THE IMPACT OF CAPITAL MARKET ON THE ECONOMIC GROWTH OF NIGERIA

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APPROVAL PAGE

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DEDICATION

This research is specially dedicated to God Almighty, for His unending guidance, grace and blessings in my life and to my lovely parents, Mr. and Mrs. Aiguh most especially, my mother for all her love and care and also to every member of my family that have contributed to my success.

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This work would not have been possible without recognizing those who in one way contributed to the success of this work. I am most grateful and indebted to God for guiding me throughout this research.

To my loving mother, Mrs. Cordelia I. Aiguh, for her love, care, advice, finance, etc.

My supervisor, Dr. C.C. Umeadi and all other distinguished economics lecturers and students.

ABSTRACT

This research work was embarked upon with a view to determine the impact of the capital market on the economic growth of Nigeria. The capital market was set up to achieve specific objectives which would boost the economy such as encourage domestic savings and increasing the quantity and quality of investments. The capital market offers access to a variety of financial instruments which are very essential for government and other institutions in need of long term funds. The data was obtained from the CBN Statistical Bulletin (1980 – 2009) and analyzed using ordinary least square analysis. The result shows that the capital market has a positive and significant impact on the country's economic growth. It also revealed the limited contribution of the market to the development of the industrial sector.

TABLE OF CONTENT

Comment [O1]: See the order in which Chapt
one should appear
1.1 Background of the study
1.2 Statement of the problem
1.3 Research questions
1.4 Objectives of the study
1.5 Hypothesis of the Study
1.6 Significance of the study
1.7 Scope of the study

CHAPTER ONE

1.0 INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The capital market is a highly specialized and organized financial market and indeed essential agent of economic growth because of its ability to facilitate and mobilize saving and investment. To a great extent, the positive relationship between capital accumulation real economic growths has long affirmed in economic theories (Anyanwu, 1993).

Success in capital accumulation and mobilization for development varies among nations, but it is largely dependent on domestic savings and inflows of foreign capital. Therefore, to arrest the menace of the current economic downturn, effort must be geared towards effective resources mobilization. It is in realization of this that consideration is given to measure for the development of capital market as an institution for the mobilization of finance from the surplus sectors to the deficit sectors.

The development of capital market in Nigeria, as in other developing countries has been induced by the government. Though prior to the establishment of stock market in Nigeria, there existed some less formal market arrangements for the operation of capital market. It was not prominent until the visit of Mr. J. B. Lobynesion in 1959, on the invitation of the Federal government, to advice on the role the Central Bank could play in the development of local money and capital market. As a follow-up to this, the government commissioned and a set up the Barback Committee to study and make recommendations on the ways and means of establishing a stock market in Nigeria as a formal capital market. Acting on the recommendation of the committee, the Lagos Stock Exchange (as it was called then) was set-up in March 1960, and in September 1961, it was incorporated under Section 2 cap 37, through the collaborative effort of Central Bank of Nigeria, the Business Community and Industrial Development Bank (Alile &Anao, 1990). With the establishment of the Central Bank of Nigeria in 1959 and the coming into existence of the Lagos Stock Exchange in 1961 and Subsequently, the Nigeria Stock Exchange by an Act in 1979, a sound foundation was laid for the operation of the Nigerian Capital Market for trading in securities of long term nature needed for the financing of the industrial sector and the economy at large. After the incorporation of the Lagos Stock Exchange, it was granted further protection under the law and its activities was placed under some sort of control by the government, hence the passing of the Lagos Stock Exchange Act. However, the Lagos Stock Exchange was only operational in Lagos. By the mid 70's, the need for an efficient financial system for the whole nation was emphasized, and a review by the government of the operations of the Lagos Stock Exchange market was advocated. The review was carried out to take care of the low capital formation, the huge amount of currency in circulation which was held outside the banking system, the unsatisfactory demarcation between the operation of Commercial Banks and the emerging class of the Merchant

Banks, and the extremely shallow depth of the capital.

In response to the problems mentioned above, the government accepted the principle of decentralization but opted for a National Stock Exchange, which will have branches in different parts of the country. On December 2nd 1977, the memorandum and article of association creating the Lagos Stock Exchange was transformed into the Nigerian Stock Exchange, with branches in Lagos, Kaduna, Port-Harcourt, Yola and now in Federal Capital Territory (FCT) Abuja and some other cities. The history of Nigeria Capital Market could be traced to 1946 when the British colonial administration floated a N600, 000 local loan stock bearing interest at 3¼% for the financing of developmental projects under the Ten-Years Plan Local Ordinance. The loan stock, which had a maturity of 10-15 years, was oversubscribed by more than N1 million, yet local participation of the issued was terribly poor. Certainly, potential fund abound in Nigeria, but the overriding consideration in this project is to examine the impact of the capital market in harnessing and mobilizing these resources (fund) to generate economic growth in the country and consequently economic development.

1.2 STATEMENT OF THE PROBLEM

There is abundant evidence that most Nigerian businesses lack long-term capital. The business sector has depended mainly on short-term financing such as overdrafts to finance even long-term capital. Based on the maturity matching concept, such financing is risky. All such firms need to raise an appropriate mix of short- and long-term capital (Demirguc-Kunt& Levine 1996). Most recent literatures on the Nigeria capital market have recognized the tremendous performance the market has recorded in recent times. However, the vital role of the capital market in economic growth and development has not been empirically investigated thereby creating a research gap in this area. This study is undertaken to examine the contribution of the capital market in the Nigerian economic growth and development. Aside the social and institutional factors inhibiting the process of economic development in Nigeria, the bottleneck created by the dearth of finance to the economy constitutes a major setback to its development. As a result, it is necessary to evaluate the Nigerian capital market.

1.3 RESEARCH QUESTIONS

This research was guided by the following research questions:

i. What is the performance of the capital market in relation to economic growth in Nigeria?

ii. How could the capital market through its crucial role stimulate economic growth in Nigeria?

1.4 OBJECTIVES OF THE STUDY

The broad objective of this study examined the activities and performance of Nigerian capital market. The specific objectives of the study are as follows:

1. To evaluate the performance of the capital market in relation to the economic growth in Nigeria.
2. To make recommendations as to how the operations of the market could be improve to boost economic growth and development of Nigeria.

1.5 HYPOTHESIS OF THE STUDY

The hypothesis that would be tested in the course of this research is stated below as:

H0: That the capital market operations have no impact on Nigerian economic growth.

1.6 SIGNIFICANCE OF THE STUDY

Comment [O2]: See the order in which Chapt one should appear
1.8 Background of the study
1.9 Statement of the problem
1.10 Research questions
1.11 Objectives of the study
1.12 Hypothesis of the Study
1.13 Significance of the study
1.14 Scope of the study

The study explored the impact or effectiveness of capital market instruments on Nigerian economic growth. Though the scope of the study was limited to the capital market, it is hoped that the exploration of this market will provide a broad view of the operations of the capital market. It will contribute to existing literature on the subject matter by investigating empirically the role, which the capital market plays in the economic growth and development of the country. The main importance of this study is that it will provide policy recommendations to policy-makers on ways to improve operations and activities of the capital market.

1.7 SCOPE AND LIMITATION OF THE STUDY

The economy is a large component with lot of diverse and sometimes complex parts; this research work only looked at a particular part of the economy (the financial sector). This work did not cover all the facets that make up the financial sector, but focus only on the capital market and its activities as it impacts on the Nigerian economic growth. The empirical investigation of the impact of the capital market on the economic growth in Nigeria was restricted to the period between 1980 and 2009 due to the non-availability of some important data.

1.8 ORGANIZATION OF THE STUDY

The study is divided into five (5) chapters and organized as follows:

Chapter one form the introduction part, this is where the main theme of the research is given. It comprises of the statement of the problem, objectives of the study, research questions and hypotheses, significance of the study, scope and delimitation of the study and organization of the study.

Chapter two is the literature review of the impact of capital market on the economic growth of Nigeria.

Chapter three forms the research methodology which includes sources of data, method of data analysis and model specification.

Chapter four is the data analysis while chapter five includes the summary, conclusion and recommendations.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 THEORETICAL AND CONCEPTUAL FRAMEWORK

Capital market is defined as the market where medium to long terms finance can be raised. The capital market is the market for dealing (that is lending and borrowing) in long term loanable funds.

Substantial academic literature and government strategies support the finance-led growth hypothesis, based on an observation first made almost a century ago by Joseph Schumpeter that financial markets significantly boost real economic growth and development. Schumpeter asserted that finance had a positive impact on economic growth as a result of its effects on productivity growth and technological change. As early as 1989 the World Bank also endorsed the view that financial deepening matters for economic growth "by improving the productivity of investment". (Wikipedia, 2011).

Mbat (2001) described it as a forum through which long term funds are made available by the surplus to deficit economic units. It must however, be noted that although all surplus economic units have access to the capital market, not all the deficit economic units have the same easy access to it. The restriction on the part of the borrowers is meant to enforce the security of the funds provided by the lenders. In order to ensure that lenders are not subjected to undue risks the borrowers of the capital market needs to satisfy certain basic requirement. It has very profound implication for the socio-economic growth and development of any nation.

2.2 REVIEW OF RELATED CONCEPTS

2.2.1 CAPITAL MARKET AND ECONOMIC GROWTH

In principle, the capital (stock) market is expected to accelerate economic growth, by providing a boost to domestic savings and increasing the quantity and the quality of investment. The market is expected to encourage savings by providing individuals with an additional financial instrument that may better meet their risk preferences and liquidity needs. Better savings mobilization may increase the saving rate. The capital market also provides an avenue for growing companies to raise capital at lower cost. In addition, companies in countries with developed stock market are less dependent on bank financing, which can reduce the risk of a credit crunch. The capital market therefore is able to positively influence economic growth through encouraging savings among individuals and providing avenues for firm financing (Charles & Charles, 2007).

Capital market offers access to a variety of financial instruments that enable economic agents to pool, price and exchange. Through assets with attractive yields liquidity and risk characteristics, it encourages savings in financial form. This is very essential for government and other institutions in need of long term funds and for suppliers of long term funds. Companies can finance their operation by raising funds through issuing equity (ownership) or debenture/bond borrowed as securities. Equity have perpetual life while debenture /bond issues are structured to mature in periods of years varying from the medium to long-term of usually between five and twenty five years.(Mbat, 2001).

Based on the performance of capital market in accelerating economic growth, government of most nations tends to have keen interest in its performance. The concern is for sustained confidence in the market and for a strong investor's protection arrangement. Economic growth is generally agreed to indicate development an economy, because it transforms a country from a five percent saver to a fifteen percent saver. Thus it is argued that for capital market to contribute or impact on the economic growth in Nigeria, it must operate efficiently. Most often, where the market operate efficiently, confidence will be generated in the minds of the public and investors will be willing to part with hard earned funds and invest them in securities with the hope that in future they will recoup their investment.(Ewah et al, 2009)

The theoretical explanation on the nexus between capital market and economic growth is further expanciated using Efficient Market Hypothesis (EMH) developed by Fama in 1965. According to EMH, financial markets are efficient when prices on traded assets that have already reflected all known information and therefore are unbiased because they represent the collective beliefs of all investors about future prospects. Previous test of the EMH have relied on long-range dependence of equity returns. It shows that past information has been found to be useful in improving predictive accuracy. This assertion tends to invalidate the EMH in most developing countries. Equity prices would tend to exhibit long memory or long range dependence, because of the narrowness of their market arising from immature regulatory and institutional arrangement. They noted that, where the market is highly and unreasonably speculative, investors will be discouraged from parting with their funds for fear of incurring financial losses. In situations like the one mentioned above, has detrimental effect on economic growth of any country, meaning investors will refuse to invest in financial assets. The implication is that companies cannot raise additional capital for expansion. Thus, it suffices to say that efficiency of the capital market is a necessary condition for growth in Nigeria.(Nyong, 2003).

Ariyo and Adelegan (2005) contend that, the liberalization of capital market contributes to the growth of the Nigeria capital market, yet its impact at the macro-economy is quite negligible.

In another exposition, Gabriel (2002) as enunciated by Nyong (2003) lay emphasis on the Romanian capital market and conclude that the market is inefficient and hence it has not contributed to economic growth in Romanian.

Ekundayo (2002) argues that a nation requires a lot of local and foreign investments to attain sustainable economic growth and development. The capital market provides a means through which this is made possible.

Ewah, et al (2009) capital market provide the opportunities for the purchase and sale of existing securities among investors thereby encouraging the populace to invest in securities fostering economic growth.

2.2.2 DEFINITION OF CAPITAL MARKET

The literature involves citing different contribution on what capital market is all about and what means to follow in having a strong, viable and reliable market.

Jhingan (2004) the capital market is a market which deals in long term loans. It supplies industries with fixed and working capital and finance medium term and long term borrowings of the central, states and local governments. Thus the capital market comprises the complex of institutions and mechanisms through which medium term funds and long term funds are pooled and made available to individual business and governments.

The capital market has been identified as an institution that contributes to the socio-economic growth and development of emerging and developed economies. This is made possible through some vital roles played, such as channeling resources, promoting reforms to modernize the financial sectors, financial intermediation capacity to link deficit to surplus sector of the economy, and a veritable tool in the mobilization and allocation of savings among competitive uses which are critical to the growth and efficiency of the economy (Pat &James, 2010).

2.2.3 OVERVIEW OF THE NIGERIAN CAPITAL MARKET

The capital market is cornerstone of every financial system since it provides the funds needed for financing not only business and other economic institutions, but also the programme of government as whole.

The capital market is essentially a market for long term securities that is stock, debenture and bonds lasting for usually longer than three years.

The proper functioning of the capital market was not set up until the establishment of the Central Bank in 1959 and launching of the Lagos stock exchange in 1961even though securities were floated as far back as 1946.

The needs to have an organized stock exchange came up and committee was set up by the government under the chairmanship of Prof. R.W.Barbock to consider the feasibility of having indigenous forum for the purchase and sales of shares and stocks.

The Nigeria capital market was established for the following reasons below.

i. To overcome difficulties of selling government stock

ii. To provide local opportunities and lending for long term purpose

iii. To enable authorities mobilized long term capital for economic growth and development

iv. To enable the foreign business the chance of offering their shares to interested Nigerians to invest and participate in the ownership of these foreign business.

In view of the above the major participants in capital market are

Government

Quoted Companies (listed companies)

Stock Brokers

Central Bank of Nigeria (C.B.N)

Banking and non Banking Financial Institutions

Nigerian Stock Exchange

Nigerian Securities and Exchange Commission

Functions of the capital market

a. The promotion of rapid capital.

b. It is machinery for mobilizing long-term financial resources for industrial development.

c. The provision of an alternative source of fund other than taxation for government.

d. The mobilization of savings from numerous economic units for growth and development.

e. The provision of liquidity for any investor or growth of investors.

f. The broadening of the ownership base of assets and the creation of a healthy private sector.

g. It is an avenue for effecting payment of debts

h. The encouragement of a more efficient allocation of new investment through the pricing mechanism.

i. The creation of a built in operational and allocation efficiency within the financial system to ensure that resources are optimally utilized at relatively little cost.

j. It is a necessary liquidity mechanism for investors through a formal market for debt and equity securities.

2.2.4THE NIGERIAN SECURITY AND EXCHANGE COMMISSION

The Nigerian security and exchange commission (NSEC) is the apex institution for the regulation and monitoring of the Nigeria capital market. The commission was established under the security and exchange commission decree 1979, operating retrospectively from 1st April 1978.

Prior to the SEC, two bodies had in succession been responsible for the monitoring of capital market activities in Nigeria. The first was capital issues committee, which operated between 1962 and 1972. It could not be seen as the superintendent of the capital market because its functions were more or less advisory without the force of instruction even through its functions included the coordination of capital market activities. The next body was the capital market issues commission (CIC) which came into being in March 1973. The C.I.C, unlike its predecessor, had full powers to determine the price, timing and volume of security to be issued. Despite this wider power, the CIC could not be seen as the apex of capital market because it concerned itself with public companies alone and its activities did not cover the stock exchange and government securities.

The enabling Act of the Securities and Exchange Commission specifies its overriding objectives as investors' protection and development while its functions were divided into two regulatory and development.

The functions of the commission are extensively spelt out in Nigeria Securities and Exchange Commission Decree (Decree No 29) of 1983 and the Nigerian Enterprises Promotion Decree 1990. According to section (6) subsection (9) to (10) the commission is charged with the following duties and functions.

i. Determining the amount of price and time when securities of companies are to be sold to the public whether through offer for sale or subscription.

ii. Registering all securities proposed to be offered for sale to or for subscription by the public.

iii. Maintaining surveillance over the securities market to ensure orderly, fair and equitable dealing in securities.

iv. Protecting the integrity of the security market against any abuses arising from the practice of insider trading.

v. Acting as regulatory apex organization for the Nigerian capital market including the Nigerian Stock Exchange and its branches to which it would be at liberty to delegate power.

vi. Creating the necessary atmosphere for the orderly growth and development of the capital market.

vii. Reviewing, approving and regulating merger acquisition and all forms of business combination.

viii. Registering Stock Exchange or their branches, registers investment advisers, securities dealers and their agents and controlling and supervising their activities with a view to maintaining proper standards of conduct and professionalism in the securities business.

ix. Undertaking such other activities as are necessary or expedient for giving fall effect to the provision of this decree.

2.2.5 THE NIGERIAN STOCK EXCHANGE

As one of the constituencies of the capital market, the exchange is a private, nonprofit making organization, limited by guarantee. It was incorporated via the inspiration and support of businessmen and the federal government. But owned by about 300 members. The membership includes financial institution, stockbrokers and individual Nigerians of high integrity, who have contributed to the development of the stock market and Nigerian economy.

The Nigerian stock exchange started with the incorporation of the then Lagos stock exchange in 1960. Trading commenced on the exchange in 1961 after the enactment of the Lagos stock exchange Act of 1961, the self regulatory organization was subsequently reorganized and renamed the Nigerian stock exchange 197, based on the report and recommendation of Pius Okigbo financial system review commission.

The stock exchange is thus an institution of capital market, which provides trading floors where all dealing members operates on every business day. The exchange now has nine (9) branches and all the branches function principally as trading floor.

Functions of Nigerian Stock Exchange

i. To provide opportunities for raising new capital.

ii. To promote increasing participation by the public in the private sector of the economy.

iii. To provide appropriate machinery to facilitate further offerings of stocks and shares to the public.

iv. To provide a central meeting place for members to buy and sell existing stocks and shares and for granting quotation to new ones.

v. To reduce the risk of liquidity by facilitating the purchasing and sale of securities.(Al-faki, 2007).

2.2.6 ECONOMIC GROWTH

Economic growth means an increase in the capacity of an economy to produce goods and services, compared from one period of time to another. Economic growth is a process by which a nation wealth increases over time.

The most widely used measures of economic growth is the rate of growth in a country's total output of goods and services gauged by the gross domestic product (GDP)

Economic growth can also be refers to as the increase of per capita gross domestic product (GDP) or other measures of aggregate income, typically reported as the annual rate of change in the real GDP.

Economic growth is primarily driven by improvement in productivity, which involves producing more goods and services with the same inputs of labour, capital, energy and materials. (Wikipedia).

2.2.7 IMPACT OF CAPITAL MARKET ON ECONOMIC GROWTH OF NIGERIA

The Nigeria capital market provides the necessary lubricant that keep turning the wheel of the economy. It not only provides the funds required for investment but also efficiently allocates these funds to projects of best returns to funds owners.

The market is very vital to the growth and development of any country because it support government and corporate initiative finances the exploitation of new ideas and facilitates the management of financial risk.

The capital market has impacted on economic growth and development of Nigeria through the following.

i. The capital market encouraged the inflow of foreign capital when foreign companies or investors invest in domestic securities.

ii. It reduces the over reliance of the corporate sector on short term financing for long term projects and also provides opportunities for government to finance projects aimed at providing essential amenities for socio-economic development.

iii. The capital market aid the government in privatization programme by offering her shares in the public enterprises to members of the public through the stock exchange.

iv. It has impacted positively by providing avenue for the marketing of shares and other securities in order to raise fresh fund for expansion of operations leading to increase production/output.

v. The market provides means of allocating the nation real and financial resources between various sectors, industries and companies. Through the capital formation and allocation mechanism the market efficiently distributes the scarce resources for the optimal benefit to the economy.

2.3 EMPIRICAL REVIEW

The link between capital market and economic growth has been empirically investigated by researchers in both Nigeria and other countries.

2.3.1 EMPIRICAL REVIEW ON OTHER COUNTRIES

Demetriades, et al (2001) utilized time series data from five developed countries, to examine the relationship between stock market and economic growth, controlling for other effect of the banking system and stock market volatility. Their result supports the view that, although banks and stock market may promote economic growth, the effect of bank is more. They suggested that the contribution of stock market to economic growth may have been exaggerated by studies that uses cross country regressions.

Mohtadi and Agarwal (2004) examined the capital market and economic growth in developing countries using a panel data approach that covers 21 emerging markets over 21 years (1977 - 1997), they found that turnover ratio is an important and statistically insignificant determinant of investment by firms and that these investment in turn are significant determinant of aggregate growth. Foreign direct investment is also found to have a strong positive influence on aggregate growth. The result of their study indicates that both turnover ratio and market capitalization are important variables as determinants of economic growth.

Nieuwerburgh, et al (2005) investigated the long term relationship between capital (stock) market development and economic growth in Belgium. Their result shows that the market causes economic growth in Belgium.

Mishra, et al (2010) examined the impact of capital market efficiency on economic growth of India using the time series data on market capitalization, total market turnover and stock price index over the period spanning from the first quarter of 1991 to the first quarter of 2010. Their study reveals that there is a linkage between capital market efficiency and economic growth in India. This linkage is established through high rate of market capitalization and total market turnover. The large size of capital market as measured by greater market capitalization is positively correlated with the ability to mobilize capital and diversify risk on an economy wide basis. The increasing trend of market capitalization in India would certainly bring capital market efficiency and thereby contribute to the economic growth of the country.

2.3.2 EMPIRICAL REVIEW ON NIGERIA

Osinubi and Amaghionyeodiwe (2003) examined the relationship between the Nigerian stock market and economic growth during the period 1980- 2000. Unfortunately, their results did not support the claim that stock market development promotes economic growth.

Adam and Sanni (2005) examined the role of stock market in Nigeria's economic growth using Granger-Causality test and regression analysis. The study discovered a one-way causality between GDP growth and market capitalization and a two-way causality between GDP growth and market turnover. They also observed a positive and significant relationship between GDP growth turnover ratios. The study advised that government should encourage the development of the capital market since it has a positive relationship with economic growth.

Obamiro (2005) investigated the role of the Nigerian stock market in the light of economic growth. The author reported a significant positive effect of stock market on economic growth. He suggested that government should create more enabling environment so as to increase the efficiency of the stock market, and to attain higher economic growth.

Ewah, et al (2009) appraised the impact of the Nigeria capital market efficiency on the economic growth of the nation using time series data from 1961 to 2004. They found that the capital market in Nigeria has potential of growth inducing but it has not contribute meaningfully to the economic growth of Nigeria because of low market capitalization, illiquidity, misappropriation of funds among others.

Ezeoha, et al (2009) investigated the nature of the relationship that exists between stock market development and the level of investment (domestic private investment and foreign private investment) flows in Nigeria. The study discovered that stock market development promotes domestic private investment flows, thus suggesting the enhancement of the economy's production capacity as well as promotion of the growth of national output. However, the results show that stock development has not been able to encourage the flow of foreign private investment in Nigeria.

Afees and Kazeem (2010) critically and empirically examined the causal linkage between stock market and economic growth in Nigeria between 1970 and 2004. The indicator of the stock market development used are market capitalization ratio, total value traded ratio and turnover ratio while the growth rate of gross domestic product is used as proxy for economic growth, using the Granger causality (GC) test, the empirical evidence obtained from the estimation process suggests a bidirectional causality between turnover ratio and economic growth, a uni-directional relationship from market capitalization to economic growth and no causal linkage between total value traded. The result of the causality test is sensitive to the choice of variable used as proxy for stock (capital) market. Overall the result of the G.C test suggested that capital market drive economic growth.

CHAPTER THREE

3.0 METHODOLOGY OF RESEARCH

This chapter included sources of data, method of data analysis and model specification.

3.1 SOURCES OF DATA

The data for this study was obtained mainly from secondary sources particularly from Central Bank of Nigeria (CBN) statistical Bulletins, Nigerian Stock Exchange (NSE) fact books, Security and Exchange Commission (SEC) market Bulletins and relevant journals.

3.2 METHOD OF EVALUATION

In this section, the research would proceed with all the evaluation of the results. The evaluation will be based on three criteria;

- economic criteria,
- statistical criteria and
- econometric criteria.

Economic Criteria:

This evaluation consists of deciding whether the estimates of the parameter are theoretically meaningful and satisfactory. The signs and magnitude of the parameter estimate will be examined to know whether they are in conformity with their criteria expectation. Economic criteria will help the researcher to know when they are deviating from what is actually required.

Statistical Criteria:

R2 (First Order Test)

This measures or explains the total variation in the dependent variable computed in the models. Under this, we shall use the t-test, F-test.

- t-test: This is used to test the statistical significance of individual estimated parameter. In this research t-statistic is chosen because the population variance is known and the sample is less than 30.
- F-test: The F-test is used to test for the significance of the joint influence of the explanatory variables on the dependent variable is statistically significant.

Econometric Criteria:

This will be used to evaluate if the assumptions of the econometric method employed is satisfactory or not. The tests carried out under this criterion are:

- **Auto Correlation Test**: This test will adopt the conventional 'Durbin-Watson test' in checking for the present and correlation.
- **Multi-colinearity test:** This test will adopt the correlation matrix test in order to check for the degree of multi-colinearity among the variables.
- **Normality test:** This test is carried out to check whether the error term follows a normal distribution. The normality test adopted in this research is Jarque Bora (JB) statistics which follows the chi-square distribution with 2 degree of freedom.

- **Heteroscedasticity test:** This test was carried out to ascertain the level of distribution of error term (to know whether the variance is constant). This test was carried out using white's heteroscedasticity test (with no cross terms). It follows chi-square distribution with degree of freedom equal to the number of regression excluding the constant term.

3.3 MODEL SPECIFICATION

Model which specifies that economic growth [proxy by Gross Domestic Product (GDP)] is significantly influenced by the capital market indices (market capitalization, new issues, value of transaction and total listing) is formulated as follows,

GDP= f (MCAP, TNI, VLT, TLS)

LRGDP= α_0+ α_1LMCAP+α_2LTNI+α_3LVTS+α_4LTLS+U

Where;

The a priori expectation is α_1, α_2, α_3, α_4> 0

LRGDP = Real Gross Domestic Product

LMCAP = Market Capitalization

LTNI = Total New Issues

LVTS = Value of Transactions (Government and Industrial securities)

LTLS = Total Listing of Stock (equity, industrial loan and government stock)

U = Disturbance Term

α = Intercept

α_1 - α_4 = Coefficient of the Independent Variables.

Note: All variables are in their natural logarithm form.

CHAPTER FOUR

4.0 PRESENTATION OF RESULT AND DATA ANALYSIS

4.1 PRESENTATION OF REGRESSION RESULTS:

The results of our models are presented in Table 4.1

Table 4.1 Result Summary (modelling LRGDP by OLS)

Variable	**Coefficient**	**Std. Error**	**t-value**	**t-prob**	**PartRy**
Constant	-2.0855	2.7062	-0.771	0.4481	0.0232
LMCAP	-0.059784	0.037544	-1.592	0.1239	0.0921
LTNI	0.033421	0.062551	0.534	0.5979	0.0113
LVTS	0.088157	0.060373	1.460	0.1567	0.0786
LTLS	2.5829	0.53813	4.800	0.0001	0.4796

R^2 = 0.837731, F (4, 25) = 32.266 [0.0000], å = 0.255232,

DW = 1.55 RSS = 1.628578533

4.2 ANALYSIS OF THE RESULT

4.2.1 ANALYSIS OF THE REGRESSION COEFFICIENTS:

- The coefficient of the constant is -2.0855. It implies that when the independent variables are held constant, the value of the real gross domestic product will be -2.0855.
- The coefficient of market capitalization (LMCAP) shows a negative value of -0.059784 implying that one percent increase in LMCAPwill

bring about a decrease in the real gross domestic product by 0.059784 percent

- Total new issues (LTNI)shows a positive value of 0.033421, implying that one per cent increase in the total new issues causes the real gross domestic product to increase by 0.033421 per cent
- The coefficient of value of transactions (LVTS) reflects a positive value of 0.088157 expressing a positive relationship between LVTS and the real gross domestic product. The positive sign shows that one per cent increase in LVTS will increase the real gross domestic product by 0.088157percent
- The coefficient of total listed stocks (LTLS) reflects a positive value of 2.5829showing a positive relationship between LTLS and the real gross domestic product. The positive sign shows that one percent increase in LTLS will increase the real gross domestic product by 2.5829 per cent

4.2.2 ANALYSIS OF THE EVALUATION METHODS

4.2.2.1 EVALUATION BASED ON ECONOMIC CRITERIA

As stated early in chapter three, our parameter estimates are expected to conform to a priori expectation consequently the table below summarizes the outcome of our model parameters on a priori ground.

Table 4.2: a priori expectations

Independent variables	Expected signs	Observed signs	Remark.
LMCAP	+	-	Does not conform
LTNI	+	+	Conforms
LVTS	+	+	Conforms
LTLS	+	+	conforms

All variables except market capitalization conformed to economic theory.

4.2.2.2 EVALUATION BASED ON STATISTICAL CRITERIA

1. **The R^2 (Coefficient of determination):**

In our model, $R^2 = 0.837731$, which implies that approximately 83.77% of the variation in the dependent variable (RGDP) is caused by the explanatory variables included in this model.

2. **The t-test (Student t):**

This test was conducted to ascertain the significant status of each of the parameters or variables. In doing this, we employed the two-tail tests which compared the t-calculated for each of the explanatory variables with the t-tabulated.

At 5% level of significance

n-k degree of freedom

$\alpha = 5\%$

$^{\alpha}/_{2} = 0.005/2 = 0.025$

$n - k = 30 - 5 = 25$

Hypothesis

Ho: Bs = 0 (Individual parameter estimates are not significant)

H1: Bs≠ 0 (Individual parameter estimates are significant)

Decision rule

If t-cal is greater than t-tab at 5% level of significant we reject the Ho and accept if other wise

Table 4.3: t-test summary test

Variable	**t – value**	**t – tab**	**conclusion**
Constant	-0.771	2.0596	Not statistically significant
LMCAP	-1.592	2.0596	Not statistically significant
LTNI	0.534	2.0596	Not statistically significant
LVTS	1.460	2.0596	Not statistically significant
LTLS	4.800	2.0596	Statistically significant

3. **F-test:**

The F-test, which follows an F-distribution, measures the overall significance of the model.

Hypothesis Test

H_0: $\beta_1 = \beta_2 = \beta_3 = 0$ (the model is statistically insignificant)

H_1 :$\beta_1 \neq \beta_2 \neq \beta_3 \neq 0$ (the model is statistically significant).

At α = 5% level of significant, with n-k and K-1 degrees of freedom.

Decision Rule

Reject Ho if f-cal> f-tab and accept Ho if f-cal< f-tab.

Table 4.4: F-test summary

F_{cal}	F_{tab}at 0.05 significant level	Decision
32.266	2.76	Reject H_0 and accept H_1

From the f-table we have 2.76 which is less than f-cal of 32.266, we reject Ho and conclude that the model is statistically significance and has a goodness of fit.

4.2.2.3 ECONOMETRIC CRITERIA (SECOND-ORDER TEST)

1. NORMALITY TEST

This test was carried out to check whether the error term follows the normal distribution. The normality test adopted is the **Jarque-Bera (JB) Test of Normality.** This test computes the skewness and Kurtosis measures of the OLS residuals and uses the Chi-square distribution (Gujarati, 2004:148)

Hypothesis: Test

H_0: $\sigma_1 = 0$ (the error term follows a normal distribution)

H_1: $\sigma_1 \neq 0$ (the error term does not follow a normal distribution)

At $\alpha = 5\%$ with 2 degree of freedom.

Decision Rule: Reject H_0 if $\chi^2_{cal} > \chi^{2(0.05)}_{tab}$ (2 df), and accept H_0 if otherwise.

From the result obtained from Jarque-Bera (JB) Test of Normality, JB = 24.647 and from chi-square table χ^2_{tab} = 5.991. Therefore, since χ^2_{cal} = 14.817> $\chi^{2(0.05)}_{tab}$ = 5.991 at 5% level of significance, we reject H_0 and conclude that the error term does not follow a normal distribution.

2. TEST FOR AUTO CORRELATION

The convectional Durbin Watson d statistics is employed. We compare the established lower limit d_L and upper limit d_U of Durbin Watson based on 5% level of significant and k degree of freedom. Where k = number of explanatory variables excluding the constant.

Decision rule:

Table 4.4: decision rule

Null hypothesis (H_0)	Decision	If
No positive auto correlation	Reject	$0 < d^* < d_l$
No positive auto correlation	No decision	$d_l \leq d^* \leq d_u$
No negative auto correlation	Reject	$4 - d_l < d^* \leq 4$
No negative auto correlation	No decision	$4 - d_u \leq d^* \leq 4 - d_l$
No auto correlation, positive or negative	Do not reject	$d_u < d^* < 4 - d_u$

Where: d_l = lower limit

d_u = upper limit

d^* = Calculated Durbin-Watson

From the result, d_L = 1.21380, du = 1.64981 and d* = 1.55. d* falls within the range $d_l \leq d^* \leq d_u$. Therefore we conclude there is no positive autocorrelation in the residuals, while no decision can be made regarding accepting or rejecting the null hypothesis.

3. TEST FOR HETEROSCEDASTICITY

This test is basically focused on the variance of the error term. The test helps to ascertain whether the variance of the error term is constant.

H_0: $B_1 = B_2 = B_3 = 0$ (Homoscedasticity)

H_1: $B_1 \neq B_2 \neq B_3 \neq 0$ (Heteroscedasticity)

Decision Rule: Reject H_0 if $\chi^2_{cal} > \chi^2_{tab(0.05)}$ and accept if otherwise.

From our result, the calculated chi-square (χ^2) at 8 degrees of freedom is 28.99, while the tabulated $\chi^2_{0.05}$ (8 degrees of freedom) is 15.507. Since 28.99 > 15.507, we reject H_0 of homoscedasticity and conclude that the residuals are heteroscedastic, meaning that the error term does not have equal variance.

4. TEST FOR MULTICOLLINEARITY

This test is carried out using correlation matrix. According to Gujarati (2004), multicollinearity is a problem, if any correlation exceeds 0.8.

Table 4.5: correlation matrix

	LRGDP	LMCAP	LTNI	LVTS	LTLS
LRGDP	1.000				
LMCAP	0.6965	1.000			
LTNI	0.8256	0.7970	1.000		
LVTS	0.7780	0.8261	0.9511	1.000	
LTLS	0.8392	0.7172	0.6959	0.6115	1.000

From the correlation matrix above, the pair-wise LTNI and LRGDP, LVTS and LMCAP, LVTS and LTNI, and LTLS and LRGDP are all greater than 0.80 (i.e. 0.8256, 0.8261, 0.9511, and 0.8392). Thus, we conclude that multicollinearity exist between them.

4.3 HYPOTHESIS TESTING

HYPOTHESIS:

H_0: That the capital market has no impact on the Nigerian economic growth.

The regression result shows that market capitalization, total new issues, and value of transactions all have an insignificant impact on the real gross domestic product, which is a proxy for economic growth. While total listed stocks was found to have a significant impact on the real gross domestic product. Therefore since one of the indices of capital market is significant, we reject the null hypothesis and conclude that capital market has an impact on the Nigerian economic growth

CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY OF FINDINGS

The study examined the impact of capital market on economic growth of Nigeria between 1980 and 2009. The findings of the study reveal the following

- The market capitalization (LMCAP) was found to have a negative relation with the real gross domestic product (LRGDP). Its significance test shows that LMCAP has an insignificant impact on RGDP.
- Another major outcome of the study is that the LTNI has a positive relationship with RGDP. The significance test shows an insignificant impact of LTNI on the RGDP
- The LVTS in the regression result has a positive relation with the RGDP. The significance test also reveals an insignificant impact of LVTS on the RGDP.
- The total listing of equity on government stock (TLS) has a positive relationship the RGDP. The significance test also shows a significant impact on the RGDP. The implication of this is that the economy responds favourably to measures taken to increase TLS in the Nigerian stock exchange

5.2 CONCLUSION

The study reveals that the capital market impact on economic growth via market capitalization, value of transaction and total listing of equity and government stock. As it was observed market capitalization, government stock and value of transaction are important capital market variables that are capable of influencing economic growth. Hence the capital market remain one of the mainstream in every economy that has the power to influence or impact economic growth therefore the organized private sector is to invest in it. The market capitalization have not impact significantly on the GDP while volume of transaction and total listed equities and Government stock have significant impact on the GDP. The government is therefore advised to put up measures to stem up investors' confidence and activities in the market and more foreign investors should be encouraged to participate in the market for improvement in the declining market capitalization so that it could contribute significantly to the Nigerian economic growth.

5.3 POLICY RECOMMENDATIONS

In order for the Nigeria capital market to be pivotal force in Nigeria economic growth and development, the following suggestion or recommendation are put forward.

- ❖ First improvement in the declining market capitalization by encouraging more foreign investors to participate in the market, maintain state of the art technology like automated trading and settlement practice, electronic fund clearance and eliminate physical transfer of shares.

- There is also need to restore confidence to the market by regulatory authorities through ensuring transparency and fair trading transaction and dealing in the stock exchange. It must also address the reported case of abuse and sharp practices by some companies in the market.
- Since the total listing is significant at 5% level of significance but still far cry compare to other exchange like South African and Egypt. Therefore, there should be increase in the total member listed companies to ensure stable macroeconomic environment in order to encourage foreign multinational companies (MNCs) or their subsidiaries to be listed on the Nigerian stock exchange, relax the listing requirements to the first tier market and ensure tax rationalization in the capital market to encourage quotation and public interest in shareholdings.
- Lastly, to boost the value of transactions in the Nigerian capital market, there is need for availability of more investment instruments such as derivatives, convertibles, future, and swaps options in the market.
- Given the present political dispensation, all the tiers of government should be encouraged to fund their realistic developmental programme through the capital market. This will served as a leeway to freeing the resources that may be used in other sphere of the economy.

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