

**TITLE PAGE**

**THE IMPACT OF UNEMPLOYMENT ON ECONOMIC GROWTH IN  
NIGERIA. (1982-2010)**

**A PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE  
REQUIREMENT FOR THE AWARD OF BACHELOR IN SCIENCE  
(B.S.C) DEGREE IN ECONOMICS.**

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**AUGUST 2013**

## **APPROVAL PAGE**

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## **ABSTRACT**

*The term 'unemployment' can be defined as an economic condition marked by the fact that individuals actively seeking for job remain unemployed. Unemployment is very common in under-developed nations like Nigeria and it affects graduates of various institutions of learning. The study was designed to investigate the impact of unemployment on economic growth in Nigeria for the period of 29 years (1982 – 2010). The focus of the research was to determine the cause and impacts of unemployment and this problem can be reduced in Nigeria to a minimal level or if possible, eradicated. The objective of this study is to determine the relationship between unemployment and economic growth in Nigeria (GDP). The method of analysis used in testing the hypothesis is T-test, F-test etc. Data for the study was obtained from the Central Bank of Nigeria Statistical Bulletin. The major finding was that unemployment has a negative impact on the gross domestic product (GDP) of the Nigeria economy. Based on the findings, some recommendations of policy and suggestions have been made.*

**NNABUIHE ENDERLYN.**

## **DEDICATION**

This research work is dedicated to God Almighty for his protection throughout my academic life. Also, to my parents, Mr. and Mrs. Canice Nnabuihe, for their wonderful support and encouragement.

## **ACKNOWLEDGMENT**

With the spirit of understanding, success is achieved. I am delighted with the Almighty God for his love and mercies in my life. My gratitude goes to my parents Mr. and Mrs. Canice Nnabuihe, my sisters and brothers, for their concern and financial support.

My special gratitude to my project supervisor, Mr. C.C. Umeadi, who gave me the time to ensure the success of this research work. To my lecturers, Mr. Ojike, Prof. Udeaba, Barr. Onwudinjo, Prof. Onah, Mr. Uche, Mr. Osodiru and Mr. Odionye, for all their teaching and support. My profound gratitude goes to my loved ones, Juliet, Sylvia, Lillian and friend, Ozioma and to my cousins, Tochukwu, Ebere and Nnaemeka; and to all, who in one way or the other, supported me in my academic life. May the Lord Almighty reward you all, abundantly. Amen.

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## **CHAPTER ONE**

# **THE IMPACT OF UNEMPLOYMENT ON ECONOMIC GROWTH IN NIGERIA**

### **1.1 Introduction**

Unemployment is defined as an economic condition marked by the fact that individuals actively seeking jobs remain unhired. Unemployment is expressed as a percentage of the total available work force. It is seen as a macroeconomic and sociological problem which arises as a result of insufficient and non-availability of jobs to correspond with the growing population. Even those who are employed, sometimes live with the fear of retrenchment. The term unemployment could be used in relation to all the factors of production. But in reference to labour, there is unemployment if it is not possible to find jobs for all those who are eligible and able to work. Labour is said to be underemployed, if it is working below capacity or not utilized in production employment can either be 'voluntary' or 'involuntary'.

Voluntary unemployment is a situation where somebody chooses not to work because they have means of support other than employment e.g. idle rich man. Voluntary unemployment is attributed to the individuals decision; it includes workers who reject low wage jobs, whereas

involuntary unemployment exist because of socio-economic environment (including market structures, government intervention and the level of aggregate demand) in which individuals operate, involuntary unemployment include workers who are fired due to an economic crises, industrial decline, company bankruptcy or organization restructuring unemployment is seen as a worldwide economic problem and has been categorized as one of the serious impediments to social progress. Unemployment is a very serious issue in Africa (VandeMoortele, 1991 and Rama, 1998) and particularly in Nigeria (Oladeji, 1994, Umo, 1996). The need to avert the negative effects of unemployment has made the tacking of unemployment problem to feature very prominently in the development objective of many developing countries.

In the study of unemployment in Africa, Okonkwo (2005) identified three causes of unemployment; the educational system, the choice of technology which can be either be labour intensive or capital intensive and inadequate attention to agriculture. The use of machines to replace work done by labour and computerization has contributed to these social problem. Moreso, lack of enough education and skills to have access to credit and capital.

One peculiar feature of the unemployment problem in Nigeria is that it was more endemic in the early 1980s than any other period. It becomes an acute problem in Nigeria, immediately after independence. The major factor contributing to low standard of living in underdeveloped countries is their relative inadequacy on advanced nations. Unemployment rate is given by the proportion of the labour force that is employed divided by the total number of the labour force. The total labour force was projected at 61,249,485 in 2007 indicating an increase of 3.9%. total employment in 2007 stood at 52,326,923 compared with 50,886,836 in 2006. This represents an annual increase of 2.8%. The labour force consists of the number of the people aged 18 and more, who are employed (i.e. those who do not have jobs but are actively looking, for work). Individuals who do not fall into either of these groups such as retired people and discouraged workers are not included in the calculation of labour force.

The International Labour Organization (I.L.O) defines unemployment as the proportion of the labour force which was available for work but did not work for at least one hour in the week preceding the survey period. National Bureau of Statistics (NBS) Nigeria defines unemployment as the proportion of the labour force that is available for work but did not work

for at least 37hours in the week preceding the survey period. Unemployment, according to Lipsey (1963:456) brings out economic waste and cause human suffering.

Unemployment is as a result of the inability to develop and utilize the nation's manpower sources effectively, especially in the rural sector says Dayomi, 1992; Osinubi, 2006. The socio-economic effect of unemployment include fall in national output, increase rural-urban migration, waste of human resources, high rate of dependency ratio, poverty depression, frustration, all sorts of immoral acts and criminal behavior like robbery, prostitution, etc. The socio-effect of unemployment brings to limelight the need to proffer possible solutions to salvage our nation Nigeria. In Nigeria, the ability and willingness to work is not sufficient. It is necessary for the employed, to be registered with an employment, bureau in order to be recognized as unemployed. The unregistered unemployment are part of the labour force and are therefore technically unemployed. Unemployment data are obtained in Nigeria through labour force sample survey.

The International Labour Organization (I.L.O), realize the short-comings of the labour survey as it effects developing economies such a Nigeria, with a large informal sector, has encouraged a review of the

methodology to incorporate further disaggregation of respondents' responses to bring out the true rate of unemployment. In order to establish the type of unemployment existing in an economy, economists have classified unemployment as 'frictional, seasonal, structural or cyclical unemployment'. Frictional unemployment is when people are temporarily out of work because they are changing jobs. This is unavoidable in an economy in which both the labour force and the jobs on offer are continually changing. Seasonal unemployment is said to occur in a situation in which people are laid off seasonally, due to the nature of the jobs they do, e.g. agriculture, workers in developing countries may be laid off during the growing season. Structural unemployment is the unemployment that exist when an economy in more declining industries is falling. It is as a result of movement in the natural employment rate itself, which can result from changes in labour market institutions, demographic shift, etc, this situation is brought about by economic variables, such a the level of aggregate demand and the actual or expected real wage rate. Cyclical unemployment is as a result of fluctuations around the natural employment, which can be attributed to changes in aggregate demand.

The main cause of unemployment in Nigeria is the outburst of population growth in the country compared to technological growth and development in the country. The economic growth in Nigeria has been stunted by the years of corruption, civil war, military rule and mismanagement. It is suggested that the main reason there is such an extent of unemployment in Nigeria is the under utilization of the resources available. Nigeria has a number of abundance of diverse human and natural resources but the inefficient utilization of these resources in order to gain the maximum economic benefits has led to the vast amount of unemployed citizens. This unemployment has affected the country of Nigeria and its economic climate in a number of ways.

- Economic: The reduction in employment has left citizens without purchasing power. This means that there is less of a demand for product and services and in turn, the production and economic growth has been hindered.
- Social: Within the social effect of unemployment in Nigeria is an increase in the rate of crime. Recent graduates have accounted for some of the largest percentages of unemployed people who have turned to a life in crime. Many believe that economic growth is not

going to be the solution for the unemployment in Nigeria. Unemployment should be addressed by providing the necessary training for people to gain the right skill for work. Also, the concept of having a prosperous life is something that should be worked towards and seen as a positive thing. Experts have recommended a number of ways that Nigerians can try to decrease the rate of unemployment.

Lack of information also causes unemployment which is a source of unemployment that cannot be overlooked. If people don't know that Jobs are there, then they will not take them, the obvious solution for this problem is to be able make information available to the people who need it.

## **1.2 Statement of Problem**

Nigeria has been experiencing high level of unemployment and inflation partly because of inefficiencies in policies implementation and the existing conflict between those two major macro-economic variables. This situation has recently been compounded by the increasing unemployment of professionals such as bankers, doctors and engineers. The toll is within the productive segment of the Nigeria population unemployment and underemployment have been one of the major



problems that the Nigerian economy has been facing because a high rate of unemployment and underemployment, a large public sector, low wage and poor working conditions characterize the labour market in Nigeria. All of which have combined to engender a less than cordial industrial relations in the formal labour market.

But underemployment and unemployment is a prominent feature of the informal labour market as well. Consequently, the full potential of a labour surplus economy are not being fully exploited. In the 1960s and 1970s, the Nigerian economy provided jobs for its teeming population and absorbed considerably important labour in the scientific sectors. The wage rate compared favourably with international standards and there was relative industrial peace in most industries sub-group. Following the oil boom of the 1970, there was mass migration of people especially the youth, to the urban areas seeking for jobs. However, following the downturn in the economy in the 1980s, the problem of unemployment started to manifest precipitously the introduction of the Naira exchange rate and the inability of most industries to import the raw materials required to sustain their output levels. A major consequence of the rapid depreciation of the Naira was the sharp rise in the general price level, leading to a weakening purchasing power of wage earners and declining

aggregate demand. Consequently, industries started to accumulate unintended inventors and as natural economic agents, then manufacturing firms started to rationalize their work force. In the public sector, an embargo was placed on employment and with the simultaneous rapid expansion in the educational sector, new entrants into the labour market increased beyond the absorptive capacity of the economy. Thus, the objective of the government is to achieve 'full employment', but it failed to materialize. Then official figures of the rate of unemployment from December, 1998, a total of 66.3% of male and 62.0% of female unemployment were recorded at the urban centre. While rural centers had an estimate of 47.1% and 45% male and female job seeker respectively. Many people were frustrated by lack of employment opportunities they increase those without work and those who have jobs but want to work longer hours or more intensively, a considerable size of utility and underutilized labour abounds in Nigeria and which aim to be brought into the circle.

This shows that Nigeria's unemployment problem has become chronic and intractable and should be a matter of utmost national concern. Government uses employment and wages policies in measuring government revenue and influence in the labour market, either as a

specific objective in itself or as a means of achieving some other national objectives.

The measures include legislative provisions, administrative actions or the rigor with which existing regulations are implemented. Government also adopted wage policies to achieve such macro-economic objective as a growth, internal and external balance, full employment or a redistribution of income. Economists are generally in agreement that the overall aim of government employment policies is to empower the people and guarantee a minimum quantity of life through gainful employment. The promotion of gainful employment and stemming the rising rate of rural and urban unemployment have always been the allowed national objectives of successive governments in Nigeria, as various national development plans have articulated. The strategy adopted for the realization of these objectives have been the promotion of formal employment, through job-creation in the public sector and to some extent in the private sector as well, etc. thus, very little attention has been paid to self employment or self-employment schemes. Indeed, not until in the last 1980s, when Nigeria began to experience a deep recession and had to adopt the Structural Adjustment Programmes (SAP) was any thought given to self employment schemes. Thus, it

would be fair to say that Nigeria's employment policies have been anchored mainly on the desire to guarantee wage income to her citizen, through formal job creation measures, etc.

### **1.3 Objective of the Study**

The objectives of the study are as follows:

1. To determine the relationship between unemployment and economic growth in Nigeria.
2. To ascertain the magnitude of this relationship.

### **Statement of Hypothesis**

The hypothesis that would guide this work is as follows:

1.  $H_0$ : Unemployment has no significant impact on the economic growth in Nigeria.
2.  $H_1$ : Unemployment has significant impact on the economic growth in Nigeria.

### **1.4 Significance of the Study**

Considering the fact that price stability and full employment are two conflicting macro-economic goals, the result of this research work becomes an inevitable tool in the hands of policy makers in Nigeria, towards achieving the two goals, simultaneously.

This means as standard of living for the general citizen of the country has improved. One of the macro-economic goals of any country is the

actualization of full employment. Therefore, unemployment in any system is seen as a policy failure and there is always concerted effort on the part of the government in checkmating the impact of unemployment in an economy.

The study of unemployment is necessary to the policy makers, student of economies and politicians. To the policy maker, ascertaining the rate of efforts in an economy would help in their efforts in mapping out policies that would bring the economy to the desired height. The policy maker with the knowledge of the state of unemployment in the system stands the best chance of controlling it through appropriate initiatives like poverty eradication programmes and creation of employment opportunities that touches the lives of the population.

The policymaker uses different measures to prevent unemployment. In Nigeria, the first measure in changing the pattern of production in Nigeria, emphasis should be laid on the production of those goods which uses more labour intensive techniques, leaving aside such areas as pertain to heavy industries, defence, chemical/power generation, atomic and oil installations, etc. Labour intensive technique should be adopted in new field of production, encouragement to small enterprises, full utilization of excess capacity and policy of decentralization, population

control, restructuring the educational system and measures for rural unemployment, etc the number of underemployed and unemployed is very large in the rural sector; they are primarily landless agricultural workers and marginal farmers. The policymaker with the knowledge of the state of unemployment.

In the system stands the best chance of controlling it through appropriate initiatives like poverty eradication programmes and creation of job opportunities that touches the lives of the population.

### **1.5 Scope and Limitation of the Study**

The focus is on the impact of unemployment and economic growth is derived from the advanced economic right for its original version of Taylor's curve to Okon's law in the US. From the above analysis, much of the work that focus on the developing countries especially in Nigeria have differed considerably in their methods logical approach while econometric approach that spine from (1960 – 2000).

According to Ayenwales Investigation (2005) the main focus of his investigation is based on sectoral government expenditure and unemployment which can be seen that little or more information have been provided by the studies on the supposed relationship, if there exist

between economic growth and unemployment especially during this reform period. This forms a point of departure for this present study as the scope will include 1981 – 2006. The present study will then focus the relationship between unemployment and output growth to determine using a tripartite ordinary least square method which differ from the studies given the fact that economic reforms that has taken place from 1990 till now have significance effect both on unemployment and output and as such effect their supposed relationship etc. Many economist use annual data to find that unemployment create impact in output growth which this will look at using time series data in regression analysis that range between 1981 – 2006.

It was observed that the recorded figure for unemployment significantly understated the number of the existing labour force who is actually willing to work at the existing set of wage range. This can be attributed to the method of registration which bears no incentives of success in provision of job rather lost. Enghama (2001) said that people without job and looking for work are many but have not bothered to register as unemployed. This people will be included in the official statistics for registered unemployed labour force. Yet from an economics view point, such people are in the labour force and unemployed. This explains why

the official statistics released by the Federal Office of Statistic (FOS) presented low rate of unemployment based on this analysis, one can see that unemployment is caused due to the rate of population of the country that is faster than job opportunities. Due to the population of every economy is divided into two categories. The economically active and the economic for work refers to the population that are willing and able to unemployed. While the economically inactive population refers to people who are neither working nor looking for jobs, example include full time student, invalids, housewives.

The legal age for work, old and retired persons; from this present work, one can see that unemploy[ment is due to gross mismanagement, excess spending and adverse policies of government of Nigeria.



## **CHAPTER TWO**

### **2.0 Literature Review**

The literature review is replete with theories which attempt to explain some basic issues of employment and unemployment in many nation. In the late 1920s and early 1930s economist, such as Pigou (1929) and Keynes (1936), formulated a number of models to explain the problem of unemployment. A review of literature shows that employment has typically been explained mainly in terms of stimulating growth and development through the continuous transfer of labour from rural to urban industrial the peculiar nature of employment in developing countries, a new body of literature has emerged which is based on 'the two sector labour transfer' models.

### **2.1 Theoretical Literature Review**

Five economic models for determining employment are easily discernible in the literature. Todara (1985) identified the first two as the 'classical' and 'Keynesian' models, while the third and fourth models focuses on the two sector labour transfer or rural-urban migration models. The classical theory asserts that an economy will always be in a full employment state because the demand for labour will always equal the

supply of labour at the prevailing money wage rate. If, for any reason there is an increase in labour supply, the money wage would fall and more workers would be employed. Similarly, if there is a shortage of workers, the money would rise, thereby, eliminating the shortage.

Thus, in the classical sense, there will be no voluntary underemployment. With the emergence of the great depression of the 1930s in the United States of America, characterized by widespread unemployment, the classical theory becomes suspect.

Keynes (1936) responded by attributing the unemployment in the USA to insufficient aggregate demand. In his classic, the General theory of employment, interest and money, Keynes noted that American workers were willing to accept a reduction in money wages in order to secure more jobs, even though they were prepared to accept an equivalent reduction in the real wage rate brought by an increase in the price level, or inflation. But Keynes did not attribute this behavior to irrationality on the part of American workers, but to what he termed 'money illusion'. The Keynesian model could not however, explain the unemployment situation in many economies as it became clear that the major bottleneck to higher output and employment levels is not insufficient demand, but structural and institutional constraints on the supply side.

Much later, Todaro (1985) has been able to demonstrate a much more complete interplay of economic variables in explaining the phenomenon of unemployment. He showed that a combination of the shortage of capital, raw materials, intermediate products, skilled and managerial/human resources with poorly functioning and inefficiently organized commodity and loan markets, poor transport and communications, shortage of foreign exchange and import dominated consumption patterns among the rich, all of these and many others. Structural and institutional factors were the real cause of unemployment in developing countries. As a result, the simple notion that expanded government and private demand would be effective in tackling the challenge of unemployment in most third world countries has remained a mirage, Todaro contended.

The neo-classical model is based on an explanation of unemployment by recourse to price incentives. The theory postulates that labour and capital are assumed to be substitutable factors, which means that there is a wide range of possible production techniques, each representing a particular combination of labour and capital available to produce a given level of output. Thus, since labour is abundant in Third World Countries, labour-intensive techniques would be used in production processes,

thereby, creating employment. In such context, unemployment would occur, if the labour force grew faster than the stock of capital and if the factor price adjustment failed to increase the demand for labour so that it matched the supply of labour. This type of unemployment would not respond to increase in aggregate demand unless it was accompanied by a more rapid increase in the capital stock.

The failure of the classical, Keynesian and neo-classical models to explain the unemployment challenge in developing countries has led to the development of the two sector labour transfer models. For example, Lewis (1954), Rannis and Fei (1961), Jorgenson (1967), Todaro (1969) and Harris and Todaro (1970) have all postulated that labour would tend to move from the rural to the urban sector of an economy. The thrust of the model is that there exists an unlimited supply of labour at the subsistence wage level in the rural sector, but that the urban sector draws on this unlimited supply of labour at the subsistence wage level. The Torato model, in particular, emphasize the migration function which hypothesis that the relevant urban income  $I$  the present value of expected earnings (that is, a national calculation by obtaining urban employment). The model is useful in explaining why policies, which are

devoted only to rising urban labour demand, cannot be relied upon to reduce urban unemployment.

High unemployment is both an economic and a social problem. Unemployment is an economic problem because it represents waste of a valuable resource. Unemployment is a major social problem because it causes enormous suffering as unemployed workers struggle with reduced incomes. During periods of high unemployment economic distress spills over to affect people's emotions and family lives. When the unemployment rate goes up, the economy is in effect throwing away the goods and services that the unemployed worker could have produced. During recessions, it is as if vast quantities of automobiles, housing, clothing and other commodities were simply dumped into the ocean. The economic losses during periods of high unemployment, which are the greatest documented waste in a modern economy. There are many times larger than the estimated inefficiencies from microeconomic waste due to monopoly or from the waste produced by tariffs and quotas.

The economic cost of unemployment is certainly large, but no dollar figure can adequately convey the human and psychological toll of long periods of persistent involuntary unemployment. Right from the classical to the modern economists, there is no unanimity of views on the

meaning of 'full employment', it is a very 'slippery concept', according to Professor Ackley. But the credit for popularity goes to Keynes, and since the end of the Second World War. It has been accepted as one of the important goals of public policy. Though 'full employment is not definable nor should it be defined', according to Professor Henry Hazlitt, yet it is worth while analyzing the various views of economists of full employment in the economy. To them,, full employment was a normal situation and any deviation from this, was regarded as something abnormal. According to Pigou, the greatest exponent of the classical view, the tendency of the economic system was to automatically provide full employment in the labour market. Unemployment resulted from the rigidity in the wage structure and interference on the working of the free market system in the form of trade union legislation, minimum wage legislation etc full employment exist 'when everybody who at the running rate of wages wishes to be employed'. Those who are not employed in the Pigovian sense because, they are voluntarily unemployed. There is, however, no possibility of involuntary unemployment in the sense that people are prepared to work but they do not find work. According to Pigou, 'with perfectly free competition there will always be at work a strong tendency for wage rates to nbe so related to demand that every body is employed'. However, this classical

view on full employment is consistent with some amount of frictional, voluntary, seasonal or structural unemployment.

### **The Keynesian view on full employment**

According to him, full employment means the absence of involuntary unemployment. In other words, full employment is a situation in which everybody who wants to work, sets work. Full employment, so defined, is consistent with frictional and voluntary unemployment. Keynes assumes that 'with a given organization, equipment and technique, real wages and the volume of output (and hence of employment) are uniquely correlated, so that, in general, an increase in employment can only occur to the accompaniment of a decline in the rate of wages'. To achieve full employment is one of maintaining adequate effective demand. When effective demand is deficient, there is underemployment of labour in the sense that there are men unemployed who could be willing to work at less than existing one, until a point comes, at which there is no surplus of labour available at the then existing real wage. Keynes gives an alternative definition of full employment of another place in his general theory thus, 'it is a situation in which aggregate employment is inelastic in response to an increase in the effective demand for its output. Since the supply of output becomes inelastic at

the full employment level, any further increase in effective demand will lead to inflation in the economy. Thus, the Keynesian concept of employment involves three conditions.

1. Reduction in the real wage rate
2. Inelastic supply of output at the level of full employment
3. Increase in effective demand.

According to Professor W.W. Hart, full employment in a free society denoted it as a situation where there were more vacant jobs than employed one so that normal lag between losing one job and finding another will be very short. By full employment, he does not mean zero employment will mean that full employment will not always be full. This is always a certain amount of 3% in a full employment situation for England. According to the American Economic Association Committee, 'full employment means that qualified people who seek jobs at prevailing rates and find them in productive activities without considerable delay. It means full time jobs for people like house-wives and students are under pressure to put in undesired overtime. In case of unemployment, a general cut in money wages would take the economy to the full employment level. In a competitive economy, when money wages are reduced, they lead to reduction in cost of production and consequently



to the lower prices of product. When prices fall, demand for product will increase and sales will be pushed up. Increased sale will necessitate the employment of more labour and ultimately full employment will be attained. The classical view will be based on the assumption that changes in money wages are related directly and proportionally to real wages. So when the money wage rate is reduced, the real wage is also reduced to the same extent. Consequently,, unemployment is reduced and full employment prevails. But it is at the equality of demand and supply of labour at a particular aggregate that full employment is achieved.

The demand for labour is a decreasing function of the real wage rate. If  $w$  is the money wage rate.  $p$  is the price of labour (i.e.  $w = p \times mp$ )  $w/p = mp$ . Since  $mp$  decline as employment increases, it follows that the level of employment increases, as the real wage ( $w/p$ ) declines. The supply of labour is assumed an increasing function of the real wage, showing that the rise in real wage will induce more workers to offer themselves for employment. It is only when the wage rate is reduced to  $w/p$  that unemployment disappears and the level of full employment is attained.

Keynes did not accept the classical view that reduction in money wages led to full employment. He emphasized that unemployment could be removed by raising effective demand. His main objection to the classical view were that cut in money wages tend to increase employment is based on the partial equilibrium analysis. It is applicable to an industry. But if applied to the economy as a whole, it reduces the employment rather than increasing it. According to Keynes, when money wages are reduced in the economy, they will reduce money incomes of the workers who will reduce their demand for product. Total outlay will fall and lead to a decline in effective demand and employment. Thus, the main defect in the classical view was the failure to recognize the dual nature of wages cost and incomes. The Classicists only considered the cost aspect and neglected the income aspect.

Keynes did not agree with the classical view that reduction in money wage was essential to achieve full employment. Rather to them, full employment could be attained through monetary and fiscal policies by keeping the money wage rate constant. The reduction in real wages was to be brought about not by a cut in money wage as a classical believed, but by an increase in the price level. According to Keynes, an increase in

aggregate demand, keeping money wages constant, would raise output cost and price after sometime. These may happen due to three factors:

1. Workers may demand higher wages when their demand increased due to powerful trade unions; and
2. Diminishing returns may operate in the short run; and finally
3. Bottlenecks may appear in production in the form of non-availability of a machine, equipment, raw-materials, transport facilities, etc. all these factors tend to raise the cost of production and hence prices. As a result, real wages fall. Thus, Keynes believed that cut in real wages increased employment but not in reduction in money wages. A cut in money wages on practical grounds, according to him, in democratic countries where collective bargaining is permissible under the law, workers strongly resist any cut in their money wage rate. As pointed out by Stonier and Hague, 'A dictatorship might succeed, a democracy never would. One can imagine such a policy succeeding in Russia but not in Britain or the United States'.

Since every worker is paid the wage equal to the marginal product and the law of diminishing returns operate in industry, real wages equal to their marginal product. According to Keynes, unemployment resulted

from the lack of aggregate demand. It is demand that determines employment and employment determines the real wage rate, not the other way round. The distinction between money wages and real wages according to Keynes, pointed out that the relation between the two is inverse. When money wages are reduced real wages rise. This is because a fall in money wages will lead to a more than proportionate fall in prices. When price fall, real wages will rise because of the increase in the value of money. A fall in prices will reduce aggregate demand, output, income and employment. A cut in money wages will, therefore, reduce prices and depress aggregate demand and hence employment.

Conclusion, based on literature reviewed, our immediate conclusion from a view of literature is that none of the models is capable of explaining the employment difficulties of developing countries which are complex and often unique. Perhaps, the vent for surplus models which have focused on the determination of both labour supply and demand, may find more relevant application in the Nigeria situation. These I because the model seeks to take purposeful account of the institutional and economic realities of underdevelopment especially the phenomenon of structural dualism.

Again, according to Keynes economist see unemployment as a situation in which the numbers of people are able and willing to work at prevailing wage rate exceeds the number of job available and at the same time, firm are unable to sell all the goods they would like to sell. Unemployment can result to a situation where many Nigeria consumers including the government prefers foreign goods than domestic goods, thereby causing the domestic producer to face with the problem of low demand that naturally forced to lower output and reduce workforce.

Classical economist argued that unemployment exist when union maintains wages and their equilibrium level, when this happens, we have a situation of 'involuntary' unemployment which means that to solve unemployment problem is simply to remove artificial ceiling place by the union. Demand is deficient, according to Keynesians unemployment and such 'involuntary' unemployment caused by sluggish labour market adjustment beyond the control of individual workers or union. The most obvious micro-economic explanation of the absence of wage underbidding is perhaps the minimum wages laws, which the problem is not that of wage price flexibility or wage growth, etc. The theoretical framework that will be used is 'frustration'.

Aggression theory because political violence is dominated and been carried out by the youths which are unemployed and are frustrated. This is why it is always perceived that an idle mind is the devil's workshop. The concept of frustration aggression theory was propounded as a mechanism to revolutionary frustrated groups in a social class which lead to anger, leading in turn to aggression and violence.

The classification proponents of frustration aggression theory are Dollard (1989), Berkowitz (1967), Davies (1972) and Garr (1970). According to the scholars, aggression is always the result of frustration. Given the requisites conditions, an individual whose basic desires, or at a substitute. In Nigeria, political violence is being carried out by youths who are unemployed and are frustrated due to the discrepancy between what men seek and what seems attainable, the greater their angers and their propensity towards violence. They later locate the genesis of violence in the feeling of dissatisfaction.

Finally, politics is a game of promises without fulfillment and given the limited available resources to the system, certain individuals, groups and communities had their aspiration and expectation raised without the possibility of them being met. Modern analysis of unemployment stresses the difference between voluntary and involuntary

unemployment. A worker is involuntarily employed if he or she would accept job offer at the going wage rate. Employment and unemployment in developing countries have been the concern in recent years to the extent that international labour force and sponsored mission to several countries to undertake detailed analysis as part of an employment programme, etc.

## **2.2 Empirical Literature**

It is quite possible that some institutions that affect unemployment also affect economic growth and level of output in Nigeria Labour Market where unemployment equilibrium is defined as a situation where the number of individuals who are separated from job. It points various factors that influences the level of structural unemployment which is different in time and place. Increase in GDP reduce the unemployment rate in both short and long run, but lower it in the short run. While increase in real average earning increases the unemployment rate on the long run, Nigeria IS a nation that is blessed with different natural resources both human and material. But due to gross management, excess spending, adverse policies of various government of Nigeria. These resources have not been optimally utilized and adequately channeled to profitable investment to bring about maximum economic

benefits because of this, Nigeria has been deviled with poverty and unemployment and economic growth which is supposed to b a solution to the problem of unemployment appears not to be so in Nigeria.

According to Lindbeck (1999), found that structural unemployment by not disappearing in cyclical booms. But using Ps Vs. model s the analytical framework for the paper. The model are also related to search model for labour market in which unemployment equilibrium is defined as a situation where the number of individuals who are separated from job. Olson (1984), argues that democratic society tend gradually to become more organized in strong pressure groups that for income distribution reasons have an interest in blocking the changes necessary for high growth.

The necessary condition for reducing the unemployment rate in Trinidad and Todaro is from the period 1971 – 1996 using the error correction model estimated by OLS (Ordinary Least Square) Instrument variable, found that in the long and short run changes in Real GNSS domestic product (RGDP) and Real Average Earning (REA) have a statistically impact on changes in the unemployment rate in bob short and long terms. But lower it in the short run, etc. the economic cost of unemployment is certainly large but no dollar figure can adequately



survey the human and psychological toll of long periods of persistent involuntary unemployment. According to Okun's law, says that the most distressing consequence of any recession is a rise in the unemployment rate as output falls, firm's need labour inputs, so new workers are not hired and current workers are laid off. His law states that for every 2 percent that GDP falls relative to potential GDP, the unemployment rate rises about 1 percentage point. His means that if GDP begins at 100 percent of its potential and fall to 98 percent of potential, the unemployment rate rises by 1 percent point, say, from 6 to 7 percent. By illustrating Okun's law by examining output and unemployment trends in the 1990's. During the recession of 1991, the unemployment rate to raise to 6.9 percent. At that point, actual GDP was estimated to be 2.9 percent below potential output.

Then over the next 9 years, output grew 5.8percent faster than potential output, so that in 1999 actual GDP was estimated to be 3.3 percent above potential output grows 2 percent faster than potential GDP, the unemployment rate declines 1 percentage point, which shows that unemployment changes are well predicted by the rate of GDP growth. The unemployment rate should have fallen by 2.9 percent points ( $5.8/2$ ) to 4.0 percent, ( $6.9 - 2.9$ ). In fact, the unemployment rates for 1999 as

4.2percent a remarkable accurate prediction. This shows how Okun's law is that actual GDP must grow as rapidly as potential GDP just to keep the unemployment rate from rising. In a sense, GDP has to keep running just to keep unemployment in the same place.

Moreover, if you want to bring the unemployment rate down, actual GDP must be growing faster than potential GDP Okun's law provides the vital link between the output market and the labour market. It also describes the association between short-run movement in real GDP and changes in unemployment. According to Levin and Wright (2000) finds that it is important but difficult to distinguish between desirable and undesirable effect of unemployment insurance (UI) that are observationally equivalent when designing optimal unemployment insurance cases permanently, higher involuntary by rousing the reservation wage. This avoids the problem of regarding the tradeoff between the unemployment as an intermediate relationship that matters only as far as its impacts on economic growth.

By using annual panel data, finds that unemployment insurance replacement rate is associates with higher unemployment. To find no significant relationship between unemployment insurance, related unemployment and real growth rate of gross domestic product,

Osinubi(2006) find it worthwhile to address the following question using time series data for 20 years 1981 – 2000. The question goes like this.

- a. What is the nature of relationship between poverty, unemployment and economic growth in Nigeria?
- b. What steps should be taken to ensure that economic growth is such that brings about decrease in unemployment and poverty in Nigeria?

Economic growth which is supposed to be a solution to the problem of unemployment appears not to be in Nigeria. Nigeria's official statistics shows that economic growth has not always been accompanied by decline in unemployment and poverty. The study found among others that economic growth in Nigeria has been slightly pro-poor. Also, those that are far below the poverty line have not really been enjoying the benefit of economic growth. In fact, the benefits getting to them has been decreasing or reducing at increasing rate and that economic growth in rural areas will be slightly more pro-poor than in urban areas. These shows the economic growth in Nigeria is not necessarily always pro-poor.

Ajecomobi and Ayenwale investigate the education expenditure trend, higher education student enrolment and linkage within unemployment

and economic growth in Nigeria using annual data from (1970 – 2005), which comes from several issues of Central Bank of Nigeria annual reports and statement of account, Federal Ministry of Education of National University Commission (NUC). The result shows that government finding is unstable and unpredictable capital and recurrent finding since 1970 are only very small fraction of the nation's budget, total enrolment constructs sharply with level of unemployment because government could adequately later for the proportion of (GDP) that goes to education still low.

During Bello (2003) investigates the phenomenon of unemployment in the sub-Saharan African with special reference to the Nigerian experience. Having diagnosed the nature of this episode in this sub-Saharan region, the study unfolds a number of factors that account for this phenomenon and of course the great threat is possess the economic involved. Assessment of past and present anti-unemployment policy measures in Nigeria was made and the result shows that a number of economic and non-economic factors inhibit their performances. This means that growth was actually weakly pro-poor which are far below the poverty line that has not really been enjoying the benefits of economic growth.

Unemployment rate is high especially among the Nigeria youths. In (1992), estimations put unemployment rate in Nigeria at about twenty eight percent (28%). To tackle the problem of unemployment of National Directorate of Employment (NDE) was established with mandate to alleviate the problem of unemployment that establishment is yet to achieve its stated objectives. This unemployment gave rise to high rate of poverty and political violence in Nigeria which has affected great number of youths for instance in (1960) about fifteen percent (15%) of the population was poor but by (1980) this percentage has risen to twenty eight percent (28%). According to Dike (2009) the quality of education and technological capability of a nation determine its rates and patterns of development and industrialization, technological capability in the form of production engineering, manufacture of capital goods and research and development of a nature are pointers to the effectiveness, efficiency and productivity of its industrial sector, Nigeria has been unable to acquire advance technological capability through either means. This gave rise to youth's unemployment poverty and political violence.

In response, this research tries to establish a link between youth's unemployment has culminated the youth constituting them into nuisance

and social misfit. Unemployment has given politicians the ample opportunity of sing the youths to perpetuate inglorious activities.

Unemployment is one of the most disturbing problems confronting most nations of the world today. The unemployment problems is of such global concern that the International Labour Organization (ILO) World Employment Report (1995) and the Copenhagen Declaration of the Worlds Summit for social development (1995) cited in Eminue (2005:480) called for the adoption of full employment by all nations in order for them to avoid the unemployment 'trap' or 'crisis'. According to Eminue, paragraph 48 of the World Summit for social development emphasizes the imperative of planning the expansion of productive employment as the centre of development strategies and economic and social policies. They also observed that a 'full, adequate, appropriately remunerated employment is an effective method of combating poverty and providing social integration.' The commitment of the Copenhagen Declaration is therefore, to 'put the creation of employment, the reduction of unemployment and the promotion of opportunity an adequately remunerated employment at the centre of strategies and policies of government.

However, despite such efforts and commitment, unemployment has remained disturbingly high in Nigeria. Indeed, the 1996 ILO Employment Mission to Nigeria observed that, unemployment has remained one of the most intractable problems facing Nigeria since independence in 1960 (ILO 1996:1). The mission report said that in the 1960s and 1970s, the average unemployment rate were 2.0% and 4.5%, respectively. In the 1980, which ILO rightly described as the 'last decade', 'unemployment continued to rise as economic difficulties continued to plague the country. In 1985, for instance, the national unemployment rate stood at 8.5% with urban unemployment ranging between 10 and 16% in about 10 States of the Nigeria Federation' (ILO, 1996: 13). Eminue (2005:479) argued that about 70% of youths in Nigeria are unemployed.

The ILO 1996 employment mission had also earlier surmised that the school leavers' unemployment of the 1960s and 1970s has 'climbed the education ladder with graduate unemployment emerging as important problem in the 1980s and 1990s. it might well be on all the above and other available evidence that Yusuf (2000:283) adopting a conservative estimate averred that Nigeria is suffering as at 1999 – 2000. From a cumulative composite full-time unemployment burden of about

30.6million, we also believe that Yusuf's figure is conservative when compared with the level of unemployment in the country. The fact however, remains that unemployment level is high and widespread in the country and the figures keep rising due to factors like increase in tertiary institutions and inconsistent government policies aimed at generating employment.

The seriousness of the unemployment problem in Nigeria has attracted government attention over the years. Successive Nigerian government has continued to facilitate employment creation through requisite policies and institution building.

Employment generation factored prominently in the country post medium term National Development Plans (1962 – 1985). The government also introduced and implemented some programme, that primary objectives were to create employment opportunities. Such programme include the famous farm settlement of the West and Eastern Regions in the 1950s and 1960s; the Agricultural Development Programme (ADPs); Accelerated Development Area Programme (ADAPs) which was later transformed into the Directorate of Food, Road and Rural Infrastructure (DFRRI). Besides, these other programmes with employment implication established by the government include:



- The Better Life for Rural Women/Family Support Programmes
- The Development of o Small and Medium Scale Enterprises
- The Raw Materials Research and Development Council
- The People's Bank of Nigeria and
- The Community Banks

The government has also established several parastatals. In addition to the creation of Institutions such as the Industrial Training Fund (ITF), to reduce the problem of unemployment, the adoption and implementation of the Structural Adjustment Programme also ushered in the National Directorate of Employment (NDE) where primary responsibility was to generate employment opportunities with emphasis on the development of entrepreneurship and self employment. The current poverty alleviation programme of Obasanjo's regime, also focused on the unemployment. In spite of all these efforts, unemployment remains a grave problem in the country. Yusuf (2000:2504) has rightly criticized all such programmes and institutions imitated in the country by successive administration to tackle unemployment.

According to him, in the context of inadequate resources and the overwhelming needs, the accomplishment of these programmes were relatively puny. All these and other seemingly faultless schemes, by their

nature, tired out to be essentially propaganda oriented. The activities were not coordinated; they received mention in the national plaza and ruling plans, but their activities were not integrated with the plan projects working independently and generally (being) mysteriously founded they were seemingly accountable to no one except to some highly placed government official or their wives who faithfully claimed achievement that are not apparent. So far as employment creation was concerned, they achieved very little of anything; indeed, they probably exacerbated the unemployed problem by unaccountably gulping millions of Naira but could have been better invested for productive employment generation purpose. These are lessons from the past which should help to guide better actions for the future, Yusuf (2000:254). We have been able to establish above through our decision and emphasis that unemployment is high in Nigeria as a result of policy inconsistencies of effectively and efficiently tackle the problem. This in turn has led to low productivity in the country.

### **2.2.1 The Relationship between Unemployment and Economic Growth**

The theoretical framework seeks to establish the relationship between unemployment and economic growth. The question is based on

knowing, if the rate of economic growth creates or destroys job and if it affects job in the short or long run.

The motivation for this study, is the real aspect of growth which increase in the growth, comes from accumulation of knowledge embodied in innovation through the use of machine to do work that was previously done by people which result to the relocation of labour across firms which means that unemployment is not transitory in nature. The market search theories imply that increase rate of job turnover in natural rate of unemployment which is also empirical evidence to show a negative long run relationship being rate of growth and unemployment.

The macro-economic is in trouble when output growth slows or turn negative as indeed during the greatest depression (1930s). also, the rising rate of unemployment and inflation affect the economy at large. An economist potential output is reflected in the production on possibility curve, the curve which shows how much output the economy could produce with available resources and technology. When the production possibility curve (ppc) shifts towards, there is increase in GDP while an inward movement climate contraction or decrease in GDP. Such contraction lowers living standard and create more unemployment.

The Verdoorn's law as espoused in Kaldor (1964). The law postulates that faster growth of output causes a faster growth of productivity. This positive relationship is further confirmed by Dernburg (1985:55). Thus, 'a fall in output generally brings with it a sharp decline in productivity'.

### **2.2.2 Types of Unemployment**

1. **Technological Unemployment:** This type of unemployment arises when there are innovations leading to the adoption of new machineries or inventions, thereby displacing existing workers leaving behind a trace of unemployment.
2. **Cyclical Unemployment:** It arises due to cyclical fluctuations in the economy. They may also be generated by International forces. A business cycle consists of alternating periods of expansion and depressions. It is during the down size of the business cycle that income and output fall leading to a wide spread of unemployment occurs as a result of fluctuation around the natural employment rate, which can be attributed to changes in aggregate demand.
3. **Seasonal Unemployment:** This results from seasonal fluctuation in demand. Employment in the factories is only for the summer. Similarly, ice cream sellers remain unemployed during winter and chestnut sellers remain unemployed during summer. The same in

the case with agricultural workers who remain employed during harvest and sowing seasons and idle for the rest of year. Therefore, seasonal unemployment is a situation in which people are laid seasonally, due to the nature of the job they do. Example, agricultural workers in developing countries may be laid off during the growing season.

4. **Frictional Unemployment:** This exists when there is lack of adjustment between demand for and supply of labour. This may be due to lack of knowledge on the part of employer about the availability of workers or know the part of workers that employment is available at a particular place. It is also caused by lack of necessary skill for a particular job, labour, immobility, breakdown of machinery, shortage of raw materials, etc. the period of employment between losing one job and finding another job is also include under frictional unemployment. So, frictional unemployment occurs when people are temporarily out of work because they are changing jobs. This is unavailable in our economy which both the labour force and jobs on offer are continually changing.

5. **Structural Unemployment:** This results from a variety of cause. It may be due to lack of co-apparent factors of production or

changes in the economic structure of the society. The word 'structural' implies that 'the economic changes are massive, extensive, deep sited, amounting to transformation of an economic structure.

### **2.2.3 Causes of Unemployment in Nigeria**

Udabal S.I. (1999:120), unemployment in Nigeria was relatively known in 1970. Today, it has assumed a frightening proportion. It is even frightening considering the fact that high rate of unemployment created poverty, misery and threatens social cohesion. Poor planning and economic recession are some factors responsible for this development.

It is also attributable that the causes of unemployment in Nigeria are the neglect of the agricultural sector as a result of oil boom of the 1970s and increase in the growth of population.

According to S.I. Udabah (1999:103), the major cause of unemployment in Nigeria is that the supply of labour is greater than demand and therefore, there is disequilibrium in the labour market. He also pointed out that the rural urban migration is another important factor responsible for the high unemployment rate in the urban centers. This is why unemployment in Nigeria is mainly urban in nature. He also added

that population growth in Nigeria is also responsible for the high rate of unemployment. A nation of over 100 million people with few industries to absorb the labour also causes unemployment in Nigeria. Furthermore, government ineffective monetary and fiscal policy and economic instability are responsible for high unemployment rates in Nigeria.

Ogbona (1985) argued that unemployment is caused by our education system and emphasize the importance on wage employment. The system is designed in such a way that graduate of tertiary institution are made to depend on salary on jobs and such do not often engage in self employment ventures. The problem is not lack of potentials, but the system has failed to equip the students with the requisite functional skills to be self dependent.

The basic problem of most of the underdeveloped countries is not poverty of natural resources by the underdevelopment of their human resources. The first step in a development, therefore is the building of human capita. This means 'improving the knowledge, skills, motivation, hopefulness and the mental and physical health of all members of the community', (Habison and Brembeck, 1996:149 cited in Ukeje, 1985). Udabah (1999:103) unemployment in Nigeria is more among secondary school level and that is why it is primarily youth's unemployment. For

instance, in 1995, they constituted 68.1% of unemployed people in the urban centers and 31.0% in the rural areas. The unemployment rate therefore, is higher in secondary school level. According to the labour force sample survey conducted by the Federal Office of Statistics (FOS) in June 1995, the composite unemployment rate stood at 3.8% compared with 1.8% in June 1995. The urban and rural unemployment rate was estimated to be 3.5% in December, 1996, compared with 1.8%, in December, 1995.

#### **2.2.4 Effects of Unemployment**

1. **Fall in the standard of living:** Unemployment through the resulting poverty and income inequality reduces standard of living of the masses.
2. **Low Investment and Low National Income:** As a result of low savings, investment will also fall through a multiplier process income will also be low, thus, bringing about a situation of vicious cycle of poverty.
3. **Increase in social vice and crime:** Frustrated unemployed youth could be a recruiting source of armed robbery, prostitution.



4. **Decrease growth/fall in output:** Increased unemployment usually coincide with a decrease in the growth of GDP since less people are employed.
5. **Increased drain on Government Finance:** The presence of unemployment means increased government expenditure for the payment of unemployment benefits in a nation where they are paid.

## CHAPTER THREE

### 3.0 Research Methodology

The methodologies employed are the statistical and economic tool in analyzing and presenting data. The ordinary least square (OLS) technique of estimation will be used in estimating the model. This is based on its interesting BLUE (Best Linear Unbiased Estimator) properties and its basic assumption.

1. The error term has constant zero expected value  $\sum(U_i = 0)$
2. The relationship between the regressor and the regress is linear.
3. The error term has constant variance for all observation i.e.  $\sum(ut) = S^2$
4. The random variable  $U_t$  are statistically independent i.e.  $(U_i U_j) = 0$  for all  $i \neq j$

This research method helps in ascertaining the impact of certain economic variable on a given phenomenon under study. To ascertain the effect of unemployment on economic growth and gross domestic product (GDP) is to regress GDP on unemployment and other variables which are relevant in establishing the relationship between unemployment and GDP.

### 3.1 Model Specification

The specification of econometric model is based on economic theory and any valuable information relating to the phenomenon being studied. This involves three steps.

1. Determination of dependent and independent variables
2. Theoretical economic a prior expectation about the size and signs of parameters of the functions.
3. The determination of the mathematical form of model.

The specification of this model will be used in the following functional relationship as:

$$\text{GDP} = f(\text{UNEMP}, \text{INF}, \text{INV})$$

These variables are considered to be relevant in determining the effect of unemployment on gross domestic product (GDP) of the Nigeria economy.

The econometric model thus is:

$$\text{GDP} = B_0 + B_1 \text{UNEMP} + B_2 \text{inf} + B_3 \text{INV} + U, \text{ where}$$

GDP = Gross domestic product

UNEMP = Unemployment rate

INF = Inflation rate

INV = Level of Investments

$U_i$  = Error term

$B_0, B_1, B_2, B_3$  = regression parameters

### **3.2 Analytical Technique**

The technique used are economic test, first order statistical test and second order econometric test.

**A. The Economic Test (A Prior Expectation):** Under this criteria, they are a prior expectation (signs and sizes) 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 as the level of unemployment increases the level of GDP also decreases. It is not expected to any specific sized.  $B_2$ (INF), also expected to have a negative sign, since the inflation rate negatively affects the level of GDP. Here is also no specific size for its value.  $B_3$ (INV) is expected to have a positive relationship because the level of investment is positive to high level of gross domestic product. According to economic theory.

The error term  $U_i$  is used to capture all other variable that might have an influence on gross domestic product that was not included in the model.

### **3.3 Statistical Criteria (First Order-test)**

B. These are test defined by statistical theory and used at evaluating reliability of a parameter estimate. According to Gujarati (2004, 129), a test of significance is a procedure by which falsity of a null hypothesis.

i.  $R^2$  coefficient (goodness of fit) will be used to explain the total variation in the dependent variable (GDP) is caused by variation in the independent variable (GDP) is caused by variation in the independent variable. Unemployment level, inflation rate and level of investment.

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.

$$R_2 = 1 - (1 - R^2) \frac{n-1}{N-K}$$

ii. 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 t ratio ( $t_{cal}$ ) is compared with the theoretical t ( $t_{tab}$ ) with  $n - k$  degree of freedom.

Where  $n$  = number of freedom

And  $K$  = 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.

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

### **Decision Rule**

If computed F is higher than the critical value F reject the null hypothesis, if otherwise accept.

### **3.3.3 Econometric Criteria (Second Order Test)**

There are test set by the theory of econometric and aimed at investigating whether the assumption of the econometric method employed are satisfied. Normality test, test for autocorrelation, test for multi-collinearity, test for heterosceclasticity.

### C. The Econometric Test:

Autocorrelation test: This is used to test for the presence of serial autocorrelation. That is, the serial dependence of successive error terms in the regression.

Autocorrelation usually indicates that an important part of the variation of the dependent variable has not been explained. The problems of autocorrelation are usually dictated by Durbin-Watson (DW) statistics.

It is given as mathematically as:

$$Dw = \frac{\sum (e_t - e_{t-1})^2}{\sum e_t^2}$$

Where DW = Durbin Watson

$\Sigma$  = Summation of

$e_t$  = Present period errors

$e_{t-1}$  = Previous period errors

#### The decision rule

Null Hypothesis	Decision	IF
No positive autocorrelation	Reject	$0 < d < d_L$
No positive autocorrelation	No decision	$d_L < d < d_U$
No negative autocorrelation	Reject	$4 - d_U < d < 4$
No negative autocorrelation	No decision	$4 - d_L < d < 4 - d_U$
No positive or negative autocorrelation	Do not reject	$d_U < d < 4 - d_U$

Where  $d_L$  = lower limit

$d_u$  = upper limit

**Multicollinearity test:** This will be used to check for multicollinearity among the explanatory variable, the basis for the test being the correlation matrix result, using the correlation coefficient between pairs of regressors.

**Heteroscedasticity Test:** This test would be conducted to ascertain whether the error  $U_i$  in the regression model has a common or constant variance. This is used to know whether the error term of the explanatory variables of the estimated model have equal variance.

**Normality Test:** This test is conducted to find out if the error terms are normally distributed with zero mean and constant variance. The Jarque-Bara test will be employed to test for normality. Chi-square distribution with 2 degree of freedom is adopted in this test.



## CHAPTER FOUR

### 4.0 PRESENTATION OF RESULT AND DATA ANALYSIS

#### 4.1 Presentation Of Regression Results:

The results of our models are presented in Table 4.1

**Table 4.1 Result Summary (modeling GDP by OLS)**

<b>Variable</b>	<b>Coefficient</b>	<b>Std. Error</b>	<b>t-value</b>	<b>t-prob</b>	<b>PartRy</b>
<b>Constant</b>	3.6040e+005	2.0414e+006	0.177	0.8613	0.0012
<b>INF</b>	-9545.4	43396.	-0.220	0.8277	0.0019
<b>UMP</b>	1.5309e+005	1.9334e+005	0.792	0.4359	0.0245
<b>INV</b>	6.6963	1.0499	6.378	0.0000	0.6194

$$R^2 = 0.817738, \quad F(3, 25) = 37.388 (0.0000), \quad \hat{\alpha} = 3.69398e+006,$$

$$DW = 1.86 \quad RSS = 3.411368214$$

## 4.2 Result Interpretation

### 4.2.1 Evaluation Based On Economic Criteria

As stated early in chapter three, our parameter estimates are expected to conform to a priori expectation consequently the table below summarizes the outcome of our model parameters on a priori ground.

**Table 4.2.2: A priori expectations**

<b>Independent variables</b>	<b>Expected signs</b>	<b>Observed signs</b>	<b>Remark.</b>
INF	-	-	Conforms
UMP	-	+	Does not conform
INV	+	+	conforms

### 4.2.3 Evaluation Based On Statistical Criteria

#### 1. The $R^2$ (Coefficient of determination):

In our model,  $R^2 = 0.817738$ , which implies that approximately 81.77% of the variation in the dependent variable (GDP) is caused by the explanatory variables included in this model.

## 2. The t-test (Student t):

This test was conducted to ascertain the significant status of each of the parameters or variables. In doing this, we employed the two-tail tests which compared the t-calculated for each of the explanatory variables with the t-tabulated.

At 5% level of significance

n-k degree of freedom

$$\alpha = 5\%$$

$$\alpha/2 = 0.05/2 = 0.025$$

$$n - k = 29 - 4 = 25$$

### Hypothesis

Ho:  $B_s = 0$  (Individual parameter estimates are not significant)

H1:  $B_s \neq 0$  (Individual parameter estimates are significant)

### Decision rule

If t-cal is greater than t-tab at 5% level of significant we reject the Ho and accept if other wise

**Table 4.3: t-test summary test**

<b>Variable</b>	<b>t value</b>	<b>t – tab</b>	<b>Conclusion</b>
<b>Constant</b>	0.177	±2.060	Not statistically significant
<b>INF</b>	-0.220	±2.060	Not statistically significant
<b>UMP</b>	0.792	±2.060	Not statistically significant
<b>INV</b>	6.378	±2.060	Statistically significant

**Hypothesis:**

H<sub>0</sub>: Unemployment has no significant impact on the economic growth in Nigeria.

H<sub>1</sub>: Unemployment has a significant impact on the economic growth in Nigeria.

The regression result shows that unemployment has a positive relationship with the gross domestic product. Also, the individual impact analysis (student t) reveals that, unemployment has no significant impact on the gross domestic product in Nigeria. Therefore, we accept

the null hypothesis ( $H_0$ ), thus, concluding that unemployment has no significant impact on the gross domestic product in Nigeria.

### **F-test:**

The F-test, which follows an F-distribution, measures the overall significance of the model.

### **Hypothesis Test**

$H_0: \beta_1 = \beta_2 = \beta_3 = 0$  (the model is statistically insignificant)

$H_1: \beta_1 \neq \beta_2 \neq \beta_3 \neq 0$  (the model is statistically significant).

At  $\alpha = 5\%$  level of significant, with  $n-k$  and  $K-1$  degrees of freedom.

### **Decision Rule**

Reject  $H_0$  if  $f\text{-cal} > f\text{-tab}$  and accept  $H_0$  if  $f\text{-cal} < f\text{-tab}$ .

**Table 4.4: F-test summary**

$F_{cal}$	$F_{tab}$ at 0.05 significant level	Decision
37.388	2.99	Reject $H_0$ and accept $H_1$

From the f-table we have 2.99 which is less than f-cal of 37.388, we reject  $H_0$  and conclude that the model is statistically significance.

### 4.2.2.3 Econometric Criteria (Second-Order Test)

#### 1. Normality Test

This test was carried out to check whether the error term follows the normal distribution. The normality test adopted is the **Jarque-Bera (JB) Test of Normality**. This test computes the skewness and Kurtosis measures of the OLS residuals and uses the Chi-square distribution (Gujarati, 2004:148)

#### Hypothesis: Test

$H_0: \sigma_1 = 0$  (the error term follows a normal distribution)

$H_1: \sigma_1 \neq 0$  (the error term does not follow a normal distribution)

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

**Decision Rule:** Reject  $H_0$  if  $\chi_{cal}^2 > \chi_{tab}^{2(0.05)}$  (2 df), and accept  $H_0$  if otherwise.

From the result obtained from Jarque-Bera (JB) Test of Normality,  $JB = 24.647$  and from chi-square table  $\chi_{tab}^2 = 5.991$ . Therefore, since  $\chi_{cal}^2 = 24.647 > \chi_{tab}^{2(0.05)} = 5.991$  at 5% level of significance, we reject  $H_0$  and conclude that the error term does not follow a normal distribution.

#### 2. Test For Autocorrelation

The conventional Durbin Watson d statistics is employed. We compare the established lower limit  $d_L$  and upper limit  $d_U$  of Durbin Watson based

on 5% level of significant and k degree of freedom. Where k = number of explanatory variables excluding the constant.

**Decision rule:**

<b>Null Hypothesis Ho</b>	<b>Decision</b>	<b>IF</b>
No positive autocorrelation	Reject	$0 < d^* < d_L$
No positive autocorrelation	No decision	$d_L \leq d^* \leq d_L$
No Negative autocorrelation	Reject	$4 - d_L < d^* < 4$
No Negative autocorrelation	No decision	$4 - d_u \leq d^* \leq d_L$
No positive or negative autocorrelation.	Do not reject	$d_u < d^* < 4 - d_u$

From the result,  $d_L = 1.198$ ,  $d_u = 1.650$  and  $d^* = 1.86$ .  $d^*$  falls within the range  $d_u \leq d^* \leq 4 - d_u$ . Therefore we do not reject the null hypothesis since there is no positive or negative autocorrelation in the residuals.

**3. Test For Heteroscedasticity**

This test is basically focused on the variance of the error term. The test helps to ascertain whether the variance of the error term is constant.

$H_0: B_1 = B_2 = B_3 = 0$  (Homoscedasticity)

$H_1: B_1 \neq B_2 \neq B_3 \neq 0$  (Heteroscedasticity)

Decision Rule: Reject  $H_0$  if  $\chi^2_{cal} > \chi^2_{tab(0.05)}$  and accept if otherwise.

From our result, the calculated chi-square ( $\chi^2$ ) at 6 degrees of freedom is 11.326, while the tabulated  $\chi^2_{0.05}$  (6 degrees of freedom) is 12.6. Since  $11.326 < 12.6$ , we accept  $H_0$  of homoscedasticity and conclude that the residuals are homoscedasticity, meaning that the error term have equal variance.

#### 4. Test For Multicollinearity

This test is carried out using correlation matrix. According to Gujarati (2004), multicollinearity is a problem, if any correlation exceeds 0.8.

**Table 4.5: correlation matrix**

	GDP	INF	UMP	INV
GDP	1.000			
INF	-0.306	1.000		
UMP	0.7206	-0.4734	1.000	
INV	0.9003	-0.2827	0.7387	1.000



From the correlation matrix above, the pair-wise investment and gross domestic product are greater than 0.80 (i.e. 0.9003). Thus, we conclude that multicollinearity exist between them.

## **CHAPTER FIVE**

### **5.0 Summary of Findings, Conclusion and Policy Recommendation**

#### **5.1 Summary of findings**

This study is an attempt to evaluate 'the impact of unemployment on economic growth'. From our result the inflation rate has a negative relationship with GDP (grossdomestic product) and it'sa prior sign conforms to economic growth. However the result from the T test shows that inflation has no significant impact on GDP in Nigeria.

Unemployment has a positive relationship with GDP and did not conform and has no significant impact on gross domestic product.

Investment has a positive relationship with GDP it observes signs conforms to economic theory and the T test reveals that it has a significant impact.

The coefficient of determination in the  $R^2$  amounted to 0.817738 which shows independent variable explains 81.77 of the variation in the explained variable. The result from the F test shows that the overall model is significant.

This problem of unemployment is common with young graduates and also among older age groups, unemployment increases as immigration from urban to rural area increases.

Gender wise unemployment rate are higher for female than their male counterparts, more female had never had a paid job than their male counterparts.

## **5.2 Policy Recommendation**

In the light of the above findings from the analysis carried out so far, the following recommendations are proposed to the government if the issue of unemployment in Nigeria would be minimized.

1. Government should embark in provision of social amenities in the rural areas so as to reduce the urban to rural drift which has consequences of reducing unemployment.
2. There is need for government to revitalized agricultural sector, modern equipment in agricultural facilities is likely to entice the youth into that sector, since the sector have been left in the hands of the aged men.

3. There is need for government to restructure the educational system in a way it will lead to practical empowerment of the youths with capability of self-reliance and self-employment.
4. Government should formulate policy that will aim at discouraging gender discrimination in the labour market since it will provide more opportunity for the female in the labour market participation final.

### **5.3 Conclusion**

It would be the case that the natural rate of unemployment sets the lower boundary to the upper boundary for the natural rate of employment growth and that the economic savings between these two position over a long period with policy paradigmatic shift. An understanding of it would permit central bank and government to address the excessive unemployment rate that not plague most of the western world. They would need to use the levers of monetary and fiscal policy to facilitate significant reduction in unemployment and restore fuller employment.

This means keeping both real interest rate low, increasing the spending to real sector and using fiscal stimulus in the form of reduced surplus or actual planned deficit targeted at low and moderate income people and

educational, fiscal and health care infrastructure. Only when the rate of unemployment has dropped to much lower level would it be time to work to restore the economy towards steady growth patterns it deserves.

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