Journal of Economic Cooperation and Development, **38**, 3 (2017), 145-168

Macroeconomic Variables, Investment and Economic Development in Nigeria: A Prognosis

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The paper examines the effects of macroeconomic variables and investment rate on economic development in Nigeria for the 1980-2014 period. It also examines how the interaction between macroeconomic variables and investment affect economic development to ascertain whether the effects of investment on economic development varies with the level of macroeconomic variables. Out of the five macroeconomic variables selected based on Maastricht Criteria indicators that measure a country's macroeconomic stability, fiscal deficit relative to GDP and real exchange rate have positive impact on economic development, while inflation rate and government debt relative to GDP have negative impact on economic development. However, real interest rate has no statistically significant impact on economic development in Nigeria. Moreover, the study found overwhelming evidence that the impact of investment rate on economic development varies with the level of four macroeconomic variables except real interest rate. The implication is that macroeconomic variables help to explain variation in economic development and investment rate indicating that better performance of macroeconomic variables and more investment rate seem to be much more applicable in the process of economic development than more investment rate in the midst of poor macroeconomic environment. Based on the findings, the paper made some policy recommendations.

Keywords: Macroeconomic variables, economic development, investment rate

JEL Classification: E69, O11, E31

1. Introduction

The macroeconomic policies adopted by a country determine the predictability of the domestic macroeconomic environment in-terms of

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