

AN EMPIRICAL INVESTIGATION INTO THE NEXUS BETWEEN INFLATION AND UNEMPLOYMENT AND THE EFFECTS ON ECONOMIC GROWTH IN NIGERIA (1970-2013)

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MATRIC NO.: EDS/11/0190

IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF BACHELOR OF SCIENCE DEGREE (B.SC) IN ECONOMICS AND DEVELOPMENT STUDIES

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ABSTRACT

This study investigates the nexus between inflation and unemployment in Nigeria using time series data for the period 1970-2013. Using Ordinary Least Square (OLS) regression techniques, the unit root test result indicates that the variables under consideration are stationary at the order one at 5% level of significance. The OLS result shows that the coefficient of the variables, UNE, LABFORCE, GEXP, and INTRES are positive to the dependent variable (GDP) while INF and FPI are negative. Statistically, the t-statistic of the result shows that four variables, LABFORCE, INTRES, FPI and GEXP are statistically significant. The F-statistic test result indicates that the overall estimate of the regression is statistically adequate. The R^2 result shows that the independent variables explain the dependent variable to the tune of 94% (percent). The Durbin Watson statistics result shows that the entire regression is statistically significant. The co-integration result shows that there are at most five cointegrating equations. The granger causality result obtained shows that there is no direction of causality between UNE and GDP and also there is no direction of causality between INF and GDP, there is a bidirectional causality between LABFORCE and GDP. The normality test result shows that the variables under consideration are not normally distributed. The multi-collinearity test result shows that there is no evidence of multi-collinearity among the variables under consideration. The heteroskedasticity test result obtained shows that the variables under consideration are homoscedastic. Descriptively, the mean values of all the variables under consideration are positive. The highest standard deviations recorded by GDP while the least standard deviation is recorded by UNE. Based on the findings, this study therefore recommends that the government should adopt policies that will increase Gross Domestic Product because it has the tendency to maintain a stable rise in the rate of employment which is one of the macroeconomic objectives that a government strives to achieve.

KEYWORDS: Economic growth, unemployment and inflation