**THOMAS ADEWUNMI UNIVERSITY, OKO, KWARA STATE**
**Faculty of Management and Social Sciences**
**Department of Economics**

**RAIN SEMESTER LECTURE NOTE 2023/2024 Session**

**COURSE INFO:**

**Course code:** ECO 102

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**LECTURER INFO:**


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## TOPIC 1: INTRODUCTION TO MACROECONOMICS

**Course Description:**

This is an introductory course to Macroeconomics. Topics include Determination of National Income Accounting, Aggregate Demand and Supply, Determination of National Income; Money and Banking; Central Banking; Monetary System; Monetary and Fiscal Policy in a closed Economy; Income Determination in an Open Economy; Inflation; Unemployment; Population studies

**Objectives:**

- Understand the basic concepts terms relating to macroeconomics
- Learn the national income accounting and determination

- Differentiate between monetary and fiscal policy
- know about banking system, money, inflation, unemployment as well as population studies in Nigeria.

**Course Outline:**

- **Introduction to Macroeconomics**
    - Definition of macroeconomics
    - Different between macro and Micro Economics
    - Scope of Macroeconomics
    - Importance of Macroeconomics
    - Limitations of Macroeconomics
- **National Income**
    - Definition of National Income
    - Terms associated with National Income
    - Importance or Users of National Income
    - Limitation of National Income
    - Measurements of Natuional Income
    - Circular flow of National Income
    - Problems of National Income
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      Meaning

      Interaction of Aggregate Demand and Aggregate Supply

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      Savings
- BANKING SYSTEM
    - The Central Bank
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- **MONEY AND BARTER SYSTEM**
    - Definition of trade by barter
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    - definition of money
    - functions of money

    - attributes of good money
- **FISCAL AND MONETARY POLICY**
    - Meaning of fiscal and monetary policy
    - objectives of fiscal policy
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    - instruments of monetary policy

- **INFLATION**
- Meaning of Inflation
- Measurements of inflation
- Types of Inflation
- Causes of Inflation
- Effects of Inflation
- Control of Inflation

- **UNEMPLOYMENT**
- Meaning of unemployment
- Types of unemployment
- Causes of unemployment
- Effects and solutions unemployment

## Detailed Course Notes

## Introduction to Macroeconomics

Definition: This is a branch of economics that deals with the performance, structure, behaviour, and decision-making of an economy as a whole. This includes national, regional, and global economies. Macroeconomists study topics such as output/GDP (gross domestic product) and national income, unemployment (including unemployment rates), price indices and inflation, consumption, saving, investment, energy, international trade, and international finance.

Macroeconomics and microeconomics are the two most general fields in economics. The focus of macroeconomics is often on a country (or larger entities like the whole world) and how its markets interact to produce large-scale phenomena that economists refer to as aggregate variables. In microeconomics the focus of analysis is often a single market, such as whether changes in supply or demand are to blame for price increases in the oil and automotive sectors. From introductory classes in "principles of economics" through doctoral studies, the macro/micro divide is institutionalized in the field of economics. Most economists identify as either macro- or micro-economists.

Macroeconomics is traditionally divided into topics along different time frames: the analysis of short-term fluctuations over the business cycle, the determination of structural levels of variables like inflation and unemployment in the medium (i.e. unaffected by short-term deviations) term, and the study of long-term economic growth. It also studies the consequences of policies targeted at mitigating fluctuations like fiscal or monetary policy, using taxation and government expenditure or interest rates, respectively, and of policies that can affect living standards in the long term, e.g. by affecting growth rates.

Macroeconomics as a separate field of research and study is generally recognized to start in 1936, when John Maynard Keynes published his *The General Theory of Employment, Interest and Money*, but its intellectual predecessors are much older. Since World War II, various macroeconomic schools of thought like Keynesians, monetarists, new classical and new Keynesian economists have made contributions to the development of the macroeconomic research mainstream.

### Difference Between Macroeconomics and Microeconomics

The study of economics is typically divided into two main branches: Macroeconomics and Microeconomics. Both Macroeconomics and Microeconomics are important for understanding how the economy functions and for making informed decisions about economic policy. While microeconomics provides insights into how individual agents make decisions and how markets work, macroeconomics allows us to understand the broader trends and patterns in the economy as a whole.

Understanding both Macroeconomics and Microeconomics principles is important for gaining a comprehensive understanding of the economy and making informed economic decisions. Here is a comparative analysis of the two terms for better understanding.

| Macroeconomics | Microeconomics |
| --- | --- |

| Macroeconomics deals with the economy as a whole | microeconomics deals with individual units within the economy. |
|---|---|
| Focuses on aggregate economic variables like GDP, inflation, unemployment, and interest rates | Focuses on specific economic units such as households, firms, and industries |
| Analyzes the behaviour of large-scale economic systems | Analyzes the behaviour of small-scale economic systems |
| Examines the economy at a national and international level | Examines the economy at a local and regional level |
| Concerned with government policies that impact the economy | Concerned with how individual economic agents make decisions and how markets operate |
| Studies the interactions between different sectors of the economy, such as the financial sector, the labour market, and the international trade sector | Studies how prices, supply and demand, and market structures impact the decisions of individual economic agents |

**Scope of Macroeconomics**

The scope of macroeconomics is quite broad and covers a wide range of topics related to the functioning of national and international economies. The scope of macroeconomics includes the following:

i. National Income and Output: Macroeconomics studies the measurement and analysis of national income and output, including Gross Domestic Product (GDP), Gross National Product (GNP), and other aggregate measures of economic activity.

ii. Unemployment: Macroeconomics examines the causes and consequences of unemployment, as well as the policies that can be used to reduce unemployment rates.

iii. Inflation: Macroeconomics studies the causes and effects of inflation, as well as the policies that can be used to control inflation rates.

iv. Economic Growth: Macroeconomics examines the factors that contribute to long-term economic growth, including technological progress, investment, and human capital development.

v. Monetary Policy: Macroeconomics analyzes the role of central banks in controlling the money supply and managing interest rates to achieve macroeconomic goals such as price stability and full employment.

vi. Fiscal Policy: Macroeconomics studies the use of government spending and taxation policies to influence economic activity and achieve macroeconomic objectives.

vii. International Trade and Finance: Macroeconomics examines the interaction of national economies in international trade and finance, including exchange rates, the balance of payments, and international capital flows.

viii. Economic Development: Macroeconomics studies the economic development of countries, particularly those that are less developed, and the policies that can be used to promote growth and development.

## Importance of Macroeconomics

The importance of Macroeconomics are highlighted below:

i. It helps to understand the functioning of a complicated modern economic system. It describes how the economy as a whole functions and how the level of national income and employment is determined on the basis of aggregate demand and aggregate supply.

ii. It helps to achieve the goal of economic growth, higher level of GDP and higher level of employment. It analyses the forces which determine economic growth of a country and explains how to reach the highest state of economic growth and sustain it.

iii. It helps to bring stability in price level and analyses fluctuations in business activities. It suggests policy measures to control Inflation and deflation.

iv. It explains factors which determine balance of payment. At the same time, it identifies causes of deficit in balance of payment and suggests remedial measures.

v. It helps to solve economic problems like poverty, unemployment, business cycles, etc., whose solution is possible at macro level only, i.e., at the level of whole economy.

vi. With detailed knowledge of functioning of an economy at macro level, it has been possible to formulate correct economic policies and also coordinate international economic policies.

vii. Last but not the least, is that macroeconomic theory has saved us from the dangers of application of microeconomic theory to the problems of the economy as a whole.

Limitations of Macroeconomics

Macroeconomics has its limitations, and it is important to be aware of these limitations when analyzing economic data and making policy decisions. Some of the limitations of macroeconomics are:

Aggregate Analysis may not Capture Individual Behaviour: Macroeconomics focuses on analyzing the economy as a whole, which may not accurately reflect the behaviour of individual economic agents such as households and firms.

Data Limitations: Macroeconomics relies heavily on data, which may not always be accurate or complete. This can lead to inaccurate analysis and policy prescriptions.

Simplified Assumptions: Macroeconomic models often make simplified assumptions about the behaviour of economic agents, which may not always reflect reality. For example, assumptions about rationality or perfect information may not hold in real-world situations.

Difficulty in Predicting the Future: Macroeconomic analysis often involves making predictions about future economic conditions. However, it can be difficult to accurately predict future events and economic conditions due to the complexity of economic systems and the influence of external factors.

Political Factors: Macroeconomic policies are often influenced by political considerations, which can result in policies that may not be optimal from an economic standpoint.

International Factors: Macroeconomic analysis often overlooks international factors that can have a significant impact on national economies. For example, changes in global economic conditions or policies can have spill over effects on national economies.

NATIONAL INCOME:

Definition: The national income in economics is put as the measurement of the aggregate outcomes of economic activities in a particular period of time usually a year. National income also means the value of goods and services produced by a country during a financial year. Thus, it is the net result of all economic activities of any country during a period of one year and is

valued in terms of money. National income is an uncertain term and is often used interchangeably with the national dividend, national output, and national expenditure

**Terms Associated with the National Income**

**Gross Domestic Product (GDP)** is the market value of all final goods and services produced within a country's borders in a given period of time.
In light of this knowledge, we say that the gross domestic product (Y) is the sum of the total investments (I), total consumption (C), government purchases (G), and net exports (NX), which is the difference between exports (X) and imports (M). Therefore, we can denote a nation's income with an equation as follows.

$Y= C+I+G+NX$

$NX= X-M$

**Gross National Product**

Gross national product (GNP) is another metric that economists use to evaluate a nation's income. It is different from GDP with some minor points. Unlike GDP, the gross national product doesn't limit a nation's income to its borders. Therefore, citizens of a country can contribute to the country's gross national product while producing abroad.

Gross national product (GNP) is a metric to evaluate the total market value of goods and services made by a country's citizens regardless of the country's borders.

GNP can be found with a few additions and subtractions to GDP. For calculating the GNP, we aggregate GDP with any other output produced by the citizens of the country outside of the country's borders, and we subtract all output made by the foreign citizens within a country's borders. Thus, we can arrive to the GNP equation from the GDP equation in the following way:

$GDP=C+I+G+NX$

K=Overseas citizen output

V=Domestic foreign citizen output

$GNP=C+I+G+NX+V-K$

**Net national product (NNP)**

All of the national income metrics are rather similar, and obviously, net national product (NNP) is not an exception. NNP is more similar to GNP than to GDP. NNP also takes any output outside a country's borders into account. In addition to that, it subtracts the cost of depreciation

from GNP. is the total amount of output produced by a country's citizens minus the cost of depreciation.

We can denote the net national product of a country with the following equation:

NNP=GNP−Depreciation Costs

DISPOSABLE INCOME
This is the actual amount of money that household has to spend or save. It is usually regarded as "take home pay", that is, it is individual gross earnings less deductions like taxes union dues etc. symbolically, it is written as Yd. = y – t where Yd = disposal income y = gross income y = tax

PER CAPITAL INCOME (PCI):
This is defined as the gross national product GNP divided by the total population. That is PCI = GNP/ POP = Y/N Where Y = national income N = total population

**IMPORTANCE OF NATIONAL INCOME**
The importance of National Income are discussed below:
i. Setting Economic Policy: National Income indicates the status of the economy and can give a clear picture of the country's economic growth. National Income statistics can help economists in formulating economic policies for economic development.
ii. Inflation and Deflationary Gaps: For timely anti-inflationary and deflationary policies, we need aggregate data of national income. If expenditure increases from the total output, it shows inflammatory gaps and vice versa.
iii. Budget Preparation: The budget of the country is highly dependent on the net national income and its concepts. The Government formulates the yearly budget with the help of national income statistics in order to avoid any cynical policies.
iv. Standard of Living: National income data assists the government in comparing the standard of living amongst countries and people living in the same country at different times.
v. Defence and Development: National income estimates help us to bifurcate the national product between defence and development purposes of the country. From such figures, we can easily know, how much can be set aside for the defence budget.

**Measurement of National Income**

There are three ways of measuring the National Income of a country. They are from the income side, the output side and the expenditure side. Thus, we can classify these perspectives into the following methods of measurement of National Income:

1. Output- Under this method, we add the values of output produced or services rendered by the different sectors of the economy during the year in order to calculate the National Income.

In this method, we include only the value added by each firm in the production process in the output figure. Hence, we use the value-added method. The value-added output of all the sectors of the economy is the GNP at factor cost. However, this method is unscientific as it adds the

value of only those goods and services that are sold in the market or are available for sale in the market.

2. Income - Under this method, we add all the incomes from employment and ownership of assets before taxation received from all the production activities in an economy. Thus, it is also the Factor Income method. We also need to add the undistributed profits of the private sector and the trading surplus of the public sector corporations. However, we need to exclude items not arising from productive activities such as sickness benefits, interest on the national debt, etc.

3. Expenditure- This method measures the total domestic expenditure of the economy. It consists of two elements, viz. Consumption expenditure and Investment expenditure. Consumption expenditure includes consumption expenditure of the household sector on goods and services and consumption outlays of the business sector and public authorities. Investment expenditure refers to the expenditure on the making of fixed capital such as Plant and Machinery, buildings, etc.

**LIMITATION OF NATIONAL INCOME ACCOUNTING**

National income accounting is a useful tool for measuring the progress of an economy, but it has its limitations. While it provides a general overview of a country's *economic activity*, it does not capture the full scope of *economic activity*, and it can be misleading if not used in conjunction with *other economic measures*. In this section, we will discuss some of the limitations of national income accounting.

1. Non-Market Activities: *National income accounting* only considers market activities, which means that non-market activities are not included in the calculations. This includes activities such as household labor, volunteer work, and the informal economy. These activities are not reflected in the national income

accounts, which can lead to an underestimation of the actual *economic activity* taking place.

2. Income Distribution: *National income accounting* provides an overall measure of *economic activity*, but it does not account for how the income generated is distributed among the population. A country with a high national income may still have *significant income inequality*, which can have *negative social and economic consequences*.

3. Quality of Life: *National income accounting* measures *economic activity*, but it does not provide information on the quality of life of the population. A country may have *a high national income*, but its citizens may not have access to *basic necessities* such as healthcare, education, and housing.

4. Externalities: *National income accounting* does not account for externalities, such as environmental damage caused by *economic activity*. For example, a country may have a high national income due to its reliance on fossil fuels, but this *economic activity* may have *negative consequences* for the environment and the health of its citizens.

5. Inflation: *National income accounting* is calculated using *nominal values*, which means that it does not account for inflation. This can be misleading as it can give the impression that the economy is growing when in fact prices are just increasing.

While national income accounting is a useful tool for measuring *economic activity*, it has its limitations. It is important to use it in conjunction with other measures and to be aware of its shortcomings to get *a more accurate picture* of an economy's progress.

## CIRCULAR FLOW OF INCOME

The circular flow of income model is a graphical representation of the cyclical movement of money between households and businesses in an economy, depicting the exchange of labor and resources for income and the subsequent spending of that income on goods and services produced by businesses.

In the basic model, the circular flow of income consists of two components:

- **Firms:** companies that produce goods and pay wages to employees.
- **Households:** individuals who receive wages from firms while simultaneously purchasing the goods and services from the firms.

In the real world, the model is a bit more complicated. It has two extra components:

- **Government:** the government receives taxes from firms and households, then uses tax revenues to pay for public services.
- **Foreign sector:** the foreign sector is responsible for exporting and importing goods, thus facilitating an exchange of money between the domestic economy and the rest of the world.

In addition to firms, households and governments, there is also the **financial sector** that enables money exchange and helps to convert savings into investments for economic development.

In the economy, goods and services move in one direction while money flows in the other way. **Goods, money, and services** are the three major flows in the economy.

The circular flow of income also represents three ways to calculate the national income:

- The **national output** shows the actual value of goods and services produced by the economy.
- The **national income** represents the total earnings received by people in the economy. These include profits, dividends, wages, and rent. For example, workers receive wages from firms.
- The **national expenditure** shows the total amount spent on goods and services. For example, individuals use money from their wages to purchase goods and services from firms.

Circular Flow of Income Diagram

The Circular flow of income diagram is a simple yet powerful visual representation of how money and resources move within an economy. It illustrates the continuous exchange of goods,

services, and income between households and firms, highlighting the interdependence of these key economic agents

***Income (Y) = Output (O) = Expenditure (E)***

Types of Flow in Circular Flow of Income

The circular flow consists of two main aspects: **real flow** and **money flow**. Both concepts demonstrate how money is exchanged for goods and services. However, while the real flow refers to the actual flow of goods and services, the money flow involves the payments for services and consumption.

The real flow

The **real flow** involves two kinds of flows: the flow of **factors of production** such as land and labour from individuals to firms, and the flow of **goods and services** from firms to individuals. The real flow depicts how the economy produces and consumes products and services.

The money flow: **The** money flow **transfers** money and other forms of credit **in the economy. It happens when companies pay wages to workers in exchange for their labour and when individuals use their wages to pay for goods and services. In the money flow, income is turned into savings and investments, then back again.**

To learn how money is used for investment, check out our explanation on **Money Markets.**

**Two-sector Circular Flow of Income Model**

The two-sector circular flow of income model is a simple picture of an economy in which the economy is divided into two components: individuals and firms. **Individuals** are also called households or the public, while **firms** are businesses or the productive sector. The **financial sector**, government sector, and overseas sector are excluded in this model.

The model is based on two assumptions:

1. Individuals spend all their income on goods and services without the intention of saving part of their income.
2. Consumers purchase all output created by companies through their consumption.

Thus, all expenses by individuals are converted into income for businesses. Companies then spend all their earnings on labour, capital, and raw materials, transferring them back to individuals. This results in a circular income flow.

**Three-sector model**

The government is added to the basic circular flow model (two-sector model) in the three-sector circular flow model. The financial and overseas sectors are not included.

The government sector is made up of economic activities by the municipal, state, and federal governments.

**Taxes (T)** are the means through which the government generates income from individuals and businesses. **Government spending (G),** including subsidies, transfers, and purchases of products and services, is how the government redistributes its revenue to businesses and individuals.

Every payment has an equal and opposite reception. That is, each flow of money has an equal and opposite flow of commodities. As a result, the economy's aggregate expenditure equals its aggregate income, which creates a circular flow.

In this model, the national income is in equilibrium when taxes equal **government spending**: $T=G$

Injections in the Circular Flow of Income

**Injections in the circular flow of income** refer to external factors that increase the flow of money within an economy. These injections are essential for stimulating **economic growth** and can come in the form of **government spending**, investments, and exports. For example, when the government invests in infrastructure projects, it creates new jobs and increases household income, thus injecting money into the economy. Similarly, when a local business exports its products to foreign markets, it brings in additional income, which also serves as an injection into the circular flow.

**Injections** in the circular flow of income are the external economic activities that introduce money into the economy, thereby increasing the total income circulating within the system.

Injections are classified into three main categories: government spending (G), investments (I), and exports (X).

Circular  Flow of Income Leakages
Leakages, on the other hand, are factors that remove money from the circular flow of income, leading to a slowdown in economic activity. Common leakages include savings, taxes, and imports. For instance, when households decide to save a portion of their income instead of spending it on goods and services, this money is removed from circulation, causing a leakage. Another example is when people pay taxes to the government; this portion of their income is no longer available for spending, reducing the circular flow. Finally, importing goods and services from other countries results in money leaving the domestic economy, which is also considered a leakage in the circular flow of income.

**Leakages** in the circular flow of income are the economic activities that remove money from the circulation within an economy, causing a reduction in the overall flow of income. The primary types of leakages include savings (S), taxes (T), and imports (M).

Total leakages = Savings(S) + Taxes(T) + Imports(M)

Total Injections = Investment(I) + Government Spending(G) + Exports(X)

Total leakages = Total Injections

**PROBLEMS OF NATIONAL INCOME**

i. The problems of national income are highlighted below:

ii. Double counting

iii. Inadequate statistical data

iv. Inventory adjustments

v. Depreciation

vi. Environmental degradation

vii. The value of leisure

viii. Transfer payments and capital gains

ix. Exclusion of real transactions

Illegal income

AGGREGATE DEMAND AND SUPPLY AGGREGATE DEMAND (AD)

Aggregate demand (AD) or total spending refers to the total amount of output (goods and services) demanded in the economy at different price level. Thus, total demand for domestic output is made up of four components:
(i) Consumption spending by households
(ii) Investment spending by businesses or household
(iii) Government (federal, state, and local) purchases of goods and services
(iv) Foreign demand. The aggregate demand function tells us the change in the level of demand that is associated with any change in the price level. Aggregate demand curve is the downward sloping, showing a negative relationship with the price level.

AGGREGATE SUPPLY: Aggregate supply (AS) refers to the quality of output (goods and services) which producers are willing to sell at different price level. It thus shows the price level associated with each level of output and it can, to some extent be shifted by fiscal policy. Aggregate supply function can therefore tell us the change in the level of output supplied that is associated with any change in the price level. As shown in the figure below the aggregate supply (AS) curve is upward sloping showing a positive relationship with the prize level. As the curve may or may not invest.
INTERACTION OF AGGGREGATE DEMAND AND SUPPLY: Aggregate demand and supply interact to determine the price level and output level at equilibrium. In the figure above, PE is the equilibrium price level and YE the equilibrium level of output. If AD curve shift up to the right, then the extent to which output and prices respectively are change depends on the steepness of the AS curve. If the AS curve is flat a given change in AD will be translated mainly into an increase in output and very little into an increase in the price level. Also, if the AS curve is very steep, then a given increase in AD mainly cases prices to increase and has very little effect of the output level. Indeed, aggregate demand and supply are the basic tools for analyzing output, inflation, and growth. Shifts in either AD or AS will cause the level of output to change, - thus affecting growth – and will also change the price level – thus affecting inflation.

CONSUMPTION: Consumption can be defined as the act of using goods and services to satisfy human wants. It refers to household expenditure on goods and services which yield utility in the current period. Consumption or aggregate consumption can be determined by subtracting aggregate savings from national income. Consumption dependent on income. Consumption has a positive correlation with income level (i.e. the higher the income level the higher will be the consumption levels all things being equal). Mathematically consumption in the function of income. C= f (Y) C= bo+ b, y bo> o b, > o Where C= Consumption f = function y = income boy – parameters. b,

BASIC CONCEPT OF CONSUMPTION:

1. Marginal propensity to consume (MPC):- This refers to the fraction of additional disposable income that is consumed. OR The marginal propensity to consume is the ratio of change in consumption to the change in income. I.e. MPC = DC /DY. MPC is the slope of consumption function.
2. Average propensity to consume (APC):- This refers to the fraction of total income that is spent on consumption. It in the ratio of total consumption to total income.APC = C/Y

SAVINGS: Savings is defined as the amount of income per time period that is not consumed by economic units. For the household, it represents that part of disposable income not spent on domestically produced or imported consumption goods and services.

BASIC CONCEPT IN SAVINGS

1. MARGINAL PROPENSITY TO SAVE (MPC) :- Since what is not consumed is by definition saved, the marginal propensity to save can be defined as the ratio of the change in savings to the change in income. MPS = DS/ DY Like the MPC, the value of MPS is greater than zero but less than one. Thus: MPC + MPS = 1

The foregoing analysis shows that both MPC and MPS can be defined in mathematical terms as the rate of change of consumption (savings) with respect to disposable or national income.

2. AVERAGE PROPENSITY TO SAVE:- This is simply defined as that proportion of income that is devoted to savings. APS = S /Y

## BANKING SYSTEM

A bank is a place where money and other valuables are kept.

ORIGIN OF BANKS IN NIGERIA:

Banking activities started in Nigeria in 1892 with the establishment of the African Banking Corporation (ABC) by a group of British. The bank collapsed in 1894. That same year, the bank of British West Africa (BBWA), which later changed to Standard Bank and now known as First Bank of Nigeria plc., was established. It became the only bank in Nigeria up to 1927 only BBWA and Barclays Bank were dominant. They were essentially oriented to provide banking services to the colonial administration and their commercial partners like the Royal Niger Company (new UAC) among others.

Indigenous banks came in to being in 1929 with the establishment of industrial and commercial banks Nigerian Merchant Bank (1931). The establishment of indigenous banks broke the monopoly of the foreign banks. After 1929, other indigenous banks were formed i.e. Muslim Bank, the metropolitan Bank, National Bank (1933) Agbonmagbe Bank (now Wema Bank) and the African Continental Bank (ACB-1947). Eighteen others were open between 1950 and 1951.

In 1959, The Central Bank of Nigeria (CBN) was formed and it main function is to regulate banking in Nigeria. Within 1960-1969, the era of banking regulations began as the CBN was given powers to make laws binding on the commercial banks. In 1961, the first act of CBN was enacted.

COMMERCIAL BANK: Commercial bank specialises in the offering of financial services to people and businesses and it is being owned by private investors for profit making.

FUNCTION OF COMMERCIAL BANKS:

1. Acceptance of Deposits
2 .Granting of loans and overdraft (advances).
3. They render cooperate financial services.
4. Provision of foreign exchange services.
5. They act as referees.
6. Safe keeping of valuables such as gold, certificates, jewelleries etc

COMMERCIAL BANK ROLE IN ECONOMIC DEVELOPMENT

Commercial bank plays a vital role in the economic development of a country; such roles include:

i. Encouraging savings.

ii. Capital provision.
iv. Encourages of chequing system.
v. Encourages Investment. vi. Assist international trader.
vii. Gives financial and management advice to their customers.
viii. Offers employment opportunities.
ix. Discount Bills.

CENTRAL BANK: The central bank is defined as government Bank. It is the apex regulatory authority of the financial system.

HISTORICAL BACKGROUND OF CENTRAL BANK: The West African Currency Board (WACB) was established in1912 by the British colonial Government to serve as the central Bank for the Anglophone West Africa Countries. Amongst its functions was to issue the West African Ponds to serve as legal tender in Gambia, Sierra Leone, Ghana and Nigeria. In 1958, the J. B Loynes recommendation led to the promulgation of the Central Bank of Nigeria (CBN) act of 1958, which set up the CBN. The legal backing for the CBN rests mainly in CBN decree No 24 of 29th June 1991 which super cede the CBN Act of 1958 and subsequently amendment and the CBN (currency conversation) act of 1967 and it amendments. This decree expanded the power of the CBN to execute its primary functions.
FUNCTION OF CENTRAL BANK OF NIGERIA
(i) Current issue and distribution
(ii) It act as government banker and financial advisor
(iii) It is the bankers bank
(iv) It act as larder of last resort
(v) Debt management
(vi) It manages the foreign and reserve
(vii) It manages the marketing system of the country.

CONTROL OF COMERCIAL BANK BY CBN
The CBN uses the following monetary policies to control commercial banks
1. Open market operation (OMO): This is the buying and selling of government securities and treasury bills by the central banks and to commercial banks and floral public
2. Bank rate: this also called the discount rate. It is the rate at which the central bank lends money to the commercial banks and other financial institutes. Activities: read on: specialized banks, the Nigerian industrial development banks (NIDB), Nigeria banks for commerce and industries (NBCI), The Nigeria agricultural cooperative banks (NACB), urban development banks (UDN), people's banks, the commodity banks, mortgage banks.
3. Cash reserve ratio – This is the ratio of bank balance to the depositor's liabilities. The central bank requires the commercial banks mention a certain percentage of their deposit.
4. Directive
5. Special Deposit
6. Moral suasion.

# MONEY AND BARTER SYSTEM

## MONEY

BARTER SYSTEM: In primitive societies, goods and services were exchanged for another. This system is known as barter system i.e. exchanging goods for goods and services for services. This system was not money, but was a means for the exchange of goods and services. Therefore, problem existed when a given individual does not have need for a given good offer for exchange in barter system. Although, this system is without difficulties. Some of the difficulties attached to the system are highlighted below:
a. Double coincidence of wants.
b. Divisibility.
c. Storability.
d. It was cumbersome.

MONEY DEFINED: In modern economy, barter or direct exchange is comparatively rare. Money was introduced to eliminate the problems of barter and significantly make smooth exchange possible in modern economy **. Money is therefore anything which is generally acceptable in making payment or settling of debts**. Over the years, however, salt, cowries, oxen, amber etc. have served as means of exchange, but they had one defect or the other. Whatever is use as, money should be unquestionable and immediately be accepted in exchange for goods and services by the society. For anything to be money, it must have both physical and behavioural dimensions:

THE PHYSICAL DIMENSION OF MONEY: The physical dimension of money exist when it is physically seen or when it possesses some form of physical features such as shape, drawings, physical differences existed to differentiate it from countries to countries. The physical dimensions of money also include the following: 1) It must be stored and preserved until we have need for it or until when one decides to use it. 2) It must be denominated and measured in physical quantities. Other physical dimensions of money are: i) Stable in value. ii) Divisibility- must be divided into convenient units. iii)Portability. iv)Relative scarcity- it must be scares to retain its value. THE BEHAVIOURAL DIMENSION OF MONEY: Behavioural dimension of money simply refers to it general acceptability and Homogeneity which gives preference to the physical dimension of money.

FUNCTION OF MONEY
There are two broad functions of money:
(i) The dynamic function of money: The dynamic functions of money is the role that money plays in the daily lives of person be it businessman or an entrepreneur etc. it plays different role in the life of a consumer such as consumption, investment, exchange of goods and services etc.

( ii) The static functions of money : The static function of money is the role that money plays in removing the difficulties of barter system. The following are the static functions of money:
1. It is a medium of exchange.
2. It removes the strain of double coincidence of want and the inconveniences associated with barter system.
3. It acts as a unit of account and measure of value.
4. It is a unit of account- making possible the operation of the price system. It is the common denominator where goods and services can be expressed.
5. It is a standard of deferred payments- money makes it possible for lending and borrowing of money to take place.

TYPES OF MONEY:
1. Legal tender
2. Notes and coins e.g. Naira and kobo.
3. Demand deposits
4. Commodity money- it has commodity, value in addition in current account in form or cheque, to its own value as money. Precious metals such as gold, silver, diamond falls under commodity money.
5. Token money- this type of money derived it value from being used as money. It has no commodity value, have it is worthless unless use as money.

THE DEMAND FOR MONEY: Why do we demand for money?
1.Transactionary motive- People hold money to meet day to day transaction such as payment for food, clothing, rental, purchases of raw materials, payment of wages and salaries.
2. The Precautionary Motive- people hold money precautionary for because of uncertainty or exigencies of life such as illness, accident, repairs and on the spot decision to get better bargains.
3. Speculative Motives- emphasizes on the store of value functions of money and it concentrates more on the roles of money in the investment purpose.

MONETARY AND FISCAL POLICY

Monetary policy is defined in the Central Banks of Nigeria Brief as “the combination of measures designed to regulate the value, supply and cost of money in an economy, in consonance with the expected level of economic activity.” (CBN). One idea is central in this and other definitions given above - that monetary policy focuses on money supply as a means of achieving economic objectives. If the government thinks that economic activity is very low, it can stimulate activities again by increasing the money supply. But when the economy is becoming so much that the rate of inflation is high, it will reduce the supply of money. This will reduce aggregate demand in and the general price level. However, it can also lead to unemployment and stunted economic growth. As you will see later, there is often a conflict between the objectives of monetary policy. It is difficult to achieve all the objectives simultaneously. Monetary policy is a major economic stabilisation weapon which involves measures designed to regulate and control the volume, cost of availability and direction of money and credit in an economy to achieve some specified macroeconomic policy objectives. That is, it is a deliberate effort by the monetary authorities (the Central Bank) to control the money supply and credit conditions for the purpose of achieving certain broad economic objectives . Monetary policy is administered by the Central Bank of Nigeria, in some cases with degree of political/ Government Interference. Monetary policy could, therefore, generally be defined as follows:

(a) As an attempt to influence the economy by operating on such monetary variables as the quantity of money and the rate of interest

(b) As a policy which deals with the discretionary control of money supply by the monetary authorities in order to achieve stated or desires economic goal

(c) As steps taken by the banking system to accomplish, through the monetary mechanism a specific purpose believed to be in the general public interest

(d) The use of devices to control the supply of money and credit in the economy. It has to do with the controls that are used by the banking system.

Objectives of Monetary Policy

Generally, the objectives of monetary policy in various countries are the same as the economic objectives of the government. In Nigeria, the objectives of monetary policy as explained by the government of Central Bank of Nigeria are as follows:

(i) Promotion of price stability

(ii) Stimulation of economic growth

(iii) Creation of employment

(iv) Reduction of pressures on the external sectors

(v) Stabilisation of the Naira exchange rate

(i) Promotion of Price Stability This involves avoiding wide fluctuation of prices which are highly upsetting to the economy. Not only do such wide prices gyrations produce windfall profits and losses, but they also introduce uncertainties into the market that make it difficult for business to plan ahead. They therefore, reduced the total level of economic activity. This objective of avoiding inflation is desirable since rising and falling prices are both bad,

bringing unnecessary losses to some and necessary undue advantages to others. Prices stability is also necessary to maintain international competitiveness. (ii) Slowly rising prices, slowly falling prices and constant prices (though the last option is rather unrealistic in the world).
(ii) Stimulation of economic Growth i.e. - Achievement of a High, Rapid and Sustainable Economic Growth: This mean maximum sustainable high level of output, that is, the most possible output with all resources employed to the greatest possible extent, given the general society and organizational structure of the society at any given time. This highly desirable economic growth implies raising people's standard of living. The growth of the economy is the wish of every government and monetary authorities. Therefore, when growth is achieved, it should be sustained.
(iii) Creation of Employment: Attainment of High rate or Full Employment: This does not mean Zero unemployment since there is always a certain amount of frictional voluntary or seasonal unemployment. Thus, what most policy makers aim is actually minimum unemployment and the percentage that varies among countries. The monetary policy should always aim at reducing the level of unemployment in the economy. Unemployment is a social ill which should not be allowed to exist in the economy. The effects of unemployment to individuals as well as the society as a whole is so enormous that if left unchecked it will spell doom for both individuals and society.
(iv) Reduction of pressures on the external sectors - i.e. Maintenance of balances of payments. Equilibrium: This involves keeping international payments of receipts in equilibrium, that is, avoiding fundamental or persistent disequilibrium in the balance of payments positions. Usually, however, nations worry about persistent balance of payments deficits. The pursuit of this objective, arises from the realisation that deficit in the balance of payments will retard the attainment of the other objective of other objectives, especially the objective of rapid economic growth. Deficit balance of payment is not healthy and therefore the monetary authorities should try to achieve healthy balance of payment.
(v) Stabilisation of Naira Exchange Rate - This involves avoiding wide swings (undue and unnecessary fluctuations) in the currency exchange rate. This is meant to help in protecting foreign trade.

Monetary Policy Instruments
Weapons, tools or instruments of monetary policy are many and varied. Their respective effects on the economy also vary in terms of where they start and transmission route. Sometimes, some tools are not compatible with others i.e. in which case, the adoption of one set instruments will negate or be at cross purposes with the effects of others. That is why monetary authorities usually consider the operational efficiency, the technical features, the lags and other effects of any given instruments before it can be used. Apart from minor variations based on level of economic development of each country, the tools used to attain the monetary objectives of various countries of the world are virtually the same. In discharging its obligations, the Central Bank of Nigeria has at its disposal a number of control mechanism usually referred to also as tools of monetary policy. Instruments or tools of monetary policy can be classified into two:- (a) Quantitative Instruments (Traditional and Non-Traditional). (b) Qualitative Instruments.
A. Qualitative Instruments: These are "impartial or impersonal" tools which operate primarily by influencing the cost, volume, and availability of bank reserves. They lead to the regulation of the supply of credit and cannot be used effectively to regulate the use of credit in particular areas or sectors of the credit market. Quantitative tools are further classified into traditional or market weapons and non traditional tools or credit direct control of bank liquidity.

1. Traditional or market weapons. This are called market weapon because they rely on market forces to transmit their effects to the economy. Specifically, these tools include Open Market Operations (OMO), Discount Rate Policy and Reserve Requirements.
(i) Open Market Operations This is the buying and selling of securities by the monetary authorities in the open market. Securities are sold to reduce money supply and bought to increase money supply.
(ii) Discount Rate Policy or the Rediscount Rate Policy or Bank Rate Discount rates are interest rates paid in advance based on the amount of credit extended by increasing the rediscount rates that Central banks charges from borrowing for the Central Bank and makes banks to increase their own discount rates and interest rates. This discourages banks lending and reduces money supply. A reduction in rediscount rates increases the supply of money. Interest rates is the cost of borrowed money. An increase in interest rates discourages people from borrowing from banks. This reduces money supply. A reduction in interest rate does the opposite.
(iii) Reserve Requirements/ Required Reserve Ratios The monetary authorities set a minimum level of reserves that will be maintained by banks. In Nigeria, banks maintain two types of reserve - Cash Ratio, and Liquidity Ratio. An increase in bank reserves reduces money supply by reducing bank loanable funds, while a decrease in reserves increases the supply of money.
(a) Non-traditional Instruments or Direct Control of Bank Liquidity: These tools are non-market tools that strike directly at bank's Liquidity. They include supplementary reserve requirements and variable Liquidity ratios.
(b) Supplementary reserve requirements or special deposits: The Central Bank here requires banks to hold over and above the legal minimum cash reserves, a specified percentage of their deposits in government securities such as stabilisation securities issued by the Central Bank, hence it is also called special deposits policy. The main objective is to influence banks' lending by freezing a certain percentage of their assets. Stabilisation securities which the Central Bank of Nigeria is authorised by law to issue and sell to banks compulsorily at any rate they may fix and redeem them at any time they may fix. It is used to mop up excess liquidity to reduce money supply. It is important to understand how this works. Assuming that the Central Bank wants to reduce the money supply in the economy, it may impose a special deposit of say 5% on banks and this will force the banks to deposit 5% of their total deposits liquidity with the Central Bank on a special account. The special deposit is mainly used when other instrument fail to achieve their objectives or targets. This is, therefore, regarded as instrument of the last resort.
(2) Variable Liquid Assets Ratio Here, Banks are required to diversify their portfolio of liquid assets holding. These means that banks are required to redefine the composition of their Liquid assets portfolios at different times to reduce or increase their credit base.
B . Qualitative or Selective Controls or Instruments These confer on the monetary authorities the power to regulate the terms on which credit is granted in specific sectors. These powers or control seek typically to regulate the demand for credit for specific uses by determining minimum down payments and regulating the period of time over which the loan is to be repaid. In other words, they involve official interference with the volume and direction of credit into those sectors of the economy which planners believe are a crucial importance to economic development. These tools include moral suasion and selective credit controls or guidelines.
(1) Moral Suasion Moral suasion is an appeal of persuasion from the Central Bank to other banks to take certain actions in line with government economic objectives. Unlike directives, no penalty is attached to non-compliance to moral suasion. Banks have the freedom not to comply, but they often comply so as to have a good relationship with the Central Bank. This

involves the employment of persuasions or friendly persuasive statements, public pronouncements or outright appeal on the part of monetary authorities to the banks requesting them to operate in a particular direction for the realisation of specified government objectives. For example, the Central Bank or the government may appeal to the banks to exercise restraint in credit expansion by explaining to them how excess expansion of credit might involve serious consequences for both the banking system and the economy as a whole. Moral suasion is supposed to work, through appeal and voluntary action rather than the regulation and authority.
(2) Selective Credit Controls and Guideline : These are specific instructions given by the Central Bank to other banks which they must comply with. Such directives come in the form of credit ceilings, special deposits and sectoral allocations of credits, among others. This can be used to increase or reduce money supply. Selective credit controls or guidelines involve administrative orders whereby the Central Bank, using guidelines, instructs banks on the cost and volume of credit to specified sectors depending on the degree of priority of each sectors. Thus, selective credit controls are examples of the use of monetary policy to influence directly the allocation of resources indicating a lack of faith in the working of the free market. Apart from the quantitative control which regulates the amount of money in circulation, the Central Bank can monitor the economy by giving directives to banks in all areas of operation. The selective control or directives can be in form of:
(a) Credit Ceiling: Every year the Central Bank dictates the rate of credit expansion in the economy.
(b) Sectorial Allocation of Credit: The Central Bank divided economic activities in the country into sectoral allocations. The divisions are agriculture, forestry, fishing, mining, quarrying, manufacturing and real estate.
(c) Interest Rate Ceiling: The interest rate may be controlled to favour particular sectors.
(d) Loans to Rural Borrower: This is aimed at improving investment in the rural areas.
(e) Grace Period on Loans: Longer period may be granted to some important sector like agriculture.
(f) Refinancing Facilities
(g) Indigenisation of Credit

## FISCAL POLICY

Meaning : Fiscal policy is concerned with deliberate actions which the government of a country take in the area of spending money and/or levying taxes with the objectives of influencing macro-economic variables such as the level of national income or output, the employment level, aggregate demand level, the general level of prices, etc., in a desired direction.

Goals of Fiscal Policy
Fiscal policy, as an effective instrument of policy, may be used to accomplish the following goals: (a) To increase employment opportunities or to attain full employment: The goal of fiscal policy is the reduction of unemployment rate. Fiscal policy aims at achieving full employment in the economy and at the same time ensure reasonable price stability. It is the wish of every government to reduce the rate of unemployment to the lowest minimum. High rate of unemployment requires expansionary fiscal policy but the government must also guard against the inflationary impact of expansionary fiscal policy.
(b) Price Stability: Control of inflation fiscal policy aims at stabilisation of prices in the economy, that is counteracting or avoiding inflation and deflation. Expansionary fiscal policy is used to fight deflation while a contraction fiscal policy is used to fight inflation taking into cognizance the aims of attaining full employment.

(c) To promote economic growth and development: One of the primary goals of fiscal policy is the achievement of steady growth in national resources and in national output as well as structural and attitudinal changes in the economy. Economic growth here means continuing increase on the annual basis in production of goods and services or a rise in per capital income made possible by continuing increasing in per capital productivity where as economics development refers to the changes in economic growth and social structure that always accompany economic growth.
(d) To achieve equity in income redistribution: Fiscal policy is used to redistribute income so as to achieve equity and for the attainment of social and economic justice. In equities in income, distribution is very high in the developing countries of the world. Progressive tax structure is one of the measures taken by the government to arrest the issue of inequality in income distribution.
(e) To achieve a satisfactory or favoruable balance of payments: Fiscal policy is used to avoid and or correct balance of payments deficits in the nation's external trade relations. In such a situation, efforts should be geared towards the reduction of importation by increasing import duties. Import substitution industries should be established and exports should be given a big boost.
(f) To achieve a stable exchange rate: To avoid fluctuations in the nations external reserves and to avoid fundamental disequilibrium in the nation's balance of payments position, effective fiscal policy measure are adopted. Stability in the price has great influence on the value of a country's currency which will equally affect the exchange rate between that currency and other currencies of the world.
(g) To increase the rate of investment, low rate of investment is not good for any economy. Low rate of investment will lead to low rate of employment and eventually low income. Fiscal policy is employed to generate revenues which should be used to increase investment in major sectors of the economy to avoid recession. With government spending in the form of investment, the multiplier effect will help to put back the economy on the right track.

The Instruments of Fiscal Policy
There are a number of instruments which the government employs in order to achieve its fiscal policy. Such instrument include:
(1) Government Expenditure: This is the total amount spent by the various three tiers of government within a given period through governmental ministries, and departments including transfer payments. Transfer payments in the Nigerian content include "debt service i.e. internal payment and capital repayments on internal and external debts, pensions and gratuities, external financial obligations such as animal subscriptions to international bodies, and others". There are two types of government expenditure: Capital expenditure and Recurrent expenditure. Capital expenditure are those expenditure made on items that can retain their value for more than one year. Example of capital expenditure includes costs of constructing new roads and buildings, acquisition of plant and machinery, and other fixed assets. Recurrent expenditure are expenditure made on revenue items that will set up its value within one year. Such expenditure is called recurrent expenditure because they are made repeatedly on a yearly basis. They include salaries and other personnel costs, telephone services, stationeries and other running costs of the various ministries and department of the government. As a tool of fiscal policy, government expenditure can be used to influence the economy by influencing aggregate demand. The increase in government expenditure will make money available in the hands of the public. This will increase aggregate demand which will make business of invest more and to employ more hands. Moreover, the new government projects will create employment opportunities. Thus, the decline in the economic activity will be reversed in government, expenditure may lead to an increase in the rate of inflation.

During inflation, government can reduce the level of government spending and pursue a surplus budget. The surplus fund is used in servicing public debts. The reduction in government expenditure will reduce the spendable money in the hands of the public. This will lead to a reduction in aggregate demand and general price level. Thus, the rate of inflation will be reduced, the negative aspect of a reduction is the level of unemployment and level of economic growth.
(2) Taxation: The second instruments of fiscal policy is taxation. Government can increase or reduce the amount of tax payable by individuals and organisations as a means of influencing the macro-economy. An increase in taxation reduces the spendable money in the hands of the public and hence the aggregate demands. Such increase in taxation can, therefore, be used to reduce the rate of inflation in the economy. A reduction in taxation does the opposite. It leaves more money in the hands of the public since only a small percentage of their income is paid back to the government. A reduction in taxation can be used by the government to stimulate aggregate demand, investment spending and employment when there is a slowdown in the economy. Note that there is an inter-relationship between the two tools of fiscal policy. A reduction in taxation can be used to achieve a deficit budget even when the level of government expenditure remains unchanged. In that same manner, an increase in taxation can also be used to achieve a budget surplus.
(3) Subsidy: This is another instrument of fiscal policy. While high rate of taxation will reduce economic activities of the firm and the purchasing power of individuals, subsidy to the business firm will help to boost economic activities. Subsidy will help the business firms to produce at a very low cost and make the product of the firms affordable by the customers. Subsidy is only useful, during depression and low economic activities while taxation will be very useful during boom and high economic activities.
(4.) Budget Surplus and Budget Deficit: Tools/Instruments of fiscal policy are basically budgetary policy. The Federal budget is a statement of planned revenue and expenditure of the government within a fiscal period. It shows how the government intends to get money and how she intends to spend the money got. A budget is said to be a balanced budget when the planned expenditure of the government equals expected budget. When government expenditure is more than government revenue the budget is said to be a deficit budget. A simple budget or budget surplus, occurs when planned revenue is more than planned expenditure. Surplus budget and deficit budget are unbalanced budget. An unbalanced budget can be achieved in any of two ways. First is by increasing or reducing government expenditure. Second by increasing or reducing taxations. That is the reason why the tools of fiscal policy are said to be government expenditure and taxation. State in another ways, the tools of fiscal policy are surplus and deficit budget. Either way the tools are the same and they have been discussed as government expenditure and taxation.

INFLATION

MEANING:- Inflation can be defined as a continuous rise in the price of goods and services as a result of large volume of money in circulation used in the exchange of the few available goods and service, that is too much money chasing far goods. It can also be viewed as the high and continuous rise in price of goods and service over a period of time in an economy.

OR Inflation is the persistent rise in the general price level of goods and service over a period of time in an economy.

MEASUREMENT OF INFLATION

Inflation can be measured in the following ways:

i. The Wholesale Price Index (WPI) - This measures the price of inputs in the production of goods that is, equipment, machinery etc.

ii. The Consumer Price Index (CPI): This measures changes in the price of goods and services directly consumed by the individuals. It is the main determinant of the level of inflation. Pt-Pt-1x1oo where Pt = Pt-1 1

iii. The Gross Domestic Product (GDP) Deflator: These measures the total value of goods and services produced in a country at a particular period.

TYPES OF INFLATION:

1. Demand-Pull Inflation: This is a situation where sustained increases in aggregate demand far exceed----- level of supply of goods and services. As total demand increase, without corresponding increase in the supply of goods and services, demands tends to Pull-up prices.

2. Cost-Pull Inflation- This is the rise the price of goods and services caused by increase in the cost of factors of production.

3. Creeping Inflation – This is a gradual rise in the price of goods and services over a period of time. A 2percent or 3percent increase over time qualifies as a creeping inflation.

4. Hyper- Inflation- This is the extreme form of inflation in which the value of money loses its purchasing power. Money therefore loses it function as a store of value. Other type of inflation includes; Suppressed Inflation Chronic Inflation Imported Inflation.

CAUSES OF INFLATION IN NIGERIA:

1. Fiscal Deficit- It is acknowledged that budgetary deficit fuel monetary expansion and it leads to inflationary pressures.

2. Cost- Push Inflation- Incessant call by the union, who engage in strikes to ask for wage increase, also leads to inflation. As wages and salaries are increased, producers and retailers increase prices of goods and the gain of wage increase becomes ended because inflation will set in.

3. Exchange Rate Changes- This can come in the form of gradual depreciation of the country’s currency or outright devaluation of the currency. When a country out rightly devalues her currency, she experiences sharp rise in price, especially if she depends too much on imported raw materials.

4. Agro- Climate Condition.
5. Monetary Expansion.

6. Expected future rise in price.
7. War and continuous general strike actions.
8. Excessive reliance on importation.
9. Rural – Urban drift/migration
10. Increased in population.
11. Activities of middlemen and monopolist tendencies.

EFFECTS OF INFLATION

Inflation has both negative and positive effects:

The positive effects are:
1. Rise in profit.

2. Increased in production.
3. Facilities Company's financing through sales of shares.
4. Debtors gain.
5. Moderate increase in output and employment.

Negative effects are:
1. Decrease in real income
2. Increase in production.
3. Discouraging savings.
4. Discouraging efficiency.
5. Reduces standard or living.
6. Creditor loses.

CONTROL OF INFLATION:

1. Fiscal policy- use of instrument of fiscal policy such as taxation, government expenditure.
2. Monetary policy- Open market operation discount rate, cash reserve rates, special deposits and moral suasion.
3. Price control measures.
4. Total ban on the imported of goods and services.
5. Increased in the production of goods and services.
6. Modernizing technology.
7. Increase in agricultural output.
8. Rationing of scares commodity.
9. Wage freeze.
10. Avoiding industrial strikes.

## UNEMPLOYMENT

DEFINITION: This can be defined as a situation where person are willing, qualified, able and seeking work at a prevailing wage rate but cannot have one. It is generally agreed that unemployment like inflation is a symptom of basic economic illness or macroeconomic disequilibrium. It can occur as a result of a shortfall or deficiency in aggregate demand.

TYPES OF UNEMPLOYMENT:

1. Deficient Demand Unemployment –occurs when there is not enough aggregate demand to produce work for the whole labour force no matter how it is trained or deployed.

2. Frictional or search unemployment – arise because it takes time and resources for workers to change jobs, either voluntarily or involuntarily, even though suitable job vacancies exist and can be found without the worker having to adjust his broad occupational status or his reservation wage.

3. Structural Unemployment – on the other hand, exist when there is a mismatching between the unemployed and the available jobs in terms of geographic location, required skills or any other relevant dimension.

4. Seasonal Unemployment – Is seen as unemployment due to the existing too high level of real wages.

5. Technological unemployment: arises when machines replace men in the production process. This in a regular feature of technologically advanced nations of Europe and America.

6. Cyclical unemployment: is traditionally association with the trade cycle, especially reunion and depression. This explains why some experts deny it and a variant of deficient-demand unemployment.

MEASURMENT OF UNEMPLOYMENT

The unemployment rate (U) is measured as U= Number of unemployment. Total labour force
The labour force of any nation can be classified as "potential" and "active".
The potential labour force refers to the entire population less (a) young people below a prescribed age (usually 15 yeas). (b)Old people above a certain age (usually 65 years in most nations but 59 years in Nigeria); (c) people who are institutionalized-those hospitalized /in penal or mental institutions/nursing homes, incarceration, or physically and mentally disable. (d) Full time housewives (e) those unwilling to work, children (''age –ineligible population")-those below 15-are excluded on the assumption that schooling and child labour laws keep most of them out of the labour force. Those people who are excluded can be regarded in economically inactive population.

CAUSES OF UNEMPLOYMENT IN NIGERIA:

A. Rising population: West African population, particularly Nigeria's is rising faster than job opportunities. A situation in which birth rate in rising, death rate falling and the population growth between 2.5% and 3%, unemployment is bound to earn.

B. Rural: urban Migration and Neglect of Agriculture –

C. Termed are expansion in Educational opportunities and Misdirects investment in Human capital.

D. Continuous shortfall in foreign exchange earnings and the resultant fluctuant in the capital expenditure of government.

E. The problem of alien influx

F. Word-wide economic depression

G. Premature retirements and Retrenchments

H. Attrition of multinational corporations

I. Non revolutionization of Agriculture

J. Improper utilization of government Revenue

EFFECT OF UNEMPLOYMENT ON NIGERIANS

i. Brain Drain.

ii. Increase in social vices and crime.

iii. Increased rural- urban migration.

iv. Fall in National output.

v. Increased drain of government finances.

vi. Potential sources of political instability.

vii. High Dependency Ratio.

viii. Low investment and low National income.

ix. Fall in standard of living.

SOLUTIONS TO UNEMPLOYMENT IN NIGERIA

1. Reduction in population Growth rate.

2. Fighting Rural-Urban migration

3. Modification of the direct linkages between education and employment.

4. Diversification of the resource base of the Nation’s foreign exchange earnings.

5. Tacking the alien influx.

6. Revitalization of the Economy

7. Establishment of Guidance and counseling unit in all schools.

8. Creation of National Employment schemes.

9. Expansion of small-scale, labour-intensive industries.

10. Encouraging self-employment.

11. Checking statism and tribalism.

12. Checking merchandize sales and ambling by foreign companies and multinationals.

13. Modernization of Agriculture

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