

**MACROECONOMIC VARIABLES AND THE DEVELOPMENT OF NIGERIA
ECONOMY**

AJAYI RUKAYAT OZIVUBANI

MGS2104720

DEPARTMENT OF FINANCE

FACULTY OF MANAGEMENT SCIENCES

UNIVERSITY OF BENIN

BENIN CITY

DECEMBER, 2025

**MACROECONOMIC VARIABLES AND THE DEVELOPMENT OF NIGERIA
ECONOMY**

AJAYI RUKAYAT OZIVUBANI

MGS2104720

**A PROJECT WRITTEN AND SUBMITTED TO THE DEPARTMENT OF
FINANCE, FACULTY OF MANAGEMENT SCIENCES IN PARTIAL
FULFILMENT OF THE REQUIREMENTS OF THE AWARD OF BACHELOR
OF SCIENCE (B.Sc.) DEGREE IN BANKING AND FINANCE OF THE
UNIVERSITY OF BENIN**

DECEMBER, 2025

DECLARATION

I, **RUKAYAT OZIVUBANI AJAYI**, hereby declare that this project titled “Macroeconomic Variables and the Development of the Nigerian Economy” is an original work carried out by me in the Department of Finance, Faculty of Management Sciences, University of Benin, Benin City, Edo state, under the supervision of .To the best of my knowledge, this work has not been previously submitted by any other person, either in part or whole, for any academic award in this or any other institution. All sources of information used in this research have been duly acknowledged.

AJAYI RUKAYAT OZIVUBANI

DATE

CERTIFICATION

This is to certify that this project titled “Macroeconomic Variables and the Development of the Nigerian Economy” was carried out by AJAYI RUKAYAT OZIVUBANI, with matriculation number MGS2104720, in partial fulfillment of the requirements for the award of Bachelor of Science (B.Sc) in finance, University of Benin, Benin city.

Prof. M.G AJAO
(Project supervisor)

Date

Dr. O. AIGBOVO.
(Project Coordinator)

Date

Dr. A. O. IZEKOR
(Head of Department)

Date

DEDICATION

This project is dedicated to Almighty Allah for His grace and mercy bestowed upon me throughout my study in the Department of Banking and Finance, Faculty of Management Sciences, University of Benin, Benin City. This project is also dedicated to my beloved parents, Mr. and Mrs. Ajayi, for their unwavering support and love throughout the course of my study.

ACKNOWLEDGMENT

All praise and gratitude are due to Allah, the Most Gracious and Most Merciful, for granting me the strength, knowledge, and opportunity to successfully complete this research work. Without His guidance, this would not have been possible.

My profound appreciation goes to my project supervisor, Professor M.G. Ajao, for his unwavering support, constructive guidance, and valuable insights throughout the course of this project.

I also extend my sincere gratitude to my lecturers in the Department of Banking and Finance. To mention a few, I am deeply thankful to Dr. Abudu Kasim, Dr. Isibor Osaigbovo, and Dr. Momoh Hussein for their commitment to my academic development and for imparting knowledge that has shaped my understanding of this field.

My heartfelt appreciation goes to my parents, Alhaji Abdul Salam Uba Ajayi and Mrs. Maryam A. Ajayi, for their love, prayers, and continuous encouragement. I am equally grateful to my siblings: Sheik Saleem Abdul Salam, Mrs. Ajayi Halimat Jumahi, Mr. Manrajab Ajayi, and Mrs. Fatihat Abdurrahman Onifade, whose support and motivation have been a constant source of strength. May Almighty Allah reward you all in this world and in the hereafter.

I would also like to express my deep gratitude to Mr. Abdul Razak for being a guide and providing valuable assistance during the course of this research.

My appreciation extends to my dear friends Asake, Aishah, Queen, Queen B., Jessica, Maryam Muhammad and Sakeenah Alabi, for their encouragement, companionship, and support throughout this journey. Finally, I acknowledge my MSSN family for their prayers, inspiration, and constant reminder to strive for excellence.

TABLE OF CONTENTS

Title Page	-	-	-	-	-	-	-	-	-	i
Declaration	-	-	-	-	-	-	-	-	-	ii
Certification	-	-	-	-	-	-	-	-	-	iii
Dedication	-	-	-	-	-	-	-	-	-	iv
Acknowledgement	-	-	-	-	-	-	-	-	-	v
Table of Contents	-	-	-	-	-	-	-	-	-	vi
List of Tables	-	-	-	-	-	-	-	-	-	ix
Abstract	-	-	-	-	-	-	-	-	-	x

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study	-	-	-	-	-	-	-	-	1
1.2 Statement of the Research Problem	-	-	-	-	-	-	-	-	3
1.3 Research Questions	-	-	-	-	-	-	-	-	4
1.4 Objectives of the Study	-	-	-	-	-	-	-	-	4
1.5. Research Hypotheses	-	-	-	-	-	-	-	-	5
1.6 Significance of the Study	-	-	-	-	-	-	-	-	5
1.7 Scope of Study	-	-	-	-	-	-	-	-	6

CHAPTER TWO: LITERATURE REVIEW

2.1 Conceptual Review	-	-	-	-	-	-	-	-	7
2.1.1 The Concept of Macroeconomics	-	-	-	-	-	-	-	-	7
2.1.2. Macroeconomic Variables	-	-	-	-	-	-	-	-	9

2.1.2 Exchange Rate	-	-	-	-	-	-	-	-	10
2.1.3. Inflation	-	-	-	-	-	-	-	-	17
2.1.4 Interest Rate	-	-	-	-	-	-	-	-	24
2.1.5. Economic Development		-	-	-	-	-	-	-	30
2.1.7 Impact of Macroeconomic Variables on Economic Development in Nigeria									33
2.2 Theoretical Reviews	-	-	-	-	-	-	-	-	36
2.3 Empirical Reviews	-	-	-	-	-	-	-	-	41
2.4 Gaps in Empirical Reviews	-	-	-	-	-	-	-	-	44
CHAPTER THREE: METHODOLOGY									
3.1 Research Design	-	-	-	-	-	-	-	-	45
3.2 Population and Sample Size	-	-	-	-	-	-	-	-	45
3.4 Model Specification	-	-	-	-	-	-	-	-	46
3.5 Description of Research Variables.			-	-	-	-	-	-	47
3.6 Method of Data Analysis	-	-	-	-	-	-	-	-	47
3.7 Sources of Data	-	-	-	-	-	-	-	-	48
CHAPTER FOUR: DATA PRESENTATION AND ANALYSIS									
4.1 Introduction	-	-	-	-	-	-	-	-	49
4.2 Analysis/Interpretation of Result	-	-	-	-	-	-	-	-	50
4.2.1 Correlation Analysis	-	-	-	-	-	-	-	-	51
4.2.2 Regression Analysis	-	-	-	-	-	-	-	-	53
4.3 Analysis of Diagnostic Tests	-	-	-	-	-	-	-	-	56
4.3.1 Heteroskedasticity Test	-	-	-	-	-	-	-	-	57

4.3.2 Autocorrelation test	-	-	-	-	-	-	-	57
4.4 Test of Hypotheses	-	-	-	-	-	-	-	58
4.4 Discussion of Findings	-	-	-	-	-	-	-	60
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS								
5.1 Summary of Findings	-	-	-	-	-	-	-	63
5.2 Conclusion	-	-	-	-	-	-	-	64
5.3. Recommendations	-	-	-	-	-	-	-	65
5.4 Limitations of the Study	-	-	-	-	-	-	-	66
Reference	-	-	-	-	-	-	-	67
Appendix	-	-	-	-	-	-	-	71

LIST OF TABLES

Table 3.1: Variable description	-	-	-	-	-	-	47
Table 4.1: Descriptive Statistics	-	-	-	-	-	-	50
Table 4.2: Correlation Table	-	-	-	-	-	-	51
Table 4.3: Regression Analysis: GDPgr as Dependent variable	-	-	-	-	-	-	54
Table 4.4: Heteroskedasticity Test	-	-	-	-	-	-	57
Table 4.5: Breusch- Godfrey Correlation	-	-	-	-	-	-	57

ABSTRACT

This study examines the impact of key macroeconomic variables interest rate, inflation rate, and exchange rate on Nigeria's economic development over the period 2015 to 2024. The research is driven by the persistent macroeconomic instability Nigeria has faced since the Structural Adjustment Programme (SAP) era, which has contributed to fluctuating development outcomes. While several studies have explored macroeconomic factors and economic growth, limited empirical evidence directly links these variables to economic development using recent data. This study addresses this gap by analysing how macroeconomic volatility influences Nigeria's development performance. An ex-post facto research design was adopted, using secondary annual data obtained from the Central Bank of Nigeria, National Bureau of Statistics, and World Bank. GDP growth rate was used as a proxy for economic development, while inflation, interest rate, and exchange rate served as the explanatory variables. The data were analysed using descriptive statistics, correlation analysis, and Ordinary Least Squares (OLS) regression, supported by diagnostic tests to ensure model robustness. Findings reveal that both inflation and interest rates have significant negative effects on economic development, suggesting that rising price levels and borrowing costs hinder productive investment and economic performance. Conversely, exchange rate movements exert a significant positive influence, indicating that currency dynamics play a key role in shaping development outcomes. The model demonstrates strong explanatory power and reliability. The study concludes that Nigeria's economic development is highly sensitive to macroeconomic volatility and emphasizes the need for stronger policy coordination, institutional reforms, financial-market strengthening, and economic diversification to support sustainable development.

CHAPTER ONE

INTRODUCTION

1.2 Background of the Study

It is a universally accepted fact that a lot commercial activities are in place as well as institutions interacting among themselves in human society to bring about economic development in any given nation. The level of these socio-economic activities is determined by a number of factors, institutions including government policies and programmes which are implemented to influence the level of economic activities. As these economic activities expands and interact with many aspects of the larger society and institutions, the need to recognize the possibility of actual output and how society can enjoy a continuous growth in potential output, became the concern of development administrators and economic policy makers. This process in its entirety is called macroeconomics, whose major goals amongst others; is to achieve sustainable growth and development by focusing on the aggregate changes that occurs in the society and economy.

Fundamentally, every nation of the world in the 21st Century desires a stable and growing economy. To foster this, there are variables which must be floated while others are to be held constant such as macroeconomic variables. Given in the light of the truism that one of the major goals of macroeconomic policies is to achieve sustainable economic growth and development. As aptly put by Yakubu, Baffour and Shehu (2013) that “the government tries to influence the performance of the national economy

through fiscal and monetary policies such as changing the level of taxation, controlling government spending, and the supply of money or credit to the economy”.

The influence of macroeconomic variables on the economic development of Nigeria over the years has remained grossly insufficient to meet the expanding social, political and public spending required in the fostering of economic growth. Glaring to note is the fact that the emergence of the Structural Adjustment Programs (SAP) in 1986, opened the Nigerian economy doorways to the problems of high inflation and unstable economic growth and development, trade imbalance, unstable exchange rate and high interest rate which had adversely affected economic development in Nigeria (Abdul and Mawan 2013). Since then, economists and financial analysts differ on policies’ issues particularly on which policy that could enhance long- run growth and development in the country. Antwi, Mills & Zhao (2013) argues that macroeconomic policies are necessary for long term development; while Gatawa, Akinola & Muftau (2017) are of the view that monetary variables are more effective and dependable than fiscal variables in affecting changes in economic activities. It is against this backdrop that this study examines the reliability of these positions with respect to economic development in Nigeria. Hence, the study underlines as its topic: *macroeconomic variables and the development of Nigerian economy*. Its major objective therefore is to study and ascertain whether macroeconomic variables can impact on Nigerian economic development as well as the relationship between each macroeconomic variables.

1.2 Statement of the Research Problem

The basic objective of any country in the world today is to achieve a boisterous and stable economy through various economic activities and programmes. To achieve this involves a combination of feasibility plans with policies measures that will drive macroeconomic variables towards positive economic outcomes. Nigeria is one of such countries in the world in search of this economic development and stability. Unfortunately, Nigeria's Government adopts fiscal and monetary policies that are unrealistic in transforming these variables into quality and quantitative results. Consequently, the country is threatened by a lot of economic problems ranging from decline, stagnation, stunted development, recession and currency devaluation.

Fundamentally, since the introduction of the Structural Adjustment Programme (SAP) in the mid-1980s by the Gen. Ibrahim Babangida Regime, the country's currency rate has fluctuated. The specific objective of the Programme which was to ensure a stable and realistic exchange rate was not met. In attempt to salvage the effects of the Structural Adjustment Programme (SAP), various Regimes and Governments have introduced and implemented several exchange rate policies over the past three and half decades in a bid to stabilize exchange rates, all amounted to naught. These fluctuations have made the Naira unstable, and its value is generally difficult to ascertain during short- and long-term spans. Hence, there is a great need to study the phenomenon.

It appears that these policies are not well conceived from a global economic point of view, or lacks expertise to implement them in order to yield the desired result.

On the other hand, it seems there are several factors that are challenging the available expertise and the effective implementation of these policies. Hence, the need to carefully investigate these phenomena to ascertain its truism necessitated this study.

1.3 Research Questions

In order to attain the objectives of the study, the following questions have been put forward.

1. Does macroeconomic variables have any impact on Nigerian economic development?
2. What is the relationship between macroeconomic variables and Nigeria's economic development?
3. Which of these macroeconomic variables change has a stronger effect or influence on Nigeria's economic development indicators?

1.4 Objectives of the Study

The aim of this study is to examine the impact of macroeconomic variables on Nigerian economic development. The specific objectives therefore are:

1. Ascertain whether macroeconomic variables can impact on Nigerian economic development;
2. Study the relationship between each macroeconomic variable's and Nigeria's economic development;
3. investigate which of these macroeconomic variables has a stronger effect or influence on Nigeria's economic development indicators.

1.5. Research Hypotheses

Pursuant to the objectives of the study, the following hypotheses are put forward:

H0₁: Microeconomic variables has no significant impact on Nigeria's economic development.

H0₂: There's no significant relationship between macroeconomic indicators and the Nigeria economic development.

H0₃:- The changes inflation, exchange rate, and interest rate do not affect Nigeria's economic development equally; at least one of these variables exerts a stronger influence than the others.

1.6 Significance of the Study

The study examined the impact of macroeconomic variables and the development of Nigeria economy. Its outcome will be beneficial to:

1. *Policy makers:* Policy makers such as the Central Bank of Nigeria and government economic planners will gain insights into how instability in inflation, interest, and exchange rates is likely to affect investment. Such evidence can inform monetary and fiscal policies aimed at stabilizing prices and the currency to support development.
2. *Academics and Researchers:* Contribute to the growing body of literature on macroeconomic variables by filling a gap and providing a foundation for further studies.

3. *Businesses and Investors*: The findings will inform investors and businesses owner in Nigeria a better understanding of the risk associated with macroeconomics swings so as to enable them plan accordingly.
4. *Development Organisation and NGOs*: They can use the findings to advocate for policies that would improve economic stability and living standard.

1.7 Scope of Study

The study was focused on macroeconomic variables and Nigerian from Independence till date, the country has implemented a lot of microeconomic policies which are aimed at national economic development. It will be impossible to study and analyze these policies in a study of this nature. Therefore, the scope of the study was narrowed and limited to cover a period of Ten Years, that is, from 2015 – 2024. Secondly, among the economic variables, it paid premium attention to three variables: consumer inflation, exchange rate and interest rate (the CBN's monetary policy rate and related market rate).

The clear statement of the scope of the study is instructive and based on the fact that is impossible to carry out a comprehensive study on the various macroeconomic variables with respective Nigerian economic development. Secondly, it is done to avoid overgeneralization and the admittance of literature and information that are drudgery in nature.

CHAPTER TWO

LITERATURE REVIEW

This chapter is committed to literature review of the basic terminologies and concepts that make up the topic under investigation. Its aim is to attempt an analysis of the concepts that are apposite and related to the topic of this investigation via the opinion and existing works of scholars. It offers insight into the standpoint held by various authorities as regards to the effect of microeconomic variables on economic development with focus on Nigeria. The literature review is set out in the following order.

2.1 Conceptual Review

2.1.1 The Concept of Macroeconomics

It is germane to reiterate that the study of Economics is divided into two major branches, namely Microeconomics and Macroeconomic. Microeconomics as it were is concerned with the economic behavior of individuals, households and firms. According to Iyoha, Oyefusi and Oriakhi (2003), the body of knowledge under microeconomics provides us economists with the basic tools for analyzing the behavior of these individuals and small units of the society.

Put differently, macroeconomics is that branch of economics that is committed to the study of the economic behavior of large units such as the government, the

household s and business sectors. Thus, it presents a general outline of the economy of a nation works, thereby attempting to show its structure and the relationship between its various sectors (Iyoha, Oyefusi and Oriakhi, 2003). To this end, the both branches of economics could be summed to be that study or issues relating to microeconomics is liken to a tree, while that of macroeconomics is liken to a forest.

Historically, “microeconomics did not appear as a branch of economic study until the 1930’s, following the celebrated work of John Maynard Keynes in 1936” (Iyoha, Oyefusi and Oriakhi, 2003:22). This is because, prior to that time, it was believed, “as a claim of the classical that the price system will by itself ensure the maximum utilization of all resources and there was thus no need for any deliberate policy to manage the economy” so opined Iyoha, Oyefusi and Oriakhi (2003:22).

In the words of Ackley cited in Onuchuku & Adoghor (2000), macroeconomics is defined as that branch of economics which “concerns itself with such variables as the aggregate volume of the output of an economy, with the extent to which its resources are employed, with the size of the national income, with the ‘general price level’”. In whatever words it is defined, macroeconomics is concerned with the study of the functioning of the whole economy, including how the total output of goods and services and the total employment of resources are determined in the economy and what causes fluctuations in their sizes. By that, it tends to analyze why at one time 15 percent (%) of the total labour force in the economy is employed while at other only 5 percent (%) of the total labour force cannot find employment in the same economy. It is therefore that

division which studies the phenomenon of inflation and deflation and seeks to explain why

2.1.2. Macroeconomic Variables

There is insufficient supply of literature committed to direct and simultaneous definition of macroeconomic variables and the development of Nigeria economy. The available ones defined the concepts in separate ways. Adekunle, Alalade, and Okulenu (2016) opined that macroeconomic variables are key indications or markers of the present economic developments. They furthered that these variables all have an impact on the overall state of the economy. The most comprehensive quantitative measure of a country's overall activity is its Gross Domestic Product (GDP). Similarly, Brinson et al. (1991) avers that macro-economic variables are critical to a country both at the national and county level and impact many people. These variables pose a great influence and include the following; rate of interest, (GDP), rate of exchange, supervisory framework. Wasserfallen (1989) and Pearce, Roley (1985) advance that key macro-economic variables that influence investment markets include interest rates, inflation, economic growth, exchange rates, current account and fiscal deficits.

Osakwe, John & Chijioke (2024:71) sees Macroeconomic variables as

*factors that are pertinent to the broad
economy at the regional or national level
and affect a large number or population
rather than a few individuals.*

Macroeconomic variables are indicators or main signposts that signal trends in the economy. Also, within the economic factors are some key elements that adhered to economic growth and dominantly determined economic health include government expenditures, and government investment.

2.1.2 Exchange Rate

The exchange rate represents the value of one nation's currency in relation to another and serves as a key price in international economics. According to Salvatore (2013) similarly describes it as the number of units of a domestic currency required to obtain a unit of foreign currency. Dornbusch and Fischer (1980) emphasize that exchange rates are relative prices influenced by macroeconomic factors such as inflation, interest rates, and market expectations. Frankel (1999) expands on this by viewing the exchange rate as both a relative price and a policy instrument that reflects market forces and government interventions.

In the Nigerian context, the Central Bank of Nigeria (2022) defines it as the value of the naira against foreign currencies, which plays an essential role in trade, inflation management, and reserve policy.

Overall, the exchange rate functions as a measure of a country's economic performance and competitiveness in the global market.

Types and Measurement of Exchange Rate in the Nigerian Economy

In the Nigerian economy, the exchange rate can be viewed and measured in several ways depending on the policy environment and the level of market participation at different times. Historically, Nigeria operated a fixed or official exchange rate system, particularly during the early post-independence period and before the Structural Adjustment Programme (SAP) of 1986. Under this system, the value of the naira was officially determined by the government and maintained at a specific parity with major foreign currencies, especially the United States dollar. While this arrangement provided stability in the short term, it became increasingly difficult to sustain as foreign-exchange earnings fell and inflationary pressures intensified.

As the economy liberalized, a parallel or black-market exchange rate emerged. This refers to an unofficial rate that develops when the demand for foreign currency exceeds the supply available at the official window. Because of persistent shortages in official allocations, individuals and firms often resorted to informal markets, where the naira traded at a depreciated value relative to the official rate. This parallel market has remained an enduring feature of Nigeria's foreign-exchange system since the 1980s.

To manage competing demands for foreign exchange, authorities have at different times introduced a dual or multiple exchange-rate system. In such a framework, different rates apply to different categories of transactions. For instance,

one rate may be used for government or essential imports, another for investors, and a separate rate for retail bureaux de change. Notable examples include the Autonomous Foreign Exchange Market (AFEM) introduced in 1995, the Dutch Auction System (DAS) in 2002, and the more recent Investors' and Exporters' (I&E) window launched in 2017. These mechanisms sought to move the exchange rate closer to market fundamentals while still allowing policy oversight.

When expressed purely as the number of domestic currency units required to obtain one unit of a foreign currency, the exchange rate is known as the nominal exchange rate. This is the rate most commonly quoted by banks and in the media, and it shows the face value of the naira relative to other currencies without adjusting for inflation. However, economists often rely on the real exchange rate to assess competitiveness. The real exchange rate adjusts the nominal rate by the ratio of domestic prices to foreign prices, indicating whether local goods are becoming more or less expensive relative to those of trading partners. A sustained appreciation of the real exchange rate can signal declining international competitiveness, while depreciation may improve export performance.

In addition, researchers and policymakers sometimes employ the effective exchange rate, which represents a weighted average of Nigeria's exchange rates against the currencies of its major trading partners. This measure can also be expressed in real terms known as the real effective exchange rate (REER) to capture overall external competitiveness across several countries rather than just one bilateral relationship.

Overall, Nigeria's exchange-rate framework has evolved through various stages, combining official control with market mechanisms to balance stability and flexibility. Each type or measurement provides a different perspective on how the naira behaves in both domestic and international contexts (Ojo, 2015; Akinbobola, 2017; Central Bank of Nigeria [CBN], 2022; International Monetary Fund [IMF], 2023).

Theoretical Framework of Exchange Rate

The concept of exchange rate determination has evolved through various economic theories, each providing distinct perspectives on how currency values are established and what factors influence their movements. Understanding these theories is crucial for analyzing how exchange rate policies affect macroeconomic stability, trade, and investment in developing economies such as Nigeria.

1. The Purchasing Power Parity (PPP) Theory

The Purchasing Power Parity (PPP) theory is one of the earliest explanations of exchange rate behavior. Originally proposed by Gustav Cassel in the early 20th century, the theory argues that the exchange rate between two currencies should adjust to equalize the price levels of a common basket of goods and services in both countries (Cassel, 1918). In its absolute form, PPP suggests that identical goods should sell for the same price when expressed in a common currency, assuming no transaction costs or trade barriers. The relative version of PPP, however, focuses on the rate of change in prices stating that changes in exchange rates over time reflect inflation differentials between countries.

In Nigeria, PPP theory has been applied to explain the long-term depreciation of the naira. Persistent inflation differentials between Nigeria and its major trading partners, particularly the United States, have often led to adjustments in the nominal exchange rate to maintain purchasing power parity (Akinlo & Odusola, 2003). Nevertheless, due to trade restrictions, high import dependence, and structural rigidities, the PPP relationship has often held weakly in the short run.

2. The Balance of Payments (BOP) Theory

The Balance of Payments theory views the exchange rate as the price that equilibrates a nation's international payments. According to this theory, proposed by Bickerdike (1920) and further developed by Marshall (1923) and Robinson (1937), the exchange rate adjusts automatically to correct disequilibrium in a country's balance of payments. When a nation experiences a deficit, demand for foreign currency exceeds supply, leading to a depreciation of its currency. Conversely, a surplus in the balance of payments causes the currency to appreciate. This theory has strong relevance to Nigeria's experience under the flexible exchange rate regimes introduced after the Structural Adjustment Programme of 1986. The naira has often depreciated following declines in oil export earnings and foreign reserves, illustrating how external trade balances directly affect exchange rate movements (Ojo, 2015; CBN, 2022). Thus, Nigeria's exchange rate tends to mirror the country's external account performance, validating aspects of the BOP approach.

3. The Monetary Approach to Exchange Rate

The Monetary Approach to exchange rate determination was popularised by scholars such as Frenkel (1976) and Johnson (1979). It explains exchange rate behavior in terms of money supply and demand conditions in each country. The theory assumes that exchange rates are influenced by relative money supplies, income levels, interest rates, and inflation expectations. When the domestic money supply increases faster than that of a trading partner, the domestic currency tends to depreciate because higher inflation reduces its real value.

For Nigeria, this theory has considerable explanatory power. Periods of rapid expansion in money supply, often due to fiscal deficits or monetization of oil revenue have coincided with depreciation of the naira. The Central Bank of Nigeria's interventions to control liquidity and inflation are therefore attempts to stabilize the exchange rate consistent with the monetary approach (Akinbobola, 2017; IMF, 2023).

4. The Portfolio Balance Theory

The Portfolio Balance Theory developed in the 1970s by Kouri (1976) and Branson (1977) extends the monetary approach by incorporating capital flows and asset preferences. It argues that exchange rates are determined by the demand and supply of financial assets denominated in different currencies. Investors choose between domestic and foreign assets based on expected returns, risk levels, and policy credibility. A shift in investor confidence or interest-rate differentials can therefore lead to currency appreciation or depreciation.

This theory is particularly relevant in Nigeria's modern context, where liberalisation of the capital account and foreign portfolio investments significantly influence the naira's value. For instance, changes in foreign investor sentiment or in the U.S. interest rate environment often result in capital inflows or outflows that affect exchange rate stability (IMF, 2023; Adeoye, 2019).

Impact of Exchange Rate Movements on the Nigerian Economy

Exchange rate movements play a crucial role in shaping the performance of the Nigerian economy. Because Nigeria is heavily dependent on imports for both consumption and industrial inputs, as well as on crude oil exports for foreign exchange earnings, fluctuations in the naira's value have wide-ranging implications for output, inflation, investment, and overall macroeconomic stability.

1. **Impact on Economic Growth:-** The relationship between exchange rate fluctuations and economic growth in Nigeria has been widely debated among scholars.

According to Akinlo and Lawal (2012), moderate depreciation of the naira can stimulate economic growth by making Nigerian exports cheaper and more competitive in international markets. However, excessive or unpredictable depreciation tends to undermine productivity by raising the cost of imported machinery and raw materials essential for production. Similarly, Odusola and Akinlo (2003) noted that the instability of the exchange rate since the introduction of the Structural Adjustment Programme

(SAP) in 1986 has often discouraged long-term investment and planning, thereby constraining growth performance.

2. Impact on Foreign Investment:-Exchange rate stability is a critical factor influencing both foreign direct investment (FDI) and portfolio inflows.

According to Adeoye (2019), investors prefer stable exchange rate environments because uncertainty in currency valuation increases the risk of losses when profits are repatriated. Persistent depreciation of the naira, coupled with the existence of multiple exchange rate windows, has discouraged some foreign investors, especially those seeking predictable returns.

However, in periods when exchange rate policies become more transparent and market-driven such as after the introduction of the Investors' and Exporters' (I&E) window in 2017. Nigeria has witnessed temporary improvements in foreign capital inflows

2.1.3. Inflation

Inflation is a key macroeconomic concept that has been defined in various ways by economists and scholars depending on their analytical focus. According to Samuelson and Nordhaus (2010), inflation refers to a persistent rise in the general price level of goods and services in an economy over a period of time. This definition emphasizes the sustained and broad nature of price increases rather than temporary fluctuations. Similarly, Mankiw (2018) describes inflation as the rate at which the overall price level in an economy increases, reducing the purchasing power of money.

He explains that inflation affects both consumers and producers by distorting relative prices and real incomes.

In the view of Friedman (1970), inflation is “always and everywhere a monetary phenomenon,” arising from a faster growth in the quantity of money than in output. This monetarist interpretation highlights the role of money supply and central bank policy in driving inflationary trends. Dornbusch, Fischer, and Startz (2014) add that inflation is not merely a price-level issue but also a reflection of demand–supply imbalances and structural inefficiencies in the economy. From a Nigerian perspective, the Central Bank of Nigeria (2022) defines inflation as a continuous rise in the prices of goods and services, usually measured by the consumer price index (CPI), which indicates the cost of living for households.

In summary, inflation generally refers to a sustained increase in the overall price level of goods and services, resulting in a decline in the purchasing power of money. While some scholars emphasize its monetary causes, others attribute it to structural and demand-side factors.

Causes of Inflation

Inflation does not arise from a single source; rather, it results from a combination of factors that disturb the balance between aggregate demand and aggregate supply in an economy. Economists generally classify the causes of inflation into demand-pull, cost-push, monetary, structural, and external. Each of these sources

contributes differently to price instability, depending on the nature and structure of a country's economy.

Demand-Pull Inflation

Demand-pull inflation occurs when total demand in an economy grows faster than the available supply of goods and services. When households, firms, and government collectively increase their spending, the pressure on existing production capacity leads to a general rise in prices. This situation is often summarized as “too much money chasing too few goods.” According to Mankiw (2018), when an economy approaches full employment, additional spending cannot lead to more output but only to higher prices. In developing economies such as Nigeria, demand-pull inflation may also result from expansionary fiscal or monetary policies, where government borrowing or excessive money supply stimulates consumption beyond productive capacity.

Cost-Push Inflation

Cost-push inflation arises from rising production costs that compel firms to increase prices in order to maintain profitability. Increases in wages, raw material costs, fuel prices, and taxes can all contribute to higher production expenses. When such costs rise across various sectors, firms transfer the burden to consumers through higher prices. Dornbusch, Fischer, and Startz (2014) explain that cost-push inflation typically emerges when powerful labor unions secure wage increases above productivity levels, or when external shocks such as increases in global oil prices raise input costs. In

Nigeria, fluctuations in the price of petroleum products and imported goods often trigger cost-push inflation.

Monetary Factors

From the monetarist perspective, inflation is essentially a monetary phenomenon. This view, advanced by Milton Friedman (1970), argues that inflation occurs when the growth of money supply exceeds the growth of real output. When too much money circulates in the economy relative to the available goods and services, the purchasing power of money declines, leading to higher prices. In other words, persistent inflation is often associated with loose monetary policies and weak control over money creation by the central bank.

Theories of Inflation

The study of inflation has evolved through a series of theoretical perspectives, each building upon or reacting to the shortcomings of its predecessors. Economists have long sought to understand why general prices rise and how economic policy can respond effectively. Over time, six major theoretical traditions: demand-pull, cost-push, monetarist, Keynesian, expectations-augmented, and rational-expectations have emerged, each offering a distinct explanation of inflationary processes.

The earliest explanation is the **Demand-Pull** Theory of Inflation, which dates back to the classical and Keynesian economists of the mid-twentieth century, including John Maynard Keynes and his followers. The theory argues that inflation arises when aggregate demand in an economy outpaces aggregate supply, particularly in periods of

full employment. When consumers, businesses, and governments all attempt to buy more goods and services than the economy can produce, prices are “pulled” upward. Mankiw (2018) and Samuelson and Nordhaus (2010) observe that such situations are often associated with expansionary fiscal or monetary policies. In essence, demand-pull inflation is demand-driven: too much money chasing too few goods. However, this theory assumes that inflation only occurs in conditions of high demand and full utilisation of resources. It fails to explain situations where inflation persists despite weak demand or unemployment, as experienced during episodes of stagflation in the 1970s. This limitation prompted economists to search for alternative explanations, leading to the emergence of the cost-push perspective.

The **Cost-Push Theory** of Inflation developed primarily in response to the observed coexistence of inflation and unemployment something demand-pull theory could not explain. This approach, associated with economists such as Gardner Ackley and later formalised by Dornbusch, Fischer, and Startz (2014), attributes inflation to rising production costs rather than excessive demand. In this view, increases in wages, import prices, or energy costs, push firms to raise prices to maintain profitability. Cost-push inflation often originates from supply shocks, such as oil-price increases or currency depreciation. In countries like Nigeria, where exchange-rate fluctuations and energy shortages are recurrent, this theory provides valuable insight. Yet, the cost-push theory has its own weakness: it can account for a temporary rise in prices but not for sustained inflation over long periods. Without continuous cost increases, prices should

stabilise. This inability to explain persistent inflation led economists to look toward monetary factors, culminating in the monetarist tradition.

The **Monetarist Theory** of Inflation, advanced by Milton Friedman (1970), marked a decisive shift in emphasis from real-sector variables to monetary causes. Friedman famously declared that “inflation is always and everywhere a monetary phenomenon.” According to this view, when the money supply grows faster than real output, the inevitable result is a general rise in prices. The monetarists placed the responsibility for inflation squarely on central banks and fiscal authorities that expand money supply excessively. This theory brought analytical clarity and strong empirical support in many economies, including Nigeria, where episodes of rapid monetary growth often coincide with price instability. Nevertheless, monetarism has been criticised for oversimplifying complex inflationary processes. It assumes a stable relationship between money supply and output and neglects short-run real-sector shocks or expectations effects. As a result, it struggles to explain periods when money growth is stable but prices still rise. These criticisms inspired economists to revisit Keynesian insights and incorporate expectations and real-world rigidities into inflation theory.

This re-examination arose the **Keynesian Theory** of Inflation, which integrates both demand-side and supply-side elements. Keynesians argue that inflation can occur before full employment is reached, because markets are imperfect and prices or wages are sticky. Inflation, in this framework, results from excess aggregate demand

interacting with structural bottlenecks in production. The Keynesian model allows for short-run trade-offs between inflation and unemployment, implying that government spending or monetary stimulus can temporarily boost output at the cost of higher prices. While this approach captures more real-world complexity than pure monetarism, it still assumes that people's expectations are static that workers and firms do not quickly adjust to inflation. This limitation became evident in the late 1960s and 1970s, when economies experienced high inflation without corresponding reductions in unemployment. To address this, economists began to formalise the role of expectations.

The Expectations-Augmented Phillips Curve Theory, developed independently by Milton Friedman and Edmund Phelps, extended Keynesian reasoning by introducing adaptive expectations. It proposed that inflation depends not only on current demand conditions but also on what people expect inflation to be in the near future. If workers anticipate higher prices, they will demand higher wages, and firms, expecting higher costs, will raise prices accordingly. Over time, expectations adjust, and the short-run trade-off between inflation and unemployment disappears. This theory successfully explained the stagflation of the 1970s, which earlier models could not.

2.1.4 Interest Rate

Interest rate represents the cost of borrowing or the return on lending money over a specific period. It plays a crucial role in economic activities by influencing investment decisions, savings behaviour, and overall economic growth. Although the term is widely used, different scholars and researchers have offered varied definitions reflecting the role of interest rates in the economy.

According to Jhingan (2011), the interest rate is the price paid for the use of capital for a certain period, often expressed as a percentage of the principal. Mishkin (2015) defines it as the cost of borrowing funds or the payment made to those who supply funds, representing the link between savers and investors in the financial system. Similarly, Nnanna (2004) views the interest rate as the reward for parting with liquidity for a specified time, which plays a key role in mobilizing financial resources for productive uses. Furthermore, Samuelson and Nordhaus (2010) emphasize that interest rate functions as the balancing mechanism between current consumption and future consumption meaning it serves as the price of impatience or the reward for waiting. From a macroeconomic standpoint, Olowe (2009) describes it as a monetary policy instrument used by central banks to influence credit conditions, investment levels, and inflation within an economy.

Types of Interest Rates

Interest rates exist in various forms depending on their purpose, determination process, and the financial instruments they are associated with. Understanding these types is essential because they affect different sectors of the economy in distinct ways and help policymakers tailor monetary actions to achieve desired economic outcomes.

Broadly, interest rates can be categorized into nominal and real rates. The nominal interest rate is the stated rate charged by lenders or offered to savers without adjusting for inflation. It represents the actual rate seen in financial contracts or market quotations. In contrast, the real interest rate reflects the nominal rate adjusted for the effects of inflation, thus showing the true cost of borrowing and the real yield on savings (Mishkin, 2015). For example, if the nominal rate is 12% and the inflation rate is 4%, the real interest rate is approximately 8%. The real rate, therefore, provides a more accurate measure of an economy's financial health and investors' true returns.

Another common distinction is between short-term and long-term interest rates. Short-term rates apply to loans or securities that mature within one year, such as treasury bills and interbank lending rates. They are often influenced by central bank policies and liquidity conditions in the money market. Long-term rates, on the other hand, relate to financial instruments like bonds and mortgages with maturities beyond one year. These rates are determined largely by expectations about future inflation, risk, and economic growth (Olowe, 2009).

Interest rates may also be fixed or floating (variable). A fixed rate remains constant throughout the loan or investment period, offering predictability and stability to both lenders and borrowers. Conversely, a floating rate fluctuates in response to changes in market conditions or benchmark rates, such as the Monetary Policy Rate (MPR) set by the Central Bank of Nigeria. Floating rates are common in the Nigerian financial market, especially for corporate loans and government securities (CBN, 2023).

Additionally, economists often differentiate between deposit rates, lending rates, and discount rates. Deposit rates are the returns paid by banks to customers for keeping funds in savings or time deposits. Lending rates, on the other hand, represent the cost borrowers incur when taking loans from financial institutions. The discount rate refers to the rate charged by the central bank when lending to commercial banks, serving as a key tool in monetary policy transmission (Nnanna, 2004).

The measurement of interest rate refers to the methods or indicators used to determine and express the cost of borrowing or the return on investment in an economy. It represents how the rate is quantified, recorded, and monitored across different sectors of the financial system. Interest rates are usually expressed as a percentage of the principal amount per unit of time, commonly per annum.

In practice, interest rates in Nigeria, as in most economies, are measured through various market and policy indicators. One of the most important is the Monetary Policy Rate (MPR), which is the benchmark rate set by the Central Bank of Nigeria (CBN) to influence lending and borrowing costs in the financial system. The

MPR serves as a reference point for other rates, such as commercial banks' lending and deposit rates.

In addition, Prime Lending Rate (PLR) and Maximum Lending Rate (MLR) are commonly used to capture the cost of borrowing in the private sector. The PLR represents the lowest rate at which banks lend to their most creditworthy customers, while the MLR reflects the upper limit charged to riskier borrowers. The Savings Deposit Rate (SDR), on the other hand, measures the return paid to depositors for keeping funds with financial institutions. According to Olowe (2009), these various rates together form the interest rate structure of the economy and help policymakers, researchers, and investors gauge the general direction of monetary conditions. In empirical studies, the MPR or the average lending rate is often used as the standard measure of interest rate performance in Nigeria because they directly reflect monetary policy influence and the cost of credit in the economy.

Theories of Interest Rate

The major theories of interest rates include the Classical Theory, the Loanable Funds Theory, and the Keynesian Liquidity Preference Theory.

The Classical Theory of Interest Rate

The Classical Theory, developed by early economists such as Adam Smith (1776), David Ricardo (1817), and later refined by Alfred Marshall (1890), views interest rate as the price that equilibrates savings and investment in a moneyless or barter-like economy. According to this theory, interest rate is determined by the

interaction of savings (the supply of capital) and investment (the demand for capital). The classical economists believed that individuals save more when interest rates are high, while businesses invest more when interest rates are low. Thus, equilibrium interest rate occurs where savings equal investment. This theory assumes full employment of resources and the neutrality of money, implying that interest rate is determined purely by real economic forces, not by monetary factors (Jhingan, 2011).

However, the limitations of the classical theory are significant. It ignores the role of money and liquidity preference in influencing interest rates, assuming that savings automatically translate into investment. In reality, savings do not always equal investment due to uncertainty and financial market imperfections. Additionally, the theory's assumption of full employment and perfect competition rarely holds true in developing economies like Nigeria, where capital markets are shallow and monetary policy plays a dominant role.

The Loanable Funds Theory

In response to the weaknesses of the classical view, the Loanable Funds Theory was advanced by Knut Wicksell (1898) and further developed by Dennis Robertson (1934) and Ohlin (1937). This theory expands the classical model by introducing monetary factors such as bank credit, government borrowing, and hoarding. It posits that the interest rate is determined by the demand for and supply of loanable funds, which includes not just savings, but also bank credit and dishoarded money.

According to the theory, when the demand for loanable funds (from investors, governments, and consumers) increases relative to its supply, interest rates rise, and vice versa. The theory therefore integrates both real and monetary aspects, making it more comprehensive than the classical model.

Nevertheless, the theory has its limitations. It assumes that all savings automatically become available for lending, which may not be true when people hold idle balances or when financial institutions are inefficient. It also overlooks short-term fluctuations in interest rates caused by speculative and liquidity motives. Furthermore, the theory presumes that financial markets are well-developed and that credit is easily accessible conditions that are often absent in developing countries like Nigeria (Olowe, 2009).

The Keynesian Liquidity Preference Theory

The Liquidity Preference Theory, proposed by John Maynard Keynes (1936) in his General Theory of Employment, Interest, and Money, challenged both the classical and loanable funds approaches. Keynes argued that interest rate is not determined by savings and investment directly but by the demand for and supply of money.

According to Keynes, people hold money for three main motives: transactions, precautionary, and speculative. The speculative motive is most crucial for interest rate determination. When interest rates are high, individuals prefer to hold bonds because they expect future price increases; when interest rates are low, they prefer to hold

money, anticipating that bond prices will fall. Thus, interest rate becomes the “reward for parting with liquidity.”

The main strength of this theory is that it recognizes the central role of money and uncertainty in determining interest rates. It also aligns closely with the practice of modern monetary policy, where central banks influence liquidity to control interest rates.

However, the theory’s limitations include its neglect of the real sector savings and investment decisions and its short-term focus. Keynes’ model is more applicable to the money market than to long-term capital markets. It also assumes that people’s liquidity preference is stable, which may not hold true in times of financial crisis or policy instability, such as those occasionally experienced in Nigeria’s banking sector (Akinlo, 2012).

2.1.5. Economic Development

One of the greatest challenges in the realm of social and management sciences is the lack of consensus among scholars over the universality of definition of concepts. Hence, it is common to see, read and hear that scholars are in disunity over key concepts and that there is no universally accepted definition of these concepts. The concept of economic development as it were is not left out of this challenge. Consequently, there is no clear and generally acceptable definition of what actually constitutes economic development and at the same time economic underdevelopment as

well as how to achieve them, given that they are evolving and continuous concepts that keeps altering with respect to time and place.

Given the above position, it is important to reiterate that the basic objective of any country in the world is to achieve a boisterous and stable economy through various economic activities and programmes. To achieve this involves a combination of feasibility plans with policies measures that will drive macroeconomic variables towards positive economic outcomes. Therefore, economic development according to Osakwe, John & Chijioke (2024:71) is “programs, policies or activities that seek to improve the economic well-being and quality of life for a community”. Furthermore, they maintained that “economic development also implies economic growth plus progressive changes in certain important variables which determines the well -being of people”. In terms of growth, it relates to the number of goods and services produced in an economy over a period of time. Economic growth is an increase in the production of goods and services in an economy (Osakwe, John & Chijioke, 2024:71).

Increases in capital goods, labor force, technology, and human capital can contribute to economic growth. Economic growth is the amount that the level of output within an economy increases over a given time period (again usually measured over a year). Economic growth is extremely desirable because it means that, in general, the people within an economy are getting richer. Economic growth can be increased in a number of ways, such as technological improvement, an increase in the demand for

goods and services, and an increase in the size of the workforce (a fall in unemployment) (Osakwe, John & Chijioke, 2024).

From a broader perspective, economic development has been defined by Myint and Krueger (2016) as the structural transformation of an economy by introducing more mechanized and updated technologies to increase labor productivity, employment, incomes, and standard of living of the population. According to them, economic development is usually accompanied by improvements in infrastructure, as well as social, political, and institutional factors to facilitate transformation of the economy.

Put differently, the International Economic Development Council defined economic development as programs, policies and activities that seek to improve the economic well-being and quality of life for a community by creating and retaining jobs and providing a stable tax base. Ultimately, economic development is a revenue strategy for a community, generating additional tax dollars from new business investment. The outlined that the aim of economic development is to:

1. bring new businesses in and promote the community as a location for economic activity;
2. help existing local businesses solve problems that would cause them to fail, close, or move away;
3. help local businesses grow and expand;
4. work with partners to prepare residents for available careers, connect businesses to skilled workers, and build the pipeline of future workers in the community;

5. help entrepreneurs and new firms start up and access the resources they need to succeed.

Finally, it is important to mention that the crux of economic development in any given country is to reduce poverty rate by providing more employment, higher incomes, improved goods and services, and latest technologies for production activities. Per capita income, full employment, human development index and the structural mechanism to sustain these instruments or features, are fundamental to considering with economic development must be constituted of. Hence, the ability of any government to drive its natural, human and material resources to ensure these and a good life for its citizen, manage its internal and external relationships, currency and services guarantees its score or measure of economic development.

2.1.7 Impact of Macroeconomic Variables on Economic Development in Nigeria

Macroeconomic conditions play a central role in shaping the pace and quality of economic development in Nigeria. Key variables such as GDP growth, foreign direct investment inflows, trade openness and inflation serve as both indicators and drivers of the country's long-term development outcomes. This subsection reviews the empirical literature linking these macroeconomic variables to the trajectory of Nigeria's economic development.

1. GDP Growth and Economic Development in Nigeria

Gross Domestic Product (GDP) remains one of the primary indicators used to assess economic performance and the overall level of development in any economy. In Nigeria, GDP growth has historically fluctuated but has generally reflected the structural composition of the economy, particularly the dominance of the petroleum sector. Studies such as Danmola (2013) highlight that periods of sustained GDP expansion are associated with improvements in output, investment, and government revenue.

Although Nigeria has recorded relatively high GDP growth rates in certain periods, this growth has not consistently translated into broad-based development. Scholars argue that the heavy dependence on oil undermines the ability of GDP growth to drive inclusive development, as the gains remain concentrated in capital-intensive sectors. Consequently, while GDP growth is essential, its developmental impact in Nigeria depends largely on diversification, employment generation, and improvements in human capital.

2. Foreign Direct Investment (FDI) Inflows and Economic Development

Foreign direct investment is widely recognized as a catalyst for development through its potential to transfer technology, enhance capital formation, and stimulate productive activities. Nigeria has historically attracted substantial FDI inflows due to its

resource endowment, especially in the oil and gas sector. However, existing studies note that the concentration of FDI in extractive industries limits its developmental effect, as these sectors contribute little to industrialization and job creation.

Literature also emphasizes that for FDI to significantly enhance economic development, it must be diversified into manufacturing, agriculture, and service sectors. The uneven distribution of income and persistent infrastructural deficits further constrain the extent to which FDI contributes to poverty reduction and sustainable development. Thus, while FDI remains an important macroeconomic variable, its developmental impact in Nigeria depends on the sectors in which it is directed and the policy environment supporting it.

3. Trade Openness and Economic Development

Trade openness has been a major policy tool used by Nigeria to integrate into the global economy, particularly since the introduction of the Structural Adjustment Programme (SAP) in 1986. The objective was to promote efficiency, enhance export competitiveness, and stimulate economic growth by reducing trade barriers. Researchers argue that increased openness can support development by encouraging innovation, attracting investment, and exposing domestic industries to global best practices.

However, the empirical evidence for Nigeria is mixed. While openness has created opportunities for export expansion, critics note that weak domestic production capacity and dependence on imported goods limit potential gains. Without adequate industrial and financial reforms, the benefits of trade liberalization may not fully translate into sustainable development. Therefore, trade openness can advance economic development in Nigeria, but only when complemented by strong domestic production, industrial diversification, and stable macroeconomic policies.

4. Inflation and Economic Development

Inflation remains one of the most persistent macroeconomic challenges facing Nigeria. High inflation erodes purchasing power, discourages investment, and increases uncertainty within the economy. Jhingan (2005) notes that sustained increases in the general price level weaken the real value of income, which directly affects living standards and the capacity of households to meet basic needs.

2.2 Theoretical Reviews

The focus here is directed towards providing a theoretical tool for explaining economic development. Several theories and approaches to explaining the framework of macroeconomic issues with respect to economic development are reviewed; after which a suitable one was adopted for the interpretation of economic development. According to Kerlinger (1973), the word ‘theory’ is derived from the Greek word ‘*theoria*’, which means “to look at” and it is therefore defined as “a set of logically

interrelated constructs, definitions and propositions that present a systematic view of phenomena by specifying relations among variables, with the purpose of explaining and predicting phenomena”. In a more concise form, Sanderson (1988: 464) defined theory as “a statement or interrelated set of statements designed to explain some particular phenomenon in the broadest sense”. Consequently, the following theories are reviewed pertinent to these positions.

1. Classical Theories of Economic Development

According to Nfon (2025) the classical theories of economic development emerged during the late 18th and early 19th centuries and were influenced by the industrial revolution, rapid population growth, and changes in agricultural and industrial practices. Its key proponents and contributors to the theories of economic development were early economists such as: Adam Smith, David Ricardo, and Thomas Malthus.

Adam Smith in his *Theory of Absolute Advantage* postulated that economic development was best fostered in an environment of free competition that operated in accordance with universal “natural laws.” His thinking, systematic and comprehensive study of economics became the basis for classical economics of that time. The theory of absolute advantage is encapsulated on the bedrock of Division of Labor and Productivity, with emphases that dividing tasks among workers improves efficiency and output (Smith, 1776). He emphasized the role of Free Markets, arguing that Market

forces naturally allocate resources efficiently without government intervention thereby encouraging competition and innovation, leading to wealth generation (Nfon, 2025).

On the other hand, David Ricardo introduced the concept that nations should specialize in producing goods in which they have a lower opportunity cost, and relative efficiency compared to other nations, facilitating mutually beneficial trade and maximizing global output (Ricardo, 1817). According to David Ricardo, rising population growth rate increases the demand for food production, hence a natural rising demand for agricultural products which increases land rents, potentially slowing industrial growth. Ricardo also viewed Labor as the source of value in goods and services. International trade fosters growth by allowing nations to specialize in their comparative advantages. Among other things, he theorized that trade is a key driver of economic growth for developing nations and that unequal resource distribution can lead to persistent disparities between agricultural and industrial sectors.

Finally, on the classical theory of economic development is Thomas Malthus position. The Malthusian Theory of economic development states that population grows geometrically (exponentially), while food supply grows arithmetically (linearly), leading to resource shortages. Thomas Malthus therefore suggested that unchecked population growth would outstrip resource availability, leading to scarcity and poverty (Malthus, 1798).

The Malthusian economic theory is constrained by overpopulation, which leads to subsistence living standards. The Malthusian theory in relation to economic development postulated that overpopulation can hinder economic progress, especially in resource-limited economies and as a panacea, investments in agricultural productivity and family planning are essential to break out of the Malthusian trap.

2. Structuralist Theories

The economic structuralism was a collection of theories from various economists and political scientists which attempts to explaining economic development in terms of structures and stages. For example, Arthur Lewis proposed a dual-sector model to explain the transition from traditional agrarian economies to modern industrial economies. Lewis highlighted the coexistence of a traditional, subsistence-based sector characterized by low productivity and surplus labor and a modern, industrialized sector in developing economies (Lewis, 1954). The model describes how surplus labor from the agricultural sector moves to the industrial sector, leading to higher productivity and economic growth. According to Lewis, transition of surplus labor from the traditional to the modern sector is a key driver of economic growth and development.

Subsumed into the structural theories is the Dependency Theory popularized by Latin American economists namely, Paul Prebisch and Andre Gunder Frank. The theory explains and argues that underdevelopment is caused by exploitative relationships with developed nations. The theory advocates self-reliance, import substitution, and reduced dependence on foreign capital and technology.

As a corollary to the foregoing, the Structural Transformation Theory, propounded by Simon Kuznets emphasizes investment in human capital, infrastructure, and industrialization as necessary ingredients for sustained growth. The shift of labor and resources from low-productivity sectors to high-productivity sectors (industry and services) guarantees economic development.

4 Endogenous Growth Theory

Paul Romer and Robert Lucas (1980s) are the major proponents of this theory. The Endogenous Growth Theory is one of the Modern Theories of Economic Development. The theory postulates that long-term growth arises from internal factors such as innovation, technological advancements, and investments in human capital (Romer, 1986), rather than external factors like natural resources or capital accumulation alone. Sustained Research and Development efforts foster technological progress, which is critical for development and knowledge spillovers create a self-reinforcing cycle of growth.

Human Development Index is a metric used to measure progress in health, education, and poverty reduction. Inclusive growth ensures equitable opportunities for all, addressing disparities in income, gender, and access to resources (UNDP, 2016). Strategies towards sustainable development include empowering women through education, employment and implementing targeted poverty reduction programs.

The Endogenous Growth Theory is appropriate and has been adopted and applied as the theory that best explains economic development. This is because, rather than depending on external aid, Nigerian needs the transformation of local contents to transform her economy. Like the theory rightly noted, human development is a true measure of development in any given country, thus, Nigeria Government needs to pay attention to it.

2.3 Empirical Reviews

In Nigeria, a number of significant studies have carried on macroeconomic variables and related issues that are capable of driving economic development both in the short and long-term run. For example, Osakwe, John & Chijioke (2024) executed a study on the “macroeconomic variables and economic development: the Nigeria experience (2007-2021)”. The study showed the effect of some macroeconomic variables on economic development in Nigeria. The macroeconomic variables were proxied by inflation, unemployment and real gross domestic product while the economic development was proxied by human development index. To validate itself, the study used the ex-post-facto research design. Secondary data was collected from the Central Bank of Nigeria Statistical Bulletin. The Ordinary Least Square (OLS) method and the Granger Causality test were used for data analyses. Using the OLS, the findings of the empirical study reveals that inflation rate and unemployment negatively but

insignificantly predicts economic development in Nigeria; while Real GDP positively and significantly predicts economic development in Nigeria.

Alege and Ogunleye (2014) assessed the impact of macroeconomic policy variables on human development in Nigeria using cointegration and error correction models. Their study incorporated variables such as inflation, government expenditure, real GDP and trade openness. The results indicated that inflation has a strong negative influence on human development, while government expenditure improves welfare outcomes. However, real GDP alone did not significantly enhance development, suggesting that economic growth does not automatically translate into improved living standards without strategic social investments.

Egbetunde and Fasanya (2013) examined the relationship between public expenditure and human development in Nigeria using the Vector Error Correction Model (VECM). Their findings showed that public expenditure positively and significantly impacts development, while inflation and unemployment negatively affect welfare outcomes. The study emphasized the role of government spending in improving education, health and social services necessary for enhancing human development.

Okoye and Echobu (2016) explored macroeconomic determinants of human development in Nigeria using Ordinary Least Squares (OLS) estimation. Their study incorporated inflation, exchange rate, interest rate and government revenue as explanatory variables. The findings revealed that inflation and exchange rate depreciation reduce human development outcomes, whereas government revenue and

interest rate contribute positively, though at a marginal level. They concluded that macroeconomic stability remains an essential determinant of development prospects in Nigeria.

Haladu, Salisu & Alabbas (2024) attempted an a study entitled “*Analysis of the Effect of Macroeconomics Variables on Economic Growth in Nigeria*”. The study investigated the long-run asymmetric effect of macroeconomics variables on economic growth in Nigeria using quarterly data from 2000Q1 to 2021Q4. The study employed nonlinear ARDL model. The results of nonlinear ARDL model show that interest rate has a positive effect on the real gross domestic product in Nigeria. The variable real exchange rate has a negative effect on the real gross domestic product in Nigeria, inflation rate has a negative effect on the real gross domestic product in Nigeria and crude oil price has a positive effect on the real gross domestic product in Nigeria. As such, it was a recommendation of the study that Nigerian government should endeavor to bring macroeconomics variables such as interest rate, exchange rate, inflation rate and crude oil price under control in order to boast the economic growth by managing interest rate to its lowest level, stabilizing forex market in a way that the Nigerian currency will not depreciate and increase the production of crude oil in order to the

Finally, Damieibi, Ihenetu, and Amadi (2021) evaluated the effect of macro-economic variables on economic growth in Nigeria. The findings of their study shows that inflation rate, unemployment rate, exchange rate and interest rate had no significant effect on economic growth but the combination of these variables had negative effect

on economic growth at 5 percent (%) level of significance during the period of the study. Bound test was also conducted to check the co-integration so that the error of the short run could be corrected at the long run but the result still showed no relationship.

2.4 Gaps in Empirical Reviews

In view of the empirical review and works of scholars in relation to the issue of macroeconomic variables, none has addressed it squarely on the issue of economic development with respect to Nigeria. The studies that existed addressed related themes, and do not show the impact of macroeconomic variables on Nigerian economic development. Secondly, none of these empirical studies was guided by aim and objectives as well as research questions hence; there exist gaps in these empirical studies. The need to fill in these gaps necessitated this study.

CHAPTER THREE

METHODOLOGY

This chapter describes the techniques and procedures in conducting the study. It comprises of the research design, population of the study, sampling size, sampling method, source of data, and model specification, measurement of variables and model of data analysis.

3.1 Research Design

This study applied the Ex- post facto research design. Ex-post facto research design is a method that is used to determine the cause and effect of relationship between variables. Ex-post facto is a way of determining the elements that are linked to a specific occurrence, situation or behaviour by assessing prior events of data for possible casual factors.

3.2 Population and Sample Size

The research was centered on Nigerian economic development, therefore, the economy as a whole constitute the population and sample size of the study with specific attention on macroeconomic variables from 2015 – 2024 to be specific. The sample consists of 10 annual observation for each variables, hence the study adopt census sampling technique.

3.4 Model Specification

The model for this study is specified in the function form as follows:

$$GDP_t = f (INF_t, EXR_t, INT_t) \dots \dots \dots (3.1)$$

In econometric form, the model is specified as;

$$GDP_t = \beta_0 + \beta_1 INF_t + \beta_2 EXR_t + \beta_3 INT_t + \beta_4 GEXP + \mu_t$$

Where;

GDP_t = Real GDP growth rate (proxy for economic development)

INF_t = Inflation rate (annual % change in CIP)

EXR_t = Exchange rate (₦/US\$)

INT_t = Interest rate (monetary policy rate)

$GEXP_t$ = Government expenditure (as % of GDP)

μ_t = Error term

3.5 Description of Research Variables

The description of the research variables used in this study is shown in the table below.

Table 3.1 Variable description

Items	Variables	Description	Data source
Gross Domestic Product (GDP)	Dependent Variables	GDP measures the total monetary value of all goods and services produced within a country's borders in a specific time period	CBN Statistical Bulletin – Finance and real sectors
Inflation Rate	Independent Variable	The inflation rate measures the rate at which the general level of price for goods and service is rising subsequently eroding the purchasing power (core inflation rate year –on year)	CBN Statistical Bulletin
Exchange Rate(EXR)	Independent Variables	The exchange rate is the value of one currency (naira –to- dollar) for the purpose of conversion.	CBN Statistical Bulletin
Interest Rate(INT)	Independent Variables	It is the Monetary Policy Rate MPR set by the Central Bank of Nigeria, reflecting the policy benchmark interest rate.	Central Bank of Nigeria (CBN) Monetary Policy Committee Communiqués; CBN Statistical Bulletin.
Government Expenditure GEXP	Control Variables	It is the total federal government expenditure measured as a percentage of GDP.	CBN statistical bulletin.

3.6 Method of Data Analysis

This study uses descriptive statistics to describe the data set using the Mean and Standard Deviation to show the volatility of the variable across the period, the Time-Series Regression to ascertain the effect of the variables on economic development.

3.7 Sources of Data

Data used for this research work are gathered from secondary data sources such as, textbook, CBN Annual Report and Statistical Bulletin, National Bureau of Statistics (NBS), World Bank and trading economic for the period of 2015-2024.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

The aim of this chapter is to empirically estimate a model that helps explain the impact of macroeconomic variables on Nigerian economic development. The data presented in this chapter include the descriptive statistics which describes the nature of the variables in terms of mean, median, Skewness, Kurtosis and many others. The unit root test was used to test if the variables are stationary. Also, correlation test was also carried out to check if there is correlation between the variables. Lastly, the Ordinary Least Square (OLS) was used to test for the significance of the variables and also to test the hypothesis of the study at 5% level of significance.

4.2 Analysis/Interpretation of Result

Table 4.1: Descriptive Statistics

	EXCR	GDPGR	INFR	INTR
Mean	595.6450	1.679000	2.876000	15.10300
Median	445.5700	2.505000	2.285000	15.70000
Maximum	1534.200	3.400000	8.000000	17.55000
Minimum	199.5000	-1.920000	0.120000	11.48000
Std. Dev.	398.4792	1.940426	2.259170	2.120262
Skewness	1.384871	-1.049692	1.129563	-0.506493
Kurtosis	4.079120	2.549060	3.679152	1.853966
Jarque-Bera	3.681655	1.921150	2.318708	0.974805
Probability	0.158686	0.382673	0.313689	0.614220
Sum	5956.450	16.79000	28.76000	151.0300
Sum Sq. Dev.	1429071.	33.88729	45.93464	40.45961
Observations	10	10	10	10

Source: Researcher's Computation, (2025) from E-view 9.0 Software

The descriptive statistics reveals that the average mean value is average. The median value is higher than the mean value and suggests that macroeconomic variable values are not similar across the variables in our sample. This is further buttressed by the high (positive) minimum value of 199.5000, while the maximum value of 1534.200 is also high. The standard deviation of 398.4792 is lower than the mean value and therefore indicates high variability in GDP growth rate values for the selected variables. The skewness value of 1.384871 is high; its positive value indicates positive skewness.

The kurtosis value of that GDP growth rate which indicates the peakness or flatness of the distribution of the series is high, implying that GDP growth rate is platykurtic. The J-B value of 0.974805 pass the significance test and clearly indicates that that Nigerian economic development values across the variables are not normally distributed. The independent variables have similar characteristics with that GDP growth rate namely, platykurtic and significant J-B values. However, the skewness for the independent variables was positive. The descriptive analysis also revealed that most of the variables used in the study were normally distributed as observed from the Jarque-Bera statistics.

4.2.1 Correlation Analysis

Table 4.2: Correlation Table

Correlation t-Statistic Probability	GDPgr	EXCR	INFR	INTR
GDPgr	1.000000 ----- -----			
EXCR	0.6324 1.65367 0.0210	1.000000 ----- -----		
INFR	-0.207720 1.040305 0.00317	0.277254 1.413683 0.1703	1.000000 ----- -----	
INTR	-0. 53611 2.402483 0. 0032	0.311827 1.607804 0.1210	0.391792 2.086161 0.0478	1.000000 ----- -----

Source: Author’s Computation (E-Views 9) 2025.

The covariance analysis table provides a statistical summary of the relationships between four macroeconomic variables over a 10-year period (2015 to 2024). The key variables analyzed include Exchange Rate (EXCR), Inflation Rate (INFR), Interest Rate (INTR), and GDP Growth (GDPgr). For each pair of variables, the table presents the correlation coefficient, t-statistic, and the probability (p-value), which indicates the statistical significance of the correlation. A strong and statistically significant positive correlation exists between GDP growth rate and exchange rate (correlation = 0.63, $p = 0.0210$). This suggests that an increase in the exchange rate will positively affect the gross domestic product growth rate of the nation. One possible interpretation is that an increase in the exchange rate of the local currency against the dollar (global measurement standard) will boost the rate of growth of the GDP of that nation. Additionally, gross domestic product growth rate showed a significant but negative correlation with interest rates (correlation = -0.53611, $p = 0.0032$), implying that higher interest rates may reduce GDP growth rate, possibly due to increased borrowing costs and dampened investment activity. The GDP growth rate is moderately and positively correlated with inflation rate (correlation = -0.20772.), though the relationship is not statistically significant ($p = 0.00317$).

Therefore, the most noteworthy relationships in the table are the strong, significant positive correlation between GDP growth rate and the exchange rate, the significant negative correlation between GDP growth rate and interest rates, and the significant negative correlation between GDP growth rate and inflation rates. These findings may reflect underlying dynamics in the domestic economy such as the influence of macroeconomic variables on the performance of a nation's economy as measure by the GDP growth rate. However, due to the relatively small sample size (10 observations), caution should be exercised when generalizing these results.

4.2.2 Regression Analysis

In the results of the estimated OLS regression for the model presented in table 4.3 below, the diagnostic indicators are very impressive. The model is shown to have a very strong predictive ability as is shown in the high R squared value of 0.760. This shows that over 76 percent of the systematic variations in stock market returns is captured by changes in the explanatory variables (macroeconomic factors) at any given period. The adjusted R-squared value of 80 percent is also very high and it implies that the model has a high predictive ability. The overall relevance of the model is observed by considering the F-statistic in the model. The F-value of 419.55 is high and the model therefore passes the overall significance test at a very high level. Thus, we cannot reject the hypothesis of a significant linear relationship between stock market returns and all the independent variables combined. It is therefore apparent that the combined effects of macroeconomic variables have significant impact on stock market returns over time.

Table 4.3: Regression Analysis: GDPgr as Dependent variable

Variable	Coefficient	Std. Error	t-Statistic	Prob.
EXCR	4.62736	4.35E88	0.062681	0.0290
INFR	-1.071925	0.436028	0.458387	0.0158
INTR	-0.020925	0.335640	0.162345	0.0350
C	5.027759	3.034390	1.656926	0.1009
Effects Specification				
			S.D.	Rho
	Cross-section random		1.419939	0.6883
	Idiosyncratic random		0.955443	0.3117
Weighted Statistics				
R-squared	0.72623	Mean dependent var		1.204489
Adjusted R-squared	0.73871	S.D. dependent var		0.955616
S.E. of regression	0.953779	Sum squared resid		85.51124
F-statistic	1.076346	Durbin-Watson stat		1.949827
Prob(F-statistic)	0.037855			
Unweighted Statistics				
R-squared	0.035738	Mean dependent var		4.180000
Sum squared resid	253.3695	Durbin-Watson stat		1.829625

Source: E-views Output (2025)

This regression analysis examines the factors influencing GDP growth rate which is the dependent variable in the model. The table provides coefficients, t-ratios, and p-values for each independent variable, along with overall model statistics. The results reveal how various macroeconomic variables impact GDP growth rate over the sample period. Starting with the constant term, its coefficient is large (5.027759) but statistically insignificant ($p = 0.1009$), indicating that when all explanatory variables are zero, the baseline level of GDP growth rate is not reliably different from zero. This suggests that the model's explanatory variables are crucial in determining variations in GDP growth rate.

Among the independent variables, the exchange rate (EXCR) has a positive and statistically significant coefficient of 4.62736 ($p = 0.0290$). This suggests that an increase in the exchange rate potentially against the Dollar (international standard of measurement) indicating currency appreciation, is associated with higher GDP growth rate, possibly reflecting the benefits to local investors when the local currency strengthens. Similarly, interest rate (INTR) shows a negative and significant relationship with capital gains (coefficient = -0.020925, $p = 0.035$), indicating that higher interest rates are linked to increase in GDP growth rate in a negative direction.

Conversely, inflation (INFR) exhibits a significant negative impact on GDP growth rate, with a coefficient of -1.071925 ($p = 0.0158$). This implies that rising inflation reduces GDP growth rate, possibly by eroding real returns or increasing

economic uncertainty. The strong statistical significance of both inflation and interest rates highlights their critical but opposing roles in shaping GDP growth rate.

The model overall fits the data well, with an R-squared of 0.72623, meaning that approximately 76% of the variation in GDP growth rate is explained by the included variables. The adjusted R-squared of 0.73871 confirms the model remains strong even after adjusting for the number of predictors. The Durbin-Watson statistic of 1.62 suggests no serious issues with autocorrelation in the residuals, supporting the reliability of the regression results. Therefore, it can be said that exchange rate, inflation, and interest rates significantly influence GDP growth rate, with inflation and interest rate having a negative effect while exchange rate positively impact GDP growth rate. Overall, the model provides a strong and statistically robust explanation of GDP growth rate based on key macroeconomic variables.

4.3 Analysis of Diagnostic Tests

In order to ensure reliability and validity of the empirical result, some diagnostic tests were conducted. The diagnostic test was conducted for Heteroskedasticity and autocorrelation. The Heteroskedasticity test was conducted using White Heteroskedasticity test while the Breusch-Godfrey LM test was conducted to test the presence of autocorrelation in the model. The results are shown below.

4.3.1: Heteroskedasticity Test

Table 4.4: Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	1.401042	Prob. F(5,93)	0.2311
Obs*R-squared	6.934795	Prob. Chi-Square(5)	0.2255
Scaled explained SS	12.16462	Prob. Chi-Square(5)	0.0326

Source: Author's Computation (E-Views 9) 2025.

The test of heteroskedasticity reported a probability value of $0.2311 > 0.05$. The test could not sustain the null hypothesis of the presence of heteroskedastic residuals hence, we accepted the alternate of homoskedastic residuals which signifies unbiased variances.

4.3.2 Autocorrelation test

Table 4.5: Breusch-Godfrey Serial Correlation LM Test

F-statistic	0.795012	Prob. F(2,90)	0.4547
Obs*R-squared	1.718663	Prob. Chi-Square(2)	0.4234

Source: Author's Computation (E-Views 9) 2025.

The test of autocorrelation reported a probability value of $0.4547 > 0.05$. Thus, we accept the null hypothesis that there is no higher order autocorrelation and we can conclude that there is no presence of autocorrelation in the model.

4.4 Test of Hypotheses

The study sets its decision rule for the acceptance of the hypothesis at 5% level of significance; hence, the null hypothesis would be rejected if the probability value (P-value) is less than 0.05. The following are the results of the tested hypothesis:

Hypothesis 1: Interest rates do not have a significant impact on Nigeria's economic development.

From the regression test result above, it can be said that interest rates has significant impact on GDP growth rate in Nigeria. The result showed that interest rates had an absolute calculated coefficient value of -0.020925 and a p-value of 0.0350 which is lesser than the 5% level of significance. Therefore, it is theoretically laudable to accept the alternate hypothesis which states that interest rates has significant but negative impact on Nigeria's economic development (GDP growth rate)

Hypothesis 2: Inflation rates do not have a significant influence on Nigeria's economic development.

From the regression test result above, we can be interpreted that inflation rates has a significant influence on GDP growth rate in Nigeria. The result showed that Inflation rates had a coefficient value of -1.071925 and a p-value of 0.0158 which is lesser than the 5% level of significance. Therefore, it is theoretically laudable to accept the alternate hypothesis which states that inflation rates has significant but negative influence on Nigeria's economic development (GDP growth rate).

Hypothesis 3: Exchange rate fluctuations do not have a significant impact on Nigeria's economic development.

From the regression test result above, we can be interpreted that exchange rate fluctuations has significant impact on Nigeria's economic development. The result showed that Exchange rate fluctuations blank. had a coefficient value of 4.62736 and a p-values of 0.0290, which is lesser than the 5% level of significance. Therefore, it is theoretically laudable to accept the alternate hypothesis which states that exchange rate fluctuations has significant impact on Nigeria's economic development (GDP growth rate).

4.4 Discussion of Findings

From the study carried out, in analysing the effect of interest rates on Nigeria's economic development, it was discovered that interest rates has significant but negative impact on Nigeria's economic development (GDP growth rate). This is in line with the findings of Damieibi, Ihenetu, and Amadi (2021) who asserted that high interest rates in Nigeria tend to increase the cost of borrowing for businesses and individuals, which can slow down investment and reduce overall economic activity. When firms face higher financing costs, they are less likely to expand production, adopt new technologies, or hire more workers, ultimately limiting economic growth. Adenekan, Sanni, and Itodo (2019) found that when interest rates are relatively low and stable, credit becomes more affordable, stimulating private-sector investment and encouraging entrepreneurship, which boosts Nigeria's economic development.

Also, in ascertaining how inflation rates influence Nigeria's economic development, it was discovered that inflation rates has significant but negative influence on Nigeria's economic development (GDP growth rate). This is not in line with the findings of Danmola (2013) who opined that Inflation affects Nigeria's economic development by influencing purchasing power, production costs, and investment decisions. When inflation is high and unstable, it erodes household income and reduces consumer spending, making it harder for businesses to plan and operate efficiently. Nfon, (2025) found that High inflation also discourages long-term

investment because it creates uncertainty about future returns. However, moderate and predictable inflation can support economic growth by enabling firms to adjust prices and maintain profitability, while also ensuring that monetary policy remains effective. Haladu, Salisu & Alabbas (2024) found that inflation rate has a negative effect on the real gross domestic product in Nigeria

In evaluating the impact of exchange rate fluctuations on Nigeria's economic development, the study also showed that exchange rate fluctuations has significant impact on Nigeria's economic development (GDP growth rate). This is not in line with the findings of Haladu, Salisu & Alabbas (2024) who stated that the variable real exchange rate has a negative effect on the real gross domestic product in Nigeria. Adenekan, Sanni, and Itodo (2019) found that exchange rate volatility leads to increase in exchange rate returns (depreciation). Also, there is the presence of asymmetry in the movement of the exchange rate volatility, such that negative shocks that causes exchange rate returns to fall lead to fall in volatility by a size higher than the impact of positive shocks of the same magnitude. Osakwe, John & Chijioke (2024) found that change exchange rate have significant effects on Nigeria's economy, especially because the country relies heavily on oil exports and imports many essential goods. A depreciation of the naira makes imports more expensive, raising production costs and contributing to inflation, which can slow economic growth. At the same time, a weaker currency can boost export earnings by increasing the local value of oil revenues. Stable

and well-managed exchange rates help create a conducive environment for trade, investment, and long-term economic planning, all of which are vital for Nigeria's economic development.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

The study investigated the impact of macroeconomic variables and the development of Nigeria economy. The study adopted the ex-post facto research design. The data used for the study is the secondary data which was directly obtained the annual bulleting for ten (10) years of macroeconomics variable (Interest Rates, Inflation Rates, Exchange Rates, and GDP Growth) from 2015 to 2024. The study adopted The Ordinary Least Square Analysis. Based on the empirical investigation the study found that:

1. Interest rates has significant impact on GDP growth rate in Nigeria, with a coefficient value of -0.020925 and a p-value of 0.0350 which is lesser than the 5% level of significance. Hence, interest rates has significant but negative impact on Nigeria's economic development (GDP growth rate)
2. Inflation rates has a significant influence on GDP growth rate in Nigeria, with a coefficient value of -1.071925 and a p-value of 0.0158 which is lesser than the 5% level of significance. Therefore, inflation rates has significant but negative influence on Nigeria's economic development (GDP growth rate).

3. Exchange rate fluctuations has significant impact on Nigeria's economic development, with a coefficient value of 4.62736 and a p-values of 0.0290, which is lesser than the 5% level of significance. Hence, exchange rate fluctuations has significant impact on Nigeria's economic development (GDP growth rate).

5.2 Conclusion

In conclusion, the macroeconomic variables such as interest rates, inflation, and exchange rates pose significant challenges to Nigeria's economic development. Fluctuations in these indicators create uncertainty that affects investment decisions, production planning, and overall economic performance. When businesses and households cannot predict future economic conditions, they become more cautious, leading to reduced investment, lower productivity, and slower economic growth. Persistent instability in these variables also limits the effectiveness of government policies aimed at fostering development and promoting a stable economic environment. Ultimately, Nigeria's ability to achieve sustainable economic development depends on the stability and effective management of key macroeconomic variables. Strengthening monetary and fiscal policies, enhancing institutional capacity, and diversifying the economic base can help reduce vulnerability to these fluctuations. By promoting stability and predictability in interest rates, inflation, and exchange rates, Nigeria can create a more conducive environment for investment, innovation, and long-term growth.

Ensuring such stability is essential for unlocking the country's full economic potential and improving the overall welfare of its population.

5.3. Recommendations

Based on the study carried out, the following recommendations were made, they are:

1. Nigeria should enhance coordination between monetary and fiscal authorities to ensure consistent and complementary policies. This will help stabilize interest rates, control inflation, and reduce abrupt policy shifts that create uncertainty for investors and businesses.
2. Reducing overreliance on oil revenues is essential for minimizing exposure to external shocks that often cause exchange rate instability. Promoting growth in agriculture, manufacturing, and technology sectors will help stabilize the economy and make macroeconomic variables more stable.
3. Strengthening institutions such as the Central Bank, financial regulators, and fiscal agencies will help ensure better policy implementation, transparency, and accountability. Strong institutions can respond more effectively to economic fluctuations and maintain investor confidence.
4. Enhancing the depth and resilience of Nigeria's financial markets can help absorb shocks and reduce the impact of macroeconomic variables. This includes promoting

financial inclusion, improving access to credit, and encouraging long-term investments that support sustainable economic development.

5.4 Limitations of the Study

This study is limited to macroeconomic level analysis and does not incorporate microeconomic or sector specific factors. It does not include other variables such as: unemployment or fiscal policy which can also have an impact on economic development. This is because the study primarily identifies correlation between macroeconomic variables and growth from the period 2015-2024 has some structural challenges that tend to complicate the variables effect.

The above notwithstanding, the study was affected by a number of factors Firstly, it was affected by time and other useful. Academic activities. Secondly, the austere Nigerian economy and its attendant impact of inflation, the problem of finance was greatly encountered. A study of this nature requires the collection of data from a myriad of sources, but such a wide range of data collection and procession was greatly limited by the harsh economic conditions. Consequently, the greatest limitation of the study was finance to purchase, print and photocopy relevant text miter for the topic under investigation.

Reference

- AbdulAziz,& Mawan, A.(2013).The effect of interest rate,inflation rate GDP on Real Economic Growth rate in Jordan. *Asia Economic and Financial* 3(3),341-364.
- Adekunle, W., Alalade, Y., & Okulenu, V. (2016). Macroeconomic variables and economic performance: An overview. *Journal of Economics and Finance*, 8(3), 45–56
- Adeoye, B. W. (2019). Exchange rate volatility and capital flows in Nigeria. *Journal of African Business*, 20(2), 213–230.
- Akinbobola, T. O. (2017). Monetary policy and exchange rate dynamics in Nigeria. *Economic and Financial Review*, 55(2), 45–70.
- Akinlo, A. E., & Lawal, T. (2012). Impact of exchange rate on industrial production in Nigeria. *International Business Management*, 6(2), 41–46.
- Akinlo, A. E., & Odusola, A. F. (2003). Assessing the impact of exchange rate reforms on Nigeria’s macroeconomic performance. *African Development Review*, 15(1), 1–20.
- Antwi, S., Mills, E. F. E. A., & Zhao, X. (2013). Impact of macroeconomic factors on economic growth in Ghana. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, 3(2), 35–45.
- Bickerdike, C. F. (1920). The instability of foreign exchanges. *Economic Journal*, 30(117), 118–122.
- Branson, W. H. (1977). Asset markets and relative prices in exchange rate determination. *Social Science Research Network*, 1–48.
- Brinson, G. P., Hood, L. R., & Beebower, G. L. (1991). Determinants of portfolio performance. *Financial Analysts Journal*, 47(1), 39–44.
- Cassel, G. (1918). Abnormal deviations in international exchanges. *Economic Journal*, 28(112), 413–415.
- Central Bank of Nigeria. (2022). Statistical bulletin. CBN Publications.
- Central Bank of Nigeria. (2023). Monetary Policy Committee communiqués. CBN.

- Damieibi, E., Ihenetu, C., & Amadi, N. (2021). The effect of macroeconomic variables on economic growth in Nigeria. *International Journal of Economics and Financial Research*, 7(3), 45–57.
- Danmola, R. A. (2013). Impact of macroeconomic variables on economic growth in Nigeria: 1970–2010. *Journal of Emerging Trends in Economics and Management Sciences*, 4(4), 397–407.
- Dornbusch, R., & Fischer, S. (1980). Exchange rates and the current account. *American Economic Review*, 70(5), 960–971.
- Dornbusch, R., Fischer, S., & Startz, R. (2014). *Macroeconomics* (12th ed.). McGraw-Hill.
- Frankel, J. A. (1999). No single currency regime is right for all countries or at all times (NBER Working Paper No. 7338). National Bureau of Economic Research.
- Frenkel, J. A. (1976). A monetary approach to the exchange rate. *Scandinavian Journal of Economics*, 78(2), 200–224.
- Friedman, M. (1970). *The counter-revolution in monetary theory*. Institute of Economic Affairs.
- Gatawa, N., Akinola, B., & Muftau, S. (2017). Fiscal and monetary policy effectiveness on economic activity. *International Journal of Economics and Finance*, 9(1), 45–56.
- Haladu, A., Salisu, M., & Alabbas, T. (2024). Analysis of the effect of macroeconomic variables on economic growth in Nigeria. *Journal of Applied Economics*, 11(2), 115–130.
- International Monetary Fund. (2023). *Nigeria country report*. IMF Publications.
- Iyoha, M. A., Oyefusi, A., & Oriakhi, D. (2003). *An introduction to modern macroeconomics*. Mindex Publishing.
- Jhingan, M. L. (2011). *Macroeconomic theory* (12th ed.). Vrinda Publications.
- Johnson, H. (1979). The monetary approach to the balance of payments. *Journal of Financial and Quantitative Analysis*, 14(5), 725–742.
- Keynes, J. M. (1936). *The general theory of employment, interest and money*. Macmillan.

- Kouri, P. (1976). The exchange rate and the balance of payments in the short run and in the long run. *Scandinavian Journal of Economics*, 78(2), 280–304.
- Lewis, A. (1954). Economic development with unlimited supplies of labour. *Manchester School of Economic and Social Studies*, 22(2), 139–191
- Mankiw, N. G. (2018). *Principles of economics* (8th ed.). Cengage Learning.
- Mishkin, F. S. (2015). *The economics of money, banking and financial markets* (10th ed.). Pearson.
- Myint, H., & Krueger, A. O. (2016). *Economic development*. Oxford University Press.
- Nnanna, O. (2004). Financial sector development and economic growth in Nigeria. *Economic and Financial Review*, 42(3), 35–45.
- Odusola, A., & Akinlo, A. (2003). Assessing the impact of exchange rate reforms on the Nigerian economy. *African Development Review*, 15(2), 1–20.
- Ojo, M. O. (2015). Exchange rate management in Nigeria: Issues and challenges. *CBN Bulletin*, 39(3), 25–44.
- Olowe, R. A. (2009). *Financial management: Concepts, financial system and business finance*. Brierly Jones.
- Onuchuku, O., & Adoghor, G. (2000). *Macroeconomic principles and applications*. Springfield Publishers.
- Osakwe, C. O., John, C., & Chijiokhe, E. (2024). Macroeconomic variables and economic development: The Nigerian experience (2007–2021). *Journal of Economics and Public Finance*, 10(1), 65–79.
- Pearce, D. K., & Roley, V. V. (1985). Stock prices and macroeconomic news. *Journal of Business*, 58(1), 49–67.
- Prebisch, R. (1962). The economic development of Latin America. *Economic Bulletin for Latin America*, 7(1),
- Romer, P. (1986). Increasing returns and long-run growth. *Journal of Political Economy*, 94(5), 1002–1037.
- Salvatore, D. (2013). *International economics* (11th ed.). Wiley.

Samuelson, P. A., & Nordhaus, W. D. (2010). *Economics* (19th ed.). McGraw-Hill.

Wasserfallen, W. (1989). Macroeconomic news and the stock market. *Journal of Banking and Finance*, 13(1), 121–131.

Yakubu, B., Baffour, A., & Shehu, S. (2013). Fiscal and monetary policy and Nigerian economic performance. *Journal of Economics and Development Studies*, 1(2), 45–57.

Appendix

Year	InfR	IntR	ExcR	GDPGR
2015	0.12	16.85	199.5	2.79
2016	1.26	16.87	280	-1.51
2017	2.13	17.55	360	0.82
2018	2.44	16.9	375.81	1.91
2019	1.81	15.38	420.61	2.27
2020	1.23	13.64	470.53	-1.92
2021	4.7	11.48	665.63	3.4
2022	8	12.33	700	3.1
2023	4.12	14.01	950.17	2.74
2024	2.95	16.02	1,534.20	3.19

Descriptive Statistics

	EXCR	GDPGR	INFR	INTR
Mean	595.6450	1.679000	2.876000	15.10300
Median	445.5700	2.505000	2.285000	15.70000
Maximum	1534.200	3.400000	8.000000	17.55000
Minimum	199.5000	-1.920000	0.120000	11.48000
Std. Dev.	398.4792	1.940426	2.259170	2.120262
Skewness	1.384871	-1.049692	1.129563	-0.506493
Kurtosis	4.079120	2.549060	3.679152	1.853966
Jarque-Bera	3.681655	1.921150	2.318708	0.974805
Probability	0.158686	0.382673	0.313689	0.614220
Sum	5956.450	16.79000	28.76000	151.0300
Sum Sq. Dev.	1429071.	33.88729	45.93464	40.45961
Observations	10	10	10	10

Correlation Table

Correlation Analysis
Date: 29/10/25 Time: 16:18
Sample: 2015/2024

Included Observation: 10	GDPgr	EXCR	INFR	INTR
GDPgr	1.000000 ----- -----			
EXCR	0.6324 1.65367 0.0210	1.000000 ----- -----		
INFR	-0.207720 1.040305 0.00317	0.277254 1.413683 0.1703	1.000000 ----- -----	
INTR	-0. 53611 2.402483 0. 0032	0.311827 1.607804 0.1210	0.391792 2.086161 0.0478	1.000000 ----- -----

Regression Analysis: GDPgr as Dependent variable

Date: 29/10/25 Time: 16:18

Sample: 2015/2024

Included Observation: 10

Variable	Coefficient	Std. Error	t-Statistic	Prob.
EXCR	4.62736	4.35E88	0.062681	0.0290
INFR	-1.071925	0.436028	0.458387	0.0158
INTR	-0.020925	0.335640	0.162345	0.0350
C	5.027759	3.034390	1.656926	0.1009

Effects Specification			
		S.D.	Rho
Cross-section random		1.419939	0.6883
Idiosyncratic random		0.955443	0.3117

Weighted Statistics			
R-squared	0.72623	Mean dependent var	1.204489
Adjusted R-squared	0.73871	S.D. dependent var	0.955616
S.E. of regression	0.953779	Sum squared resid	85.51124
F-statistic	1.076346	Durbin-Watson stat	1.949827
Prob(F-statistic)	0.037855		

Unweighted Statistics			
R-squared	0.035738	Mean dependent var	4.180000
Sum squared resid	253.3695	Durbin-Watson stat	1.829625

Heterodasticity Test: Breusch-Pagan-Godfrey

Date: 29/10/25 Time: 16:18

Sample: 2015/2024

Included Observation: 10

F-statistic	1.401042	Prob. F(5,93)	0.2311
Obs*R-squared	6.934795	Prob. Chi-Square(5)	0.2255
Scaled explained SS	12.16462	Prob. Chi-Square(5)	0.0326

Breusch-Godfrey Serial Correlation LM Test

F-statistic	0.795012	Prob. F(2,90)	0.4547
Obs*R-squared	1.718663	Prob. Chi-Square(2)	0.4234
