
Applied Economics

ECO203



**University of Ibadan Distance Learning Centre
Ibadan Open and Distance Learning Course Series Development**

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Vice-Chancellor's Message

The Distance Learning Centre is building on a solid tradition of over two decades of service in the provision of External Studies Programme and now Distance Learning Education in Nigeria and beyond. The Distance Learning mode to which we are committed is providing access to many deserving Nigerians in having access to higher education especially those who by the nature of their engagement do not have the luxury of full time education. Recently, it is contributing in no small measure to providing places for teeming Nigerian youths who for one reason or the other could not get admission into the conventional universities.

These course materials have been written by writers specially trained in ODL course delivery. The writers have made great efforts to provide up to date information, knowledge and skills in the different disciplines and ensure that the materials are user-friendly.

In addition to provision of course materials in print and e-format, a lot of Information Technology input has also gone into the deployment of course materials. Most of them can be downloaded from the DLC website and are available in audio format which you can also download into your mobile phones, IPod, MP3 among other devices to allow you listen to the audio study sessions. Some of the study session materials have been scripted and are being broadcast on the university's Diamond Radio FM 101.1, while others have been delivered and captured in audio-visual format in a classroom environment for use by our students. Detailed information on availability and access is available on the website. We will continue in our efforts to provide and review course materials for our courses.

However, for you to take advantage of these formats, you will need to improve on your I.T. skills and develop requisite distance learning Culture. It is well known that, for efficient and effective provision of Distance learning education, availability of appropriate and relevant course materials is a *sine qua non*. So also, is the availability of multiple plat form for the convenience of our students. It is in fulfilment of this, that series of course materials are being written to enable our students study at their own pace and convenience.

It is our hope that you will put these course materials to the best use.



Prof. Abel Idowu Olayinka

Vice-Chancellor

Foreword

As part of its vision of providing education for “Liberty and Development” for Nigerians and the International Community, the University of Ibadan, Distance Learning Centre has recently embarked on a vigorous repositioning agenda which aimed at embracing a holistic and all encompassing approach to the delivery of its Open Distance Learning (ODL) programmes. Thus we are committed to global best practices in distance learning provision. Apart from providing an efficient administrative and academic support for our students, we are committed to providing educational resource materials for the use of our students. We are convinced that, without an up-to-date, learner-friendly and distance learning compliant course materials, there cannot be any basis to lay claim to being a provider of distance learning education. Indeed, availability of appropriate course materials in multiple formats is the hub of any distance learning provision worldwide.

In view of the above, we are vigorously pursuing as a matter of priority, the provision of credible, learner-friendly and interactive course materials for all our courses. We commissioned the authoring of, and review of course materials to teams of experts and their outputs were subjected to rigorous peer review to ensure standard. The approach not only emphasizes cognitive knowledge, but also skills and humane values which are at the core of education, even in an ICT age.

The development of the materials which is on-going also had input from experienced editors and illustrators who have ensured that they are accurate, current and learner-friendly. They are specially written with distance learners in mind. This is very important because, distance learning involves non-residential students who can often feel isolated from the community of learners.

It is important to note that, for a distance learner to excel there is the need to source and read relevant materials apart from this course material. Therefore, adequate supplementary reading materials as well as other information sources are suggested in the course materials.

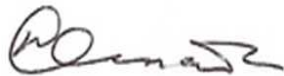
Apart from the responsibility for you to read this course material with others, you are also advised to seek assistance from your course facilitators especially academic advisors during your study even before the interactive session which is by design for revision. Your academic advisors will assist you using convenient technology including Google Hang Out, You Tube, Talk Fusion, etc. but you have to take advantage of these. It is also going to be of immense advantage if you complete assignments as at when due so as to have necessary feedbacks as a guide.

The implication of the above is that, a distance learner has a responsibility to develop requisite distance learning culture which includes diligent and disciplined self-study, seeking available administrative and academic support and acquisition of basic information technology skills. This is why you are encouraged to develop your computer skills by availing yourself the opportunity of training that the Centre’s provide and put these into use.

In conclusion, it is envisaged that the course materials would also be useful for the regular students of tertiary institutions in Nigeria who are faced with a dearth of high quality textbooks. We are therefore, delighted to present these titles to both our distance learning students and the university's regular students. We are confident that the materials will be an invaluable resource to all.

We would like to thank all our authors, reviewers and production staff for the high quality of work.

Best wishes.

A handwritten signature in black ink, appearing to read 'Bayo Okunade', with a stylized flourish at the end.

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Contents

About this course manual	1
How this course manual is structured.....	1
Course overview	5
Welcome to Applied Economics ECO203	5
Applied Economics ECO203 —is this course for you?	5
Timeframe.....	5
Study skills	5
Need help?.....	6
Academic Support.....	6
Activities	7
Assessments	7
Bibliography	7
Getting around this course manual	8
Margin icons	8
Study Session 1	9
The Scope of Economics and Economic Problems.....	9
Introduction	9
Learning Outcomes	9
1.1 The Nature of Applied Economics.....	9
1.2 Usefulness of Applied Economics.....	10
1.3 Key Contemporary Economic/Public Policy Issue	11
Study Session Summary	11
Assessment	12
Study Session 2	13
Structure and Characteristics of Developing Countries	13
Introduction	13
Learning Outcomes	13
2.1 Structure and Characteristics of Developing Countries.....	13
2.2 Common Characteristics of Developing Countries.....	14
2.3 Structural Diversity of Developing Countries.....	15
Study Session Summary	16
Assessment	16
Study Session 3	17
Agricultural Sector	17
Introduction	17
Learning Outcomes	17
3.1 Agriculture.....	17
3.2 Overview of the Performance of the Nigerian Agricultural Sector	18

Study Session Summary	21
Assessment	21

Study Session 4 22

Industrial Sector	22
Introduction	22
Learning Outcomes	22
4.1 What is Industrialisation?	22
4.2 Industrialisation and the Nigerian Economy	23
4.3 Forms of Industrialisation Strategies	24
4.3.1 Manufacturing	24
Study Session Summary	27
Assessment	27

Study Session 5 28

Social Services Sector	28
Introduction	28
Learning Outcomes	28
5.1 Education	28
5.2 Health	34
Study Session Summary	36
Assessment	36

Study Session 6 37

Population and Unemployment	37
Introduction	37
Learning Outcomes	37
6.1 Population	37
6.2 Unemployment	39
6.3 Theories of Population	41
6.4 Negative Consequences of Population Growth	42
Study Session Summary	43
Assessment	43

Study Session 7 44

Economic Growth, Poverty and Inequality	44
Introduction	44
Learning Outcomes	44
7.1 Economic Growth and Development	44
7.2 Problems associated with using GDP per capita as a Growth Measure	45
7.3 Poverty and Inequality	46
7.4 Measurement of Poverty	47
7.5 Causes and Effect of Poverty	52
7.6 Eliminating Poverty	53

Study Session Summary	54
Assessment	54

Study Session 8 55

International Trade.....	55
Introduction	55
Learning Outcomes	55
8.1 Basis of International Trade	55
8.2 Theories of Trade	56
Study Session Summary	59
Assessment	59

Study Session 9 60

Monetary and Fiscal Policy	60
Introduction	60
Learning Outcomes	60
9.1 Monetary Policies	60
9.2 Fiscal Policy	62
Study Session Summary	63
Assessment	63

Bibliography 64

Notes on SAQs 65

References 82

Appendixes 83

Appendix A.....	83
Appendix B.....	83

About this course manual

Applied Economics ECO203 has been produced by University of Ibadan Distance Learning Centre. All Economics course manuals produced by University of Ibadan Distance Learning Centre are structured in the same way, as outlined below.

How this course manual is structured

The course overview

The course overview gives you a general introduction to the course. Information contained in the course overview will help you determine:

- If the course is suitable for you.
- What you will already need to know.
- What you can expect from the course.
- How much time you will need to invest to complete the course.

The overview also provides guidance on:

- Study skills.
- Where to get help.
- Course assessments and assignments.
- Activity icons.

We strongly recommend that you read the overview *carefully* before starting your study.

The course content

The course is broken down into study sessions. Each study session comprises:

- An introduction to the study session content.
- Learning outcomes.
- Content of study sessions.
- Activities and/or assignment, as applicable.

- A study session summary.
- Assessments
- Bibliography

Your comments

After completing this course, Applied Economics, we would appreciate it if you would take a few moments to give us your feedback on any aspect of this course. Your feedback might include comments on:

- Course content and structure.
- Course reading materials and resources.
- Course assessments.
- Course assignments.
- Course duration.
- Course support (assigned tutors, technical help, etc).
- Your general experience with the course provision as a distance learning student.

Your constructive feedback will help us to improve and enhance this course.

Course overview

Welcome to Applied Economics ECO203

This course is designed to expose you to the study of applied economics. The course offers insight into the structure of the Nigerian economy with a view to facilitate better understanding of the application of economics to real situations.

Applied Economics ECO203 —is this course for you?

ECO203 is a required prerequisite (to ECO303). It is aimed to equip with applications of economic principles to developed and developing countries, with special reference to Nigeria.

Timeframe



How long?

This is a one semester course.

45 hours of formal study time is required.

Study skills



As an adult learner your approach to learning will be different to that from your school days: you will choose what you want to study, you will have professional and/or personal motivation for doing so and you will most likely be fitting your study activities around other professional or domestic responsibilities.

Essentially you will be taking control of your learning

environment. As a consequence, you will need to consider performance issues related to time management, goal setting, stress management, etc. Perhaps you will also need to reacquaint yourself in areas such as essay planning, coping with exams and using the web as a learning resource.

Your most significant considerations will be *time* and *space* i.e. the time you dedicate to your learning and the environment in which you engage in that learning.

We recommend that you take time now—before starting your self-study—to familiarize yourself with these issues. There are a number of excellent web links & resources on this Course Website. Go to “Self-Study Skills” menu in course website.

Need help?



As earlier noted, this course manual complements and supplements ECO203at UI Mobile Class as an online course.

You may contact any of the following units for information, learning resources and library services.

Distance Learning Centre (DLC)
University of Ibadan, Nigeria
Tel: (+234) 08077593551 – 55
(Student Support Officers)
Email: ssu@dlc.ui.edu.ng

Head Office
Morohundiya Complex, Ibadan-
Ilorin Expressway, Idi-Ose,
Ibadan.

Information Centre
20 Awolowo Road, Bodija,
Ibadan.

For technical issues (computer problems, web access, and etcetera), please send mail to webmaster@dlc.ui.edu.ng.

Academic Support



A course facilitator is commissioned for this course. You have also been assigned an academic advisor to provide learning support. The contacts of your course facilitator and academic advisor for this course are available at onlineacademicsupport@dlc.ui.edu.ng

Activities



Activities

This manual features “Activities,” which may present material that is NOT extensively covered in the Study Sessions. When completing these activities, you will demonstrate your understanding of basic material (by answering questions) before you learn more advanced concepts. You will be provided with answers to every activity question. Therefore, your emphasis when working the activities should be on understanding your answers. It is more important that you understand why every answer is correct.

Assessments



Assessments

There are three basic forms of assessment for learning in this course: in-text questions (ITQs) and self assessment questions (SAQs), and tutor marked assessment (TMAs). This manual is essentially filled with ITQs and SAQs. Feedbacks to the ITQs are placed immediately after the questions, while the feedbacks to SAQs are at the back of manual. You will receive your TMAs as part of online class activities. Feedbacks to TMAs will be provided by your tutor in not more than 2 weeks expected duration. Schedule dates for submitting assignments and engaging in course / class activities is available on the course website. Kindly visit your course website often for updates.

Bibliography



Reading


For those interested in learning more on this subject, we provide you with a list of additional resources at the end of this course manual; these may be books, articles or websites.

Getting around this course manual

Margin icons

While working through this course manual you will notice the frequent use of margin icons. These icons serve to “signpost” a particular piece of text, a new task or change in activity; they have been included to help you to find your way around this course manual.

A complete icon set is shown below. We suggest that you familiarize yourself with the icons and their meaning before starting your study.

			
Activity	Assessment	Assignment	Case study
			
Discussion	Group Activity	Help	Outcomes
			
Note	Reflection	Reading	Study skills
			
Summary	Terminology	Time	Tip

Study Session 1

The Scope of Economics and Economic Problems

Introduction

In this Study Session, you will be exposed to the nature and usefulness of applied economics. In the course of our discussion, we will point out some key economic issues of concern in applied economics.

Learning Outcomes



Learning Outcomes

When you have studied this session, you should be able to:

- 1.1 *present* the definition of applied economics that suffices in most situations.
- 1.2 *outline* ways in which you can utilize applied economics.
- 1.3 *point* out contemporary economic policy issues.

1.1 The Nature of Applied Economics

Economic theory

A theory of commercial activities (such as the production consumption of goods).

Economic principles

statement indicating inter-relationship among economic factors that explains what may happen under certain circumstance.

It is useful to know **economic theory** and **principles**, but it is more resourceful to understand how to apply them. Indeed, the ultimate end of economic theories and principles is appropriately applying them to solve problems. The focus of Applied Economics is on real world problems – using economic theories and principles to clarify why and how things have happened the way that they have. While this focus is generally clear, the term applied economics may be utilized in slightly different manners according to different economic theories and principles. There exists however, a working definition of applied economics that suffices in most situations.



Tip

Applied economics is the employment of the basic assumptions in economics to real world situations, both isolated and interrelated with sets of current circumstances.

Thus, applied economics involves economists' applying generally accepted theory and principles in economics practical issues in society with an eye to determining what can reasonably be expected to happen next.

ITQ

Question

What is the essence of making use of economic theories and principles in economics?

Feedback

The essence of making use of economic theories and principles in economics is toward solving real life problems in the society.

1.2 Usefulness of Applied Economics

Applying economic theories and principles to current economic conditions can be helpful. The major reasons are hereby discussed below.

First, applying economics to the status of the economy of a household, company or country helps to *sweep aside* attempts to dress up the situation so that it will appear to be worse or better than it actually is. From this perspective, applied economics is a powerful tool that enables the true and complete picture to emerge, so that it becomes possible to decide what to do and where to go from the current position.

Second, applied economics acts as a mechanism to determine possible steps that can be taken to improve current economic situation. Each element that is relevant to the contemporary mode of operation of the entity, including the purchase and sale of goods and services the usage of raw materials and the division of labour within the entity come into play. Examining each aspect of the current economic condition will often yield sound ideas on how to maintain aspects that are working at a reasonable rate of efficiency, and strengthen areas where performance is weak.

Last, applied economics can teach valuable lessons on how to avoid the recurrence of a negative situation, or at least minimize the impact. Because applied economics is all about the application of theory to real live situations, the process can aid in the development of understanding why a condition took place. This also includes reviewing what steps were taken to improve or correct similar situations and how those strategies may be employed to keep the economy flowing in a direction that will preclude a repeat of the situation.

ITQ

Question

In what ways has applied economics useful to the society?

Feedback

We don't know exactly what you may think of, but applied economics is considered to be useful to the society in the following ways;

- provision of exact and true pictures of issues as they occur.
- determination of possible solutions to situation at hand.
- prevention of reoccurrence of negative situation or at least minimise its impacts.

1.3 Key Contemporary Economic/Public Policy Issue

Applied economics is all about creating awareness and analysis of key contemporary economic or public policy issues of our time; and applying appropriate economic theories and principles to solve them. Key contemporary economic/public policy issues broadly include:

- 1) engendering economic growth and development;
- 2) mitigating the challenges of development in developing countries;
- 3) facilitating economic growth and development through improvement and advancement in the operations and contributions of the major sectors of the economy, namely: agriculture, industrial, social services; and
- 4) understanding and taking appropriate actions in respect of key factors that influence economic growth and development, such as population growth, unemployment, poverty, inequality, international trade, fiscal policy, monetary policy and the quality of governance.

Hint

We will devote our attention on these key economic/public policy issues in subsequent Study Sessions. We will also explore the types of public policy/actions that can be used to solve problems in each of these identified areas.

ITQ

Question

Mention any three(3) contemporary issues that are peculiar to the field of applied economics

Feedback

Peculiar contemporary issues in the field of applied economics include the following;

- economic growth and development
- developmental challenges in developing countries
- factors influencing economic growth and development

Study Session Summary



Summary

In this Study Session, you learnt that economic theories and principles are means to an end; and *Applied Economics*, through its focus on dealing with real world problems using economic theories and principles, is that means to an end. We went further to outline the usefulness of applied economics, and areas where it can be utilized.

Assessment



Assessment

SAQ 1.1 (tests Learning Outcome 1.1)

Explain briefly the meaning of applied economics

SAQ 1.2 (tests Learning Outcome 1.2)

Discuss the relevance of applied economics in the society

SAQ 1.3 (tests Learning Outcome 1.3)

Highlight public issues that are relevant to the field of applied economics

Study Session 2

Structure and Characteristics of Developing Countries

Introduction

This Study Session aims to introduce you to the structure and basic features that are common to developing countries. The Study Session will also attempt to clearly bring out some of the structural diversities among them.

Learning Outcomes



Learning Outcomes

When you have studied this session, you should be able to:

- 2.1 *outline* the criteria employed in defining developing countries.
- 2.2 *point* out the common characteristics among the developing nations.
- 2.3 *present* at least two structural diversities among these developing nations.

2.1 Structure and Characteristics of Developing Countries

Developing countries can literally be defined as those countries that are tending towards development. Different criteria have been used to classify countries as being developing, though, per capita income is often and most commonly used to define developing world. Multilateral organisations such as Organisation for Economic Cooperation and Development (OECD), United Nations (UN), World Bank and United Nation Development Programme (UNDP) usually use three main criteria to describe countries as developing, vis-a-vis:

1. levels of Gross National Income (GNI);
2. degree of international indebtedness;
3. level of human development.

The use of criterion GNI involves classifying countries as low income, lower, middle income, upper middle income, high income OECD and other high income countries. Developing countries, in this case, are those with low, lower middle or upper middle incomes. These countries are usually grouped by their geographic region. For examples such countries include East Asia and the Pacific, Europe and Central Asia, Latin America and the Caribbean, South Asia and sub Saharan Africa. The per capita gross national income of countries in the group of low income countries is in the neighbourhood of \$755 or less. Lower income middle income countries have per capita gross national income between \$756 – 2995. Upper middle income countries have between \$2996- \$9265 and high income countries have income of \$9266 or more.

The classification using the second criterion is by defining development, using different degree of countries indebtedness like severely indebted, moderately indebted and less indebted.

Lastly, the United Nations Development Programme (UNDP) has based its definition of developing countries, according to their level of attainment, in the human development indicators like good health status, high literacy level and other socio-economic indices.

ITQ

Question

The most widely used criteria for country's classification into been developed or developing economy is_____.

Feedback

Per capita income

2.2 Common Characteristics of Developing Countries

Despite the obvious diversity of these countries, most developing countries share common and well-defined goals. These goals include:

1. a reduction in their level of poverty and improvement;
2. inequality and unemployment;
3. the provision of minimum level of education, health, housing and food to every citizen, among others.

Related to these are the common problems shared in varying degrees by most developing countries such as widespread and chronic absolute poverty, high level of unemployment and underemployment, severe balance of payment and international debt problem among others.

ITQ

Question

Mention some of the commonly shared problems among the developing countries.

Feedback

We don't know what you may think of but some commonly shared problem among developing countries of the world include;

- chronic absolute poverty
- high level of unemployment
- low level of productivity
- unfavourable balance of payment
- high international debt etc

2.3 Structural Diversity of Developing Countries

There exists certain structural difference among the set of countries that constitutes developing economies. These differences include among others:

1. the size of the country;
2. the historical and colonial background;
3. physical and human resources;
4. ethnic and religious makeup;
5. the nature of industrial structure;
6. degree of dependence on external economic and political forces;
7. the distribution of power and the institutional and political structure within the nation.

Consequently, it is sometimes risky to generalise too much about a diverse group of nations as those in Africa, Asia and Latin America. Nevertheless, common economic features of developing countries permit us to build them in a broadly similar framework. Common characteristics of developing countries can be grouped into:

1. Low levels of living characterised by low incomes, inequality, poor health and inadequate education;
2. Low level of productivity;
3. High rate of population growth and dependency burden;
4. Substantial dependence on agricultural production and primary product output;
5. Prevalence of imperfect market and limited information;
6. Dominance, dependence and vulnerability in international relations.

ITQ

Question

In what ways can the structural differences among developing nations captured?

Feedback

Structural differences among developing nations can be captured through the following ways;

- ✓ the country size;
- ✓ the historical and colonial background;
- ✓ physical and human resources;
- ✓ ethnic and religious makeup;
- ✓ the nature of industrial structure;
- ✓ degree of dependence on external economic and political forces;
- ✓ power distribution and the institutional and political structure within the nation.

Study Session Summary



Summary

This Study Session examines the structure and characteristics of developing countries by conceptualising developing economies using three major criteria namely:

- 1) levels of Gross National Income (GNI)
- 2) degree of international indebtedness; and
- 3) level of human development which includes health and educational attainment.

The Study Session also noted that there are certain common goals among these developing economies, which include: a reduction in their level of poverty and improvement; inequality and unemployment; and the provision of minimum level of education, health, housing and food to every citizen, among others. We concluded our discussion in this session by highlighting the structural diversity of developing economies.

Assessment



Assessment

SAQ 2.1 (tests Learning Outcome 2.1)

On what bases are countries of the world been classified as developing countries?

SAQ 2.2 (tests Learning Outcome 2.2)

Discuss some universal features commonly found among developing nations.

SAQ 2.3 (tests Learning Outcome 2.3)

Highlight some of the structural diversities among developing economies of the world.

Study Session 3

Agricultural Sector

Introduction

Agricultural sector had been the mainstay of Nigeria - Africa's most populous country - for over two decades before the discovery of oil wells. It is therefore imperative to introduce you to the importance of this sector as a key sector of the Nigerian economy. In this Study Session, efforts will be exerted to get you familiarized with the contributions of the sector to the economy as well as various policy measures that had been adopted in the past to revamp the sector.

Learning Outcomes



Learning Outcomes

When you have studied this session, you should be able to:

- 3.1 discuss the role of agriculture in a nation's development.
- 3.2 state some of the problems affecting agricultural practices in Nigeria.

3.1 Agriculture

Agriculture The art and science of crops and livestock production.

Agriculture comprises the entire range of technology associated with the production of useful products from plants and animals including soil cultivation, crop and livestock production and activities of processing and marketing. The agricultural sector performs certain roles in the economy, for instance:

1. employment provision: it is the largest sector in the economy, about 60% of the people are engaged by this sector;
2. foreign exchange earnings: the agricultural sector has facilitated production of cocoa, rubber, cotton,. When they are produced, they are exported to other countries and it is a source of revenue;
3. it supplies raw materials to industrial establishment;
4. provision of food;
5. source of market for agricultural and non-agricultural products;
6. source of savings for domestic capital, i.e. sale from the produce is being paid into the bank for economic growth. Investors get loans of capital formation and expand their business and the economy grows.
7. Source of raw materials: in most cases, agricultural outputs are used for inputs in the industrial sector e.g. tobacco for tobacco companies.

Agriculture is, therefore, seen as the source of revenue for an economy because its resources are used to finance growth of other sectors. Some of these roles derived from naturally domineering position of agriculture

in the early stages of economic development. Others are the consequences of growth and structural transformation over time in the economy. However, as the economy develops, certain changes are expected in the roles of agriculture.

Firstly, the share of GDP derived from the agricultural sector normally declines. Secondly, there is a tendency for share of total labour force engaged in agriculture to decline. This decline in agricultural labour force is initially only relative as total labour force in agriculture may continue to grow but at a slower rate than those of other sectors. Thirdly, the relative share of foreign exchange derived from the sector may decline. Fourthly, the share of total investable capital generated by the agricultural sector may also decline.

On the other hand, the agricultural sector is expected to maintain its role and even assume more importance in the provision of food for the population, the production of raw materials for use in other sectors and the provision of an expanding market for the production of the other sectors.

ITQ

Question

Which sector can be referred to as the broad base of the Nigerian economy, and why?

Feedback

Agricultural sector is the broad base and the most dominant sector within the Nigerian economy since independence till date. Reasons for this are:

- it is the mainstay of the economy.
- it is a sector with highest employment generation for the Nigeria's labour force.

3.2 Overview of the Performance of the Nigerian Agricultural Sector

The Nigerian agricultural sector is characterised by considerable, regional and crop diversity. Explaining the pattern and trend of agricultural development provides important insights about economic development and structural changes in Nigeria. In 1960, the agricultural sector was the most important sector in terms of its contributions to domestic production or employment and foreign exchange earnings. The situation remains almost the same four and half decades later with the exception that it is no longer the principal foreign exchange earner, a role that is now played by oil.

The agricultural sector GDP increased from an average of 5.8 billion naira per annum in the 1971 to 1975 period to 24.7 billion in the 1981-1985 periods. The value stood at 53.2 billion in 2001-2004 periods. The values increased overtime. The average annual rate of growth in the agric

sector GDP was; however, lower in the 1971-75; 1976-80; 1986-90; and 1991-95 and 2001-2004 periods than that of the total GDP. As a result, the share of the agric sector GDP in total GDP declined from about 30% in the 1971-75 period to about 22% in the 1976-80 period. But in the periods 1981-85, 1991-95 and 1996-2000, agric sector GDP increased at a higher rate than the total GDP. Consequently, the average share of the agricultural sectors GDP in total GDP increased from an average of about 22% in the 1976-90 periods to about 32% in the 1981-85 periods. The share of the sector has been on the increase except in the period 1986-90 when it declined.

Table 3.1

Agriculture Contribution to the Nigerian Economy

Period	Total GDP (₦'billion)	Agric GDP (₦'billion)	% share of Agric GDP	Annual Growth Rate of GDP (%)		Remarks
				Total GDP	Agric GDP	
1971-75	18.4	5.8	29.8	33.6	16.80	
1976-80	55.9	12.4	22.2	19.0	13.44	
1981-85	76.8	24.7	32.5	0.27	4.67	✓
1986-90	83.7	32.2	38.5	3.96	3.85	
1991-95	101.4	38.0	37.5	2.49	2.71	✓
1996-2000	117.5	45.4	38.6	3.45	4.03	✓
2001-2004	135.0	53.2	39.4	4.66	4.29	

Source: CBN Annual reports (various issues)

From the foregoing, it may be inferred that the country's agricultural economy performed less satisfactorily on the average than the entire economy in the period 1971-75; 1976-80; 1986-90 and 2001-2004 but more satisfactorily in the period 1981-85; 1991-95 and 1996 – 2000.

Trends in the index of agricultural production from 1971-75 reveal that the aggregate of index production declined in 1976-80 period, but later grew in subsequent period. A similar pattern of growth and decline is noticeable with respect to the crop production index. It is however interesting to note that growth in agric production was accompanied by a high degree of instability or annual fluctuation. This is evident in the growth rate trend recorded for aggregate agricultural production and crop production.

The Nigerian agricultural sector has thus failed to keep pace with Nigeria's rapid population growth so that the country which used to export food now relies on food import to sustain itself.

Table 3.2

Average Index of Agricultural Production 1984 - 2000

Period	All Agricultural Production		Crop Production	
	Index	Annual Growth Rate (%)	Index	Annual Growth Rate (%)
1971-75	106.68	-2.86	120.37	-3.59
1976-80	96.17	-2.34	97.55	-3.72
1981-85	97.42	-2.55	95.88	2.50
1986-90	131.33	9.99	139.9	11.85
1991-95	200.58	5.42	228.63	7.41
1996-2000	237.57	3.56	282.28	3.80
2001-2004	276.65	4.63	328.68	4.80

Source: CBN Annual reports (various issues)

The Nigerian agricultural sector is characterised by its product diversity (tree and food crops, forestry, livestock and fishing). In terms of export performance, Nigeria is no longer a major exporter of cocoa, groundnut, rubber and palm oil. For instance, cocoa production is now mostly from obsolete varieties and it remains stagnant at around 180,000 tonnes annually. 34 years ago, it was 305,000 tonnes. Once the biggest poultry producer in Africa, Nigeria's corporate poultry output has been slashed from 40 million birds annually to about 18 million. Fisheries are also poorly managed.

3.2.1 Problems facing the Agricultural Sector in Nigeria

1. Unstable and often inappropriate economic policies,
2. The negative impact of oil boom on the sector and the enlargement of the oil sector;
3. Urban bias in development policy (rural-urban migration);
4. Neglect of rural infrastructure/poor transport facilities;
5. Poor credit facilities – high collateral which is unavailable to farmers;
6. Lack of improved seedlings – dependence on traditional method;
7. Outdated method of production;
8. Problems of diseases, pest and drought;
9. Inadequate marketing and storage facilities.

ITQ

Question

The common problems militating against agricultural practises in Nigeria are?

Feedback

Problem of oil boom, policy inconsistency, and the decline in political

commitment to agricultural and rural development.

3.2.2 Panacea to revamping Agriculture in Nigeria



Activity

Allow 30 minutes

Thus far, many institutional efforts in agriculture have been undertaken since the 1960s in order to revamp the Nigeria's agricultural sector.

Task

Visit the following links and answer the question that follows.

1. National Accelerated Food Production Programme;
2. River Basin Development Authority Programme;
3. Operation Feed the Nation
4. Rural Integrated Agricultural Development Programme
5. Green Revolution
6. Agro Service Centre Programme
7. National Seed Service Programme
8. Rural Banking Scheme
9. Agricultural Credit Guarantee Scheme
10. Land Use Decree (1978)
11. Structural Adjustment Programme in 1986 to deregulate and stimulate local production;
12. National Accelerated Crop Production Programme
13. Agricultural and Rural Transformation Programme
14. More recently, National Economic Empowerment and Development Strategy (NEEDS)

Question: Review the effectiveness of each of the efforts put in place to revamp agricultural sector.

Study Session Summary



Summary

In this Study Session, you learnt that agriculture was once fundamental to revenue generation in Nigeria. We also looked at the effectiveness of government attempts to revamp this sector.

Assessment



Assessment

SAQ 3.1 (tests Learning Outcome 3.1)

In what ways has agriculture contributed to the development of the Nigeria economy?

SAQ 3.2 (tests Learning Outcome 3.2)

Explain some of the challenges confronting agriculture in Nigeria

Study Session 4

Industrial Sector

Introduction

In this Study Session, you will look into what constitutes the industrialisation policy in Nigeria: the objectives of the industrial policies, forms of industrialization, and the contributions of the sector to the development of the Nigerian economy.

Learning Outcomes



Learning Outcomes

When you have studied this session, you should be able to:

- 4.1 *present* the objectives of industrial policy and incentives structure in Nigeria.
- 4.2 *highlight* the forms of industrialization strategies that have been adopted in Nigeria.
- 4.3 *outline* the roles and contributions of the manufacturing sector to the Nigerian economy.

4.1 What is Industrialisation?

There is no precise definition of **industrialisation**; it is conceived differently by different authors. According to Clark (1998), industrialization is the process of setting up such organisations, especially the introduction of manufacturing industry in countries and regions where people are engaged mainly in agricultural activities. Ekpo (2004) conceives industrialisation as the process of transforming raw materials, with the aid of human resources and capital goods into:

- a. consumer goods;
- b. new capital goods, which allow more consumer goods to be produced with the same human resources; and
- c. social overhead capital, which together with human resources provides new services to both individuals and businesses.

Also, Sutchliffe suggested that a country is industrialised when the following three criteria are simultaneously satisfied:

1. when at least one-quarter of the Gross Domestic Product of the country is produced in the industrial sector;
2. when about two-thirds of industrial output arises in the manufacturing sector of the industrial sector, and
3. when at least one-tenth of its total population is employed in the industrial sector.

ITQ

Question

What is the meaning of the word “industrialisation”?

Feedback

Industrialisation simply refers to transformation of an economy from manual labour to the use of machine and power tools.

4.2 Industrialisation and the Nigerian Economy

The major difference in the status of developing and developed countries is in the area of level of development of their industrial sector. Recognising this fact, the Nigerian government stimulates the need to develop the sector by formulating policies that will enhance the sector's development.

4.2.1 Objectives of Industrial Policies in Nigeria

1. ensuring rapid expansion and diversification of industrial sector of the economy;
2. increasing income realised from industrial activities;
3. creation of more employment opportunities;
4. promoting even development and fair distribution of industries in all parts of the country;
5. raising the level of intermediate and capital goods production;
6. promoting indigenous manpower development in the industrial sector;
7. raising the proportion of indigenous ownership in aggregate industrial investment in the country among other things.

Source:

4.2.2 Industrial Incentives

In pursuit of the above stated objectives, the government over the years has experimented with different incentives. The following are some of the incentives which have been provided for industrial investors in Nigeria:

1. **Tax Holidays:** An industry that is granted a pioneer status enjoys a tax holidays for a period of time.
2. **Import Duty Relief:** Under this scheme, manufacturing industries are allowed to import certain raw materials either from import duty or at a very low concessionary duty rates.
3. **Depreciation Allowances:** Investors are encouraged and assisted through accelerated depreciation of capital investment, which provides for a rapid write down on capital assets.
4. **Prohibition of Dumped and Subsidised Goods:** Manufacturing industries are protected from dumped and subsidised goods from abroad.
5. Granting tax relief of up to 120 percent of expenses on companies' research and development (R and D) provided such R and D activities are carried out in Nigeria.
6. Providing export development fund to assist companies to cover part of their export promotion activities.

7. Giving export expansion grant to exporters who have exported a minimum of ₦500, 000 worth of fully processed and semi-finished products including solid minerals.
8. Rehabilitating and expanding existing infrastructure, that is, electricity, telecommunications, roads and water supply.
9. Establishing Bank of Industry (BOI) Ltd to assist in resuscitating ailing industries and promoting new ones.
10. Banning the importation of some products that can be manufactured locally, such as rubber, plastics, footwear, leather, textiles, etc.

ITQ

Question

Industrial incentives include the following except?

- (A.) Tax holiday (B) Capital allowance (C) Depreciation allowance
(D) Import duty relief (E) Dumped prohibition.

Feedback

(B) Capital allowance

4.3 Forms of Industrialisation Strategies

There are basically two forms of industrialization strategies namely;

1. **Import Substitution Industrialisation Strategy (ISI):** This is also referred to as inward orientation. It is a policy which, in principle is adopted to develop industrial capability and emphasize on domestic production of what is hitherto imported.
2. **Export Promotion Strategy:** This is also known as outward orientation strategy. It is a policy that encourages production of exports and at the same time erases the bias of incentives towards the production of import substitutes.

4.3.1 Manufacturing

Manufacturing is a major sub-sector of industries for any economy in the world. It plays crucial roles, which includes:

Importance of Manufacturing Sector in the Economy

1. It creates avenues for employment opportunities.
2. It helps to boost primary production, particularly, agriculture.
3. It makes for forward and backward inter-sectoral linkages in the economy.
4. It helps in diversifying the economy.
5. It helps in increasing foreign exchange earnings.
6. It enables local labour to acquire skills.

7. It minimizes the risk of overdependence on foreign goods and facilitates the fullest exploitation and utilization of available resources.

The contribution of manufacturing sector to the Nigerian economy can be assessed using the following:

1. **Contribution of Manufacturing Sector to GDP:** The contribution of manufacturing sector to the overall output of the economy (GDP) has been substantial over time. It was little above 7.0 percent in 1970 and declined to 5.6 percent in 1975 and 1980 respectively (see table 2). It rose and reached a peak of about 11.0 percent in 1985. However, it fell to about 8.9 percent in 1990 and to about 6.0 percent in late 1990s and 2000s. Similarly, the contribution of the sector to the total export is nothing to reckon with. The share in 1970 fell to 1.1 percent in 1975. It was less than 1.0 percent in the 1980s and 1990s except in 1998, when it was 1.7 percent.
2. **Composition of the Sector:** The sector is composed of:
 - a. **Consumer Goods Industry:** These are industries that are producing consumables like soap, sugars, bread, etc.
 - b. **Intermediate Goods Industry:** The output of this industry is an input to other manufacturing companies, e.g. cement, tyres, paints.
 - c. **Capital Goods Industry:** They are industries that are producing heavy machines which further assist in production process, e.g. cars, machinery, plants.
3. **Ownership Structure**
 - a. Foreign Industries
 - b. Nigerian Manufacturing Industries

Average ownership structure for Nigerian Manufacturing sector is 52.4% for Nigeria and 47.6% for the foreign industries. But the irony of it that the foreigners have the higher share in the manufacturing sector in Nigeria because they decide what happens.

ITQ

Question

Manufacturing industry is composed of how many industry, name them

Feedback

Manufacturing industry is composed of three industry, these are;

- Consumer goods industry,
- Intermediate goods industry, and
- Capital goods industry.

Table 4.1

Percentage share of Manufacturing in GDP and Export Structure in Nigeria

Year	Share in GDP	Share in Total Export
------	--------------	-----------------------

1970	7.2	7.4
1975	5.6	1.1
1980	5.4	0.28
1985	10.7	0.52
1990	8.1	0.51
1995	6.8	0.70
1996	6.5	0.40
1997	6.3	0.70
1998	5.93	1.70
1999	5.96	1.70
2000	5.95	N/A
2001	5.96	N/A
2002	4.61	N/A
2003	4.42	N/A

Source: FOS and CBN (various years)

4. **Contribution to Employment:** The contribution of manufacturing sector to the structure of employment in Nigeria leaves much to be desired. Table 4.2 shows the number of people employed in the manufacturing industry from 1970 – 1992. It can be observed that the number of people employed in this sub-sector increased in 1975 when compared to the 1970 level. This is evident from the index of the number of people employed, which rose from 28.4 percent in 1970 to 53.8 percent in 1975. As from 1982, the rate of employment in the sector dwindled. This trend still continues to the present time.

Table 4.2

Year	Number employed in Manufacturing sector	Index
1970	129032	28.4
1975	244243	53.8
1980	453632	100.0
1982	357164	78.7
1984	344609	76.0
1985	335179	73.9
1986	N/A	N/A
1987	N/A	N/A
1988	26601	5.9
1990	27102	6.0
1991	25900	5.7

1992	27130	6.0
1993	20153	4.4

Source: FOS (various issues)



Assignment

Analyse the contribution of manufacturing sector to the Nigerian economy with respect to gross domestic product and employment generation.

Post your response on Study Session four assignment page on course website.

[See course calendar for schedule date of course contribution.](#)

Study Session Summary



Summary

From the foregoing, we could note that industrialisation does not have a particular definition; hence it has been defined in various ways by researchers. One of such definition sees industrialisation as a process of transforming raw materials with the aid of human resources and capital goods into

- consumer goods
- new capital goods, which allow more consumer goods to be produced with the same human resources and
- social overhead capital, which together with human resources provides new services to both individuals and businesses.

We consequently highlighted the industrial policy objectives in Nigeria.

Assessment



Assessment

SAQ 4.1 (tests Learning Outcome 4.1)

What are the objectives of industrial policies in Nigeria?

SAQ 4.2 (tests Learning Outcome 4.2)

Itemise some of the industrial incentives that are been adopted in Nigeria

SAQ 4.3 (tests Learning Outcome 4.3)

In what ways has manufacturing sector contributed to the development of Nigeria economy?

Study Session 5

Social Services Sector

Introduction

An efficient social services sector is essential to an even, integral and sustainable development of the level of productivity of the other sectors of the economy of a state. Two most essential social services sectors are: education and health.

In this Study Session, you will explore these two social service sectors which are considered vital to the development of any economy. Important issues that we will examine are what education is, the structure of the Nigerian education system as well as goals and objectives for setting them up. We will also discuss requisite data on the trend in the health and nutritional statistics will be presented.

Learning Outcomes



Learning Outcomes

When you have studied this session, you should be able to:

- 5.1 *outline and discuss* the structure of education in Nigeria.
- 5.2 expose the students to interdependence between health and education.

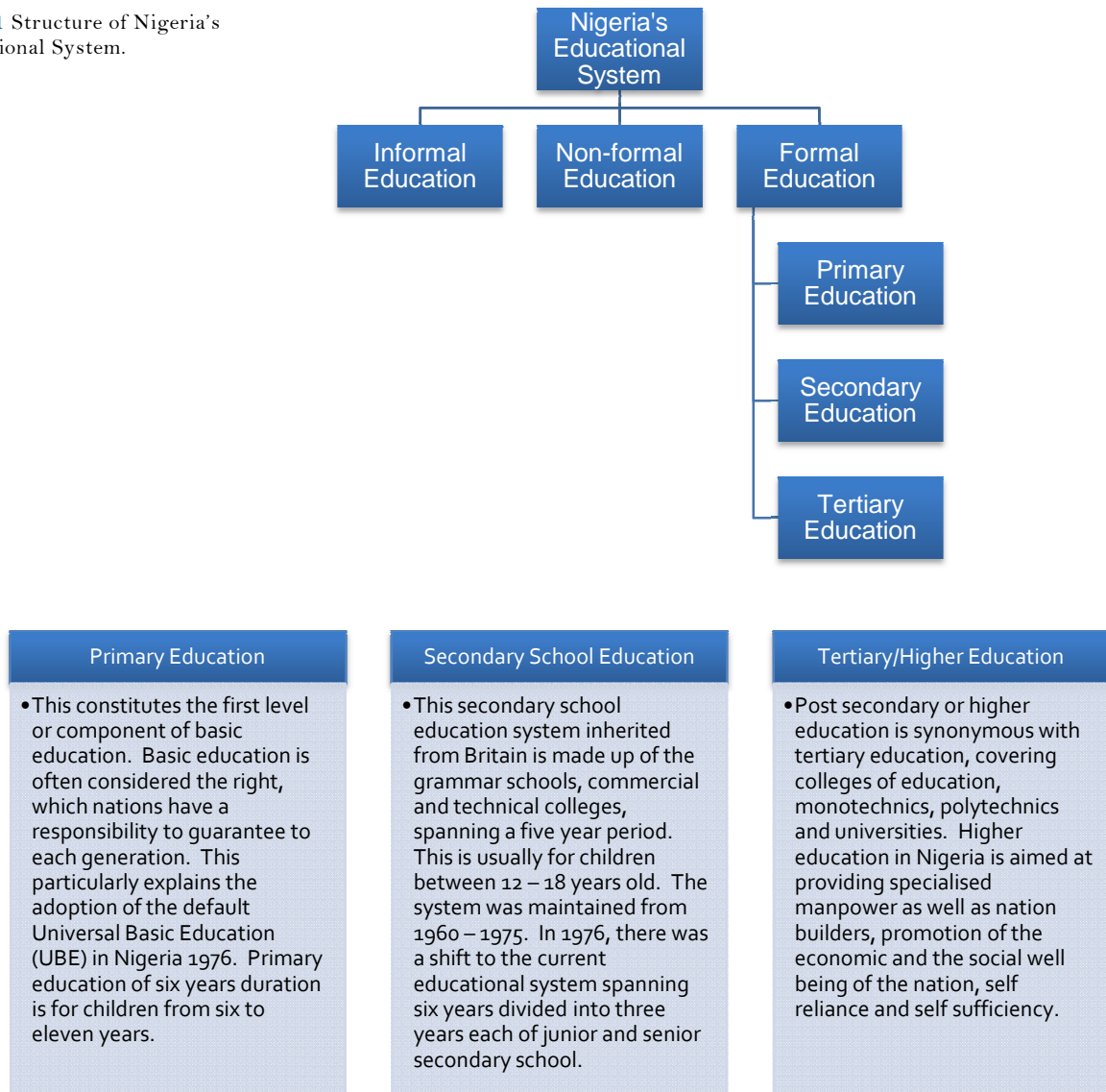
5.1 Education

Education The transfer of survivalist culture and skills from one generation to another.

Education, in its broadest sense, has been defined as any process by which an individual gains knowledge or insight or develops attitudes and skills. Alternatively, it is a process in which an individual is assisted to attain development of his potentialities and his maximum capacity, when necessary, according to the right reason and to achieve its perfect self fulfilment. It is also concerned with the cultivation of the “whole” person, especially, his intellect. It is the human resources of any nation, rather than its physical capital and material resources, which ultimately determine the character and the pace of its economy and social development. It is often regarded as the active factor of production while others, like capital and natural resources, are passive factors of production. Thus, human resources constitute the ultimate basis of the wealth of a nation. Due to its importance and critical role performed, labour capital has always formed an important goal in any developmental policy design, which every economy often desires to achieve. Improving and widening access to education, especially basic education, has been an object of past three to four decades.

5.1.1 Structure of Nigeria's Education

Fig 5.1 Structure of Nigeria's Educational System.



ITQ

Question

Why do we refer to “education” as the active factor of production in every economy?

Feedback

Education is the active factor of production in every economy because it helps to drive other factors of production and make them work efficiently and satisfactorily.

5.1.2 Goals and Objectives of Nigeria's Higher Education System

Colleges of Education

This has the following goals and objectives:

1. Teaching, encouragement of the spirit of inquiry and creativity in teachers;
2. Production of highly motivated, conscientious and efficient classroom teachers.

Polytechnics and Colleges of Technology

The goals and objectives of polytechnics are teaching research with emphasis on application as well as development and public service through:

1. the production of high level and middle level manpower as appropriate in necessary areas in agricultural, industrial, commercial and economic development;
2. the identification and solution to the technological problem and the need for industry and the production of technicians and technologists for direct employment in the industry.

Universities in Nigeria

The goals are teaching research and public service through:

1. encouragement of the advancement of learning in diverse disciplines;
2. the development of high level of manpower to meet the identified needs of the economy;
3. generation and dissemination of knowledge;
4. research relevant to the national and local development problems of the country;
5. the maintenance and transformation of the cultural heritage of the country through the preservation and adaptation of local traditions and values; and
6. public service

ITQ

Question

What is the general objective of higher education in Nigeria?

Feedback

The general objective of higher education in Nigeria is the generation and dissemination of knowledge.

5.1.3 Enrolment in Nigeria's Educational System

Education is the fulcrum on which all other developments take place and it has been recognised as a tool of moral, political and technological

development. Enrolment of students that invest in education will reflect the state of educational sector in the economy.

Between 1998-2003, there was a gradual growth rate both at the primary and the secondary school levels up till 2000, while there was a dramatic decline in the rate of tertiary level from 9.3 to 4.3 between 1998 and 1999, see Table 5.1. This continued through 2000 but later picked up in the following years. Specifically, primary level witnessed an increase from 22.5m in 1998 to 23.7m in 1999. This represents 5.3% growth rate. One quick explanation for the increase can be attributed to the campaign and implementation of the UBE introduced at 1999. At the secondary school level, there was a steady increase in enrolment in the period under review. In 1999, the enrolment was 6.1m for secondary school with a growth rate of 5.2%. This fell to 4.9% in the 2000 but later increased to 6.8, 7.75 and 8.0 in the subsequent years. The actual enrolment increased during that period under review but at a very low pace. At the tertiary level, there was a growth rate of 4.3% in 1999 given 1998 experience. The enrolment in 2000 stood at 1m but declined by 2.7% to 0.73m in 2001. It later increased steadily in the remaining years with 0.75 and 0.76m in 2002 and 2003, respectively.

Table 5.1: Enrolment and Growth rate by Level of Education in Nigeria

Year	Primary		Secondary		Tertiary	
	No.	Growth rate	No.	Growth rate	No.	Growth Rate
1998	22.5	6.1	5.6	3.6	0.94	9.3
1999	23.7	5.3	6.1	5.2	0.98	4.3
2000	24.9	5.1	6.4	4.9	1	2
2001	23.7	5.0	6.8	6.8	0.73	-27
2002	29.15	23.0	7.75	14.0	0.75	2.7
2003	31.8	13.0	8.0	3.2	0.76	1.3

Source: Central Bank of Nigeria, Federal Ministry of Education, Federal Office of Statistics (FOS) and National Manpower Board.

Enrolment by Sex and Level of Education

Over the years, female education has been concluded as a form of development level of women education, affecting economic product, child health and welfare and also serves as a family planning method. The importance of the statement can be summarised in the assumption that when a girl is educated, the whole nation is educated.

Table 5.2: Enrolment by Sex and Level of Education

Year	Primary				Secondary				Tertiary			
	Male	Female	Male GR	Female GR	Male	Female	Male GR	Female GR	Male	Female	Male GR	Female GR
1998	14364	8101	64	36	3362	2433	58	42	518	423	55	45

1999	14810	8999	62	38	3567	2489	59	41	550	413	56	44
2000	15700	9200	63	37	3800	2600	59	41	600	400	57	43
2001	13600	9645	59.3	40.7	3870	2920	57	43	420	310	58	42
2002	11352	9031	55.6	44.4	2750	2120	56	44	440	320	58	42
2003	17172	14628	54	46	4560	3440	57	43	450	310	59	41

Source: Central Bank of Nigeria, Federal Ministry of Education, Federal Office of Statistics (FOS) and National Manpower Board.

The table indicates the trend in gender enrolment in educational sector between 1998– 2003 in Nigeria. At the primary and secondary school levels, the female gender witnessed gradual growth rate in enrolment except in 1999 and 2000, where the same figures were recorded. While in 2003, there was a decrease in growth rates at the primary school levels. It was 40.7%, 44.4% and 46% in 2001, 2002 and 2003, respectively. This shows a consistent pattern of growth in female gender at the primary school level. Whereas in the case of secondary school, the rates have been oscillating. It was 41% in both 1999 and 2000 and increased by 43% in 2001 and jumped to 44% in 2002 before falling back to 43% in 2003. Unlike the two lower levels, the female enrolment during the period at the tertiary level suffered a slight decline from 1998 – 2003. The rate declined from 44% in 1997 to 43% and 42% in 2000 and 2001 respectively. It was however stable in 2002 only to decline again to 41% in 2003.

5.1.4 Teachers-Students Ratio at the Three Levels of Education



Reading

Time required:
20 minutes

Teachers remain a sine qua non for impacting knowledge. The teachers are the experts that impact knowledge / facilitate learning in achieving the goals of education. The activities of these experts therefore largely determine the standards and the quality of education in every society. Analyse the table below:

Table 5.3: Total number of teachers by the three levels

Year	Primary		Secondary		Tertiary	
	No.	Growth rate	No.	Growth rate	No.	Growth Rate
1999	456	1.59	159	-	58.5	-
2000	461	1.1	155	-1.5	61.4	5.0
2001	489	6.1	175	12.91	65.5	6.7
2002	510	4.3	190	8.6	67.7	3.4
2003	599	17.4	206	8.4	65.6	2.8

Source: Central Bank of Nigeria, Federal Ministry of Education, Federal Office of Statistics (FOS) and National Manpower Board

Discussion

The table shows the trend of the teacher's quality in Nigeria's educational system between 1999 and 2003. Apart from the case of secondary school level, which had a drop in the quality of teachers to 1.5 in 2000, there was a gradual increase in the number of teachers during the period under review. Teachers trend grew from 461 – 510, in 2000, 2001 and 2002 respectively and 599 in 2003. This signifies a substantial growth rate of 17.41% from the previous year figures with as little growth rate as 1.59 in 1999; the trend was the same at the secondary and tertiary level.

End of discussion.

The number of students managed by a teacher determines how much the teacher will impact on the total life of a student. Having a low number of students per teacher will increase educational quality and output of both the teacher and the students. UNESCO has the benchmark for the teachers/students ratio at all levels of education, which are 1:35-40. 1:25 –35 and 1:10-15 for primary, secondary and tertiary levels respectively.

Table 4: Teachers/Students Ratio in Nigeria between 1998 - 2003

Year	Primary	Secondary	Tertiary
1998	1:35	1:30	1:22
1999	1:37	1:31	1:22
2000	1:54	1:41	1:22
2001	1:34	1:27	1:11
2002	1:39	1:30	1:11
2003	1:53	1:39	1:11

Source: National Bureau of Statistics (NBS) various issues

The table shows the teachers/students ratio during the period under review. At the primary school level, the ratio was overshooting in 2000 and 2003 while it was within the standard of UNESCO policies in the remaining years. Also, at the secondary school level, the ratio was overshooting in 1999, 2000 and 2003. It was however within the limit of UNESCO standard in 1998, 2001 and 2002. However, the situation was quiet different at the tertiary level where the ratio was overshooting throughout the period of review. Between 1998 and 2000, it stood at 1:22 but reduced considerably in 2000 to 1:11 and was steady at this point to 2003.

ITQ**Question**

How true is this assertion that “when a girl is educated, the whole nation is educated”?

Feedback

It is believed that when a woman is educated, it affects and reflects in her welfare, economic product, child health, family's life and the general well-being of the society.

5.2 Health

Health, according to the *WHO*, is defined as a state of complete physical, mental and social wellness and not necessarily the absence of disease or infirmity. WHO have indicators with which they measure health such as infant and child mortality rate, burden and disease and disability adjusted life years (DALY).

According to Amartya Sen 1991, "health is among the basic capabilities that give value to human life". Kofi Annan conceived health as one of the desires of men and women around the world. For individuals and families, health brings the capacity for personal development and economic security in the future. Health is basic to job productivity, capacity to learn in school, and the capability to grow intellectually, physically and emotionally.

Society with a heavy burden of diseases tends to experience a multiplicity of several impediments to economic progress. Conversely, several of the great "takeoffs" in economic history such as the rapid growth of Britain during the age of industrial revolution; the take off in the US in the early 20th century and the dynamic development of the Southern Europe and East Asian in the 50s and 60s were supported by important breakthroughs in public health, disease control and improved nutritional value.

Table 5: Health and Nutrition Statistics (1970-2001)

Year	Population per Registered Hospital	Population per Doctor	Population per Nurse	Population per Hospital Bed
1970	1768	20374	2802	1900
1975	1334	14153	2805	1314
1980	1783	8556	1073	951
1985	1452	5046	928	899
1990	1205	4300	666	804
1991	682	4023	645	734
1992	N/A	3867	627	713
1993	N/A	3717	618	1277
1994	N/A	3707	615	1304
1995	N/A	4706	605	1477
1996	N/A	4839	1023	1555
1997	N/A	4977	1014	1632
1998	N/A	4977	1044	1738

1999	N/A	4479	906	1564
2000	N/A	4529	920	1611
2001	N/A	4675	1082	2124

Source: Central Bank of Nigeria, Federal Ministry of Education, Federal Office of Statistics (FOS) and National Manpower Board

The table shows that population per registered hospital (total population/total hospital ratio) dropped radically over the years under review. For instance, between 1970 and 1991 the ratio declined radically except in 1980, when it climbed up again. This trend indicates that there was an improvement in the establishment of hospitals.

Similarly, the population per doctor (total population/total doctor ratio) fell in 1980 and early 1990s but picked up in the late 1990s and remained almost constant until 2001. Thus, average 4740 – 3 between 1995 and 2001. This implies that doctors were either been produced or the population were growing more rapidly than the production of doctors. The frequent closures of universities as a result of strikes arising from poor working conditions also contributed to decline in the number of graduates from medical schools. Population per hospital bed (total population to total hospital bed) also decreased in the 1980s, but it stated rising again in 1993 and peaked in 2001. This trend indicates the shortage or inadequacy of beds in hospital which might be attributed to poor funding.

5.2.1 Channels through which Good Health enhances the Education of an Individual

Health and education are closely related in the process of economic development. On the one hand, greater health capital may improve the return to investments in education, in part because health is an important factor in school attendance and in the formal learning process of a child. A longer life raises the return to investments in education; better health at any point during working life may in effect lower the rate of depreciation of education capital. On the other hand, greater education capital may improve the return to investments in health because many health Programme rely on basic skills often learnt at school, including hygiene and sanitation, not to mention basic literacy and numeracy; education is also needed for the formation and training of health personnel. Also, good health as an infant enhances cognitive development. Also, healthy children derive greater benefit from schooling. The child who goes to school more frequently is more likely to enjoy higher school attainment than someone who does not go to school regularly because the mental agility from primary, secondary to tertiary levels would be enhanced. The health of other family members also affects educational enrolment when siblings are healthy.

ITQ**Question**

Is there a nexus between good health and economic development, if yes what form of relationship exist between them?

Feedback

Positive relationship exists between good health and development. A healthy environment goes a long way in enhancing productivity of human capitals, which drive other forms of capital toward the actualisation of the desirable growth and development.

Study Session Summary

**Summary**

In this Study Session, we saw how education and health played complementary role in the development of an individual. Education in its broadest sense has been defined as any process by which an individual gains knowledge or insight or develops attitudes and skills. The structure of formal education in Nigeria is made up of primary, secondary, and tertiary. Health, on the other hand, has been defined by World Health Organization as a state of complete physical, mental and social wellness and not necessarily the absence of disease or infirmity.

Assessment

**Assessment****SAQ 5.1 (tests Learning Outcome 5.1)**

Examine briefly the structure of education in Nigeria

SAQ 5.2 (tests Learning Outcome 5.2)

Justify the link between health and education.

Study Session 6

Population and Unemployment

Introduction

In this Study Session, we will discuss the issue of population as an important element in the growth process of an economy. We will examine the major components of population dynamism namely birth rates, death rates and net population. We will also examine unemployment as a social malaise and its implications for the process of growth.

Learning Outcomes



Learning Outcomes

When you have studied this session, you should be able to:

- 6.1 *point out* conceptual issues in population.
- 6.2 *distinguish* between equilibrium and disequilibrium unemployment.
- 6.3 *explain* population theories.
- 6.4 *list* the consequences of unemployment.

6.1 Population

Population can literally be defined as the totality of the people living in a country. The problem of increasing population remains a major issue every economy has to contend with the world over. The rate of population increase is quantitatively measured as the percentage yearly net increase (or decrease, in which case it is negative) in population size due to natural increase and net international migration. Natural increase simply measures the excess of births over death, or in more technical terms, the difference between fertility and mortality.

The difference between developing and developed nations in terms of rates of population growth can simply be explained by noting that birth rates in developing countries are generally much higher than in the developed countries. Also, death rates in the less developed nations are also higher.

The study of population is important because it involves people and their welfare. The 'people' is an important component and a vital part of the economic system. They are the suppliers of labour, consumers who are the ultimate beneficiaries of the products of development. These are the reasons why it is desirable to know the number of people in geographical area (total population), what their ages are (age distribution), how many are male and female (sex distribution), where they live (geographical or spatial distribution), what jobs they are doing (occupational distribution), etc. These are part of the reasons why population censuses or head counts are conducted at regular intervals.

6.1.1 Factors affecting the Population of a Country

The population of any given country is usually affected by the following factors:

- A. Birth rate
- B. Death rate
- C. Migration rate

Birth rate constitutes a plus on the rate of population growth. The birth rate is measured as the number of babies born or births per thousand people.

Death rate represents a negative on the population because it represents the number of people dying per thousand.

Migration could either be a plus or a minus. It constitutes a plus where there is a movement into a country (immigration), and it is a minus when there is a movement outside the country (emigration). All these phenomena have implications for a country's economic progress and development either in the short run or in the long run.

Fig 6.1 Factors affecting Population

Factors affecting Birth Rate	Factors affecting Death Rate	Factors affecting Migration
<ul style="list-style-type: none"> • Age of marriage • Age distribution of the population • Social attitudes towards children • Marriage structure • Economic issues or level of economic development 	<ul style="list-style-type: none"> • Availability of medical facilities • Age distribution of the population • Natural disaster 	<ul style="list-style-type: none"> • Biological factors, such as sex and age education • Economic and urban attractions • Geographical and physical considerations

ITQ

Question

What are those factors that determine the population of a society?

Feedback

The following factors determine the population of every society;

- birth rate
- death rate
- migration rate

6.1.2 Important Concepts of Population

Optimum Population

This is the population size which, with existing resources, institutional conditions and technology, would give rise to the maximum output or highest living standards.

Overpopulation

This occurs in a situation where the number of people in a country exceeds the optimum population.

Under population

This refers to the population size, which is less than the optimum. The problem is that of inadequate human resources to optimally harness or utilise the available economic resources.

ITQ

Question

Under what condition is optimum population achieved in a society?

Feedback

Optimum population is achieved in the society when a maximum output or highest living standard is recorded given the existing resources, institutional conditions and technology.

6.2 Unemployment

Unemployment is a situation in which those of working age are without work, they are available for work at current wage rates but are not productively engaged. It is the most serious economic danger that a worker may face in any society.

6.2.1 Causes of Unemployment

The causes of unemployment fall into two broad categories:

- equilibrium unemployment, and
- disequilibrium unemployment.

Equilibrium (Natural) Unemployment

This is the difference between those who would like employment at the current wage rate and those willing and able to take a job. This is possible even when there is no general disequilibrium in the economy at the current wage levels – even when there are as many job vacancies as people unemployed – there will still be some unemployment. The problem here is one of mismatching. There are excess demands for labour (vacancies) in some markets and excess supply (unemployment) in others. For example, there may be vacancies for computer technicians and unemployment in the steel industry, but unemployed steel workers

cannot immediately become computer technicians. There are various types of equilibrium unemployment, which include:

1. Frictional (search) unemployment
2. Structural unemployment
3. Seasonal unemployment

Frictional Unemployment is a type of unemployment that occurs as a result of imperfect information in the labour market. It often takes time for workers to find jobs (even though there are vacancies) and in the meantime they are unemployed.

Structural Unemployment arises from changes in the pattern of demand or supply in the economy. People made redundant in one part of the economy cannot immediately take up jobs in other parts (even though there are vacancies).

Seasonal Unemployment is an unemployment which is associated with industries or regions where the demand for labour is very low at certain times of the year.

Disequilibrium Unemployment

This is unemployment resulting from real wages in the economy being above the equilibrium level. There are three possible reasons that could make the actual average wage rate to be above the market equilibrium wage rate. These are:

1. the wage rate is pushed up above the equilibrium;
2. there is a fall in the aggregate demand for labour with no corresponding fall in the wage rate; and
3. there is an increase in the aggregate supply of labour with no corresponding fall in the wage rate.

Each of these three causes gives rise to a distinct type of disequilibrium unemployment.

1. real wage or classical unemployment;
2. demand-deficient or cyclical unemployment;
3. growth in the labour supply.

Real Wage or Classical Unemployment is a type of disequilibrium unemployment caused by real wages being driven up above the market clearing level.

Demand Deficient or Cyclical Unemployment is caused by a fall in aggregate demand with no corresponding fall in the wage rate.

Growth in the Labour Supply, if labour supply rises with no corresponding increase in the demand for labour, the equilibrium real wage rate will fall. If the real wage rate is sticky downward disequilibrium unemployment will occur.

ITQ**Question**

A situation whereby real wage in the economy is over and above the equilibrium level refers to _____

Feedback

This situation is referred to as “disequilibrium unemployment”

6.3 Theories of Population

6.3.1 The Malthusian Theory of Population

An Englishman, Reverend Thomas Malthus, put forward a theory of the relationship between population growth and economic development. Drawing on the concept of diminishing returns, he postulated a universal tendency for the population of a country to grow at a geometric rate, if it is not checked by dwindling food supplies. Due to diminishing returns to the fixed factor e.g. land, food supplies could expand only at a roughly arithmetic rate. The reason is that since land is a fixed factor input, the marginal contribution to food production would eventually decline. He, therefore, contended that the only way to avoid this situation of chronic low levels of living or absolute poverty was for people to engage in “moral restraint”.

Criticisms of the Malthusian Model

Malthusian model is criticized on a number of simplistic assumptions and hypotheses that do not stand the test of empirical verification:

1. His model does not take adequate account of the role and impact of technological progress;
2. The model is based on a macro-relationship between population growth and levels of per capita income that does not stand up to empirical verification;
3. It is based on a wrong variable of per capita income as a key determinant of population growth rates.

ITQ**Question**

What is the greatest criticism levelled against Malthusian population theory?

Feedback

Malthusian population theory was greatly condemned due to his inability to factor in the importance of technological progress.

6.3.2 The Demographic Transition

This model attempts to explain why all contemporary developed nations have more or less passed through the same three stages of modern population history. In the first stage, these countries had stable or very slow growing population resulting from a combination of high birth rates and almost equally high death rates.

In the second stage, there was a transition from stable or slow growing populations first to rapidly increasing numbers and then to declining rates. This was as a result of better public health methods, healthier peoples, higher incomes, and other improvements. In other words all the foregoing led to a marked reduction in mortality rate that gradually raised life expectancy.

In the final stage, forces and influences of modernisation and development caused the beginning of a decline in fertility; eventually falling birth rates conversed with lower death rates, leaving little or no population growth.

ITQ

Question

Highlight the major characteristics of the first stage in the demographic transition period

Feedback

The first stage of demographic transition period is characterized by high fertility rate and high mortality rate.

6.4 Negative Consequences of Population Growth

1. **Economic Growth:** Population growth lowers per capita income growth in most less developed economies.
2. **Poverty and Inequality:** An increasing large family size, for example, perpetuates poverty and exacerbates inequality.
3. **Education:** It lowers most times the opportunities of parents to educate all their children.
4. **Health:** High population growth poses some hazards to mothers' health. For example, closely spaced births have been shown to reduce birth weight and increase child mortality rates.
5. **Food:** Feeding the world's population is becoming more difficult due to rapid population growth.
6. **Environment:** Population growth contributes to environmental degradation in the form of forest encroachment, deforestation, fuel-wood depletion, etc.
7. **International Migration:** High and rising increase in international migration, either legally or illegally, has been attributed to developing countries population growth.

ITQ**Question**

What are the likely negative effects a country experiencing population growth may face?

Feedback

We don't know exactly what you may think of, but the likely negative consequences of increasing population include;

- Economic growth.
- Poverty and Inequality.
- Education
- Health
- Food
- Environment
- International Migration etc

Study Session Summary



Summary

In this Study Session, our analysis was on population - the totality of people living within a country. Population is affected by three major phenomena, namely: birth rate, death rate and net migration. We went further to review the impact of unemployment in relation to population growth.

Assessment



Assessment

SAQ 6.1 (tests Learning Outcome 6.1)

List and explain the conceptual issues in population.

SAQ 6.2 (tests Learning Outcome 6.2)

Make a distinction between equilibrium and disequilibrium unemployment.

SAQ 6.3 (tests Learning Outcome 6.3)

Write short notes on the population theories.

SAQ 6.4 (tests Learning Outcome 6.4)

What are the adverse effects of increasing population growth in any economy?

Study Session 7

Economic Growth, Poverty and Inequality

Introduction

In this Study Session, you will explore the concept of economic growth. We will as well draw a demarcating line between this concept and a related concept, that is, economic development. The concept of poverty and inequality will also be discussed.

Learning Outcomes



Learning Outcomes

When you have studied this session, you should be able to:

- 7.1 *draw a demarcating line* between economic development and economic growth.
- 7.2 *point out* the problems associated with using GDP per capita as a surrogate for economic growth.
- 7.3 *explain* the conceptual issues involved in poverty and inequality.
- 7.4 *measure* level of poverty.
- 7.5 *point out* the causes and effect of poverty.
- 7.6 *discuss* how to eliminate poverty.

7.1 Economic Growth and Development

Economic growth The expansion of country's productive capacity that leads to a rise in total national output.

Economic development An event constituting a new stage in a changing situation.

The word “**economic growth**” is often used interchangeably with **economic development**. There is however, a distinction between the two concepts. Economic growth refers to a sustained increase in the productive capacity of a country, that is, expansion in output or national output; while economic development, occurs when a country experiences three main phenomena, namely: structural changes, institutional changes and changes in the national output of a nation.

From the foregoing, it suffices that economic growth is a subset of economic development. Generally speaking, economic growth refers to the increasing ability of a nation to produce more goods and services. Growth can occur in two different ways:

1. through an intensive and increase use of factors of production e.g. like land, labour, capital and entrepreneurial resources; by using better technology or management techniques; and
2. through increased productivity of existing resources, or via rising labour and capital productivity.

Theoretically, having an increasing national output means greater material welfare and a rise in the living standards of people. It does not necessarily mean to have higher levels of well being for all individuals in the country. As a matter of fact, economic growth can have negative impact on a nation, which could include environmental degradation, and loss of traditional cultural values. It may also lead to a greater inequality

between different classes of people in society, that is, it may widen the gap between the rich and the poor.

ITQ

Question

What differentiates economic growth from economic development?

Feedback

Economic development equals economic growth plus both institutional and structural changes.

7.2 Problems associated with using GDP per capita as a Growth Measure

GDP per capita is obtained when gross domestic national product is deflated by the total number of people in a country. The use of GDP as a growth measure is fraught with the following problems:

1. GDP per capita does not provide any information relevant to the income distribution in a country;
2. GDP per capita does not take into account negative externalities from pollution consequent to economic growth;
3. GDP per capita does not also take into account positive externalities that may result from services like education and health; and
4. GDP per capita excludes the value of both economic and non-economic activities that take place outside the market place such as cost-free leisure activities like cycling.

Owing to these identified problems and limitations, various indicators have been developed to compensate for such limitations of economic growth measurement. The main development indicator used is the Human Development Index (HDI). It was developed by United Nations Development Programme (UNDP) to measure the economic achievement in combining economic growth as well as social welfare. The HDI measures the average achievement in a country in three basic dimensions of human development. Hence it is a comparative measure for countries worldwide. The three basic dimensions of human development includes:

1. A long and healthy life as measured by life expectancy at birth;
2. Knowledge, as measured by adult literacy rate;
3. A decent standard of living as measured by GDP per capita.

HDI is essentially a score between zero and one. A score of zero would mean no human development has taken place and a score of one is the maximum amount of human development. Thus, it is possible however that a nation may have a higher GDP per capita ranking than its HDI ranking, this simply suggests that there is a very high level of inequality i.e. high income levels are taking and enjoying by a small proportion of the population as we have in Nigeria.

The UNDP has also developed a number of other indicators. It has developed a specific gender development index and human poverty index, while the former is measured, which shows gender inequality in economic and political opportunity, the latter on the other hand measures and examines the extent of the disadvantages faced by people who has been deprived of human development. Thus, it measures using the percent of people expected to die before age 40, a percent of illiterate adults, the percent of people without access to health services and safe water and the percent of underweight children under 5 years.



Problems associated with using GDP per capita as a Growth Measure

- 1) Its non provision of information relevant to the income distribution in a country.
- 2) It does not take into account negative externalities from pollution consequent to economic growth;
- 3) It does not also take into account positive externalities that may result from services like education and health.
- 4) Its exclusion of value for economic and non-economic activities that takes place outside the market place.

ITQ

Question

What are three (3) major aspects of human lives measured by the Human Development Index (HDI)?

Feedback

The three (3) aspects of human lives measured by the Human Development Index (HDI) are;

- Life expectancy;
- Education, as measured by adult literacy rate;
- Standard of living as measured by GDP per capita

7.3 Poverty and Inequality

Income inequality is the existence of disproportionate distribution of total national income among households whereby the share going to the rich in a country is far greater than the share going to the poor. This is largely due to differences in the amount of income derived from ownership of property and to a lesser extent, the result of differences in earned income.

Income inequality can bring about poverty in a society. Poverty is not just caused by individual experiences but by major inequalities built into the structure of the society. Poverty is a relative concept used to describe a people in a society that cannot participate in the activities that most people take for granted. Poverty is understood in many senses. The main understandings of the term include:

1. Description of material need, typically including the necessities of daily living, (food, clothing, shelter and healthcare). Poverty in this sense may be understood as the deprivation of essential goods and services;
2. Description of social relationships and need including social exclusion, dependency and the ability to participate in society. This would include education and information;
3. Description of a lack of sufficient income and wealth. The meaning of sufficient income and health varies widely across the different political and economic parts of the world.

Poverty may be seen as the collective condition of a group of poor people or of poor groups, or sometimes, the entire nation state may be regarded as poor. To avoid stigma, these nations are usually called developing nations. When measured, poverty may be absolute or relative.

ITQ

Question

Why is poverty so prevalent in Africa and other developing countries of the world?

Feedback

Poverty is so high in Africa and other developing world because there is high inequality of income between the rich and the poor therein.

7.4 Measurement of Poverty

7.4.1 Absolute Income Criteria

Absolute poverty refers to a set of standards which is consistent over time and between countries. Absolute measures define a minimum standard and then calculate the number (all percent) of individuals that fall below this threshold i.e. baseline; when an individual falls below this baseline, it means poverty is in place. These methods are most useful when determining the amount of poverty in a society. Examples include:

- A. **Poverty line:** This is a measure of the level of income necessary to subsist in a society. It varies from place to place and from time to time, depending on the cost of living and people's expectations. It is usually defined by government and calculated as that level of income at which a household will devote two-thirds (to three quarters) of its income to basic necessities such as food, water, shelter and clothing;
- B. **Poverty index:** This index was developed by Amartya Sen. It takes into account both the number of poor and the extent of their poverty. Sen, defined the index as:

$$I = \left(\frac{P}{N} \right) \left(\frac{B - A}{A} \right)$$

Where P = the number of people below the poverty line

N = total number of people in society

B = Poverty line income

A = Average income of those people below the poverty line

Other indicators of absolute poverty include: Life expectancy and child mortality.

7.4.2 Relative Income Criteria

Relative poverty views poverty as socially defined and dependent on social context. In this case, the number of people counted poor will increase while their income rises. The relative measurement will be to compare the total wealth of the poorest one-third of population with the total wealth of the richest one percent of the population. Thus, relative income measures compare the income of one individual or group with the income of another individual or group. These measures are most useful when analyzing the scope and distribution of income inequality.

Percentile Distributions

One percentile is compared to another. For example, it might be determined that the income of the top 10 percentiles is only slightly more than the bottom 40 percentile. Individuals are usually arranged by ascending personal incomes and then divide the total population into distinct groups or sizes. A common method is to divide the population into successive quintiles (fifths) or deciles (tenths) according to ascending income levels and then determine what proportion of the total income is received by each income group. The table below shows the hypothetical but fairly typical distribution of income for a developing country.

Table 7.1

Typical Size Distribution of Personal Income in a Developing Country by Income Shares (quintiles and deciles)

Column 1 Individuals	Column 2 Personal Income	Column 3 % share in Quintiles	Column 4 Total Income Deciles	Cumulative Frequency
1	0.8			
2	1.0		1.8	1.8
3	1.4			
4	1.8	-5	3.2	5.0
5	1.9			
6	2.0		3.9	8.9
7	2.4			
8	2.7	9	5.1	14.0
9	2.8			
10	3.0		5.8	19.8
11	3.4			
12	3.8	13	7.2	27.0
13	4.2			
14	4.8		9.0	36.0
15	5.9			
16	7.1	22	13.0	49.0

17	10.5			
18	12.0		22.5	71.5
19	13.5			
20	15.0	51	28.5	100
Total	100	100	100	

In Table 7.1, 20 individuals or more commonly households representing the entire population of the country are arranged in order of ascending annual personal income ranging from the individual with the lowest income (0.8 units) to the one with the highest income (15.0 units). The total or national income of all individuals amount to 100 units and it's the sum of all entries in column 2. In column 3, the population is grouped into quintiles of 4 individuals each. The first quintile represents the bottom 20 percent of the population on the income scale. This group receives only 5% i.e. (a total of 5 money units) of the total national income.

The second quintile, individuals 5 – 8 receives 9 percent of the total income. Alternatively, the bottom 40 percent of the population (quintiles 1+2) is receiving only 14% of the income, while the top 20 percent, 5th quintile of the population receives 51% of the total income.

Kuznet ratio is a ratio that is often used as the measure of the degree of inequality between the two extremes of very poor and very rich in the country.

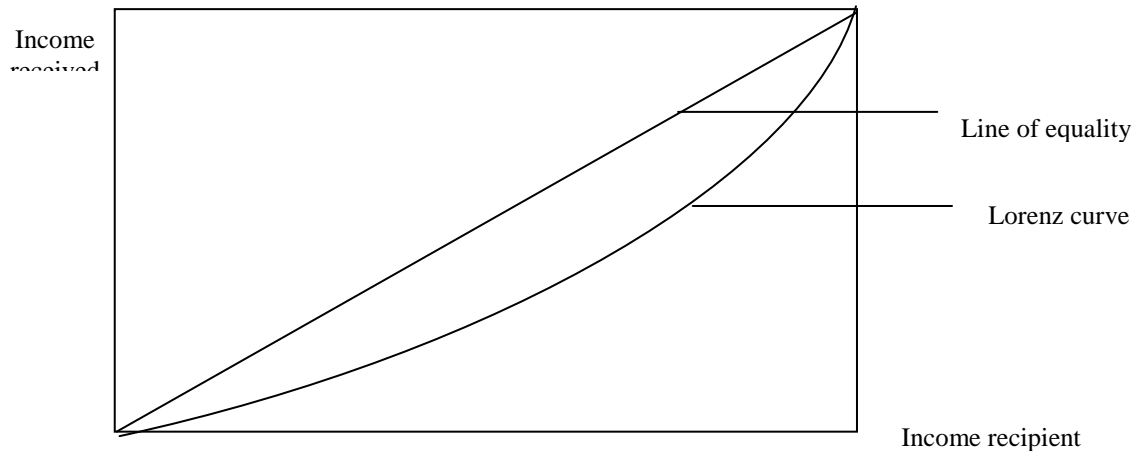
The common measure of income equality that can be derived from column 3 is the ratio of the incomes received by the top 20 percent and bottom 40 percent of the population. This ratio sometimes called **Kuznets ratio** after the Nobel Laureate, Simon Kuznet, it is often used as the measure of the degree of inequality between the two extremes of very poor and very rich in the country. This inequality ratio is equal to 51 divided by 14 i.e. approximately 3.64. To provide a more detailed breakdown of the size distribution of income, deciles (10%) shares are listed in column 4. The bottom 10 percent of the population (the two poorest individuals) is receiving only 1.8 percent of the total income, while the top 10% (the two richest individuals) receives 28.5% of the total national income.

Finally, if we wanted to know what the top 5% receives, we would divide the total population into 20 equal groups of individuals (in this case, this simply be each of the 20 individuals) and calculate the percentage of total income received by the top group. For example, we can see that the top 5% of the population i.e. 20th individual receives 15% of the income. A higher share than the combined shares of the lowest 40%.

At every point of the diagonal, the percentage of income received is exactly equal to the percentage of income recipient. For example, the point half way along the length of the diagonal represents 50% of the income being distributed to exactly 50% of the population. At the $\frac{3}{4}$ point on the diagonal, 75% of the income would be distributed to 75% of the population. In other words, the diagonal line is representative of perfect equality in size distribution of income. Each percentage group of income recipient is receiving that same percentage of the total income. For example, the bottom 40% receives 40% of the income while the top 5% receives only 5% of the total income. The Lorenz curve is plotted using the decile data. Both the horizontal and vertical axis has been

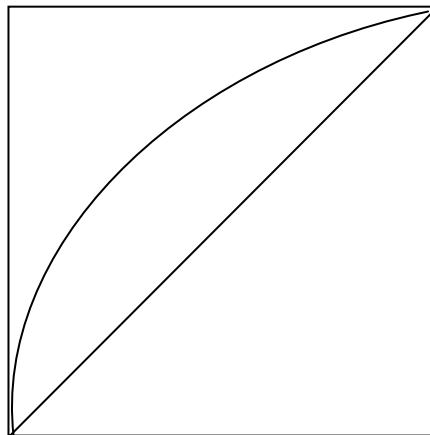
divided into ten equal segments corresponding to each of the ten decile groups. Point A shows that the bottom 10% of the population receives only 1.8% of the total income; point B shows that the bottom 20% is receiving 5% of the total income and so on for each of the 8 cumulative decile groups. At the half way point, 50% of the population is receiving only 19.8% of the total income.

Fig 7.1



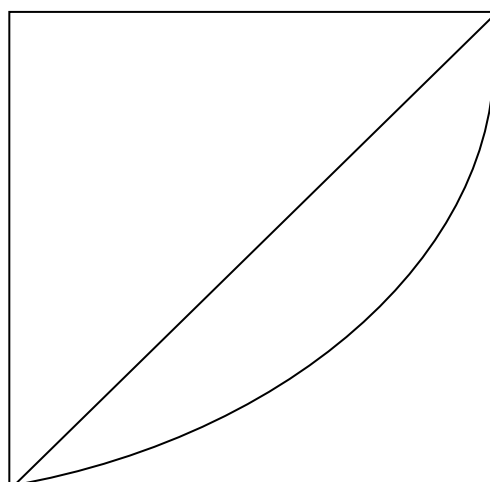
The more the Lorenz line curves away from the diagonal (perfect equality) the greater, the degree of inequality represented.

Fig 7.2



This will represent a relatively equal distribution and the other represents a relatively unequal distribution.

Fig 7.3



Therefore, the greater the inequality, the greater the closer to the bottom horizontal axis, the Lorenz curve will be. However, the Lorenz curve suffers from some technical drawbacks: it is incapable of earning negative incomes. It is insensitive to errors of measurement and cannot distinguish among different locations of inequality within the saved income range.

The Gini Co-efficient

Instead of graphical representation, the Gini Co-efficient offers a neat numerical way of summarizing the message in a Lorenz curve. The Gini co-efficient is a measure of inequality of distribution, the Gini co-efficient is defined as a ratio between 0 and 1 where incomes are distributed perfectly, equally, the Gini-co-efficient is 0. On the other and where incomes are distributed perfectly, unequally, the Gini co-efficient is 1. Gini Co-efficient can be derived as follows:

$$G = \frac{10,000 - \sum [(\% \text{ of income receivers}) (\text{cumulative income received})]}{10,000}$$

Table 7.2

% of Income Receivers (1)	% of incomes (2)	Cumulative % of Income (3)	Cumulative Income receivers (4)	Columns (1x 4) (5)
10	0.8	0.8	0.8	8
10	1.5	2.3	3.1	31
10	2.3	4.6	6.9	69
10	3.2	7.8	12.4	124
10	4.3	12.1	19.9	199
10	5.8	17.9	30.0	300
10	7.9	25.8	43.7	437
10	10.9	36.7	62.5	625
10	16.6	53.3	90.0	900
10	46.7	100.0	153.3	1533
100	100.0			4226

$$G = \frac{10000 - 4226}{10,000} = \frac{5774}{10000}$$

$$= 0.5774$$

ITQ

Question

What differentiate absolute poverty from relative poverty?

Feedback

Absolute poverty is the complete lack of resources to sustain life, while relative poverty refers to the inadequate or lack of income when compared to the average standards living. As such, relative poverty implies that the individual has the ability to sustain his or her basic needs, but may lack the resources to engage in various social activities.

7.5 Causes and Effect of Poverty



Activity

Allow 20 minutes

So far, we have discussed the nature and scope of politics. You will now engage in a reading activity on consensus view and conflict views on Politics”.

Task

Study the charts below and answer the questions that follow.

Chart A

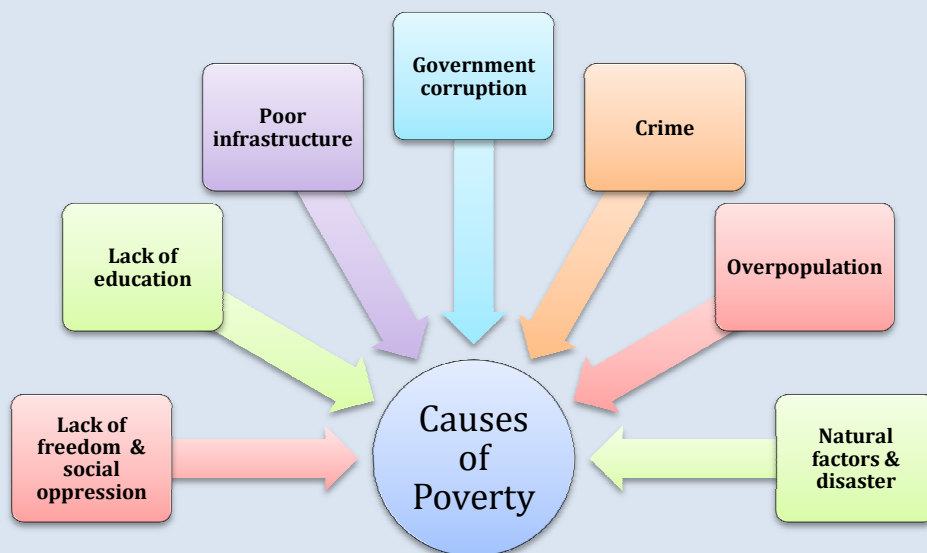
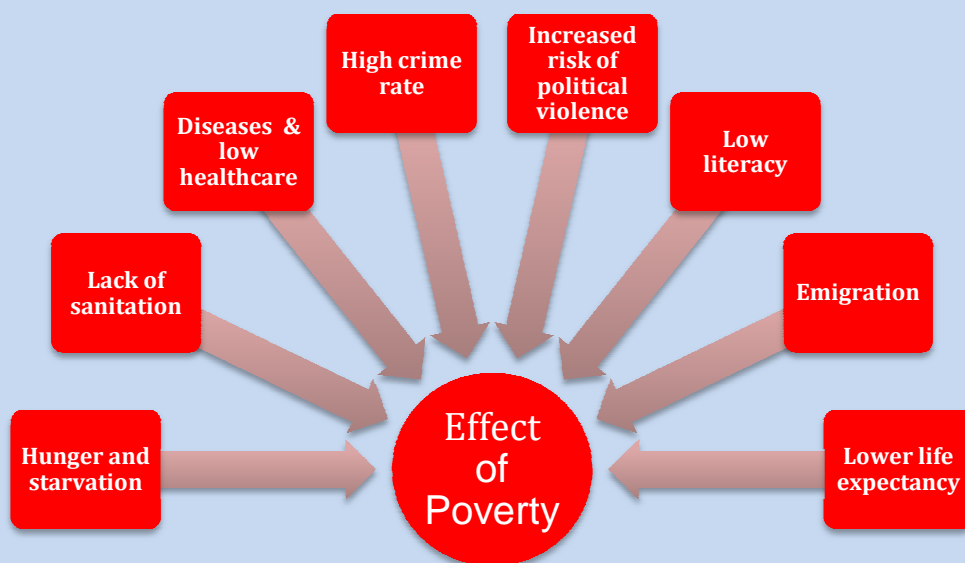


Chart B



- 1) From chart A, which of the presented factor actually explains why poverty occurs?
- 2) In chart B, what is the most devastating effect of poverty? Does the chart capture all the effects of poverty?

Post your findings to your online tutor on Study Session 7 assignment page at your course website

ITQ

Question

What is the most devastating effect of poverty?

Feedback

Hunger, starvation and low life expectancy are the most devastating effect of poverty.

7.6 Eliminating Poverty

1. Economic growth, but must be accompanied by progressive distributional change
2. Direct aid: government can directly help those in need
3. Improving the social environment and abilities of the poor i.e. affordable housing, education, affordable healthcare, subsidizing the unemployed group
4. Providing help and generating employment.

ITQ**Question**

The best poverty remedy in an economy is _____?

Feedback

Pro-poor poverty instruments should be encouraged and fully implemented. Pro-poor programs are policies and programs targeted at the poor people in an economy to help better their lives.

Study Session Summary

**Summary**

In this Study Session, we considered economic growth as a subset of economic development. We noted that there are problems associated with using GDP per capita as a growth measure.

We also conceptualised poverty as either being absolute or relative. Poverty could be caused by lack of freedom and social oppression poor, failed, or absence of an infrastructure; government corruption; crime; natural disaster; overpopulation; and lack of education to mention a few. We concluded the Study Session by presenting ways through which poverty can be controlled, these include: economic growth with progressive distributional change; government's direct aid; improving the social environment and abilities of the poor.

Assessment

**Assessment****SAQ 7.1 (tests Learning Outcome 7.1)**

Differentiate between economic growth and economic development.

SAQ 7.2 (tests Learning Outcome 7.2)

What are the problems associated with the use of GDP per capita as a measure of economic growth.

SAQ 7.3 (tests Learning Outcome 7.3)

What are the conceptual issues involve in poverty and inequality?

SAQ 7.4 (tests Learning Outcome 7.4)

Discuss the poverty dimensions.

SAQ 7.5 (tests Learning Outcome 7.5)

Examine clearly the causes and effects of poverty

SAQ 7.6 (tests Learning Outcome 7.6)

Suggests ways through which poverty can be alleviated in our society.

Study Session 8

International Trade

Introduction

In this Study Session, you will be exposed to why trade is so crucial to human existence by examining the gains in trade. This is intended to be achieved by specifically focusing on the principle of absolute cost advantage and comparative cost advantage.

Learning Outcomes



Learning Outcomes

When you have studied this session, you should be able to:

- 8.1 *outline* the general basis for international trade.
- 8.2 *apply* the theories of trade to provide basis for international trade.

8.1 Basis of International Trade

Trade by barter

A transaction which requires giving up goods in return for goods

Before the idea of exchange and transactions became popular, **trade by barter** was in vogue. This system of trade was beset with several problems, which include double coincidence of wants, indivisibility of goods, lack of division of labour and a lot more. The introduction of money later eased the process, pattern and structure of trade transactions.

The diversity in the resource endowments actually forms the basis of international trade. Nations of the world differ in their resource endowments. While some countries are better endowed with natural resources have vast fertile and cultivable land, large deposits of mineral resources, and better climatic conditions, some other economies are better equipped with capital and technology. The world distribution of resources is largely characterised with irregularities or imbalances. Thus, no single nation can lay claims to been 100% self sufficiency in its resource requirements or said to have a perfectly balanced supply of resources.

Moreover, uneven distribution of world resources is not the only basis of trade between the countries. What is more important is the gains from foreign trade. The earliest trade theories, to shed more light on this area, are the theory of absolute advantage and comparative cost advantage.

ITQ

Question

Give any two reasons why there is need for international trade

Feedback

Several reasons accounted for the need for countries to engage in

international trade. Although, we don't exactly what you can think of, but you can think of any of the following reasons;

- No country is self-complacent,
- Natural resources are not evenly distributed,
- Difference in climatic factors,
- Need to foster unity and cooperation among nations etc.

8.2 Theories of Trade

8.2.1 Theory of Absolute Advantage

This trade theory was pioneered and credited to the earliest classical economist, Adam Smith. The theory asserts that it may be possible for all countries to produce all the commodities they need, in spite of resource constraints. However, the cost of production of goods for which a country is deficient in its resource endowments would be exorbitantly high. It is, therefore, advantageous for a country to specialize in the production of commodities which it can produce most efficiently, i.e. at a lower cost of production. In other words, a country tends to specialise in the production of those commodities in which it has an absolute advantage in cost of production.

Adam Smith's theory of absolute advantage can be illustrated through a simple, hypothetical two-country and two-commodity example. Let us suppose that labour cost of production of rice and cloth in Nigeria and Ghana is as given in Table 8.1.

Table 8.1

Country	Per Labour Cost (Man hour)	
	Rice	Cloth
Nigeria	30	60
Ghana	50	20

As the table depicts, Nigeria needs 30 man hours to produce one ton of rice whereas Ghana requires 50 man hours. The cost of rice production in Nigeria is thus much lower than that in Ghana. Nigeria, therefore has an absolute advantage in rice production, while Ghana needs 20 man hours to produce one yard of cloth, Nigeria needs 60 man hours. Thus, Ghana has absolute advantage in cloth production. Going by the theory of absolute advantage, Nigeria would specialize in rice production and import cloth and Ghana would specialize in cloth production and import rice.

8.2.2 Theory of Comparative Cost Advantage

This theory was pioneered by David Ricardo. The principle of comparative cost advantage asserts that a country should under competitive conditions specialize in the export of the products that it can produce at the lowest relative cost. This suggests the possibility of gainful trade between two countries even if one has absolute advantage in the production of both the commodities and the other absolute disadvantage in production of both commodities. This theory provides a

powerful argument that so long as countries have comparative advantage in the production of commodities, specialisation and trade between them would always be possible and advantageous to all of them.

For example, let us suppose that in our two-country-two-commodity model. Nigeria is more efficient in producing goods like rice and cloth as shown in Table 8.2.

Table 8.2

Country	Per Labour Cost (Man hour)	
	Rice	Cloth
Nigeria	30	60
Ghana	50	80

As Table 8.2 shows, Nigeria can produce both the goods more efficiently, i.e. at a lower cost compared to Ghana. But, her own relative efficiency is evidently greater in rice production because her cost of rice production is just half her cost of cloth production. Nigeria also has comparative advantage in rice production because she needs only $(30/50) \times 100 = 60\%$ of the cost of rice production in Ghana. But Nigeria has comparative disadvantage in cloth production because her cost of cloth production is twice her cost of rice production. On the other hand, Ghana has comparative advantage in cloth production because her relative cost of cloth production (i.e. $80/50$) is less than Nigeria's (i.e. $60/30$). In other words, if Nigeria shifts 30 man hours from rice to cloth production, she gains only $30/60 = 0.5$ yard of cloth, whereas if Ghana shifts 50 man hours from rice to cloth production she gains $50/80 = 0.625$ yard of cloth. Thus, Nigeria has comparative advantage in rice production and Ghana in cloth production.

Criticisms of Theory of Comparative Cost Advantage

Ricardo's theory of comparative cost advantage has come under serious criticisms which were basically due to its certain simplifying assumptions. These include among others:

1. It assumes the homogenous of labour.
2. It also assumes that labour is the only factor of production.
3. It ignores the demand side of trade only focus on the supply side.
4. It also assumes that factors are perfectly mobile.
5. It assumes away cost of transportation.
6. Its assumption of existence of perfect competition is unrealistic.

8.2.3 Heckscher Ohlin Theory of Trade

Heckscher-Ohlin theory attempts to provide answers to the major questions which other earlier trade theories failed to answer. These questions are: Why does a nation have comparative advantage in the production of a commodity and comparative disadvantage in the production of another? Why is there difference in the production possibility curves of nations?

The theory of trade expounded by Heckscher and Ohlin is most popularly known as the Heckscher-Ohlin theory of trade; it is also referred to as

factor-endowment theory of trade or the modern theory of trade. The theory states that comparative advantage in the cost of production is explained exclusively by the differences in the factor endowment of the nations. In a general sense of the term, factor endowment refers to the overall availability of usable resources including both gift of nature and man-made means of production.

The Model and its Assumptions

The Heckscher-Ohlin Theory assumes the following:

1. two country and two commodity world;
2. perfect competition in both product and factor markets;
3. production factors of labour and capital in both countries are homogeneous;
4. factor supply is given and factors are fully employed;
5. factors labour and capital are fully mobile between the industries x and y in a country but completely immobile between countries;
6. production possibility curves are concave to the origin;
7. production functions for both goods and in both the countries are homogenous of degree one;
8. no transportation cost is also assumed;
9. identical indifference curves in both countries;
10. production technology for commodity x and y are labour and capital intensive in nature respectively.

Criticisms of Heckscher-Ohlin theory

The theory is based on a number of simplifying and unrealistic assumptions, as stated under the assumptions of the model.

ITQ

Question

What differentiate absolute cost advantage from comparative cost advantage in international trade theory?

Feedback

The major difference between these two theories of international trade hinges on the fact that the former advocated for the productions of goods and services by countries based on efficiency with lower cost of production, while the latter advocated for same production of goods and services but based on country's lowest relative cost (opportunity cost).

Study Session Summary



Summary

In this Study Session, we outlined the general basis for international trade. We also examined the theories of absolute cost advantage, comparative cost advantage and factor-endowment theory of trade.

Assessment



Assessment

SAQ 8.1 (tests Learning Outcome 8.1)

Justify the rationale behind the existence of international trade.

SAQ 8.2 (tests Learning Outcome 8.2)

Using theories of international trade, discuss briefly why countries should trade with one another.

Study Session 9

Monetary and Fiscal Policy

Introduction

Every government or country usually has certain stated objectives, goals, aims and mission to achieve; these can compactly be referred to as targets. For these targets to be realised, a government may employ policies which may either be monetary or fiscal, depending on the nature and type of the problems concerned. In this Study Session, you will explore the policy instruments that can be used to moderate the level of economic activities. Such instruments are collectively referred to as stabilization instruments. Attempts will be made to explain the objectives of policy instrument tools, monetary policy framework and fiscal policy measures in Nigeria.

Learning Outcomes



Learning Outcomes

When you have studied this session, you should be able to:

- 9.1 *present* monetary policies as instruments of government.
- 9.2 *outline* how fiscal policy can be applied in a developing country such as Nigeria to regulate the level of economic activities.

9.1 Monetary Policies

Monetary policy can be subsumed as a policy measure designed to regulate and control the volume, cost, availability and direction of money and credit in an economy in a desirable direction to achieve some specified macroeconomic policy objectives. Thus, it is a deliberate effort by the monetary authorities (Central Bank in the case of Nigeria, Federal Reserves (US), Bank of Exchanger in England) to control the money supply and credit conditions for the purpose of achieving certain broad economic objectives.

9.1.1 Objectives of Monetary Policy

The ultimate objectives of every monetary policy, irrespective of the political arrangement a country may have, may be given as follows:

- A. sustained increase in outputs growth;
- B. price stability;
- C. full employment;
- D. sustainable balance of payments;
- E. exchange rate stability.

The first three that is (A) to (C) can be summed up as economic stabilisation, and (D) and (E) as external balance.

9.1.2 Monetary Policy Instruments/Tools

The apex financial institution of any economy can manipulate any of the following monetary instruments to achieve its stated objectives. These instruments at the disposal of monetary authorities can be direct or indirect.

Direct monetary policy instruments are those monetary policy instruments whose impact is passed on the targeted variables without any recourse to any intermediary link. Examples of such instruments are aggregate credit ceiling, deposit ceilings, exchange controls, restriction on the placement of public deposits, special deposits and stabilisation securities.

Indirect monetary policy instruments, on the other hand, are those monetary policy instruments whose impact can only be felt on the targeted variable through the link of intermediary. Examples are: open market operations, (OMO), cash reserves requirements, liquidity ratio, minimum rediscount rate, party charges and selected credit policies. For instance, if the government of a country wants to either increase/decrease money holdings by the general public. This is best illustrated through the schematic diagram below:

CBN (OMO) – Commercial banks – General public.

From the illustration above, it is quite obvious that commercial banks act as an intermediary link between the government and the general public. The same process goes for other indirect tools of monetary policy listed above.

ITQ

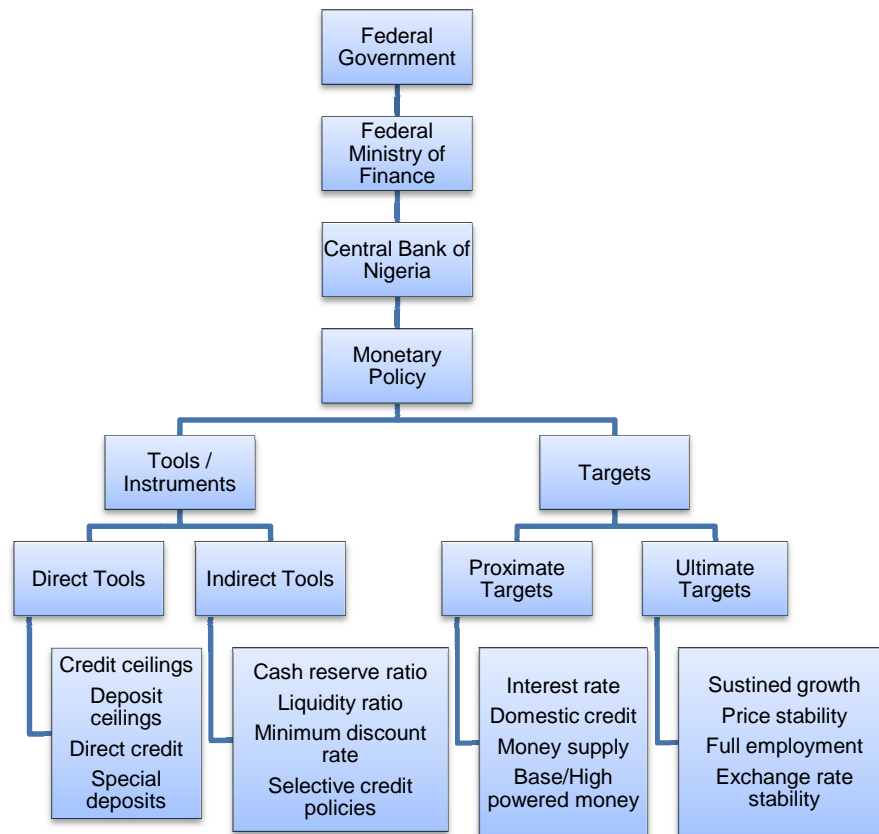
Question

What is the primary objective of monetary policy?

Feedback

The primary objective of monetary policy is to ensure realisation of economic stabilisation and external balance.

Fig 9.1



9.2 Fiscal Policy

Fiscal policy, on the other hand, is taken to as that part of government policy concerning the raising of revenue through taxation, and other means and deciding on the level and pattern of expenditure for the purpose of influencing economic activities or attaining some desirable macroeconomic goals. Alternatively and simply put, it is the use of government spending and taxing raising power to influence the level of economic activities in a state.

9.2.1 Objectives of Fiscal Policy

The objectives of any fiscal policy are similar to that of monetary policy since they both aim at achieving macroeconomic policy objectives which includes among others:

- A. to achieve sustained economic growth;
- B. to achieve a relative stability;
- C. to achieve full employment equilibrium;
- D. to achieve balance of payment equilibrium.

9.2.2 Fiscal Policy Measures in Nigeria

In Nigeria, the major fiscal policy instruments include changes in taxation rate like:

- i. Personal Income Tax (PIT),
- ii. Company Income Tax (CIT),

- iii. Petroleum Profit Tax (PPT),
- iv. Capital Gain Tax (CGT),
- v. Import Duties, Export Duties, Excise Duties and so on.

Also the foregoing includes changes in government spending or expenditure (both recurrent and capital). These government expenditures constitute an instrument for direct resource allocation, while generating employment opportunities and influencing the general price level as well as determining the extent of fiscal deficit or surplus for each fiscal year.

ITQ

Question

Is there any similarity between monetary policy and fiscal policy? If yes /No, state your reason

Feedback

Yes, both of them are government policy instrument.

Study Session Summary



Summary

In this Study Session, we noted that government has at its disposal some policy instruments that can be adopted and manipulated to influence the level of economic activities. These instruments are monetary and fiscal policy. The former can be defined as a policy measure designed to regulate and control the volume, cost, availability and direction of money and credit in an economy in a desirable direction to achieve some specified macroeconomic policy objectives. The latter refers to that part of government policy, concerning the raising of revenue through taxation, and other means and deciding on the level and pattern of expenditure for the purpose of influencing economic activities or attaining some desirable macroeconomic goals. They both have the following objectives common to them: sustainable economic growth, price stability, full employment equilibrium and balance of payment equilibrium.

Assessment



Assessment

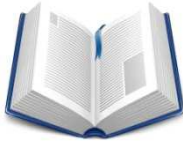
SAQ 9.1 (tests Learning Outcome 9.1)

What are the tools of monetary policy in Nigeria?

SAQ 9.2 (tests Learning Outcome 9.2)

Explain how fiscal policy can be used to regulate economic activities in Nigeria.

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Notes on SAQs

SAQ 1.1

Applied Economics is the application of economic theories and analysis. It involves the application of economic theories and principles to solve real life problems. It is the application of basic economic assumptions toward solving real life problems. Thus, the focus of Applied Economics is on real world problems – using economic theories and principles to clarify why and how things have happened the way that they have.

SAQ 1.2

The relevance of applied economics to any society cannot be over-emphasised. This is because many fundamental problems that are plaguing the growth and development of society are not only solved but concerted efforts are been made to prevent their reoccurrence. Some of the relevance of applied economics to any society includes:

- Provision of exact and true pictures of issues as they occur: applied economics is a powerful tool that enables the true and complete picture to emerge, so that it becomes possible to decide what to do and where to go from the current position.
- Determination of possible solutions to situation at hand: It is a mechanism that helps to determine the possible steps that can be taken to improve current economic situation. Thus, applied economics helps in examining each aspect of the current economic condition with the aim of providing sound ideas on how to maintain aspects that are working at a reasonable rate of efficiency, and strengthen areas where performance is weak.
- Prevention of reoccurrence of negative situation or at least minimise its impacts: Applied economics helps in teaching valuable lessons on how to avoid the recurrence of a negative situation, or at least minimize the impact.

SAQ 1.3

Applied economics deals with awareness creation and analysis of key contemporary economic or public policy issues of our time. Thus, some of the key contemporary economic/public policy issues are:

- ✓ economic growth and development
- ✓ developmental challenges in developing countries
- ✓ factors influencing economic growth and development

SAQ 2.1

Developing countries simply refers to countries that are poor in nature. These countries are sometimes called underdeveloped economics. They are countries that are tending towards development. Different criteria are used to classify countries as being developing, with per capita income mostly and commonly used to define developing world. However, multilateral organisations such as Organisation for Economic

Cooperation and Development (OECD), United Nations (UN), World Bank and United Nations Development Programme (UNDP) usually use three main criteria to describe countries as developing, these are;

Gross National Income (GNI): this involves classification of countries into low income, lower middle income, upper middle income, high income OECD and other high income countries. Thus, developing countries are those with low, lower middle or upper middle incomes. These countries are usually grouped by their geographic region. For examples such countries include East Asia and the Pacific, Europe and Central Asia, Latin America and the Caribbean, South Asia and sub Saharan Africa. The per capita gross national incomes in these countries are extremely low.

International indebtedness: The classification involves defining development, using different degree of countries indebtedness like severely indebted, moderately indebted and less indebted economies.

Level of human development: Lastly, the United Nations Development Programme (UNDP) defines developing countries according to their level of attainment, in the human development indicators like good health status, high literacy level and other socio-economic indices.

SAQ 2.2

There are many characteristics that developing countries share that helps to define their lack of development. Below are some common characteristics among developing countries;

- low standards of living,
- low income,
- high infant mortality,
- malnutrition
- lack of access to basic goods and services such as water and shelter,
- low level of productivity,
- shortage of physical capital needed to match production,
- chronic absolute poverty,
- high level of unemployment,
- unfavourable balance of payment,
- high international debt
- presence of inequality,
- poor health
- inadequate education etc

SAQ 2.3

Having explored some of the commonly shared characteristics among the developing countries of the world, there exists certain structural difference among these set of countries that constitutes developing economies. These differences include among others:

- the size of the country;
- the historical and colonial background;
- physical and human resources;
- ethnic and religious makeup;

- the nature of industrial structure;
- degree of dependence on external economic and political forces,
- the distribution of power and the institutional and political structure within the nation.

SAQ 3.1

Agriculture can be defined as the science and art of producing plants and animal products for the use of man and industry. It also includes the processing and marketing of agricultural products. Agriculture has contributed tremendously to the growth and development of the Nigerian economy. It is not a gain saying that agriculture still remains the mainstay of the Nigerian Economy. The sector has contributed to the economy in the following ways:

- Agricultural sector is the primary source of employment in the country: This sector has employed nothing less than 70 –80 per cent of the country's labour force. Although the percentage of the population that engaged in agriculture has declined over the years due recent improvement and development in the other sector. Yet this sector still remains the primary source of employment in the country.
- Foodstuffs provision for the teeming population: It is not doubt that bulks of the foodstuffs available in the economy are products of the sector.
- It serves as a major source of export: This is carried out through the exportation of principal primary commodities, which will increase Nigeria's foreign exchange earnings and which can be used to finance a variety of developmental projects.
- It contributes to the growth of the country's GDP: Agricultural sector makes a substantial contribution to the total tax revenue, as well as having important implications for inter-sectoral terms of trade.
- Provision of raw materials to other sectors of the economy: Raw material like cotton, latex from rubber trees, cashew oils and nuts etc which are mostly used by industrials sectors are made available by agricultural sector. Also, the sector has the potentials of releasing labour to the modern sectors of the economy.
- It helps in capital formation: Savings generated from the agricultural sector can be mobilised for development purposes while increase in rural income as a result of increasing agricultural activities can further stimulate the industrial sector by creating additional demand for the products of the 'modern' sectors.

SAQ 3.2

There are several problems confronting agriculture in Nigeria. Some of these problems are:

- The rapid shift of the population from rural to urban areas and the shift in consumption patterns from local to imported food items.
- The oil boom, policy inconsistency, and the decline in political commitment to agricultural and rural development.

- Inadequate incentive framework and pervasive distortions in the macro-economy.
- Absence of a price support mechanism and pervasive distortions in macro-economic and sectoral policies, including misaligned exchange rates and heavy taxation of agricultural exports.
- Continued dependence on rain-fed agriculture and the absence of economies of scale.
- A land tenure system that inhibits the acquisition of land for mechanised farming.
- Inadequate agricultural extension services and the lack of indigenous agricultural capacity or technologies responsive to local conditions.
- Finally, a degraded environment that has reduced agricultural yields.

SAQ 4.1

The objectives of Industrial policies in Nigeria include the following:

- ensuring rapid expansion and diversification of industrial sector of the economy;
- increasing income realised from industrial activities;
- creation of more employment opportunities;
- promoting even development and fair distribution of industries in all parts of the country;
- raising the level of intermediate and capital goods production;
- promoting indigenous manpower development in the industrial sector;
- raising the proportion of indigenous ownership in aggregate industrial investment in the country among other things.

SAQ 4.2

Over the years, Nigerian government has experimented different kinds of incentives aimed at boosting the performance of the industrial sector. Some of the incentives which have been provided for industrial investors in Nigeria include:

- Tax Holidays
- Import Duty Relief:
- Depreciation Allowances:
- Prohibition of Dumped and Subsidised Goods
- Granting of tax reliefs
- Provision of export development fund to assist companies
- Giving of export expansion grants
- Rehabilitation and expansion of existing infrastructure,
- Establishing Bank of Industry (BOI)
- Banning the importation of some products considered harmful.

SAQ 4.3

The significance of industrialisation to any nation, including Nigeria cannot be overemphasised. This is because a nation cannot develop beyond its level of advancement in terms of industrialisation. Thus, the

relevance of industrialisation to the Nigerian economy is discussed below.

- Industrial sector forms an important index that explains Nigerian GDP's performance. Relevant statistical data explained that, the sector contributed to Nigerian GDP up to the tune of 5.8% in 1960. It was 19% in 1970, 34% in 1980, 43% in 1990, 37% in the year 2000 and 20% in 2005. A closer examination of the above values reveals that the sector recorded its highest contribution in 1990 and lowest in 1970.
- Industrial sector contributes positively to the economy of Nigeria by creating employment opportunities for the unemployed Nigerians.
- It also brings about economic growth and development. The sector drives growth in infrastructural developments

SAQ 5.1

Education in Nigeria is the shared responsibility of the federal, state and local governments. The Federal Ministry of Education plays a dominant role in regulating the education sector, engaging in policy formation and ensuring quality control. However, the federal government is more directly involved with tertiary education than it is with school education, which is largely the responsibility of state (secondary) and local (primary) governments. The education sector is divided into three sub-sectors: basic (nine years), post-basic/senior secondary (three years), and tertiary (four to seven years, depending on the major or course of study). Education in Nigeria is provided by public and private institutions.

According to Nigeria's National Policy on Education (2004), basic education covers education given to children 3-15 years of age, which includes pre-primary programs (ages three to five), and nine years of formal (compulsory) schooling consisting of six years of primary and three years of junior secondary.

Post-basic education includes three years of senior secondary education in either an academic or technical stream. Continuing education options are provided through vocational and technical schools.

The tertiary sector consists of a university sector and a non-university sector. The latter is composed of polytechnics, monotronics and colleges of education. The tertiary sector as a whole offers opportunities for undergraduate, graduate, vocational and technical education. There are currently (2011) 117 federal, state and private universities accredited in Nigeria as degree-granting institutions. Information on all accredited universities is available on the National University Commission's website. The academic year typically runs from September to July. Most universities use a semester system of 18 – 20 weeks. Others run from January to December, divided into 3 terms of 10 -12 weeks.

Annually, an average of 1.5 million students take the Unified Tertiary and Matriculation Examination (UTME) for entrance into Nigerian universities, polytechnics and colleges of education. Universities have the capacity to absorb less than 40 percent of these test takers. The other 60 percent tend to go to their second and third choice categories of institutions—polytechnics and colleges of education. Many Nigerian students also apply to institutions abroad. In 2011, 40 percent of the

students who sat for the UTME made the minimum cut-off grade of 200 (out of 400) for entry into Nigerian universities.

SAQ 5.2

Health and education are closely related in the process of economic development. The link between these social services (education, and health) can be captured by their roles toward growth and development of any nation. The benefit of these services in the development of any nation cannot be over-emphasised. Education raises the standard of living of the people; it brings about improvement in the quality of health, facilitates access to quality paid jobs; enhances the productivity level of the entire nation and also facilitates social and political participation of the people.

There exist a close connection between health and economic development. Investments in health are rewarded through time by streams of benefits from greater vitality and productivity at work and by reduced absenteeism and longer working life. Aboyade (1981) asserts that subsisting in a strongly unhealthy environment is coterminous with chronic or sustained long illnesses, which obviously limit the range and intensity of economic activity. Low outputs and incomes contribute to poor nutrition, which further enhances the rate of morbidity and mortality. A longer life raises the return to investments in education; better health at any point during working life may in effect lower the rate of depreciation of education capital. On the other hand, greater education capital may improve the return to investments in health because many health Programme rely on basic skills often learnt at school, including hygiene and sanitation, not to mention basic literacy and numeracy; education is also needed for the formation and training of health personnel

SAQ 6.1

Population simply refers to the totality of the people living in a country. It can also be defined as the total number of people inhabiting in a particular geographical location or place. The study of population is important because it involves people and their welfare. The 'people' is an important component and a vital part of the economic system. They are the suppliers of labour, consumers who are the ultimate beneficiaries of the products of development. These are the reasons why it is desirable to know the number of people in geographical area (total population), what their ages are (age distribution), how many are male and female (sex distribution), where they live (geographical or spatial distribution), what jobs they are doing (occupational distribution), etc. These are part of the reasons why population censuses or head counts are conducted at regular intervals.

The difference between developing and developed nations in terms of rates of population growth can simply be explained by looking at the major determinants of population growth, which are birth rate, death rate and migration rate.

Birth rate constitutes a plus on the rate of population growth. The birth rate is measured as the number of babies born or births per thousand people.

Death rate represents a negative on the population because it represents the number of people dying per thousand.

Migration could either be a plus or a minus. It constitutes a plus where there is a movement into a country (immigration), and it is a minus when there is a movement outside the country (emigration). All these phenomena have implications for a country's economic progress and development either in the short run or in the long run.

Other conceptual issues relating to population are;

Optimum Population: This is the population size giving the existing resources, institutional conditions and technology, produces the maximum output or highest living standards.

Overpopulation: This is said to occur when the number of people in a country exceeds the optimum population.

Under population: This describes a situation whereby prevailing population is less than the optimum level. The problem is that of inadequate human resources to optimally harness or utilise the available economic resources.

SAQ 6.2

Equilibrium (Natural) Unemployment: This refers to the difference between those who would like employment at the current wage rate and those willing and able to take a job. That is, it is the difference between those who would like to be employed at the current prevailing wage rate and those who are willing, ready and able to work. The inherent problem here is problem of mismatching. For instance, there may be vacancies for computer technicians and unemployment in the steel industry, but unemployed steel workers cannot immediately become computer technicians. There are various types of equilibrium unemployment, which include:

- i. Frictional (search) unemployment
- ii. Structural unemployment
- iii. Seasonal unemployment

Disequilibrium Unemployment: This on the other hand refers to unemployment that result from real wages in the economy being above the equilibrium level. There are three possible reasons that could make the actual average wage rate to be above the market equilibrium wage rate. These are:

- if the wage rate is pushed up above the equilibrium;
- if there is a fall in the aggregate demand for labour with no corresponding fall in the wage rate; and
- if there is an increase in the aggregate supply of labour with no corresponding fall in the wage rate.

However, each of these three scenarios causes gives rise to a distinct type of disequilibrium unemployment.

- i. real wage or classical unemployment;
- ii. demand-deficient or cyclical unemployment;
- iii. growth in the labour supply.

The Malthusian Theory of Population

An Englishman, Reverend Thomas Malthus, postulated a theory that describes the relationship between population growth and economic development. While hinging on the concept of diminishing returns, he postulated a universal tendency for the population of a country to grow at a geometric rate, if it is not checked by dwindling food supplies. Due to diminishing returns to the fixed factor e.g. land, food supplies could expand only at a roughly arithmetic rate. Reason for this is that since land is a fixed factor input, the marginal contribution to food production would eventually decline. Thus, he contended that the only way to avoid this situation of chronic low levels of living or absolute poverty was for people to engage in “moral restraint”.

However, this theory was subjected to some critical condemnation. Some of the criticisms levelled against Malthusian model include the following:

- His model does not take adequate account of the role and impact of technological progress;
- The model is based on a macro-relationship between population growth and levels of per capita income that does not stand up to empirical verification;
- It is based on a wrong variable of per capita income as a key determinant of population growth rates.

Demographic Transition Theory

This model attempts to explain the facts that all economies of the world whether developing or developed, must pass through the same three stages of modern population history. These stages are discussed below;

First stage: these countries had stable or very slow growing population resulting from a combination of high birth rates and almost equally high death rates. This implies that this stage is characterised by high birth rate and high death rate.

Second stage: these was a transition from stable or slow growing populations first to rapidly increasing numbers and then to declining rates. This was as a result of better public health methods, healthier peoples, higher incomes, and other improvements. In other words all the foregoing led to a marked reduction in mortality rate that gradually raised life expectancy.

Final stage: forces and influences of modernisation and development caused the beginning of a decline in fertility; eventually falling birth rates conversed with lower death rates, leaving little or no population growth.

SAQ 6.4

The negative impact of increasing population to any economy, particularly developing countries include the following:

- i. Increasing Population growth tends to lower per capita income growth of the affected countries. This remains a common phenomenon in most less developed economies.
- ii. An increasing large family size, for example, perpetuates poverty and exacerbates inequality.

- iii. It lowers most times the opportunities of parents to educate all their children. Thus, quality of education is affected by increasing population growth.
- iv. High population growth poses some hazards to mothers' health. For example, closely spaced births have been shown to reduce birth weight and increase child mortality rates.
- v. Feeding the world's population is becoming more difficult due to rapid population growth.
- vi. Population growth contributes to environmental degradation in the form of forest encroachment, deforestation, fuel-wood depletion, etc.
- vii. High and rising increase in international migration, either legally or illegally, has been attributed to developing countries population growth.

SAQ 7.1

Economic Growth is a narrower concept than economic development. It is an increase in a country's real level of national output which can be caused by an increase in the quality of resources (by education etc.), increase in the quantity of resources & improvements in technology or in another way an increase in the value of goods and services produced by every sector of the economy. Economic Growth can be measured by an increase in a country's GDP (gross domestic product).

Economic development is a normative concept i.e. it applies in the context of people's sense of morality (right and wrong, good and bad). The definition of economic development given by Michael Todaro is an increase in living standards, improvement in self-esteem needs and freedom from oppression as well as a greater choice. The most accurate method of measuring development is the Human Development Index which takes into account the literacy rates & life expectancy which affects productivity and could lead to Economic Growth. It also leads to the creation of more opportunities in the sectors of education, healthcare, employment and the conservation of the environment. It implies an increase in the per capita income of every citizen.

Economic Growth does not take into account the size of the informal economy. The informal economy is also known as the black economy which is unrecorded economic activity. Development alleviates people from low standards of living into proper employment with suitable shelter. Economic Growth does not take into account the depletion of natural resources which might lead to pollution, congestion & disease. Development however is concerned with sustainability which means meeting the needs of the present without compromising future needs. These environmental effects are becoming more of a problem for Governments now that the pressure has increased on them due to Global warming.

Economic growth is a necessary but not sufficient condition of economic development.

SAQ 7.2

GDP per capita is obtained when gross domestic national product is deflated (divided) by the total number of people in a country. The use of GDP as a growth measure has the following inherent problems:

- i. GDP per capita does not provide relevant information relating to the income distribution in a country;
- ii. GDP per capita does not take into account negative externalities from pollution consequent to economic growth;
- iii. GDP per capita does not also take into account positive externalities that may result from services like education and health; and
- iv. GDP per capita excludes the value of both economic and non-economic activities that take place outside the market place such as cost-free leisure activities like cycling.

Sequel to these identified problems and limitations, various indicators have been developed to compensate for such limitations of economic growth measurement. The main development indicator used is the Human Development Index (HDI). It was developed by United Nations Development Programme (UNDP) to measure the economic achievement in combining economic growth as well as social welfare. The HDI measures the average achievement in a country in three basic dimensions of human development. Hence it is a comparative measure for countries worldwide. The three basic dimensions of human development include:

- Life expectancy;
- Education, as measured by adult literacy rate;
- Standard of living as measured by GDP per capita

HDI is essentially a score between zero and one. A score of zero would mean no human development has taken place and a score of one is the maximum amount of human development. Thus, it is possible however that a nation may have a higher GDP per capita ranking than its HDI ranking, this simply suggests that there is a very high level of inequality i.e. high income levels are taking and enjoying by a small proportion of the population as we have in Nigeria.

SAQ 7.3

Income inequality refers to a situation where there is existence of disproportionate distribution of total national income among households whereby the share going to the rich in a country is far greater than the share going to the poor. Poverty on the other hand, is a relative concept that describes set or group of people in a society that cannot participate in the activities that most people partake in. Poverty may be seen as the collective condition of a group of poor people or of poor groups, or sometimes, the entire nation state may be regarded as poor. To avoid stigma, these nations are usually called developing nations. When measured, poverty may be absolute or relative.

Various meaning and interpretations have been given to the concept of poverty, and these include:

- i. Description of material need, typically including the necessities of daily living, (food, clothing, shelter and healthcare). Poverty in this sense may be understood as the deprivation of essential goods and services;

- ii. Description of social relationships and need including social exclusion, dependency and the ability to participate in society. This would include education and information;
- iii. Description of a lack of sufficient income and wealth. The meaning of sufficient income and health varies widely across the different political and economic parts of the world.

SAQ 7.4

Poverty dimension relates to the ways through which poverty can be measured in any society. And the most prominent measures are absolute poverty and relative poverty.

Absolute poverty relates to a consistent set of standards over time and between countries. Individuals are been compared against this standard so as to determine the proportion of individuals that fall below this baseline. These methods are most useful when determining the amount of poverty in any society. This form of poverty measure has the following components;

- A. **Poverty line:** This is a measure of the level of income necessary to subsist in a society. It varies from place to place and from time to time, depending on the cost of living and people's expectations. It is usually defined by government and calculated as that level of income at which a household will devote two-thirds (to three quarters) of its income to basic necessities such as food, water, shelter and clothing;
- B. **Poverty index:** This index was developed by Amartya Sen. It takes into account both the number of poor and the extent of their poverty. Sen, defined the index as:

$$I = \left(\frac{P}{N} \right) \left(\frac{B - A}{A} \right)$$

Where P = the number of people below the poverty line

N = total number of people in society

B = Poverty line income

A = Average income of those people below the poverty line

Other indicators of absolute poverty include: Life expectancy and child mortality.

Relative poverty on the other hand views poverty as socially defined and dependent on social context. In this case, the number of people counted poor will increase while their income rises. The relative measurement will be to compare the total wealth of the poorest one-third of population with the total wealth of the richest one percent of the population. Thus, relative income measures compare the income of one individual or group with the income of another individual or group.

Thus, the major difference between absolute and relative poverty lies on the fact that absolute poverty deals with complete lack of resources to sustain life, while relative poverty refers to the inadequate lack of income when compared to the average standards living. As such, relative poverty

implies that the individual has the ability to sustain his or her basic needs, but may lack the resources to engage in various social activities.

SAQ 7.5

Causes of poverty

- a. Unemployment or having a poor quality (i.e. low paid or precarious) job as this limits access to a decent income and cuts people off from social networks;
- b. Low levels of education and skills because this limits people's ability to access decent jobs to develop themselves and participate fully in society;
- c. The size and type of family i.e. large families and lone parent families tend to be at greater risk of poverty because they have higher costs, lower incomes and more difficulty in gaining well paid employment;
- d. Gender - women are generally at higher risk of poverty than men as they are less likely to be in paid employment, tend to have lower pensions, are more involved in unpaid caring responsibilities and when they are in work, are frequently paid less ;
- e. Disability or ill-health because this limits ability to access employment and also leads to increased day to day costs;
- f. Being a member of minority ethnic groups and immigrants/undocumented migrants as they suffer particularly from discrimination and racism and thus have less chance to access employment, often are forced to live in worse physical environments and have poorer access to essential services;
- g. Living in a remote or very disadvantaged community where access to services is worse.

Consequences of Poverty

Poverty has far reaching consequences on the society. People suffering from poverty will generally have a low standard of living. They are not able to afford education and lack access to health care and education. This will lead to a low quality of human capital and thus compromise economic growth.

Poverty takes a toll on poor children's development. For example, poverty causes malnutrition which would affect the development of a child's mental thinking and healthy body.

Poverty may also lead to political instability and lead to increased risk of war, mass emigration of population and terrorism

SAQ 7.6

Poverty is passed from one generation to the next. Eliminating poverty should be initiated with a concentrated effort to provide each man, woman and child with that what is fundamental for human welfare and improvement: education, health care, drinking water, sufficient nourishment, shelter, and sanitation. Individual attention should be given to the most defenceless categories of society: children, women, and the aged, with priority to make sure that they get the attention and aid required to build up their own life. Through our work and government at all levels, there should be plan that gives children, families and

communities the tools they need to break the cycle of poverty. These tools include:

1. With a quality education, children will get the knowledge and life skills they need to realize their full potential. Education is essential in creating change in a child's life. Plan helps by training teachers, building new schools and breaking down barriers that prevent many children and girls in particular, from attending school.
2. Access to health care is essential. Plan helps communities build health clinics, train health care workers and invest in equipment and medicine so children can grow up healthy and strong.

SAQ 8.1

International cooperation and dependence among nations which is facilitated through international trade has been of tremendous benefits to not only the countries that engaged in it, but has also made those countries that are yet to be involved in this global crusade, to realise that they have actually missed a lot for not engaging in it. Several reasons have been put forward to defend the emergence of international trade. Some of these rationales include;

- No country is self-complacent,
- Natural resources are not evenly distributed,
- Difference in climatic factors,
- Need to foster unity and cooperation among nations etc.

No Country is self-complacent: This explains the fact that no country in this world can produce all the goods and services needed for survival. Hence, the need to produce all those goods he/she can and then exchange with other countries products that he/she cannot produce.

Natural resources are not evenly distributed: Variation in the natural resource endowment across countries makes it possible for a particular country to produce that goods and services whose resources are readily available in their territory. Later, this will be exchanged with other countries productions that he/she lacks the required resources.

Difference in climatic factor: While some countries are endowed with better climatic conditions which make it possible for such countries to produce particular types of goods, others are not. Hence, the reason why countries only succeeded in producing that goods and services in which their climatic conditions support. Thus, this is later exchanged with goods and services coming from other countries that cannot be produced locally due to climatic variation.

Need to foster unity and cooperation among nations: International trade has helped to promote unity, cooperation, spirit of oneness and togetherness among countries of the world. With the exchange of goods and services among countries, this has made the whole world a global village where interaction and cooperation among one another is highly essential if meaningful growth and development were to be achieved.

Water and sanitation are essential for every child's survival. Every year, Plan helps communities build school latrines, community water points

and helps to establish organizations to ensure the continued management and maintenance of water points.

Plan works to overcome poverty by helping communities around the world gain the economic security they need to thrive. Plan is training people living in poverty to acquire the skills and knowledge they need to secure a livelihood, and support their families.

Plan helps children learn their rights and take active roles within their community. Child participation helps children engage in citizenship, express their views and make decisions that will shape their future and influence the people around them.

SAQ 8.2

Absolute Advantage Theory

A country has an absolute advantage in the production of a good when it can produce more of that good than another country with the same resources. It refers to a country's ability to produce a certain good more efficiently than another country. According to Adam Smith on his book of "The wealth of Nation" (1776). He have mention about an absolute advantage as advantages of grater output of goods & services when other nations cannot produce same amount of goods and services while utilizing same amount of resources. He refers an example as giving the Absolute advantage of English textile manufacture & the French worldwide efficient wine Industry. Due to the presence of favourable climate, good soils, Accumulated expertise the French has the most efficient wine among the world. This indicates that the specialization on nation Advantage is more beneficial in today globalization worlds.

Smith expresses an idea that a nation never supposed to produce goods and services which they can find cheaper and qualitative from other nations. Therefore, specialization in the production of goods and services which they have an absolute advantage will help two different nations engaging on their trade. So when a country specialize in particular kind of products they don't supposed to produce all kinds of products which all it consume and utilize all kind of resources as well. According to the absolute advantage theory, international trade is a positive-sum, because there are gains for both countries to an exchange. USA has an absolute advantage for producing Wheat. China has an absolute advantage for producing electronic goods. India has an absolute advantage on cheap labour etc.

Comparative Advantage Theory

A person or country has a comparative advantage if s/he can produce something at a lower cost than others. Comparative advantage refers to a country's ability to produce a particular good with a lower opportunity cost than another country. Opportunity cost refers to what you sacrifice in making an economic choice. In this instance, it refers to the value of the goods you sacrifice in deciding to produce one good instead of another. It can also be explained as the loss of potential gain from other alternatives when one alternative is chosen. Thus, the ability of a firm or individual to produce goods and/or services at a lower opportunity cost than other firms or individuals. A comparative advantage gives a company the ability to sell goods and services at a lower price than its

competitors and realize stronger sales margins. Comparative advantage is the basis for all trade between individuals, regions, and nations.

A famous economist named David Ricardo (1772-1823) came up with the law of comparative advantage. According to this law, specialization and free trade benefits all trading partners. Thus, Countries should specialize in those goods they have a comparative advantage in. With Comparative Advantage, everyone wins through trade. Those with absolute advantages can buy goods and services from businesses who produce them at a comparatively lower cost.

SAQ 9.1

Jhingan (1997) defines monetary policy as nothing but the policy of the monetary authority of a country with regard to monetary matters. In the words of Olaloku (1987), monetary policy consists of actions by the government which are aimed at the achievement of a certain set of economic objectives. With these definitions, we can conclude that monetary policy involves measures designed to regulate and control the volume, cost, availability and direction of money and credit in an economy to achieve some specified macroeconomic policy objectives.

In Nigeria, the responsibility of conducting monetary policy squarely lies with the Central Bank of Nigeria as outlined in the Central Bank Act of 1958 (and its subsequent amendments), the CBN Decree No. 24 of 1991 and the Banks and other Financial Institutions Decree (BOFID) No. 25 of 1991. The CBN is enjoined by these laws to promote monetary stability and a sound financial system in Nigeria under the overall guidance of the Federal Government of Nigeria.

Tools of monetary policy can be classified into direct monetary control instruments and indirect monetary control instruments.

The direct monetary control instruments include:

- Interest rate control
- Credit ceiling measures
- Direct lending, moral suasion, etc.

On the other hand, the indirect instruments, which are also referred to as the traditional instruments of monetary policy, are:

- Open market operation (OMO)
- Reserve requirement
- Discount rate policy

A. Open Market Operations (OMO): OMO is the sale or purchase of government securities in the open market often at the initiative of the Central Bank. It was introduced by the end of June, 1993. If the Central Bank buys securities, their price rise, interest rates fall, and the money supply increases. If the Central Bank sells securities their prices fall, interest rates, and the money supply decreases.

B. Reserve Requirement: This is the minimum percentage of the total assets which banks and other financial institutions are required to hold in money balances, or in some form of highly liquid assets. If the Central

Bank target is to reduce the amount of money in circulation, it increases the reserve requirement ratio of the commercial banks. On the other hand, a decrease in the ratio means that the banking system can increase its loans and investments and possibly hold excess reserves.

C. Discount Rate Policy: This is a tool of monetary policy designed to influence the cost at which commercial banks can borrow from the Central Bank. If the discount rate is increased, the Central Bank credit to the commercial banks reduces. When the Central Bank wants to expand the money supply, it decreases the discount rate.

SAQ 9.2

Fiscal policy can be defined as the use of government taxes, government transfers, or government purchases of goods and services to shift the aggregate demand curve. Discretionary Fiscal Policy is said to take place when government takes deliberate actions through legislation to alter spending or taxation policies.

Fiscal policy can be either be expansionary or contractionary fiscal policy.

Expansionary Fiscal Policy

This occurs when the economy is in recession, and government wants to increase aggregate demand (AD). This can be carried out through;

- Tax cut: increases consumers disposable income
- Increase in government spending: directly shifts the AD curve

Contractionary Fiscal Policy

This occurs when economy is suffering from inflation and government wants to decrease AD. This can be achieved through;

- Tax increase: decreases disposable income of consumers
- Decrease in government spending: directly shifts the AD curve left

Tools of Fiscal Policy

Changes in government spending

- Can increase spending in normal budgetary programs (health, education, welfare, etc.)
- Can increase spending on infrastructure (underlying economic foundation of goods and services that allows a society to function e.g. build roads, schools, communication systems)
- Added advantage of increasing capital goods in economy which can shift AS in the future

Changes in taxation

- Raise or lower personal and corporate income taxes and/or sales and excise taxes
- Alter tax exemptions or tax credits
- Provide special tax incentives for investment (Capital Cost Allowance)

Automatic Stabilizers

- Exist and act on AD before a recession or inflationary trend takes hold
- Employment insurance and welfare: increased payments during times of economic downturns; Help to maintain incomes during recessions (maintain spending) and helps to either slows the leftward shift of AD or shifts curve right.
- Progressive tax: as incomes rise, taxes rise ; Slows down increases in consumption and Stops AD curve from shifting too quickly to the right.

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Appendixes

Appendix A

Article

Appendix B

the extract from TEE102 by I.O Osokoya. (Appendix B),