Available In

- Advances in Finance, Accounting, and Economics
- e-Book Collection
- Business and Management e-Book Collection
- Social Sciences and Humanities e-Book Collection
- e-Book Collection Select
- Business Knowledge Solutions e-Book Collection
- Social Sciences Knowledge Solutions e-Book Collection
- E-Access

Autoregressive Distributed Lag Approach to External Credit and Economic Growth in Nigeria

Oluwasogo Sunday Adediran, Philip O. Alege

Source Title: Applied Econometric Analysis: Emerging Research and Opportunities

Copyright: © 2020 Pages: 19

DOI: 10.4018/978-1-7998-1093-3.ch003

OnDemand:
(Individual Chapters)
Available

$37.50

Current Special Offers

Abstract

The need for increasing external credit flows to boost economic activity has exposed Nigeria to the negative effects of external structural changes. Therefore, an important question of concern in this study is, how does the Nigerian economy grow when there is a decline in external credit? This study attempted to answer this question by comparing the flow of external credit to economic activities. This is a distinction from previous studies that had compared stock of external credit to economic activities. Using annual data covering 36 years for the period 1980-2016, the study adopted the neoclassical growth model and estimated the model using the Autoregressive Distributed Lag (ARDL) approach. The study argued that, to the extent that expenditure is credit financed, GDP should be a function of credit flow, which is new borrowing.

Chapter Preview

Top

Introduction

The deep domestic economic crises that have ravaged the African economies since the early 1970s created considerable challenges for policymakers and economists. At each turn of events, efforts are being made to design and implement appropriate policy responses to these economic disequilibria. For instance, in the 1970s, the Nigerian economy expanded as a result of an increase in revenue of crude oil, and between 1981 and 1985, at the wake of the falling oil income, the economy declined, giving way to a rapid deterioration of Nigerians' standard of living. The subsequent periods were not too different as the economic implications of the preceding period dragged into the following periods. The various macroeconomic indicators point to the grave economic situations. Particularly, there

were sharp fluctuations in the economic activities, chronic fiscal deficit, remarkable fluctuations in the inflation rate, high unemployment rate, consistent growing in size and composition of government spending, and slow growth of the domestic output.

Likewise, given that domestic savings in Nigeria is inadequate to address savings-investment gap, in order to bring about the needed investment for required steady growth, there is the need for increasing external credit flows to boost economic activity, while a decline of it may adversely impact the economic activity. An important question of concern in this study is the following: how does the economy grow when there is adverse external credit shock? This study attempted to answer this question by comparing the different flows of external credit to economic activities in Nigeria. This is a distinction from previous studies that compared stock of external credit to economic activities (see Ogun & Akinlo, 2010; Oluitan, 2012; Emecheta & Ibe, 2014; Fapetu & Obalade, 2015). The study argued that, to the extent that expenditure is credit financed, GDP should be a function of credit flow. The implication is that economic growth should be related to changes in the flow of credit rather than stock of credit. This is not to invalidate the argument that stock of credit is important for output because it determines the level of potential growth in an economy. However, focusing on credit stock misses the developments in the credit flow, which is more useful for understanding the business cycle.

In addition, credit growth in emerging economies is often associated with financial deepening, which is beneficial to long-term economic growth, but it is also related to boom-bust circles and financial crises (Kalema, 2013). As a result, the recent and rapid increase in credit growth witnessed in the last decade in Nigeria is easily traceable to some of the following factors: financial deepening, macroeconomic stability, real income gains, increase in capital inflows, developed monetary policy instruments, and economic growth. These factors explain the strong expansion of credit in Nigeria. While part of this credit expansion is traceable to the process of credit boom in the economy, the resulting evidence can be seen in the vulnerabilities of the economy to both external and internal financially adverse changes. During credit bubbles, lending standards may be loosened, which encourages excessive asset price bubbles and excessive allocation of capital resources to less productive sectors; such a circumstance can trigger financial crisis as evident in the period 2007 - 2009.

Hence, to address the issues raised, this chapter is divided into six sections. Section One is the introduction of the study, and the second section is the literature review. Section Three addresses the theoretical framework, and Section Four examines the model specification and data sources. Section Five focuses on the empirical results and discussion of findings, while Section Six focuses on a summary, policy implications, and a conclusion.

Key Terms in this Chapter

Autoregressive Distributed Lag (ARDL): Are standard least squares regressions that include lags of both the dependent variable and explanatory variables as regressors. It is a method of examining cointegrating relationships between variables.

External Credit: It refers to money borrowed from a source outside the country.

Economic Growth: An increase in the production of economic goods and services, compared from one period of time to another. It can be measured in nominal or real (adjusted for inflation) terms.

Emerging Market Economies: This is economy of a developing nation that is becoming more engaged with global markets as it continues to grow.

Neoclassical Growth Model: This model shows how a steady economic growth rate that results from a combination of three driving forces: labor, capital, and technology. The theory also argues that technological change has a major influence on an economy, and economic growth cannot continue without technological advances.

Complete Chapter List

Search this Book:
Reset

Table of Contents

View Full PDF

Foreword
Roger White

View Full PDF

Preface
Brian W. Sloboda, Yaya Sissoko

View Full PDF

Chapter 1

Oil Prices and Economic Growth in Major Emerging Economies: Evidence From Asymmetric Frequency Domain Causality Tests (pages 1-23)

Emrah I Cevik, Sel Dibooglu, Tugba Kantarci, Hande Caliskan

$37.50
Add to Cart

Preview Chapter

Chapter 2

Dynamics of the Relation Between Producer and Consumer Price Indices: A Comparative Analysis in the U.S. Market (pages 24-40)

Özcan Ceylan

$37.50
Add to Cart

Preview Chapter

Chapter 3

Autoregressive Distributed Lag Approach to External Credit and Economic Growth in Nigeria (pages 41-59)

Oluwasogo Sunday Adediran, Philip O. Alege

$37.50
Add to Cart

Preview Chapter

Chapter 4

Macroeconomic Suprises and the Turkish Financial Market (pages 60-88)

Ayşegül İşcanoğlu Çekiç, Havva Gültekin

$37.50
Add to Cart

Preview Chapter

Chapter 5

The Convergence Behind the Curtain: An Examination of Crime Rates in Pennsylvania Counties (pages 89-120)

Olivia A. Habacivch, Ryan A. Redilla, James J. Jozefowicz

$37.50
Add to Cart

Preview Chapter

Chapter 6

An Analysis of Gender Inequality in Professional Tennis: A Study of the Cozening Sport (pages 121-140)

Hannah C. Mercer, Patrick S. Edwards

$37.50
Add to Cart

Preview Chapter

Chapter 7

Socioeconomic Influences on Fertility Rate Fluctuations in Developed and Developing Economies (pages 141-163)

Kayla M. Good, Anthony M. Maticic Jr.

$37.50

Add to Cart
Preview Chapter
Chapter 8
Categorical Dependent Variables Estimations With Some Empirical Applications (pages 164-189)
Alhassan Abdul-Wakeel Karakara, Evans S. C. Osabuohien
$37.50
Add to Cart
Preview Chapter
Chapter 9
Financial Determinants Affecting Leasing Policies: Empirical Evidence From the Airline Industry (pages 190-213)
Kasım Kiracı
$37.50
Add to Cart
Preview Chapter
Chapter 10
Does Regional Variation in Startup Concentration Predict Employment Growth in Rural Areas of Ohio, Pennsylvania, and West Virginia? (pages 214-242)
Yaya Sissoko, Brian W. Sloboda
$37.50
Add to Cart
Preview Chapter
About the Contributors
View Full PDF
Index
View Full PDF

Copyright © 1988-2024, IGI Global - All Rights Reserved