THE DETERMINANTS OF INVESTMENT DEMAND IN A DEVELOPING ECONOMY: A CASE STUDY OF NIGERIA.

BY

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DECLARATION

I declare that the work done in this MBA Project is wholly our efforts.

No project of this nature has been presented in any form, anywhere for any other degree prior to our research.

All materials used from other sources have been dully acknowledge.

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CERTIFICATION

This project entitled, The determinants of Investment Demand in a Developing Economy: A case study of Nigeria; by Helen E. Edet meet the regulations governing the award of the degree of Masters in Business Administration (MBA) of Ahmadu Bellow University, Zaria, and is approved for its contributions to knowledge and literary presentation.

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DEDICATION

This project is dedicated to God Almighty for His Love, Mercies and Grace

ABSTRACT

With respect to existing theories of investment demand we hold the view that some do not provide adequate explanation to aggregate investment behaviour in a developing economy.

This is due to the fact that the co-operating factors such as Human Capital, technology and raw materials needed to make a given investment profitable are not given much attention . Whereas, in developed economies, these cooperating factors are relatively abundant and, therefore, do not affect investment decisions. In developing economy the cooperating factors earlier mentioned places as serious limitation to the amount and rate of investment possible because of the relative scarcity.

Nigeria today would not have been dependent on oil revenue alone, but adequately self sufficient if its material and natural resources were provided with valuable transparent and appropriate investment outlet, but due to political, social and security inconsistency, Nigeria cannot boast of economic development.

The lack of sustainable communication net-work and poorly in adequate information on area of investment have by and large tendered Nigeria an unfriendly environment for investment for both local and foreign investors.

It is therefore our position to find, evaluate and communicate solution that will make Nigeria move forward in terms of economic development.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Nigeria possesses all the potentials In terms of human and material resources she requires to develop a strong and virile economy. These resources were selfishly exploited by the colonial masters because their honest development did not fit the objectives of the imperialists. At independence, Nigerian government saw the need to develop the economy and create conclusive environment for business operations. This was undertaken through the machinery of National Development Planning. Various economic policies were pursued aimed at diversifying the traditionally agrarian economy. With these strategies in place, Nigeria is still under the process of development, being ranked as one of the poorest countries of the Third World[1].

In Nigeria, there is minimum utilization of investment opportunities because of the following; a conspicuous absence of suitable investment opportunities or facilities; lack of a developed capital markets; low yields from investments; and the problems arising from the adverse effects of global inflation. All these factors are capable of curtailing the investors' freedom to invest profitably.

The economy of a nation is indeed the heart of its social developments. The economy of Nigeria has been declining since few years after independence. This has been as a result of inconsistencies in government and the nation's over dependence on crude oil. Nigeria gained independence from the British Colonial Administrators in 1960. At independence, agriculture sustained 80 percent of Nigeria's labour force. Prior to discovery of oil, the country survived mainly on agriculture both for subsistence and cash crop production. Nigeria was famous for her cocoa production from the South-East, groundnut pyramids and Cotton bales from the North and Palm produce from the then Mid-West and East.

These were resources of foreign exchange earnings for the country accounting for 63.4 per cent of the country's Gross Domestic Product (GDP) in the sixties. Industry was relatively under-developed and contributed a mere 3.6 per cent of the4 GDP. The other notable sectors with significant contributions to the GDP were distributive trade – 9.1 percent, transport and communications 4.4 per cent. National income was estimated at merely N2.244.6 million while physical infrastructures, were grossly inadequate[2].

It was realized against this background that government has to be a catalyst in the economic development of the new nation. Thus, Nigeria embarked on the path of Development Planning. At that time there was much hope in Foreign Aid, and the aid donors insisted on seeing a plan much in the same way that banks ask companies for feasibility studies. Planning therefore, became a conscious and cautious approach to public investment, and was considered the bedrock of efficient economic development. Successive Nigerian governments prepared comprehensive development plans which were used as ways of setting out government development objectives. The plans also served as means of demonstrating government initiatives in tackling the country's development problems.

So far, the country has had four development plans between the period 1962-1985 and the Abacha's vision 2010. The various plans have served as a stimulant to development efforts throughout the country, and had also helped foreign investors to determine government priorities areas.

On the whole, Nigeria has consistently pursued policies and strategies aimed at diversifying her economy and promoting agriculture and industrialization. These policies and strategies ranged from the import substitution approach to the indegenisation programme as aptly articulated in the second National Development Plan. Later in 1985, emphasis was placed on the Structural Adjustment Programme (SAP) with a view to raising the level of intermediate and capital goods produced locally in order to earn foreign exchange. The private sector is not left out in development plan.

Investment demand in a developing economy of a nation (such as Nigeria) is paramount because it enhances economic development. Investment, if properly managed is `Wealth', But one cannot rule out the possibility of risks that is involved.

The term investment from the point of view of an economist is the conversion of money and reserves into some species of property from which an income or profit is expected to be derived either immediately or at some future date in the normal course of business. The objective of investment is to increase income. Braithwaite (1975) described the purpose of investment as follows:-

> "The purpose of investment is to put one's available *funds to use or tend it to others in the hope of* earning a return of dividend or interest. The security exchanged for the investment must be considered good enough to ensure the safety of the capital invested"[3].

Funds could be invested either on a short term or long-term basis depending on the business contacted – that is the circumstances surrounding the business transaction.

Conclusively, this study deals with an economic analysis of the determinants of investment demand in a developing economy. A case study of the Nigerian experience. We shall not embark on too much details but will try as much as possible to establish concrete facts that will be useful to the actual and potential investors. This is due to time and space factors.

The determinant of investment demand include

(a) The Rate of Interest Theory

(b) The Accelerator Principle

(c) The Income Theory

(d) The Profit Theory

(e) Expectation

(f) The Level of economic Activity

(g) The Stock of Capital

(h) The Cost of Capital goods

(i) Other factor costs

(j) Technological change

(k) Public Policy

The body of the work is divided into 3 main parts. The first consist of chapters one and two which reviews the existing economic theories on investment demand and their relevance to developing economy such as Nigeria. The second part is made up of chapter three which establishes an investment demand model considered relevant to the Nigerian situation – That is, the Research methodology. The last part include chapter four and five which deals with an empirical test of the model used that is the data presentation and analysis, then we have the summary, conclusion and recommendations.

1.2 STATEMENT OF THE PROBLEM

This research work will identify the various factors that shape the pattern of investment by Nigerians and foreigners and try to assess their contributions (whether positive or negative) towards attainment of the nation's objectives either as individual or group committed to the development of the nation's economy.

Despite many measures taken to resolve issues that hinder economic development in Nigeria, we are still faced with the problem of under-development. This is why we want to know the root of the difficulty and the problems, thus prompting the following questions that are itching for answers.

1. Can Nigeria boat of economic development after 39 years of independence?
2. What determines the amount to invest in different investment alternatives.

3. What are the investment alternatives open to local and foreign investor in the country.

4. What are the factors limiting investment demand in Nigeria.

5. Is Nigeria safe now for investment?

6. What is the basis for investment decision. Is it profitability or liquidity?

1.3 OBJECTIVE OF THE STUDY

An examination of the investment portfolio of any organisation (private or public) in Nigeria will show that the organisation's investment will involve some of the underlisted types of investment.

(a) Government bonds and stocks including those sponsored by the government or quasi – government institutions

(b) Commercial stocks and shares including preference shares and ordinary shares.

(c) Property in the form of lands, buildings equipments, etc.

(d) Cash on deposit.

It is believed that the amount a nation or organisation invest in these different investment alternatives varies It is also obvious that their level of profitability (the returns on investment) differs. The objectives of this research therefore is as follows:

1. To determine what factors limit or enhance the commitment of more funds into a particular type of investment other than the other.
2. To make policy recommendations on how to strike a balance between profitability and liquidity given a certain level of income or resources.
3. And to also recommend ways of generating funds or more funds for investment purposes.

1.4 SIGNIFICANCE OF THE STUDY

This study is to establish factual basis and analytical framework for formulating and appraising official policies designed to stimulate investment demand. This will educate both actual and potential investors on ways of exploiting investment opportunities. Successful investment will enhance economic development of any nation.

1.5 ASSUMPTIONS AND HYPOTHESES

Our model of investment demand is based on the following assumptions:-

- Profit motive is the primary purpose of all business investments.
- The supply of funds is a basic requirement of all investments.
- Investments require the cooperation of other factors in order to be productive.

The following statements of hypotheses were postulated in the course of the research.

1. Changes in Gross Domestic Product (GDP) level was directly responsible for changes in the level of gross National Investment levels in Nigeria.
2. Changes in the level of Gross National Savings was directly responsible for changes in the level of gross National Investment in Nigeria.

3. Changes in the level of savings interest rate in the economy was responsible for changes in the level of Gross National Investment in Nigeria.

1.6 SCOPE OF THE STUDY

The central focus of this study can be derived from its assumptions and hypothesis within this context is the fact that we are mainly concerned with the determinants of investment demand in the Nigerian economy. It is going to be a survey work covering the period 1980 – 1995. The choice of Nigeria is not by mistake. It is based on the obvious fact that the same investment conditions are applicable to other developing nations.

1.7 LIMITATIONS OF THE STUDY

This study will be limited to what is obtainable in Nigeria (i.e investment opportunities) with reference to developed economics. The information for this work will be generated from primary and secondary sources.

For primary sources, we will embark on content analysis of material relevant for our research work. In this line, therefore, we will examine; newspapers, magazines, published and unpublished works. Also we will generate primary data by interviewing target individuals who will provide useful information as related to the study.

For secondary sources, materials are found in libraries and the archives.

1.8 DIFINITION OF TERMS

ECONOMY: A system by which the financial, human and material resources of a community is controlled and managed.

INVESTMENT: It is the conversion of money and reserve into some species of property from which a profit is made.

LIQUDITY : This refers to the ease of converting an asset into money quickly, conveniently, and at little exchange cost.

G D P	**:**	Gross Domestic Product
G N I	:	Gross National Investment
G N S	:	Gross National Saving
SR (%)	:	Savings rate percentage

FOOTNOTES

1. World Bank Report, documented on cable network News on the 28th August, 1999.
2. S. Olayide (1976) Economic Survey of Nigeria 1960-75 Page 12; and Third and Fourth National Dev., Plans.
3. T. Braithwaite (1975), Investment of Insurance Funds in Africa; Journal of the West African Insurance Consultative Association, Vol. No. 1 1975 Page 27 (Edited by J.O. Erukwu).

CHAPTER TWO

LITERATURE REVIEW AND THEORETICAL FRAMEWORK

2.1 THE CONCEPT OF INVESTMENT

J.R Clark et al (1990)[1] stated that investment is not only a large component of Gross National Product (GNP), it is also a highly volatile pro-cyclic component. Managers in construction and in producers of durable equipment manufacturing are naturally concerned with forecasts of investment demand. Economists debate whether the correlation between investment and the business cycle is due to fluctuations in investment demand causing fluctuations in total spending or to fluctuations in total spending causing fluctuations in investment demand. Fiscal and monetary authorities are concerned with how their policies affect investment because the amount of investment spending will in the long run, determined economic growth, productivity, and standards of living.

Some authors hold that by investment, economists mean expenditures on productive capacity or physical investment. This definition contracts with the common use of this word to refer to financial investment. The everyday definition focuses on what investment means to an individual. For an individual, activities such as depositing money in a bank account and purchasing shares of stock are considered to be "investments". However, these activities do not themselves add to the economy's productive capacity. These activities rearrange ownership of productive capacity but do not add to the economy's productive capacity; they are therefore not themselves investments in the economic sense.

According to the National Income and product accounts (NIPA), investment includes three Categories of expenditure; namely: fixed business investment, changes in business inventories, and residential construction. Fixed business investment includes non-residential construction and producers durable equipment, or in business Jagon – plant and equipment. This categorization of investment emphasizes additions to the economy's stock of physical capital. Examples of physical capital include factories, warehouses, retail and service outlets, and many other kinds of commercial buildings; machinery, professional instruments, computers; construction and farm equipment, trucks, rail roads, and many other kinds of tools and vehicles; raw materials, work-in-progress and finished inventories; single and multi family housing.

Seldin et al (1985)[2], in trying to distinguish between investment in real property and in securities made the following distinctions:-

1. Investment in real property has the disadvantage of indivisibility. It cannot be divided into small units and can therefore, be bought by only big time investors with big capital.

2. The costs of property ownership transfers are always enormous. Fees have to be paid in respect of government consent Lawyers' fees, the fees of agents and estate valuers who give reports to the physical conditions and the true value of the property.

   The Lawyer has to investigate title to the property and draft the transfer documents.

3. Investment in real property is invariably a good start for capital growth. Investment in securities is not. It is

ridden with risk because its success and growth are contingent on the performance, earning power, dividend policy of the issuer of the security.

4. Investment in real property gives the investor ability to acquire asset that can be left with bank as security or collateral for loans and advances Investment in securities confers the same ability except that banks more often offer more note in real property far above the intangible asset of securities.

5. Investment in real property produces savings in rent resulting from owner-occupation. This is similar to investment in securities where savings can be generated from capital appreciation –capital gains.

6. A very important distinction that investment on real property does not give rise to the creation of negotiable instruments. The stock shares or certificates of ownership on the other hand, are freely transferable, because the securities are quote on the stock exchange. And securities owner may freely dispose of his stock and

shares to others in a designated market duly recognised by the government, that is the stock Exchange This contrasts with investment in real property which face-to – face negotiation between the potential buyer and intending seller when disposing of.

Finally it is believed that Investment in securities are invisible. Lund (1979)[3] conceptualises investment as the sacrifice of current consumption possibilities in the hope of realising increased consumption possibilities in the future. He identifies five separate classes of investment as follows.

(i) In human potential

(ii) In intangible assets

(iii) In financial assets

(iv) In stocks and work- in-progress

(v) In fixed assets.

He further stresses some fundamental point that acquisition of intangible asset such as potents, copy rights and "goodwill" are considered as investment by individuals and firms which acquire them where as national income accounts excludes them.

Fabozzi and Pollack (1987)[4] in seeking to draw a clear line of distinction between investment and speculation defined investment

As a commitant of funds made in the expectation of some positive rate of return will be commensurable with the risk the investor assumes. However, some scholars that investment is distinguished from speculation by the time horrizon of the investor and often by the risk-return characteristics of the investment. The investor in the true sense is interested in good rate of return, earned on a rather consistent basis for a relatively long period of time. The speculator seeks opportunities promising very large returns, earned rather quickly. The speculator is less interested in consistent performance than is the investor and is more interested in the abnormal, more moderate rate. Furthermore, the speculator wants to get these high returns in a short time and the seek greener pastures in other investment outlets.

Fabozzi of et al also state that investment generally involve real assets or financial assets. Real assets are tangible, material things such as buildings, automobiles and text books. Financial assets are pieces of paper representing an indirect claim to real assets held by someone else. These pieces of papers represent debt or equity commitments in the form of I owe you (I O U) or stock certificates. These authors also held that among the many properties that distinguish real assets from financial assets, one of special interest to investors is liquidity. Liquidity refers to the ease of converting an asset into money quickly, conveniently, and at little exchange cost. Real asset are generally less liquid than financial assets, largely because real assets are more heterogeneous, often particularly adapted to a specific use, and yield benefits only in co-operàtion with other productive factors.

2.2 THEORIES OF INVESTMENT DEMAND

The theory of investment demand has been studied very intensively by Economists since the publication of Keynes' general Theory in (1936)[5] Most of the studies are done with reference to developed economies especially the United States. A considerable gap exists in the extension of these studies to developing economies where the need for their worthy exist.

A detailed review of literature on business investment behaviour has been made by R. Eisner and R. Strotz (1963)[6]. In addition, a more concise review of the subject on developments up to 1962 was provided by E. Kuh (1963)[7]. Similarly a review of literature on econometric studies of investment behaviour through 1971 was made by D. Jorgenson and H. Grubel (1971)[8]

As a result of the existing of these reviews on the subject, the present review will only be a summary of the most important developments up to 1990. The review will be divided into four main areas, each signifying the most important factor considered at each stage as a major determinant of investment demand.

These include:-

- The Rate of Interest Theory
- The Accelerator Principle
- The Income Theory
- The Profit Theory, etc.

THE RATE OF INEREST THEORY

The earliest formulations of the investment theory were those that used the rate of interest as a measure of the cost of raising funds and the marginal efficiency of investment as a measure of the expected rate of return on investment. The most important contributions in this area include those of Knut Widesell (1851-1926) in his book, Interest and Prices (1936).[9] Irving Fisher (1867-1947) in his book, Theory of Interest which appeared in (1930)[10] And J.M. Keynes (1883-1946) in his book; The General Theory of Employment, Interest and Money (1936)[11].

Both Widesell and Fisher hold the view that much investment will be made if there is a high rate of return over cost in relation to the rate of interest. Keynes accepted the view of these economists on the role of interest rate and in addition introduced the concept of marginal efficiency of capital. The rate of interest is determined by the quantity of money and the state of liquidity preference. The marginal efficiency of capital on the other hand is determined by the expectations of profit yield and the replacement cost of capital. The importance attached to the interest rate as a determinant of the rate of investment is today in dispute. The main source of the dispute is the evidence provided by a number of emperical investigations showing that interest elasticity of demand for investment is extremely small. Shackle (1946)[12], Klein (1947)[13] and Hicks (1952)[14] claim that as a result of these emperical studies, that the traditional theory on investment as represented by the views of Widesell, Fisher and Keynes exaggerated the direct effect of the rate of interest on investment decisions.

Tregarther (1996)[15] put forward a case that interest rates play a key role in the determination of the desired stock of capital and thus of investment. This is because investment is a process through which capital is increased in one period for use in future periods, expectations play an important role in investment as well.

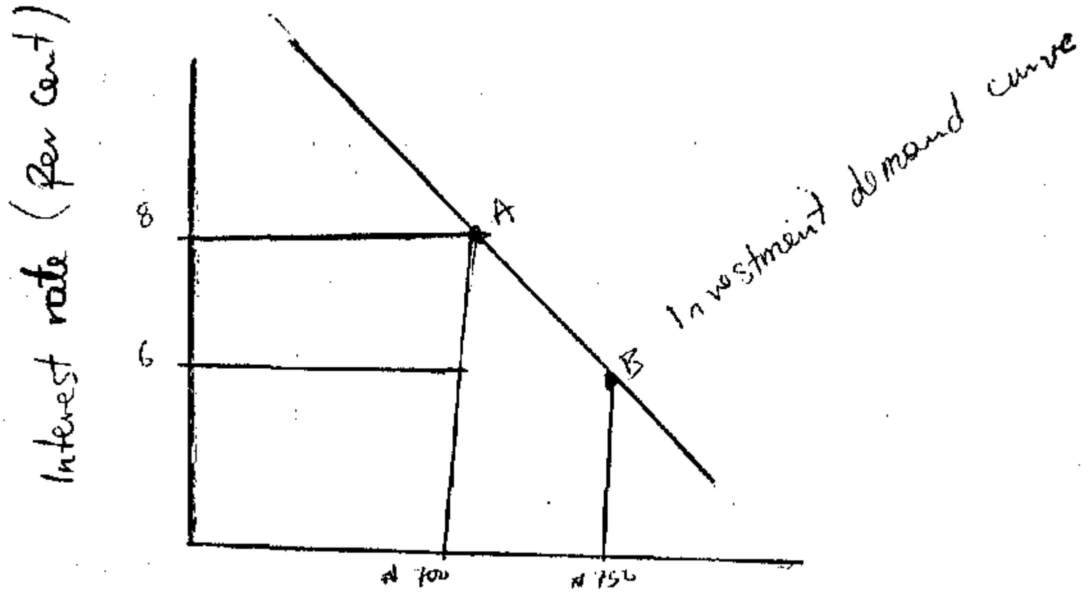
We have often heard news reports that spell out the relationship between investment and interest rates. Thus we often hear, for example, that low interest rates have stimulated housing construction or that high rates have reduced it. Such reports imply a negative relationship between interest rates and investment in residential structures. This relationship applies to all forms of investment. Higher interest rates tend to reduce the quantity of investment, while lower interest rates increase it. In trying to describe the actual relationship that thus exist between interest rates and investment, Tregarther gives an analogy below:-

He says suppose you own a small factory and are considering the installation of a solar energy collection system to heat your building. You have determined that the cost of installing the system would be N10,000 and that the system would lower your energy bills by N1,000 per year. To simplify the example we shall suppose that these savings will continue forever and that the system will never need repair or maintenance. Given these assumption we need to consider only the N10,000 purchase price and the N1,000 annual savings. If the system is installed, it will be an addition to the capital stock and will therefore be counted as investment. Should you purchase the system? Suppose that your business already has the N10,000 on hand, you are considering whether to use the money for the solar energy system or for the purchase of a bond. Your decision to purchase the system or the bend will depend on the interest rate available on the bond. Putting N10,000 into the solar energy system generates an effective income of N1,000 per year, that is the saving the system will produce. That is a return or 10 percent per year. Suppose the bend pays 12 percent per year. It thus generates interest income of N1,200 per year enough to pay the N1,000 in heating bills and have n200 left over. At an interest rate of 12 percent, the bend is the better purchase. If, however, the interest rate on bends were 8 percent, then the solar energy system would yield a higher income than the bond. At interest rates below 10 percent, you will invest in the solar energy system. At interest rates of 10 percent you will buy a bond instead. At an interest rate of precisely 10 percent, it is a toss-up. If you do not have the N10,000 in hand and would need to borrow the money to purchase the solar energy system, the interest rates still governs your decision. At interest rates above 10 percent, it does not.

In effect, the interest rate represents the cost of putting funds into the solar energy system rather than into a band. The cost of putting the N10,000 into the system is the interest return that could be obtained from bond. At any point in time, millions of investment choices hinges on the interest rate. Each decision to invest will make sense at some interest rates but not at others.

The higher the interest rate, the fewer potential investments will be justified; the lower the interest rate, the greater the number that will be justified. There is thus a negative relationship between the interest rate and the level of investment.

Figure 1 shows that an investment demand curve for an economy – a curve that shows the level of investment at each interest rate, with all other determinants of investment held constant.



Investment in billions of naira

At an interest rate of 8 percent, the level of investment is N700 billion at point A. At a lower interest rate of 6 percent, the investment demand curve shows that investment will rise to N750 billion at point B. A reduction in the interest rate thus causes a movement along the investment demand curve.

J. R. Clark (1990)[16] cites internal rate of return as an appealing investment criterion because it express the return an a project in the form of an interest rate. The internal rate of return of a project is that interest rate which sets the project's not present value equal to zero.

Using internal rate of return as a basis for determining investment demand, he argues clearly that the net present value of a project depends negatively on the require rate of return used to discount future operating cash flows. Higher interest rates, due, for example, to monetary policy, will reduce the present value of the future operating cash flows and may turn the net present value of certain projects negative. Similarly, higher interest rates may make the internal rate of return of an investment project insufficient.

Higher interest rates and overall monetary tightness may check off investment in a different way. Banks and other financial intermediaries may simply refuse to lend to business, especially to new and small business, regardless of the loan rate. This is known as credit returning.

Response of savings and investments to interest rate measures could be seen in two ways namely; financial savings and Gross National Savings and Gross Investment.

FINANCIAL SAVINGS (The Nigerian Case)

Savings and time deposits grew over the years is responsible to the interest rate incentives Between 1981 and 1985 financial savings as per cent of gross national product (GNP) doubled from 8.28 to 16.55. During this period commercial banks' savings rate increased from 6 to 9.5 percent. The deregulation of interest rates in 1987 must have encouraged financial savings as reflected by the sharp rise in financial savings ratio from 17.8 per cent in 1986 to 26.85 percent in 1987. In those years, savings deposit rate rose from 9.5 to 14 percent while time deposit rate increased accordingly. While time deposit rates slightly declined in 1988 and savings rate increased marginally by 0.5 percentage points; financial savings rate increased marginal by 0.t percentage points, financial savings increased to 30.16 per cent of G N P. The drop in time deposit rates in 1988 could have had a long effect on financial savings which declined to 28 percent of GNP in 1989 despite 0.5 percentage points rise in savings rate. In 1990 and 1991, financial savings were 31.5 and 38.76 percent of GNP, respectively, as commercial banks' interest rates on savings and time deposits decreased from a range of 17.8-21 to 14-16.6 percent.

GROSS NATIONAL SAVINGS AND GROSS INVESTMENT

GNS is the residual of what is not consumed from Gross Domestic Income (G D I). Part of what is saved is invested, which raises the possibility of savings – investment gap. Thus there could be positive or negative savings investment gap depending on whether savings is greater or less than investment. Between 1981 and 1982, investment demand outstripped GNS and resulted in 8.5 and 3.5 savings deficit as percent of GNP. From 1983 to 1991 there was surplus savings which was not invested. The lending rate increased from the early 80s gross investment declined.

Roma (1990)[17] investigated the theoretical and empirical determinants of private investment in developing countries and identified macro-economic and institutional factors such as financial repression, foreign exchange shortage, lack of infrastructure, economic instability, aggregate demand, public investment, relative factor prices and credit availability as important variables that explained private investment.

Balassa (1989)[16], as well as other writers extensively reviewed the literature on the effect of interest rates on savings in developing countries. He concluded by observing that even though most of the studies indicated positive relationship between interest rate and savings is significantly affected by movements in interest rates, apparently as a result of data measurement and exclusion of appropriate lag structure.

THE ACCELERATOR PRINCIPLE

The accelerator principle is the hypothesis that the level of investment varies directly with the rate of change of output or sales. The earliest complete formulation of the principle was made by Clark (1917)[19]. Several empirical studies have been made on the accelerator principle. Most of them show capacity utilization or output changes in that, it is a significant determinant of the desired level of investment.

These include studies made by Evans (1967)[20] and Kuh (1963)[21].

A major criticism of the theory is that it assumes full capacity operation at all time which is not always the case. Levacic and Rebman (1982)[22] state that the neoclassical theory of investment views this theory as being determined by the cost of investment relative to its expected return. They further present a picture of the fact that Keynesians have traditionally favored the accelerator theory of investment, which emphasizes the relationship between the capital stock and the flow of output, while disregarding the role of factor costs. The accelerator approach can be derived from neoclassical capital theory if we assumed a constant returns to scale of production function. Given constant returns to scale, the optimal (that is least cost) capital labour ratio is determined by the cost of capital relative to the cost of labour and is invariant with respect to changes in output. If, in addition, labour and capital costs are constant, then both factors are expanded proportionately when planned output rises. This means that the optional capital output ratio remains unchanged as output expands.

Cliff Pratten (1985)[23] states that one approach to modeling investment at an aggregate level is the accelerator model, which relates additions to the capital stock to changes in output (G D P)

$$I_t \quad = \quad 2(Y_{t+1} - Y_t)$$

Where I_t stands for additions to the capital stock in the current years, Y_t for income in the current year, and Y_{t+1} for income in the following year.

Addition to the capital stock are a function of the expected change in demand, and hence output and income. This relationship is based on technical relationship; the number of machineries and factories and warehouses space are assumed to be a fixed relationship to output. If demand is expected to increase, firms will install more machines, etc to be able to meet demand. Replacement investment is assumed to occur regularly and automatically. This assumption may be realistic during periods of steady expansion, but does not apply during a deep recession. He argues further that in practice, there are lags between decisions to invest and investment expenditure; it takes time for managers to make decisions, to get planning permission if required, to obtain information about machinery and tenders, to place contacts and commission, and take delivery of capital equipment. Base on this assumption, a more realistic relationship is suggested as:-

$$I_t = 2 \quad (Y_{t-1} - Y_{t-2})$$

The appeal of accelerator - type models is in their use for forecasting, because the data for past output and the capital stock are available.

THE INCOME THEORY

The income theory of investment holds the view that aggregate business investment is determined by gross national income and the size of the capital stock. It predicts that investment outlays will increase as income increases. This approach is represented by the works of Hansen (1951)[24] and James Duesenberry (1958)[25].

Emperical studies by Klein and Goldberger (1952)[26]. confirmed the validity of the theory. It found that investment is a function of income and the rate of change in income.

THE PROFIT THEORY

In Recent years, it has been suggested by some Economists that investment is a positive function of profits and that the way to increase the rate of investment is to increase the rate of profits. This theory was first proposed by Tinberger in (1936)27. This view also had a strong support from empirical studies of meyer and Kuh (1957)[28]

Other additional determinants of investment demand include: Expectations, the level of economic activity, the stock of capital, the cost of capital goods, other factors costs, technological change, and public policy. A change in any of these can shift the investment demand curve.

EXPECTATIONS

A plan to change the capital stock is a plan to change future production capacity. It therefore depends crucially on expectations about the future. A firm considers kindly future sales, a student weights prospects in different fields and their required educational and training levels; a government agency considers likely demands on road capacity or water treatment facilities.. As expectations change in a way that increases the expected return from investment, the investment demand curve shift to the right.

A university that is operating close to capacity may decide to construct new class-room facilities. Why would it do that? The most likely explanation is that it anticipates increased enrollment. Its expectation of greater demand causes it to increase investment new.

THE LEVEL OF ECONOMIC ACTIVITY

Firms need capital to produce goods and services. An increase in the level of production is likely to boost demand for capital and thus lead to greater investment. We thus have some of the same circularity that exist with consumption demand. An increase in investment boost real G D P, and an increase in real GDP is likely to stimulate investment. The relationship between investment and real GDP is not nearly as close as the relationship between consumption and real G D P. That is because other determinant of investment are so important. Nonetheless, in real GDP all other things unchanged, tend to increase investment. To the extent that increases in GDP boost investment, the marginal expenditure rate is increased. To the extent that an increase in real GDP induces not only additional consumption but additional investment, it increases the values of multiplier.

Suppose for example, that the marginal propensity to consume out of G D P equals 0.5 and all other components of aggregate expenditures are autonomous. That would imply a multiplier of 2. Now suppose each additional N1.00 of real GDP induces not only N0.50 in additional consumption but N0.10 in additional investment. That would make the marginal expenditure rate equal to 0.6 and boost the value of the multiplier to 2.5 [= $^{1}/_{1}$ – 0.6]

THE STOCK OF CAPITAL

The quantity of capital already in use affects the level of investment in two ways. First, because most investment replaces capital that has depreciated, a greater capital stock is likely to lead to more investment – there will be more capital to replace. But second, a greater capital stock can tend to reduce investment. That is because investment occurs to adjust the stock of capital to its desired level. Given that desired level, the amount of investment needed to reach it will be lower when the current capital stock is higher.

Suppose, for example, that real estate analysis expect that 10,000 homes will be needed in a particular community of 2002. That will create a boom in construction and thus in investment, if the current number of houses is 50,000. But it will create hardly a ripple if there are now 99,980 homes. How will these conflicting effects of a larger capital stock sort themselves out? because most investment occurs to replace existing capital, a larger capital stock is likely to increase investment. But that larger capital stock will certainly act to reduce net investment. The more capital already in place, the less new capital will be required to reach a given level of capital that may be desired.

THE COST OF CAPITAL GOODS

T. Tregarthen (1996)[29] postulates that as the cost of acquiring capital goods rises relative to other prices, the demand for capital will fall. An increase in the construction cost of new buildings. For example, will reduce the number of new buildings demanded, all other factors unchanged. Conversely, a reduction in the cost of capital will increase the demand for capital. A reduction in construction cost will increase demand for new buildings.

OTHER FACTOR COSTS

Firms and government agencies have a range of choices concerning how particular goods can be produced. A factory, for example, might use a sophisticated capital facility and relatively few workers, or it might use more workers and relatively less capital. A school might try to use more computers and softwares – capital – and reduce the number of teachers – labour. The choice to use capital will be affected by the cost of the capital goods and the interest rate, but it will also be affected by the cost of labour. As labour costs rise, the demand for capital is likely to increase.

TECHNOLOGICAL CHANGE

The implementation of new technology often requires new capital. Changes in technology can thus increase the demand for capital. Advances in computer technology have encouraged massive investments in computers. The development of fitter optics, a new technology for transmitting signals, has stimulated huge investments by telephone and cable television companies. One technology that might be developed in the next century is a cold fusion process to generate energy. Such a method would mean that energy could be produced at low cost and virtually without limit and without pollution. A technological change that would bring about a dramatic massive investment needs for new forms of power plants. It would also be likely to revolutionize the applications of energy, extending such applications to products and services undreamed of today. The expansion of those applications would expand whole new industries, creating still greater demands for investment in the economy.

PUBLIC POLICY

Public policy can have significant effects on the demand for capital. Such policies typically seek to affect the cost of capital to firms. The Kennedy administration in the United States of America introduced two such strategies in the early 1960's One accelerated depreciation, allowed firms to depreciate capital asset over a very short period of time. They could report artificially high production costs in the first years of an asset's life and thus report lower profits and pay lower taxes. Accelerated depreciation did not change the actual rate at which assets depreciated, of course, but it cut fax payments during the early years of the asset's use and thus reduced the cost of holding capital. The second strategy was the investment tax credit which permitted a firm to reduce its tax liability by a percentage of it investment during a period. A firm acquiring new capital could subtract a fraction of its cost; 10 percent from the taxes it owed the government. In effect, the government paid 10 percent of the cost of any new capital; the investment tax credit thus reduced the cost of capital for firms.

A third measure to encourage greater capital accumulation is a capital gains tax that allows gains on assets held during a certain period to be taxed at a different rate than other income. When an asset such as a building is sold for more than its purchase price, the seller of the asset is said to have realized a capital gain. Such a gain could be taxed as income under the personal income tax

2.3 INVESTMENT DEMAND IN DEVELOPING COUNTRIES

Very few studies have so far been on the nature of investment demand in developing countries. As pioneer article on the subject was written by Henry Ausbrey (1955)[30] In it he suggested that the major cause of lack of investment demand in industrial projects is because it is relatively less attractive in terms of profit and safety. On the other hand, investment in commercial and financial or real estate are more attractive because they are more profitable and relatively safe.

Similarly in an imperical study on aggregate investment behaviour of Dcprano and Nuggent (1966)[31], for the post war period in Ecuador, they found that past income, the stock of capital in the previous period and the supply of high-powered money from external sources have had a significant influence on the level of investment in the Ecuadorian economy.

Most of the existing theories are concerned with micro-analysis of the investment behaviour of a single firm. Only few deal with aggregate investment behaviour of an economy. And example of this is the income theory investment, first introduced by A. Hansen and later improved by James Duesenbery. There is so far no general agreement among economists as to the determinants of aggregate investment demand. There is, however, a wide support to the Income Theory of investment as represented by the Duesenberry models.[32]

The primary question for us is the relevance of existing theories to the situations in a developing economy where the economic institutions and environment are quite different from the advanced economies where these theories were formulated and tested empercially. As pointed out by Georgescu – Roegen (1960)[33], standard economic theories consist of cultural or institutional facts some of which are not relevant to developing economies. This is because what characterises an economic system is its institutions, not the technology it uses. He argues further that were this not so, we would have no basis for distinguishing between communism and capitalism. While standard theory for example, describes the economic process in a society in which the individual behaves strictly hedonistically, where the entrepreneur seeks to maximize his cash profit and where any commodity can be exchanged on the market and not otherwise. In developing countries, on the other hand, where the axiometic bases are different, standard economic theories will not be relevant in describing these economies[34].

With respect to existing theories of investment demand, we hold the view that they do not provide adequate explanation to aggregate investment behaviour in a developing economy. This is mainly due to the fact that they assume that the absorptive capacity of the economy is not important as a factor influencing investment behaviour. Absorptive capacity as use here refer to other cooperating factors such as Human capital, technology and raw materials needed to make a given investment profitable. In advanced economies, these cooperating factors are relatively abundant and therefore, do not affect investment decisions. In developing economies on the other hand, the absorptive capacity of the economy places a serious limitation to the amount and rate of investment possible because of their relatively scarcity.

We share the view expressed by Gerald Meier (1970)[35] that criticisms on the relevance of traditional economic theory to developing countries do not imply that it has no value but simply that it is necessary to modify such a theory to take account of particular circumstances that alter the institutional framework and cause differences in behavioural relationships. It is therefore the purpose of this study to develop an investment demand model that will be relevant to a developing economy.

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CHAPTER THREE

RESEARCH METHODOLOGY

3.1 SOURCES OF DATA

A research of this nature must make available relevant data for statistical analysis to establish valid research results as much as possible. For the purpose of carrying out this study, we have obtained data from published annual reports of Central Bank of Nigeria (C.B.N) and Federal Office of statistics (FOS). The data extracted include annual gross investment levels, Gross domestic product, Gross national Savings and savings rate of the economy in percentages.

3.2 METHOD OF STATISTICAL ANALYSIS

The methods of statistical analysis employed are the multiple correlation and regression analysis[1] Essentially, these statistical tool are used to test the various statement of hypothesis of this research.

The multiple regression analysis was used to investigate the possibility that movements in the dependent variables are caused by several independent factors and not just one as in the basic regression model. This is because linearity is assumed, so a linear multiple regression model is used. In essence, the multiple regression model incorporates several independent variables.

So, because of the lengthy nature of the calculations invalued in multiple linear regression, analysis involving more than 2 independent variables, the computer program of the statistical package for the social sciences (SPSS) was used to compute results of the research.

The regression analysis was used to quantify the relationship between the variables by developing an estimating equation using the least square method. The primary purpose of regression analysis is to establish the pattern of the existing relationship between the variables.

The multiple correlation analysis is used to measure the degree of closeness of the relationship between the variables as described by the regression equation. The most frequently used measure of the degree of association is the Correlation of Coefficient (y). This coefficient measure of the degree of association on a scale which varies between –1 and +1, inclusive. If the sign of the coefficient, measured for a set of pairs of values of two variables is negative, this tells us that relatively high values of one variable tend to be associated with relatively low values of the other and vice versa. This means that there is an inverse relationship. If the sign of the coefficient is positive, this means that relatively high values of both variables tend to occur together as do relatively, low values. The actual value of the number tells us how strong the association is. Thus a value close to +1 tells us that relatively high values of one variable are very often associated with relatively high values of the other and so similarly for relatively low values. Thus stronger and stronger degrees of association are indicated as the coefficient varies from Zero to +1.

The usefulness of the correlation analysis lies in testing hypothesis about the relationships assumed between variables. Hence, we will be using it to test our hypothesis that Gross National Investment level is a function of savings rate (%), Gross Domestic Product (GDP) and Gross National Savings (GNS)

3.3 EXPLANATION OF THE MODEL USED

The model of investment demand and by extension, Gross National Investment level is based on the following assumptions

1. The G N I is dependent on the savings rate (%) of the economy.
2. The Gross National Investment is a major determinant of the Gross Domestic Product (G D P)
3. The level of Gross National Investment is directly associated with the Gross National Savings level.

The model is represented algebratically as follows.

G N I = f (G D P, G N S, S.R)

Where

GNI = Gross National Investment

GDP = Gross Domestic Product

G N S= Gross National Savings

S R = Saving Rate (%)

This model is derived from the fact that Gross National Investment has been generally known from available economic theory to be influenced by the three factors of Gross national Product, Gross National Savings and Savings Rate of developing economics.

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CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 RESEARCH DATA

The research data extracted from published annual reports of the Central Bank of Nigeria and the Federal Office of statistics (FOS) are as follows:-

(Billions of Naira, at 1984 Prices, %)

YEAR	GNI	GDP	GNS	SR(%)
1981	13.90	79.21	7.16	6.00
1982	10.33	79.16	7.52	7.50
1983	7.58	75.14	8.20	7.50
1984	3.16	69.71	5.20	9.50
1985	4.19	75.67	7.09	9.50
1986	4.79	78.26	8.80	9.50
1987	3.57	69.49	9.91	14.00
1988	3.13	77.00	10.56	14.50
1989	4.23	81.39	15.60	16.40
1990	5.73	90.56	19.92	17.80

Source: Federal Office of Statistics and Central Bank of Nigeria.

4.2 STATISTICAL TESTS OF HYPOTHESIS

So far, established economic theory suggest that there is a casual relationship between Gross National Investment (GNI) and Gross Domestic Product (GDP), Gross National and Savings (GNS) and the saving Rate (%) (SR) of an economy. We have not been able to determine in precise terms the degree of association between these variables in a more precise form by being able to measure in quantitative terms the degree of association between the independent variables GDP, GNS and the SR(%) using statistical techniques.

The statistical techniques employed were the multiple correlation and regression analysis as earlier stated.

4.3 REGRESSION EQUATION

The following linear regression equation involving multiple variables will be used.

$$Y = a + b_1 x1 + b_2 X_2 + b_2 x_3$$

Where a = Y intercept (the value of y when x = 0)

B = slope of the regression line (the increase or decrease in y for each change of one unit of x)

x_1 = Gross Domestic Product

x_2 = Gross National Savings

x_3 = Savings Rate (%)

EXPLANATION

Y_1 the Gross National Investment is the dependent variable. X_1, x_2, x_3 are the independent variables representing the expected rate of return, the supply of funds and the absorptive capacity.

Computer Program

The computer programme use is the statistical package for the Social Sciences (SPSS). The required output is the computation of the following statistical values.

a) The Mean

b) The Correlation of Coefficients

c) The Standard Error

d) Coefficients b_1, b_2 and b_3 and the constant `a'

e) Multiple Correlation Coefficient

4.4 RESULT OF ANALYSIS

* * * * MULTIPLE REGRESSION * * * *

List wise Deletion of Missing Data

Equation Number 1 Dependent Variable.. GROSS gross investment

Block Number 1. Method: Enter GDP GNS SAVRATE

Variable(s) Entered on Step Number

1..	SAVRATE	savings rate (%)
2..	GDP	
3..	GNS	gross national savings

Multiple R	.86104
R Square	.74140
Adjusted R Square	.61209
Standard Error	2.21466

Analysis of Variance

	DF	S	Sum of Squares	Mean Square
Regression	3		84.36856	28.12285
Residual	6		29.42844	4.90474

F = 5.73381 Signif F = .339

---------Variables in the Equation -------------

Variable	B	SE B	Beta	T	Sig T
GDP	.025418	.317008	.043094	0.80	.9387
GNS	.878594	.754812	1.106501	1.164	.2886
SAVRATE	-1.359685	.568022	-1.573577	-2.394	0.538
(Constant)	10.560283	22.913762		.461	.6611

End Block Number 1 All requested variables entered.

- - Correlation Coefficients - -

	GDP	GNS	GROSS	SAVRATE
GDP	1.0000	.7743	.2652	.4034
	(10)	(10)	(10)	(10)
	p=.	p=.009	p=.459	p=.248
GNS	.7743	1.0000	-.2068	.8558
	(10)	(10)	(10)	(10)
	p= .009	p= .	p= .567	p=.002
GROSS	.2652	-.2068	1.0000	-.6093
	(10)	(10)	(10)	(10)
	P= .459	P= .567	P=.	P= .062
SAVRATE	.4034	.8558	-.6093	1.0000
	(10)	(10)	(10)	(10)

P= .248 P= .002 P= .062 P= .

(Coefficient / (Cases) / 2-tailed Significance)

". " is printed if a coefficient cannot be computed

If $P < 0.05$ then reject Ho : P = 0

At 0.05 Level of Significantly

i.e the Correlation . Coefficients is Significantly different from zero at x = 0.05 level.

4.5 INTERPRETATION OF THE STATISTICAL VALUES

(a) REGRESSION PARAMETERS

The values of the regression parameters (a_1, b_1; b_2, and b_3) were as follows:

$Y = 10.56 + 0.025x_1 + 0.87x_2 + 1.359$

For this model, b_1, b_2, and b_3, represent the change in the mean value of Y GNI (investment demand) for one unit change in x_1, x_2, and x_3 respectively.

For example, $b_1 = 0.025$ is the estimated mean change in investment demand for one naira increase in GDP.

(b) **TEST OF SIGNIFICANCE**

The T value of 0.080 is less than the significant T value of 0.9387 for the coefficient of GDP means that GDP is significant in the determination of investment demand.

A T value of 1.164 being greater than a significant. T value of 0.2886 for the Coefficient of GNS means that GNS is not significant in the determination of investment demand in the Nigerian economy.

A T value of –2.394 being less than the significant T value of 0.0538 for the coefficient of Saving Rate means that savings rate is essential in the determination of investment demand.

The T value of 0.461 for the constant, a, being less than the significant. T value of 0.661 means that it is equally significant in the determination of GNI and by extension, investment demand.

Deriving from the above analysis, the computer dropped the variable x_2 (GNS) because it proved to be insignificant in the determination of GNI.

Therefore the computer accepted this regression model.

$$Y = 10.56 + 0.025\,x_1 - 1.35x_3$$

The multiple regression has been tested using the F – test. The f value of 5.733 being for greater than the significant. F value of 0.0339 that the multiple regression equation was found to be significant. This means that the regression model is inadequate for predicting the value of Gross National Investment (GNI)

The multiple regression equation also indicates that the dependent variable is positively related to the independent variables. The degree of relationship will be determined in this section by the correlation coefficient.

(c) MULIPLE CORRELATION COEFFICIENTS

The value of the multiple correlation coefficient for the model is given as 0.86104. Since the R is positive, this means that relatively high values of both the dependent and independent variables tend to occur together, as to relatively low values, or values below the average.

Secondly, the actual value of R, which is 0.86104 indicates there is a strong association between the variables. This means that above average values of the independent variables are very often associated with above average values of the independent variable and similarly for below average values.

The correlation Coefficient of each variable with the dependent variable is as follows.

Gross National Investment	
Gross Domestic Product	0.2652
Gross National Savings	-0.2068
Savings Rate (%)	-0.6093

At 0.05 level of significance, GDP and GNS with P = 0.459 and P = 0.567 being higher, we accept the correlation coefficient are not significantly different from zero.

Savings Rate with P= 0.062 can be moderately accepted as significantly different from zero.

Coefficient of Determination (R^2) The value of the coefficient of determination (R^2) is 0.74140. This measure shows the portion of the total variance in the dependent variable Y, that is explained or accounted for by the introduction of the independent variables. The given value means that 74.14 percent of the variation in the dependent variable Y (G N I) is accounted for or explained by the variations in the x variables the independent variables.

The standard error of estimate is very small at 2.21466 signifying that any forecast based on the regression equation will tend to be highly dependable.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY

To day Nigeria is valued by the World Bank as one of the poorest nations so much so that the Government of the day is pre-occupied with the establishment of poverty alleviation programmes. The truth is that no economy can grow unless there is increased productivity arising from planned investment in the economy.

A summary of the research findings is given below:

1 - Existing literature reveal that the major determinants of investment demand include the following:

- The Rate of interest
- Expectations
- The level of economic activity
- The stock of capital
- The cost of capital goods

- Stock of capital
- The cost of capital goods
- The technological change
- Public policy
- The rate of return, etc

2. In the course of carrying out this study, three hypotheses were stated relating changes in Gross Domestic Product, Gross National Savings and savings rate (%) to changes in Gross National Investment.

3. In testing these hypotheses, a multiple regression model was assumed as a basis of explaining changes in the dependent variable (Gross National Investment) by the independent variables of Gross Domestic Product, Gross National Savings and the savings rate (%)

4. The computer established the regression model of

$$Y = 10.56 + 0.025x_1 - 1.35x_3$$

Trapping the second independent variable Gross National Savings.

5. This seems to suggest that the level of Gross National Savings in the Nigerian economy has had no impact in the changes in investment demand. Thus savings are not converted to investments and this may be due to the general instability experienced in the national economy over the years.

6. Upon using the f-test for determining the validity of multiple regression model established by computer, the model was rejected as not adequate for predicting the level of investment demand. This may also mean that the data used for analysis may be better explain the relationships between the dependent variable (GNI) and the independent variables (GDP), Gross National Savings (GNS) and savings rate (%)

7. However, it is needful to state that multiple correlation coefficient was determined to be 0.86104 suggesting a high positive association between the dependent and independent variables

8. The real correlation coefficients are in contrast to the above nation as correlation coefficients between Gross National Investment and the independent variables which are G D P,

GNS and SR (%), were 0.2652, - 0.02068 and – 0.6093 respectively.

9. A low correlation coefficient of 0.2652 between gross National Investment and Gross domestic product suggest that the in income theory as a determinant of investment demand in Nigeria may be irrelevant. This may be responsible for low investment demand and the slow growth of the national economy. A moderately negative correlation coefficient of – 0.6093 between Gross National Investment and savings rate (%) is expected bearing in mind that as interest rates increase, investment demand is expected to decline and vice versa.

10. Logical and causal relationships may not seem plausible based on the multiple regression model rejected by the computer. This means that the factors we have analysed based on available statistics and the model assured may not have an influence on investment demand in Nigeria.

5.2 CONCLUSION

This study was necessitated by the need to understand how one of the major determinants of investment demand, interest rate policy performed in raising financial resources and in stimulating investment in Nigeria in the past.

Other factors identified which affect investment demand include: rate of return, public policy, the level of economic activity, level of expectation, the cost of capital goods, other factors costs, Technological change, etc. Apart from periodic interest rate adjustment by the Central Bank, interest rates remained generally low throughout the 60s to the mid – 80s. The Structural Adjustment Programme introduced in 1986 included interest rate deregulation policy. However, interest rates deregulation effectively started in 1987 when banks were allowed to negotiate what rate to pay their depositors. Between 1987 and 1991 interest rate policy went through deregulation and re-regulation. The policy reversals, coupled with liquidity management and inflation, affected the movement of interest rates, especially during the recent financial liberalization.

In response to the interest rate policy measures, financial savings increased Gross National Savings increased. Gross

National Savings also rose while gross national invest declined with the rise in interest rates from 1987.

Regression analysis was used to established the empirical relationships between interest rates savings and investment. The main findings of the analysis are:

1. Nominal savings interest rate was the main determinant of financial savings in Nigeria.
2. Gross domestic investment was very sensitive to interest rate movements. Specifically, it was shown that Gross Domestic investment was significantly and negatively related to commercial banks' prime lending interest rate.
3. The direct link between gross domestic investment and financial savings, as well as bank loans was not established. Both financial savings and bank loans were negatively, but significantly related to gross domestic investment.
4. Conclusively, this research work shows that savings and investment are responsive to interest rate policy which is central in investment demand in a developing economy.

The implication is that interest rate policy should be fine-tuned to encourage financial savings without discouraging investment.

5.3 RECOMMENDATION

The various state's chambers of commerce, Industry and Agriculture should focus their attention on creating awareness on investment opportunities that abound in Nigeria to potential local and foreign investor as this may lead to greater investment demand.

Government should be more concerned with creating an enabling economic environment for investors to realise their profit maximization objective. This should be clear as no investor is in the business for the fun of it.

The Government through the Central Bank of Nigeria, should use both a combination of fiscal and monetary policies to control the interest rates on loans for investments purpose so as to stimulate investment demand.

Poor management of investment in Nigeria most times is responsible for the low rate of return on investments. This low rates of return in turn discourage potential investors who would rather place their funds in time deposits. Therefore, the government and organised private sector must wake up to the challenge of training and development of managers who must have profit maximization as a cardinal focus.

Nigerian workers must be well motivated in terms of earning "Living wages" to change their poor attitude to work as a result of very poor attitude to work as a result of very poor remuneration.

Corruption seems to be one factor that has eaten deep into the fabric of the society. This has adversely affected the management of investments to realize profits. Therefore, government should vigorously pursue its anti corruption bill and implementation. This has a propensity to attract direct foreign investment knowing fully well that frustrations experienced by foreigners who want to invest in the Nigerian economy will be reduced to the barest minimum.

Following the non-validity of the multiple regression model in explaining the relationship between gross national investment and Gross domestic product, Gross National savings and savings rate (%) in the Nigerian economy, we encourage other researchers to employ the use of other models to try to explain the name relationship

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Government should be more concerned with creating an enabling economic environment for investors to realise their profit maximization objective. This should be clear as no investor is in the business for the fun of it.

The Government through the Central Bank of Nigeria, should use both a combination of fiscal and monetary policies to control the interest rates on loans for investments purpose so as to stimulate investment demand.

Poor management of investment in Nigeria most times is responsible for the low rate of return on investments. This low

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