

CHAPTER ONE

1.1 THE BACKGROUND OF STUDY

Unemployment has been one of the most persistent and unmanageable problems facing all industrial countries of the world. It has been noted as a macroeconomic and social problem.

In October 1982, the 13th International Conference of Labour Statisticians adopted a new resolution concerning the statistics of the economically active employment and unemployment, they defined unemployment as persons above a specified age who during the reference period were without work including the unemployed graduates, school leavers, home makers and other persons mainly those engaged in non-economic activities who are at the same time seeking for work and are available for work.

The term unemployment could be used in relation to all the factors of production with reference to labour. Unemployment produces both economic and non-economic costs. This cost differs from individuals and societies.

For individuals most economic cost of unemployment is loss of income that the persons would have received if employed. For the societies it is the goods and services that would have been produced by the unemployed.

Non-economic cost is found among unemployed persons who experience anxiety, depression and loss of self esteem. A rise in unemployment rate is associated with high incidence of alcoholism and drug abuse as well as increase in crime and suicide rate, high rate of family divorce and incidence of child abuse.

The basic economic cost of unemployment is foregone output when the economy fails to create enough jobs for all who are able and willing to work; potential production of goods and services is greatly lost thus unemployment is a waste of manpower.

Economic growth leads to a lower unemployment rate; Okun's law indicates that every 1% point by which the actual unemployment rate exceed the natural rate a negative GDP gap of about 2% decline in real GDP below its productivity GDP occurs.

According to Briggs (1973) unemployment is the difference between the amount of labour employed at current wage rate and working conditions, and the amount of labour hired at these levels.

However, Gbosi (1997) defined unemployment as a situation in which people who are willing to work at the prevailing wage rate are unable to find jobs. Unemployment is as a result of the inability to develop and utilize the nations manpower resources effectively especially in the rural sector (Fadayami, 1992; Osimubi, 2006).

In another view of Jimaza (2001) defined it as a situation whereby one has no job and is prepared to take a job at the ongoing wage rate but such job is nowhere to be found.

A rise or fall in wage rate depends on the level or variation in the unemployment rate, the amount of unemployment in an economy is measured by unemployment rate which is the percentage of civilian labour force consist of people between 18years of age or older who are unemployed or employed. People not included in the labour force are college students who do not have job and are looking for jobs; it is possible that an increase in current unemployment rate alters the long-run equilibrium of unemployment rate for instance certain unemployed persons may be excluded from the labour market because their productivity is too low to make it profitable to hire them even at a much lower wage rate than the current one.

The controversy over the problem of unemployment revolves around the distinction between voluntary, involuntary, visible and disguised unemployment.

However, voluntary unemployment is said to occur when persons choose not to work or accept job for which they are qualified at ongoing wage rate because they have means of support other than employment for instance affluent individuals. Involuntary unemployment is when persons cannot obtain work even if they are willing to accept low real wages than qualified workers who are currently in employment (Arthur, 1968). Visible unemployment exist when persons is without work but are seeking at a given wage rate. Disguised unemployment exist when persons are without work but not openly seeking for work, who will seek for work at ongoing wage rate if unemployment were much lower.

Despite the contention in the above classification the taxonomy of unemployment includes a condition of being out of work, an activity of searching for work, an attitude of desiring a job under certain situation and needing a job (Levine, 1959).

Unfortunately, there had been little or no economic growth and development in Nigeria over the period depicted by rising

unemployment; the need to avert the negative effects of unemployment has made the budget on unemployment problems to feature very prominently in the development objectives of many developing countries like Nigeria.

Englana (2001), “a person is said to be unemployed when he or she is able and willing to work and is available for work (that is, the person is actively searching for employment) but does not have work.

The international labour organization (ILO) defines the unemployed as numbers of the economically active population who are without work but available for and seeking for work including people who have lost their jobs and those who have voluntarily left work.

There are three ways to become unemployed, some people are sacked, others are temporarily laid off and some people voluntarily quit their existing jobs. But the inflow to unemployment can also come from people not previously in the labour force, school-leavers (new entrants), and people who once have a job then ceased even to register as unemployed, and are now coming back into the labour force in search of a job (re-entrant) (Beggs, 2000). On the other hand

there is a situation in which a worker is employed, but not in the desired capacity where in terms of compensation hours, it is called a situation of under employment.

According to NBS, unemployment covers persons age 15 to 64 who during the reference period were currently available for work, seeking for work but were without work, person is unemployed if he or she is engaged in the production of goods and services thereby contributing to the GDP. Unemployment rate rose to 23.90% in the 2011 statistic on unemployment.

According to Lipsey (1963), unemployment brings about economic waste and causes human suffering. The contributions and attitude of this economic waste were emphasized by the fact that the factor services are the least durable economic commodity.

The socio-economic effect of unemployment include fall in national output, an increase in rural-urban migration, waste of human resources, high rate of dependency ratio, frustration, poverty and depression, all sort of in moral activities like criminal behaviour, prostitution, armed robbery, and rapping. (Adebayo, 1999).

According to Beggs (2000), unemployment can be generally broken down into several types that are related to different causes including:

Classical unemployment occurs where wages are too high to employers due to the main wage laws or trade unions activity. Frictional unemployment exist where there is lack of adjustment between demand and supply of labour; lack of necessary skills, labour immobility, breakdown of plants and machinery, and shortage of raw material; temporary unemployment arising from the normal job search process, it includes people re-entering into the job market after their long absence people who have quit their jobs in search for better ones; people who have been laid off. Structural unemployment arises when jobs are eliminated by changes in the structure of the economy due to technological progress and shift in the demand for goods and services for instance becoming increasingly computerized some workers are losing their job at the same time new jobs such as a computer repairs, technicians and software engineers are employed. Seasonal unemployment results from seasonal fluctuation in demand for instance the employment for ice-cream factories is only for the summer; they remain unemployed during the winter; the

agricultural workers who are employed during harvesting and sowing season remain idle for the rest of the year.

Again, inadequate information causes unemployment and this is a source of unemployment that cannot be neglected; if people do not know that jobs are available they will not take them. The major economic shocks such as the problem of great depression, unemployment, and under-employment can be avoided through policy changes; government will stabilize the economy and maintain continuous economic growth.

1.2 STATEMENT OF THE PROBLEM

The problem of unemployment has occupied the mind of scholars, economists, policy makers and international organizations for many years with an increased tension in the last decade. Even though there are different perspectives to unemployment, there is a general consensus that reduction in unemployment will lead to good economic growth and development that will lead to good change manifested in increased capacity of people to have control over

material assets, and obtain physical necessities of life such as food, clothing and shelter.

According to John Maynard Keynes the progressive adjustment of wage involves a negative relationship between nominal wage changes and unemployment rate known as Philip's curve (1958). The simplest interpretation of this curve is to consider that unemployment exerts downward pressure on nominal wage when there are few unemployed; workers are in a position to obtain higher unemployment because competition among employers to attract workers is intensified by low unemployment.

Following the oil doom in the economy in the 1980, the problem of unemployment started to escalate with the introduction of monetary exchange rates and the inability of most industries to import the raw materials required to improve their output level.

In the depression phase demand for goods and services is the minimum, construction of all types of capital goods is at stand still; there is massive unemployment and the economic growth and development of the country suffer. Also the generous unemployment benefit may hinder individuals to look for a job in order to gain access to unemployment benefits. Rapid population growth

accompanied by un-precedented inflow of rural migrants generate massive urban problem of rural unemployment. The main aim of government is to attain full employment level but it failed to materialize.

In Lewis model rural to urban migration is one of the demographic characteristic of developing countries and the mechanism theory which revealed that labour transfers physically from agriculture to city based industrial employment thus enhancing the expansion of the modern sector and integration of the two sectors of the dual economy; inward migration to urban area will continue as long as the expected value of earnings of the urban wage exceeds the rural wages. Many people especially those living in rural areas were frustrated by lack of job opportunities, also they include those without work and who have job but want to work for longer hour. A very little attention has been paid to self employment scheme in Nigeria not until in the 1980's during the period of great recession; they adopted the structural adjustment programme (SAP).

To provide a permanent solution to this problem arouse a universal conviction that unemployment is inevitable and it created pessimism that government has no power to bring unemployment

trend to a halt; it is not only a severe problem but also has a disquieting effect on the economic, political and society as a whole.

According to Damachi (2001) the task of solving unemployment problem is anchored on better utilization of manpower through policies that promote economic growth. The manpower board and national directorate of employment established by the government have not reduced unemployment.

1.3 OBJECTIVE OF THE STUDY

The objectives of this study are as follows:

- i. To determine the relationship between unemployment and economic growth in Nigeria.
- ii. To determine the short-run impact of unemployment on output level in the Nigerian economy.

1.4 STATEMENT OF THE HYPOTHESIS

- i. H_0 : Unemployment has no significant impact on economic growth in Nigeria.

- ii. H₁: Unemployment has a significant impact on economic growth in Nigeria.

1.5 SIGNIFICANCE OF THE STUDY

Unemployment causes misery, social unrest and hopelessness for the unemployed. In Nigeria, the existence of high unemployment is a source of concern to policy makers as well as the general citizenry, because employment provisions can be used to check the performance of the economy.

If unemployment is left unchecked, it will go along way hindering any economic development plans of the country. It is on this note that unemployment in Nigeria with its resulted effect has been treated in this study. This work will be of valuable help to policy makers.

The policy makers use different strategies to prevent unemployment in Nigeria, they include changing the pattern of production in order to create employment through entrepreneur innovation known as Youth Enterprise With Innovation (YOUWIN) programmes; emphasis should be placed on the production of essential goods which use the labour intensive techniques.

The study will help each leader to have bold initiative and quickly tackle the terrible economic crisis by making wise economic policy and encourage large scale borrowing for public expenditures.

It helps the leaders to realize that rapid full employment desired by every country can only be possible if it was combined with wage and price controls, so as to recognize the nation's social, political, cultural and educational life in commensuration with the national socialist principles. Through this findings and subsequent recommendations of this study, unemployment will be eradicated. It will provide an insight into the relevant literature and help to lay bare the causes and effects of unemployment in Nigeria.

It is the opinion of the researcher that the study will be of immense benefit to fellow student researcher because it will serve as a spring board especially for those who will want to research further on the subject matter in future.

It therefore shall be of usefulness to subsequent researchers as a reference material.

1.6 SCOPE AND LIMITATIONS OF THE STUDY

This research work is restricted to Nigerian economy only; the focus is on the growth of the Nigerian economy and unemployment.

The period covered by the research is 31 years from (1980-2010).

There are some limitations of this work; mostly the secondary data are used in the study because of the difficulties encountered in the gathering of the primary data given the nature of the study which is the aggregate level of the economy.

The absence of information caused a lot of hindrance; some relevant variables may not be included in the research model due to lack of reliable data on them. This study cannot be said to have exhausted all the relevant details on the nature of the relationship between unemployment and economic growth as a result of the above reasons. This work has a number of challenges which include inadequate finance and shortage in the availability of relevant materials.

CHAPTER TWO

LITERATURE REVIEW

It is quite possible that some instances that affect unemployment also affect economic growth and the level of output in Nigeria. In the labour market the unemployment rate can be defined as the number of people actively looking for job divided by the labour force. Changes in unemployment depend mostly on the inflows made up of the unemployed persons who are looking for job, of the employed who lose their job and are looking for a new one and of persons who have stopped looking for employment. (Levine, 1959).

Unemployment rate increased in Nigeria to 23.90% in 2011; it points to various factors that influence the level of structural unemployment which involve difference in time and place; increase in GDP will reduce the unemployment rate both in the short and long-run. Nigeria is a nation blessed with various natural resources both human and material, but due to gross mis-management, excessive spending, adverse policies of various government in Nigeria, these resources have not been optimally utilized and adequately channeled to profitable investments to bring about maximum economic benefits, because of this, Nigeria has been bedeviled with problems of poverty and unemployment (Lipsey, 1963).

A literature review shows that unemployment has been explained mainly in terms of stimulating continuous transfer of

labour from rural to urban industrial centre (Pierre and Andre, 2004).

2.1 THEORETICAL LITERATURE REVIEW:

This section of the literature review explores the theoretically base studies carried out by different Scholars with regard to unemployment and its impact on other macroeconomics indicators. The theoretical framework seeks to establish the relationship between unemployment and economic growth. The real aspect of this study is the economic growth which comes from the accumulation of knowledge embodied in innovation through the use of machines to do work previously done by man, this result to the re-location of labour across firms which means that unemployment does not last for a short period of time (Jhingan, 1997).

The market search theories imply that an increase in the rate of job turnover in natural rate of unemployment shows a negative long run relationship between rate of growth and unemployment. (Pierre and Andre, 2004).

Nigerian is a middle income mixed economy with emerging market, expanding financial services, communications and entertainment sectors. It is ranked 30th in the world in terms of GDP in 2012; and the 2nd largest nation within Africa, and on the track of becoming the 20 largest economies in the world by 2020. (Olaloku, 1979).

Keynesian Theory: He wrote His major book on the “Theory of Employment, Interest and Money”. He was able to see how the theory of employment, interest and money can help to foster economic growth that is how employment can create wealth and resources needed for economic growth and development. How interest rate and money value can determine macroeconomics stability.

According to Him, total spending will generate employment which is the highest in the measure of the standard of living. Total spending is determined by consumer spending and business investment; business investment is in turn determined by the quantity of money and the desire to hold money. According to him savings should be channeled towards total spending and if the total spending fall, there will be unemployment and stagnation. A fall in the total spending will reduce investment and income causing savings to decline. Again there is need for easy access to money and reduced rate of interest in order to solve unemployment problem (Jhingan, 1997).

Adam Smith Theory: The application of Adam Smith theory to economic growth and development lies in the approach to various stages of economic growth, and this is explained by him in his theory and what he exposed in his famous book called “An enquiry into the causes of wealth of Nations”, that is an enquiry on what makes a nation rich or poor, developed or underdeveloped, wealthy, to prosper, invest, accumulate capital, to be industrialized and to manufacture essential goods and services. He also talked about

capital accumulation and formation as a necessary condition for economic growth: this can be realized through savings and investment both in the short and long-run, also through the increase in aggregate demand and consumption which assist in economic expansion, distribution of income and profit maximization needed for economic expansion in output (Jhingan, 1997).

Technological Theory: The human capital is an important factor for the wealth of a nation due to its influence on the overall production of the country. Technological progress can provide more efficient production method through machines and computers but skilled labour is necessary to manage and develop them as well as improve the quality and productivity of the existing labour. Therefore the formation of human capital is of great important if Nigeria want to be competitive in future. Nigeria is having a problem with her human capital formation; the latest value of Human Development Index (HDI) shows that Nigeria is ranked 156 with the value of 0.459 among 187 countries, this value place Nigeria at the bottom meaning that Nigeria is considered to have low level of human development; even though human capital is one of the factor that can drive up development and associated economic growth, it is very important factor for the development process of a developing country like Nigeria. The productive capacity of a country is related to the level of human capital which explain why human capital formation must be considered of great important in the future (Olaloku, 1979).

Economist referred to the coexistence of the vast wealth in natural resources and the extreme personal poverty in developing countries like Nigeria as the “resource curse”, although resource curse is more understood to mean an abundance of natural resources which fuelled official corruption resulting into violent competition for the resources by the citizens of the country. The news oil wealth followed by a decline in other economic sectors led to the massive migration to the city and to increase in the widespread of poverty especially in rural areas. A collapse of basic infrastructure and social services in the early 1980s accompanied this trend. (Jhingan, 1997).

In 2005, Nigeria had a labour force of 57.2m; in 2003, the overall unemployment rate was 10.8%, urban unemployment rate of 12.8% exceeded the rural unemployment rate of 7.4% according to the latest available information from 1999, the labour force employment by sector was as follows: 70% in agriculture, 20% in services and 10% in the industry. (Graffikin, 1992).

2.2 EMPIRICAL LITERATURE REVIEW:

Despite the implication of the equilibrium, unemployment can be a widespread phenomenon in some labour markets. Although the unemployment rate in the United States has been relatively low in recent years (5.8% in 2002), it has been much higher in many European countries; 8.8% in France, 10.4% in Germany and 9.5% in Italy (Argy, 1994).

Moreover, unemployment spell may last for a very longtime; 18% unemployed persons in the United States have been

unemployed for at least 27 weeks. It is difficult to understand the existence and persistence of unemployment in terms of the typical model of supply and demand unless:

1. Firms pay wages that are above the equilibrium level and there is an excess supply of labour.
2. Wages are constant and cannot be driven down to the equilibrium level (Linbeck, 1999).

Workers are unemployed for many reasons, and policy makers usually worry more about some types of unemployment than the other types. For instance many persons have either quit or have been laid off or they have just entered or re-entered the labour market; it takes time to learn about the job or locate the available job opportunities.

Therefore, even a well functioning market economy where the number of jobs available equals the number of persons looking for work, it will exhibit some unemployment as workers search for jobs, that is the equilibrium level of unemployment will not be equal to zero. This type of “frictional” unemployment cannot explain why nearly 25% of the U.S. work-force was unemployed during the period of the Great Depression in 1933 or why the unemployment rate hit 9.7% in the 1982 recession. Many workers seem to be unemployed not because they are “in between jobs” but because of a fundamental imbalance between the supply and demand for labour (Chrystal, 1995).

The combination of high unemployment insurance benefits, employment protection restrictions and wage rigidity probably

account for the high unemployment observed in Europe in the 1980s and 1990s (Pierre and Andre, 2004).

In all the OECD countries, workers mobility among different possible states in the labour market, that is (from one job to another, from a job to unemployment, or from unemployment to non-participation) is a phenomenon of major dimension; for example in firms with more than ten employees in the U.S in 1987, for every 100 jobs there were on the average 26 hires, and 29 quits (Burda and Wypdosz, 1994).

The duration of the transaction period between all possible states results mainly from imperfection in the functioning of the labour market for a work.

The search for a job that fit his or her requirements and skills is a process that often takes a lot of time. When a firm wants to recruit new workers, it often chose to devote substantial resources with a corresponding cost in time to the selection of suitable individuals. This imperfection in the information available in the labour market entails the simultaneous presence of frictional unemployment among person and vacant jobs (Graffikin 1992).

From a cross-sectional data for 20 OECD countries, Layard (1991) found out that a 10% rise in the replacement ratio would increase the unemployment rate by 1.7%; this was confirmed by recent studies using rich data for the period of 1983-1993; Scarpetta (1996) arrived at a figure 1.3%, and the study by Nickel (1997) on 20 OECD countries found out a coefficient of 1.12.

Blanchard and Wolfes (2001) arrived at comparable order of magnitude; thus a rise in unemployment benefits would tend to increase unemployment but this increase is a modest one.

More generally, unemployed persons respond differently to changes in the unemployment benefits base on their future or present situation in the labour market. Hence, a rise in the benefits should bring down unemployment among unskilled workers but since it increases unemployment among skilled workers its effect on the global unemployment rate is large. Empirical research carried out on the industrialized countries suggests that benefits have weak but slight positive effect on the unemployment rate. Studies carried out in the U.S in the 1990s concluded that arise in the level of unemployment benefits may increase global output and the welfare of high school graduates (Graffikin 1992).

Lipsey and Chrystal (1999) looking at the unemployment problem in the OECD countries wrote that unemployment touches all the parts of the OECD countries; about 8.5% of the labour force and another 15m persons have either given up looking for work or unwillingly accept a part-time job (Pierre and Andre 2004).

The economics statistics reflect a further weakening of the world economy and a further fall in the standard of living of the international working class. A report on manufacturing activity, unemployment, economic growth and personal income in Europe, China and the U.S point to an overall slowdown in economic growth and a rise in unemployment and poverty; this coincide with the new move by the European Union and the Obama's administration in the

U.S.A to reduce social spending, public sector jobs and wages; this measure result to an increase in the class-war policies that have fuelled economic melt-down due to excess suffering of millions of workers. The EUSTAT report that unemployment in the 17 nation Euro zone hit a record in January of 11.9%. There were 19m unemployed people in the euro zone, in the whole of E.U there were 26.2m jobless workers. The situation is worse than this since they do not take into account millions of people who have dropped out of the labour market. The highest rate was in Greece at 27%, Spain at 26.2%, the rate of jobless workers in Italy rose to 11.7% in January, marking the country's worst unemployment level in 1992. Youth unemployment in E.U is at depression level, across the euro zone it stood at depression level, across the euro zone it stood at 24.2% in January. (Alex 2013).

The I.L.O forecast that the number of jobless persons around the world will rise. There is rampant unemployment across America, 35 cities suffer unemployment above 15%, New York unemployment rate continued to rise with the majority of U.S metropolitan areas showing a rise in unemployment rate above 15% (Grey 2013).

2.3 LIMITATIONS OF THE PREVIOUS STUDIES:

The problem of unemployment is a global issue that has drawn the attention of scholars after the Great Depression in 1930s.

The effect of unemployment on the economic performance of the economy has been re-examined by different authors, but such theories have been found inadequate in explaining the peculiar

nature of unemployment in the economic growth and development of a nation. There was no literature that showed the impact of unemployment in the actualization of economic growth, it is in the view of this finding that it becomes necessary for the formulation of policy options that will alleviate unemployment problems and thus generate sustainable economic growth.

CHAPTER THREE

RESEARCH METHODOLOGY:

This chapter describes the method and procedure of this study. It involves a survey carried out to determine the impact of unemployment in Nigeria: it explains the design of the study, the variables and the controls employed the sources and method of gathering data, the reliability of instrument constructed and the procedures used for the analysis of data.

The method employed is the statistical and economics tool in analyzing and presenting data. The ordinary least square (OLS) technique of estimation will be used in estimating the model based on its interesting BLUE (Best linear unbiased Estimator) properties and its basic assumptions:

- a. The error term has constant zero expected value $E(U_t) = 0$
- b. The relationship between the regressor and the regressand is linear.
- c. The error term has constant variances for all observation i.e. $E(U_t) = S^2$.
- d. The random variable U_t the statistically independent i.e. $E(U_i U_j) = 0$ for all $i \neq j$.

This research method helps in ascertaining the impact of certain economic variables on a given phenomenon under study. To ascertain the effect of employment on economic growth and on GDP

involves regressing GDP on unemployment which is relevant in establishing the relationship between unemployment and GDP.

3.1 METHOD OF DATA ANALYSIS:

Due to the invention of programmable computers, economics researchers have availed themselves to the use of econometrics research methodology and this research work follows suit. The dominance of econometrics results gives quantitative measures of model parameters thus leading empirical content to economic relationships modeled, (Koutsoyians, 1977 and Gujarati 1995).

This study will employ a simple linear regression model and inference will be drawn based on the results. A linear regression model is best suited for capturing the nature of relationship that exists between two variables (dependent and independent). The data obtained will be fitted in ordinary least square (OLS) regression method and the method will be used to facilitate model specification.

3.2 MODEL SPECIFICATION:

A model is an abstraction from reality. Econometricians build model as a way of simplifying the complexities of real life. According to Nwokama (2001), two types of model exist: Definitional and Behavioural model. Behavioural model will be applied in this study.

Model specification is based on economics theory and on any valuable information relating to the phenomenon being studied. This involves three steps:

- a. Determination of dependent and independent variables.

- b. Theoretical economic apriori expectation about size and sizes of parameters of the functions.
- c. The determination of the mathematical form of model.

The specification of this model will be used on the following functional relationship as;

$$\text{GDP} = F (\text{UNEMP})$$

These variables are considered to be relevant in determining the effect of unemployment on Gross Domestic Product (GDP) of the Nigerian Economy.

The econometric model is:

$$\text{GDP} = B_0 + B_1 \text{UNEMP} + U_t.$$

Where:

GDP: Gross Domestic Product.

UNEMP: Unemployment Rate.

U_t : Error term

$B_0 + B_1$ = Regression Parameters.

Gujarati (2003) defines U_t as a random variable that has well defined probabilistic properties. The stochastic error term also known as the disturbance term represents all other determinants of per capita income that are not taken into account explicitly.

3.3.1 METHOD OF EVALUATION:

The technique used is economics test, first order test only.

The economics test under this criterion is apriori expectations (sign and size) of the parameter estimate of the variable would be evaluated to check whether they conform to economic theory. B_0 is

autonomous GDP. B_1 (UNEMP) is expected to have a negative sign in accordance with economic theory that is as the level of unemployment increase the level of GDP decreases: it is not expected to have any specific size. According to the economic theory, the error term (U_t) is used to capture all other variables that might have an influence on gross domestic product that was not included in the model.

3.3.2 EVALUATION BASED ON STATISTICAL CRITERIA (FIRST ORDER TESTS):

These are tests defined by statistical theory and are used at evaluating reliability of a parameter estimate.

According to Gujarati (2004) a test of significance is a procedure by which falsity of a null hypothesis is attained.

1. The coefficient of Determination (R^2): (Goodness of fit) will be used to explain the total variation in the dependent variable (GDP) cause by variations in the independent variable (UNEMP).

The value of R^2 lies between 0 and 1; the closer the R^2 to one, the greater the goodness of fit and the closer the R^2 to zero, the worse the goodness of fit.

$$R^2 = 1 - \frac{(1-R^2)(n-1)}{N-K}$$

N-K

2. The T-test: This is used to test for the statistical significance of the individual coefficient. A two tailed test

is conducted at 5% level of significance. Then the computed ratio (t-cal) is compared with the theoretical (t – tab) with n-k degrees of freedom.

Where n = number of observation

K = total number of parameter estimated

Decision rule: if computed t is higher than the critical value, reject the null hypothesis and if otherwise accept it.

3. The F-test: This test measures the overall significance of the entire regression plane. The test is used to find out whether the adjoint of the explanatory variables actually have a significant influence on the dependent variable

Decision rule: if computed t is higher than the critical value F reject the H_0 , if otherwise accept it.

4.3.3 ECONOMETRICS CRITERIA:

1. Test for Autocorrelation: This is to test whether the errors corresponding to different observations are correlated or not. Essentially this test is to ensure that the assumption of the ordinary least square (Homoscedasticity) is not violated. The test statistics to be adopted here is the Durbin Watson Statistics.
2. Normality Test: This test will be carried out to test whether the error term follows the normal distribution.

The normality test to be adopted here is the Jarque Bera (JB) statistics which follows the Chi-Square distribution.

3. Test for Heteroscedasticity: This test will be conducted to ascertain whether the error term U_t in the regression model has a common or constant variance. The White's Heteroscedasticity test will be adopted.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 PRESENTATION OF DATA

YEAR	GDP (in Naira)	UNEMP (in Percentage)
1980	49,632.3	6.4
1981	47,619.66	5.2
1982	49,069.28	4.3
1983	53,107.38	6.4
1984	59,622.53	6.2
1985	67,908.55	6.1
1986	69,146.99	5.3
1987	105,222.84	7
1988	139,085.30	5.1
1989	216,797.54	4.5
1990	267,549.99	3.5
1991	312,139.74	3.1
1992	532,613.83	3.5
1993	683,869.79	3.4
1994	899,863.22	3.2
1995	1,933,211.55	1.9
1996	2,702,719.13	2.8
1997	2,801,972.58	3.4
1998	2,708,430.86	3.5
1999	3,194,014.97	17.5
2000	4,582,127.29	18.1
2001	4,725,086.00	13.7
2002	6,912,381.25	12.2
2003	8,487,031.57	14.8

2004	11,411,066.91	11.8
2005	14,572,239.12	11.9
2006	18,564,594.73	12.3
2007	20,657,317.67	12.7
2008	24,296,329.29	14.9
2009	24,794,238.66	19.7
2010	29,205,782.96	21.1

Source: CBN Statistical Bulletin, Vol. 21, December, 2010.
DMO & NBS Statistics of various years.

4.2 PRESENTATION OF RESULT

The estimates from the regression carried out are presented and analyzed in this chapter. As stated in the previous chapter, the modeling procedure employed in the work is the ordinary least square (OLS).

Using:

$$Y = B_0 + B_1X$$

$$GDP = F (UNEMP)$$

$$GDP = B_0 + B_1 UNEMP + U_t$$

The result of the regression with one regressor is presented in the table below.

$$\text{Prob} > F = 0.0000$$

$$\text{R-squared} = 0.4681$$

$$\text{Adj R-squared} = 0.4497$$

$$\text{Root MSE} = 1.6832$$

Variable	Coefficient	Std. Err.	T- Statistics	P> t 	[95% Conf. Interval]
Constant	11.60271	0.550495	21.08	0.000	10.47682 12.7286
UNEMP	0.2713566	0.0537163	5.05	0.000	0.1614944 0.3812187

4.3 INTERPRETATION OF THE REGRESSION RESULT

4.3.1 ANALYSIS OF REGRESSION COEFFICIENTS:

From the result above, if all the independent variables are equal to Zero, the intercept for the GDP becomes 11.60271.

Unemployment (UNEMP): A unit increase in unemployment increases the Gross Domestic Product by 0.2713566 units. This shows a positive relationship between unemployment and the gross domestic product.

4.3.2 STATISTICAL CRITERIA

This test includes:

- 1 Goodness of Fit Test (R^2):** From the result obtained in the regression, R^2 is 0.4681 showing a goodness of fit of 46.81%,

on the grounds that the explanatory variable explains 46.81% of the explained or dependent variable.

2 Student's T-test: In order to test if the independent variables are statistically significant, we use the n-k degree of freedom at 0.05 level of significant. At 0.05 level of significance, the critical value is 2.045. The decision rule is to reject the null hypothesis (H_0) if $t_{cal} > 2.045$ and accept it if otherwise.

Variables	T-Statistic	5% critical value	Decision
Constant	21.08	± 2.045	Significant
UNEMP	5.05	± 2.045	Significant

From the result, the constant and unemployment are seen to have significant impacts on the gross domestic product.

3 The F-Test: This test is conducted to see if the regression model is well specified. The decision rule is to reject H_0 that the model is well specified in forecasting and policy analysis if $F_{cal} > F_{0.05}$

$$F_{cal} (1, 29) = 25.52$$

$$F_{tab} = 4.18$$

Hence $f_{cal} > F_{tab}$, we reject H_0 and accept H_1 concluding that the model is well specified and considered as being good and adequate for forecasting and policy analysis.

4.3.3 ECONOMETRICS CRITERIA

This test is to verify whether the assumptions of OLS stated in the previous chapter are violated. The test is presented below:

1. TEST FOR AUTOCORRELATION

To test for autocorrelation in our model, we will make use of the most popular and routinely used criteria the Durbin-Watson test.

H_0 : No serial autocorrelation

Table 5

NULL HYPOTHESIS	DECISION	IF
No Positive Autocorrelation	Reject	$0 < d < dl$
No Positive Autocorrelation	No Decision	$dl \leq d \leq du$

No Negative Autocorrelation	Reject	$4 - d_l < d \leq 4$
No Negative Autocorrelation	No Decision	$4 - d_l \leq d \leq 4 - d_l$
No Autocorrelation, positive or negative	Do Not Reject	$d_u < d < 4 - d_u$

Where;

d = Durbin Watson

d_l = Lower limit Durbin Watson

d_u = Upper limit Durbin Watson

$n = 31$

$K = 1$ (excluding the constant).

At 5% level of significance

$d = 0.2702114$

$d_l = 1.363$

$d_u = 1.496$

And since $0 < d < dl$ (that is $0 < 0.2702114 < 1.363$), we conclude that it falls within the rejection range. So we reject and conclude that there is positive serial correlation in the residuals.

2. NORMALITY TEST

This test is carried out to check whether the error term follows a normal distribution. The normality test adopted the Jarque-Bera (JB) Test of Normality. The test is an asymptotic and it is based on the OLS residual. The test computes the skewness and kurtosis a measure of the OLS residuals and follows the chi-square distribution.

Hypothesis

$H_0: \sigma = 0$ (The error term follow a normal distribution)

Against

$H_1: \sigma \neq 0$ (The error term does not follow a normal distribution)

At $\alpha=5\%$ with 2 degree of freedom.

Decision Rule: Reject H_0 if $JB^* > JB_{tab}$ at 2df and accept H_0 if otherwise.

From the result of the normality test

$JB^* = 8.13$, while Chi square table $JB_{tab} = 5.99147$

Therefore $JB^* > JB_{tab}$ at 5% level of significance we reject H_0 and conclude that the error term does not follow a normal distribution.

3. HETEROSCEDASTICITY

Heteroscedasticity Test: we shall employ the White's heteroscedasticity test. See Gujarati (2004). This test is basically on the variance of the error term. The test helps to ascertain whether the variance of the error term is constant.

H_0 : Homoscedasticity (i.e. there is no heteroscedasticity)

H_1 : Heteroscedasticity at 2 degrees of freedom.

DECISION RULE

If $\chi^2 - \text{calculated} > \chi^2 - \text{tabulated}$, reject the null hypothesis

$$\chi^2_{tab} = 6.69$$

$$\chi^2_{stat} = 5.99147$$

Conclusion

Since $\chi^2_{stat} < \chi^2_{tab}$ that is $5.99147 < 6.69$ we conclude that the variance of the error term is constant.

4.4 EVALUATION OF THE HYPOTHESIS

The hypothesis has earlier been stated as:

H₀: Unemployment has no significant impact on the gross domestic product

H₁: Unemployment has a significant impact on the gross domestic product.

Going strictly by the result of the tables presented above, unemployment was revealed to have a significant impact on the gross domestic product (which is a measure of economic growth), and therefore we reject the null hypothesis and conclude that unemployment has a significant impact on the economic growth in Nigeria.

**CHAPTER FIVE:
SUMMARY OF FINDINGS, RECOMMENDATION,
AND CONCLUSION:**

5.1 SUMMARY:

In investigating the relationship between unemployment and GDP, this study attempts to evaluate the short-run impact of unemployment on the economics performance of the Nigerian economy. From the result unemployment has a positive relationship with GDP and its apriori sign does not conform to the economic theory. However, the result from the T-test analysis shows that unemployment has a significant impact on the GDP. The coefficient of determination (R^2) amounted to 0.4681 which shows that the independent variable explained 46.81% of the dependent variable; the result from the F-test shows that the overall model is significant.

The findings showed that the incidence of unemployment in Nigeria have been increasing as depicted by the available statistics; it revealed that unemployment are caused by low economic growth, population growth, poor governance, macroeconomic shock and policy failure, corruption, debt burden, poor enabling environment, neglect of agricultural sector among other. It was noted that unemployment constitute impediment to sustainable economic growth and development and in material respect produce political, economic, social health and psychological effect on the citizens and the economy in general. Therefore, the need to stimulate economic

growth in Nigeria with the utmost commitment cannot be over emphasized; it can be possible through the diversification of the economy through the dismantling of the central federalism that encourages total and absolute dependence on oil.

Nigerian government should as a matter of urgency imbibe the spirit of true federalism by institutionalizing resource ownership for the country's resource management and reducing the inordinate urge for central power control that induces much political violence. By so doing, regional development, high standard of living and economic diversification will be achieved; this will greatly improve the growth process of the economy and generate employment opportunities. Human capital variable are the key variable in unemployment reduction in Nigeria, this implies that more attention should be shifted to human capital development in order to accelerate economic growth in Nigeria. Given the high level of unemployment in Nigeria, the development of entrepreneurial skills and initiative should be of paramount important especially the higher education sector in order to facilitate the employability of graduates. In the view of this, to attack unemployment then, there is the need to restructure the educational system in respect of manpower production for the needs of the economy.

Vocational skills should be given high priority as it is capable of generating self employment; the technological institutions in the country should be properly funded and equipped to ensure efficiency. This would motivate the youth to opt for disciplines that would earn them job independence afterwards.

5.2 RECOMMENDATION:

5.2.1 POLICY RECOMMENDATION

The fundamental issues to be addressed in order to reduce and solve unemployment problem in Nigeria lies basically in tackling the causes of unemployment through policy initiative. This includes:

1. A stable macroeconomics policy formulation and honest implementation by government is essential for effective unemployment reduction.
2. The pursuance of rapid broad-based economic growth that involves the poor and graduates employment will have a tremendous effect on the reduction of both poverty and unemployment.
3. The agricultural sector should revitalize to provide employment opportunities.
4. Emphasis should be laid on skill acquisition in the educational system so as to produce graduates that are providers of employment than seekers of employment.
5. An enabling environment should be created for private sector investment to increase as this will go a long way to reduce unemployment instead of leaving the unemployed at the mercy of the public sector which does not provide enough employment opportunities.

6. The fight against corruption should be intensified as this would reduce mismanagement of resources that would have been used for effective unemployment reduction.
7. The standard of living of the public should be improved upon by providing the basic infrastructures most especially in the rural area where the majority of the poor is residing. This will also reduce migration to urban centre that resulted to rapid in the urban unemployment.
8. There is need to have a population policy which will limit population growth to the level that is compatible with the expansion and employment generation capacity of the economy.
9. Credit facilities should be made available for small and medium scale enterprise to enable job seekers who wish to start off their own business to be able to do so
10. Unemployment reduction programmes should have sustainability mechanism as this would enable for enable for effective checkmating of unemployment rate. There should be participatory approach in programme planning, implementation and evaluation of unemployment reduction programmes.

5.2.2 RECOMMENDATION FOR FUTHER STUDIES

In the course of this research work, so many observations were made. These observations show that if appropriate measures are not taken immediately to arrest the unemployment problem; the target

year of 2020 cannot be achieved. The researcher thinks that there is a natural relationship between changes in unemployment and changes in output. However, the exact form it takes is a complicated problem that required going beyond the simple regression analysis; there is need to determine effect of variables such as poverty on the GDP other than the unemployment problem.

5.3 CONCLUSION:

The findings of this study shows that problem of unemployment in Nigeria requires a pragmatic approach to minimize it. Increasing the employment rate is not the only way out of this trap but making sure that most vulnerable group of the economy are taken care of, which would then enhance economic growth and development.

The consequences of a growing unemployment phenomenon are such implications are glaring in the economy of Nigeria where many negative developments are traceable to the non-availability of jobs for the teaming population of energetic youths. While the government takes the leading role in the task of employment generation by providing the necessary enabling environment for economic activities; it is necessary to note that the battle against unemployment problem in Nigeria is like a war that too important to be left for the generals alone, it cannot be left for the sole effort of the government, all the stakeholders must therefore work together to overcome the hurdles of unemployment.

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```
. estat dwatson
```

```
Durbin-Watson d-statistic (2, 31) = .2702114
```

```
. estat imtest,white
```

```
White's test for Ho: homoskedasticity  
against Ha: unrestricted heteroskedasticity
```

```
chi2 (2) = 6.69  
Prob > chi2 = 0.0353
```

```
Cameron & Trivedi's decomposition of IM-test
```

Source	chi2	df	p
Heteroskedasticity	6.69	2	0.0353
Skewness	0.20	1	0.6588
Kurtosis	4.80	1	0.0285
Total	11.68	4	0.0199

```
. predict residual,res
```

```
. sktest residual
```

```
Skewness/Kurtosis tests for Normality
```

```
----- joint -----
```

Variable	Obs	Pr(Skewness)	Pr(Kurtosis)	adj chi2(2)	Prob>chi2
residual	31	0.7729	0.0022	8.13	0.0171