998) unemployment is defined as the number of the economically active population who are without work but available for and seeking work, Including people who have lost their jobs and also those who have voluntarily left work. When a factor of production is not engaged in any job it is known to be unemployed. In this paper I am focusing mainly on the economic effect of unemployment in the Nigerian economy. I will be focusing mainly on labor which is known to be the most important and active factor of production which explains that without labor every other factor will not be practiced. All the other factors are regarded as passive factors of production.

Unemployment is a demanding phenomenon to an industrialized economic system. There is little unemployment in Nigeria involved in the primary output production, most of these communities still endure a huge reduction in their output, due to fall in the world market. We regularly advocate industrialization as an absolution to unemployment problem but it is highly vital to be aware that industrialization leads to an alarming issue known as unemployment in industrial progress.

# PEOPLE ASSOCIATED WITH THE SUBJECT MATTER

Anyacle (1995:214) pointed out that the issue has become frequently without solution in perception, it has established itself to be one of the greatest adversary of the population in this section of the world. The issue of unemployment has aggravated due to proceeding and dearth unbridle rural-urban migrate, etc.

Unemployment is a huge issue affiliated with rural and urban areas of the Nigeria economy which results in the following problems in Nigeria.

1. Poverty: When there is no source of income, poverty creeps in. the quality of life and standard of living is reduced due unemployment.
2. Increase in Crime Rate: When individuals are idle as a result of no job, he or she is likely to engage in criminal activities in other to satisfy their financial needs such as, arm robbery, prostitution, drug dealing, etc.
3. It causes migration: This is a situation where people move from one area to another for better quality of life. In a rural area where there is high unemployment and no social amenities people will move from that area to an area with high employment and improved social amenities.
4. Frustration: Unemployment can cause frustration and depression on the population, most people can hold on so they commit suicide because of the agony they go through staying unemployed.
5. Poor Education: Unemployment effects the population in the area of education. Parents are not able to pay for books or enroll their kids in school because they can’t afford it and as a result children are roaming around the streets idle causing nuisance.
6. Increase in death rate: As a result of unemployment, there is increase in death rate because people start dying as a result of malnutrition and inability to pay for hospital bills.

# THE PROBLEM OF HOW TO RESTRAIN RURAL- URBAN MIGRATION.

Rural-urban Migration is the movement of people from one suburb or Villages to Cities or Towns. This rural-urban is a feedback to some of the current conditions from the rural communities to urban communities as diversified logic. The elements of this rural-urban migration are known as the push and pull factors. Pull factors are those factors within an urban area that attracts people in the rural areas to move to the urban areas while the push factors are the reasons why people move from the rural areas to the urban areas. These push and pull factors including the following.

Insecurity: People move away from places that experience terrorism, violence and high rate of criminal activities. They move in search of a peaceful and well secured environment.

Scarcity of Land: People are forced to migrate in search of more fertile land for cultivation and to live in, less populated areas are more conducive for those undertaking extensive agricultural move.

# THE IMPORTANCE OF STUDYING THE AREA

*(RURAL – URBAN MIGRATION)*

The main concern of studying this rural – urban migration is to help cut down the number of people that will move out of the suburb or the villages to cities or towns. To restrain this mass movement of people from rural-urban areas, the following should be done by the federal government of Nigeria.

1. Industries should be established in rural areas.
2. Social amenities should be provided to prevent the push and pull factors.
3. The Agricultural system should be upgraded
4. Higher Institutions should be established in the rural Areas.

The issue of unemployment to the Nigeria economy is to determine concrete solutions to it (unemployment). The Federal government of Nigeria should endorse the following measures to eliminate this particular problem.

* 1. More job opportunities should be created to cut down the high rate of unemployment. When people are given the opportunity to earn a living, the problems of crime and prostitution will reduce.
  2. Investment into education so that people can be taught self-belief and good quality of life
  3. Development of the agricultural sector, which will generate revenue for the government and employment, will be available to some citizens.
  4. Reduction in tax rate which will yield high productivity and a rise in employment.
  5. DEFINITION OF THE TYPES OF UNEMPLOYMENT.

In this section all the types of unemployment in the Nigeria economy are explained briefly, they are as follows: -

1. *FRICTIONAL UNEMPLOYMENT: -*

This is also known as a search unemployment which occurs when workers lose their current job and are in the course of seeking for another one. One important thing to do in other to reduce this type of unemployment is to provide better information about the job to workers.

1. *SEASONAL UNEMPLOYMENT:*

This type of unemployment occurs because some jobs only function at certain times of the year and also some industries only produce and distribute their products at certain times of the year. Example; road construction companies where during the raining season there no jobs.

1. *STRUCTURAL UNEMPLOYMENT:*

This type of unemployment occurs when some industries take a downturn due to long-term changes in the market conditions. This type of unemployment exists during recession and globalization.

1. *VOLUNTARY UNEMPLOYMENT*

This type of unemployment occurs when workers choose not to work at a current equilibrium wage rate for certain reasons, for example; when a husband tells his wife not to take any job but stay at home as a full time house wife.

1. *DEFICIENT DE*MAND (CYCLICAL) UNEMPLOYMENT:

This is also known as Keynesian unemployment, which occurs when there is a fall in the aggregate demand, which results to a fall in prices. This affects some industries and it may cause workers to be laid off.

*G) UNDER EMPLOYMENT: -*

This type of unemployment occurs when a worker is paid less than his worth or efforts put into a job. Example; a graduate who is working as a cleaner.

# CHAPTER TWO

* 1. **LITERATURE REVIEW**

# THEORETICAL LITERATURE

Here we would focus on the views and also the critical reviews on previous studies in the area of unemployment and economic growth.

Obandan and Sagbamah (1997) noticed that employment and growth move on the same pace. With all things being equal, when growth rate is high, unemployment rate is also high. A result to the preceding is that employment and growth rate will drop, with all things equal, contraction in employment (which is known as unemployment) leads to a reduction in output and economic growth. The proceeding indicates that growth and unemployment has a negative correlation. In other to cut down unemployment growth support approach should be established.

Todaro (1985) viewed that a consolidation of the shortage of capital, raw materials, and intermediate products, skilled and managerial human resources and other factors exist in developed nations. All these structural and institutional factors were the major causes of unemployment in developing nations. As a result the case that expanded government and private demand would be efficient in the treat of unemployment, which it remains a delusion to third world nations.

Moru (2005), assumes that unemployment induced by the movement of labor forces from agricultural production(primary production) to secondary production in Nigeria between unskilled labor, establishes calamity to the economic development in backing of the effects of unemployment on the Nigerian economy and the fulfillment of economic growth, evaluations indicates that fulfilling high economic resources, through sustainable growth overtime, revised approaches, investment and trade increment and upgrading human capital development.

# THE CLASSICAL THEORY OF UNEMPLOYMENT

TWO HIGH WAGES THEORY

Classical unemployment is also known as real wage unemployment because it acknowledges the real wages being high. It occurs when the real wages are above the market clearing wage rate, which results to a surplus of labor supplied. The classical view was that

involving unemployment was a short term phenomena resulting from a discrepancy between the price level and the wage level. Unemployment was the result of two high wages.

At times the wage level in the classical view would be reduced and there will be no unemployment except for frictional search unemployment caused by time delays between quitting one job and starting another. The school viewed that the problem of urban unemployment is traceable to the fault of workers and the various trade unions’ power. They believed strongly in the theory of supply and demand. Therefore it insists that urban unemployment is caused by supply of labor of more than the capacity of the economy.

Consequently the school argued that the demand for two high wages by worker without a corresponding increase in productivity, venders product costly thereby discouraging competitiveness among local industries and foreign industries. The implication of this trend is the reduction of sales, which further leads to mass retrenchment of workers, resulting to unemployment

# KEYNESIAN THEORY OF UNEMPLOYMENT

The ideas of the British economist, John Maynard Keynes in 1930’s revolutionized thinking in several areas of macroeconomic, including unemployment, money supply and inflation.

Keynesian unemployment also known as demand deficient unemployment occurs when there is no aggregate demand in the economy. It gets its name because it varies with the business cycle, though it can also be persistent as it was during the great depression of the 1930’s. Keynesian unemployment rises during economic down turns and falls when the economy improves. His type of unemployment exists due to inadequate effective demand.

The Keynesian theory emphasizes that employment depends upon effective demand which leads to an increase in output, output generates income and income provides employment. Unemployment is seen as income function. Effective demand is resolved by aggregate supply and demand.

# THE RELATIONSHIP BETWEEN ECONOMIC GROWTH AND UNEMPLOYMENT.

Linda Levine (2011), in her contribution to economic growth and unemployment, vied that, in the short run, economic growth and unemployment rate have a loose on relationship, it is unusual for unemployment rate to present continuous fall after other extensive measures of economic activity are positive. It is known as lagging economic indicator.

It is difficult for unemployment to fall wen economic growth takes off after a recession has ended and this is because firms may have under-utilized employers on their payrolls, because when you lay-off workers when output demand falls and hire them again after output demand improve has a huge cost. As a result employers may initially be able to increase output to meet the rising productivity of their current employees.. The long run relationship between the two economic variables was most famously pointed out in the early 1960s by economist Arthur Okun “Okun’s Law” has been included in a lot of core ideas that are widely accepted in the economics profession.

Okun’s law which economists have expanded upon since it was first articulated states that real GDP about to equal to the rate of potential output growth usually is required to maintain a stable unemployment rate.

Thus, the key to the long run relationship between changes in the rates of GDP growth and unemployment is the rate of growth in potential output. Potential output is an unobservable measure of the capacity of the economy to produce goods and services when available resources, such as labor and capital are fully utilized. The rate of growth of potential output is a function of the rate of growth in potential productivity and the labor supply when the economy is at full employment. When the employment is high the actual GDP falls short of potential GDP, this is referred to as output gap.

When GDP growth equals labor force growth in the presence of productivity growth, more people will be entering the labor force than are needed to produce a given amount of goods and services. The share of labor force that is employed will fall. Expressed differently, the unemployment rate will rise. Only as long as GDP growth exceeds the combined growth rates of the labor force and productivity will the unemployment rate fall in the long run.

Knowing what the rate of GDP growth is or might be, is useful to policy makers interested in undertaking stimulus policies to bring down the unemployment rate. But just as stated, the rate of

output growth necessary to lower the unemployment rate requires knowledge of the rates of labor force and productivity growth, (Linda Levine).

# EMPERICAL LITERATURE

Stephen (2011) investigates the impact of unemployment on economic growth for a case of Nigeria, for the period 1980-2008. He used Cobb-Douglas production function to develop his model and estimated his results by using simple OLS method; he found that unemployment changes significantly and inversely to the economic growth in Nigeria.

Silvapulle et al(2004), examined the relationship between unemployment and economic growth, they explore the impact of cyclical unemployment for a case of U.S, by Applying dynamic model for post war period data set, they found two conclusions from the study, first was that the positive impact of cyclical output on unemployment differs from negative impact cyclical output on unemployment in the short run, the second was that, the negative impact of cyclical output on cyclical unemployment is more significant than that of the positive impact of cyclical output on cyclical unemployment.

Obadan and Odusola (2005) discovered that unemployment and growth are inversely related. It was also discovered that growth response to unemployment varied among sectors of the economy. For example employers in industrial sector use less labor to accomplish high volume of production, thereby leading to unemployment of workers. The researcher analyzed the causal link between unemployment and productivity in different sectors of the Nigerian economy except service sectors.

Levin and Wright (2000) found that it is important but difficult to distinguish between desirable effects of unemployment insurance that are observationally equivalent, when designing optimal unemployment insurance cause’s permanently higher involuntary unemployment by raising the reservation wage. The paper avoids the problem by regarding the trade-off between the unemployment insurance replacement rate and unemployment as an intermediate relationship that matters only as far as its impacts on economic growth.

Ajecomobi and Ayanwale(2005), investigated the education expenditure trend, higher education student enrolment and linkage with unemployment and economic growth in Nigeria, using annual data from (1970-2005), which comes from several issues of CENTRAL BANK OF

NIGERIA annual reports and statement of account, federal ministry of education and national university commission(NUC), the result shows that government funding is unstable and unpredictable capital and recurrent funding of the nation’s budget, total enrollment and a level fund made available could adequately cater for the proportion of GDP that goes to education still low.

Charles Zimmerman and Sorokin(1980), made some combination of factors, thus the type of occupation which people engage in, the government phenomena comprising of the building and water supply size of the commodity density of population, in erogeneity of population, school differentiation and stratification, social mobility, and also found to be flexible about the sort of work they would accept. Thus a high proportion of the unemployed provided a relatively cheap and flexible pool of labor available to the employed when demand for employment picked up.

Ayodele (2000) found that Nigerian economic structure, especially the secondary sector, had low potentials for employment generation and is ill-equipped to absorb the economy’s expanding labor force. Given the structure of the model, the study relied on the OLS techniques, using the time series data from 1985-1999. The result of the estimation generated, show that the growth in total employment of both the lower and upper grade of labor forces was significantly lower than that of the GDP. The implication of the growth rates is that employment lagged behind economic growth in general, which to him could have risen from the limited employment created by the mining sector, whose major production technology remains a capital-intensive one with labor displacing effects. Also agriculture (another component of the primary sector with the greatest contribution to output) is exceedingly peasantry, most of its ability to employ is in the disguised unemployment.

Therefore these evidence and writings showcase faintly the incidence of the impact of unemployment, its defective effect on economic growth. However the effect of unemployment in achieving high economic growth in Nigeria remains in exhaustively and non-critically examined.

# CHAPTER THREE

* 1. **METHODOLOGY**

# THE MODEL

The research work makes use of econometric method. Econometric methods are statistical methods specifically adapted to the peculiarities of economic phenomena, Koutsoyiannis (1997). It is adopted because of its ability to provide a precise prediction of economic magnitude. To achieve this, method of OLS estimation is employed for the econometric analysis. This is because the method of least square has some very attractive statistical properties that have made it one of the most powerful and popular method of regression analysis. The OLS techniques, under certain assumptions have desirable statistical properties (efficiency, consistency, and unbiased). In other words, OLS estimates are the best linear unbiased estimate.

# MODEL SPECIFICATION

An economic method is a representation of the basic features of economic phenomena. It is an abstraction of the real world, (Fonta, Ichoku and Anumunda, 2003).

The specification of a model is based on the available information of an economic model which is dependent on the available information on the study as embedded, in standard error theory and other major empirical work or else the model will be non-theoretical.

Koutsoyannis (1997), opined that it always pays to incorporate only what is known from the subject matter into the model building process, based on this our model is specified as follows,

GDP=F (UNEMP, GOV.EXPEDU, RIR)

Where, GDP= Gross Domestic Product UNEMP= Unemployment

GOV. EXPEDU= Government Expenditure RIR= Real interest rate

Mathematically the model is expressed as:

GDP=β0 + β1 UNEMP + β2 EXP.EDU + β3 RIR + µ1

Where,

Β0= the intercept or the constant.

Β1-β3= the coefficient of the explanatory variables. µ1= Stochastic error term.

Gujarati (2003) defines µ1 as a random variable that has well defined probabilistic properties. The stochastic error term represent other determinants of economic growth not explicitly taken into account by the above model.

# ESTIMATION TECHNIQUES AND RESULT VALIDATION

The estimation method here would be the OLS method. The significance would be to note if the variables are well behaved or not. We aim to determine their level of statistical significant or in other case the result of the model will be evaluated on the basis of three (3) criteria namely: economic prior expectation, statistical test of significance and economic test.

# THE ECONOMIC CRITERIA

The economic priory expectation will evaluate the parameter in terms of their meeting the standard economic theory expectations.

# THE STATISTICAL CRITERIA

Statistical test are done to evaluate reliability of the estimated parameter in accordance with statistical theory and expectation. The statistical test carried out includes:

1. The T-test, this is used to test the significance of the individual parameters of the regression model. The decision to accept null hypothesis is based on the value of the test statistics from the data at hand.
2. The F-test, this would be carried out to ascertain whether,
3. An individual regression co-efficient is statistically significant.
4. All partial slope co-efficient are zero.
5. Two or more co-efficient are statistically equal.
6. There is structural stability of the regression model.
7. Co-efficient satisfies some linear restrictions.
8. Co-efficient of determination (R2): The goodness of fit test is done using the square of the correlation co-efficient. It shows or explains the percentage in total variation of the endogenous variable being explained by the change in the explanatory variables. It measures the extent to which the explanatory variables are responsive for judging the explanatory power of the regression.

# ECONOMETRIC TESTS

The test will be performed on the regression result in order to evaluate it according to the classical assumptions of OLS.

These tests are discussed briefly below to determine

* + - 1. Test for multi-colonearity: This will be used to test the linear colonearity among the explanatory variables and correction matrix would be employed in this test.
      2. Auto-correlation test: A test that is carried out to determine whether the errors corresponding to different observations are uncorrelated. Testing for randomness of the error term. The Durbin Watson method (D.W) is used for this test, according to Koutsoyannis (1997) the D.W method provides estimates which have properties and are more adequate for all samples.
      3. Heteroscodasticity test: This is used to know whether error term of the explanatory variables of the estimated model have equal variance.
      4. Normality test: This will be used to know whether the error term of the estimated model is normally distributed.

# NATURE AND SOURCES OF DATA

Data used in this research are secondary data, sourced from the reports and bulletin of the following:

1. Central bank of Nigeria (CBN).
2. Bureau of statistics.

# CHAPTER FOUR

* 1. **DATA PRESENTATION AND INTERPRETATION OF RESULTS**

# PRESENTATION OF RESULTS

The result of the model which was specified in the previous chapter is presented as below:

Table 1: Results for the Ordinary least square (OLS) estimate Method: Ordinary Least Square (OLS)

Period of study: 1980-2010 Included observations: 31

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| LGDP | Coefficient. | Std. | T-value | P>|t| | 95% CI. | |
| Err |
| UNEMP | .0056286 | .0745885 | 0.08 | 0.940 | -.1474143 | .1586715 |
| GOV EXPEDU | .0000356 | 7.43e-06 | 4.80 | 0.000 | 0.0000204 | .0000504 |
| RIR | -.0064583 | .0158244 | -0.41 | 0.686 | -.0389274 | .0260107 |
| \_CONS | 12.41805 | .5273664 | 23.55 | 0.000 | 11.33598 | 13.50012 |

It has the following results

F (3, 27) = 22.51

Prob > F = 0.0000

R-squared = 0.7143 Adj R-squared = 0.6826 Root MSE=1.2784

# INTERPRETATION OF RESULTS

* + 1. **ANALYSIS OF REGRESSION COEFFICIENTS:**

The result showed that the intercept is 12.41805. This shows that if all the explanatory variables are held constant, GDP will be 12.41805. The coefficient of unemployment (UNEMP) is a positive value of 0.0056286. This result implies that a unit increase in UNEMP will increase GDP by 0.0056286. The second variable representing Government expenditure (GOVEXPEDU) has a positive value of with 0.0000356. This implies that a unit increase in GOVEXPEDU will cause a 0.0000356 change in GDP. Lastly, the real exchange rate (RIR) has a negative value of -0.0064583. This implies that a unit increase in RIR will bring about a 0.0064583 decrease in the GDP.

* + 1. Evaluation Based on Economic prior Expectations

The test is carried out to see if the signs and magnitudes of the results are in conformity with what economic theories postulates. Economic theory suggests that in applied econometric research, not all the explanatory variables affecting the dependent variable are included in the model and for that reason, it is natural to expect that omitted variables are frequent causes of independence in the model, Kuotsoyannis (1977). The table below is a summary of the outcome of the parameter estimates.

Table 2: Summary of the outcome of the parameter estimates.

|  |  |  |  |
| --- | --- | --- | --- |
| Variable | Expected sign | Observed sign | Remark |

|  |  |  |  |
| --- | --- | --- | --- |
| UNEMP | - | + | Does not conform |
| GOVEXPED  U | + | + | Conforms |
| RIR | - | - | Conforms |

From the result above, all variables except UNEMP conformed to the a priori expected sign.

# EVALUATION BASED ON STATISTICAL CRITERIA

1. **COEFFICIENT OF DETERMINATION (R-SQUARE)**

The coefficient of determination also known as R-square measures the proportion of the total variations in the dependent variable that is explained by the explanatory variables. From the result, R- squared is 0.7143. This shows that the explanatory variables explain the variation in the dependent variable to the tune of 71.43%.

# THE T-TEST

The t-test is undertaken to ascertain the individual significant impact of the independent variables on the dependent variable.

Hypothesis:

Ho: The individual parameters are not significant H1: The individual parameters are significant.

Decision rule:

If the t-calculated > t-tabulated, we reject the null hypothesis (H0) and accept the alternative hypothesis (H1), and accept if otherwise.

Level of significance = α at 5% = 0.05 Degree of freedom = (n – k) = 31 – 4 = 27 Where n: sample size

k: Number of parameters.

Table 3: The t-test is summarized in the table below.

|  |  |  |  |
| --- | --- | --- | --- |
| Variables | t-cal | t-tab | Remark |

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
| UNEMP | 0.08 | ±2.0518 | Insignificant |
| GOVEXPEDU | 4.80 | ±2.0518 | Significant |
| RIR | -0.41 | ±2.0518 | Insignificant |
| Constant | 23.55 | ±2.0518 | significant |

From the results above, the t-test revealed that only government expenditure and the constant have significant impacts on the GDP, while unemployment and real interest rate have insignificant impacts.

Conclusion: The result revealed that unemployment has a positive relationship and an insignificant impact on the GDP.

# THE F- STATISTICS TEST

The F-statistics is a value you get when you run a regression analysis to test the overall significance of the model. It follows F-distribution under the null hypothesis with (k-1) degrees of freedom in the numerator and (n-k) degrees of freedom in the denominator.

TEST HYPOTHESIS:

Ho: ß1= ß2 = ß3=0 (significant) Hi: ß1= ß2 = ß3≠0 (insignificant)

The decision rule is to reject Ho if Fcal > Ftab. At 0.05 significance level, reject the null hypothesis. And accept if otherwise.

Test Hypothesis:

Tabulated F = [F (3, 27)] is 2.96. Since the calculated F is 22.51, we reject Ho and conclude that the model is significant.

# EVALUATION BASED ON ECONOMETRIC CRITERIA

1. AUTO CORRELATION (THE DURBIN - WATSON CRITERION).

This test is carried out to check if the successive values of the random variable (Ui) are independent.

Ho: P = 0 (the U's are not auto correlated) H1: P ≠ 0 (the U's are correlated).

Table 4: The summary for the decision rule for autocorrelation estimates.

|  |  |  |
| --- | --- | --- |
| Null Hypothesis (Ho) | Decision | If |
| No positive auto correlation | Reject | 0 < d < dL |
| No positive auto correlation | No decision | dL < d <dU |
| No negative auto correlation | Reject | 4 - dL < d ≤ 4 |
| No negative auto correlation | No decision | 4-dU <d ≤4 - dL |
| No auto correlation, positive or | Do not reject | dU < d <4 - dU |
| Negative |

Where:

dL = Lower limit dU = Upper limit

d = Durbin Watson (calculated)

At 0.05 Significance level

dL = 1.29685 dU = 1.57011 d (4, 31) = 0.1772905

Since d (calculated Durbin Watson) is 0.1772905, d falls within the range 0 < d < dL i.e. 0 < 0.1772905 < 1.29685

We therefore reject Ho and conclude that there is positive serial correlation in the residuals.

1. Heteroscedasticity test:

This test is carried out using White’s general heteroscedasticity test (with cross terms). The test asymptotically follows a chi-square distribution with degree of freedom equal to the number of regressors (excluding the constant term)

The test hypothesis is stated thus; H0: Error terms are (homoscedastic) H1: Error terms are (heteroscedastic)

Note: The sample size (n) multiplies the R2 obtained from the auxiliary regression asymptotically follows the chi-square distribution with degree of freedom equal to the number of repressors (excluding constant term) in the auxiliary regression.

Decision Rule:

Reject the null hypothesis if X2cal > X2 at 5% level of significance. In that case you accept the null hypothesis. From the obtained results,

X2cal = 8.83 > X2 0.05 (9) = 0.45

We therefore reject the null hypothesis and accept the alternative hypothesis showing that the error term does not have a constant variance.

1. Test for Multicollinearity:

The term Multicollinearity is due to Ragnar Frisch. Originally it meant the existence of a “perfect” or exact, linear relationship among some or all explanatory variables of a regression model. The tests were carried out using the correlation matrix. According to Barry and Feldman, (1985) criteria; “Multi-collinearity is not a problem if no correlation exceeds 0.80

Table 5: Multi-collinearity is summarized below.

|  |  |  |  |
| --- | --- | --- | --- |
|  | UNEMPLOY | GOVERNMENT EXPENDITURE | RIR |
| UNEMPLOY | 1.000000 |  |  |
| GOVERNMENT EXPEDITURE | 0.8149 | 1.000000 |  |
| RIR | 0.4981 | 0.3952 | 1.000000 |

From the above table, we can see that the pair-wise UNEMP and GOVEXPEDU have values in excess of 0.8; therefore we conclude that multicollinearity exists between the pair-wise.

1. Normality Test.

We adopted the Jacque – Bera test of normality Hypothesis: Test.

H0: 0 (the error term follows a normal distribution) Against:

(The error term does not follow a normal distribution) At  = 5% with 2 degrees of freedom.

Test Statistics:

The decision rule is to reject the H0 if X2cal > X2tab, and accept if otherwise.

X2cal = 7.66

X2tab = 5.991

Since X2cal > X2tab i.e. 7.66 > 5.991, we reject H0 and accept that the Residuals are not normally distributed

# CHAPTER FIVE

* 1. **SUMMARY OF FINDINGS, CONCLUSION AND POLICY RECOMMENDATIONS**
  2. SUMMARY OF FINDINGS

This study is an attempt to evaluate the effect of unemployment on economic growth and the model was estimated with the use of ordinary least square method. The inclusion of relevant explanatory variable like government expenditure on education etc, and the model has really justified their role in adjusting the relationship between unemployment and growth of the economy.

In the study it was discovered that

Unemployment has a positive and insignificant impact on the GDP.

The test also shows that government expenditure on education has a positive relationship on GDP; a unit increase in government expenditure on education would increase the GDP by 0.0000356.

The real interest rate has a negative but insignificant relationship with GDP.

This implies that, if the Nigerian economy desire to attain economic growth, the government should continually invest more funds in the education sector, because this will help in the increase of the GDP.

And also real interest rate when high lowers the rate of investment, which also contributes to the emergence of unemployment, thereby reducing the rate of GDP.

Unemployment is insignificant, it is considered as one of the factors, which hinders economic growth.

# CONCLUSION

Having examined the relationship between unemployment and GDP, I can say that unemployment is a negative phenomenon, it has done more harm than good to the society in the sense that, it has led the youth who are unemployed to engage in certain dangerous and evil acts like arm robbery, prostitution, drug dealing etc.

There is need to eliminate or reduce the rate of unemployment in our society. These could be done in several ways, take for example government should reduce the rate of the real interest rate, in order to encourage investors to borrow, to be able to establish businesses that would bring about employment of youths, etc. The below policy recommendation will go a long way to assist the government and policy makers, to create policies that will help in reducing unemployment.

# POLICY RECOMMENDATIONS

Based on the finding of this research, I therefore make some policy recommendations, as follows:

1. Policies should be formulated by the government to help in the appropriate check of the yearly unemployment rate, and its conclusion on the effort to cut it down, and in other to be aware and prepared for the coming year.
2. Policies should be formulated to reduce and stable the real interest rate, in order to encourage investors to borrow funds to create establishments that will yield employment.
3. The educational system should be modified in other for school dropouts and graduates to be job creators rather than job seekers.
4. Effective unemployment policies should be developed in other to absorb the unemployment citizens especially into informal sectors of the economy.

# REFERENCES

TEXTBOOKS

Abel, A. & Bernanke, B. (1995). *Macroeconomics 2nd edition new York*: Adison- wesley Publishing Company.

Ajekomobi, E., & Ayanwale, C. (2005). *Evaluate of Past Policy: Measure For Solving Unemployment Problems in Nigeria*. Jeen Publishing Company.

Augustus, S. (2005). *The Dynamics of Managing Chronic Unemployment In Nigeria’s Depressed Economic*. Unpublished Lecture Note.

Bannock, Et Al. (1998). *Re-Designing University Curricular as a Long Term Solution to Graduate.* Many Dan Publishers.

Olueye, K. (2006). *Management & Unemployment.* Unpublished Lecture Note.

Nickel, L. (1999). *Issues on Unemployment & Violence*, Second Edition. New York Grow-Hill Publishers.

Lindbect, D. (1999). *Unemployment in Developing Countries: An Over-View. New York*. Mc-Grow-Hill Publishers.

Davidson, H. & Mackinnon, B. (1993). *Theory of Employment*, *Interested & Money*. London: Macmillan.

Gujarati, K. (1995). *Growth & Employment, in Development problem Countries*.

New York, McGraw-Hill, Publisher

JOURNALS

Levin, F. & Wright, N. (2000). Nigerian Unemployment Problem. *Tim International Journal*, Sept, 19 Vol. 1 (1).

Bello, D. (2003*). Meeting the Challenge of Risking Unemployment In Employment, Policy & Strategy Formulation Mission to Nigeria,*

Report Submitted By the Ilo. 21st Oct-22nd November. Damachi, N. (2001).

*Evaluation of Past Policy Measures for Solving Unemployment Problem in Nigeria.*

CBN Bulletin Vol. 25

Odusola, A.F. (2001). Nigeria's unemployment problem in the 80s and 90s: Implication for policy directions in the 21st century. NCEMA Policy Seminal Series. Ibadan, Nigeria.

Ajekomobi & Ayanwale.(2005). Evaluate Of Past Policy: Measure For Solving Unemployment Problems In Nigeria. Jeen Publishing Company

Central Bank of Nigeria (CBN), (2010). *Statistical Bulletin Volume 21.*

# QUESTIONNAIRE ON THE ECONOMIC EFFECT OF UNEMPLOYMENT IN THE

**NIGERIAN ECONOMY**

**Instruction**: Please fill in the blank space and tick in the box the best choice.

Name of Organization:…………………………………………………………………………….

Sex:………………………………………………………………………………………………..

Marital Status:…………………………………………………………………………………….

Highest Educational Qualification:……………………………………………………………….

Years of Experience: …………………………………………………………………………….

# PART B

The information below will be used to elicit answers to the research questions posted in chapter 1-5. You are required to tick in the option that best suit you by using the key below.

Keys

# Strongly Agree = SA Agree = A Undecided = U Disagree = D

**Strongly Disagree = SD**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| S/No | ITEMS | SA | A | U | D | SD |
| 1 | There is high unemployment rate in Nigeria |  |  |  |  |  |
| 2 | Unemployment has a huge negative effect on the country’s GDP |  |  |  |  |  |
| 3 | A huge percentage of Nigerian graduates with good degrees are unemployed |  |  |  |  |  |
| 4 | There is a relationship between unemployment and the country’s GDP |  |  |  |  |  |
| 5 | There are ways to reduce the high rate of unemployment in the country. |  |  |  |  |  |
| 6 | Unemployment is a factor that hinders economic growth |  |  |  |  |  |

38