

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The need to improve the standard of living of people in society cannot be over-emphasized. In point of fact, economic development is viewed by economist as the improvement in standard of living, reduction in poverty rate, illiteracy rate and diseases. Most government especially in the developing world strive to achieve these objectives to mitigate the effect of low standard of living. However one of the major macro-economic problem most economies face today is price instability. Over the years, price of commodities have shown not to be stable due to inflation. Inflation is an inevitable factor of any economy in the world. Anyanwu (2011) noted that inflation is an important factor leading to social and economic instability and disorder. It occurs when you have an increase in prices for goods and services. Prices for items you need may rise at a slow rate so it is hardly noticeable. At other times, dramatic increases known as hyperinflation can raise prices to significantly high levels that create noticeable changes in your cost of living. Rising prices and high unemployment with little growth in the economy cause stagflation. All these situations affect the standard of living to a certain degree. It influences every country, negatively as well as positively. Whether the country is a developed or developing one, inflation surface at one point or the other.

According to Okowa (1996), inflation is a problem that afflicts all economics. But that, it is typically more severe in the less developed countries. It causes impacts on other economic variables such as consumption, investment, savings, level of income etc. And it result to low purchasing power of money and increase poverty rate in the economy.

Nigeria, being a developing country, could not overcome the continuous year to year increasing inflation, and also its causes and consequences. After remaining relatively low for quite a long time, the inflation rate in Nigeria started to accelerate in late 2003. As at December 2016 the inflation rate in Nigeria has increased to 18.55 % according to the National Bureau of Statistics (NBS, 2016). This increase in inflation has caused distortion in family budget as well as consumer's purchasing power. People struggle in order to maintain their standard of living which has gradually slumped. During inflationary period, income earners find it difficult to maintain their standard of living.

Lafia is a town in the North central Nigeria. It is the capital city of Nasarawa State and has a population of 330,712 with 169398 male and 161314 female inhabitant according to the 2006 census result. It is the largest town in Nasarawa state. Lafia LGA has a land area of 2797.53km² with a

population density of 130 persons per km². Whereas population of the area going by registered total number of voters is recorded as 243,520 (NASIEC, 2011). With this figure, it is the most populated Local Government Area in the whole of Nasarawa State.

The basic occupation of people residing in Lafia local government area include farming, commercial service and civil servants. A lot of agricultural activities take place in the area, one of which is farming. Majority of the population are engaged in subsistence farming, with very few farmers practicing large scale mechanized farming. A wide variety of crops are grown in the area, they include cassava, yam, groundnut, rice, millet, maize, cowpea, soya beans, guinea corn, tomatoes, sugar cane, mangoes, oranges etc. also animal production such as goat, cow, sheep, pig and rabbit rearing and poultry keeping is also common in this region (Labaris, 2007).

As inflation rises, every Naira you own buys a smaller percentage of a good or service. In essence, inflation means that the prices of goods and services increase over a certain period and a fixed Naira amount will only buy lesser amounts of goods and services as the inflationary trend progresses. Hence, an increase in the inflation forecast for Nigerian consumers suggests that your salary won't be enough to buy the same volume of goods beforehand. Meaning people have to budget extra to maintain their level of consumption. Fixed income earners suffer more because there is a less proportionate increase in income compare to market price of food stuff.

A major consequences of rapid depreciation of Naira was the sharp rise in general price level (inflation), leading to a significant decline in aggregate demand. Consequently, industries start to accumulate unintended inventories and as a rational economic agent, the manufacturing firms starts to rationalize their market price, importation of foreign-produce will come with a higher markup cost as importers find it increasingly hard to obtain forex and as they have to pay more Naira to buy Dollars because of the devaluation.

1.2 Statement of the Problem.

Inflation is a global phenomenon which affect income of people and therefore their standard of living. According to Imobighe & Adenuga (2012), the word 'inflation' is a monster that threatens all economics because of its undesirable effect, therefore one of the main objectives of macroeconomics is to keep inflation low and attain price stability; this makes inflation without doubt a concern to both developed and developing nations. The inflationary period is a time of high price of goods and services. The problem passed by this is that individual, both income and non-income earners in the society are unable to purchase the quantity of desired products during inflation. Standard of living must be emphasized, as more money is being required by individuals for the purpose of purchasing products during inflationary period as opposed to normal economic situations. This implies that, the more households earn during period of inflation the higher the cost of living. These brings about

decline in standard of living. Theoretically, during inflation, income earners especially those with fixed income find it difficult to match with the increasing prices of goods and services, compelling them to get loans and to do overtime work to meet their family expenditures, while prices of goods and services increases and as such reduces their purchasing power. On the other hand, income of profit earners and producers (farmers) rise with the rising prices of products as opposed to those of fixed income earners. Thus, this leads to a situation where people spend more of their income on consumption expenditure due to higher prices of products and as a results leads to a decline in savings which gives birth to low investment and also results to slow economic growth and economic development. The thrust of this work is to examine these issue and in particular food price inflation and its impact on standard of living of income earners, non-income earners and producers (farmers) in Lafia local government in Nasarawa state.

1.3 Research Questions

The important questions which the research seek to provide answers to are:

1. What is the effect of price inflation on standard of living of income earners in Lafia Local government?
2. Has price inflation improved the standard of living of farmers in Lafia local government?

1.4 Objective of the Study

Generally, the objective of this research is to determine the impact of food price inflation on standard of living of the residence of Lafia local government area. The specific objectives are:

1. To determine the impact of price inflation on standard of living of civil servant in Lafia Local government
2. To assess the effect of price inflation on standard of living of farmers of Lafia local government

1.5 Hypothesis of the Study

H₀: There is no significant relationship between price inflation and standard of living of civil servant of Lafia Local government

H₁: There is significant relationship between price inflation and standard of living of civil servant of Lafia Local government

H₀: There is no significant relationship between price inflation and standard of living of farmers in Lafia Local government

H₁: There is significant relationship between price inflation and standard of living of farmers in Lafia Local government

1.6 Significant of the Study

The quality of research work lies on its relevance to the society being studied. The importance of this study is the ability to understand whether inflation has any significant impact on standard of living of various classes of people in Lafia local government Nasarawa state. Again, this research will be of immense value to Nigeria as well as Nasarawa state, and most especially people residing in Lafia local government. The study will also be of immense help to the government, monetary authority, individuals, economists, students, planners, financial analysts, and others who might be interested in researching into the field in the future, by shedding more light into the widely held view about the impact of price inflation on standard of living of people in Lafia local government area

1.7 Scope and Limitation of the Study

This study is an assessment of the impact of food price inflation on standard of living in Lafia Local government. The study would also examine the impact of food price inflation on standard of living, using the present monthly income to capture the present standard of living of people and monthly expenses as a proxy for increase in price of food items.

Finance is one of the major elements that assist in carrying out a good research work. Financial constraint created difficulties in the process of this research work, however, it did not hinder the research. The main limitation of this study is data collection and time constraint.

1.8 Organization of the Study

This study shall be divided into five chapters. The first chapter provides the background to the subject matter justifying the need for the study. Chapter two presents related literature concerning inflation and standard of living. Chapter three contains the research methodology, which includes the description of study area, sources of data, model formulation, estimation techniques etc. Data presentation, analysis and interpretation of regression result were made in chapter four. Concluding comments in chapter five reflects on the summary, conclusion, recommendations and suggestion for further studies based on the findings of the study.

CHAPTER THREE

3.0 Research Methodology

Methodology is one of the important aspect of research. It is the bedrock of any scientific enquiry It is a set of related principle which are employed or adopted to specify how to reach a particular conclusion or achieve a given objective. With methodology, researcher can focus their thought and action on their investigation and improve or maximize their chance of reasoned conclusion, as objective as possible. This chapter explain in details the methodology use in this study

3.1 Research Design

This study employed the descriptive research design. Descriptive research is also known as Statistical Research. The main goal of this type of research is to describe the data and characteristics about what is being studied. Descriptive research involves gathering data that describe events and then organizes, tabulates, depicts, and describes the data collection (Glass & Hopkins, 1984).

It often uses visual aids such as graphs and charts to aid the reader in understanding the data distribution. Because the human mind cannot extract the full import of a large mass of raw data, descriptive statistics are very important in reducing the data to manageable form. When in-depth, narrative descriptions of small numbers of cases are involved, the research uses description as a tool to organize data into patterns that emerge during analysis. Those patterns aid the mind in comprehending According to (Borg & Gall, 1989) descriptive studies are aimed at finding out "what is," so a qualitative study and its implications. Descriptive statistics tell what is. observational and survey methods are frequently used to collect descriptive data

3.2 Description of Study Area

3.2.1 Location and size

Lafia Local Government Area (LGA) is one of the thirteen Local Government Areas in Nasarawa State. It is located between Latitude 80 30' 0"N and 90 0' 0"N and Longitude 80 10' 0"E and 900' 0"E (see Figure 3.1) Lafia LGA has a land area of about 2756.44 sq km and shares boundaries with Nasarawa Eggon LGA to the North, Obi LGA to the South, Doma LGA to the West and Plateau State to the East. The LGA is made up of 13 wards namely; Adogi, Agyaragu Tofa, Akurba/ BakinRijiyi, Arikya, Ashigyie, Assakio, Chiroma, Gayam, Keffi Wambai, Makama, Shabu/ Kwandere, Wakwa and Zanwa. The wards that will form the sampling units for this study include; Akurba/BakinRijiyi,

Chiroma, Gayam, Makama, Shabu/Kwandere and Zanwa, which have been selected using purposive sampling (Akwa et al 2015).

Lafia is a nodal town in the sense that roads from different locations meet in the town. These roads are trunk A roads from Jos, Makurdi, Shendam and Doma. Transportation within and outside the town is aided by the Nasarawa State Urban Mass Transport Agency (NSUMT) as well as other public and commercial transports. Lafia also has a railway line that runs from Kaduna after passing through Ancho, Gudi, Mada Station, Lafia, Yelwa and Kaba before reaching Makurdi (Onosemuode, 2005).

3.2.2 Population

Lafia Local Government Area based on the 2006 national population census exercise recorded a population figure of 330712 with 169398 male and 161314 female (NPC, 2009). Lafia LGA has a land area of 2797.53km² with a population density of 130 persons per km². Whereas population of the area going by registered total number of voters is recorded as 243,520 as shown in table 1.1 (NASIEC, 2011). With this figure, it is the most populated Local Government Area in the whole of Nasarawa State.

3.2.3 Human activities

The strategic location of Lafia LGA to her neighboring towns' favors their mutual inter relationship, coupled with accessible network of roads linking them together. This enhances her importance as market center which involves both indigenes and non-indigenes. People from various local governments also come to Lafia LGA to purchase goods. The establishment of a number of factories and industries has also enhanced commercial activities in Lafia LGA, some of which are; Delta prospectus industry, rice mill industry, soya beans processing industry, fertilizer blending plant and other small scale factories. These various commercial economic activities have led to the citing of some commercial institutions such as banks and insurance companies in Lafia LGA(Umaru, 2007).

A lot of agricultural activities take place in the area, one of which is farming. Majority of the population are engaged in subsistence farming, with very few farmers practicing large scale mechanized farming. A wide variety of crops are grown in the area, they include cassava, yam, groundnut, rice, millet, maize, cowpea, soya beans, guinea corn, tomatoes, sugar cane, mangoes, oranges etc. also animal production such as goat, cow, sheep, pig and rabbit rearing and poultry keeping is also common in this region (Labaris, 2007).

3.3 Population of the Study

The population of the study consist of all adult male and female population in Lafia local government area in Nasarawa state. The study population consists of thirteen wards in Lafia Local Government Area. They wards include: Adogi(12137), AgyaraguTofa(19379), Akurba(19613) Arikya(15020), Ashigye (21004), Assakio(15913), Chioma(43503), Gayam (31322), Keffi Wambai(11317), Makama(10165), Shabu/ kwandere(19961), Wakwa(13525) and Zanwa(10661). The wards were selected out of the thirteen wards for the purpose simplicity and in-depth analysis. The selected wards are Akurba/BakinRijiya (19613), Chiroma (43503), Gayam (31322), Makama (10165), and Zanwa (10661).The distribution of wards using the population of registered voters according to NASIEC Lafia Office (2013).

3.4 Sample size

To determine the sample size for this study, the Yamane (1967) formula was used alongside the total number of registered voters (135,225) in the selected wards. The population of registered voters was used to determine the sample size because there was no actual figures of the 2006 population according to wards. The Yamane (1967) formula is given as: $n = \frac{N}{1 + N(e)^2}$

Where:

n = sample size

N =total population (135225)

e = level of significance (0.05)

1 =unity

$n = \frac{135225}{1 + 135225 (0.05)^2}$

$n = \frac{135225}{1 + 135225 (0.0025)}$

$n = \frac{135225}{339.0650}$

$n = 398.9$ approximately 399.

Therefore the sample size for this study is 398.9 approximately 399. The number of respondents to be administered with questionnaire is proportionate to the population of each ward.

Proportion = $n/N \times 399$

Where n-population of the selected ward

vital population of the selected wards.

3.5 Sampling Techniques

The study employed simple random sampling in carrying the research. Random sampling is also known as chance sampling or probability sampling. Under random sampling technique, each and every item of the universe has an equal chance of inclusion in the sample. The results obtained from a random sample can be assured in terms of probability. That is, we can measure the error of estimation or the significance of results obtained from a random sample. Random sampling ensures the Law of Statistical Regularity which states that if on the average the sample chosen is a random one then the sample will have the same composition and characteristics as the universe.

3.6 Method of Data Collection

The major source of data collection for this study is Primary source. Primary research involves collecting and analyzing information at first hand. The advantage of primary research is that the information obtained is original and up to date. The following are the most widely used primary research methods: postal surveys, personal surveys, telephone, questionnaires and observation.

The primary data were obtained through the administration of questionnaires to the people and the conduction of in-depth interviews. The questionnaire was structured based on the objectives of the study, and also contain the general characteristics of the respondents and their standard of living. The questionnaire address issues such as demographic characteristics of respondents (age, sex, marital status etc), socioeconomic condition (occupation, source of finance, level of income, expenditure profile etc). The monthly income in the questionnaire was used to capture the present living standard of respondents while monthly expenses on food items was used as a proxy for increase in price of food stuff. The questionnaire was adopted because of its ability to cover a wide geographical provide more in-depth information which the questionnaire could not. Combination of both method area and

its ability to conceal the identity of the respondent. The in-depth interview I gave the study a valid and more reliable outcome.

Secondary data include average market price from January-December obtain from the Nasarawa Agricultural Development Programme from 2013-2015 in order to know how the price of food have increased for previous years. The total number of registered voters in Lafia LGA was obtained from the Independent National Electoral Commission (INEC). This is because there is no population record according to ward but registered voters has record based on polling unit as such computing the total for all polling units in a ward gave a ward figure. Also map of the study area was gotten from the Ministry of Land and Physical Planning of Nasarawa State. Journals, books, articles, newsletters, magazines, the internet and published and unpublished dissertations/projects, gazette, newspapers, conference papers, seminar papers, published and unpublished dissertation/projects were used to source relevant literatures related to the works for comparison.

3.7 Reliability

Reliability is defined as the degree to which similar outcomes are produced by a measuring instrument when used in different situations. Onwumere (2009:68). Reliability is also the degree to which an assessment tool produces stable and consistent result. It is the responsibility of the result under slight different condition. To ensure reliability of the instruction, a pilot testing on member of the communities in the study area will be carried out. Thereafter, correction will be made on the instrument before the final administration

3.8 Validity

Validity refers to how well a test measures what it is purported to measure. It encompasses the entire experimental concept and establishes whether the results obtained meet all of the requirements of the scientific research method. The validity test will be carried out by giving the draft of the instrument to colleagues and the supervisor for vetting and appropriate correction and comment in order to ensure that the instrument adequately reflect what it was design for.

3.9 Method of data analysis

The methods of descriptive statistics and simple regression analysis were used in analyzing the data for this study. All statistical analysis was carried out using Package for Social Science (SPSS version 20). This enable us highlight frequencies, percentages and using regression analysis to achieve objective one and two.

Objective 1, was achieved through the use of simple regression analysis to determine the impact of food price inflation on standard of living of civil servant and in-depth interview from the respondent to support the data collected. Monthly expenses on food were used to capture the increase in price of food items while income of respondent was use to capture the present living standard of civil servant.
Income (standard of living) = f (Expens)

Where income income of civil servants during inflation period (proxy for present living standard.)

Expens = Expenditure of civil servants on food items during inflation period (proxy for increase in food prices)

Income- $\beta_0 + \beta_1 \text{expens} + \mu$

B_0 =Constant (Intercept of the regression line)

B_1 -slope of the regression line

μ =error term.

Objective 2 was also achieved using simple regression analysis to determine the impact of food price inflation on standard of living farmers and in-depth interview from respondent.

Income (standard of living) = f (expens)

Where income income of civil servants on food item during inflation period

Expens Expenditure of civil servants on food items during inflation period (proxy for increase in food prices)

Income- $B_0+B_1 \text{expens} + \mu$

B_0 =Constant (Intercept of the regression line) B_1 =slope of the regression line

μ = error term.

The model being specified in objective one and two is in line with the standard of living theory which was used as one of the theoretical frameworks in the study. The theory explains that the standard of living is a function of the wage rate of workers.

3.9.1 Economic A Priori Expectation

The constant B, is expected to be positive because there are a number of other factors that influence income during an inflationary period besides the one stated in the model.

The prior expectation for both results is expected to be positive. It is expected that income will have a positive relationship with expenses on food items based on the fact that expenses are a function of income.