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Impact of Unemployment on Economic Growth in Nigeria 1980 - 2010

Hauwa Buba Jajere

Kaduna State University

Email: hauwabuba@gmail.com

Abstract

This research work focused on the Effect of Unemployment on Economic Growth in Nigeria modeling Gross Domestic Product (GDP) against Unemployment rate, Government Expenditure and Money supply between 1980 – 2010. The research make use of Ordinary Least Square regression technique, the result shows that unemployment does not significantly affect economic growth, but a good performance of an economy in terms of per capita growth may therefore be attributed to the other factors affecting economic growth in the country. A major policy implication of this result is that concerted effort should be made by policy makers to increase the level of output in Nigeria by improving productivity/supply in order to reduce unemployment and the prices of goods and services (inflation) so as to boost the growth of the economy. Another policy implication of this study is that government should embark on labor intensive technique of production as against capital intensive and also close the border to some extent which is the likely measure to reduce unemployment and Inflation and increase domestic output level (GDP).

Keywords: Economy, labor, unemployment, Nigeria.

INTRODUCTION

Background to the Study

One of the greatest challenges facing the Nigerian economy is unemployment which has maintained a rising trend over the years. The total labour force in Nigeria is made up of all persons aged 15-64 years excluding students, home keepers, retired persons and stay-at-home to work or not interested persons. In Nigeria, unemployment is regarded as one of the most challenging economics problem facing the federal government. Although, there are variations in the measurement of unemployment, official estimates show their results as follows: from 1985-2003, the data shows a highly fluctuating trend from both the urban and rural

sectors of the economy. From the data, the 1985 figure shows the percentage of the national urban and rural unemployment as follows: national 6.10%, urban 9.8%m rural 5.2%and in year figure it is as follows: national 3% urban 3.8% rural 2.7 %(CBN, 2004). The rising rate of the population of the country which is faster than the job opportunities available, a situation in which birth rate is rising, death rate falling and the population growth rate is between 2.5% and 3%, unemployment is bound to exist. There had also been a total neglect of the agricultural sectors and consequent mass exodus of able bodied youths from the rural to urban areas in search of the none existing white cooler jobs. This further reduces employment in agriculture and puts pressure on existing

urban jobs (Anyanwu 1995). The socio-economic effect of unemployment includes: fall in national output, increase in rural-urban migration, waste of human resources, high rate of dependency ratio, poverty, depression, frustration, all sorts of immoral acts and criminal behaviour e.g prostitution, armed robbery etc. The social effect of unemployment brings to light the need to proffer possible solution to salvage our nation Nigeria (Jelilov, Gylych; Kachallah Ibrahim, Fatima; Onder, Evren, 2016).

According to Walterskirchen (1999) the simple, but wrong argument is: There can be no negative relationship between economic growth and unemployment, because GDP and unemployment are both rising in the long run. It is evident that employment will only increase if GDP is rising faster than productivity. Other things being equal, the greater the amount of goods and services produced, the greater the labour required for production; because economic growth and employment go hand in hand. But there is also the notion that higher productivity could mean fewer jobs. According to Calmfors and Holmlund (2000) there is often a failure to distinguish between increases in output that are due to higher capacity utilization and those that are due to long-term growth. Labour-market reforms that lower wage costs and thus increase employment will, of course, also cause output to grow during the adjustment process (Jelilov, Gylych; Onder, Evren, b 2016).

In the short run, the relationship between economic growth and the unemployment rate may be a loose one. It's not unusual for the unemployment rate to show sustained decline sometime after other broad measures of economic activity have turned positive. Hence, it is commonly referred to as a lagging economic indicator. Thus, the key to the long-run relationship between changes in the rates of GDP growth and unemployment is the rate of growth in potential output as an unobservable measure of the capacity of the economy to produce goods and services, when available resources, such as labour and capital, are fully utilized (Jelilov, Gylych; Chidigo, Mary; Onder, Evren, 2016).

Statement of the Problem

The statement of the problem is based on the economic, social and political effects of unemployment. Unemployment has reached a very alarming proportion in Nigeria, with a greater number of the unemployment being primary and secondary school learners and university graduates. This situation has recently been compounded by the increasing unemployment of professionals such as bankers, engineers and doctors. The toll is within the productive segment of the Nigeria population (Jelilov, Gylych; Muhammad Yakubu, Maimuna;, 2015). The extent of unemployment in Nigeria is not justified by the available financial statistics

phenomenon. This is because of the nature of unemployment in the country where many job seekers do not see the need for registration as unemployed due to expression of futility in such exercise. This harnesses the sharp disparity between the official statistics on the phenomenon and the reality on ground (Bello 2003). Disguised unemployment otherwise known as concealed unemployment is a situation in which more people are available for work than is shown in the unemployment statistics Bannock *et al.,* 1998.

The problem of disguised unemployment is quite acute in Nigeria. This explains why official unemployment statistics sharply differs from the true state of employed or unofficial statistic available. The recorded figure of unemployment significantly understates the number of people who are actually willing to work at the existing set of wage rate. Consequently, the unemployment figure in Nigeria is obtained through labour force sample survey, by asking if the person has worked in the past week preceding the survey. Obviously, because even a graduate who hawks around responded to the question, the unemployment rate will always be very low. Unemployment is a situation of a labour not having enough paid work or not doing work that makes full use of his skills and ability. It can be measured by the numbers of hours worked per week.

Research Questions

From the above discussions the research questions are:

1). What is the Effect of unemployment rate on economic growth of Nigeria?
2). Is there any relationship between unemployment and economic growth in Nigeria?
3). What are the factors affecting Unemployment and Economic Growth in Nigeria?

Objective of the Study

The broad objective of this study is to examine the effect of unemployment on economic growth in Nigeria. The objectives that will guide this study are as follows;

1). To study the relationship between unemployment and economic growth in Nigeria.
2). To discuss the factors affecting Unemployment and Economic Growth in Nigeria.
3). To highlight the policy implication of the research findings?

Statement of Research Hypothesis

The hypothesis that would guide this work is Null hypothesis against the Alternative hypothesis as follows;

H_0: Unemployment has no significant effect on Economic growth in Nigeria.

H_1: Unemployment has significant effect on the Economic growth in Nigeria.

Scope of the Study

The scope of this study is centred on the effect of unemployment on the Nigerian economy, and it cover 1980 – 2010. The choice of 1980 as a base year is due to the fact that the researcher want to study Nigerian Economy within post Oil boom era while the choice of 2010 as a terminal year is based on the fact that the data required for the research are only available to that year.

Limitations of the Study

It is worthy to note that every research work possess a lot of problems and limitations. However, the difficulties encountered includes, inadequate and non-availability of relevant data owing to the fact that unemployment in most under-developed countries, Nigeria inclusively is not evenly distributed and thus varies from one place to another, financial constraint, high cost of transportation and the difficulty in locating the various research material needed. As such, I had to rely more on secondary data than primary data.

LITERATURE REVIEW

For the purpose of achieving the objectives of this study, it is necessary to review some earlier work in this subject that would provide us with adequate theoretical and empirical background for assessing the relevance and contributions of this research study. This study tries to ascertain the relationship that exist between unemployment and economic growth making use of analytical and econometric research tools.

Conceptual Issues

In general sense of the term, unemployment is a situation in which those who are able and willing to work at the prevailing wage rate do not find job. According to the International Labour Organisation (ILO), only those belonging to the age group of 15 to 65 years should be included in the labour force of a country. Unemployment may also be defined as the gap between the potential 'full employment' and the number of employed persons. Briggs (1973) defined unemployment as the difference between the amount of labour at current wage rate and working conditions and the amount of labour not hired at these levels. However, Gbosi (1997) defined unemployment as a situation in which people who are willing to work at the prevailing wage rate are unable to find jobs. The unemployment rate is the number of an economically active population who are without work but available for and seeking for work, including people who have lost their jobs and those who have voluntarily left work (World Bank 1998), Oduah (1999) saw that one of the ways of economizing efforts in any inquiry is to review and build up the work done by others. Nicholas (2000), says, a person is unemployed if he or she is eligible for work but does not have a job. Volkova (1986) maintained that an unemployment situation is in other words called mass-unemployment when the number of qualified manpower who are unemployed is considerably enough or outnumber that of those in gainful employment (Jelilov, Gylych; Onder, Evren;, a 2016).

Keynes (1935), stated that the term unemployment is used to apply in literal sense to all persons without work, but it has come to have more specific meaning in contemporary realization of social and economic policy. Aguene (1991), defined unemployment as the number of people in the population who are willing and offer themselves for employment but could not be employed because of lack of vacancies for them. Fajana (2000), and Standing(1983) opined that unemployment can be described as the state of wordlessness experienced by persons who are members of the labour force who perceived themselves and are perceived by others as capable of work. The international labour force organization (ILO) defines unemployment as the proportion of the labour force which was available for but did not work for at least one hour in the week preceding the survey period.

National Bureau of statistics (N.B.S). Nigeria defines unemployment as the proportion of the labour force that is available for work but did not work for at least thirty nine (39) hours in the week preceding survey period. Unemployment according to lipsey (1963:456) brings about economic waste and cause human suffering. According to Fadayomi (1992), Osinubi (2006), unemployment is as a result of the inability to develop and utilize the nations manpower resources effectively especially in the rural sector (Jelilov, 2016).

Thirlwall (1983) referred to the concept of disguised unemployment which he defined as the Gap between the actual numbers of workers available for employment and the level of employment at which the marginal product is below the institutional or subsistence wage. Fajana (2000), and Standing(1983) opined that unemployment can be describe as the state of joblessness experienced by persons who are members of the labour force who perceived themselves and are perceived by others as capable of work. Haralambos (2004) used the International Labour Organisation's definition of unemployment argued that the unemployed are those who were without work in a particular week, who were available to start work in the next two weeks and who were waiting to start a job or had looked for work in the

previous month. This study makes an attempt to focus on the university graduate first job seeker (Jelilov, Gylych; Musa, Muhammad;, 2016). According to William (1976) the meaning of work to paid employment is the result of the development of capitalist productive relations. However, according to Fajana (2002) the concept of work has partly shifted from productive effort itself to the predominant social relationship. For instance , it is only in the sense of social relationship that a woman running a house and bringing up children can be said not to be working (Hayes and Nutman,1981). Keynesian economics propose that there is a "natural rate" of unemployment because the skills of labourers and the positions available are slightly out of sync even under the best economic conditions. Neoclassical economics postulates that the labour market is efficient if left alone, but that the various interventions, such a minimum wage laws and unionization, put supply and demand out of balance (Jelilov, Gylych; Abdulrahman, Samira; Isik, Abdurahman;, 2015).

Types of Unemployment

1). Frictional Unemployment occurs when people are temporarily out of work because they are changing jobs. This is unavoidable in an economy in which both the labour force andthe jobs on offer are continually changing.
2). Seasonal unemployment is said to occur in a situation in which people are laid off seasonally, due to the nature of the job they do, e.g., agriculture workers in developing countries may be laid off during the growing season.
3). Structural unemployment is the unemployment that exists when an economy is in full employment. Structural unemployment occurs where employment in one or more declining industries is falling It is as result of movement in the natural employment rate itself, which can result from changes in labour market institutions, demographic shifts etc. this situation is brought about by economic variables, such as the level of aggregate demand and the actual and/or expected real wage rate.
4). Cyclical unemployment occurs as result of fluctuations around the natural employment rate, which can be attributed to changes in aggregate demand.

Measurement of Unemployment in Nigeria

Unemployment is a situation of a labour not having enough paid work or not doing work that makes full use of his skills and ability. It can be measured by the numbers of hours worked per week. There are also different ways national statistical agencies measure unemployment. These differences may limit the validity of international comparisons of unemployment data. To some degree these differences remain despite national statistical agencies increasingly adopting the definition of

unemployment by the International Labour Organization. To facilitate international comparisons, some organizations, such as the OECD, Eurostat, and International Labor Comparisons Program, adjust data on unemployment for comparability across countries.

Though many people care about the number of unemployed individuals, economists typically focus on the unemployment rate (Jelilov, Gylych; Kalyoncu, Huseyin; Isik, Abdurahman, 2015). This corresponds to the normal increase in the number of people employed due to increase in population and increase in the labour force relative to the population. The unemployment rate is expressed as a percentage, and is calculated as follows:

$$\text{Unemployment rate} = \frac{\text{Unemployed workers}}{\text{Total labor force}} * 100$$

As defined by the International Labour Organization, "unemployed workers" are those who are currently not working but are willing and able to work for pay, currently available to work, and have actively searched for work. Individuals who are actively seeking job placement must make the effort to: be in contact with an employer, have job interviews, contact job placement agencies, send out resumes, submit applications, respond to advertisements, or some other means of active job searching within the prior four weeks. Simply looking at advertisements and not responding will not count as actively seeking job placement. Since not all unemployment may be "open" and counted by government agencies, official statistics on unemployment may not be accurate. In the United States, for example, the unemployment rate does not take into consideration those individuals who are not actively looking for employment, such as those still attending college.

Causes of Unemployment in Nigeria

Lampman (1974), in his research on unemployment and its causes found that a good research on the effect of unemployment and an intelligent approach to public policy aimed at preventing or reducing it and would demand some understanding of the causes of unemployment in a given society. Hanson (1977) carried out a research on the root cause of the economic setback in the post-colonial West Africa, with six countries, which included Nigeria, Algeria, Ghana, Kenya, Tunisia, and Ivory Cost. In his result, he discovered that the utter neglect paid on agricultural development in a bid towards the realization of industrial economic ambition in the underdeveloped Africa is responsible for their employment problems (Jelilov, Gylych; Waziri, Fadimatu; Isik, Abdurahman, 2016).

He maintained that in any economy where adequate attention is paid to agriculture, that almost everybody is self-employed and that the number of the unemployed is

easy to control. According to Lampman (1974) report on the causes of unemployment stated that Agriculture is the taproot of our economy. He warned that any attempt to give agricultural activities a secondary attention to the economy of any nation would sooner or later create an unemployment situation. Keynes (1935) in his book "The general theory of employment, interest and money" found that the amount of money industrialists and businessmen tried to hold out from investment causes unemployment. Instead of expanding industries with the acquired profit to create employment opportunities, they lavish them unnecessarily (Jelilov, 2015).

Besides the neglect of indigenous technology and lack of patronage to local industries, Teriba (1977), pointed out that the poor management of our public industries and the unpatriotic attitude of Nigerians towards work and public property was a great factor causing unemployment problems. They maintained that Nigeria's unemployment situation stems from the fact that Nigerian industrialists rely much on purchasing and processing much of the raw materials abroad. Achebe (1983) in his comparative analysis study on "The Trouble with Nigeria" discovered that a lack of patriotism among Nigerians have contributed very much to our unemployment situation.

He pointed out that the evidence in the past showed that unpatriotic act of most Nigerians in public industries on public properties, consideration of "self first", the sweeping destruction of public property worsened Nigeria unemployment situation. Ojukwu (1989), while analyzing the cause of unemployment in Nigeria in his book, "I am involved" concluded that the production of many graduates was not responsible for the unemployment situation in the country. Rather, he observed that the social scourge unemployment caused by the inversely proportional pattern of education and economic advancement. He blamed the impropriety on the psychological "blindness of our economic planners in the oil boom days than on "over-production " of graduates. Finally, the greatest unemployment causing factor in Nigeria has been identified to the ineptitude, corruption, fraud and general failure of leadership.

Consequences of Unemployment

Unemployment is undesirable, bringing economic, social and political vices in the society. It has numerous consequences to society it visits. The high wave of crime, robbery among youths has been traced to unemployment. Princewill, in Vanguard (June 25, 2002) observed that since 1999, this country has experienced unprecedented rise in crime wave, armed robbery, political assassinations, religious riots, inter-ethnic and intra-ethnic clashes, communal clashes was due to the increasing unemployment rate.

Recently, researchers have noticed an unprecedented increase in prostitution among young girls. This result of

investigation carried out in our brothels and hostels in some urban areas in Nigeria among prostitutes confessed resorting to the fate because of the scourge of unemployment. According to Osi (2001), on the research on the consequences of unemployment maintained that the fact that autonomous consumption is inevitable, makes some feeble minded ones indulge in robbery. Besides, examination malpractices are perpetrated by some jobless school leavers, who must make ends meet. These teach the younger society negative options available for survival. Similarly, the issue of unemployment has caused hunger and malnutrition. Volkova et al., 1986 stated that unemployment and price increase of food and the unceasing onslaught of the unemployed and their dependents have led to increase malnutrition and its associated diseases in the third world.

According to Nicholas et al (2000), the social consequences of unemployment for those who are out of work include a higher incidence of poverty. Ill-health and death, demoralized and strained family relationship. For society as a whole, they include the failure to realize the social investment in human capital made through the education system, and a loss of tax revenue combined with increased out going in unemployment benefits that threatens the financing of other parts of the welfare of the state. Also, the evil effects of mass unemployment have cracked some families in the country. It has led to broken marriages of once happily married couples. As well, "Awake magazine" (July 22, 1984) supported this when it stated that families have broken up and the future of their children bleak owing to unemployment. Graham (1992) maintained that some unemployed people, and their families, experience anxiety and despair, frustration and desperate unhappiness. He also stated that the psychological pressure of unemployment cause some people to suffer stress.

Unemployment represents a waste of human labour. An increase in the size of the non-working population is a simultaneous increase in the burden of "liability" of the working population. An implication can be drawn from here that some difficulties do arise as to how to manage the meagre finance of the working force also, it can be implied that a grossly lowered standard dissatisfaction and insecurity. Usen (1978) noted that the unemployed eventually becomes psychologically wreck. These are many more consequences of unemployment such as poor housing, poor clothing, lack of medical care, poor means of transportation and so on is the genesis of the technical knockout unemployment has for Nigeria should our leaders not live to their responsibilities.

Solutions to Unemployment in Nigeria

There are several solutions to unemployment which has been on an increase, among which are; proper attitude to

work, supervision of the Agricultural sector, reorganizing the education system encouraging labor mobility and making loans available.

Proper Attitude to Work

Most people especially the government workers don't normally like working hard. They always believe the slogan. "After all, government work is not my father's own". These idea or belief at the back of their minds therefore makes them to handle the work with all amount of carelessness. In a company or establishment where we have this type of workers, there use to be high rate labor turn over. The management in its bid to stop this type of behavior towards with restoring to frequent fringe of any workers who attempt to bread this type of obnoxious meaning and human style of worker in the work place. Common sense therefore will even indicate to us that where the number of those employed are reduced and unemployed is increased in order to obtain from advocating for proper attribute to work, people should regard the work from which they earn a living very serious by being punctual so as to avoid unnecessary embarrassment and lay off from their employers.

Reorganizing the education system

To combat any unemployment, the education system should completely be reorganized in such a way that employment is guaranteed on completion of school. This re-organization can be realized through proper and adequate training coupled with the involvement of well-experienced and qualified personnel's. The teacher go a long way in shaping ones life either by giving the student the real stuff as would be expected by his employers or chose a very realize course of study.

Expansion of agricultural sector

Double attention should be given to the agriculture sector. This should be so because agriculture is the, aim stay and in fact the bedrock of the nation. Almost 75% people of Nigeria living in rural areas without any modern infrastructure like good roads pipe born water, Electricity etc. thereby making them perpetual local and crude farmers, government should in order to curtail unemployment build good roads, good communication network pipe born water and electricity so that investors can go inside the rural are to invest financial sides loan and awareness should be given to farmers by way of making tractors, plough, harvester, etc. Available to them. This will invariably boast their ego and production capability thereby attracting more into the profession and in the same way renouncing the amount of unemployment government not only encouraging farmers as a means or step to eradicate unemployment can do

the same thing by building agriculture estates like cassava, banana, cocoa plantation and also breading of poultry, piggery goat etc. This not only generate revenue to the government but reduces high rate of unemployed because it is human being not animals that are going to work in those agricultural establishments, This is to say therefore that of attention should be given to the expansion of Agricultural sector by way of making loans available to farmer the problem of unemployment will definitely to be a thing of the past in the nearest future.

Making loans available

If there is availability of loan to the investors who have little or no money but have that business acumen, they will invest thereby creating opportunities for our youths, school leavers that are working the whole street of the town in search for financial situation. High rate of interest should reduce on the loan given to them. The repayment of the loan should give a loan period of time. Freedom of movement should be given to these investors so as to evenly distribute theory employment opportunities to all the workers and concern of the society.

Encourage mobility of labor

The movement of people will obviously solve the unemployment problem. A great and well-known development economist, Author laws in his theories was worked about illness of human being. He talked about illness of human being. He took certain assumptions which include. The identification of two types of wage and these wages applies to two sectors of the society.

Empirical Review

In attempt to analyse the relationship between unemployment and economic growth, a lot of researchers have applied empirical data to ascertain the nature of the relationship. Tabeuina and Daveria (2000) found empirical support by raising a hypothesis that unemployment has a negative effect on economic growth while Layard and Nickell (1999) cannot find the labour market institution that increase unemployment also lower economic growth. It is quite possible that some institutions that affect unemployment also affect economic growth and the level of output in Nigeria.

Lindbeek (1999) found that structural unemployment by not disappearing in cyclical booms. Using the(PSvs.uds model as 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 individual finding jobs equals to the number of individual who are separated from jobs. It points various factors that influence the level of structural employment which is different in time and

place. Olson (1984) argues that democratic societies 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. Downes (1998) investigated the necessary condition for reducing the unemployment rate in Trinidad and Tobago. From the period 1971-1996.

Using the error correction model estimated by OLS (ordinary least square) instrumental variables, he found that in both long and short runs changes in Real Gross Domestic product (RGDP)and Real Average Earning (RAE) have a statistically impact on changes in the unemployment rate. While increase in GDP reduces the unemployment rate in both short and long terms but lower it in the short-run. Increase in real average earning increase the unemployment rate on the long-run. Levin and Wright (2000) find that it is important but difficult to distinguish between desirable effects of unemployment insurance that are observatory equivalent when designing optimal unemployment insurance causes. permanently higher involuntary unemployment by raising the reservation wage. The paper avoids the problem by regarding the trade-off between the unemployment insurance replacement rate and unemployment as an intermediate relationship that matters only as far as it impacts economic growth.

Bello (2003) investigates the phenomenon of unemployment in the sub-Saharan Africa 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 it poses the economic involved. Assessment of past and the present anti unemployment policy measures in Nigeria was made and the result shows that a number of economic factors inhibit their performance. In Nigeria context, Obadan and Odusola (2005) discovered that unemployment and growth are inversely related. It was also discovered that growth response to unemployment varied among sectors of the economy. For example employers in industries sector use less labour to accomplish high volume of production thereby leading to unemployment of workers the researcher analyzed the casual link between unemployment and productivity in different sectors of Nigerian economy except service sectors.

Moru. J (2005) posited that the unemployment caused by the movement of labour forces from agriculture production to secondary production in Nigeria amongst the unskilled labour constitutes disaster to the economic development in furtherance of the effects of unemployment to the Nigerian economy and attainment of economic growth, estimates indicate that attaining high economic growth is possible if Nigerian can scale up its ability to effectively use its resources, through sustainable growth over time, improved policies, increased trade and investment, improvement in human capital development.

CBN bullion (2004) however, it is noted that in the attempt to raise resources for economic growth the government has proposed an international financial facility. Awolowo (1993) in his study suggested that unemployment in Nigeria can be reduced to a tolerable limit through modernization of agriculture and a planned and full mobilization and employment of all the counting's human resources particularly at the higher levels.

Theoretical Review

Unemployment in Nigeria is one of the most critical problems the country is facing now. The years of corruption, civil war, military rule and mismanagement have hindered the economic growth of the country. Nigeria is endowed with diverse and infinite resources both human and material. However, years of negligence and poor government policies have led to the underutilization of these resources. According to olueye (2006) classical economist argued that unemployment exist when unions maintain wages above their equilibrium level. When this happens, we have a situation of involuntary unemployment. Cyclical unemployment differs from structural and frictional unemployment (lindbeeket *et al.,* 1999). It is an unemployment that results from lack of aggregate demand in a down swing in the business cycle (Bannock *et al.,* 1998).

Professor A.C. Pigou in his theory of unemployment (1934) makes the volume of employment to depend on the real rates of wages and the real demand function for labor. These two fundamental factors interplay in the market to determine equilibrium employment, assuming there is no involuntary unemployment. As noted by Keynes (1936), changes in the rate of investment can shift the volume of employment, thus a change in unemployment. Involuntary unemployment is possible, as evidenced during the great depression. Against the popular view of the orthodoxy (classical economics), Keynes showed that it is possible for economies to go into a depression where the various factors of production were not used to achieve optimum economic configurations.

Classical Theory of Unemployment

The views of most economists always go with their thinking at that particular time. The two major school of economic thought were the "classical and keynesian" The two have different ideas on the effect of unemployment. The classical were the school of thought that emphasized the role of money in explaining short term changes in national income. Traditionally, this theory has been that unemployment has been looked upon in terms of aggregate. Their view was that involuntary unemployment was a short term phenomena resulting from a discrepancy between the price level and the wage

level. Unemployment was the result of too high real wages. At times the wage level in the classical view would be reduced and there would be no unemployment except for frictional search unemployment caused by time delay between quitting one job and starting another. These school 9 posses that the problem of urban unemployment is traceable to the fault of workers and the various trade union power. They believed strongly in the theory of demand and supply.

Therefore it insists that urban unemployment is caused by low supply of labour of more than the capacity of the economy. Consequently, the school argued that the demand for too high wages of worker without a corresponding increase in productivity renders product costly thereby discouraging competitiveness among local industries and foreign industries. The implication of this trend is the reduction of sales, which further leads to mass retrenchment of workers resulting to unemployment.

Keynesian Theory of Unemployment

The ideas of the British economist, John maynard Keynes in 1930s revolutionized thinking in several areas of macroeconomics including unemployment, money supply, and inflation which is seen in his publication of 1936 as the general theory of unemployment interest and money". Cyclical or Keynesian unemployment also known as demand deficient unemployment occurs when there is no aggregate demand in the economy. It gets its name because it varies with the business cycle, though can also be persistent as during the great depression of the 1930"s. Cyclical unemployment rises during economic down turns and falls when the economy improves. Keynes argues that this type of unemployment exist due to inadequate effective demand. Demand for most goods and services falls, less production is needed; wages do not fall to meet the equilibrium level and mass unemployment results.

The Keynesian framework, as examined by Thirlwal (1979), Grill and Zanalda (1995) and Hussian and Nadol (1997), postulate that increase in employment, capital stock and technological change are largely endogenous. Thus the growth of employment is demand determined and that the fundamental determinants of long term growth of output also influence the growth of employment. In the Keynesian theory, employment depends upon effective demand which results in increased output, output creates income and income provides employment. He regards employment as a function of income. Effective demand is determined by aggregate supply and demand functions. The aggregate supply function depends on physical or technical conditions which do not change in the short run, thus it remains stable. Keynes concentrated on aggregate demand function to fight depression and unemployment.

Thus employment depends on aggregate demands which in turn is determined by consumption demand and investment demand. According to Keynes, employment can be increased by increasing consumption and or investment. Consumption depends on income C(y) and when income rises, savings rises. Consumption can be increased by raising the propensity to consume in order to increase income and employment but the psychology of the people (taste, habit etc) which are also constant in the short run. Therefore the propensity to consume is stable. Employment thus depends on investment.

Maxian Theory of Unemployment

It is in the very nature of the capitalist mode of production to overwork some workers while keeping the rest as a reserve army of unemployed people. Marxists also share the Keynesian viewpoint of the relationship between economic demand and employment, but with the caveat that the market system's propensity to slash wages and reduce labour participation on an enterprise level causes a requisite decrease in aggregate demand in the economy as a whole, causing crises of unemployment and periods of low economic activity before the capital accumulation (investment) phase of economic growth can continue.

According to Karl Marx, unemployment is inherent within the unstable capitalist system and periodic crises of mass unemployment are to be expected. The function of the proletariat within the capitalist system is to provide a "reserve army of labour" that creates downward pressure on wages. This is accomplished by dividing the proletariat into surplus labour (employees) and under-employment (unemployed). This reserve army of labour fight among themselves for scarce jobs at lower and lower wages. According to Marx, the only way to permanently eliminate unemployment would be to abolish capitalism and the system of forced competition for wages and then shift to a socialist or communist economic system. For contemporary Marxists, the existence of persistent unemployment is proof of the inability of capitalism to ensure full employment.

Efficiency Wage Theory

This is a macro-economic approach of explaining unemployment. The rationale behind the theory is as follow; Assume that worker differ in quality, not just abilities but in the probability to shrink, in other words, some people are lazier than others and are therefore less likely to work harder. The effort is a function of costly monitoring i.e. if you are being closely monitored than if you not. An employer cares about the cost of labour(the wage rate). However, the cost is dependent upon the productivity of the workers. So, the objective is one to minimize the wage divided by productivity (wage per unit

produced). To do this, there are at least two options: Firstly you can increase productivity by increasing wages. The reason for this is that as wages increases, the cost shrinking becomes higher because if you are caught, you are fired and lose your wages and the higher the wage is the more you lose by being fired. A higher wage thus means that you work even harder since it is more important for you not to be fired.

Theoretical Framework

The theoretical framework used in this research is Keynesian theory of unemployment; this is because it is more relevant to Nigerian situation. And it varies with the model specified in chapter three, i.e GDP depends on unemployment, government expenditure and money supply (Ms). Keynesian Economists see unemployment as a situation in which the number of people able and are willing to work at the prevailing wage rate, exceeds the number of jobs available and at the same time, firms are unable to sell all the goods they would like to sell (bannock *et al.,* 1998). When carefully analysed, the Keynesian unemployment largely applies to situations in Nigeria (Bello 2003). Here, unemployment can result to a situation where many Nigerian consumers including the government, prefers foreign goods than domestic goods, thereby causing the domestic producers to be faced with the problems of low demand that naturally forces them to lower output and of course reduces work force.

This experience continues in some firms especially the small scale ones till they are pushed out of the market resulting in the loss of more jobs, the long- term unemployment remains in the market for too long and thereby reducing the costs of job finding. Keynes believed that government interference is beneficial to an economy. Through fiscal and monetary policies, the government use spending of goods or services to reduce the business cycle. Government spending reduces the price for goods and services, making it more affordable. This increase demand and consumer spending.

Unemployment and Economic Growth

The theoretical framework seeks to establish the relationship between unemployment and economic growth. Does the rate of economic growth create or destroy job and does it affects jobs in the short or long-run? The motivation for study is the real aspect of growth which increase in growth comes from accumulation of knowledge embodied in innovation through the use of machine to do the work that was previously done by the people, which results in unemployment. The market search theory imply that increase rate of job turnover is higher in natural rate of employment (Prescott and Lucas 1974). There are some empirical evidence to show a negative long-run relationship rates of. Davis *et al.,* (1997)

show that period of unemployment are periods of high firm level job turnover. The source of unemployment in the model is the relocation of labours across firms. That is the unemployment is of transitory nature. Reallocation is triggered by the fixed overhead cost of human capital growth of rate (g) but technology of plan is fixed, that at some of plant is shut down by the firm (Mass 2005). A lay off job cannot find job instantaneously due to search fictions.

METHODOLOGY

The research work is conducted employing an econometric methodology of multiple regressions statistical and econometric tools shall be used in analysing and presenting data.

Nature and Sources of Data

The Data used in this research are secondary data, sourced from the reports and bulletin of the central bank of Nigeria (CBN) .The unemployment data and GDP growth was generated from central bank of Nigeria statistical bulletin and National Bureau of statistics (NBS) form the period (1980-2010). Secondary data was used because it is appropriate for this research work.

Techniques of Data Analysis

This study will make use of regression tools of analysis in analysing the data collected and the estimation procedure here would be that of OLS. The emphasis would be to know whether the variables are well behaved or not. We aim to ascertain their level of statistical significant or otherwise.

Model Specification

This is the mathematical representation of the relationship between two or more variable base on the economic theory. Base on the theoretical framework of this research work, we state the functional relationship between Economic growth (Using GDP as a proxy) and Unemployment rate with other selected variables like Government Expenditure and Money supply as follows;

$$GDP = F(UNMPLR, GEXP, MS) _____$$

$$GDP = \beta_0 + \beta_1 UNEMPLR + \beta_2 GEXP + \beta_3 MS + \mu \_\_\_\_ 3.2$$

Where;

GDP = Gross Domestic Product
UNEMPLR = Unemployment Rate

GEXP = Government Expenditure
MS = Money supply
$\beta_i s$ = Parameters to be estimated
i = 0 – 3
μ = Error term

EVALUATION CRITERIA

Economic A Priori Criteria

This criterion is concerned with determining the consistency of our parameter estimate with the signs and magnitude. As such it is our expectation that the parameter estimate of our study must be consistent with this signs and magnitude. Theoretically the relationship between GDP and UNEMP is expected to be negative, while the intercept is expected to be positive.

Statistical Criteria (First Order Test)

these test are set of statistically theory used in evaluating the reliability of the parameter estimates. According to Guajarati (2004), a test of significance is a procedure by which sample result is used to verify the truth or falsity of a null hypothesis.

Standard Error Test

The estimates obtained from a given set of a simple observation are not free from sampling errors. It is therefore necessary to measure the size of the error and subsequently determine the degree of confidence in the validity of the obtained estimates (Kautsoyiannis, 1977). The test helps us to know if our estimates statistically significant or whether the sample from which we made estimates might have come from which we made estimates might have come from a population whose true parameter value are zero (Kautsoyiannis, 1977-80).

The T-Test

This is used to test the significance of the individual parameters of the regression model. This will be used in testing the statistical significance of each regression coefficient at a given level of significance with N – K degree of freedom and in this case, we will use 5% level of significance and it is given as; $\pm t\alpha/_2$ (N – K) where;

  $\pm t$ = tabulated t or t – critical
  α = level of significance
  N = Sample size
  K = total number of estimated parameters.

Decision Rule

If $t^c < \pm t\alpha/_2$ (N – K) at a given level of significant, we reject

H_o and accept H_1 and or if $t^c > \pm t\alpha/_2$ (N – K) we reject H_o and accept H_1
But if $– t\alpha/_2$ (N – K) < t^c < $+ t\alpha/_2$ (N – K) we accept H_o, and we conclude our decision base on the finding.

F – Test

This involves the overall significance of the regression result as against individual significance 0f the regressions. This test can be said to be a join hypothesis test employing the analysis of variance (ANOVA). Thus if the computed F – test is greater than the critical value of F^α (K – 1)(N – K) degree of freedom, then we say it is significant.

R² and adjusted R² test

The R^2 (multiple coefficient of determination) shall be carried out to the strength of the independent variables in explaining the changes in the dependent variables. Gujariti (2004:217) has noted that changes in the adjusted R^2 should be treated as another summary statistic. The R^2 is reported as the multiple coefficient of determination adjusted to take into account the degree of freedom associated with the sum of square.

Econometrics Criterion (Second Order Test)

There are test set by the theory of econometrics and aimed at investigating whether the assumptions of econometric method employed are satisfied or not, for the purposed of this research work, we will only test for Autocorrelation.

Auto-Correlation Test

This is used to test if the errors corresponding to different observation are uncorrelated; testing for the randomness of the error term. The Durbin-waston (DW) method will be employed for this test since according to Koutsoyannis (1977) D.W provides estimates which have properties and are more efficient for all sample of all size.

PRESENTATION AND ANALYSIS OF REGRESSION RESULT

Results Of The Analysis

GDP = 238032.16 – 7139.22UNEMPLr + 0.322GEXP – 0.054MS
S.E = (16494.96) , (2739.24), (0.043), (0.014)
T – Value = (14.431), (–2.606) , (7.414), (–3.819)

Presentation of Data Used in the Analysis

Years	Gross Domestic Product (GDP)N Million	Unemployment Rate (%)	Government Expenditure (N Million)	Money Supply
1980	31546.76	6.4	14968.5	15100
1981	205222.06	5.2	11413.7	16161.7
1982	199685.25	4.3	11923.2	18093.6
1983	185598.14	6.4	9636.50	20879.1
1984	183562.95	6.2	9927.60	23370
1985	201036.27	6.1	13041.10	26277.6
1986	205971.44	5.3	16223.7	27389.8
1987	204806.54	7	22018.7	33667.4
1988	219875.63	5.1	27749.50	45446.9
1989	236729.58	4.5	41028.30	47055
1990	267549.99	3.5	60268.20	68662.5
1991	265379.14	3.1	66584.40	87499.8
1992	271365.52	3.5	92797.40	129085.47
1993	274833.29	3.4	191228.90	198479.2
1994	275450.56	3.2	160893.20	266944.89
1995	281407.4	1.9	248768.10	318763.47
1996	293745.38	2.8	337217.60	370333.53
1997	302022.48	3.4	428215.20	429731.33
1998	310890.05	3.5	487113.40	525637.8
1999	312183.48	17.5	947690.00	699733.7
2000	329178.74	18.1	701059.40	1036079.5
2001	356994.26	13.7	1018025.6	1315869.1
2002	433203.51	12.2	1018155.80	1599494.6
2003	477532.98	14.8	1225965.90	1985191.8
2004	527576.04	11.8	1426200.00	2263587.9
2005	561931.39	11.9	1822100.00	2814846.1
2006	595821.61	12.3	1938002.5	4027901.7
2007	634251.14	12.7	2450896.70	5832488.5
2008	672202.55	14.7	3240820	9208462.6
2009	718977.33	19.7	3452990.8	9615221.5
2010	775525.7	21.1	4194217.88	11154783

SOURCE: CBN statistical bulletin, vol. 16, dec., 2011.

R = 0.971
R^2 = 0.944
Adjusted R^2 = 0.937
F – Value = 150.439
D.W = 1.413
N = 30

TEST OF HYPOTHESIS

Standard Error Test

These test is apply for judging the statistical reliability of the estimate of the regression coefficient βi's and it provide a measure of the degree of confidence that we may attribute to these estimate. Thus, it is tested below;

Statement of Hypothesis

H_0 : βi's = 0 (the parameters estimated are statistically insignificant)
H_i : βi's ≠ 0 (the parameters estimated are statistically significant)

Since S.E (β_1) > β_1/2 that is 2739.24 > –7139.22/2 we conclude that the coefficient of Unemployment rate is statistically insignificance; since S.E (β_2) < β_2/2 i.e.0.043 < 0.322/2 we conclude that the coefficient estimate of the Government Expenditure is statistically significance and for β_3, 0.014 > –0.053/2 we conclude that the coefficient estimate of money supply is statistically insignificance Generally, from the above test we saw that, unemployment rate and money supply coefficient proved statistical insignificance in explaining the level of Gross

Domestic Product within the period of study in Nigeria while the government expenditure coefficient is statistically significance.

Student T–Test

Statement of Hypothesis

H_o : β_i's = 0 (the parameters estimated are statistically insignificant)
H_i : β_i's ≠ 0 (the parameters estimated are statistically significant)

This hypothesis will be tested at 5% level of significance with N –K degree of freedom which means 95% level of confidence. Therefore, the critical value of t is;

$\pm t\alpha/2 (n - k) = \pm t\ 0.05/2\ (30 - 4) = \pm t\ 0.025\ (26) = t^t = \pm 2.056$

Base on the decision rule stated in chapter three above, since $\pm t^t > t^c(\beta_i)$, i.e. ±2.056 > –2.606 we conclude that the coefficient estimate of Unemployment rate is statistically insignificance at 5% level. For β_2 Since 7.414 > +2.056 we conclude that the coefficient of government expenditure is statistically significant also, 2.056 > –3.819 we conclude that the coefficient of money supply is statistically insignificance in explaining the change in the economic growth at 5% level of significant which means 95 level of confidence with which we can attribute the effect of the explanatory variables on the dependent variable in our model.

F – Test

The F – test, which follows an F – distribution, measure or test joint significance of independent variables on the dependent variable. It is also used to test the significant of R – square. In this section F – test will be tested at 5% level of significance. At α = 5%, with K – 1 (v_1) and N – K (v_2), i.e (V_1 = 3) & (V_2 = 26) degree of freedom. From the F – distribution table, we have F – critical, $F^{0.05}\ v_1,\ v_2$= 2.69 and given F – calculated, F* = 150.439. Since F* > $F^{0.05}\ v_1,\ v_2$, i.e. 150.439 > 2.69 at 5% level of significance, we reject the Null Hypothesis (H_0) and conclude that the variables in the model are statistically and jointly significance, which implies that the R – square is statistically significance and different from zero.

Test for Autocorrelation

In the regression equations estimated, we estimated the Durbin – Watson, (d – statistics). The essence of this test is to check whether the random term (U's) of different observation are independent or not as stated in chapter three under the assumption of stochastic term. Thus

below is the test for Autocorrelation of the estimated model.

Statement of Hypothesis

H_o: ρ = 0 (no Autocorrelation)
H_i : ρ ≠ 0 (there is Autocorrelation)
Level of significance; α = 5%
From the Durbin – Watson table when N = 30 and K = 4, then dL = 1.143 while du = 1.739. However, the computed Durbin – Watson statistics (d*), from the result presented in section 4:1 is 1.413. Therefore, since d* < du i.e. 1.413 <1.739 we conclude that there is an evidence of positive Autocorrelation or positive first – order serial correlation as the case may be in the model.

SUMMARY OF MAJOR FINDINGS

From the research carried out on the effect of unemployment on economic growth in Nigeria from 1980 - 2010 using ordinary least square regression technique, the data shows that unemployment is negatively related to the economic growth. The economic analysis of the findings shows that the variables under consideration conform to apriority expectation of the economics theory. The statistical evaluation equally shows a higher level of statistical insignificant of individual coefficient of the estimate.

The evidence stems from the fact that the T- statistics of the variables shows that UNEMP and MS are insignificant while GEXP is significant as shown in section 4.3. However, the R², which had a value of 0.971 indicate that the entire regression had a goodness fit which means that, 97.1% fluctuation in the dependent variable is explained by fluctuation in the regression. More so the F-test showed that the entire regression was adequate. The summary of the whole regression indicated that the overall regression is statistically significant implying a good fit. The econometric finding shows that from the Durbin Watson (DW) test that the successive values under consideration were Auto correlated. That is, the absolute values of DW statistics are greater than various critical values at 5%.

CONCLUSION

Empirical research was carried out testing the Effect of Unemployment on Economic Growth in Nigeria, using Gross Domestic Product (GDP) as a proxy for Economic growth. Gross Domestic Product (GDP) was regressed on Unemployment rate, Government Expenditure, and Money supply between 1980 – 2010. The result also shows that unemployment does not significantly affect economic growth, but a good performance of an economy in terms of per capita growth may therefore be

attributed to the other factors in the country.

RECOMMENDATIONS

Based on the finding and conclusion drawn above;

1). Concerted effort should be made by policy makers to increase the level of output in Nigeria by improving productivity/supply in order to reduce unemployment and the prices of goods and services (inflation) so as to boost the growth of the economy.

2). Another policy implication of this study is that government should embark on labour intensive technique of production as against capital intensive and also close the border to some extent which is the likely measure to reduce unemployment and Inflation and increase domestic output level (GDP).

3). There is equally an urgent need for more infrastructure facilities like expanding the telecommunication network to the rural part of the country, good roads and electrification projects which can create employment for the jobless citizens.

4). A conducive environment for foreign direct investment should be created to ensure Nigeria's full participation in the global business opportunities that would create job for the teeming population.

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APPENDIX

YEARS	Gross Domestic Product (GDP) N Million	Unemployment Rate (%)	Government Expenditure (N Million)	Money Supply
1980	31546.76	6.4	14968.5	15100
1981	205222.06	5.2	11413.7	16161.7
1982	199685.25	4.3	11923.2	18093.6
1983	185598.14	6.4	9636.50	20879.1
1984	183562.95	6.2	9927.60	23370
1985	201036.27	6.1	13041.10	26277.6
1986	205971.44	5.3	16223.7	27389.8
1987	204806.54	7	22018.7	33667.4
1988	219875.63	5.1	27749.50	45446.9
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1992	271365.52	3.5	92797.40	129085.47
1993	274833.29	3.4	191228.90	198479.2
1994	275450.56	3.2	160893.20	266944.89
1995	281407.4	1.9	248768.10	318763.47
1996	293745.38	2.8	337217.60	370333.53
1997	302022.48	3.4	428215.20	429731.33
1998	310890.05	3.5	487113.40	525637.8
1999	312183.48	17.5	947690.00	699733.7
2000	329178.74	18.1	701059.40	1036079.5
2001	356994.26	13.7	1018025.6	1315869.1
2002	433203.51	12.2	1018155.80	1599494.6
2003	477532.98	14.8	1225965.90	1985191.8
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2008	672202.55	14.7	3240820	9208462.6
2009	718977.33	19.7	3452990.8	9615221.5
2010	775525.7	21.1	4194217.88	11154783

SOURCE: CBN statistical bulletin, vol. 16, dec., 2011.

REGRESSION

Variables Entered/ Removed

Mode 1	Variables Entered	Variables Removed	Method
1	MS, UNEMPLr, GEXPa		Enter

1). All requested variables entered.
2). Dependent Variables : GDP

Model summary_b

Model 1	R	R Square	Adjusted R sequare	Std. error of the Estimate	Durbin Watson
1	.971	.944	.937	45730.25022	1.413

1). Predictors: (constant), MS, UNEMPLr, GEXP
2). Dependent Variable : GDP

ANOVA_b

Model		Sum of squares	df	Mean square	F	Sig.
1	Regression	9.438E 11	3	3.14611	150.439	.000_a
	residual	5.646E 10	27	2.091E9		
	Total	1.000E 12	30			

1). Predictors: (constant), MS, UNEMPLr, GEXP
2). Dependent Variable : GDP

Coefficients_a

Model		Unstandardized coefficients		Standardized coefficients Beta	t	Sig.
		B	std. Error			
1	(constant)	238032.162	16494.959		14.431	.000
	UNEMPLr	-7139.224	2739.236	-.223	-2.606	.015
	GEXP	-.322	.043	2.021	7.414	.000
	MS	-.054	.014	-.907	-3.819	.001

1). Dependent Variable : GDP

Residuals Statistics_a

	minimum	maximum	mean	Std.Deviation	N
Predicted value	1.9332E5	8.3264E5	3.4878E5	1.77372E5	31
Residual	-1.6479E5	5.829941E4	.00000	43383.52460	31
Std. predicted	-8.76	2.728	.000	1.000	31
	-3.604	1.275	.000	.949	31

1). Dependent variable: GDP