AN EMPIRICAL ANALYSIS OF THE IMPACT OF INFLATION ON ECONOMIC GROWTH IN NIGERIA

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15PAF01056

2017

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BY

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BEING

A DISSERTATION SUBMITTED TO THE DEPARTMENT OF ECONOMICS AND DEVELOPMENTAL STUDIES

IN PARTIAL FULFILMENT OF THE REQIUIREMENTS FOR THE AWARD OF MASTER OF SCIENCE (M.Sc.) DEGREE IN ECONOMICS

COLLEGE OF BUSINESS AND SOCIAL SCIENCES,

COVENANT UNIVERSITY, OTA, OGUN STATE, NIGERIA

2017

DECLARATION

I Arome Victor hereby declare that this dissertation is my original work and that no portion of this work has been submitted or will be submitted in support of an application for another degree or qualification of this or any other university or institution of learning

AROME VICTOR ……………………………..

Signature and Date

CERTIFICATION

This is to certify that this research work, written by AROME Victor was supervised and approved in partial fulfilment for the requirement of Masters of Science (M.sc) Degree in Economics of the Department of Economics and Developmental Studies Covenant University, Ota, Ogun State Nigeria

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DEDICATION

I dedicate this research work to the glory of the only wise and gracious and loving GOD who had brought my humble self this far in my academic pursuit.

ACKNOWLEDGEMENTS

I use this privilege to acknowledge the almighty GOD for his mercies grace and faithfulness in my life and also the Holy Spirit for his divine direction. The completion of this work is dependent on a lot of people aside my humble self and I wish to acknowledge a few of these people who have contributed immensely.

The chancellor, Dr David Oyedepo, whose great life inspiring words and success strategies I am currently building and working in and also for diligently pursuing the vision of Covenant University, which I am a beneficiary. The vice chancellor prof AAA Atayero who's leadership style I admire and walk in. the dean of college of business and social sciences prof Francis Iyoha, may GOD reward you sir. The head of department (H.O.D) of economics and developmental studies DR Evans Osabuohien who's effective teaching style and life advices have inspired this work as well as improved my macroeconomic skills GOD bless you sir And to my project supervisor DR Ewetan .O. Olabanji my project supervisor for your fatherly advice and supervision may God bless you more abundantly. It was really great working under your supervision. I can't thank you enof.

To all my lecturers, Prof .O. Olurinola your efficient teaching style have improved my analytical skills in micro economics may the almighty GOD reward you sir. To Prof P.O. Alege who's practical and effective teachings has really exposed my knowledge and thinking to real life practical issues as well as improvement in my skills as an econometrician may GOD bless you sir. To DR Henry Okodua who have improved my skills greatly in terms of quantitative reasoning and critical thinking I can't thank you enof may GOD bless you sir. To DR Urhie and DR Oladosu who improve my knowledge and skills as a researcher may GOD bless you all abundantly. To other lecturers of economics department Prof Edo, DR John, DR MRS Matthew

DR Osuagwu DR Okposin DR Ogundipe and all other lecturers and staffs of economics department I am candidly and deeply grateful.

To my parents MR AND MRS E.W Arome I will forever remain grateful and thankful for the love support prayers decisions encouragement efforts time resources as well as discipline installed in me I love you both deeply and beyond your expectation. To my irreplaceable brothers Joshua, Richard and Emmanuel who have always encouraged me I say thank you and I love you all. To all my friends, cousin, nephews, uncles and aunties thank you for all your support and encouragement in one way or the other I am deeply grateful to all friends and wellwishers course mates etc. I cannot be grateful enof, GOD bless you all real good. And to every human being who have crossed my way right from my childhood days till now that have impacted in my life this far I cannot be grateful enof may GOD bless you real good.

TABLE OF CONTENTS

ABSTRACT

This research focused on the empirical analysis on the impact of inflation on economic growth in Nigeria on the long run. Inflation is a major macroeconomic challenge confronting both developing and developed countries of the world. Therefore the primary objective of this study is to examine the impact of inflation as it relates to economic growth and suggest possible solutions and ideas that can help reduce the impact on the economy as well as boost economic growth. In Nigeria for instance the prices of goods and services have been on the increase this is due to the velocity of money supply in circulation coupled with little or no productions of good and services to match in other words aggregate demand is more than aggregate supply there by making more money to chase fewer goods leading to inflation. The increase in inflation rate is also traceable to the budget allocation. The major aspect of the budget is allocated on recurrent expenditure and less on capital expenditure resulting in low infrastructural and institutional growth there by having sluggish economic growth. The data collected for this study are explained using econometric methods which are Augmented Dickey-Fuller, and Ng-Peron (NP) unit root test, Johansson Cointegration test. Also, autoregressive threshold technique for identification of inflation threshold as well as Vector Error Correction Model (VECM) was employed. This study employed the structural theory of inflation which states that increase in investment expenditure and the expansion of money supply are the only proximate and not the ultimate factor responsible for inflation in a developing economy. This is of the view that irrespective of monetary policies the problem of inflation will still persist if the policies are not adequately enforced. Also it was discovered that there is a positive relationship between economic growth and Exchange rate monetary policy Gross capital formation Active labour force which will help to control inflation if fully implemented .Therefore it is recommended that in order to reduce the rate of inflation and boost economic growth the monetary authorities need to implement monetary policies that will strengthen the above listed institutions to boost productivity thereby bringing down the prices of goods and services hence a better economy.