

## ABSTRACTS

Inflation in Nigeria has been the major problem causing lower standard of living of people as it erodes the purchasing power of people. As such, studies have been conducted but with different findings. Furthermore, theoretically and practically, Nigeria experiences economic and social instability owing to the fact that it consumes more than it produces, and imports most of the raw materials for the little production it makes. This has however made the cost of living high. Hence, this study examines the impact of inflation rate on standard of living of people in Nigeria, collecting data that span from 1999 to 2022. To estimate the parameters of the model, Autoregressive Distributed Lag Model was employed. From the long run result, Manufacturing Capacity Utilization (MCU) and exchange rate (EXCR) have negative impact on standard of living, while Consumer Price Index (CPI) and unemployment rate (UNEM) have positive impact. The short run impact shows that CPI, MCU and UNEM have positive impact, while EXCR has negative impact. As a result of these findings, the study recommends that government should put measures in place to reduce the rate of inflation, even though it has positive impact in this study. This can be done by encouraging investments in manufacturing sector. This will equally increase the manufacturing capacity utilization, reduce unemployment rate, thus, increasing the standard of living of people.

*Keywords: Inflation, unemployment rate, per capita income growth rate, Nigeria.*

**JEL Codes: D6, E31, I13**

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## 1. INTRODUCTION

The fundamental dimensions of economic well-being wield substantial influence over the socioeconomic structure of nations. The inflationary pressures and its effect on standard of living of people have seized global attention. Across the globe, countries grappled with multifaceted challenges, stemming from the relentless surge in prices and the collective aspiration for enhanced living conditions for their citizens (Bawa, 2016). The effect of inflation is felt in our daily lives as it directly impacts private consumption capacity (PricewaterhouseCoopers, 2022). Mukhtar et al. (2021) asserted that Inflation is an inevitable property of any economy in the world. Inflation, characterized by the sustained increase in the general price level of goods and services within an economy, possesses the subtle yet far-reaching potential to erode a nation's

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currency's purchasing power. Inflation stands at the confluence of numerous economic factors, each laden with profound and extensive implications.

Conversely, Muhammad et al. (2023) define standard of living as the quality and quantities of goods and services available to the total number of people living in a geographical area at a particular time for some time. The standard of living comprises a multitude of socio-economic factors collectively shaping the quality of life and material well-being experienced by a given population. Shahzad et al. (2012) pointed out that as the prices of commodities increase, consumers' marginal propensity to save declines, thereby adversely affecting standard of living.

The United States, often regarded as an economic powerhouse has not been immune to the far-reaching effects of inflation. In 2011, the United States contended with an annual inflation rate of 3.8%. Over the past decade, inflation has gradually risen, reaching approximately 7% by 2021, but dropped to 3.7 in 2023 (U.S. Bureau of Labor Statistics, 2023). However, 11.6% of the total population of Americans lives in poverty as of January 2021 (United States Census Bureau, 2023). This adversely affects the standard of living of the Americans. In a similar vein, South Africa which is recognized as the continent's economic gateway has also grappled with inflationary pressures. She encountered an inflation rate of 5.7% in 2013. Fast forward to 2022, inflation rate stands at approximately 6.9%, pushing lower-middle-income poverty rate to 41.1% (Statistics South Africa, 2023).

The dynamic relationship between inflation and the standard of living is marked by rising prices, exerting pressures on the resources available to individuals and families, subsequently affecting their capacity to access essential goods and services and, ultimately, their overall quality of life (Daniel et al, 2021). In an era where inflationary trends transcend national borders, it becomes indispensable to dissect the unique local intricacies and challenges faced by Nigeria's diverse population in their pursuit of maintaining and enhancing their standard of living amidst shifting economic conditions (Oranefo, 2022).

Nigeria, a nation brimming with economic potential, has faced its own share of inflation-related challenges. In 2018, Nigeria recorded an inflation rate of 11.37% (National Bureau of Statistics, 2019). This figure however surged to approximately 25.5% in the third quarter of 2023, leaving an indelible mark not only on the nation's economy but also on the standard of living of millions

of Nigerians. This comparative examination underscores the global and regional variations in inflation rates and their profound impact on the standard of living (Idris, 2021). It emphasizes the urgency of understanding the unique economic and socio-political factors at play in each region and underscores the necessity of tailored policy responses to address the multifaceted challenges posed by inflation. Ogbegbor et al. (2020) emphasized that once inflation exceeds its required threshold, regulators deploy policy instruments to control and cushion its effects on the population as part of broad macroeconomic stabilization objectives.

To curtail the effect of high inflation on standard of living, the Nigerian government put in place measures such as, tightening monetary policy, manufacture-in-bond scheme, adjusting electricity tariffs, naira for dollar scheme, interest drawback program fund, amongst others. However, the policy measures have not helped to reduce inflation in Nigeria. Hence, the standard of living of people remains low (Nigerian Investment Promotion Commission, 2023).

Furthermore, this research integrates a comprehensive review of empirical work in this field. Abdullahi and Ibrahim (2016) stated that it is commonplace that the determinants of inflationary pressures in Nigeria are multi-dimensional. These economic factors, such as inflation, exchange rates, unemployment, and manufacturing capacity utilization, are intricately linked to per capita income, a key indicator of the standard of living in Nigeria. According to Samuel et al. (2021), there is need to maintain a balance in both domestic and foreign sectors and achieve sustained economic development and a competitive exchange rate across the globe.

Numerous studies and analyses have delved into the dynamics of inflation and its impact on the standard of living in Nigeria. Muhammad et al. (2023) investigate the analysis of inflation on the standard of living in Nigeria from 1991 to 2021 and found that the Consumer Price Index [CPI] positively affects Gross Domestic Product Per Capita in the short term. Ogbegbor et al. (2020) however found a negative impact of inflation on standard of living in Nigeria. High inflation will erode the purchasing power and this will drastically change the standard of living of people. Country like Nigeria has experienced continuous instability due to inflation since the consumers' costs of living is depended on the prices of goods and services (International Monetary Fund, 2021). Lax monetary policy has been identified to be the typical cause of high inflation rate. When the money supply increases in relation to the size of the economy, purchasing power will decrease. This will in turn affect the standard of living (IMF, 2021). Due to this disparity in

scholars' findings, this study primarily focused on examining the ramifications of inflation in Nigeria, with a particular emphasis on its impact on the standard of living.

A significant contribution of our paper lies in the inclusion of manufacturing capacity utilization, unemployment, consumer price index and exchange rate as key determinants of the standard of living. These investigations offer valuable insights into the relationships between these variables, forming a solid foundation for our own analysis. The remaining sections of this paper are structured into literature review, methodology, data analyses and interpretation of results; and conclusion and policy recommendations. The hypotheses of this study are formulated and tested in null form as follows:

- i.  $H_0$ : Inflation does not significantly affect standard of living in Nigeria.
- ii.  $H_0$ : Exchange rate is not significant to standard of living in Nigeria.
- iii.  $H_0$ : Manufacturing capacity utilization does not have any significant effect on standard of living in Nigeria.
- iv.  $H_0$ : Unemployment rate is not a significant determinant of standard of living in Nigeria.

## 2. LITERATURE REVIEW

### 2.1. Theoretical Framework

#### 2.1.1 The Structural Theory of Poverty

According to the David Elesh (1970), the structural theory of poverty explains poverty in terms of the conditions under which the poor lives. These conditions are categorized as being unemployed, underemployed, poorly educated and having poor health. Given the unstable economic and social conditions in Nigeria, the rate of inflation is very high, causing low standard of living of people. This high rate of inflation can be attributed to inability of manufacturing sectors to fully utilize their capacities, coupled with high exchange rate which is as a result of importation of raw materials for production. Consequently, this can lead to an increased cost of living, thus eroding individuals' purchasing power. Low-income households, which are already on the brink of poverty, might find it even more challenging to afford essential imported goods and services, exacerbating their economic hardship.

### 2.2. Empirical Literature

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Empirical works on inflation vis-à-vis standard of living are reviewed under this section. Reviews revealed that different measures are used to proxy standard of living. The most recent and relevant works are thus revealed below.

Muhammad et al. (2023) analyzed the relationship between inflation rate and standard of living in Nigeria for the period 1991 to 2021, using autoregressive distributed lag model (ARDL). From the result of the study, consumer price index has positive impact on GDP per capita, while interest rate and exchange rate has negative impact.

Using life expectancy as an alternative for the dependent variable and the consumer price index (CPI), gross domestic product per capita (GDPPC), unemployment, and openness as independent variables, Olaniyi (2022) investigated the empirical analysis of inflation and people's well-being in Nigeria from 1981 to 2019. The study which employed the autoregressive distributed lag (ARDL) model revealed that each percentage point rise in inflation decreases Nigerians' well-being by 0.24 percent.

Chukwu and Nduka (2022) empirically analyzed the relationship between manufacturing sector and economic development of Nigeria, using annual time series data that covered the period of 1999 to 2021. An autoregressive distributed lag approach was used and the result indicated that both in the long and short run, manufacturing capacity utilization has negative and insignificant impact on human capital development in Nigeria.

Yusuf (2021) analyzed the impact of unemployment rate on the quality of life in Nigeria from 2010 to 2019. The vector autoregressive distributed lag model (VAR) was employed and the result found that unemployment reduced the quality of life between 2010 and 2019 in Nigeria.

Ogbebor et al. (2020) used human development index to proxied standard of living and studied the impact of inflation on standard of living. Annual time series data were collected from 1998 to 2017. The autoregressive distributed lag approach was employed and the result found that inflation has a negative impact on standard of living in Nigeria.

Gagarawa and Mehrotra (2017) investigated how inflation impacted the living standards of public primary school teachers in Jigawa State, Nigeria (2014–2016). Data was obtained using a structured questionnaire and a survey technique. Findings suggested that inflation has a

significant and adverse effect on the standard of living of public primary school teachers in Jigawa State.

Poverty level, unemployment rate, and inflation rate were the variables utilized by Siyan, Adegioriola, and Adolphus (2016) to analyze the effects of unemployment and inflation on poverty level in Nigeria between 1980 and 2014. Vector Autoregressive (VAR) technique was employed and the result indicates that inflation and unemployment are the major causes of poverty in Nigeria. According to the granger causality's findings, a one-way causation was seen between the inflation rate and the unemployment rate, but there was a two-way causality between unemployment and poverty.

Shahzad et al. (2012) employed the qualitative approach of analysis to study the effects of inflation on economic growth in Pakistan for the period of 2010 and 2011. A sample of 200 male heads of families responded to the interview and the results found that inflation decreased the standard of living of people living in Multan, Pakistan in 2011 despite the increase in their income levels.

### 3. METHODOLOGY

This section discusses the methods used in estimating the parameters of the model. It follows the following subsections;

#### 3.1. Model Specification

The model for this study is specified in line with the model of Muhammad et al. (2023) to study the impact of inflation on standard of living in Nigeria. The model is adopted for this study because the methods of analyses are the same. The variables in their model are also similar to the variables of this study. Thus, their model is specified as;

$$\text{GDPPC} = f(\text{INT}, \text{EXCH}, \text{CPI}) \quad (1)$$

Where, GDPPC is Gross Domestic Product per capita (proxy for standard of living); INT = Interest rate; EXCH = exchange rate; CPI = consumer price index (proxy for inflation). However, this study modified Muhammad et al. (2023)'s model and it is specified as;

$$\text{PCIG} = f(\text{CPI}, \text{MCU}, \text{EXCH}, \text{UNEM}) \quad (2)$$

Where, PCIG = Growth rate of per capita income (proxy for standard of living); CPI = Consumer Price Index (proxy for inflation); MCU = Manufacturing Capacity Utilization; RXCR = Exchange rate; UNEM = Unemployment rate. Manufacturing capacity utilization is included because it determines the level of output a manufacturing sector would produce for consumption, since the inflation we experience in Nigeria is as a result of manufacturing sector importing raw materials for production, which increases costs of production.

The econometric form of equation 2 can be written as:

$$PCIG_t = \beta_0 + \beta_1 CPI_{t-1} + \beta_2 MCU_{t-1} + \beta_3 EXCR_{t-1} + \beta_4 UNEM_{t-1} + \mu_t \quad (3)$$

Where,  $\beta_0 - \beta_4$  are the slopes of the coefficients, while  $\mu_t$  is the error term.

### ARDL Equation

$$\begin{aligned} \Delta PCIG_t = & \beta_0 + \beta_1 PCIG_{t-1} + \beta_2 CPI_{t-1} + \beta_3 MCU_{t-1} + \beta_4 EXCR_{t-1} + \beta_5 UNEM_{t-1} + \sum_{i=1}^p \alpha_1 i PCIG_{t-1} \\ & + \sum_{i=1}^p \alpha_2 i CPI_{t-1} + \sum_{i=1}^p \alpha_3 i MCU_{t-1} + \sum_{i=1}^p \alpha_4 i EXCR_{t-1} + \sum_{i=1}^p \alpha_5 i UNEM_{t-1} \\ & \text{ØECM}_{t-1} + \mu_t \end{aligned} \quad (4)$$

### 3.2. Estimation Techniques and Procedure

The study employs the ARDL model because of the following reasons; it gives good estimates, it estimates both the long run and short run; it can be applied if the order of integration is mixed. However, some pre-estimation tests are carried out before applying ARDL. First, the stationarity test is conducted, using Augmented Dickey Fuller test, in order to have a reliable result. The cointegration test is also done with ARDL bounds test. After, conducting the ARDL test, some post estimation tests are carried out.

### 3.3. Nature and Source of Data

Annual time series data were collected from Central Bank of Nigeria Statistical Bulletin various years and World Bank Database on the variables. The dependent variable is the growth rate of per capita income, which is the proxy for standard of living, while the explanatory variables are consumer price index (proxy for inflation rate), manufacturing capacity utilization, exchange rate and unemployment rate.

## 4. RESULTS

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### 4. DATA PRESENTATION AND ANALYSES OF RESULTS

This section discusses the result of the study and the results are presented thus;

#### 4.1. Presentation and Interpretation of Results

##### 4.1.1. Stationarity Test

This test is conducted using Augmented Dickey-Fuller unit root test. The test is applied for this study so as not to run into nonsense regression, as spurious regression can lead one to misleading results.

**Table 1:** Summary of the ADF Unit Root Test

Variables	ADF Statistics	Critical Value @5%	Order of Integration	ofP-Value @5%	Remarks
<b>PCIG</b>	-5.2354	-3.0124	I(1)	0.0004	Stationary
<b>CPI</b>	-3.0312	-2.9981	I(0)	0.0468	Stationary
<b>MCU</b>	-6.1637	-3.0049	I(1)	0.0000	Stationary
<b>EXCR</b>	-3.1083	-3.0124	I(1)	0.0413	Stationary
<b>UNEM</b>	-5.9897	-3.0049	I(1)	0.0001	Stationary

*Source: Eviews 10.0 Output*

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The result in Table 1 presents the unit root test and from the result, there exists mixed order of integration as consumer price index is stationary at level while other variables (per capita income growth rate, manufacturing capacity utilization, exchange rate, unemployment rate) are stationary at first difference. Based on this order of integration, the ARDL bounds test is conducted.

##### 4.1.2. Lag Selection Criteria

To know the appropriate lag length to use for both the dependent and explanatory variables of this model, the study uses the VAR lag selection criteria. It is necessary in the application of ARDL because there is need to include the lagged values of the dependent variable as part of the explanatory variables.

**Table 2. VAR Lag Selection Result**

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-432.0639	NA	2.20e+10	38.00555	38.25240	38.06764
1	-363.3141	101.6301*	5.22e+08*	34.20123*	35.68231*	34.57371*

\* indicates lag order selected by the criterion

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The lag length selection criteria result shows lag one as the appropriate lag length. As such, lag one is used in this study.

#### 4.1.3. Autoregressive ~~Distributed~~ distributed Lag (ARDL) ~~Bounds~~ bounds Test test for ~~Cointegration~~ cointegration

ARDL bounds test is cointegration test that can be used to test for long run relationship in the case of mixed order of integration. Thus, the result is presented in Table 3.

**Table 3. ARDL Bounds Test Result**

Null Hypothesis: No long-run relationships exist

Test Statistic	Value	K
F-statistic	11.01659	4

Critical Value Bounds

Significance	I0 Bound	I1 Bound
10%	2.45	3.52
5%	2.86	4.01
2.5%	3.25	4.49

1%                      3.74                      5.06

*Source: Eviews 10 Output.*

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The ARDL bounds test result shows a F-statistic of 11.01659 and it suggests that long run relationship exists amongst the variables of interest in this study. This is concluded based on the decision rule that F-statistic must be greater than the upper bound at 5 percent level before long run can be said to exist. Hence, the long run and short run ARDL estimates are provided.

#### 4.1.4. Autoregressive ~~Distributed~~-distributed Lag Model

Autoregressive lag model is employed in this study because it gives good estimates compared to other methods tested before concluding on using ARDL. ARDL helps to show both the long run and short run estimates. The results are presented in Tables 4 and 5.

**Table 4. Long Run Estimate of ARDL**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	17.08171	20.18683	0.846181	0.4092
PCIG(-1)	-0.261183	0.224080	-1.165576	0.2599
CPI(-1)	1.384966	0.799875	1.731478	0.1015
MCU(-1)	-0.142120	0.347824	-0.408597	0.6879
EXCR(-1)	-0.093343	0.044115	-2.115886	0.0494
UNEM(-1)	0.139007	0.511594	0.271713	0.7891

*Source: Eviews 10 Output.*

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The long run result presented in Table 4 shows that the lagged values of per capita income growth rate, manufacturing capacity utilization and exchange rate have negative impact on standard of living. However, exchange rate shows a significant relationship while other variables are statistically insignificant. The coefficients of the lagged values of consumer price index and unemployment rate are statistically and positively related to standard of living in Nigeria in the long run.

**Table 5: Short Run ARDL result**

Dependent Variable: D(PCIG)

Method: Least Squares

Date: 10/13/23 Time: 17:49

Sample (adjusted): 2001-2022

Included observations: 22 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.594031	3.161595	-0.187890	0.8535
D(PCIG(-1))	-0.332224	0.156231	-2.126497	0.0505
D(CPI(-1))	0.487293	0.566194	0.860646	0.4030
D(MCU(-1))	0.500185	0.443772	1.127121	0.2774
D(EXCR(-1))	-0.082353	0.160303	-0.513734	0.6149
D(UNEM(-1))	0.148237	0.455970	0.325103	0.7496
ECM(-1)	-1.111761	0.310646	-3.578871	0.0027
R-squared	0.771206	Mean dependent var	-0.374091	
Adjusted R-squared	0.679688	S.D. dependent var	19.45822	
S.E. of regression	11.01260	Akaike info criterion	7.889328	
Sum squared resid	1819.160	Schwarz criterion	8.236478	
Log likelihood	-79.78261	Hannan-Quinn criter.	7.971106	
F-statistic	8.426845	Durbin-Watson stat	1.994297	
Prob(F-statistic)	0.000404			

Dependent Variable: D(PCIG), Method: Least Squares, Date: 10/13/23 Time: 17:49, Sample (adjusted): 2001-2022, Included observations: 22 after adjustments.

**Source: Eviews 10 Output.**

Table 5 presents the short run result of the ARDL. From the result, the lagged values of per capita income growth rate and exchange rate have a negative impact on standard of living in Nigeria. This means that 1 percent increase in the lagged values of PCIG and EXCR will cause the standard of living to decline by 0.33 and 0.08 respectively. The coefficients of the lagged values of consumer price index, manufacturing capacity utilization and unemployment rate have

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positive but insignificant impact on standard of living of people. This implies that if on average, CPI, MCU and UNEM are raised by 1 percent, the standard of living will rise by 0.49, 0.50 and 0.15 percent respectively. The error correcting term of -1.11 is rightly signed and statistically significant at 5 percent level. This simply means that about 1.11 percent disequilibrium in the previous years will be corrected for in the current year. The R2 value of 0.77 implies that about 77 percent variations in standard of living are explained by CPI, MCU, EXCR and UNEM. The probability value of F-statistic (0.000404) means that all the variables, put together, are jointly statistically significant at 5 percent level.

#### 4.2. Post-Estimation Diagnostic Tests

These tests are necessary to show the reliability and validity of the estimates. The results of the diagnostic tests conducted for this study are presented thus;

##### 4.2.1. Serial Correlation [Test](#)

This test is the most appropriate test for ARDL method to check serial correlation in a model. The result is presented in Table 6.

**Table 6:- Breusch-Godfrey Serial Correlation LM Test**

F-statistic	0.011614	Prob. F(1,14)	0.9157
Obs*R-squared	0.018236	Prob. Chi-Square(1)	0.8926

*Source: Eviews 10 Output.*

The result in Table 6 clearly shows that there is no serial correlation in the model. This is because the probability value of F-statistic which is 0.9157 is greater than 5 percent level of significance.

##### 4.2.2. Heteroscedasticity [Test](#)

This test is a test conducted to know if the mean and the variance are constant over time. The result is presented in Table 7.

**Table 7:- Heteroskedasticity Test: Breusch-Pagan-Godfrey**

F-statistic	0.472588	Prob. F(6,15)	0.8182
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Obs*R-squared	3.497605	Prob. Chi-Square(6)	0.7443
Scaled explained SS	1.535209	Prob. Chi-Square(6)	0.9571

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Heteroscedasticity test presented in Table 7 reveals that the probability value of F-statistic (0.8182) is greater than 0.05. This implies that there is no heteroscedasticity in the model and the study concludes that the model is homoscedastic.

#### 4.2.3. Stability Test

Stability test is conducted in this study to ascertain if the model is stable or not. For this study, the cumulative sum and cumulative sum of square are used simultaneously.

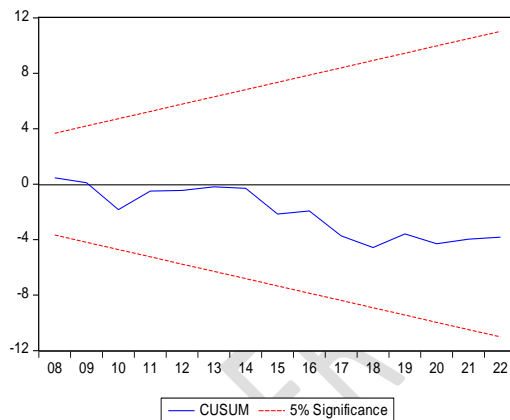


Figure 1: Cumulative Sum Test

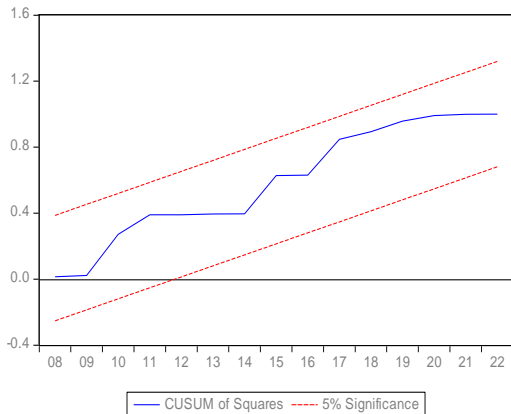
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**Figure 2. Cumulative Sum of Squares Test**

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The CUSUM and CUSUM of Squares results presented in Figures 1 and 2 show that the base lines fall within the boundary at critical level of 5 percent. The study therefore concludes that the model is stable.

### 4.3. Testing of Hypotheses

Decision rule for rejection of null hypothesis is that p value must be less than 0.05. It can also be judged from the t-statistic if the calculated t-stat is greater than tabulated t-stat. In this study, p value will be used as a measure for accepting or rejecting the null hypothesis.

**Hypothesis One: Inflation does not significantly affect standard of living in Nigeria.**

Based on the p value of 0.4030 which is greater than 0.05, the null hypothesis is accepted.

**Hypothesis Two: Exchange rate is not significant to standard of living in Nigeria.**

The null hypothesis can be accepted as the p value (0.6149) is greater than 0.05.

**Hypothesis Three: Manufacturing capacity utilization does not have any significant effect on standard of living in Nigeria.**

The third hypothesis is also accepted owing to the fact that the p value of 0.2774 is greater than 0.05.

#### **Hypothesis Four: Unemployment rate is not a significant determinant of standard of living in Nigeria.**

The study accepts the fourth hypothesis that unemployment does not have significant impact on standard of living in Nigeria as the p value of 0.7496 is greater than 0.05.

#### **4.4. Discussion of Findings**

The long run estimate shows that manufacturing capacity and exchange rate have negative impact while consumer price index and unemployment rate has positive impact. The short run estimate further shows that consumer price index has positive relationship with standard of living. This does not conform to the a priori expectation because it is expected that increase in inflation will result in low standard of living, as inflation tends to erode the purchasing power of consumers. The finding is in tandem with the findings of Muhammad et al. (2023).

In a similar vein, manufacturing capacity utilization has a positive impact on the standard of living in Nigeria. This does not support the reality in Nigeria because based on the data gathered from CBN Statistical Bulletin, Nigeria manufacturing sector has not fully utilized its potentials due to some socio-economic obstacles. Thus, the manufacturing sector cannot generate more employment opportunities and this has however, caused the rate of unemployment in Nigeria to remain high, which tends to lower the standard of living of people. Chukwu and Nduka (2022)'s finding is in contrast to this finding.

The rate of unemployment indicates that 1 percent increase in unemployment rate will increase the standard of living of people. This is far from reality and does not conform to the a priori expectation. When a quite number of people are jobless, they tend to depend on one income earner or the other, thereby, reducing the standard of living of both the income earner and the unemployed. Thus, in reality, high unemployment rate will lower the standard of living of people. The finding of Yusuf (2021) is contrary to this finding.

Furthermore, exchange rate has a negative relationship with standard of living. With high exchange rate in Nigeria, the rate of inflation has increased, owing to the fact that major manufacturing sector inputs are imported from other countries of the world. Thus, the high prices of goods and services have eroded the purchasing power of the consumers, thereby reducing

their standard of living. The finding of Muhammad et al. (2023) also found a negative relationship between exchange rate and standard of living of Nigerians.

The ECM value shows that the economy will quickly adjust from any disequilibrium with about 1.11 percent speed of adjustment. The  $R^2$  shows that the variables combined in this model moderately explain the relationship between inflation rate and standard of living in Nigeria. Therefore, this model can be used for economic predictions.

The post-estimation tests conducted in this study further reveal that the model is free from serial correlation and heteroscedasticity. The model is also stable.

## **5. CONCLUSION AND POLICY RECOMMENDATIONS**

This study examines the Nigeria's standard of living in the face of inflation. The period of 1999 to 2022 was covered in the analysis and ARDL method was used. The results of this study clearly show that inflation and unemployment rate have positive impact both in the long run and short run, while exchange rate has a negative impact both in the long and short run. However, manufacturing capacity utilization has a negative impact in the long run, while the short run impact was positive. In line with these findings, the study recommends that;

- i. Government should put measures in place to reduce the rate of inflation, even though it has positive impact in this study. This can be done by encouraging investments in manufacturing sector. This will equally increase the manufacturing capacity utilization, reduce unemployment rate, thus, increasing the standard of living of people.
- ii. Government should discourage importation of manufacturing raw materials, but adopt the policies used in the olden days to grow raw materials locally. This will go a long way in stabilizing the exchange rate.

### **Theoretical and Practical Implication of the Study**

Theoretically, David Elesh (1970) affirmed that the standard of living of people deteriorates due to economic and social instability. In the practical sense, when an economy consumes more than it produces, or resources and income are not equally distributed, such an economy is liable to experience both economic and social instability. This is the case of Nigeria.

## Limitation of the Study

The limitation of this study lies in getting data for the fiscal year 2023 on the variables. This thus limits the study in explaining the situation in Nigeria after fuel subsidy removal.

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**Comment [A5]:** The sources used in the text are indicated as follows: "(Bawa, 2016)" etc. Must be: [1]....  
All works cited in the text must be listed in the References.  
to elaborate the bibliographic citation and references format according to the needs of ARJASS.

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