CAPITAL FORMATION: IMPACT ON THE ECONOMIC DEVELOPMENT OF NIGERIA 1960-2013

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ABSTRACT

This paper examined the capital formation: impact on the economic development of Nigeria, using time series data from 1960 to 2013. The paper applied Harrod –Domar model to Nigerian economic development model and tested if it has a significant relationship with Nigerian economy. The paper explored various econometrics and statistical analytical (.i.e., Eview 7.2) method to examine the relationship between capital formation and economic development. The paper tested the stationarity and/or different diagnostic tests of Nigeria's time series data. The entire tests rejected the null hypothesis and accepted the alternative hypothesis. From the empirical findings, it was discovered that there is a significant relationship between capital formation and/or economic development in Nigeria. The results corroborated with the Harrod-Domar model which proved that the growth rate of national income will directly be related to saving ratio and/or capital formation (i.e. the more an economy is able to save-and—invest-out of given GNP, the greater will be the growth of that GDP). The paper recommended based on the econometric results that the government should continue to encourage savings, create conducive investment climate and improve the infrastructural base of the economy to boost capital formation and hence promote sustainable growth.

Keywords: Capital formation, Economic development, investment.