Oil-price Volatility and Economic Prosperity in Nigeria: Empirical Evidence

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Abstract : The impact of macroeconomic instability on economic growth and prosperity has been at forefront in many discourses among researchers and policy makers and has generated a lot of controversies over the years. This has generated series of research efforts towards understanding the remote causes of this phenomenon; its nature, determinants and how it can be targeted and mitigated. While others have opined that the root cause of macroeconomic flux in Nigeria is attributed to Oil-Price volatility, others viewed the issue as resulting from some constellation of structural constraints both within and outside the shores of the country. Research works of scholars such as [Akpan (2009), Aliyu (2009), Olomola (2006), etc] argue that oil volatility can determine economic growth or has the potential of doing so. On the contrary, [Darby (1982), Cerralo (2005) etc] share the opinion that it can slow down growth. The earlier argument rest on the understanding that for a net balance of oil exporting economies, price upbeat directly increases real national income through higher export earnings, whereas, the latter allude to the case of net-oil importing countries (which experience price rises, increased input costs, reduced non-oil demand, low investment, fall in tax revenues and ultimately an increase in budget deficit which will further reduce welfare level). Therefore, assessing the precise impact of oil price volatility on virtually any economy is a function of whether it is an oil-exporting or importing nation. Research on oil price volatility and its outcome on the growth of the Nigerian economy are evolving and in a march towards resolving Nigeria's macroeconomic instability as long as oil revenue still remain the mainstay and driver of socio-economic engineering. Recently, a major importer of Nigeria's oil- United States made a historic breakthrough in more efficient source of energy for her economy with the capacity of serving significant part of the world. This undoubtedly suggests a threat to the exchange earnings of the country. The need to understand fluctuation in its major export commodity is critical. This paper leans on the Renaissance growth theory with greater focus on theoretical work of Lee (1998); a leading proponent of this school who makes a clear cut of difference between oil price changes and oil price volatility. Based on the above background, the research seeks to empirically examine the impact oil-price volatility on government expenditure using quarterly time series data spanning 1986:1 to 2014:4. Vector Auto Regression (VAR) econometric approach shall be used. The structural properties of the model shall be tested using Augmented Dickey-Fuller and Phillips-Perron. Relevant diagnostics tests of heteroscedasticity, serial correlation and normality shall also be carried out. Policy recommendation shall be offered on the empirical findings and believes it assist policy makers not only in Nigeria but the world-over.

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