**EFFECT OF DEFICIT FINANCING ON UNEMPLOYMENT RATE IN NIGERIA**

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**Abstract**

Deficit Financing plays an extraordinary and growing role in achieving full employment in Nigeria sustainable economic growth, price stability and poverty reduction. Theoretically, both Keynesian and neoclassical economists provided tools for government intervention, particularly with regard to government budget deficit financing. This study is aimed at examining the effect of deficit financing on unemployment rate in Nigeria. The study indicate that the validity of long run equilibrium relationship between unemployment (UNP) and the explanatory variables (external source of deficit financing (EXF), ways and means source of deficit financing (WM), banking system source of deficit financing (BSF), non-banking public source of deficit financing (NBPF), interest rate (INTR) and exchange rate (EXR)). More so, it is concluded that the Error Correction Model (ECM) is not a spurious model as the computed R2value of 0.913214 is lower than 1.334885 (Durbin Watson Statistics).

**CHAPTER ONE**

**INTRODUCTION**

* 1. **Background of the study**

In Nigeria, budget deficit has been blamed for causing much economic crises, high inflation, poor investment performance and growth (Appah and Chigbu, 2013). One of the most important objectives of fiscal policy is to reduce national debt and to check the interest payment on such debt from rising so as to prevent high deficit in the future. However, Nigerian government budget deficit witnessed an increase in the past decades. For instance, from 1981, deficits increased from N3.9billion to N8.2billion in 1986 and it further increased to N15.1billion in 1989. From 1990, the rising trend of budget deficit continued except in 1995 when the budget witnessed or registered a surplus of N1billion. In 1998, an overall deficit jumped to N133.3billion and in 2002, it increased up to N301.4billion. Starting from 2003, government budget deficit declined from N202.7billiom to N188.2billion, N150.6billion and N101.3billion in 2003, 2004, 2005 and 2006 respectively. Another increase was witnessed from 2007 at N107billion to N1.5trillion in 2013 (CBN, 2014).    
Meanwhile, the value of deficits as a percentage of Gross Domestic Product (GDP) declined to -0.1 percent in 1999. The share of deficits in total GDP has been declining from -2.0 percent in 2003 to -1.1 percent in 2005 and -0.6 percent in 2006. Nigeria recorded budget deficit equal to 1.80 percent of the countryâ€™s GDP in 2013 (Nigerian Budget Office, 2014). The Nigerian government budget averaged 2.10 percent of the GDP from 2006 up till 2013, reaching an all-high  4.60 percent of GDP in 2008 and also recorded low of -6.6 percent of GDP in 2009 (Nigerian Budget Office, 2014).  Furthermore, the implication of deficit financing on economic stability through growth, stable inflation and unemployment rate has been one of the subjects of a long standing debate in macroeconomics. Three views emerged from the literature revealing the relationship between budget deficit and macroeconomic variables. Keynesian economics supports the ideas that budget deficit has, by the working of the multiplier, a positive effect on the macroeconomic activities (Appah and Chigbu, 2013). Neoclassical economist argues that budget deficit has negative effects on economic stability as much as Ricardian equivalence approach supports the view of neoclassical economist (Appah and Chigbu, 2013). These three contrasting views show that a large budget deficit is a source of economic instability. Ojong and Hycent (2013) further observed that deficit financing in Nigeria is characterized by poor policy implementation, inconsistence of government macroeconomic policies, low growth of private investment, decline growth in real sector and high level of indiscipline in public sector.   Based on the forgoing relationship between deficit financing and economic stability, a study such as this is necessary. This study, therefore, is designed to investigate the implications of deficit financing on economic stability in Nigeria.

**1.2 Statement of the Problem**

 The issue of deficit financing certainly is not new but the level of economic stability of the last decades has brought about more interest in fiscal policy issues that will encourage growth. The government expenditure has been increasing each year because of government spending activities. An increase in government revenue is not sufficient to finance increased government expenditure which leads to deficit. Government revenue has not been ever efficient and it causes large difference between expenditure and revenue. Government always borrows from both internal and external sources to finance such large difference.

* 1. **OBJEFCTIVE OF THE STUDY**

The objectives of the study are;

1. To determine whether the Nigerian economy has capacity for capital absorption
2. To determine factors affecting the effectiveness of budget deficits to significantly reduce unemployment
3. To ascertain the relationship between deficit financing and unemployment rate
4. To recommend measures that will reduce deficit in Nigeria
   1. **RESEARCH HYPOTHESES**

For the successful completion of the study, the following research hypotheses were formulated by the researcher;

**H0:** Nigerian economy has no capacity for capital absorption

**H1:** Nigerian economy has capacity for capital absorption

**H02:** there are no factors affecting the effectiveness of budget deficits to significantly reduce unemployment

**H2:** there are factors affecting the effectiveness of budget deficits to significantly reduce unemployment

* 1. **SIGNIFICANCE OF THE STUDY**

This study will give a clear insight on effect of deficit financing on unemployment rate in Nigeria. The study will be beneficial to Nigeria government and the general public. The study will also serve as reference to other researchers that will embark on this topic.

* 1. **SCOPE AND LIMITATION OF THE STUDY**

The scope of the study covers effect of deficit financing on unemployment rate in Nigeria. The researcher encounters some constrain which limited the scope of the study;

**a) AVAILABILITY OF RESEARCH MATERIAL:** The research material available to the researcher is insufficient, thereby limiting the study

**b) TIME:** The time frame allocated to the study does not enhance wider coverage as the researcher has to combine other academic activities and examinations with the study.

**c) Organizational privacy**: Limited Access to the selected auditing firm makes it difficult to get all the necessary and required information concerning the activities.

* 1. **DEFINITION OF TERMS**

**FINANCIAL DEFICIT:** A fiscal deficit occurs when a government's total expenditures exceed the revenue that it generates, excluding money from borrowings. Deficit differs from debt, which is an accumulation of yearly deficits. For example, economist John Maynard Keynes believed that deficits help countries climb out of economic recession.

**UNEMPLOYMENT RATE:** Unemployment is the situation of actively looking for employment but not being currently employed. The unemployment rate is a measure of the prevalence of unemployment and it is calculated as a percentage by dividing the number of unemployed individuals by all individuals currently in the labor force

**1.8 ORGANIZATION OF THE STUDY**

This research work is organized in five chapters, for easy understanding, as follows

Chapter one is concern with the introduction, which consist of the (overview, of the study), historical background, statement of problem, objectives of the study, research hypotheses, significance of the study, scope and limitation of the study, definition of terms and historical background of the study. Chapter two highlights the theoretical framework on which the study is based, thus the review of related literature. Chapter three deals on the research design and methodology adopted in the study. Chapter four concentrate on the data collection and analysis and presentation of finding. Chapter five gives summary, conclusion, and recommendations made of the study

**CHAPTER TWO**

**REVIEW OF RELATED LITERATURE**

**2.1 CONCEPT AND NATURE OF DEFICIT FINANCING**

James (1982) states that deficit financing is destabilizing in a flexible price mode because instability results from debt growth increasing the interest rate which reduces investment and prohibiting the growth of aggregate supply required to restore equilibrium. In Nigeria like other countries of the world, government is the major player in social sector where there is absolute need to raise expenditure over and above projected revenue, deficit will arise. This may be as a result of natural disaster such as floods, earthquake and farming. Other reasons such as poverty alleviation, health and education programmes may also put pressure on government leading to financing of fiscal deficit. Bello (2004) and Agundu (2003) reveal that deficit financing has not shown any improvement in economic infrastructure and activities. It has also been observed that instead of committing the additional funds arising from deficit financing into productive investment to increase capital formulation political leaders in Nigeria use the money for their personal use such as birthday party, etc. Stevan (2010) explains that the conventional perception is that the big and sustainable deficit financing raises the real interest rate under a given level of savings and thereby crowd out the private investment. Deficit financing for developmental purpose is resorted to mainly because, when the government in a developing country like Nigeria takes up the responsibility of promoting economic growth, it has to compensate for the lack of private investment through expansion of public sector. But, due to paucity of current resources at its disposal, it normally finds it difficult to finance the huge public outlay necessary for accelerating the tempo of growth. Thus, a country resorting to planning for development finds it easier to obtain additional resources for the plans through deficit financing. In Nigeria, for instance, deficit financing constitutes an important source of obtaining financial resources for the plans. CBN (2013) defines deficit financing as a practice in which government spends more than it receives as revenue and the difference being made up by borrowing more money into the economy than it takes out by taxation with the expectation that increased business activities will bring enough additional revenue to cover the shortfall. Deficit financing, however, may also result from government inefficiency, reflecting widespread tax evasion or wasteful spending rather than the operation of a planned countercyclical policy.

**2.2 THE IMPLICATIONS OF FISCAL DEFICIT**

**1. Debt Trap**: Fiscal deficit indicates the total borrowing requirements of the government. Borrowings not only involve repayment of principal amount, but also require payment of interest. Interest payments increase the revenue expenditure, which leads to revenue deficit. It creates a vicious circle of fiscal deficit and revenue deficit, wherein government takes more loans to repay the earlier loans. As a result, country is caught in a debt trap

**2. Inflation**: Government mainly borrows from Central Bank of Nigeria (CBN) to meet its fiscal deficit. CBN prints new currency to meet the deficit requirements. It increases the money supply in the economy and creates inflationary pressure.

**3. Foreign Dependence**: Government also borrows from rest of the world, which raises its dependence on other countries.

**4. Hampers the future growth**: Borrowings increase the financial burden for future generations. It adversely affects the future growth and development prospects of the country.

**2.3 UNEMPLOYMENT RATE (UNP)**

Unemployment rate was proxied as one of the measures of economic stability in Nigeria. This is because high unemployment rate in Nigeria has become a major problem for policy makers and thereby causing economic instability in Nigeria. Unemployment is one of the fundamental developmental challenges facing Nigeria at the moment. It is among the biggest threats to economic and social stability in many countries including Nigeria. Unemployment rate measures the percentage of employable people in a country's workforce who are over the age of 16 and who have either lost their jobs or have unsuccessfully sought jobs in the last month and are still actively seeking work. Keynesian theory states that deficit financing by government to boost employment and increase in aggregate total demand will reduce the level of unemployment. Kemi and Dayo (2014) see unemployment in different ways in Nigeria such as structural unemployment, cyclical unemployment, frictional unemployment and classical unemployment. They states that structural unemployment occurs due to globalization and technology advancement which replaces workers with machinery that causes layoff of employed people. Cyclical unemployment occurs when the aggregate demand of the economy is not sufficient to give the type of jobs everybody wants to do. This is because aggregate demand discourages the production and reduces the workers strength. Frictional unemployment occurs when the skills of the works are mismatched with the underlying jobs. It ahs short run effect on the economic stability. Classical unemployment occurs when the government set the salary wage rate above the equilibrium prices that causes unemployed persons to rush for the job in the labour market which exceeds the number of people needed for the job. Bamidiro (2003) submit that minimum wages, job security regulations and social security are the major factor that causes unemployment in Nigeria. He also states that unemployment in Nigeria has become a major problem for policy makers and thereby causing economic instability. Unemployment is the involuntary idleness of a person willing to work at the prevailing rate of pay but unable to find work (Jhingan, 2008). Unemployment has been one of the most persistent and unmanageable problems facing all industrial countries of the world. Keynesian theory states that deficit financing by government to boost employment and increase in aggregate total demand will reduce the level of unemployment

**2.4 RELATIONSHIP BETWEEN DEFICIT FINANCING AND UNEMPLOYMENT IN NIGERIA**

Government policies on expenditure framework and fiscal policy strategy provide the basis for annual budget planning. They consist of a macroeconomic framework that indicates fiscal targets and estimates revenue and expenditure including government financial obligations in other to improve the growth of the economy. Budget deficit was projected to rise marginally to about 1.9% of GDP in the 2014 budget compared to 1.85% in 2013 due to its inability to improve growth in the economy (World Bank, 2014). The 1.9% is clearly within the 3% of GDP threshold stipulated in the Fiscal Responsibility Act of 2007 (NBO, 2014). Deficit financing can be defined as the type of budgetary system has been undertaken by many developing countries like Nigeria as a means of achieving some macro-economic objectives such as economic stability in an economy. Deficit financing can also be seen as a policy strategy which is mostly undertaken to address macroeconomic problem like low output on growth. It is also a strategy that has tendency of mounting pressure on prices thereby causing inflation (CBN, 2013). Government spending can be financed by government borrowing or taxes. Keynes (1936) was one of the first economists to advocate government deficit spending (increased government spending financed by borrowing) as part of the fiscal policy response to an economic stability through growth. According to Keynesian theory, increased government spending raises aggregate demand and increases consumption, which leads to increased production and enhanced growth in economy. Emmanuel (2000) opines that the growth of advance countries deficit has called for reexamination of the effect of fiscal deficit on economic development. In less developed countries like Nigeria, budget deficit has been attributed to the level of economic crisis that started since 1980s; over indebtedness and debt crisis, high inflation, poor investment and poor economic growth. Attempt to regain stability in the economy through deficit financing proved abortive (Vincent, Ioraver, and Wilson, 2012). This is because, the recent size of the deficit has been a cause of concern to many people including the policy makers, academician and investors and its effect on economy. High interest rate, real exchange rate and inflation increased public spending. Deficit financing has been the major factor that impact on economic stability through growth and development in Nigeria (Bakare, Adesanya, and Bolarinwa, 2014). Omoke and Oruta (2010) explain that Nigeria’s policy formulation has been focused on how to put budget deficit under control so that it can contribute to the growth of the economy by reducing the level of unemployment rate in Nigeria.

**2.5 THEORETICAL FRAMEWORK**

There are many theories (Keynesian economics theory, neoclassical economics theory, Ricardian equivalence approach, Fiscal Theory of Price Level and Musgrave Theory of Public Expenditure) which seek to explain the implications of deficit financing on the performance of economic stability around the world. These theories are of relevance to this study as they serve as building blocks to this study. For the purpose of this study, the theoretical frameworks that were considered relevant is neoclassical economics.

**Keynesian Economic Theory**

Keynesian Economic Theory was developed by British Economist John Maynard Keynes (1936) and was used by Ali (2014); Bakare, Adesanya and Bolarinwa, (2014); Muhhammad, Sofia, Syed and Abbas, (2014); Okelo, Momanyi, Lucas and Alia, (2013); Okoro, (2013); Ojong and Hycenth (2013) in their studies. Keynesian theory states that public expenditures can contribute positively to economic growth by increasing government consumption through increase in employment, profitability and investment. The theory also states that government can reverse economic downturns by borrowing money from the private sector and returning the money to private sector through various spending. This theory believes that active government intervention in the market place through deficit financing was the only method for ensuring growth and stability by ensuring efficiency in resources allocation, regulation of markets, stabilization of the economy and harmonization of social conflicts. Keynes states that in the short run, economic growth through economic stability is strongly influenced by total spending in the economy. This theory regards the economy as being inherently unstable and required active government intervention through spending to achieve economic stability Parkim (1990) opines that Keynesian assign a low degree of importance to monetary policy and high degree of importance to fiscal policy. Bowden (1982) in Ojong and Hycenth (2013) states that Keynesian economics believes that our ability to understand what determines the level of spending will help us to know what determine the level of employment, production of output and income in the economy. Keho (2010) states that budget deficit has a positive effect on macroeconomic activity and thereby stimulating savings and capital formation. Deficit financing whether through domestic resources or foreign borrowings involves the absorption of real resources by the public sector that otherwise would be available to the private sector (Okelo, Momanyi, Lucas and Alia, 2013). Keynesian theory stimulates the economy, reduces unemployment and makes households feel wealthier using government spending (Usher, 1998). In another view, Okpanachi and Abimiku (2007) opine that budget deficit stimulates economic activities in the short run by making households feel wealthier and hence, raising total private and public consumption expenditure. This means that Keynesian theory causes money demand to rise and interest rate will also increase which will make investment to decline. Keynesian economists often argue that private sector decisions sometimes lead to inefficient macroeconomic outcomes which require active policy responses by the public sector, in particular, monetary policy actions by the Central Bank of Nigeria and fiscal policy actions by the federal Ministry of Finance, in order to stabilize output over the economy.

**2.6 EMPIRICAL REVIEW**

In reviewing the empirical literature relevant to our study, due diligence was applied to critically analyze the available works in line with our study. Our review was ordered in time as follows: Obayori (2016 [26]) examined the effect of fiscal policy on unemployment rate using annualized Nigeria‟s data for the period 1980 – 2013. The specific objective of study investigated the effect of government capital and recurrent expenditure on unemployment rate in Nigeria employing co-integration and error correction model (ECM) as techniques of analysis. The ADF pre-test for stationarity indicated that the variables were stationary at various levels. Findings revealed that the Johansen-Juselius co-integration test showed co-integrating relationship among the variables. The ECM result showed that the two regressors (i.e. Government Capital and Recurrent Expenditure) had both negative and significant impact on unemployment in Nigeria for the period studied. The result equally indicated a long-run relationship between fiscal policy and unemployment as depicted by both the sign and the statistical significant of the coefficient of the ECM. The study concluded that fiscal policy was effective in curbing unemployment rate in Nigeria. Abubakar (2016 [27]) assessed the effects of fiscal policy shocks on output and unemployment rate in Nigeria in line with the Keynesian principles by adopting the Structural Vector Autoregression (SVAR) methodology to analyze annualized data for the period 1981 – 2015. ADF test for unit root result indicated that all variables were integrated of order one, and that Johansen Cointegration test affirmed long-run association among the variables. Results of the SVAR model indicated shock in public expenditure as having a long-lasting positive influence on output. Revenue shock was discovered to exert a positive impact (lower than that of public expenditure shock) on output. In contrast, the impact of revenue shock on unemployment was seen to be short-lived but negative. Okoye, Evbuomwan, Modebe & Ezeji (2016 [28]) used annualized Nigeria‟s data spanning 1981 – 2014 obtained from publications of the Central Bank of Nigeria (CBN) and National Bureau of Statistics (NBS) to investigate impact of key macroeconomic indicators on fiscal deficits in Nigeria. Exchange rate, inflation rate, unemployment rate and gross fixed capital formation made up the independent variables, while fiscal deficit was used as dependent variable. Vector error correction model (VECM) served as the technique of analysis. Results revealed significant positive effect of gross fixed capital formation, and significant negative impact of inflation rate including unemployment rate on fiscal deficits in Nigeria within the period under review. Finally, the exchange rate showed negative and non-significant effect on fiscal deficits. The results aforementioned mean that existing policies targeting at uplifting the infrastructure level of the country seem to engender deficit budgeting. Likewise, economic policies that seem to control inflation (such as increasing GDP level) and unemployment result in increased budget deficits. The causality tests indicate proof of causal effect of government budget deficits on exchange rate, inflation rate and unemployment rate, but failed to display sign of causation between fiscal deficit and gross fixed capital formation. Nkalu (2015 [29]) examined the effects of budget deficits on selected macroeconomic variables in Nigeria and Ghana employing annual time-series data of the two countries spanning from 1970 to 2013. The specific objectives of the study include: to determine the impact of budget deficits on inflation rate, interest rate and economic growth in Nigeria and Ghana based on the methodological framework of Seemingly Unrelated Regression (SUR) model and Two-Stage Least Squares (2SLS). The paper adopted Engle-Granger Co-integration test, Augmented Dickey Fuller (ADF) and PhillipsPerron (PP) tests in estimating the model equations. Data retrieved from World Bank, IMF - World Economic Outlook, Central Bank of Nigeria, Bank of Ghana and other sources were analyzed using SUR technique with various diagnostic and specification tests to determine objectives of the study. The findings showed that budget deficit impacted negatively on inflation rate, interest rate and economic growth thereby affirming the neoclassical position in the literature that budget deficit impedes growth of the economy through resources crowding-out. Following from the findings, it was recommended that interest rates in both economies should be further lessened to encourage availability and accessibility of credit facilities for private sector investment, which would contribute appreciably to economic growth in Nigeria and Ghana and exchange rate depreciation, should be discouraged in both economies as it has harmful effect on economic growth. Eze & Nwambeke (2015) studied the effect of deficit financing on unemployment rate in Nigeria applying an error correction model. The study employed ex-post facto design. Annual time series data spanning 1970 – 2013 (44years) were obtained from Central Bank of Nigeria Statistical Bulletin, National Bureau of Statistics and World Bank Handbook of Statistics The study utilized unemployment rate (UNEMR) as dependent variable, whereas external source of deficit financing (EXDF), ways and means (WM), banking system source of deficit financing (BSDF), non-banking public source of deficit financing (NBPDF), interest rate (INTR) and exchange rate (EXR)) constituted the explanatory variables. The result showed that external source of deficit financing (EXDF), ways and means source of deficit financing (WM) and interest rate (INTR) had negative and non-significant implications on economic stability through unemployment rate in Nigeria, whereas banking system source of deficit financing (BSDF), non-banking public source of deficit financing (NBPF), and exchange rate (EXR) had positive and significant implication on economic stability in Nigeria, except non-banking system financing, which was non-significant. The implications of this result is that deficit financing through external source of deficit financing (EXDF) and ways and means source of deficit financing (WM) lessened the rate of unemployment in Nigeria, which maintained economic stability in the short and long run. The result further indicated that deficit financing through banking sector source of deficit financing and non-banking public source of deficit financing raised unemployment level and thereby caused instability in the economy. Unemployment rate (UNEMR) increased in 1980 and decreased in 1981. Unemployment had been fluctuating from 1970 – 1987; unemployment rate had continually witnessed an increase with the highest level of unemployment registered from 1988 to 2013. In conclusion, deficit financing positively related to unemployment rate suggesting that sound policies are needed to enhance economic stability in Nigeria through reduction of the level of unemployment rate in Nigeria.Osuka & Achinihu (2014 [30]) investigated impact of budget deficits on macroeconomic variables in Nigeria stretching the period 1981 – 2012. The researchers conducted preliminary test using ADF method to ascertain stationarity of the variables, which were stationary (absence of unit root) at first differencing. They equally employed Johansen Co-integration test to check for the co-integration of the variables and discovered that the variables in the study were all co-integrated of order one denoting the existence of long-run link between budget deficits and designated macroeconomic indices (GDP, interest rate, nominal exchange rate and inflation rate). The Granger Causality results indicated a unidirectional causal relationship between Budget deficits and GDP with GDP granger causing budget deficit. Conversely, the test for causality further revealed absence of causality between deficits and interest rate, budget deficits and inflation and budget deficit and nominal exchange rate. Based on the results, the study concluded that budget deficits impacted significantly on the macroeconomic behaviour of the Nigerian economy within the period studied. Musa & Mawejje (2014 [31]) in their study on macroeconomic effects of budget deficits in Uganda using Vector Error Correction Model (VECM) for the period 1999 to 2011 clearly showed that widening current account deficit and rising interest rates were due to budget deficits. The scholars argued that it was necessary for governments to intensify the crusade against corruption deals and tax, which weaken their efforts in tax collection. Wosowei (2013 [32]) studied the relationship between fiscal deficit and macroeconomic performance in Nigeria over the period 1989 – 2010. Specifically the paper examined the following objectives: to explore the influence of fiscal deficit on macroeconomic aggregates in Nigeria, and to investigate whether fiscal deficit had influenced economic growth in Nigeria, among others employing data secondary in nature. OLS method was used to estimate the variables. Preliminary test of stationarity that used ADF and co-integration of variables that applied Engle Granger techniques were carried out. However, the findings showed that fiscal deficits even though that it satisfied the economic a prior in terms of its negative coefficients, yet did not significantly affect macroeconomic output. The result also showed a bilateral causality relationship between government deficit and gross domestic product, government tax, and unemployment, while there was an independent relationship between government deficit, government expenditure and inflation. Umeora (2013 [33]) analyzed the relationship between fiscal deficits and selected macroeconomic variables (such as gross domestic product, exchange rate, inflation rate, money supply and lending interest rate in Nigeria covering the period 1970 – 2011. OLS method was used to analyze the relationships. Relevant data were sourced from the CBN Statistical Bulletin. The findings included, that fiscal deficit related positively and significantly with gross domestic product, exchange rate, inflation rate and money supply, and that fiscal deficit related negatively with lending interest rate. Onuorah & Ogbonna (2013 [34]) investigated effect of deficit financing on economic growth in Nigeria using data contained in the Annual Report and Statement of Account and Statistical Bulletin of the Central Bank of Nigeria (CBN) for the period 1981 – 2012. The paper applied descriptive statistics, OLS econometric method, diagnostic test, ADF unit root test and Johansen Co-integration test, as well as Pair- wise Granger causality test as techniques of analysis. The results revealed that the variables were stationary at first difference - 1(1). The variables were jointly co-integrated at 5% level. This implied that deficit financing were statistically significant and positively related to economic growth in Nigeria. This meant that both domestic debt and external debt liability contributed effectively to the liquidation of our debt stock within the sampled period. Based on the regression result, it is clear that the country‟s domestic debt and foreign debt constituted a veritable instrument of finance in Nigeria. The study therefore concluded that a long-run equilibrium connection occurred between the dependent and independent variables. This means that deficit financing exerted substantial influence on the growth cum debt management and debt services in Nigeria. Ojong, Owuiz & Effiong (2013 [35]) examined effect of budget financing on economic development in Nigeria. Annual time series secondary in nature spanning over the period 1980 – 2008 were sourced from the CBN Statistical Bulletin. Six research hypotheses developed to assess the relationship between budget deficit financing, unemployment, inflation rate, balance of payment, government financing, government revenue, which formed the explanatory variables, while GDP was used as dependent variable. OLS econometric method was used to estimate equations specified for the study. The results proved as follows that: (i) there existed a significant connection budget deficit financing and economic growth, (ii) an inverse relationship occurred between GDP and unemployment, (iii) a direct relationship showed between GDP and inflation rate, (iv) a significant relationship was observed between GDP and government expenditure, (v) an inverse relationship occurred between GDP and government revenue. Saeidi & Valizadeh (2012 [36]) examined impact of budget on inflation and unemployment in Iran‟s economy. The theoretical foundation of the study was the Keynesian hypothesis. OLS and LS square were used to estimate the parameters contained in the three models adopted by the researchers to measure the impact of each independent variable on dependent ones. The results revealed that budget deficit had a positive influence on inflation and unemployment in Iran. The implication is that Keynesian theory is prevalent in Iran‟s economy. The authors concluded that general price levels, inflation and unemployment rates remained critical variables of macroeconomy, which promoted growth. They added that sound policy making guaranteed desirable rate of inflation and unemployment, stressing that budget constituted the primary instrument available to government for policy making. Doh-Nani (2011 [37]) investigated budget deficit sustainability in Ghana between 1960 and 2007 utilizing the present value budget constraint approach. Conducting the ADF and PP tests for stationarity, the annual time series data used for the study became stationary at 1 percent significance level after first difference. Hence, both government expenditure and revenue of Ghana were stationary and integrated of order one. The Granger causality test affirmed a bi-directional causation such that both expenditure and revenue of Ghana had temporal precedence over each other. This implied past and present values of government revenue presented relevant information to predict future values of expenditure. The test for co-integration proved sustainability of budget deficit of Ghana at 10 percent significance level in a strong sense. In this regard, government should continue to service its past accumulated deficits without large future correction to the balance of income and expenditure. Furthermore, the paper achieved the usual negative sign of the speed of adjustment to long-run equilibrium as a consequence of shocks to the system at 5 percent significance level. This suggested that 53 percent of disequilibrium was restored annually as a consequence of shocks to the system. This means that any disequilibrium associated with the budget deficit of Ghana in the short run is immediately adjusted and restored to equilibrium in the long term. The study concluded that government expenditure-GDP and revenue-GDP series during the study period indicated stable long-run co-integration. Hence, the budget deficit of Ghana was sustainable over the entire period studied. Kosimbei (2009 [38]) studied the relationship between budget deficit on macroeconomic performance in Kenya. The study was based on the Mundel-Fleming model, and adopted the Vector Autoregressions (VARs) as well as the annual time series data covering 1963 – 2007. The selected macroeconomic variables involved current account of the balance of payments, private consumption, private investments, money supply, treasury bill rates and real GDP. The results showed that budget deficits had a significant effect on private consumption, private investments, money supply (M3), treasury bills rate, current account and real GDP.

**2.7 DEFICIT FINANCING AND ECONOMIC GROWTH THEORY**

The Keynesian economists are of the opinion that increase in government spending leads to an increase in domestic output and sees the possibilities of government spending crowding out private (investment) spending through interest cost credit (interest rate). They also believed that fiscal deficit could have a negative impact on external sector, reflected through trade deficit, but only if the domestic economy is unable to absorb the additional liquidity through an expansion in output. The theory holds that government borrowing only in cyclical downturn when there is a rise in a private sector savings and period of unemployment. In a cyclical upturn, there shall be the reverse of borrowing. However, the financing of any level of fiscal deficits whether through taxation or borrowing fiscal policy involves the absorption of real resources by the public sector that otherwise would be available to the private sector, the absorption of domestic resources will be delay if foreign borrowing or unemployed resource are available. This absorption would improve overall efficiency (output growth) if the social return (benefit) from public expenditure exceeds its private opportunity cost. While public expenditure may displace private sector output (the crowding out effect), it may also improve private sector productivity (the positive externality or public good effect). Development models of public expenditure which primarily is the work of Rustow (1971) anchors on the fact the countries of the world must pass through different stages before they could develop, and that these different stages requires varied proportion of Government spending to total investment in the economy will be large since most of her activities centre on capital formation bordering on roads, housing telephone, education, health care, among others in preparation for takeoff into the middle stage.

**2.8 FISCAL POLICY IN NIGERIA**

Fiscal policy has been applied to refer to those activities of general finance, which have to do with the reduction of economic instability and the stimulation of employment and long term economic growth and development. It is an articulated framework detailing how fiscal policy instruments can be varied by government to influence the long term growth and development of the economy, especially the growth rates of employment and national income (Onoh, 2007). The two main fiscal policy instruments are the expenditures and receipts. If the instruments of expenditure and receipts are properly synchronized with other macro-economic policy instruments from the monetary, institutional and the direct economic intervention arena, the economy becomes stabilized and the macro-economic objectives of higher levels of employment, national income and balance of payment equilibrium become realized to a large extent thereby bringing about economic development. Expenditures include the following:

1. Government purchase of goods and services;
2. Transfer payments to economic units, not for services rendered. Examples of transfer payments are: disaster relief, pension, and subsidies for the benefits of farmers or depressed industries; and
3. Repayment of debt (domestic and foreign).

Receipts include the following:

1. Taxes, fines, fees, royalties, investment income;
2. Government sales of goods and services (e.g. privatization of public sector enterprises, boarding of unserviceable vehicles and equipment, etc);
3. Federal Government of Nigeria contraction of new loans (domestic and external)

Fiscal authorities can influence the direction and the outcome of economic activities by varying the revenue and expenditure items of the budgetary plans. For example, taxes may be reduced to allow for more disposable income for consumption and savings. An increase in saving and consumption invariably lead to the expansion of investments and output respectively and to more employment places. In the long run government benefits more from greater revenue generated by way of direct and indirect taxes arising from the increase in employment and output. By manipulating fiscal policy instruments (tools) such as taxes, public debt and by adjusting from time to time the pattern of expenditure, a wide variety of economic goals can be achieved. While levying taxes can be deflationary, as taxes reduce the spending incomes of economic units, financing through deficit policy is expansionary. Deficit financing has also its price. Deficit policy is intended to generate an increase in aggregate spending or the aggregate demand for goods and services by the public and private sectors. Demand for capital and consumer goods as well as services are stimulated. In the short, medium and long runs, employment and output are leveraged many folds their former levels. It should be noted that neither balanced, surplus nor deficit budget is bad per say, provided that whichever is applied is directed to bring about economic stabilization and accelerated growth rate of output and employment (Onoh, 2007).

**2.9 DEFICIT FINANCING AND ITS IMPLICATION FOR MONETARY AGGREGATES**

It is important to note that deficit financing usually has major implications for the macroeconomic environment. However, this will depend on the level of employment. In a situation of less than full-employment, deficit financing could contribute to growth. This will result as idle capacities are employed in the economy. However, when full employment is already achieved; excessive deficit financing could over heat the economy, thereby leading to serious macroeconomic problems. However, if deficit financing is channeled into investment in productive activities such as capital goods, training or new technology, the economy might grow faster than the burden of the growth. The consequences of fiscal deficits usually depend on how they are financed. But if the deficits are excessively used, they will bring about macroeconomic imbalances. This therefore, implies that the mode of deficits financing is of greater policy relevance than the level of deficits. Generally, large and persistent fiscal deficits financed mainly by borrowing from the Central Bank usually contribute to macroeconomic instability. Overall, this will adversely affect output growth. The persistent financing of Government deficits through advances from the Central Bank implies that the objectives of mobilizing domestic savings could not be fully realized. This mode of financing Government deficit often leads to rising inflationary pressure in the economy. This is because it increases the reserve base of commercial and merchant banks, thereby creating excess liquidity in the financial system. Furthermore, financing the deficit through the private banks will bring about a reduction of loanable funds that are available to the private sector. Specifically, it will crowd out private investment. Deficit financing through the non-bank public could lead to the achievement of macroeconomic stability and growth. This condition holds, if the size of the overall deficit is about 3 percent of the Gross Domestic Product (GDP). On the other hand, if the level of the budget deficit becomes unsuitable, the reliance on non-bank public for the financing may lead to other macroeconomic problems (Gbosi, 2005). Apart from crowding out private savings and investment from the real sector of the economy, thereby resulting in low real growth, it would also intensify inflationary pressures. The decline in output will not be a serious problem if the deficits are channeled into public investment to complement private investment. If the Government borrows from the capital market, this does not usually fuel inflationary repercussions. Similarly, external borrowing could lead to current account deficit, real exchange rate appreciation and eventually external debt crisis if the debt is unsuitable. Available evidence shows that over the years; Nigeria's fiscal operations have resulted in persistent overall deficit. However, there were only few periods of surpluses. For example, overall deficits and surpluses fluctuated between the period 1970 and 1979 but throughout the period, 1980 and 1989, there was continuous overall deficits. Furthermore, during the period, 1980-1999, there were eighteen years of deficits. Specifically the deficits ranged between N58.8 million and 164.7 million. However, as a percentage of the GDP, overall deficit increased from 8.7 percent in 1970 to 20 percent in 1975, 7.1 percent in 1982 and was 8.4 percent in 1999. These deficits were financed mainly from foreign and domestic borrowing as well as draw-down on cash balances (Ojo & Okunrounmi 1992).

**CHAPTER THREE**

**RESEARCH METHODOLOGY**

* 1. **Research design**

The researcher used descriptive research survey design in building up this project work the choice of this research design was considered appropriate because of its advantages of identifying attributes of a large population from a group of individuals. The design was suitable for the study as the study sought effect of deficit financing on unemployment rate in Nigeria

* 1. **Sources of data collection**

Data were collected from two main sources namely:

(i)Primary source and

(ii)Secondary source

**Primary source:**

These are materials of statistical investigation which were collected by the research for a particular purpose. They can be obtained through a survey, observation questionnaire or as experiment; the researcher has adopted the questionnaire method for this study.

**Secondary source:**

These are data from textbook Journal handset etc. they arise as byproducts of the same other purposes. Example administration, various other unpublished works and write ups were also used.

* 1. **Population of the study**

Population of a study is a group of persons or aggregate items, things the researcher is interested in getting information effect of deficit financing on unemployment rate in Nigeria. 200 staff of CBN, Abuja was selected randomly by the researcher as the population of the study.

* 1. **Sample and sampling procedure**

Sample is the set people or items which constitute part of a given population sampling. Due to large size of the target population, the researcher used the Taro Yamani formula to arrive at the sample population of the study.

n= N

1+N (e) 2

n= 200

1+200(0.05)2

= 200

1+200(0.0025)

= 200 200

1+0.5 = 1.5 = 133.

**3.5 Instrument for data collection**

The major research instrument used is the questionnaires. This was appropriately moderated. The secretaries were administered with the questionnaires to complete, with or without disclosing their identities. The questionnaire was designed to obtain sufficient and relevant information from the respondents. The primary data contained information extracted from the questionnaires in which the respondents were required to give specific answer to a question by ticking in front of an appropriate answer and administered the same on staff of the two organizations: The questionnaires contained structured questions which were divided into sections A and B.

* 1. **Validation of the research instrument**

The questionnaire used as the research instrument was subjected to face its validation. This research instrument (questionnaire) adopted was adequately checked and validated by the supervisor his contributions and corrections were included into the final draft of the research instrument used.

* 1. **Method of data analysis**

The data collected was not an end in itself but it served as a means to an end. The end being the use of the required data to understand the various situations it is with a view to making valuable recommendations and contributions. To this end, the data collected has to be analysis for any meaningful interpretation to come out with some results. It is for this reason that the following methods were adopted in the research project for the analysis of the data collected. For a comprehensive analysis of data collected, emphasis was laid on the use of absolute numbers frequencies of responses and percentages. Answers to the research questions were provided through the comparison of the percentage of workers response to each statement in the questionnaire related to any specified question being considered.

Frequency in this study refers to the arrangement of responses in order of magnitude or occurrence while percentage refers to the arrangements of the responses in order of their proportion. The simple percentage method is believed to be straight forward easy to interpret and understand method.

The researcher therefore chooses the simple percentage as the method to use.

The formula for percentage is shown as.

% = f/N x 100/1

Where f = frequency of respondents response

N = Total Number of response of the sample

100 = Consistency in the percentage of respondents for each item

Contained in questions

**CHAPTER FOUR**

**PRESENTATION ANALYSIS INTERPRETATION OF DATA**

**4.1 Introduction**

Efforts will be made at this stage to present, analyze and interpret the data collected during the field survey. This presentation will be based on the responses from the completed questionnaires. The result of this exercise will be summarized in tabular forms for easy references and analysis. It will also show answers to questions relating to the research questions for this research study. The researcher employed simple percentage in the analysis.

**DATA ANALYSIS**

The data collected from the respondents were analyzed in tabular form with simple percentage for easy understanding.

A total of 133(one hundred and thirty three) questionnaires were distributed and 133 questionnaires were returned.

Question 1

Gender distribution of the respondents.

TABLE I

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Gender distribution of the respondents** | | | | | |
| Response | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Male | 77 | 57.9 | 57.9 | 57.9 |
| Female | 56 | 42.1 | 42.1 | 100.0 |
| Total | 133 | 100.0 | 100.0 |  |

From the above table it shows that 57.9% of the respondents were male while 42.1% of the respondents were female.

Question 2

The positions held by respondents

TABLE II

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **The positions held by respondents** | | | | | |
| Response | | Frequency | Percent | Valid Percent | Cumulative Percent |
| **Valid** | HRMS | 37 | 27.8 | 27.8 | 27.8 |
| Accountants | 50 | 37.6 | 37.6 | 65.4 |
| Customer care officers | 23 | 17.3 | 17.3 | 82.7 |
| Junior staff | 23 | 17.3 | 17.3 | 100.0 |
| Total | 133 | 100.0 | 100.0 |  |

The above tables shown that 37 respondents which represents27.8% of the respondents are human resource managers 50 respondents which represents 37.6 % are accountants 23 respondents which represents 17.3% of the respondents customer care officers, while 23 respondents which represent 17.3% of the respondents are junior staff

**TEST OF HYPOTHESES**

Nigerian economy has not capacity for capital absorption

**Table III**

|  |  |  |  |
| --- | --- | --- | --- |
| **Nigerian economy has not capacity for capital absorption** | | | |
| Response | Observed N | Expected N | Residual |
| Agreed | 40 | 33.3 | 6.8 |
| strongly agreed | 50 | 33.3 | 16.8 |
| Disagreed | 26 | 33.3 | -7.3 |
| strongly disagreed | 17 | 33.3 | -16.3 |
| Total | 133 |  |  |

|  |  |
| --- | --- |
| **Test Statistics** | |
|  | Nigerian economy has not capacity for capital absorption |
| Chi-Square | 19.331a |
| Df | 3 |
| Asymp. Sig. | .000 |
| a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 33.3. | |

Decision rule:

There researcher therefore reject the null hypothesis Nigerian economy has not capacity for capital absorption as the calculated value of 19.331 is greater than the critical value of 7.82 Therefore the alternate hypothesis is accepted that Nigerian economy has capacity for capital absorption

**TEST OF HYPOTHESIS TWO**

There are no factors affecting the effectiveness of budget deficits to significantly reduce unemployment

Table V

|  |  |  |  |
| --- | --- | --- | --- |
| **there are no factors affecting the effectiveness of budget deficits to significantly reduce unemployment** | | | |
| Response | Observed N | Expected N | Residual |
| Yes | 73 | 44.3 | 28.7 |
| No | 33 | 44.3 | -11.3 |
| Undecided | 27 | 44.3 | -17.3 |
| Total | 133 |  |  |

|  |  |
| --- | --- |
| **Test Statistics** | |
|  | **there are no factors affecting the effectiveness of budget deficits to significantly reduce unemployment** |
| Chi-Square | 28.211a |
| Df | 2 |
| Asymp. Sig. | .000 |
| a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 44.3. | |

Decision rule:

There researcher therefore rejects the null hypothesis there are no factors affecting the effectiveness of budget deficits to significantly reduce unemployment as the calculated value of 28.211 is greater than the critical value of 5.99 Therefore the alternate hypothesis is accepted that state there are factors affecting the effectiveness of budget deficits to significantly reduce unemployment

**CHAPTER FIVE**

**SUMMARY, CONCLUSION AND RECOMMENDATION**

**5.1 Introduction**

It is important to ascertain that the objective of this study was to ascertain effect of deficit financing on unemployment rate in Nigeria. In the preceding chapter, the relevant data collected for this study were presented, critically analyzed and appropriate interpretation given. In this chapter, certain recommendations made which in the opinion of the researcher will be of benefits in addressing the challenges effect of deficit financing on unemployment rate in Nigeria

* 1. **Summary**

This study was on effect of deficit financing on unemployment rate in Nigeria. Three objectives were raised which included: To determine whether the Nigerian economy has capacity for capital absorption, to determine factors affecting the effectiveness of budget deficits to significantly reduce unemployment, to ascertain the relationship between deficit financing and unemployment rate, to recommend measures that will reduce deficit in Nigeria. In line with these objectives, two research hypotheses were formulated and two null hypotheses were posited. The total population for the study is 200 staff of CBN, Abuja. The researcher used questionnaires as the instrument for the data collection. Descriptive Survey research design was adopted for this study. A total of 133 respondents made human resource managers, accountants, customer care officers and junior staff was used for the study. The data collected were presented in tables and analyzed using simple percentages and frequencies

* 1. **Conclusion**

Effect of government budget deficits has been critically assessed theoretically and empirically. Usually, deficit financing can bring about improved private investment since this financing option promotes government expenditure and money supply. Most of the previous works in this regard mainly focused on impact of government budget deficits on economic growth. One of the cardinal objectives of government fiscal deficits is to increase government spending and positively grow the economy by ensuring that resources are channelled to productive ventures rather than to pursue political interests. However, since few studies have been conducted on budget deficit-unemployment nexus, we considered it appropriate to concentrate on this subject. Therefore, the OLS econometric method was used as our technique of analysis. This study discovered that government budget deficit had a positive but non-significant influence on unemployment rate within the period studied. In conclusion, since deficit financing positively related to unemployment rate based on our finding, it means that sound policies are needed to enhance economic stability in Nigeria through drastic cuts in subsisting high unemployment level in Nigeria

* 1. **Recommendation**

Based on our findings and conclusions from our study, the following recommendations were made and they include:

1. Since non-banking public source of deficit financing has been relatively low over the years and has insignificant negative implications on economic stability in Nigeria through inflation rate, government should minimize the level of borrowing from nonbanking public for effective control of inflation rate in Nigeria.

2. Deficit financing in Nigeria should be focused on the productive sector of the economy. This is because deficit financing is positively related to economic instability indicating that sound policies are needed to achieve economic stability in Nigeria.

3. There is need to strengthen interest rate policy through effective and efficient regulation and supervisory framework.

4. Since the result of deficit financing through ways and means source of deficit financing will sustain the economic growth and increase the level of unemployment by fueling inflation. This means that ways and means source of deficit financing can only achieve its full potential on economic stability if government can come up with laws and regulation and strengthen the existing ones so as to enhance economic stability in Nigeria through maintaining low level of unemployment rate.

5. The insignificant implications of banking system source of financing (BSF) on economic stability in Nigeria implies that deficit financing through banking system source will crowd out private investment thereby causing economic instability. There is need to strengthen policies that will reduce the level of financing budget deficit through banking sector (commercial banks and merchant banks) so as to maintain economic stability.

6. Deficit financing in Nigeria should be focused on the productive sector of the economy. This is because deficit financing is positively related to economic instability indicating that sound policies are needed to achieve full employment rate in Nigeria.

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**QUESTIONNAIRE**

**INSTRUCTION**

Please tick or fill in where necessary as the case may be.

Section A

1. Gender of respondent

A male { }

B female { }

1. Age distribution of respondents
2. 15-20 { }
3. 21-30 { }
4. 31-40 { }
5. 41-50 { }
6. 51 and above { }
7. Marital status of respondents?
8. married [ ]
9. single [ ]
10. divorce [ ]
11. Educational qualification off respondents
12. SSCE/OND { }
13. HND/BSC { }
14. PGD/MSC { }
15. PHD { }

Others……………………………….

1. How long have you been CBN
2. 0-2 years { }
3. 3-5 years { }
4. 6-11 years { }
5. 11 years and above……….
6. Position held by the respondent in CBN
7. HRM { }
8. Accountant { }
9. Customer care officer{ }
10. Junior staff { }
11. How long have you been working in CBN
12. 0-2 years { }
13. 3-5 years { }
14. 6-11 years { }
15. 11 years and above……….

SECTION B

1. There is no unemployment in Nigeria
2. Agrees { }
3. Strongly agreed { }
4. Disagreed { }
5. Strongly disagreed { }
6. There financial deficit in Nigeria

(a) Agrees { }

(b) Strongly agreed { }

(c) Disagreed { }

(d) Strongly disagreed { }

1. Financial deficit of Nigeria have nothing to do with unemployment
2. Agreed { }
3. Strongly agreed { }
4. Disagreed { }
5. Strongly disagreed { }
6. Nigeria economy affect unemployment
7. Agreed { }
8. Strongly agreed { }
9. Disagreed { }
10. Strongly disagreed { }
11. All youth in Nigeria are employed
12. Agreed { }
13. Strongly agreed { }
14. Disagreed { }
15. Strongly disagreed { }
16. There is relationship between GDP and fiscal policy
17. Agreed { }
18. Strongly agreed { }
19. Disagreed { }
20. Strongly disagreed { }
21. There is deficit financing and its implication for monetary aggregates
22. Agreed { }
23. Strongly agreed { }
24. Disagreed { }
25. Strongly disagreed { }
26. Financial deficit only affect Nigeria economy?
27. Agreed { }
28. Strongly agreed { }
29. Disagreed { }
30. Strongly disagreed { }
31. There no information of deficit in Nigeria by CBN
32. Agreed { }
33. Strongly agreed { }
34. Disagreed { }
35. Strongly disagreed { }