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CORPORATE TAXATION, INVESTMENT DECISIONS AND ECONOMIC GROWTH: A STUDY OF SELECTED MANUFACTURING COMPANIES IN NIGERIA

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ABSTRACT

This study examines the effect of corporate taxation on investment decision of manufacturing companies in Nigeria. It also establishes the relationship between tax revenue and economic growth, in order to determine the effects of rates, double and multiplicity of taxes on corporate income as well as the impact of tax revenue on economic growth. The study basically makes use of secondary data. Stratified sampling method was used to ensure proper grouping of the companies while Correlation and Regression analysis were employed to analyze data. The study established that there are cases of double and multiplicity of taxes levied by all the tiers of government. It was also found that, tax revenue has insignificant impact on economic growth. Therefore, government should create conducive and friendly business environment by a way of reducing the rate and numbers of taxes levied on the corporate organization's income to encourage investment. Government should also provide necessary infrastructural facilities to reduce the cost of doing business. Nigerian government should encourage tax compliance and self assessment in order to increase revenue from taxes and achieve sustainable economic growth.

KEYWORDS
Corporate Taxation, Investment, Economic Growth, Manufacturing, Nigeria.

1. INTRODUCTION

A major concern of the government of any nation is to achieve sustainable economic growth and development. Economic growth and development is a function of some key macroeconomic variables which are full employment level, low level of inflation and interest rate, price stability, even distribution of income and favourable balance of payment. These macroeconomic variables are determined by many factors among which are the levels of investment in both real and financial sectors of the economy. High level of investment enables a country to attain full employment level, low level of inflation and favourable balance of payment amongst other benefits. Therefore, for a government to achieve economic growth and development there is need to create a favourable and conducive investment environment through its regulatory policies and reforms that will sustain and maintain existing investors, in addition to attracting prospective ones. These include use of low interest rates, availability of credit facilities, political stability, adequate savings and favorable tax reforms.

Taxation in most countries has been one of the most widely discussed issues in the area of public finance, more especially corporate taxation (Contos, 2006). Corporate revenue is currently subject to double and multiple taxation in Nigeria. Profits are taxed first at the corporate level and then, when distributed as dividends or when capital gains are realized, taxed a second time at the individual level. Critics argue that business entities have a financial incentive to organize as corporations. Corporations are legal entities that can have multiple owners and separate management. Their ability to attract multiple investors through the sale of shares or bonds, gives corporations broad access to capital and greater potential for growth, but as a result of double and multiple taxes imposed by government, it discourages business entities from organizing as Taxable Corporation and encourages them to veer from investment and socially-efficient decision (Scholes, 2005)

Taxation is one of the instruments that government uses to create a conducive and enabling environment for investment. Although, taxation contributes to economic growth and development of any nation by serving as primary sources of revenue to government, in addition to being used as an instrument of fiscal policy to regulate economy, various empirical studies have shown that, taxation impacts economic growth and development positively up to a point beyond which the losses caused to the economy is far higher than the positive impacts (Scully, 1991; Engel and Skinner, 1995; Leach, 2003).

In view of the above, this study examines the effect of corporate taxation on investment decision of manufacturing companies in Nigeria with a view to determining the effects of double and multiple taxation on investment decision of cooperate organizations and to examine the magnitude of the effect on the investment decision of manufacturing companies. It is also part of the focus of this study to establish the relationship between tax revenue and economic growth, in order to determine the extent to which taxation affects economic growth and development.

This study is significant because it determines the magnitude of the effects of corporate taxation on manufacturing companies in Nigeria, unlike previous studies such as those of Simeon et al (2007) which show that taxation has effects on investment decision of corporate organizations, but fails to determine the magnitude (significant or insignificant) of the effects.

Moreover, the empirical studies of Hassett et al (2002), Desai et al (2004), and Simeon et al (2007) used the corporate organization across countries comprising all the sectors of the economy in the developed world without reference to individual sectors of the economy. This study intends to add to the existing literature in that it seeks to examine the effects of corporate taxation in a developing economy and with respect to a specific sector of the economy (i.e. manufacturing sector).

As a result of the dual effects of taxation on economic growth and development, which in the long-run discourage investment, and pose problems to policy makers in the area of public finance, finding possible solutions to the causes of disinvestment will be of benefit to government, financial managers, policy makers and prospective investors at large.

2. LITERATURE REVIEW

2.1 CORPORATE TAXATION AND ECONOMIC GROWTH

Sustainable economic growth and development are major challenges of every developing nation including Nigeria. This can be achieved through full control of some key macroeconomic variables which create conducive environment for investment opportunity. Tax reforms and policy are some of the key variables the government of any country uses in creating investment-friendly environment. Taxation plays an important role in the economic growth and development of a country. There are various tax instruments at the disposal of a government that can be used singly or in concert to finance their activities, but in choosing what tax instrument to use and what rates to impose, governments are typically influenced by their expectations of the effects of taxation on investment and economic activities.

Empirical studies show that taxation can affect growth through its effects on incentives faced by individual and corporate entities. Gupta (2002) believes that taxes can influence firms' decision regarding how much to invest and what kind of assets, taxes on labour that can affect the level of employment and decision on the acquisition of education and job training. Taxes on capital income can affect incentives to save, the absence of emission charges can lead to excessive pollution, the availability of special tax breaks and subsidies for those with political connection can encourage rent-seeking behaviours and reduce incentives to engage in productive activities. Generally, taxation causes a lot of distortion to the economy. For example, increase in corporate tax rate with the intention of raising the revenue base may cause the firm or the company to relocate to another country with lower rates. This in turn affects economic development.

Therefore, tax and expenditure policies should aim to minimize adverse incentive effects. The optimal tax policy is that which does not discourage investment, distort labour supply, consumption and savings (Gupta, 2002).
According to Mintz (2003), tax and expenditure policies have enormous impact on an economy, given that a government often accounts for a significant share of output in developing economies. He further opines that tax structure and tax burden can significantly affect economic growth. Economic growth and development can be enhanced by productive capacity of the economy which he said is a function of investment. Hasset (2002) reaffirms the position of taxation in economic development by saying that revenue structure of a country changes with economic development. According to him, in the early stage of economic development characterized by low level of per capital income, high unemployment, large dependence on agricultural sector, low level of industrialization and underdeveloped money market, countries rely much on taxation to raise revenue to finance their expenditure. However, as the economy advance into an industrialized one and become monetized with booming productive capacity, full employment level, government expenditure will be reduced, so in order to sustain this growth government need to create investment conducive environment by relaxing tax rates to encourage investment.
Theodora (2000) sheds more light on the impacts of taxation on economic development and is of the view that though corporate taxation still remains the main source of government revenue to ensure effective organization of the whole society, and to provide infrastructural services like roads, hospitals, bridges, schools etc. However, the issue of double taxation of corporate revenue and high tax rate discourages production and makes many corporate organizations relocate to the environment with low tax rate. Adedoyin (1997) advises that while pursuing the economic development objectives of taxation, the government should not forget the negative effects of taxation, because high tax rate will discourage hard work, saving, encourage inflation and it may cause division among the factors of production. Similarly, Salawu (2004) notes that, taxes on the profit of firms will raise the cost of production and price of the commodity. Heavy taxes on income serve as a disincentive for those who would have worked for more hours than they do currently particularly overtime workers. In addition, taxes on profit of entrepreneurs make them less willing to take risks since they consider profit taxes as a penalty for success.
Leach (2003) studied the relationship between taxation and economic growth and concludes that there is a threshold beyond which taxes would have a negative impact on economic growth. He notes that tax growth relationship was non-linear and could in fact be described as inverted "U" meaning that tax could impact positively up to a point beyond which the distortionary effect would negate growth. Similarly, Litan and Schramm (2007) argue that investment and entrepreneurship are crucial determinants of economic growth and that distortionary effects of taxation on investment could result in negative impact on economic growth. He empirically established the relationship between effective taxation and economic growth and found that they are negatively correlated.
In addition, Toder (2005) argues that reducing the tax rate on income from capital may stimulate more saving, thereby increasing investment and economic growth. This could happen because raising the after-tax return on saving increases the amount of future consumption that an individual can obtain by sacrificing additional money of consumption today. However, he maintains that tax cuts can only increase investment and economic growth if it increases saving rather than accumulation of more wealth for retirement or other future purposes. In addition, a number of economists have stimulated models which replaced an income tax with consumption tax that remove the tax on the returns to capital which will improve economic efficiency and raise GDP eventually (Gale and Orszag, 2004). But the conclusion that growth will increase is based on the implicit assumption in the model that implementing a new consumption tax will impose a lump sum tax on current wealth.
In general, empirical studies show that taxation performs vital roles in an economy. Taxation contributes to economic growth and development of a nation positively to certain level after which its distortionary effects negate the growth and development in the economy (Leach, 2003). Therefore a government in deciding what tax instrument to use and what rate to impose are typically influenced by their expectation of the effect of taxation on investment and economic activities.

2.2 THEORETICAL FRAMEWORK

The effects of taxation on investment is one of the most thoroughly investigated and significant questions in public finance. The simple reason is that taxation, being a primary source of revenue to government and an instrument of fiscal policy for regulating economic activities also has negative effects on economic growth and development. According to Leach (2003), there is threshold by which taxation could impact positively on economic growth beyond which its distortionary effect negates the growth.
In the study carried out by Ronald, Masulis and Trueman (1988), on the implication of differential taxation for corporate investment and dividend decision, an issue that has received little attention in the public finance literature, shows that tax advantage of dividend deferral causes shareholder to generally prefer greater investment in real asset under internal as opposed to external finance. Furthermore dividend deferral is shown to be costly at the corporate level causing shareholders in different tax brackets at times to disagree over optimal investment and dividend policy under internal financing. Their findings also revealed that profitability of internally financed security investment is shown to depend on security tax status and shareholders tax bracket, while externally financed security purchases are unprofitable from a tax stand point.
Ronald and Trueman (1988) established that differential personal tax disadvantages affect the investment decision of corporate organization and that investment in real asset is subject to diminishing returns to scale while investment in financial asset is subject to a form of double corporate taxation.
Contos (2006) sees double taxation as a major effect of taxation on corporate income. He argues that the corporate profits are taxed at corporate level, and then when distributed as dividends or when capital gains are realized, taxes a second time at individual level. He said the reduction in corporate tax rate based on Growth Tax Relief Reconciliation Act of 2003 in U.S.A did not eliminate double taxation and therefore, the discussion for corporate integration is clearly not over. In understanding why corporate taxation is such a highly contested issue, Contos (2006) says, critics argue that the current tax system discourages business entities from organizing as taxable corporations and encourage corporations to move from socially efficient decisions. Those critics (i.e.Scholes, Woltson, Erickson, Marydew, and Shevlin, 2005), believed that the losses to the economy caused by the current tax system far exceeded the gains from the revenues raised. They called for a neutral tax system that does not enter into the decision making process of firms and does not distort economic efficiency.
In the study carried out by Simeon et al (2007) using 85 countries of developed economies, they show that corporate taxation has a consistent adverse effect on investment. According to their finding, a 10 percentage point increase in the effective corporate tax rate reduces the investment to GDP ratio by about 2 percentage points and the official entry ratio by 1.3 percentage points. Based on the data used, a number of additional issues were looked at, which are: first, they compared their result to several other potential deterrents of investment and entrepreneurship. Previous work had developed cross-country measures of entry (Djankov, Simeon, Florecio and Andrei, 2002) and Labour by (Botero et al 2004) regulation for large samples of countries. Their findings were consistent with many researches in recent years on the effects of these measures of regulation on unemployment, labour reallocation, investment, and firm entry by Alesina et al (2005), Haltiwanger et al (2006), Micco and Pages (2006) and Klapper et al (2006) respectively. Although, these regulations matter for some measures of investment, they do not eliminate the large adverse effect of corporate taxation on these variables. Second, Simeon et al (2007) examined the effects of other taxes paid by the firm, as well as of tax administration variables such as the number of payments per year, and the time spent to comply with the tax code on investment. For this result, since some important taxes such as those on labour were sometimes paid by the firm, and sometimes by individuals, other tax cuts do not have nearly as large an influence on investment. Finally, they considered the effects of corporate taxation on other important outcome variables. Authors such as Barro (1991), De Long and summers (1991) and Baumol et al (2007) argue that investment and entrepreneurship are crucial determinants of economic growth. Their empirical studies suggested that there is a negative correlation between these measures of effective taxation and recent growth in economy. They also extend their work to find out whether corporate taxation encourages debt as opposed to equity finance and found a large significant positive correlation between the effective corporate tax rate and the aggregate debt equity ratio. However, their study was restricted to the developed economies.
According to the recent study carried out by PriceWaterHouseCooper and the World Bank on doing business (2009), the result shows that Nigeria is among the first twenty economies with high tax rate in Africa and their findings also show that reducing corporate income tax rate has been the most popular reform features in more than sixty economies of the world. Countries can increase tax revenue by lowering rates and persuade more business to comply with the more favorable rules. For example, Russian Federation cuts corporate tax rate in 2001 from 25% to 24% and a simplification tax scheme lowered rates for small business. Yet, tax revenue increased by an annual average of 14% over the next three years.

In general, the review of various studies shows that taxation has effect on income of the company in a developed economy which affected their investment decision. The work of various scholars on other variables affected by taxation which have a long- run effect on investment opportunities and decision were also reviewed. Their various results showed that the taxation effects on these variables have aggregate effects on investment opportunities and decision of company. Some results of these scholars on other variables are very ambiguous and the magnitudes of taxation effects are still under debate which calls for further study. However, most of the literature on the topic "effects of taxation on investment" were carried out in developed economy, there is therefore a need for such study in developing economy like Nigeria and other third World Countries most especially the effects of taxation on other macro-economic variable such as inflation, labour, unemployment and capital structure decision.

3. MATERIALS AND METHOD

The study makes use of secondary data. The data was sourced from financial report of selected manufacturing companies (2000 – 2007) from the Nigeria stock exchange (NSE). The population of the study comprises all listed companies by (NSE). The companies were grouped into five sub- sectors by NSE (see Appendix i) out which five companies were selected for the study analysis. The grouping and selected companies are: United Textile Nigeria Plc, from textile industry, Flour Mill of Nigeria Plc from food and beverages industry, Ashaka Cement from building material industry, Vita Foam and GlaxoSmithKline Consumer Plc from industrial domestic and Healthcare/pharmaceutical industries respectively.

The grouping of companies into five sub-sectors facilitates the use of stratified method of sampling. Each sub-sector is taken as strata out of which a company is chosen for the study, considering the nature of business and type of product (necessity or luxury) produced. The selected companies are those that produce basic necessity of life which include food, clothing, health care, housing etc of which the high cost of producing them has a serious negative impact on the life of the general citizenry.

For the analysis, total annual profit, total taxes provision , total transfer to retain earning and total amount set aside for shareholder return (dividend) from each selected company were obtained from their annual financial statement. correlation coefficient analysis were employed to establish the relationship between total profit earned i.e., profit before taxation, total taxes provision and retains earning for the selected manufacturing firm and this gives room for Pearson correlation test to determine the magnitude of the effects (significant or insignificant) of corporate taxation on investment decision and general performance of the companies.

Finally, information on total revenue from taxation (independent variable) and total federally collected revenue (dependent variable) for the period under-consideration were gathered. Regression analysis was employed to establish the relationship between taxation and economic growth and to determine the effects of tax revenue on economic growth and development of the country, that is whether the effects is significant or not.

4. RESULTS AND DISCUSSION

Correlation and regression analyses were employed to establish relationship between the company's profit and tax provision and whether total revenue growth depends on total tax revenue respectively, and the results were used for hypothesis testing.

The correlation analysis schedule (Table 1.1 in appendix ii) shows the total profit and total taxes paid (i.e. profit, withholding and value added tax) for all selected companies. Column X represents annual total profit while column Y represents total taxes for the period under consideration (i.e. 2000 – 2007). The value of the correlation coefficient (0.98) indicates a strong relationship between corporate income and profit taxes. The value of the correlation coefficient is further used for hypothesis one.

Also, the Table 1.2 (in appendix iii) shows the total federally collected revenue (TFR) and total taxes revenue (TTR) for the period 2000 to 2007. The regression analyses were used to examine the impact of tax revenue on economic growth in order to establish the extent to which taxation impact positively on economic growth and development of the country. The dependent variable Y represents (TFR) for the period under consideration while column "X" (independent variable) represents (TTR) from various forms of taxes in the country. The result of the coefficient of determination from regression analysis (i.e. r^2 = 0.084) indicates that the relationship between total federally collected revenue and revenue from taxes is weak. The result is further used to test hypothesis two.

4.1 HYPOTHESIS TESTING

Ho_1 : Incidence of double and multiple taxes has no significant effect on investment decision of manufacturing firms

The two hypotheses to be tested are:

H_O : The effect of double and multiple taxes on corporate income is insignificant.

H_1 : The effect of double and multiple taxes on corporate income is significant

At 5% level of significant with (n-2) degree of freedom for a two tail test.

The decision rule is to accept H_0 (i.e. the null hypothesis) If T-calculated is less than T-critical (i.e. T-cal < T-critical) and conclude that double and multiple taxation effect on corporate income is insignificant, otherwise reject H_0 and accept H_1 and conclude that the effect of double and multiple taxation on corporate income is significant. From appendix x (b), T-cal is 12.06 and T critical at (8-2) degree of freedom two tail test (i.e. t=0.025) is 2.447 therefore, T critical = 2.45. Since the T-calculated is greater than T-critical (i.e. 12.06 > 2.45) we reject H_0 (i.e. null hypothesis) and accept H_1 (alternative hypothesis) and conclude that the incidence of double and multiple taxation has significant effect on corporate organization's income which has effects on their investment and dividend decision.

H_{o2} : Tax revenue has no significant effects on economic growth

The two hypotheses to be tested are:

Ho : Tax revenue has no significant effects on economic growth

Hi : Tax revenue has significant effects on economic growth

The decision rule is to accept Ho (i.e. null hypothesis) if coefficient of determination r^2 is weak and closer to zero (0) and conclude that tax revenue does not have significant effect on the economic growth otherwise, accept Hi(alternative hypothesis) if the coefficient of determination is strong and closer to one (1).

From Appendix x(c), since the value of coefficient of determination r^2 = 0.084 is very weak and closer to zero (0), it indicates that the variable X (total tax revenue) does not accounts for major growth of the GDP value (variable Y) hence economic growth and development. This proves the hypothesis (Ho_4) that says taxes revenue has no significant impact on the economics growth to be null hypothesis hence, we accept H_o and reject H_1 and conclude that the effect of tax revenue on economic growth is insignificant.

The effect of double and multiple taxes on investment decision of manufacturing companies was tested in hypothesis Ho_1 . It indicates that it has significant effect on investment decision of corporate organization. The implication of this is that it reduces the amount available for the shareholders (dividend) and transfer to retained earnings for further expansion. This makes shareholders less willing to inject their capital into real investment as substantial part of the profit goes to government coffer and at times make the companies to falsify their record to avoid and evade tax and even relocate to another country with less number of taxes.

The second hypothesis Ho_2 (i.e. tax revenue has no significant impact on economic growth), equally uphold that the impacts of tax revenue on economic growth is insignificant and, since investment is generally seen as one of the prime mover of economic growth and development, therefore government should encourage investment by providing favourable investment environment through reduction in the rates and numbers of taxes levied on corporate organization's income, so that manufacturing company in Nigeria will have a sound basis to operate.

5. CONCLUSION AND RECOMMENDATIONS

The study is an empirical investigation of the impact of corporate taxation on investment decisions and economic growth, with particular reference to selected manufacturing companies in Nigeria. The empirical results show that double and multiple taxation has significant effects on corporate organization's income by reducing retain earnings and funds available for shareholders which consequently affects future expansion and the growth of the organization. It was also demonstrated that tax revenue has insignificant impact on total revenue which means its contribution to economic growth and development is not significant.

Therefore, there is need for government and policy-makers to create a conducive environment to sustain the existing investment and encourage prospective ones. This is by reducing the rate and number of taxes levied on corporate organizations' income.

Based on the findings of the study, the following recommendations are made:

1. There is need for government to reduce the rates and numbers of taxes levied on the income of manufacturing companies in Nigeria. The justification for this is that since it is mandatory for all the companies to undertake various development project and programs in their respective location which is the government responsibility to be provided from revenue generated and it was even established that tax revenue has insignificant impact on economic growth therefore, tax cuts and reduction will ideally increase the companies income there by gives room for further expansion and new investment hence economic growth and development. This will also encourage the companies to undertake more of developmental project and programs in their respective location and it will also facilitated self assessment and increase the level of compliance hence increase in taxes revenue to the government.
2. Provision of infrastructural facilities is necessary in order to make doing business in Nigeria less expensive. These facilities which include constant water and electricity supply, good road among others, makes doing business very expenses because it added to the cost of production. The present tax rate may be bearable that is, most manufacturing companies may be ready to comply with the present rate of taxation, if government makes the necessary infrastructural facilities available at all time most especially facility like constant electricity, water and good road. The double taxation in addition with cost of provide these infrastructural facilities themselves, escalate the cost of production which in turn reduces their profit making. Therefore it is hereby recommended that government should create enabling business environment by a way of providing the necessary facilities in order to reduce cost of doing business in Nigeria to increase revenue generation hence economic growth.
3. Multiplicity of taxes should be discouraged. The situation whereby the federal, state and local government authority collecting different form of taxes to generate more revenue and also foreign and indigenous companies with many subsidiaries are being taxed differently. This discourages the company's expansion and future growth. It is therefore recommended that government should set up committee to harmonize different forms of taxes collected by the three tiers of government to eliminate the problems of multiplicity of taxes. This will also have long way in creating business friendly environment for economic growth and development. Another way of minimizing the severity of taxes is for the companies to derive associated tax advantage of using more of debt capitalization or leverage financing for new investment project rather than equity financing. This is because interest paid on debt financing is lower than the tax rate chargeable and is not tax deductible, while principle capital, profit and dividends paid to equity and preference shareholders are all tax deductible. Thus, there is an advantage of using leverage financing than equity in view investment projects.

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APPENDIX

APPENDIX I

GROUPING OF MANUFACTURING COMPANIES INTO 5 SUB-SECTORS BASED ON NIGERIAN STOCK EXCHANGE CLASSIFICATION AS AT 31ST DECEMBER 2009

S/no.	Sub-sector	Number of companies
1	Conglomerates, Engineering, Technology, Construction and Building Materials	17
2	Agriculture, Food and Beverage Tobacco, Chemicals & Paints	33
3	Packaging Healthcare and Breweries	33
4	Petroleum and Industrial Domestic Products	13
5	Textile, Automobile Emerging market, Computer and Office Equipment	18

Source: Nigerian Stock Exchange

APPENDIX II

TABLE 1.1: CORRELATION ANALYSIS SCHEDULE i

Year	X	Y	X²	Y²	XY
2000	2569	855	6599761	73125	2,196495
2001	3387	1235	11471769	1,525,225	4,182945
2002	7197	2398	51796809	5,750,404	17,258406
2003	3611	1177	13,039321	1,385329	4,250147
2004	6519	2083	42497361	4338889	13,579097
2005	8291	2604	68,740681	6780816	21,589,764
2006	13406	4584	179,720836	21,013056	61453104
2007	15197	4187	230,948,809	17530969	63,629839
Total	**60,177**	**19,123**	**604,815,347**	**59,055,713**	**188,139774**

Source- from selected company's annual report and account statement

Coefficient of correlation formula is given as:

$$r = \frac{xy - \overline{y}\overline{x}}{\sqrt{(\sum x^2 - n\overline{x^2})(\sum y^2 - n\overline{y^2})}}$$

$$\sum y = 60177$$

$$\sum y = 19123$$

$$\sum X^2 = 604{,}815{,}347$$

$$\sum Y^2 = 59{,}055{,}713$$

$$\sum XY = 188{,}139774$$

$$\bar{X} = \frac{60177}{8} = 7522.13$$

$$\bar{Y} = \frac{18123}{8} = 2{,}390.38$$

$$\therefore \mathrm{r} = 0.98299$$

$$\mathrm{r} = 0.98$$

APPENDIX III

TABLE 1.2: REGRESSION ANALYSIS SCHEDULE

Year	Total revenue	Taxes revenue	Y²	X²	XY
2000	949.2	210.4	900980.64	44268.16	199711.68
2001	1906.5	258.4	3634742.25	66770.56	492639.60
2002	2331.7	401.7	4980484.89	161362.89	896473.89
2003	1731.9	413.2	29994777.61	170734.24	715621.08
2004	2575.1	446.6	6631140.01	199451.06	1150039.66
2005	3920.5	506.8	15370320.25	256846.24	1986909.40
2006	5547.5	573.0	30774756.25	328329.00	3178717.50
2007	5965.1	644.2	355822418.01	414993.64	3842717.42
Total	**24827.5**	**3454.3**	**100,874,319.9**	**3,003,868.53**	**12,462,830.23**

Source: CBN annual report and statement of account

Regression equation is given as

$Y = \hat{a}_0 + b_1 X$

$$b_1 = \frac{\sum xy - \overline{y}\overline{x}}{\sum x^2 - n\overline{x^2}}$$

Where $\sum xy = 12{,}462{,}830.23$

$\sum y^2$ = 100,874,319.90

$\sum x^2$ = 3,003,868.53

$$\bar{y} = \frac{24827.5}{8} = 3101.44$$

$$\bar{x} = \frac{3454}{8} = 431.79$$

$$\overline{y^2} = 9631339.83$$

$$\overline{x^2} = 186442.60$$

n = 8

.: $b_1 \approx$ 1.152

$$\hat{a}_0 = \bar{Y} - \bar{b}_1 \bar{X}$$

$$\therefore \hat{a}_0 = 2606.02$$

Regression line Y = 2606.02 + 1.15

TEST STATISTIC

$$Tcal = \frac{r\sqrt{n-2}}{1-r^2}$$

(a)

Where r = 0.98 and n = 8

$$Tcal = \frac{0.98\sqrt{8-2}}{0.1989974}$$

$$Tcal = \frac{2.400499}{1-(0.98)^2}$$

$$Tcal = 12.0629$$

$$Tcal = 12.06$$

COEFFICIENT OF DETERMINATION

$$r^2 = \frac{bi(\sum xy - n\bar{x}\bar{y})}{\sum y^2 - n\overline{y^2}}$$

r^2 = 0.08426

$r^2 \approx$ 0.084

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