

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 BACKGROUND TO THE STUDY**

Every company operates within the internal and external environments of business. The internal environments are within a firm such that the prevailing factors are most times very subject to the control of the managers. The external environment has to do with the larger business environments in which a firm operates; and the factors therein are not subject to the control of the managers. The factors in the external environment not subject to the control of a manager generally can be regarded as macro economic factors or variables.

The corporate managers cannot control the macro economic variables but the government can control them through several policies. Thus, like all experts, the government in order to do a good job of managing the economy, will have to study, analyze and understand the major variables that affect or determine the current behavior of the macro-economy. Examples of the macro-economic variables that affect the economy and firms majorly include exchange rate, foreign direct investment, inflation rate, interest rate, money supply, etc. The management of these variables is usually done through fiscal and monetary policy by the government and her agencies e.g. the Central Bank.

Another macro economic variable that may impact on firms' performance is exchange rate. Firms' financials are presented in terms of the home currency. Exchange rate increases or decreases the value in home currency of revenues and cost incurred in foreign currency. According to Lars (2003), exchange rate increases or decreases earnings in home currency share of total costs. In other words, exchange rate increases or decreases earnings in home currency before interest costs. Against this backdrop, the study examines the impact of macro economic variables on corporate performance in Nigeria.

#### **1.2 STATEMENT OF RESEARCH PROBLEM**

Research on the relationship between macro economic variables and firm's performance have been on going in advanced countries of the world with little or no research in developing countries of the world such as Nigeria. It is this existing gap that informed the rationale behind this study. In the light of the above, the following research questions are

raised:

- a. What is the effect of inflation rate on corporate performance in Nigeria?
- b. What is the relationship between exchange rate and corporate performance in Nigeria?
- c. How does interest rate affect corporate performance in Nigeria?
- d. Is there a relationship between money supply and the performance of corporate organizations in Nigeria?

### **1.3 OBJECTIVES OF THE STUDY**

The general objective of the study is to evaluate the impact of macro economic variables on corporate performance in Nigeria. However, the specific objectives are stated as follows:

- a. To ascertain the effect of inflation rate on corporate performance in Nigeria.
- b. To find out if there is a significant relationship between exchange rate and corporate performance.
- c. To determine how interest rate affects corporate performance in Nigeria.
- d. To examine the relationship between money supply and the performance of corporate organizations in Nigeria.

### **1.4 RESEARCH HYPOTHESES**

In order to validate the relationship between macro economic variables and corporate performance in this study, the following alternative hypotheses are specified:

- a.  $H_1$ : Exchange rate influences corporate performance.
- b.  $H_2$ : there is a relationship between inflation rate and corporate performance.
- c.  $H_3$ : Foreign direct investment influences corporate performance in Nigeria.
- d.  $H_4$ : There is a relationship between money supply and the performance of corporate organizations in Nigeria.

e  $H_5$ : Interest rate affects corporate performance in Nigeria.

### **1.5 SCOPE OF THE STUDY**

This study examines the effects of macro-economic variables on corporate performance in Nigeria. The time period the study covers is 2002 to 2011. In other words, the study is a time series one. The sample size is sixteen quoted firms which are listed on the floor of the Nigerian Stock Exchange.

### **1.6 SIGNIFICANCE OF THE STUDY**

This study is expected to be relevant to a number of persons and institutions in Nigeria. First,

the Federal Government of Nigeria will find the outcome of this study useful in terms of making decisions relating to the macro economic environment; in other words, it will help the government to regulate the interest rate, inflation rate, exchange rate and others with a view to achieving macro economic stability so as to assist the companies operating in Nigeria. The Central Bank of Nigeria definitely will find the study very much useful in terms of devising good monetary policy so as to enhance company's performance and foreign investors into the Nigeria economy.

Similarly, future researchers will find the study useful in terms of reference material on a similar subject matter as this.

#### **1.7 LIMITATIONS OF THE STUDY**

The limitations of this study include data constraint, inadequate research materials extensively dealing on the subject matter in Nigeria. The sample size also limits the study due to time factor and its practicality. Similarly, there is also the problem of generalizing the outcome of the study to other non-manufacturing firms in Nigeria in terms of how macro economic variables may have affected their performance.

### **IMPACT OF MACROECONOMICS VARIABLES ON FIRMS' PERFORMANCE IN NIGERIA**

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