PDF - AN ANALYSIS OF OIL REVENUE AND MACROECONOMIC PERFORMANCE IN NIGERIA - researchcub.infoOil abundance, and specifically oil dependence has often been associated with poor growth, poverty and underdevelopment. Nigeria is considered to be a classic example of the contradiction between natural resource abundance and perverse economic development outcomes (or the *paradox of plenty*). It is Africa's highest oil exporter, and the world's tenth largest oil producing country. It has realized over US$ 600 billion in oil revenues since 1960, a figure greater than the resources used by the Marshall Plan in rebuilding Europe after World War II, and is currently the 8th highest net oil exporter in the world. Nigeria's economy is heavily dependent on natural resources: oil and gas constitutes 98% of total exports, 80% of government revenues and around 20% of GDP (CBN, 2010). In spite of the enormous economic potentials in Nigeria, it has largely failed to live up to the ambitious growth projections that followed the first oil boom in the 1970s.

Also, social indicators have displayed no specific tendency towards improvement such that in 2010, Nigeria was ranked 142nd out of 169 countries by the United Nations Human Development Index. Furthermore, up to 70% of Nigerians are considered to be 'poor' – subsisting below the national poverty line (NBS, 2012).

It thus goes without saying that Nigeria has evidently grappled with the paradox of plenty. The negative impacts of abundant oil revenue from oil abundance include; a decline in the competitiveness of other economic sectors (caused by appreciation of the real exchange rate), volatility of revenues from the natural resource sector due to exposure to global commodity market swings, government mismanagement of oil revenues, weak, ineffectual and corrupt institutions. In addition, this massive inflow of revenue fuels greed and jostling for resources, both of which serve as the bedrock for crises, conflicts and violence that have come to epitomise most resource-rich countries (Nigeria inclusive). However, the deleterious economic effects embedded in the foregoing perverse outcomes have been argued to be muted within the ambit of well functioning institutions and their accompanying structures and mechanisms.

Along this line of thought, the seminal work of Rodrik (1999a,b, 2002) on the role of institutions in economic growth and development has contributed to the recognition of the role played by the quality of domestic institutions in shaping policy responses to exogenous shocks (including oil windfalls), and the redistribution of wealth to reduce poverty and drive economic growth.1 In an application of this important thesis to Nigeria, the well-known study by Sala-i-Martin and Subramanian (2003) introduces a measure of 'institutional quality' – defined as the mortality rates of colonial settlers, and the fraction of the population speaking English and other European languages – within an Instrumental Variable model of a cross-country econometric analysis, to arrive at the conclusion that crude oil has a negative and non-linear impact on growth in Nigeria, through the deleterious impact on domestic institutions. Macroeconomic performance refers to an assessment of how well a country is doing in reaching key objectives of government policy. The main aim of policy is usually an improvement in the real standard of living for their population. The effect of the abundant oil revenue has not been felt in the standard of living of Nigerians.

1.2 STATEMENT OF THE PROBLEM

There is already a plethora of academic literature on the issues associated with oil revenue and macro-economic performance in resource-rich countries. Existing studies on Nigeria's experience with oil revenue have also tackled the macroeconomic implications, (Subramanian and Sala-i-Martin 2003). This study, however, aims to provide an analysis of oil revenue and macroeconomic performance in Nigeria. This study is going to proffer suggestions to policymakers, to help in the design of appropriate policies to manage appropriately future oil revenue that will be generated. While the extant studies on the subject with specific focus on Nigeria have hinged on the macroeconomic implication of oil revenue, the institutional setting has scarcely ever been given any attention.

1.3 OBJECTIVES OF THE STUDY

The following are the objectives of this study:

To examine the effect of oil revenue on macroeconomic performance in Nigeria.

To examine the level of economic development in Nigeria.

To examine the relationship between oil revenue and macroeconomic performance

RESEARCH QUESTIONS

What are the effects of oil revenue on macroeconomic performance in Nigeria?

What is the level of economic development in Nigeria?

What is the relationship between oil revenue and macroeconomic performance

1.5 HYPOTHESIS

HO: There is no significant relationship between oil revenue and macroeconomic performance in Nigeria.

HA: There is significant relationship between oil revenue and macroeconomic performance in Nigeria.

1.6 SIGNIFICANCE OF THE STUDY

The following are the significance of this study:

The outcome of this study will enlighten the government of Nigeria, the policy makers and the general public on the influence of oil revenue on macroeconomic performance in Nigeria with a view of understanding better how to manage the revenue generated from abundant oil in Nigeria for rapid and sustainable development of the country.

This research will also serve as a resource base to other scholars and researchers interested in carrying out further research in this field subsequently, if applied will go to an extent to provide new explanation to the topic.

1.7 SCOPE/LIMITATIONS OF THE STUDY

This study on the analysis of oil revenue and macroeconomic performance in Nigeria will cover the overview of money generated from crude oil in Nigeria and its effect on the economy of the nation. It will also cover how the government of Nigeria has allocated and managed resources generated from oil since the beginning of oil exploration and production in Nigeria.

LIMITATION OF STUDY

Financial constraint- Insufficient fund tends to impede the efficiency of the researcher in sourcing for the relevant materials, literature or information and in the process of data collection (internet, questionnaire and interview).

Time constraint- The researcher will simultaneously engage in this study with other academic work. This consequently will cut down on the time devoted for the research work.

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