

CHAPTER ONE INTRODUCTION

1.1 Background to the Study

Government Expenditure no doubt is an important instrument for a government to control the economy of a nation. Economists have been well aware of the effects in promoting economic growth. Anyway, the general view is that government expenditure notably on social and economic infrastructure can be growth enhancing although the financing of such expenditure to provide essential infrastructural facilities including transport, electricity, telecommunication, water and sanitation, waste disposal, education and health can be growth retarding (Olukayode, 2009).

Nowadays, the relationship between government expenditure and economic growth has continues to generate sense or controversies among scholars in economic literature (Inuwa, 2012). According to him, the nature of the impact of government expenditure on economic growth is in conclusion, and from the view point of the student researcher is still not incontrovertible. As a matter of fact, while some author or researchers believed that the impact of government expenditure on economic growth is negative or non-significant (Tuban, 2010), others believed that the impact is positive and significant (Alexiou, 2009).

The structure of Nigeria government expenditure can broadly be categorized into capital and recurrent expenditure (Muritala 2011). The recurrent expenditure is basically government expenses on administration such as wages, salaries, interest on loans, maintenance cost, etc. However, the expenses on capital project like roads, airports, education, telecommunication, electricity, generator, etc are generally referred to as capital expenditure (Muritala, 2011).

Ironically, the effect of government spending in Nigeria in relation to the economic growth is still a puzzle and an unresolved issue. Indeed theoretically, it is an unresolved issue. Although the theoretical positions on the subject are quite diverse, the conventional wisdom is that or spending is a source of economic instability or stagnation. Empirical research does not conclusive support the conventional wisdom, a few studies report positive and significant negative relationship between government spending and economic growth

while others find significantly negative or no relation between an increase in government spending and growth in real output.

It is against this backdrop, the study is undertaken to empirically evaluate the impact of government expenditure on economic growth in Nigeria.

1.2 Statement of Research Problem

In the last decade Nigeria economy has metamorphosed from the level of billion Naira to trillion Naira on the expenditure side of the budget. The effects of this expenditure are largely unnoticeable on the citizenry (Muritola 2011). Empirically, while a positive and significant relationship between government spending and economic growth have been established, there are much significant negative or no relationship between an increase in government expenditure and economic growth, following these mixed findings, the research question below are being raised.

1.2.1 Research Questions

1. What is the relationship between government real total capital expenditure and the economic growth in Nigeria?
2. Is there a significant relationship between government recurrent expenditure and the Nigerian economic growth?
3. Does the Nigerian government recurrent revenue enhance the growth of the economy?
4. What is the relationship between trade openness and the growth of the Nigerian economy?
5. How do macroeconomic variables induce government expenditure and the economic growth in Nigeria?
6. What is the relationship between government policies and the economic growth in Nigeria?

1.3 Objectives of the Study

The objective of this study is basically divided into general and specific objectives. The general objective is to examine the impact of government expenditure on the economic growth in Nigeria. However, the specific objective is as follows:

1. To ascertain the relationship between government real total capital expenditure and the economic growth in Nigeria.
2. To find out if there is a significant relationship between government recurrent expenditure and Nigerian economic growth.

3. To find out if the Nigerian government recurrent revenue enhances the growth of the economy.
4. To find out the impact of trade openness on growth of the Nigerian economy.
5. To ascertain how macroeconomic variables induce government expenditure and the economic growth of Nigeria.
6. To examine the relationship between government fiscal policies and the economic growth of Nigeria.

1.4 Statement of Research Hypotheses

In order to adequately evaluate the impact of government expenditure on the economic growth of Nigeria, the null hypotheses are used as follow:

1. Ho: Government capital expenditure does not improve the economic growth of Nigeria.
2. Ho: government recurrent expenditure does not enhance Nigerian economic growth.
3. Ho: There is no significant relationship between government recurrent revenue and economic growth of Nigeria.

1.5 Scope of the study

This study principally examines the impact of government expenditure on the economic growth of Nigeria. The impact of government capital expenditure, recurrent expenditure, recurrent revenue and other macro economic variables are critically examined under the study for the period 1990-2011 with a view to making inference.

1.6 Significance of the study

The relevance of this study cannot be over emphasized going by the present day government expenditure and therefore regardless of the Nigeria economic growth the Nigeria government will find outcome of the study useful in terms of knowing how best to structure yearly budgets so as to benefit the citizen and enhance the economy, policy makers no doubt will find this study very important to them. Economists and outcome of the study useful in terms of further researchers.

1.7 Limitations of the study

There is no study undertaken by a researcher that is perfect. The imperfection of any research is always due to some factors negatively affecting a researcher in the course of carrying out research. Thus, in this study the limitation include non-reliability of data, and the

problem of the outcome of the study.

IMPACT OF GOVERNMENT EXPENDITURE ON ECONOMIC GROWTH IN NIGERIA

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