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**EVALUATION OF THE IMPACT OF PETROLEUM  
PRODUCTION ON ECONOMIC GROWTH IN NIGERIA**

*EXTENDED ABSTRACT OF BACHELOR THESIS*

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## **1 SUMMARY**

The petroleum sector has been the dominant sector in Nigeria due to the huge revenue it generates, for many years. However the predominant situation in the Nigerian economy had negative effects. The causes and effect of this has been analyzed. The findings from statistical verification show that the explanatory variable which is the foreign direct investment, the export of petroleum and the price of petroleum have impacted positively on the gross domestic product per capita. The production of petroleum in Nigeria however was discovered to have not had such an impact on the Gross domestic product per capita. This can be traced to the uneven distribution of the revenue which is generated from production amongst the whole population. In conclusion this generated revenue could be invested in other sectors so that it could positively affect economic growth and real living standards.

**Keywords:** petroleum, production, gross domestic product, government, Nigeria, barrels, economic growth.

## **2 BRIEF INTRODUCTION**

The economy of Nigeria was always dependent on the Agricultural sector over the past few centuries until the discovery of oil in 1956, after many years of exploration. Ever since this discovery the economy of Nigeria depended completely on petroleum as its account for 90% of gross earnings, this is however not seen in the real economy because the predominant economic influence does not affect the lives of an average Nigerian. According to World Bank estimates 80% of oil revenue is benefitted by 1% of the population.

## **3 AIM/OBJECTIVES**

Aim of this thesis is to analyze the impact of petroleum production on economic growth and examine factors that affect the growth of the economy in Nigeria, from the period of 1988-2012. Most importantly to answer hypotheses and evaluate validity of the stated hypotheses.

**Hypothesis 1:** Foreign direct investment is an important factor that leads to transformation of an economy, therefore it will impact positively and significantly on the GDP per capita.

**Hypothesis 2:** An increase in petroleum export will have a positive and direct effect on gross domestic product per capita because of the huge revenues generated from petroleum export.

**Hypothesis 3:** The effect of the price on petroleum will be significant as petroleum is considered a necessary commodity for every household in Nigeria.

**Hypothesis 4:** The production of petroleum in Nigeria will impact positively on the GDP per capita because an increase in output level of a country will definitely measure up to the living standard of citizens.

**Hypothesis 5:** The effect of petroleum production on economic growth will be statistically significant, as the oil sector is the dominant sector of Nigerians economy.

### **3.1 METHODOLOGY**

The literature review provided an insight and a detailed understanding regarding petroleum production and economy growth. Annual secondary data was collected from the Central bank of Nigeria, The World Bank and U.S energy statistical bulletin, the data was used to make theoretical and empirical analysis. The multiple linear regression model was formulated regarding foreign direct investment, production of petroleum, export of petroleum and the price of petroleum as the explanatory variable while GDP per capita was used as a measure of economic growth. The parameters was estimated according to the ordinary least square method to get regression coefficients. The estimated parameters was also formulated for verification of stated hypotheses. The data was analyzed by making use of GRETL software and Microsoft excel.

### **4 FINDINGS AND RECOMMENDATION**

According to empirical findings the impact of petroleum production was discovered to have not had such an impact on economic growth of Nigeria. The negative impact can be traced to uneven distribution of wealth, corruption, exploitation, vandalism of oil infrastructures, oil theft, increased criminal activities, and caused environmental degradation.

#### **Recommendation**

- The revenues generated from oil should be reinvested in other sector of the economy. Agricultural sector should be promoted as it's the most productive sector with higher tendency of creating job opportunities for the Nigerians.
- There should be reliable, and independent organization monitoring the activities of government, as well as checking and balancing the government spending.

- Enactment of strict laws against the vandalism of oil infrastructures, and oil theft.
- The government should provide a better security level in Nigeria, especially by not aiding the activities of militant groups who claim to own oil. Amnesty shouldn't be granted to this group as it result to them causing menace in Nigeria.
- Enhancement of better exploration skills by petroleum companies in other to optimize the benefit of being a net exporter.
- Protection of the health and safety of the citizen by implementing policies targeted to controlling environmental degradation in the communities where crude oil are exploited.

## **5 CONCLUSION**

The impact of oil on economic growth have coevally been positive and negative, nonetheless the empirical result for the first hypothesis was confirmed, there is a positive and significant effect of foreign direct investment on GDP per capita as a measure of growth. The second hypothesis was also confirmed, the model suggest that an increase in petroleum export impacts positively on GDP per capita due to the huge proceeds generated from petroleum export. However, the parameter of petroleum export is statistical insignificant as a result of an uneven distribution of petroleum revenue. The third hypothesis was also confirmed, the effect of price on petroleum is significant as petroleum is considered a necessary commodity to every household in Nigeria. However, the result from the fourth hypothesis was not confirmed, according to the stated hypothesis, the statistical verification showed that petroleum production have a negative impact on the GDP per capita.

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