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[THE EFFECT OF GLOBAL FINANCIAL CRISIS ON THE NIGERIAN ECONOMY]

A dissertation submitted in partial fulfilment of the requirements of the Royal Docks Business School,
University of East London for the degree of **[MBA INTERNATIONAL BUSINESS]**

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Abstract

The focus of this research work is to study and determine the effects of the global financial crisis on the key sectors Nigerian economy.

The critical review of literature concentrated on understanding the genesis of the crisis, types of financial crisis that could possibly plague any economy in the world, factors that contributed to its spread over the world, economic models adopted by countries to mitigate or insulate their economies from its heinous impact as well as lessons for future reformatory policies that would guide and help economies to thrive and grow, irrespective of whatever negative effect that may occur.

Secondary data was obtained through Google Alerts and Google Trends over a period of two months to attract worldwide feedback on effect of financial crisis in Nigeria by email. Further probing of data obtained was done by conducting a qualitative review of literature by searching popular press, trade literature, academic literature and some published statistics from governmental agencies, research firms and regulatory bodies for data and insight into the problem at hand.

The findings showed that indeed the global financial crisis had a negative impact on the economy of Nigeria as evidenced by its effect on several economic variables studied namely; Gross Domestic Product, Unemployment rate, Inflation rate, Interest rate & Monetary Policy and the Exchange Rate.

Conclusively, this research has shown without any doubt that the global financial crisis had multiplier effects on the Nigerian economy that translated through each sector negatively. It was also established that the major transmission channel of this global financial contagion was the interdependence of Nigeria's economy on other economies of the world.

CHAPTER ONE

1.0 Introduction

In order to lay a solid premise to determine the impact of the global financial crisis on the economy of Nigeria, (Ojo & Ajayi, 2012) argue that it is expedient to have a sound understanding of the concept of financial crisis and how globalization has contributed positively or negatively to this global concept. Having a grasp of the different sectors that constitute an economy and the different types of financial crisis that may occur to any country or economy is also instructive and helpful for planning and formulation of policies that can mitigate the effects thereof. These amongst other topics will be adequately examined in the critical review of literature chapter which would be immediately followed by the research methodology chapter. The research methodology portion of this report would dove-tail into the discussion of findings of the field survey as well as analysis of data collected while this research thesis would be concluded with valid submissions and recommendations based on facts obtained from the field.

1.1 Background of Study

The term financial crisis refers to a condition in which financial institutions or assets experience a rapid depreciation as a result of fright on the banks. This situation leads to sell off of assets and mass withdrawal of money from their savings account due to the belief that the value of these assets will run down if they left in care of the financial institution (Investopedia, 2014) and (Pstebayeva, 2012) This definition is further substantiated by (Kindleberger & Aliber, 2005) as they assert that the term financial crisis is applicable to a range of circumstances in which the nominal value of some financial assets suddenly depreciate. In the same manner, (Onyukwu, 2009) aptly describes financial crisis as a condition in which some financial institutions or

assets suddenly experience a drastic run-down of their value. These situations according to them were often associated with banking panics, stock market crashes, currency crises, sovereign defaults as well as the bursting of other financial bubbles.

However, before a phenomenon or situation such as a financial crisis that emanated or originated within a local construct can become global in nature, there has to be some level of mutual interaction and interdependency between countries and nations in general. In recent interviews by (Naude & Sen, 2008) in (Shah, 2008), it was revealed that, the complex economic linkages between different countries has created a framework for interdependencies between all nations. It was observed that countries of the world have over thousands of years progressed through travel, trade, migration, spread of cultural differences and dissemination of knowledge and understanding. This interdependency is premised on the concept of globalization which involves increase in flow of capital, goods, resources and knowledge across national divides in order to create a sustainable and complementary set of organizational structures to manage the expanding network of international economic activity and transactions (Alcorta & Nixon, 2011). In the submissions of the authors, the multi-faceted process of economic revolution has invariably facilitated better integration of national economies through processes such as liberalization of trade, deregulation of the financial sector and liberalization of capital account as well as flows of foreign direct investment (FDI) through Transnational Corporations (TNCs). It is also worthy to note that, as a result of globalization, there has been improved market access. This improvement according to (Alcorta & Nixon, 2011) has opened up new prospects to low and middle income countries through increase in flows of foreign direct investments. This experience has ultimately given the low and medium income countries an opportunity to integrate into Global Value Chains (GVCs) or Global Production Networks (GPNs) and accelerated technology transfer vis-à-vis product and process technologies (Alcorta & Nixon, 2011).

In a similar vein, (Shah, 2008) posits that globalization has dramatically altered the mode of interaction of nations, people and companies of the world. This according to him has seen nations witnessing an explosion in communications technology. This in effect implies that at an instant, we are able to have access into the cumulative knowledge and experience of people, communicate without borders, and transmit news and events instantly, from anywhere in the world globally. The author finally submits that globalization has provided the need environment for free flow of capital between nations which has given rise to greater prospects for investments and financial trades. It indeed accounts for the radical and incredible growth in international trade (Shah, 2008).

1.2 Statement of problem

Even though benefits such as; international immigration of labour, shared transfer of funds which have become a major income source for many developing countries, has been identified by (Alcorta & Nixon, 2011) as being reasons why globalization holds great promise for the world economy, it has brought her share of challenges with the global interdependence of nations. In the submissions of (Alcorta & Nixon, 2011), the authors affirm that the increase in economic interdependence between national economies inevitably leads to a higher level of susceptibility of these economies to worldwide financial distress. This according to the authors is a situation usually outside the control of individual countries. Thus, as a result of unpredictable and erratic nature of policy making in the larger, more powerful developed capitalist economies; developing countries risk the danger of being entrapped to the business cycle and financial sector conditions of these developed economies. Sadly also, the rapid growth and expansion witnessed owing to globalization has not been accompanied by the appropriate mechanisms and institutions of global economic governance that would correct imbalances, address market failures, carefully anticipate disequilibria, coordinate and regulate international flows of goods, services and capital i.e. foreign direct investments and portfolio flows (Alcorta & Nixon, 2011).

In the same vein, (Dullien, et al., 2010) in their work submitted that economic and more importantly; financial globalization has the potential of making developing countries highly vulnerable to any negative exogenous shocks from global financial markets. The crisis can spread quickly and painfully which can result in high social costs to countries that had nothing to do with igniting such financial crisis. In effect, globalization requires enhanced global governance just as the roles of business and the state need to be rebalanced at the national levels owing to the fact that the interdependence of national economies is much closer that previously assumed opined the authors.

Therefore, having outlined the pros and cons of globalization, it is worthy to note the genesis of the most recent financial crisis which hit the global economy creating a negative rippling effect round the world as a result of the interdependence of national economies outlined above. The global financial crisis commenced in the United States of America and the United Kingdom in the year 2007 as a result of the meltdown of the United States subprime mortgage market ((Avgouleas, 2008) and Igbatayo, 2011). It initially began as a meltdown of the United States subprime market in the year 2007, but grew to a full blown economic crisis by 2008, wiping out trillions of dollars of financial wealth, undermining global trade and investment and putting the real economy on a course of protracted recession around the world (ILO, 2009; World Bank, 2009; Igbatayo, 2009 in Igbatayo 2011).

1.3 Research Aim and Objectives

Therefore, based on the aforementioned indices, this study seeks to determine the effects of the global financial crisis on the key sectors economy of Nigeria. In order to achieve this fundamental research aim, this study will focus on the achieving the following objectives:

- a. To critically evaluate the transmission channels of the global financial crisis on the Nigerian economy.

- b. To critically analyze the effect of the global financial crisis on key sectors of the Nigerian economy using the three sector economic model vis-à-vis primary sector, secondary sector and tertiary sector.
- c. To determine the short-term and long-term steps and measures taken by the Nigerian government, private organizations and regulatory bodies to mitigate or cushion the effects of the global financial crisis on the economy.

1.4 Research Questions

In order to achieve the primary aim of undergoing this research which is to determine the effect of global financial crisis on the Nigerian economy, the following research question would serve as a guide throughout this project:

What are the effects of the global financial crisis on the key sectors of the Nigerian economy?

1.5 Significance of the study

This study amongst other reasons is being conducted with a view to determine the transmission channels of the global financial crisis. With this, policy makers and regulatory agencies/bodies in the country would be well equipped to guard and guide against future occurrence. Therefore, this study is highly significant now because it would help to proffer measures, critically analyze and identify sustainable strategies that would be adequate to mitigate or manage any future occurrence.

1.6 Limitation of the study

Though the study is focused on the Nigerian economy, conduct of a comprehensive research to determine the effect of the global financial crisis on the economy is an enormous task. Therefore, the researcher is employing the qualitative approach to research.

CHAPTER TWO

Critical Review of Literature

2.0 Introduction

A study of this magnitude will not be all-inclusive without a holistic review of the body of knowledge on the subject of global financial crisis. It is pertinent to understand the genesis of the crisis, types of financial crisis that could possibly plague any economy in the world, factors that contributed to its spread over the world, economic models adopted by countries to mitigate or insulate their economies from its heinous impact as well as lessons for future reformatory policies that would guide and help economies to thrive and grow, irrespective of whatever negative effect that may occur. In order to understand the true nature of the global financial crisis, examining the nature and origin of global crisis that has occurred within the last century is an imperative. For clarity, this section will carefully outline the different global financial crisis that have rocked the world at different times before the most recent global financial crisis otherwise known as the Global Economic Meltdown of 2007-2008 whose effect on Nigeria's economy in particular is the primary focus of this study.

2.1 Genesis of Global Financial Crisis

Financial crisis is a global phenomenon that dates back to over a century ago. It is pertinent to note that wherever systems, or players involved within a system or market are humans, such market or system is prone to vulnerability. Beattie (2008) succinctly affirm that this is a normal phenomena and as such the assumption

posited by economics of having a perfect market where there are no bubbles, crashes recessions may be a mirage after all. In a special report (The Fronteria Post, 2008), it was discovered that at least four major crisis has befallen the world since the last century. They are identified as the Great Depression, Crash of 1987, Crisis of the 1990s and the 1997 Asian Financial Crisis.

2.1.1 The Great Depression - the great depression as it is fondly described remains one of the landmark events in the world that dealt the worst blow to the world economy. According to (Duhigg, 2008) and Garraty (1986), it was a severe worldwide economic depression which occurred just before the Second World War. Even though its timing was varied across different nations of the world, it actually started in 1930 and lasted till late 1940s. It has been recorded as the longest, deepest and the most widespread depression of the 20th century. Due to its impact on the world, it has been taken as a yardstick or standard of how far the world economy can decline. The great depression which pummeled the personal income and tax revenue of individuals and nations respective was noted to have originated from the United States after the fall in stock prices which began around September 4, 1929 and became worldwide news with the stock market crash of October 29, 1929, a day globally renowned as black Tuesday. Black Tuesday with respect to the great depression refers to the day when panicked sellers traded nearly 16 million shares on the New York Stock Exchange (four time the normal volume at a time) and the Dow Jones Industrial Average (DJIA) fell by 12 % - one of the largest drops in history indicative of a sale of more than 16 million shares traded in panic sell-off (www.investopedia.com, www.investinganswers.com). As a result of this event, even though government and business tried to salvage the situation by spending more in the first half of 1930 than in the corresponding period of the previous year, consumers cut back their expenditures by as much as 10% owing to the severe losses suffered in the stock market penultimate year (Vronsky, 1998). By the middle of 1930, the deflation and prolonged reluctance of people to borrow even with the drop in interest rates to all-time low levels, led to drastic reduction in consumer spending and investment.

Furthermore, by the middle of the year 1930, a serious decline was witnessed in automobile sales, prices of commodities dropped though wages were steady. This situation cascaded into worsening farming conditions that resulted in plunging of prices of commodities, unemployment rates increased in mining and logging areas. These series of events in the US economy spiraled into other countries of the world and in effect pulled down their economies. The effect was worsened due largely to the fact the economies of these countries were weak internally. Frantic attempts to shore up the economies of individual nations through protectionist policies, such as the 1930 U.S. Smoot-Hawley Tariff Act and retaliatory tariffs in other countries, exacerbated the collapse in global trade. By late 1930, a steady decline in the world economy had set in, which not reach bottomed until 1933.

2.1.2 [Crash of 1987](#) - Just as the manner that the great depression was christened '*Black Tuesday*' because it occurred on a Tuesday, and incidentally in the month of October; the follow up crisis after the great depression occurred on a Monday in October as well. The day in financial history refers to Monday, October 19, 1987 and has been termed '*Black Monday*'. According to Browning (2007), Black Monday refers to Monday, October 19, 1987, when stock markets around the world crashed leading to shedding a huge in a very short time. The crash he reiterates began in Hong Kong and spread west to Europe, hitting the United States after other markets had already declined by a significant margin. The Dow Jones Industrial Average (DJIA) unlike the great depression of 1929 experienced a greater drop by 508 points to 1738.74 representing 22.68%. Apart from the fact that the crash of 1987 was a major systemic shock to the world financial system, Carlson (2006) notes that the crash tumbled the prices of many financial assets and severely impaired market functioning. The crash left in its wake serious fall in the stock market value across many countries such as Australia which recorded a fall of 41.8%, Hong Kong witnessed a fall of 45.5%, Spain had a fall of 31%, United Kingdom 26.45%, Canada had 22.5% while the worst hit stock market was New Zealand,

which record a phenomenal fall of 60% from its 1987 peak (www2.stats.govt.nz).

2.1.3 [Crisis of the 1990s](#) - This crisis dubbed the Savings & Loans crisis of the 1990s occurred as a failure of over one-third of the savings and loans associations in the United States from 1986 to 1995 (www.wikipedia.org/wiki/Savings_and_loan_crisis). This particular crisis resulted in a recession that lasted from July 1990 to March 1991. An economic crisis recognized to be the largest recession since that of the early 1980s mainly attributable to the workings of the business cycle and restrictive monetary policy in the American and world economies. Some of the causes of the savings and loans crisis of the 1990s include moves by the US Federal Reserves to raise interest rates in the late 1980s and the Iraq's invasion of Kuwait in the summer of 1990. This invasion according to a report by the Regents of the University of California was responsible for the increase in the world price of oil and a decrease in consumer confidence. Corroborating this further, Walsh (1993) affirms that the slowing of the economy relative to trend prior to the actual downturn was due chiefly to restrictive monetary policy and aggregate spending. The latter he noted tightening in nature in mid-1990 and was instrumental to the subsequent decline in GDP during the rest of the 1990.

2.1.4 [The 1997 Asian Financial Crisis](#) - In a 1998 report by Euro-money, the financial crisis that hit the Asian countries comprising of Thailand, Indonesia, South Korea, Philippines, Hong Kong, Malaysia, Singapore and China commenced at the beginning of July 1997. It was a period of financial crisis that gripped most of the East Asian countries in which the level of severity across the countries was a function of the credit bubbles, fixed currency rates, panic amongst lenders and withdrawal of credit. It is interesting to know that though the odds were really positive for these Asian countries up until 1999. The Eastern Asian countries according to an IMF 1998 publication were for years admired as some of the most successful emerging market economies,

owing to their rapid growth and the striking gains in their populations' living standards. With their generally prudent fiscal policies and high rates of private saving, they were widely seen as models for many other countries. It was impossible for anyone to foresee the possibility of these countries suddenly become embroiled in one of the worst financial crises of the postwar period. That said, these countries also attracted about 50% of the capital inflow into developing countries. This was facilitated and enhanced by the regime of high interest rates maintained by the Asian countries which made them really attractive to foreign investors in search of a high rate of return on their investments. As such, the region's economies received a large inflow of money and experienced a remarkable increase in asset prices. At the same time, the regional economies of Thailand, Malaysia, Indonesia, Singapore, and South Korea experienced high growth rates of about 8–12% Gross Domestic Product (GDP), in the late 1980s and early 1990s. This achievement was widely acclaimed by financial institutions including IMF and World Bank, and was known as part of the "Asian economic miracle." (www.imf.org).



Figure 1 - The Countries most affected by the 1997 Asian Financial Crisis

(*Source:* (<http://en.wikipedia.org/wiki/>, 2014))

2.2 **Causes of Financial Crisis** - having identified the four major global financial crises that have rocked the world before the most recent global financial crisis of the year 2007 upon which this research study is premised, it is important to find out the cause of these financial crisis. What are the factors that contribute to triggering a financial crisis of a global magnitude? In his comprehensive Congressional Report Service (CRS) for Congress, Jickling, (2010) posits in the wake of the spiraling effect of the global financial crisis of

2007-2008, the volume and variety of negative financial news, and the seeming impotence of policy responses, raised new questions amongst economists about the origins of financial crises and the market mechanisms by which they are contained or propagated. He argues that in the manner in which the economic impact of financial market failures in the 1930s remained an active academic subject, the causes of the current crisis will be definitely be the subject of debates in the academia for decades to come. He therefore submits that there are various views on the fundamental causes of financial crisis. Thus, the following has been identified as probable causes of the crisis:

- 2.2.1 [Imprudent Mortgage Lending](#) - Due to the fact that there existed abundant credit, low interest rates, and rising house prices, lending standards were relaxed to the point that many people were able to buy houses they couldn't afford. When prices began to fall and loans started going bad, there was a severe shock to the financial system.
- 2.2.2 [Housing Bubble](#) - With its easy money policies, the Federal Reserve of the United States allowed housing prices to rise to unsustainable levels. This thus triggered off the bursting of the housing bubble, as it was bound to do.
- 2.2.3 [Global Imbalances](#) - Global financial flows have been characterized in recent years by an unsustainable pattern: some countries (China, Japan, and Germany) run large surpluses every year, while others (like the U.S and UK) run deficits. The U.S. external deficits have been mirrored by internal deficits in the household and government sectors. U.S. borrowing cannot continue indefinitely; the resulting stress underlies current financial disruptions.
- 2.2.4 [Securitization](#) - Securitization fostered the "originate-to-distribute" model, which reduced lenders' incentives to be prudent, especially in the face of vast investor demand for subprime loans packaged as AAA bonds. Ownership of mortgage-backed securities was widely dispersed, causing repercussions throughout the global system when subprime loans went bad in 2007.
- 2.2.5 [Lack of Transparency and Accountability in Mortgage Finance](#) - According to Snow, (2008) in Jickling (2010), many participants throughout the housing

finance value chain were instrumental to the creation of bad mortgages and the selling of bad securities. This he affirms was as a result of the fact that they felt secure that they would not be held accountable for their actions. he submits that, a lender could sell exotic mortgages to home-owners, apparently without fear of repercussions if those mortgages failed. Furthermore, he argues that a trader could sell toxic securities to investors, apparently without fear of personal responsibility if those contracts failed. Therefore, it was not surprising that brokers, realtors, individuals in rating agencies, and other market participants, maximized their own gain whilst passing problems on down the line until the system itself finally collapsed. Because of the lack of participant accountability, the originate-to-distribute model of mortgage finance, with its once great promise of managing risk, became itself a massive generator of risk.

- 2.2.6 [Rating Agencies](#) - The error of awarding an AAA status to numerous subprime mortgage securities that were later downgrade to junk status contributed immensely to the financial crisis. This monumental failure of Rating Agencies Jickling (2010) argued was adduced to be as result of poor economic models, conflicts of interest, and lack of effective regulation of these agencies. Another factor is the market's excessive reliance on ratings, which has been reinforced by numerous laws and regulations that use ratings as a criterion for permissible investments or as a factor in required capital levels.
- 2.2.7 [Leverage](#) - Simkovic, (2009) describes leverage as factor that has received great mention as being a contributor to financial crisis. He succinctly defines Leverage as the art of borrowing to finance investments. He submits that when a financial institution (or an individual) only invests its own money, it can, in the very worst case, lose its own money. However, when it borrows in order to invest more, it can potentially earn more from its investment, but it can also lose more than all it has. Therefore, he affirms that leverage magnifies the potential returns from investment, but also creates a risk of

bankruptcy. In effect, since bankruptcy means that a firm fails to honor all its promised payments to other firms, it may spread financial troubles from one firm to another.

2.2.8 [Failure of Risk Management Systems](#) - Some firms separated analysis of market risk and credit risk. This division did not work for complex structured products, where those risks were indistinguishable. "Collective common sense suffered as a result."

2.2.9 [Asset-Liability Mismatch](#) - One other critical factor believed to have contributed to financial crises is asset-liability mismatch. This situation Diamond and Dybvig (1983) in wikipedia.org (2014) posits that occurs when the risks associated with an institution's debts and assets are not aligned appropriately. For example, commercial banks offer deposit accounts which can be withdrawn at any time and they use the proceeds to make long-term loans to businesses and homeowners. The mismatch between the banks' short-term liabilities (its deposits) and its long-term assets (its loans) is seen here as one of the reasons bank runs occur i.e. when depositors panic and decide to withdraw their funds more quickly than the bank can get back the proceeds of its loans. Similarly, Bear Stearns failed in 2007-08 because it was unable to renew the short-term debt it used to finance long-term investments in mortgage securities. Taking it further, in an international context, many emerging market governments are unable to sell bonds denominated in their own currencies, and therefore sell bonds denominated in US dollars instead. This anomaly according to Eichengreen and Hausmann (2005) generates a mismatch between the currency denomination of their liabilities (their bonds) and their assets (their local tax revenues) which invariably makes such countries to run a risk of sovereign default due to fluctuations in exchange rates.

2.3 [Global Financial Crisis of 2007 - 2008](#) - According to Lim (2012), the Global Financial Crisis of 2008-2012 is widely considered to be second in severity to only the Great Depression of the 1930s. Scathingly known as the 'Great

Recession' by commentators and media alike, he noted that what began as a housing crisis in the United States swiftly degenerated into a total mess that wrecked household financial institutions, led to government bailouts and in some cases, liquidation. The crisis reduced consumer wealth in the region of trillions and sparked off a series of recessions in both the developed and developing world. Similarly, in the account of Reuters (2009) released in February 2009, they submit that the financial crisis of 2007-2008 otherwise known as the Global Financial Crisis was the worst to hit the world since the great depression of the 1930s. However, having taken time to study the different possible cause of a financial crisis and the genesis of global financial crisis in the world, it is pertinent to critically examine the events and issues that led to the Global Financial Crisis of 2007.

Furthermore, an understanding of the recurring factors or issues synonymous with financial crisis will greatly help is this research aimed at determining the effect of this crisis on the economy of Nigeria. Some of the recurring factors that caused the global financial crisis as identified by Shawn (2006), Simkovic (2010) and Williams (2012) include the following: Subprime lending, Growth of the housing bubble, Easy credit conditions, Weak and fraudulent underwriting practices, Predatory lending, Deregulation, Increased debt burden or over-leveraging, Financial innovation and complexity, Incorrect pricing of risk, Boom and collapse of the shadow banking system, Commodities boom, Systemic crisis and Role of economic forecasting. All these factors which as stated earlier in this report originated in the United State and spread to the rest of the global because of the high level of interdependency that globalization has encouraged across nations of the world. It was therefore, very easy for the effect to transcend from the US to other parts of the world with varying levels of impact owing to the internal fiscal policies and financial models being operated prior to the crisis in such nations.

Even though the global impact of this financial crisis is subject to comprehensive data review in order to ascertain its true severity on individual nations, identifying the possible transmission channels as well as source of global instability could aid this research work. Nissanke (2009, p.25) in Alcorta & Nixson (2011) argue that a major source of global instability is the volatility of oil and commodity prices. He records that commodity prices having reach an all-time high in April - June 2008, fell sharply for the remainder of the year. Also joined in this decline in pricing was oil, a number of metals (nickel, zinc and copper), a number of food stuffs such as wheat, rice, vegetable oil seeds and tropical beverages. Though, Nissanke (2009) admits that the economic impact of commodity price fluctuations depends on the structure and composition of production and trade of individual developing countries, he posits that net commodity exporters in general benefit from rising prices and suffer when prices decline. Economies that is heavily dependent on imported oil and foodstuffs, other things being equal, will benefit from falling commodity prices.

With the above submissions, it is clear that any economy that is dependent on revenue from sales of any of the above commodities will be heavily hit by the downward movement and fluctuations of price during the period. In the case of Nigeria noted to earn about 90% of her revenue from the exportation of oil and its derivatives, it is evident that this oil price fluctuation would have a negative impact on the revenue fortune of Nigeria. Thus, a brief review of the effects of the global financial crisis on developing countries would also aid the understanding of this research study.

- 2.4 [Review of the effects of the Global Financial Crisis on Sub-Saharan Africa](#) - In a working draft consultation research report (Oxfam 2010), the African continent is described as being a patchwork of differing vulnerabilities and resiliencies to the effects of the economic crisis. It was noted that the level of exposure of different economies in Africa to the global economic crisis was a

function of their IMF Regional Economic Outlook country groupings. The IMF has grouped African Economies into four broad categories namely:

- 2.4.1 **Oil-exporting countries** (oil exports account for 30 per cent or more of total exports). These countries include: Angola, Cameroon, Chad, Republic of Congo, Equatorial Guinea, Gabon, Nigeria.
- 2.4.2 **Middle-income countries** (non-oil exporting, with per capita gross national income more than \$905 in 2006 (apart from Lesotho)) i.e. Botswana, Cape Verde, Lesotho, Mauritius, Namibia, Seychelles, South Africa, Swaziland.
- 2.4.3 **Low-income countries** (per capita gross national income less than or equal to \$905 in 2006) i.e. Benin, Burkina Faso, Ethiopia, Ghana, Kenya, Madagascar, Malawi, Mali, Mozambique, Niger, Rwanda, Senegal, Tanzania, Uganda, Zambia.
- 2.4.4 **Fragile countries** (low-income and with Country Policy and Institutional Assessment score of 3.2 or less) i.e. Burundi, Central African Republic, Comoros, Democratic Republic of Congo, Côte d'Ivoire, Eritrea, The Gambia, Guinea, Guinea-Bissau, Liberia, São Tomé and Príncipe, Sierra Leone, Togo, Zimbabwe.

In very broad terms, the report further shows that at a macro-economic level, middle-income countries on the continent have been hardest hit, followed by oil-exporting countries. Low-income countries and fragile states have been most insulated from global shocks, yet they enter the crisis from already weakened economic and political positions. The macro-economic exposures of nations, though, do not necessarily give a reliable indication of the vulnerabilities of individuals within those same countries. In many cases the true patterns of vulnerabilities are only just becoming apparent. Initially, South Africa was worst affected; otherwise, the region's financial sectors largely avoided (if only due to their fledgling nature) the massive hemorrhaging of assets seen elsewhere. Subsequently, a much

larger swathe of countries has been hit by falling commodity prices and export demand.

It worthy to note that majority of the national budgets of Sub-Saharan African countries is financed by Export earnings, therefore the effects for public spending are highly significant. Government spending and international aid flows, both key players in determining the poverty consequences of the crisis, are operating on a significant time lag from the more immediate transmission channels.

- 2.5 [The Nation Nigeria - Largest Economy in Africa](#) - Undoubtedly, Nigeria has been recognized as the most populous black nation in the world with an overwhelming estimated population of 170,123,740 million people located on the western coast of Africa on a land mass of about 923,768.00 square kilometres (Miniwatts-Marketing-Group, 2014) and (MAPQUEST, 2006). Nigeria, a nation with different ethnic nationalities is presently structured into 36 states and 774 local government councils, all of which are zoned under the six geo-political zones of the country (UN-Habitat, 2014). This division according to (Jegade, 2002) was necessitated out of a need to get closer to the people and to ensure that the gains of governance reach the nooks and cranny of the country. The grouping was based on the linguistic, contiguity and cultural affiliation of the populace and the zones are North-West, North-East, North-Central, South-West, South-East and South-South (Thematic, 2001). The outcome of the last nationwide census carried out in Nigeria lately (UNFPA, 2006), i.e. March 2006 after a long period of 15 years is been expected but the information from the Federal Office of Statistics (1999) shows that the breakdown of the population of Nigeria indicates a feminine percentage of 55 and a poverty rate of 67.8%. The same statistics shows that 70% of the population lives in the rural areas thus indicating some level of neglect and deprivation in the majority and a need to reach out to such communities (Jegade, 2002).

In another vein, Nigeria is classified as the largest oil producer in Africa and was the world's fourth leading exporter of LNG in 2012 with proven oil reserves of 37.2 billion barrels as of January 2013. This figure, which is expected to expand to 40 billion in the next few years (EIA, 2014) ranks Nigeria as second largest oil reserve in Africa and the seventh largest oil reserve in the world with export of 2 million barrels of oil daily and the country's gross domestic product (GDP) grew approximately by 6.5% in 2013 and is estimated to reach 7.2% this year. This economic indicator of resources and oil wealth makes Nigerian economy an oil-sector dependent one. The sector alone comprising of oil and gas exports accounts for 96% of government revenue, but this has not helped the general wellbeing of the people as a vast majority (70%) still live in poverty with a per capita income of \$1000, the nation has been ranked as one of the poorest countries in the world (Energy Information Administration, 2014).

In the light of the above submission, it is clearly evident as corroborated by Adamu (2010) that the global financial crisis is going to put further downward pressure on crude oil prices, which are expected to remain highly volatile. This is in tandem with the submissions of Oxfam (2010) and the argument of Niskanen (2009, p.25) in Alcorta & Nixon (2011) that a major source of global instability is the volatility of oil and commodity prices.

Thus, the Nigerian economy is definitely going through some magnitude of direct and indirect impacts of the global financial crisis. These effects according to Adamu (2010) include; Foreign direct investments (FDI) and Equity investments, Downward trend in oil price, Decline in Remittances to Nigeria, Aid budgets reduces, Commercial lending will reduce, Investors to withdraw to safer markets due to liberalized capital accounts, Losses in other financial assets by banks and financial institutions in Nigeria, Capital

repatriation by private banks which are foreign owned, Countries foreign reserve usually invested abroad will mostly be affected, Slow down of economic growth, foreign currency income slump, unemployment increase, reduced Oversea Development Aid (ODA), depreciation of local currency, etc. will result in a setback in achieving the MDGs.

2.6 Economic Indices - A Review of Key Sectors Constituting an Economy

In a bid to have a clear understanding and measurement indices to determine the effect of the global financial crisis on the Nigeria economy, it is important to have a clear cut analysis of constituents of an economy. This is because most national and international predicaments of this present age according to (Kenessey, 2007) are usually related to sectoral-structural developments. Furthermore, any crisis can cause a rippling effect in any economy through the transmission channels of such an economy (Onyukwu, 2009). It is therefore valid to this research to have a review of the key constituents of a typical economy.

According to (Rosenberg, 2014), the economy of any nation can be divided into a range of sectors to depict the proportion of the population that is actively engaged in the sector. Similarly, (Gee, 2013) affirms that the economy of a nation or an area typically consists of the economic system of inter-relationship of the labour, capital and land resources and unique economic agents that actively contribute to the production, exchange, distribution and consumption of goods and services in the nation. Thus, in line with these assertions, three main sectors have been identified as being the key components of a typical economy. These sectors according to (Kenessey, 2007) and (Rosenberg, 2014) are the primary, secondary and tertiary sectors of the economy.

2.6.1 Primary Sector - The primary sector according to the authors is that sector of the economy that is directly concerned with the use of the natural resources

of the nation. For a country like Nigeria that is still considered to be developing, (Gee, 2013) and (Rosenberg, 2014) submit that the primary sector is the most important to developing countries unlike industrial countries where it is less important. The sector comprises of the agriculture, forestry, fishing, mining, quarrying and extraction of oil and gas. For Nigeria, the oil and gas component of the primary sector constitutes the main revenue stream of the economy contributing 96% of the revenue of Nigeria (Administration-Energy-Information, 2014).

- 2.6.2 **Secondary Sector** - The secondary sector otherwise known as the industrial sector takes the produce from the primary sector to produce finished products (<http://en.wikipedia.org/wiki/>, 2014). The activities of this sector as elaborated by (Rosenberg, 2014) include: metal working and smelting, automobile production, textile production, chemical and engineering industries, aerospace manufacturing, energy utilities, engineering, breweries and bottlers, construction, and shipbuilding.
- 2.6.3 **Tertiary Sector** - This is the third sector of the economy. This sector according to (Rosenberg, 2014) and (Lucas, 2013) is referred to as the Service sector or Service industry because it offers services to the primary and secondary sectors of the economy. Associated with this sector are the following activities: retail and wholesale sales, transportation and distribution, entertainment (movies, television, radio, music, theater, etc.), restaurants, clerical services, media, tourism, insurance, banking, healthcare, and law.

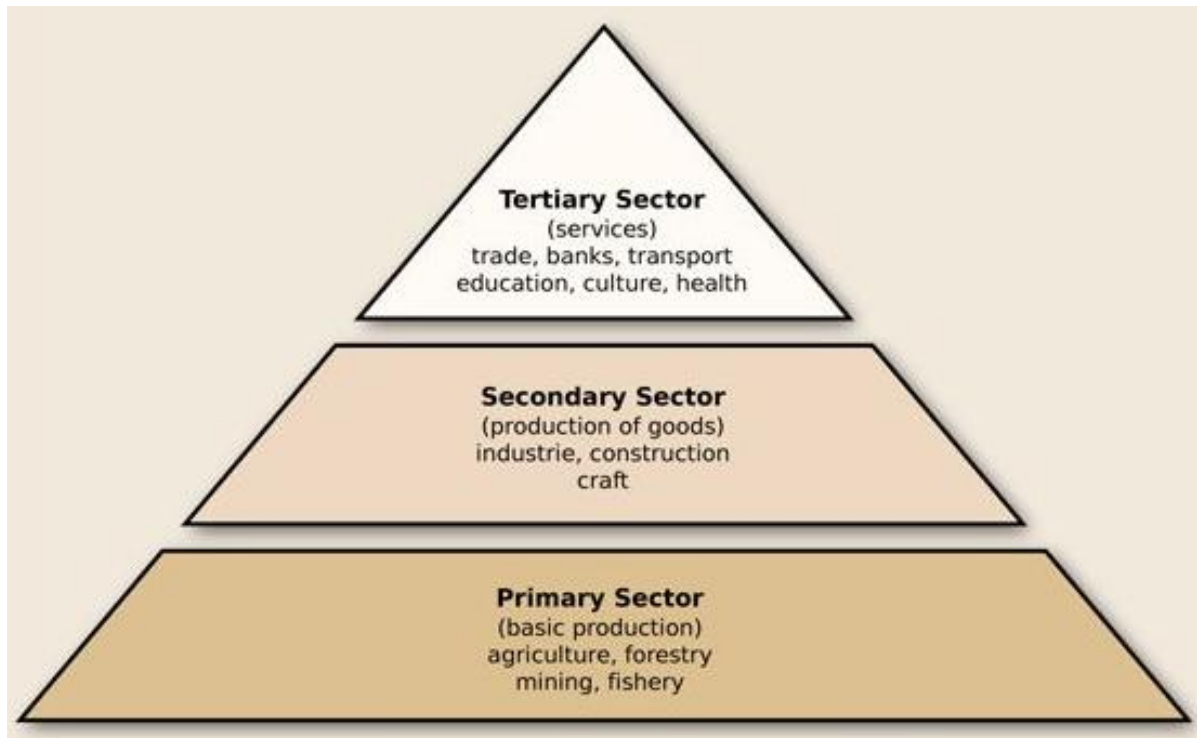


Figure 2 - Sectoral Structure of an Economy

(*Source:* (<http://gprmcglashan.weebly.com/sectors-of-the-economy.html>, 2014))

- 2.7 **Chapter Summary** - With the extensive review of literature covering the genesis of the global financial crisis in the world, causes of financial crisis, a review of the global financial crisis of 2007 and its impact as well as a dissection of the context of Nigeria's financial situation, the foundation is laid for the conduct of an exploratory survey of available secondary data around the major sectors of the economy identified above with a view to critical evaluate the effect of the global financial crisis on these sectors. The focus of the exploratory research is on the primary, secondary and tertiary sectors of Nigeria in order to determine the influence of the global financial contagion on the economy Nigeria. The next section discusses the research methodology to be adopted to achieve this goal.

CHAPTER THREE

Research Methodology

3.0 Introduction

This chapter explains the procedure adopted by the researcher to implement this research project. It outlines the approach used to review of relevant literature as well as methodology used to obtain primary data used to substantiate postulations from works of academic authorities in the field of finance and economics sacrosanct to the demands of this study. This research was conceived primarily to determine the effects of the global financial crisis on the key sectors economy of Nigeria. In order to achieve this fundamental research goal, this study focuses on the achieving the following objectives:

- a. To critically evaluate the transmission channels of the global financial crisis on the Nigerian economy.
- b. To critically analyze the effect of the global financial crisis on key sectors of the Nigerian economy using the three sectors economic model vis-à-vis primary sector, secondary sector and tertiary sector.
- c. To determine the short-term and long-term steps and measures taken by the Nigerian government, private organizations and regulatory bodies to mitigate or cushion the effects of the global financial crisis on the economy.

Furthermore, in order to achieve the primary aim of undergoing this research which is to determine the effect of global financial crisis on the Nigerian economy, the following research question would serve as a guide throughout this project:

What are the effects of the global financial crisis on the key sectors of the Nigerian economy?

Thus, with this foregoing introduction as a basis for carrying out this research study, the approach adopted by the researcher to conduct this research is hereby discussed in the next section.

3.1 Research Approach

The researcher's approach to this study was a blend of the deductive and inductive approaches of research. The choice of a combination of these approaches is informed by the submission of (Hussey & Hussey, 1997), which according to the authors involves the use of survey as a research tool in order to give the researcher a wider, holistic or robust view of the research problem. The philosophy behind these two approaches is broadly explained by (Saunders, et al., 2003). The inductive approach according to them involves the collection of data and development of a theory after data analysis has been done. This is in line with the position of (Seale, 1999) in describing the inductive approach as a process of developing theories from analysis of data collated through research. The inductive approach has the characteristics of probing to understand the meanings that humans attach to events, a close understanding of the research context, as well as collection and analysis of qualitative data. It places emphasis on the researcher being part of the research process, having a more flexible structure to permit changes of research emphasis as research progresses and less concerned with any need to generalize (Saunders, et al., 2003).

On the other hand, the deductive research approach is best suited for scientific research under the positivist philosophy of research which tend to seek the facts or causes of social phenomena, with little regard to the subjective state of the individual (Collis & Hussey, 2003). It is concerned with the development of a theory and hypothesis (hypotheses) and design and a research strategy to validate the hypothesis (Saunders, et al., 2003). According to (Gill & Johnson, 1997), the researcher acts as an objective analyst making unbiased interpretations of data

collected in a value-free manner while placing emphasis on a highly structured methodology to facilitate replication and quantifiable observations that lend themselves to statistical analysis. In this form of approach, the researcher is in a good position to be able to make some justifiable revision to theory based on findings and the fact that it is a highly structured approach (Robson, 2002).

Thus based on the above generalisations on research approaches, the researcher adopted the combination of the deductive and inductive approaches because the former would afford the researcher the opportunity of establishing causal laws and linking them to an integrated theory (based on the positivistic paradigm) while using the inductive concept of phenomenological paradigm (interpretivist theory) to increase the validity and generalise on the inferences obtained from quantitative data. This position is in line with submission of (Bell, 2005) as it helps the researcher to cross-check findings and sees the same thing from different perspectives and thus enhances validity of findings.

3.2 Research Design

In order to answer the research question and achieve the aim and objectives for this research project, this research was carried out using the exploratory research design. Though, a study of literature on available research designs shows that there are three basic types of research designs that can be employed in a research. These designs according to (Saunders, et al., 2003) include the exploratory, descriptive and casual research designs. The choice of exploratory research design was informed by the submissions of (Collis & Hussey, 2003). The authors affirmed that exploratory research is usually conducted in order to provide a better understanding of a situation, which in this particular study is the aftermath effect of the global financial crisis on Nigeria.

Furthermore, the fact that the research focuses on the economy of Nigeria and not on Nigerians as a people, it implies that data for this research cannot be obtained by the conventional method of conducting surveys of a section or random selection of different spheres of Nigeria. Therefore, this has necessitated the decision of the

researcher to opt for this research design. The researcher would be relying more on secondary data sourced through secondary research by reviewing available literature and data on specific sectors of the Nigerian economy. The reason for this option is to allow the researcher gain familiarity with the financial contagion phenomenon and acquire better insight into the financial crisis situation in Nigeria. In corroborating this design approach, (Kumar & Singh, 2012) posits that when the purpose of research is to acquire new insight into a phenomenon in order to formulate a more precise hypothesis this research design method is useful. Moreover, financial constraints and the need to find out how people are getting along with and in the aftermath of the global financial crisis in Nigeria advised the choice of this research design.

Furthermore, since the research question is '*What are the effects of the global financial crisis on the key sectors of the Nigerian economy?*' it is akin to finding out, 'what is going on in the Nigerian economy after the global financial crisis?'. This according to (Schutt, 2011), is best done using the social exploratory research. He submits that; when the objectives of the research is to find out how people are getting along in the setting under question, what meanings they give to their actions, and what issues concern them. Then the social exploratory research method is adopted. He further states that; the goal is to learn '*what is going on here?*' and to investigate social phenomena without explicit expectations."

Thus, at the commencement of this research, the researcher's motive was to critically explore all the sectors of the economy of Nigeria with a view of having a representative assessment of the effect of the financial contagion on those sectors. However, because Nigeria's economy is quite large and considering the time frame of this research and financial demands, the exploratory research focus was on key sectors of the economy using the three-sector model discussed in the review of literature. This decision is further supported by (Collis & Hussey, 2003) as he affirms that,

“When the population is large, it would be too time consuming and expensive to collect data about every member, and therefore only a sample of the population is used”

3.3 Research Method

In line with the research paradigms identified above, namely Positivistic and Phenomenological paradigms (see Table 1); and the choice of a combination of the two approaches, the research was carried out by collecting data using RSS feeds on the subject of global financial crisis to obtain up-to-date information; as well as Google Alerts to obtain secondary data by email. Furthermore, a comprehensive search result on the subject was tracked over two months by the researcher using Google Trends to attract worldwide feedback on effect of financial crisis in Nigeria. Further probing of data obtained was done by conducting a qualitative review of literature by searching popular press, trade literature, academic literature and some published statistics from governmental agencies, research firms and regulatory bodies for data and insight into the problem at hand. This according to (Saunders, et al., 2003) is useful for instances in which the research involves the summary, collation and/or synthesis of existing research rather than primary research.

Quantitative data refers to numerical data or any data that could be quantified in order to aid answering research question(s) and to meet set objectives while qualitative data is concerned with qualities and non-numerical characteristics of the variable being investigated (Collis & Hussey, 2003) & (Saunders, et al., 2003)).

Table 1 - Features of the two main paradigms

(Adapted from (Collis & Hussey, 2003))

Positivistic Paradigm	Phenomenological Paradigm
<ul style="list-style-type: none"> ✓ Tends to produce quantitative data ✓ Uses large samples 	<ul style="list-style-type: none"> ✓ Tends to produce qualitative data ✓ Uses small samples
<ul style="list-style-type: none"> ✓ Concerned with hypothesis testing 	<ul style="list-style-type: none"> ✓ Concerned with generating theories
<ul style="list-style-type: none"> ✓ Data is highly specific and precise 	<ul style="list-style-type: none"> ✓ Data is rich and subjective
<ul style="list-style-type: none"> ✓ The location is artificial 	<ul style="list-style-type: none"> ✓ The location is natural
<ul style="list-style-type: none"> ✓ Reliability is high 	<ul style="list-style-type: none"> ✓ Reliability is low
<ul style="list-style-type: none"> ✓ Validity is low 	<ul style="list-style-type: none"> ✓ Validity is high
<ul style="list-style-type: none"> ✓ Generalises from sample to population 	<ul style="list-style-type: none"> ✓ Generalises from one setting to another

3.4 Data Collection

The collection of data for this research involved the use of both primary and secondary methods of data collection. The former entailed as said declared, due to the challenge of eliciting obtaining data about the economy, the researcher addressed this challenger using different online data sourcing platforms such as Google trends, Google alerts and quality RSS feeds on the subject of global financial crisis to obtain up-to-date information directly into the researcher's email. The researcher resorted to subscribe to these services for two basic reasons; the facility enabled the researcher save cost and time which was limited as well aiding analysis of the data collected.

3.4.1 Secondary Data Collection

In order to enhance this study and give the most recent literature on the research subject, the researcher consulted the works of experts in the field of economics, finance and globalization in context of economics through the use of journals from different electronic sources such as Emerald, Science-Direct, EBSCO, Blackwell Synergy, BJournal, World Bank E-Library and search engines such as Google-Scholar to source secondary data for this study.

Similarly, journals authored by economics experts such Professor Chukuma Soludo, Michael Simkovic, Browning, Charles Duhigg, Avgouleas, Robert Aliber as well as recent conference proceedings were also used by the researcher to obtain latest updates on the research subject in financial crisis in order to harmonize her research.

Furthermore, during the course of the literature search prior to commencement of this project, the researcher discovered that the subject of determining the effect of the global financial crisis on Nigeria was an evolving field and as such literature on the field was in progress and expanding. This informed the focus on more recent literature on the subject of global financial crisis on Nigerian economy. Thus, as a guide to have a clear understanding of parameters within which to carry out

research on, the researcher employed the following parameters (adapted from (Saunders, et al., 2003):

- ✓ Language of instruction – English Language
- ✓ Subject Area – Global Financial Crisis and its effect on Developing Countries with particular focus on Sub-Saharan African where Nigeria is located
- ✓ Business Sector – Finance & Economy
- ✓ Geographical Area –United States of America, South-Africa and Nigeria
- ✓ Publication Period – Last 8 years (for electronic journals, conferences) and a maximum of 10 years (for books and hardcopy journals)
- ✓ Literature Type – Electronic Journals, Paper Journals, and Textbooks

3.5 Method of Analysis

The data was analysed using the exploratory approach with data obtained by secondary research from literature to determine the impact of the financial crisis on key sectors of the economy of Nigeria using the three-sector model as a guide. This model provided the platform to access the different transmission channels through which the impact was felt in the economy.

3.6 Validity

The phenomenological paradigm of research is employed for this study because it is best research method suited for answering questions about the ‘what’, ‘how’ or ‘why’ of a phenomenon (Patton & Cochran, 2002). The author submits that when the focus of the research is to have a clear understanding of how a community or group of people perceive a particular issue, then the most suitable research approach is the qualitative research approach. Therefore in order to validate this research, the researcher adopted the Triangulation validation strategy recommended by (Patton & Cochran, 2002). In the words of the authors, this validation strategy helps the researcher to increase the validity of research findings. It entails the deliberate sourcing of evidence from a wide range of sources and taking time to compare findings from those different sources. This position is also supported by (Saunders,

et al., 2003) as they submit that if during comparison of findings, the seems to be a similarity, this situation helps in strengthening the validity of the research findings.

3.7 Reliability

In the assertions of (Joppe, 2000) reliability simply refers to the extent to which the results of a research are consistent over time and an accurate representation of the total population under study. He further affirms that in the event that the outcome of a research can replicated under a similar methodology, then the research approach adopted is said to be reliable. Therefore in the context of the research study in focus, the choice of qualitative approach to conduct this study is consistent with the positions of the author.

3.8 Resources and Constraints

In view of the fact that the research was based on sourcing data through RSS feeds, and other online sources such as Google trends and Google alerts with focus on the economic effect of the global financial crisis in Nigeria, the major limitation to this study was funding. This informed the choice of using this data collection method. This factor also necessitated the choice of subscribing to these services for two basic reasons; the facility enabled the researcher save cost and time which was limited as well aiding analysis of the data collected.

3.9 Summary

Summarily, this chapter shows that the researcher employed a blend of the inductive and deductive approaches to carry out this research and due to the financial constraints experienced by the researcher as well as the complex nature of determining the effect of a global financial contagion on a nation's economy, the exploratory research design was employed to conduct this research.

CHAPTER FOUR

Research Findings and Analysis

4.0 Introduction

This chapter discusses the findings of the explorative research conducted to ascertain the effects of the global financial crisis on the fabric of the Nigerian economy. The researcher through the three-sector economic model discovered that indeed, Nigeria as a national entity has three key sectors that drive the running of the economy. These sectors as described by (Rosenberg, 2014) include of the primary, secondary and tertiary sectors.

However, in order to ascertain the true effect of the crisis on each sector, it was important to identify key economic variables or indicators that had the capacity to change depending on different economic factors. These economic indicators that undergo changes as a result of external or internal influence on any country's economy as enumerated by (The-World-Fact-Book, 2014) include; GDP (Gross Domestic Product), Labour Force, Unemployment Rate, Population below poverty line, Household income, Distribution of family income (Gini Index), Budget, Inflation Rate, Central Bank Discount Rate, Market value of Publicly Traded Shares, Exports, Imports, External Debt, Exchange Rates and Stock of Foreign Direct Investments.

In a similar vein, some key indicators that are reliable pointers to possible developments or otherwise in the Nigerian economy in recent times as presented by (The-National-Bureau-of-Statistics, 2014) include: GDP Growth, Inflation Rate, Fiscal Deficit, Consolidated Government Debt (as a percentage of GDP), Growth in Broad

Money, Growth in Credit to Private Sector, Growth in Net Foreign Assets, Current Account Balance (as percentage of GDP), External Reserves, Average Exchange Rate (₦ per US\$) and Average Crude Oil Price (US\$ per Barrel).

In analyzing the data obtained through secondary research to ascertain the areas of the Nigerian economy affected by the global financial crisis, the researcher discovered that as a result of the concept of globalization, several nations of the world have some great level of interdependence on each other. As a result, in the submissions of (Onyukwu, 2009), the author posits that the global financial crisis and economic crisis was able to transmit to Nigeria through two broad mechanisms; namely the Contagion Effect and Second-round effects. The Contagion effect, according to (Onyukwu, 2009) made the financial crisis to also boomerang to the Nigerian economy as a result of the interdependence of financial systems. This interdependence rides on the platform of the strong and investment relations from one country to another, thereby making the spread of the financial crisis to be pronounced (Onyukwu, 2009). Furthermore, he affirmed that another channel through which the financial crisis was transmitted to Nigeria was the second-round effect. The second-round effect according to (Onyukwu, 2009) was a situation that occurred as a result of the ensuing global economic recession that inevitably brought about reduced global demand and lower prices of commodities such as oil as well as reduction in financial flows to Nigeria through known channels such as Foreign Direct Investment (FDI), remittances, trade finance and financial aid.

4.1 Economic Variables

According to the (Financial-Dictionary-Online, 2014), the term economic variable can be defined as any data accounted for in an economic model. It is further defined as any measurement that aids in establishing how an economy functions. In a similar vein, (Ask, 2014) succinctly defines economic variables as any economic gauge that has the capacity to vary over a series of values. These variables that have the capacity to vary include the following: labour force, the unemployment rate, percentage of the population below the poverty line. Also, (Ask, 2014) and

(Financial-Dictionary-Online, 2014) the following are identified as being qualified to be considered as an economic variable; i.e. the average household income, the inflation rate, imports, exports, National debts, system dynamics, production and consumption of commodities as well as population, poverty rate and inflation rate.

Therefore, in order to substantiate the submissions of (Onyukwu, 2009), the researcher decided to identify important economic variables upon which the impact of the global financial crisis could be measured. These economic variables dwelt more on some economic variables in order to buttress the impact of these global financial crisis taking a chronological log of six economic variables vis-à-vis employment rate, cost of living, per capita income, inflation rate and loans for a period of eight years beginning from 2006 through 2013. These economic variables were used as yardstick for measurement of the effect of the global financial crisis on the Nigeria economy because they are indices that have a direct correlation to the living standard and lifestyle of Nigerians.

However, for the purpose of discussion and analysis of the impact of the global financial crisis on the Nigerian economy, it is important to have a baseline for argument. Thus, identifying the key economic variables is vital. In arriving at the key economic variables used for the discussion of findings here, the researcher compared the submissions of (Yee-Tien, 2005) and (James, 2014) on the subject of key economic variables driving an economy. According to (James, 2014), there are just four key economic variables that drive an economy. They include; inflation rates, interest rates and economic policy, exchange rates and fiscal policy. On the other hand, (Yee-Tien, 2005) posits that, there six key economic variables that drive an economy. These are; the real gross domestic product, the unemployment rate, the inflation rates, the stock market or capital market and the exchange rate.

Therefore, based on the identified key economic variables that drive the economy of a country, the researcher decided to focus on the five of the six key economic variables identified by (Yee-Tien, 2005). The reason for this choice is to have a wider and robust assessment of the impact of the global financial crisis on the Nigerian

economy. A robust assessment of this magnitude is definitely an appropriate approach for an MBA research.

4.2 Definitions and Effect Key Economic Variables on Nigerian Economy

4.2.1.1 Definition of Gross Domestic Product:

The Gross Domestic Product according to (Kale(Dr), 2014) refers to the market value of all officially recognized final goods and services produced within a country in a given period. Whereas, in order to have a better perspective on tracking of economic output over a period of time, the real gross domestic product is preferred variable to assess (Diffen, 2013). The real Gross Domestic Product (Real GDP) according to (WebFinance-Inc, 2014) refers to an economic assessment that involves quantifying the inflation adjusted market value of goods and services produced by an economic system during a given time. It practically gives a macroeconomic measure value of output of an economy that is adjusted for changes in price (Diffen, 2013). It is a very important economic variable because it helps businesses or investors to determine the feasibility of their products or services thriving within a country. This important fact according to (Diffen, 2013) is derived from the real gross domestic product which indicates the standard of living of the country.

4.2.1.2 Global Financial Crisis on the Real Gross Domestic Product of Nigeria 2006 - 2013

For the purpose of this analysis, the years under review are from the year 2006 to 2013. The reason for this choice of statistical range is because the researcher had established in the critical review of literature that the global financial crisis started in 2006 from the United States of America. It is therefore valid to underscore this study by reviewing the status of the variable in view as at the year 2006 and gradual observe any remarkable change or changes as the crisis spread to other countries of the world vis-à-vis Nigeria.

According to a survey report obtained from the (Trading-Economics, 2013), Nigeria had a gross domestic value of 262.61 billion US dollars in the year 2012 which was equivalent to 0.42% of the world economy.

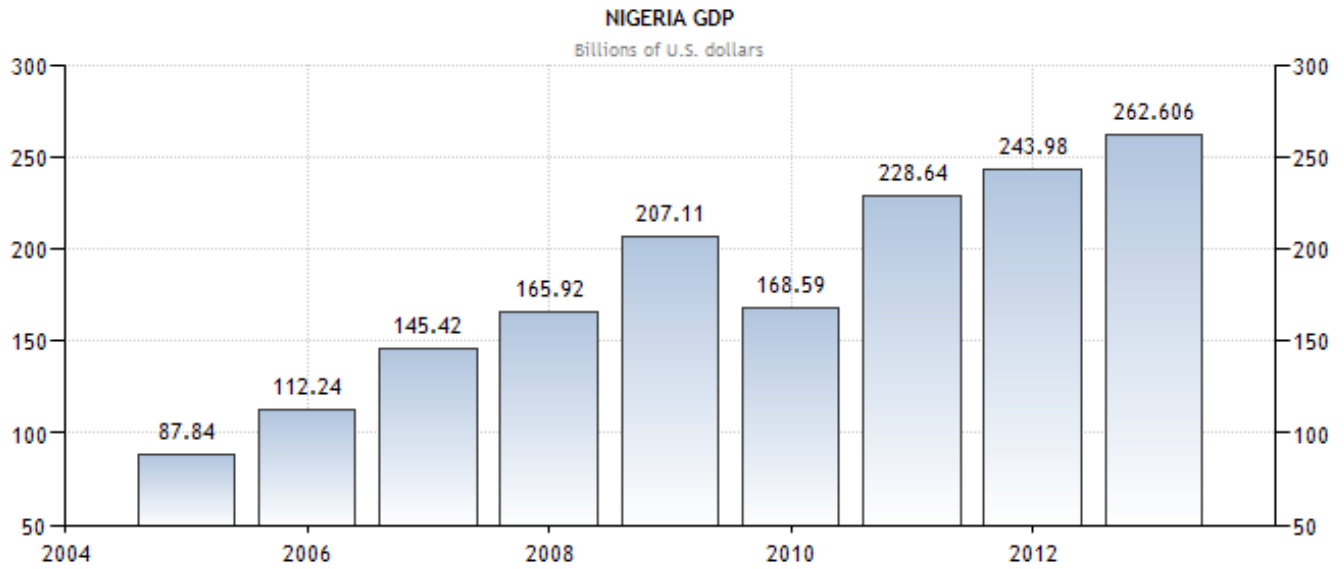


Figure 3: Nigerian Gross Domestic Product 2004-2013 (Source: (Trading-Economics, 2013))



Figure 4: Nigerian Gross Domestic Product Trend 2001-2013 (Source: (Trading-Economics, 2013))

It can be observed from the above figures as reported by the Central Bank of Nigeria that, the Gross Domestic Product growth rate in Nigeria had an average rate of 6.80% between year 2005 and 2013. It reached an all time high of 8.60% in the fourth quarter of the year 2010 and a record low of 4.50% in the first quarter of 2009. The reason for this sharp drop in the year 2009 can be traced to contagion effect of global financial crisis. In the submissions of (Mordi, 2009) and (KA, 2013), the GDP of Nigeria experienced a decreasing growth rate during this period because of the volatility of commodity prices which was the mainstay of Nigeria. Also, (KA, 2013) affirmed that the Nigerian economy got the heat of the crisis as a result of over-dependence on crude oil for foreign exchange earnings and revenue. These assertions are further corroborated by (Doguwa, 2012) when he submitted that prices in the year 2008 rose significantly and steadily because of the rising liquidity occasioned by the spread of the global financial crisis.

4.2.2.1 Unemployment Rate

In order to understand the relevance of this variable in determining the effect of the global financial crisis on the Nigerian economy, a firm definition of unemployment rate is required. According to (Yee-Tien, 2005), unemployment rate simply refers to the number of unemployed people divided by the labour force. It is a very important economic indicator because according to (WebFinance-Inc, 2014) it represents the percentage of total work force who are unemployed and are searching for salaried job. If a rising figure is recorded, it is indicative of a weakening economy while a falling rate implies the economy of such a country is growing (WebFinance-Inc, 2014). The best economic variable that really gives a true picture of how well an economy is performing according to (Yee-Tien, 2005) relative to the productive potential of such a country is the unemployment rate.

4.2.2.2 Effect of the Global Financial Crisis on Unemployment Rate

From the secondary research conducted to obtain data on the rate of unemployment in Nigeria, the following figures shown in Table 2, were obtained for the years 2006 to 2013.

Table 2: Showing Nigeria's Unemployment Rate Figures from 2006-2013 (The-National-Bureau-of-Statistics, 2014)

Year	2006	2007	2008	2009	2010	2011	2012	2013
¹ UR (%)	5.3	5.8	11.8	19.7	21.1	23.9	N/A	N/A

¹UR: Unemployment Rate in Percentage (%)

From the data obtained above, it can be observed that during the early stage of the global financial crisis that broke out from the United States of America is evidenced in the critical review of literature; there was no significant increase in the unemployment rate in Nigeria between the years 2006 and 2007.

However, from 2007 to 2008, there was an increase of over 100% in the unemployment rate in Nigeria. This dramatic change increased steadily from the year 2008 to an all time high of 23.9% in the year 2011. This figure represents an astronomical increase of 450% just before the global financial crisis.

The implication of this scenario is better understood with a brief overview of the percentage of the labour force of Nigeria. In line with the standard of International Labour Organization (ILO, 2014), the total labour force of a country comprises of people from ages 15 and older because they are the class of the population that meet the International Labour Organization definition of the economically active population (Index-Mundi, 2013). Also, the (World-Bank, 2014) records that Nigeria's population increased from an estimated value of 155,381,020 people in the year 2009 to 168, 833, 776 people. This value is now estimated to be 174, 507,539 according to (Index-Mundi, 2013). However, 56.2% of this figure represents the labour force of Nigeria which translates to 92,276,424 people in the year 2011 (*see Table 3 and Figure 5 for details*). The implication of the all time high record of unemployment rate from the above population figures is that if the labour force is about 92,276,424 people in the year 2011, then there exists an estimated 22,054,066 unemployed people as at 2011.

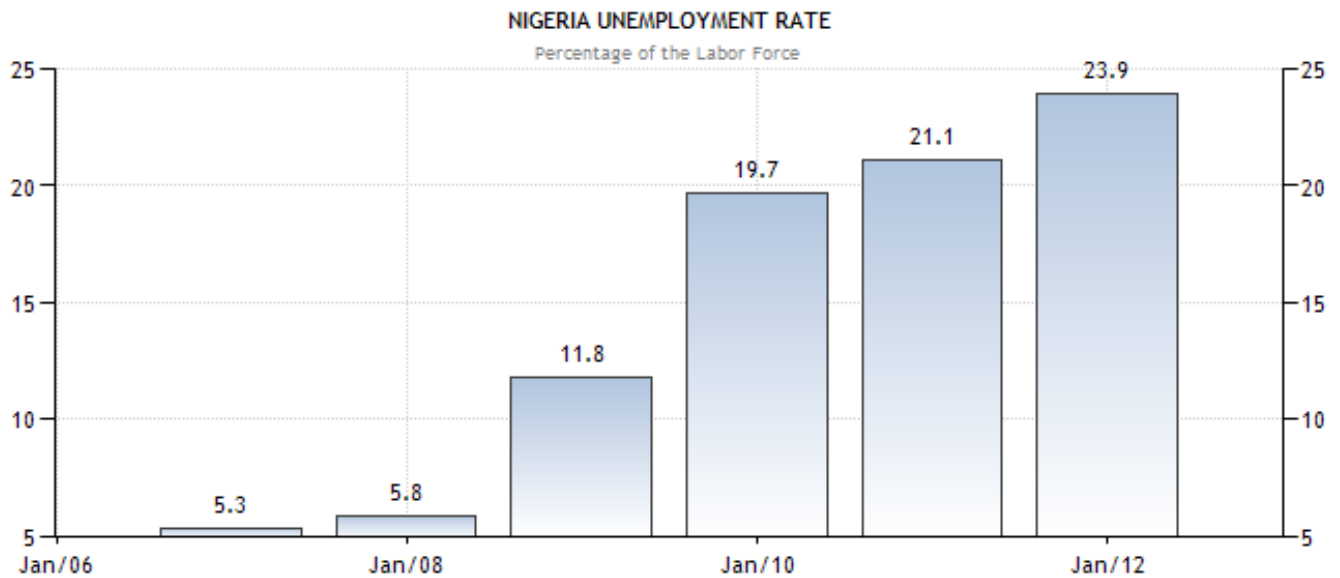


Figure 5: Nigeria Unemployment Rate 2006-2011

(Source: (Trading-Economics, 2013)

Table 3: Showing Population of Nigeria from 2009-2012

(Source: (World-Bank, 2014)

Year	2009	2010	2011	2012
Population	155,381,020	159,707,780	164,192,925	168,833,776

4.2.3.1 Inflation Rate

According to (Blanchard, 2000), inflation is defined as the continuous increase in the broad price of goods and services in an economy over a period of time. In a related notion, (James, 2014) defines inflation as being a rise in the general level of prices of goods and services in an economy over a period of time. For the purpose of the discussion of findings, the inflation rate refers to the rate at which the overall price level of these goods and services within an economy undergoes an increase. This position is corroborated by (Yee-Tien, 2005). The author succinctly describes

inflation rate as an appraisal of how fast the general price level is increasing in an economy.

4.2.3.2 Effect of Global Financial Crisis Inflation Rate of the Nigerian Economy

According to the (The-National-Bureau-of-Statistics, 2014), the inflation rate in Nigeria was at an average of 10.36% between the year 2006 and 2014. It reached an all time high of 15.6% in the year 2010 from a record low of 3% in the year 2006 (see figure 6 below). The yardstick used by the National Bureau of Statistics to measure the change in prices of over 740 goods and services consumed by people on a daily basis in Nigeria is known as Consumer Price Index (CPI). We can observe from the above rates elaborated in the figure below that indeed there was a remarkable increase from the inflation rate after 2006 when the global financial crisis started. The figure also shows that there was no drop in the inflation rate of Nigeria until the first quarter of the year 2008. In the submissions of (Doguwa, 2012), the decline was as mainly as a result of the good agricultural harvest and sound macroeconomic policies in Nigeria. Also, he affirmed that the decline translated into increased growth rates for Nigeria during the last three quarters of the year 2008.

It can also be observed from the figure below that the inflation rate of Nigeria only started to have a downward trend at the turn of the year 2010. In the words of (Doguwa, 2012), the combination of growth enhancing policies was actually instrumental to steady increase in real GDP experienced in Nigeria relative to its level in the previous year. He further submitted that this output growth was enhanced fundamentally by agriculture, services; wholesale and retail trade as well as building and construction sectors of the economy. The gradual increase in output during the year was accompanied by a steady decline in prices, due to factors such as improved agricultural harvest and the relative stability in the supply and prices of petroleum products (Doguwa, 2012).



Figure 6: Showing Nigeria Inflation Rate 2006 - 2014

(Source: (Trading-Economics, 2013)

4.2.4.1 Interest Rates and Monetary Policies

Interest rates according (WebFinance-Inc, 2014) technically refers to a rate charged or paid for the use of money. (James, 2014), aptly refers to interest rates as being the cost payable by a the borrower to the lender as a result of borrowing a sum of money known as the principal from the lender for specified period of time. The interest rate is also an important economic variable because it governs the redistribution of purchasing power across time (Yee-Tien, 2005).

Whereas, monetary policies according to (James, 2014) refers to the process by which the central bank or the monetary authority exercises its power to change short-term interest rates to control the supply of money in the country. This regulatory power is usually exercised in order to guarantee the economic stability of the country by targeting specific aims such as rate of economic growth adequate to support employment and ensure low unemployment as well as low and stable inflation (James, 2014).

4.2.4.2 Effect of Global Financial Crisis on Interest Rates and Monetary Policy on Nigerian Economy



Figure 7: Showing Interest Rates of Nigeria

(Source: (Trading-Economics, 2013))

According to the 1958 Central Bank of Nigeria (CBN) Act of Parliament, as amended in 1991, 1993, 1997, 1998, 1999 and 2007, the primary mandate of the Central Bank of Nigeria is the overall control and administration of the monetary and financial sector policies of the Federal Government of Nigeria (CBN, 2011). Furthermore in order to achieve this mandate, the Central Bank of Nigeria carries out the following functions:

1. Ensure monetary and price stability;
2. Issue legal tender currency in Nigeria;
3. Maintain external reserves to safeguard the international value of the legal tender currency;
4. Promote a sound financial system in Nigeria; and
5. Act as Banker and provide economic and financial advice to the Federal Government of Nigeria.

Therefore, from the foregone, it can be categorically established that the agency or authority responsible for the setting of interest rates and monetary policies in Nigeria is the Central Bank of Nigeria.

In the wake of the global financial crisis of 2006-2007, the interest rates in Nigeria averaged 9.43% from the year 2007 until this present year, 2014, reaching an all time high of 12% in October 2011 (The-National-Bureau-of-Statistics, 2014). However, as a result of the rippling impact of the global financial crisis, the Central Bank of Nigeria had to reduce interbank interest rates to an all time low of 6% in July, 2009 (CBN, 2011) and (Trading-Economics, 2013). In a similar development, (Mordi, 2009) affirms that in order to ameliorate the effect of the global financial crisis on the Nigerian economy, the Central Bank of Nigeria carried the following; reduced the Monetary Policy Rate (MPR) by 50.0 basis points from 10.25% to 9.75% and later to 8.0% in 2009, reduced the expanded discount window facility from overnight to 360 days and ensured that the interest rates did not exceed 500 basis points above the Monetary Policy Rate (MPR).

The multiplier effect of the above measures on the money market according to (Mordi, 2009) was that there was an increase in interest rates from banks. This in his view was as result of the dry up of funds witnessed by banks. Therefore, liquidity of cash set in the financial market and this caused commercial banks to enforce higher interests rates on deposits as investors move from the stock market and higher lending rates were also imposed in order to cover risks in the economic downturn.

A careful study of figure 7 above shows that indeed the impact of the global financial crisis on the Nigerian economy forced the regulatory authority of Nigeria, the CBN, to keep the interests rates down throughout the years 2009, 2010 and towards the end of 2011. The interest rates only peaked in the 4th quarter of the year 2011 rising to all time high of 12%. Since then, the Central Bank of Nigeria has set the benchmark interest rate in Nigeria at 12% as corroborated by (Trading-Economics, 2013).

4.2.5.1 The Exchange Rate

In the submissions of (O'Sullivan & Sheffrin, 2003), the exchange rate otherwise referred to as '*Forex*' simply refers to the rate at which one currency will be

exchanged for the other. The authors also posit that the exchange rate of any country symbolizes the value of such country's currency in relation to another country. The exchange is so vital to the economy of any country because (Yee-Tien, 2005) succinctly describes it the rate that governs the condition on which international trade and investment takes place between countries. He attributes exchange rate to be either nominal or real exchange rate. The nominal exchange rate according (Yee-Tien, 2005) refers to the rate at which monies of different countries can be exchanged for one another while the real exchange rate deals with terms in which goods and services produced in different countries can be exchanged for one another.

4.2.5.2 Effect of Global Financial Crisis on Exchange Rate in the Nigerian Economy

The fact that the Nigerian economy and government thrives on revenues from sale of oil and gas products is not in doubt as this has been established in the review of literature for this study by (EIA, 2014). The implication of this over dependence on revenue from oil on the Nigerian economy as argued by (Omotola, 2013) is monumental and multifaceted in nature. In the review of (Omotola, 2013), he affirmed that as a result of the fact that Nigeria was running an import dependent economy, it became susceptible to portfolio and direct investments capital flight. The effect of these two scenarios was that the foreign exchange market was highly affected. Thus, the Central Bank of Nigeria, being the economic regulatory authority of the country was forced to adjust the exchange rate to a more realistic band (Omotola, 2013). Corroborating this action, (Mordi, 2009) posits that the rippling effect of the global financial crisis caused a serious depreciation of the foreign exchange rate. In actual fact, the author submits that the exchange rate depreciated from ₦127 just at the beginning of the global financial crisis in 2006 to ₦135 as at the end of December 2008 (CBN, 2011) and (Mordi, 2009). This upward variation of the exchange rate is represented in Table 4 below.

A critical analysis of the table below and the figure shown below reveals that apart from the depreciation of the value of the naira experienced between 2006 and the

end of 2008, the value of the naira further nosedived in the year 2009. In his analytical submissions, (Omotola, 2013) affirms that the naira which was exchanging for N135 per US dollar at the end of 2008, went through a further depreciation to exchange at a value of N146 to US\$1. As a result of the panic in the financial system which resulted in capital flight, (Omotola, 2013) declares that situation caused an increase in the demand for foreign exchange at the official and parallel Bureau de Changes. This recorded a phenomenal increase from \$17 billion in the year 2007 to reach \$32 billion in 2008. This according to (Omotola, 2013) created a precarious situation for the regulatory authority of Nigeria, forcing the Central Bank of Nigeria to sacrifice the value of the Naira. The situation has not improved since then as the exchange of the naira has continued to increase with a decrease in the value of the Nigerian naira.

Table 4: Exchange Rates of Naira to US \$ 2006-2013 (Source: (CBN, 2011))

Year	2006	2007	2008	2009	2010	2011	2012	2013
Exchange Rate (N/\$)	127	121	135	146	148	149	155	156



Figure 8: Nigerian Naira Exchange Rate 2006-2013 (Source: (Trading-Economics, 2013))

CHAPTER FIVE

Conclusion and Recommendations

5.0 Overview

This research was carried out in order to determine the effect of the global financial crisis on key sectors of the Nigerian economy. The researcher in the course of this study identified five (5) major economic variables that serve as pointers to the buoyancy or otherwise of any nation's economy. These variables which constitute the discussion in the preceding chapter include; the real Gross Domestic Product (GDP), Inflation rate, Unemployment rate, Interest rates and the Exchange rate. It is also worthy to reaffirm that in order to achieve the goal of this research, the researcher sought to achieve the following objectives, namely:

- a. To critically evaluate the transmission channels of the global financial crisis on the Nigerian economy.
- b. To critically analyze the effect of the global financial crisis on key sectors of the Nigerian economy using the three-sector economic model vis-à-vis primary sector, secondary sector and tertiary sector.
- c. To determine the short-term and long-term steps and measures taken by the Nigerian government, private organizations and regulatory bodies to mitigate or cushion the effects of the global financial crisis on the economy.

Whilst the importance of the above objectives cannot be overemphasized, the researcher sought to answer the following research question, i.e. *what are the effects of the global financial crisis on the key sectors of the Nigerian economy?*

The researcher adopted the exploratory research design to undertake this research which ultimately sought to answer the question and achieve the objectives outlined above.

5.1 Conclusions

Evidently, it can be concluded that this research has shown without any doubt that the global financial crisis that commenced in the United States of America had significant negative effects on the economy of Nigeria. This research substantiated the fact that financial crisis will continue to be a recurring decimal in the fabrics of the Nigerian economy as long as countries of the world continue to be interdependent as a result of globalization.

During the presentation of research findings, it was observed that due to the overdependence of the Nigerian economy on oil and gas for foreign exchange and revenue. This source alone constituted 95% of the source of revenue to the country. Therefore, the crash in oil prices that accompanied the global financial contagion had a great multiplier effect on the Nigerian economy. This was the very first transmission channel of the global financial crisis into the Nigerian economy.

Furthermore, the Nigerian economy had three main sectors, i.e. the primary sector, secondary sector and the tertiary sector. Since the primary sectors comprised of natural resources agriculture, minerals, oil & gas and other natural sources, the fact that Nigerian government concentrate more on oil revenues to drive the economy, the fall in oil prices had a multiplier effect on the economy. The resultant effect which is part of the fall out of the global financial crisis is that there was a shortfall in expected revenue, as such financial squeeze was experienced in the country and this led to increase in exchange rate and inflation rates in the country.

Another important fact worthy of note is the foreign capital flight experienced during the period. Since many foreign firms had investments in the country, the global financial crisis, forced these companies to withdraw their investments in panic. This reduced the cash flow in the economy and this situation led to loss of

jobs and increase in unemployment rate. Indeed, the global financial crisis had a lot of negative effect on the Nigerian economy. The secondary sector which consists mainly of manufacturing and production companies suffered a great setback during this period because there was not enough fund to drive the sector and since there was a financial squeeze in the economic system, access to loans or investment fund attracted high interest rates because the banks were weary of releasing funds. As such most companies and manufacturing firms had to secure such funds at high premium interest rates.

It is therefore valid to conclude that this research has been able to explicitly establish that indeed the global financial crisis had multiplier effects on the Nigerian economy that translated through each sector negatively. It can also be established that the major transmission channel of this global financial contagion was the interdependence of Nigeria's economy on other economies of the world. Therefore, it implies that any improvement or setback experienced by various countries particularly those involved directly or indirectly with Nigerian economy will continue to impact on the nation's economy and its subsequent growth.

Financial crisis is inevitable and will continue to have a negative multiplier effect on the citizens and economy of Nigeria if drastic steps and measures are not taken by regulatory authorities within the financial system of Nigeria as well as the Nigerian government on whose shoulder the running of the economy lies.

5.3 Recommendations

This academic study would be inconclusive without making recommendations guided by the elements of the findings of this research. The research has identified and revealed a lot of reasons why the global financial crisis had a rippling effect on the Nigerian economy. This study was also able to identify the action and inaction of government and regulatory bodies in the wake of the financial crisis. Thus, the following recommendations are three-fold in nature. The first is the role to be

played by the regulatory bodies, and the second is role to be played ultimately by the government. The third being recommendations for future research.

5.3.1 [Recommendations for the Regulatory Bodies](#) – the nation’s regulatory agencies vis-à-vis; the Central Bank of Nigeria (CBN), Nigerian Deposit Insurance Cooperation (NDIC) and Securities and Exchange Commission need to do the following:

- 5.3.1.1 To improve on their regulatory oversight of financial institutions and capital markets;
- 5.3.1.2 Encourage good corporate governance and risk management practices in private financial institutions;
- 5.3.1.3 They should be more dedicated to providing necessary infrastructures’ and also make economic policies that will assist the diversification of the economic base; which would make the country less vulnerable to oil shocks;
- 5.3.1.4 To tighten regulation and supervision of financial institutions by performing rigorous examination of the financial processes in order to identify early warning signals of financial crisis.
- 5.3.1.5 To encourage greater domestic cooperation between the nation’s regulators. This will guarantee collective action which is required to reduce risks in the banking sector.
- 5.3.1.6 To encourage and enforce transparency in all financial institutions in order to expose any form of marring in the bank’s balance sheet.

5.3.2 [Recommendations for the Nigerian Government](#) – the Nigerian government being at the centre of the need to consider the following recommendations in order to forestall future occurrence of a financial contagion of this magnitude:

- 5.3.2.1 As a matter of urgency, divest the economy in order to reduce overdependence on revenue and foreign exchange earnings from sale of oil and gas.

- 5.3.2.2 The government needs to provide a balanced intervention in the capital and financial markets in order to regulate them and ensure that they don't fail.
- 5.3.2.3 The government should work more on other non-oil sectors of the economy such as agriculture and provide an enabling environment for these sectors and actors in them to thrive and grow. This will increase the export earning potential of the country from these sectors and guarantee diversification of the revenue base of Nigeria.
- 5.3.2.4 The Nigerian government needs to introduce new and drastic measures that would revive the value of the Naira (₦) and make it more competitive in the global market.
- 5.3.3 [Recommendations for future research](#) -
 - 5.3.3.1 Further research work may be carried out on each of the economic variables highlighted in this study to determine strategies that can be employed by government or regulatory agencies to mitigate the effect of future financial crisis on the economy.
 - 5.3.3.2 Further work can also be done on how the collaboration of the different regulatory agencies can prevent a nation like Nigeria from suffering another financial crisis owing to interdependence on other economies.

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