IMPACT OF CAPITAL MARKET PERFORMANCE ON ECONOMIC GROWTH IN NIGERIA

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A THESIS SUBMITTED TO THE SCHOOL OF POSTGRADUATE STUDIES, AHMADU BELLO UNIVERSITY, ZARIA IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF A MASTER OF SCIENCE DEGREE IN BUSINESS ADMINISTRATION.

JUNE, 2014

DECLARATION

I declare that this thesis entitled, “Impact of Capital Market performance on Economic growth in Nigeria” has been carried out by me in the Department of Business Administration. The information derived from the literature has been duly acknowledged in the text and a list of references provided. No part of this thesis was previously presented for another degree or diploma at this or any other institution.

Abdul Hakeem, SA’ADU ---------- ----------
Signature Date

CERTTIFICATION

This thesis entitled, “Impact of Capital Market Performance on Economic growth in Nigeria” by Abdul Hakeem SA’ADU meets the regulations governing the award of Master of Science Degree in Business Administration of Ahmadu Bello University, and is approved for its contribution to knowledge and literary presentation.

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DEDICATION

This thesis is dedicated to my Parents; Alh. A. A. Sa'adu and Haj. Sa'adatu Sa'adu, my Wife: Mrs. Bilkisu Sa'adu and Children; Rabiat, Zainab, Muhammad and Abdul Sabur Sa'adu.

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ABSTRACT

This study examines the impact of Capital Market performance on economic growth of Nigeria for the period 1983 – 2010. Economic growth was proxied by gross domestic product while capital market performance was measured by market capitalization, total new issues, volume of transaction and listed equities. Data was collected using secondary source of data only. The technique employed was multiple regression as tool of analysis for the study. The findings of the study shows that the capital market performance has positively and significantly impacted on the Nigerian economy within the period of the study (1983- 2010). The study therefore, recommends among others that the Central Bank of Nigeria (CBN), the Nigerian Stock Exchange (NSE) and Security and Exchange Commission (SEC) should ensure free flow of information in the market. This is necessary in order to attract more investors and increase new issues which will automatically increase the quantum of market capitalization that will result in improving the performance of the Nigerian capital market.

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ACRONYMS AND ABBREVIATIONS

ARCH = Autoregressive Conditional Heteroskadasticity

DW = Durbin Watson

GARCH = General Autoregressive Conditional Heteroskadasticity

GDP = Gross Domestic Product

IFRS = International Financial Reporting Standard

LEQ = Listed Equities

MCAP = Market Capitalization

NSE = Nigerian Stock Exchange

SEC = Securities and Exchange Commission

TNI = Total New Issues

TV = Tolerance Value

VIF = Variance Inflation Factor

VLT = Volume of Transaction

a_0 = Regression Constant

X_1 = Market Capitalization

X_2 = Total New Issues

X_3 = Volume of Transaction

X_4 = Listed Equities

CHAPTER ONE
INTRODUCTION

1.1 Background to the study

The Capital market in any country is one of the major pillars of long-term economic growth and development. The market serves a broad range of clientele, including different levels of government, corporate bodies and individuals within and outside the country. Capital formation entails accumulated savings out of the current incomes of either organization or individual. It is investment in fixed assets which in part is financed with monies raised through the capital market (Al-Faki, 2006). The Capital market has been one of the major means through which foreign funds are injected into most economies and the tendency towards a global economy is more visible there than anywhere else. It is therefore, quite valid to state that the growth of the capital market has become one of the barometers for measuring the overall economic growth of a nation (Emenuga, 1998).

The development of the capital market has generated two major sets of economic benefits. First, it has improved the allocation of capital, because the prices of corporate debt and equity respond immediately to shifts in demand and supply, changes in the outlook for an industry (and/or company) are quickly embodied in current asset prices. The signal created by change in price of a security encourages investors as a result of higher prices or discourages them

due to lower prices; this is because the investors often used the prices of securities to predict the likely trend of the market as either bullish or bearish. Businesses with high returns attract additional capital quickly and easily. When there is decline in demand, prices drop, and this signal makes investors to cut the flow of capital to the industry which leads to a decline in economic growth. The ability of companies in their early stages of development to raise funds in the capital markets is also beneficial because it allows these companies to grow very quickly. This growth in turn results into general increase of output in the economy (Abdullahi, 2005).

Although interest in identifying a formal link between financial system and economic growth is fundamental, the basic intuition behind this relation is relatively easy to surmise. This is because of the fact that the main goal of the capital market is the channeling of funds from the surplus sector unit to the deficit sector unit of the economy. It plays a major task in human capital investments which are essential elements of economic growth and development. From this point of view, one should expect that as the capital market develops and deepens, then efficient allocation of the financial resources for the investment is facilitated and thus the frontier of production possibilities is increased (Adam & Sanni, 2005).

Economic growth in a modern economy hinges on an efficient financial sector that pools domestic savings and mobilizes foreign capital for productive investments. Financial markets play an important role in the mobilization of financial resources for long term investment through financial intermediation. The financial market, which comprises the capital and money markets as well as other submarkets, plays crucial roles in the functioning of any modern economy. However, for the purpose of this research work emphasis will be on the capital market. The capital market is believed to be an important sector of every economy whether it is developed or developing. This is because of the fact that the capital market performs a vital role in the growth of the economy by providing the avenue through which foreign investors make investment in the country which in turn may boost the growth of the economy in terms of foreign Direct Investment (Daniel, 1999).

The capital market mobilizes long-term debt and equity finance for investments in long-term assets. Capital markets also help in boosting the financial system as well as improving the economic growth of a country. The capital market supplements traditional lending activities of the financial institutions such as banks by providing risk capital (equity) and loan capital (debt). By means of these instruments, the market is able to mobilize long-

term savings and provide capital to investors to finance long-term investments thereby broadening ownership of productive assets (Daniel, 2004).

Dealers in the securities segment of the capital market include banking institutions, stockbrokers, investment and merchant bankers and venture capitalists that intermediate between the market and the public. Well-functioning financial markets are very crucial for the promotion of global financial integration. An efficiently functioning domestic financial market can better position a country's competitiveness in the markets for global capital (Senbet & Otchere, 2005).

Accessing global markets for capital, through a well-functioning financial system, lessens a country's reliance on foreign aid and other forms of external borrowing. It has been pointed out by a number of financial analysts that financial globalization allows for the sharing of local security risks.

Given the benefits associated with having well-functioning financial systems, a number of African countries have endeavored to put in place various measures aimed at developing the financial sector. Financial sector reforms have therefore been widely used as policy measures to encourage the development

of domestic financial systems as well as the dismantling of barriers to international capital flows. African financial markets have been increasingly integrated with the other world capital markets. The encouraging drive towards globalizing capital flows in Africa has led to the growing relevance of emerging capital markets in the continent (Harris, 1997).

The impact of the capital market performance is determined by a number of elements, which include how financial assets are priced, such as the size of the stock market, market capitalization, number of listed equities, transactions in buying and selling of securities (liquidity) which in this case refers to the volume of transactions and new issues of securities.

This study therefore poses to examine the impact of capital market performance on economic growth in Nigeria.

1.2 Statement of the problem

Nigerian capital market has undergone a series of reforms all with the hope of creating a stable economic growth and development. The most recent reform was carried out in order to provide opportunities for greater fund mobilization, improved efficiency in resource allocation and provision of relevant information for appraisal. It is expected as a result of the reform the market can provides variety of financial instruments capable of enabling economic

agents to pool, price and exchange risk. In spite of these vital roles that the reform is expected to play, there is however a great concern on the performance of the Nigerian capital market in relation to the economic growth and development which when viewed from the nature of activities taking place in the market appeared superficial. This may probably be attributed to lack of providing enabling framework that sustained confidence and investors' protection and also thorough evaluation of factors that are of significance relevance in determining capital market performance.

Although from economic perspective distinction exists between economic growth and development, most of the studies conducted in the area under study fail to take into consideration the difference and also the interrelationship between the two variables. This therefore triggers the need to investigate the situation bearing in mind the distinction and also appropriateness of the methodology under study. To the best of our knowledge, studies conducted in the area show mixed conflicting results and this could probably be attributed to failure to adopt appropriate methodology. Another issue of concern is most of the studies that evaluate capital market performance are either on data of primary market or secondary market and used to infer on the overall capital market performance but not on the

combination of the two markets' data in aggregate. This informs the need to evaluate the market on aggregate data basis in order to ascertain how influential it is on the economic growth of Nigeria.

1.3 Research Questions

Based on the broad statement of the problem the following research questions were raised:

i. To what extent does market capitalization impact on gross domestic product?
ii. How does total new issues affect gross domestic product in Nigeria?
iii. To what extent does the volume of transaction in the capital market contribute to the Gross Domestic Product in Nigeria?
iv. To what extent does total listed equity in the capital market contribute to the Gross Domestic Product in Nigeria?

1.4 Objectives of the study

The main objective of the study is to examine the impact of capital market performance on economic growth in Nigeria. However the specific objectives are to:

i. Determine the impact of market capitalization on the Gross Domestic Product (GDP).

ii. Assess the effect of total new issues on the gross domestic product.

iii. Identify the contribution of the volume of transaction to the gross domestic product in Nigeria.

iv. Examine the impact of total listed equities stocks on the gross domestic product in Nigeria.

1.5 Hypothesis of the study

In line with the objectives of the study the following hypotheses have been formulated in null form:

H_{01}: Market capitalization has no significant impact on Nigeria's gross domestic product.

H_{02}: Total new issues have no significant effect on Nigeria's gross domestic product.

H_{03}: Volume of transaction has not significantly affected Nigeria's gross domestic product.

H_{04}: Total listed equities have no significant impact on Nigeria's gross domestic product.

1.6 Significance of the study

It is a noted fact that for any meaningful economic transformation of a country to take place, the capital market must be effectively active. It has also been an acknowledged fact that the economic strength of any nation is measured

according to how actively and effectively the capital market is performing (Adamu, 2008).

The study will be of immense significance to regulatory authorities such as the CBN, NSE and SEC in coming up with sound financial policies and reforms that will boost the performance of the capital market. This would strengthen public companies by ensuring that corporate governance practices in Nigerian public companies are aligned with international best practices through improved financial disclosure of information and adoption of International Financial Report Standards. Finally, future studies may want to share this experience by extrapolating some of the data as well as the statistical inferences that this study has come up with.

1.7 Scope of the study

The Nigerian economy is a large component with a lot of diverse and sometimes complex parts. In this regard the study looks at a particular part of the economy by focusing particularly on the financial sector. Even then, the study does not cover all the parts of the financial sector, but focuses only on the capital market and its activities as such its impact on Nigerian economic growth. This is informed by the importance of the capital market to the economic development of the country because it provides long term funds needed for investment for the growth of the economy.

The choice of the period of study, 1983-2010 is predicted on the reasoning that, the market has experienced remarkable developmental changes as well as improvement in the policy framework of the market. This is in terms of its operational activities, increase in the number of quoted companies and securities, as well as market capitalization. Although, new issues and volume of transactions have all recorded significant increase during the period of study but there have been records of downturn in some years as a result of the global financial crisis.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews relevant literatures; issues reviewed include capital market variables like market capitalization, new issues, volume of transaction and equity stocks as well as gross domestic product (GDP). Furthermore, it also reviews previous studies on capital market performance and economic growth by various scholars, roles of the capital market in Nigeria, contribution of the capital market to the economic growth of Nigeria and finally provides an analysis of the Nigerian capital market performance.

2.2 Concept of capital market variables

Capital market is an integral part of the financial system that provides an efficient delivery mechanism for mobilization and allocation, management and distribution of long term funds for investment project (Alile & Anao, 1990).

Sule and Momoh (2009) notes that the capital market is the medium through which funds are mobilized and channeled efficiently from savers to users of

funds. Apart from judicious mobilization of idle savings into productive use, the capital market creates an avenue for foreign investment and the influx of foreign capital for developing projects that will increase the welfare of citizens.

A capital market is a market for securities (debtor equity), where business enterprises (companies) and government can raise long-term funds (Sullivan & Sheffrin, 2003). It is defined as a market in which money is provided for periods longer than a year, as the raising of short-term funds takes place at other market, which in this case is the money market. The capital market includes the stock market such as equity securities and the bond market which is about debt. The financial regulators of the capital market such as the Central Bank of Nigeria, Securities and Exchange Commission (SEC) oversee the capital markets in their designated jurisdiction to ensure that investors are protected against fraud (Afolabi, 1991).

Thus, the capital market is one in which individuals and institutions trade financial securities. Also, organizations or institutions in the public and private sectors also often sell securities on the capital market in order to raise funds. Thus, this type of market is composed of both the primary and secondary

market (Olowe, 1997). The Capital market has also been defined as the market where medium or long-term finance can be raised (Akingohungbe, 1996). Ekezie (2002) notes that the capital market is the market for dealings in terms of

Lending and borrowing in long-term loan able funds. Mbat (2001) describes it as a forum through which long-term funds are made available by the surplus economic unit to the deficit economic units. It must, however, be noted that although all the 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, borrowers in the capital market need to satisfy certain basic requirements such as the capital base of the organization, financial worthiness and a host of others.

Gugler, Muler and Yurtoglu (2003) argue that the strength of a country's capital market determines the degree of a firm's investment performance regardless of how closely managers' and owners' match. The Capital market offers access to a variety of financial instruments that enable economic agents

to pool, price and exchange risks. 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 (Nwankwo, 1991).

Based on its importance in accelerating economic growth and development, the governments of most nations tend to have keen interest in the performance of its capital market. The concern is for sustained confidence in the market and for a strong investor protection arrangement.

Therefore, the capital market is the market which deals in long-term funds. In other words, it is a network of financial institutions and infrastructure that interact to mobilize and allocate long-term funds within the economy. The market affords business firms and the government the opportunity to sell stocks and bonds and to raise long-term funds from the savings of other economic agents. The sourcing of long-term finances through the capital market is essential for self-sustained economic growth which is consistent with rapid economic growth. An active capital market aids the mobilization of savings for economic growth and development (Emenuga, 1998).

Market capitalization is the total value of all shares of a publicly-traded company. Market capitalization is calculated by multiplying the total number of shares by the market price per share. Market capitalization is one of the basic measures of the worth of a publicly-traded company; it is a way of determining the actual value of a company. Also the investment community uses this figure to determine a company's size or (worth), as opposed to sales or total assets figures (Ekezie, 2002). Generally speaking, a higher market capitalization indicates a more valuable company. Consequently, it is the sum of the current market value of all securities traded on a financial market.

New issues market is the market where companies can raise finances by issuing shares or by floatation of securities. In other words, it is when a company attempts to raise funds by issuing additional shares or initial public offer to the general public who wish to invest in the shares of the company. An initial public offering (IPO) is a first-time offering of shares by a specific firm to the public (Agarwal, 2001).

Volume of transaction refers to the total amount of securities traded in the capital market regardless of what type of security instrument. The volume of

transaction often determines the level of transactional activities or the performance of the capital market as far as the business transaction of the market is concerned and this in turn could have an effect on the growth of the economy as either positive or negative outcome of the transaction volume (Adewoyin, 2004).

Equity is the ownership interest in a company in form of common stock or preferred stock. Equity investment generally refers to the buying and holding of the shares of stock from a stock market by individuals and firms in anticipation of capital appreciation as the value of the stock rises. Therefore, the more the numbers of listed equities are available in the capital market the better for the economic growth of the nation (Daniel, 2004).

Economic growth is a positive change in the level of production of goods and services by a country. Economic growth is usually brought about by increase in activities of the stock market, advancement in technology and improvement in the quality and level of the capital market's performance. All these are considered to be the principal causes of economic growth. For the purposes of this study the Nigerian economic growth is represented by the Gross Domestic Product (GDP). The gross domestic product is the market value of all goods and

services produced in a country at a specific period of time such as one year for example(Okpara, 2006).

However, this study perceives the capital market to be that which deals with long-term securities whose maturity period is over and above two years. Furthermore, it is viewed as an avenue in which funds are raised and made available to the deficit economic unit.

2.3 Review of Literature in the concept of Capital Market Variables

2.3.1 Market Capitalization

Market capitalization represents the aggregate value of stock size (Adewoyin, 2004). Market capitalization is the measurement of the size of businesses and corporations which are equal to the market share price times the number of shares in this case shares that have been authorized, issued, and purchased by investors of a publicly traded company (Al-Faki, 2006). Market capitalization is also calculated by multiplying the shares of the company by the price per share. The investment community uses the figure to determine a company's size or worth, as opposed to sales or total asset figure (Olowe, 1997).

In summary, market capitalization refers to the number of shares of a company multiplied by the market share price. In other words, market capitalization is usually considered as reflecting the worthiness of a company used by the investing public to determine the credit worthiness of a firm in terms of investing in such companies.

2.3.2 New Issues

New issues refer to when a company which tries to raise funds by issuing additional shares or initial public offer to the general public to subscribe for their shares (Anyanwu, 1996). New issues, usually refer to a security that has been registered by the stock exchange, issued and is being sold at a market to the public for the first time. New issues are sometimes referred to as primary shares or new offerings. The term does not necessarily refer to newly issued stocks, although initial public offerings are the most commonly known new issues (Afolabi, 1991).

Therefore, new issues are avenues by which companies try to raise additional funds in order to carry on with their operation rather than resorting to the bank for loans or to borrow. However, new issues are perceived as securities

or shares that are newly floated in the market for subscription by both actual and potential subscribers.

2.3.3 Volume of Transaction

Volume of Transaction has to do with the number of shares or contracts traded in a security or in an entire market during a specific period. It is simply the total amount of shares that change hands between buyers and sellers (Mbat, 2001). Volume of transaction is the number of shares traded in a country's stock market or in an entire market over a specific period (Adebiyi, 2005). According to Ekezie (2002), volume of transaction is an important indicator in technical analysis as it is used to measure the worth of a market moves. If the market move significantly up or down, the perceived strength of that move depends on the volume of trading in that period of time.

2.3.4 Equity Stock

Equity stock is an instrument that signifies an ownership position in a corporation and represents its proportional share in the corporation's assets and profits. Ownership in the company is determined by the number of shares

a person owns divided by the total number of shares outstanding (Daniel, 2004). It is the total assets minus total liabilities; it is also called shareholder's equity or net-worth or book value (Afolabi, 1991).

2.3.5 Economic Growth

Okpara (2006) opined that economic growth is the increase in the amount of goods and services produced in an economy which is measured by positive changes in a country's gross domestic product. Economic growth is the increase in national income, as reflected in the capacity of production of goods and services regardless of either the increase is on a larger or smaller population growth rate (Anyanwu, 1996). According to Robert Solow, cited in Adebiyi (2005) economic growth is a positive change in the level of production of goods and services by a country over a certain period of time. Overall, economic growth is the increase in a country's productive capacity, as measured by increase in capital stock, advancement in technology and improvement in the quality and level of literacy.

2.3.6 Gross Domestic Product

The gross domestic product is a basic measure of a country's overall economic output. It is the market value of all final goods and services made within the boarder of a country in a year (Sullivan & Sheffrin, 1996). In another sense, gross domestic product is the monetary value of all the finished goods and services produced within a country's border in a specific time period. Although GDP is usually calculated on an annual basis, it includes all of private and public consumption, government outlays, investment and exporters import that occur within a defined territory (Anyanwu, 1996).

It is mathematically represented as follows:

$$GDP = C + G + I + NX$$

Where:

C = is equal to all private consumption

G = is equal to the sum of government spending

I = is equal to all the country's business spending on capital.

NX = is equal to the nation's total net exports, calculated as total export minus total imports (NX = Exports – Imports).The Nigerian economy is proxy by the use of the gross domestic product.

Consequently, gross domestic product is perceived as the total value of goods and services produced in a country in a given period of time including therefore all goods and services produced in a country.

2.4 Review of Empirical Studies on Capital Market and Economic Growth

Several literatures on capital market development and economic growth produce mixed results. These mixed findings include among others Goldsmith, (1969); King and Levine, (1993); Demirguc-Kunt and Levine, (1996); Shah and Thomas, (1997); Levine and Zervos, (1998); LaPorta, Lopez, Shleifer and Vishny, (2001). Goldsmith, (1969); King and Levine, (1993); and Shah and Thomas, (1997) have found that capital market performance significantly influences economic growth. Contrarily Demirguc-Kunt and Levine, (1996); Levine and Zervos, (1998); and Laporta, Lopez, Shleifer and Vishny, (2001) conferred that capital market have impacted positively on the economic growth of a country.

However, various studies suggest that, over the past two decades, stock market liquidity has been a catalyst for long-run growth in developing countries. Without a liquid stock market, many profitable long-term investments would not be undertaken because savers would be reluctant to tie

up their investments for long periods of time. In contrast, a liquid equity market allows savers to sell their shares easily, thereby permitting firms to raise equity capital on favourable terms. This study strongly supports the belief that greater stock market liquidity boosts economic growth.

Goldsmith (1969) predicates his path breaking study of financial market development and growth by investigating the effect of the financial structure and development on the economic growth of a country. Thus, he sought to assess whether or not finance exerts a causal influence on growth or the mixture of markets and intermediaries operating in an economy influence economic growth. Toward this end, he carefully compiled data on 35 countries over the period 1860 to 1963 on the value of financial intermediary assets as a share of economic output.

Goldsmith suggests that the size of the financial intermediary is positively correlated with the quality of financial functions provided by the financial sector. Goldsmith (1969) met with varying degrees of success in providing confident answers to these questions. After showing that financial intermediary size relative to the size of the economic rises as countries

develop, Goldsmith (1996) graphically documents a positive correlation between financial development and the level of economic activity. Furthermore, he ultimately does not take a stand on whether financial development causes growth or not. In terms of the relationship between economic growth and the structure of the financial system, he is unable to provide much cross-country evidence because of the absence of data on securities market's development for a broad range of countries. Despite the robustness of the study, the model seems to be characterized by lots of weaknesses which fault the work. Some of these include the following: the sample of the study collected was too small because it involved only thirty five countries, It also does not examine whether financial development is associated with productivity growth and capital accumulation or not. The study's opinion about the close association between the financial system size and growth does not identify the direction of causality. The study also does not shed light on whether or not financial markets, non-bank financial intermediaries, or the mixture of markets and intermediaries matter for economic growth.

In the early 1990s, King and Levine (1993) built on Goldsmith's work. They studied 77 countries over the period 1960-1989, systematically controlling for other factors affecting long-run growth, examined the capital accumulation and productivity growth channels, constructed additional measures of the level of financial development, and analyzed whether or not the level of financial development predicts long-run economic growth, capital accumulation, and productivity and growth. In terms of measures of financial development, they first examine the depth of financial intermediaries which is simply a measure of the size of financial intermediaries. It equals liquid liabilities of the financial system (currency plus demand and interest-bearing liabilities of banks and nonbank financial intermediaries) divided by GDP. They also simulated another variable that measures the relative degree to which the central bank and commercial banks allocate credit.

The intuition underlying this measure is that banks are more likely to provide financial functions than central banks. There are two notable weaknesses with this measure, however. Banks are not the only financial intermediaries providing valuable financial functions and banks may simply lend to the government or public enterprises. King and Levine also examine the amount of

credit extended to private enterprises as this affect economic growth. The assumption underlying this measure is that financial systems that allocate more credit to private firms are more engaged in researching firms, exerting corporate control, providing risk management services, mobilizing savings, and facilitating transactions than financial systems that simply channel credit to the government or state owned enterprises.

King and Levine find very consistent results across the different financial development indicators. They then assessed the strength of the empirical relationship between each of these indicators at the level of financial development averaged over the 1960-1989 period and three growth indicators also averaged over the 1960-1989 period. The three growth indicators are as follows: the average rate of real per capital GDP growth, the average rate of growth in the capital stock per person, and total productivity growth. King and Levine (1991) indicate that there is a strong positive relationship between each of the financial market development indicators and economic growth. However, this model witnessed a great set back because it both ignores the issue of causality and the numbers of countries used in the model are few. Finally, one cannot use such population as has been used in the study to make

a conclusion about a general phenomenon because the countries involved are diverse in nature.

Demirguc-Kunt and Levine (1996) examine the interaction between the stock market and financial intermediaries' development and contend that across countries, the level of stock market development is positively correlated with the development of financial intermediaries. Demirguc-Kunt and Maksimovic (1996) also investigated empirically the effect of stock market development on the financing choice of firms in countries with an underdeveloped stock market. First, increase their debt- equity ratios as their stock markets develop and that the debt and equity finance are complementary. The first comprehensive study on the relationship between stock market development and economic growth was undertaken by the World Bank Research Group (1957). The group investigates the compatibility of stock market development with financial intermediaries and economic growth and concluded that stock market development is positively correlated with the development of financial intermediaries and long-term economic growth.

Shah and Thomas (1997) can be considered as one of the scholars supporting the role of stock market development for economic growth. According to them, the stock market in India is more efficient than the banking system on the account of the enabling government policies and that stock market development has a key role to play in the reforms of the banking system by generating competition for funds mobilization and allocation. Hence, an efficient capital market would contribute to long-term growth. The result of their study was positive because the study was basically confined to the Indian economy.

Levine and Zervos (1998a) construct numerous measures of stock market development to assess the relationship between stock market development and economic growth, capital accumulation, and productivity growth in a sample of 42 countries over the period 1976- 1993. Their study builds on pioneering work by Atje and Jovanovic (1993). Their findings were in line with other earlier researchers' base on the results obtained from this study.

For the purposes of this research study focus is only on certain indicators as the basis of measurement such as liquidity and turnover ratio. This equals the

total value of shares traded on a country's stock exchanges divided by stock market capitalization. It has to do with the value of listed shares on the country's exchanges. The turnover ratio is not a direct measure of trading costs or of the ability to sell securities at posted prices. Rather, the turnover ratio measures trading relative to the size of the market. It therefore reflects trading frictions and information that induces transactions. This ratio exhibits substantial cross-country variability. Very active markets such as Japan and the United States had turnover ratios of almost 0.5 during the 1976-1993 periods, while less liquid markets, such as Bangladesh, Chile and Egypt had turnover ratios of 0.06 or less.

Levine and Zervos posit that the initial level of stock market liquidity and the initial level of banking development, otherwise called bank credit, are positively and significantly correlated with future rates of economic growth, capital accumulation, and productivity growth over the next 18 years even after controlling for initial income, inflation, government spending, the black market exchange rate premium, and political stability. Bank credit equals bank credit to the private sector as a share of GDP.

These results are consistent with the view that stock market liquidity facilitates long-run growth (Levine, 1991; Holmstrom and Tirole, 1993; Bencivenga et al., 1995). The results are however inconsistent with models that emphasize the negative aspects of stock markets liquidity (Bhide, 1993).

Furthermore, the results do not lend much support to models that emphasize the link between bank-based and market-based systems. Rather, the results suggest that stock markets provide different financial functions from those provided by banks, or else they would not both enter the growth regression significantly. However, there are a number of weaknesses associated with the Levine and Zervos approach. First, while they show that stock market liquidity and bank development predict economic growth, they do not deal formally with the difficulties in measuring liquidity as discussed by Grossman and Miller (1988). Their work does not measure the direct costs of conducting equity transactions. In addition, their study does not take into account the eventuality of the arrival of information and the processing of that Information may differ across countries and thereby induce cross-country differences in trading that do not reflect liquidity as defined by theory. While Levine and Zervos confirm their results using some additional measures of liquidity, measurement issues

remain. It should be noted that the liquidity indicators measure domestic stock transactions on a country's national stock exchanges.

The physical location of the stock market, however, may not necessarily matter for the provision of liquidity unless there are impediments to cross-location transactions. Physical location will matter less and this measurement problem will matter more if economies become more financially integrated. Guiso, Sapienza, and Zingales (2002), however, have argued that local financial conditions matter even in a single country. Their study shows that local financial conditions influence economic performance across the different regions. That is, local financial development is an important determinant of the economic success of an area even within a single country.

La Porta et al (2001) use an alternative indicator of financial development. They examine the degree of public ownership of banks around the world. To the extent that publicly owned banks are less effective at acquiring information about firms, exerting corporate governance, mobilizing savings, managing risk, and facilitating transactions, then this measure provides direct evidence on connection between economic growth and the services provided by financial

intermediaries. The authors show that higher degrees of public ownership are associated with lower levels of bank development and that high levels of public ownership of banks are associated with slower economic growth. While addressing many of the weaknesses in earlier works, cross-country growth regressions do not eliminate them.

Thus, while King and Levine show that financial development predicts growth, they do not deal formally with the issue of causality. However, the study witnessed some weaknesses which include; they only focus on one segment of the financial system, banks. In such a situation and their indicators do not directly measure the degree to which financial systems ameliorate information and transaction costs.

However, in Nigeria, a lot of literatures exist on the capital market and economic growth (Ogwumike and Omole, 1996; Osinubi and Amaghionyeodiwe, 2003; Adam and Sanni, 2005; Ezeoha, Ebele and Okereke, 2009). The authors also examined the relationship between capital market development and economic growth.

Adam and Sanni (2005) examine the role of the stock market in Nigeria's economic growth using Granger-causality test. They discovered a one-way causality between GDP growth and market capitalization and a two-way causality between GDP growth and market turn-over. They inferred a positive and significant relationship between the GDP and the capital market.

Osinubi and Amaghionyeodiwe (2003) examined the relationship between the Nigerian stock market and economic growth during the period, 1980-2000. Their results did not support the claims that stock market developments promote economic growth. This negative of result was due to the fact that the nature of data collected and the technique of data analysis adopted would have resulted to the outcome of their findings. Perhaps, if better samples of data were collected that was not only restricted to the manufacturing industry the result of this study would have been different from what was obtained.

Ezeoha's Ebele's and Okereke's (2009) work investigates the nature of the relationship that exists between capital market development and the level of investment flows in Nigeria. The study discovers that capital market development promotes domestic private investment flows. Thus, this

enhances the economy's production capacity as well as the promotion of national output. One of the findings of this study is that this does not encourage foreign private investment in the country and therefore more need to be done in order for the market to be able to attract foreign investment. This situation could be explained by the poor or lack of an enabling business environment as well as poor government policy framework. Also the global financial meltdown which has affected most financial markets of the world is partly responsible.

However, given the mixed divergent findings of results from various literature reviewed, this study investigates the empirical impact of capital market performance on economic growth in Nigeria.

2.5 Review of Empirical Studies on the Capital Market and Gross Domestic Product

Under this section empirical literature covering: Market capitalization and gross domestic product, total new issues and gross domestic product, volume of transaction and gross domestic product and total listed equities and gross domestic product has been reviewed.

2.5.1 Market Capitalization and Gross Domestic Product

Levine and Zervos (1996) postulate in their work that well developed stock markets may be able to offer different kinds of financial services than banking systems and may, therefore, provide a different kind of impetus to investment and growth than the development of other sectors of the financial system such as the banking system. They also observe that an increase in the stock market capitalization as measured either by the ratio of the stock market value to GDP or by the number of listed companies, may improve an economy's ability to mobilize capital and diversify risks.

In addition, any well-functioning financial market channels limited resources from surplus units to deficit units thus providing an efficient allocation of resources, thereby resulting in economic growth. However, Levine's & Zervos, study examine whether or not there was a strong empirical relationship between capital market development and long-run economic growth. They found a strong correlation between capital market development and long-term economic growth.

Levine and Zervos, (1996) used a ranking of thirty-eight countries including Nigeria to show that countries that had relatively liquid stock markets grow much faster than countries with less liquid stock markets. It should be recognized that the result was attainable because of the period within which the study was conducted. However due to with the present global financial crisis that has affected most financial markets of the world such a result may be difficult to be attained not least in Nigeria which is part and parcel of this financial crisis.

Abu (2009) explores whether stock market development raises economic growth in Nigeria, by employing the error correction approach. The econometric results indicated that stock market development (market capitalization GDP ratio) increases economic growth. However, the findings of the study included among others, development of the nation's infrastructure to create an enabling environment where business can strive, embark on reforms that will change the activities of the Nigerian Securities and Exchange Commission in order to facilitate the growth of the market. Although the result of the study looks appealing, the Nigerian stock market is still very low in terms of market size, operational activities and corporate governance when

compared with other African stock markets such as those of South Africa and Egypt, for instance.

Osinubi's and Amaghionyeodiwe'(2003) examined the relationship between the Nigerian stock market and economic growth during the period, 1980-2000, using ordinary least square regression. The result indicates that there is a positive relationship between the stock market and economic growth and suggests that the pursuit of policies geared towards rapid development of the stock market and economic growth are very important to capital market development.

Therefore, the security and exchange commission should ensure that for such reforms to be attainable there is need for an absolute reform of the capital market in order to conform to world standards.

2.5.2 Total New Issues and Gross Domestic Product

Demirgue-Kunt and Levine (1996) did deploy data from Forty-Four countries covering the period 1986 and 1993 found that different measures of stock exchange size are strongly correlated to other indicators of activity level of

financial, banking, non-banking institutions as well as to insurance companies and pension funds. The duo concluded that countries with well-developed stock markets tend to have developed financial intermediaries. The result of this study implies that a country's stock market may be developed but it may not have developed financial intermediaries which may be due to poor government policies. This situation will adversely affect the likely result of their study.

Levine and Zervos (1998) evaluate pooled cross country time series regression of 47 countries from 1976 to 1993 in order to determine whether stock market liquidity is related to growth, capital accumulation, new issues and productivity. They towed the line of Demirgue-Kunt and Levine (1996) by conglomerating measures such as stock market size, liquidity, new issues and integration with the world market into index of stock market development. The rate of Gross Domestic Product (GDP) per capital was regressed on a variety of variables. They found empirically that the measures of the stock market such as new issues where strongly related to economic growth. This finding is attributable to the fact that a pooled cross country data was used as at the period of the study which had a significant effect on the outcome of the results of the study. However, if the same data are used now the result

obtained will be slightly different from the initial result obtained because the periods of the two studies are different.

Agarwal (2001) investigates the relationship between stock market development and economic growth for African Countries with cross sectioned data for the period 1992 to 1997. His study documents a positive relationship between several indicators of stock market performance and economic growth.

The result of this study witnessed some setbacks because it was difficult to ascertain whether or not the African countries that the study covers are developed or developing African countries. It is obvious that a developed stock market result is better than the stock market that is not developed.

2.5.3 Volume of Transaction and Gross Domestic Product

Obamiro (2005) interrogates the role of Nigerian Stock Market in the light of economic growth. His study articulates the view that there is a significant positive effect of the stock market on economic growth as a result of increased

volume of transaction of securities in the stock market. He also suggests that the government should create an enabling environment so as to increase the efficiency of the stock market to attain higher economic growth. It is true that the more the volume of transaction in a country's stock market the higher the quantum of securities traded and the better the economic growth.

Nyong (1997) develops an aggregate index of capital market development and uses it to determine its relationship with long run economic growth in Nigeria. The study employs a time series data from 1970 to 1994. Four measures of capital market indices were used market capitalization of GDP (in %), ratio of total value of equities transactions relative to GDP and listing were used as well as the volume of transaction of securities of the capital market. The four measures were combined into one overall composite index of capital market development using principal component analysis. The financial market depth was included as control. It was found that capital market development is negatively and significantly correlated with long-run growth in Nigeria. The outcome of the study can be attributed to the fact that, the data collected during the period of the study may have been affected and the choice of period can also be a factor that impact negatively on the outcome of findings. This is due largely to the fact that the Nigerian capital market witnessed a

bullish marketing performance 1999 to 2007 before the advent of global financial crisis. For the purposes of this study this period has not been focused upon.

2.5.4 Total Listed Equities and Gross Domestic Product

Ezeoha *et al* (2009) examine the nature of the relationship that existed between stock market development and the level of investment with regards to both domestic private investment and foreign private investment flows in Nigeria. They observed that stock market development promotes domestic private investment flows thus enhancing the economy's production capacity as well as promoting national output. However, the results show that stock market development has not been able to encourage the flow of foreign private investment in Nigeria. This is as a result of strict regulatory policies of the Nigerian Stock Exchange; there is no enabling environment that can enhance the inflow of foreign direct investment into the country which will go a long way in boosting the activities and performance of the capital market which will subsequently transcend into economic growth.

Ewah *et al* (2009) appraises the impact of capital market efficiency on economic growth in Nigeria. The study uses time series data on market capitalization, money supply, interest rate, total market transaction and government development stock between 1961 – 2004 using multiple regression and ordinary least square estimation techniques. The result of the study shows that the capital market in Nigeria has the potential to induce growth, but it has not contributed meaningfully to the economic growth of Nigeria because of some obvious reasons. These reasons are peculiar to the capital market such as low market capitalization, illiquidity, insider abuses and a host of others if compared with other the stock markets of African countries like South-Africa and Egypt (Soludo, 2006).

Nevertheless, the Nigerian stock market will be able to compete with the rest of the developed financial market of the world if some of the aforementioned are properly looked into and adequate attention is given to them.

2.6 Contribution of the Capital Market to Economic Growth of Nigeria

The capital market is very vital to the economic growth, development and strength of any country because it supports government and corporate

initiatives, finances the exploration of new ideas and facilitates the management of financial risk.

The rate of economic growth has been inexorably linked to the sophistication of the financial market and capital market efficiency. Both markets facilitate the mobilization and channeling of funds into productive constituents ensuring that the funds are used for the pursuit of socioeconomic growth without being idle (Akinbohungbe1996; Adebiyi 2005).

From 1961, the Nigerian capital market has grown tremendously, particularly during the periods of the indigenization decrees of 1972 and 1977. The securities increased from 8 in 1961 to about 301 in 2010. Over the years, the Nigerian capital market has witnessed relative stability and also recorded impressive growth. This has positioned it to positively impact the economy (Abdullahi, 2005).

2.7 Analysis of the Nigerian Capital Market's Performance

The Nigerian capital market has performed fairly despite the numerous challenges and problems. Some of these include: the buy and hold attitude of Nigerians, massive ignorance of a large population of the Nigerian public a lot the nature and benefits of the capital market, and few investment outlets in the market. Furthermore, these are the problems of lack of capital market friendly economic policies and private sector led economy and less than full operation of recent developments like the Automated Trading System (ATS), Central Securities Clearing System (CSCS), On-line Trading, Trade Alerts and Capital Trade Points of the Nigerian Stock Exchange (Soludo, 2006).

Market capitalization is the most widely used indicator in assessing the size of a capital market within an economy. In a bearish market, market capitalization falls and vice versa for a bullish market. Before 1988, the total market capitalization was less than N10 billion from 1988 to 1994, it hovering between N10 billion to N57 billion. In 2003 it was N1, 3593 trillion, N2.1125 trillion in 2004 and N5.12 trillion in 2006. Market capitalization recorded the highest value of N13.2294 trillion in 2007. But this figure fell to N9.562 trillion in 2010 due to the global financial meltdown (Soludo, 2006).

The number of equities listed increased from 13 in 1971, 93 in 1981, 140 in 2001 and 198 in 2005. For the SSM, it was 1 in 1985 and 20 in 1995. After falling from 23 in 1993, it further fell to 19 in 1997 and from then to 2005 it has remained at 16. Total securities increased from 8 in 1961 to 60 in 1971; 194 in 1981, 23 in 1991, 261 in 2001, 288 in 2005 and 301 in 2010. It is noteworthy that the total listed equities figure is still low despite almost 50 years of the existence of the Nigerian Stock Exchange (Soludo, 2006).

From 1961 to1975, the annual value in terms of volume of transaction of the NSE was below N100 million. However, from 1976 to 1994 it was between N100 million and N600 million. In 1995, the trading value crossed N1 billion marks. It was N120.70b billion in 2003, N225, 820.5 billion in 2004 and N4.4 trillion in 2010. In1961 and 1994, Government Stocks dominated the market with the figures 58.91% and 99.5% respectively whereas from 1995 upward the industrial securities continue to dominate the market (Soludo, 2006).

2.8 Theories of Economic Growth

Under this sub-section various theories of economic growth have been reviewed among which includes;

2.8.1 Solow-Swan Growth Theory

The neoclassical growth theory also known as the Solow-Swan growth theory or exogenous growth theory is a class of economic model of long-run economic growth. The growth theory explains long-run economic growth by looking at productivity, capital accumulation, population growth and technological progress (Solow & Swan, 1956). This theory was developed independently by Robert Solow and Trevor Swan in 1956 and supersedes the post Keynesian Harrod – Domar theory. Due to its attractive mathematical characteristics, Solow-Swan proved to be a convenient starting point for various economic growth theories.

2.8.2 Harrod – Domar growth Model

Harrod-Domar (1946) work suggests that growth depends on the quantity of labour capital and that more investment leads to capital accumulation, which

generates economics growth, in economically less developed countries. Labour is in plentiful supply in these countries but physical capital is not, thereby slowing the economic growth process. This theory is an early post Keynesian economic growth. It is used in explaining an economy's growth rate in terms of the level of saving and productivity of capital. The theory also suggests that there is no natural reason for an economy to have a balanced growth. The theory was developed independently by Roy F. Harrod in 1939 and Evsey Domar in 1946, the theory was the precursor to the exogenous growth theory.

2.8.3 Arrow Kenneth Growth Theory

Kenneth (1962) opines that endogenous growth theory is about investment in human capital, size of capital stock, innovation and knowledge. All these are significant contributors to economic growth. The theory focuses on positive externalities and spillover effect of a knowledge-based economy which will lead to economic development. Endogenous growth has an impact on the long-term growth rate of an economy. This theory was developed by Arrow Kenneth (1962), it further improves the work of other scholars like Harrod-

Domar (1946), Solow – Swan (1956) by looking at investment in technology and knowledge as the major factors of economic growth.

2.8.4 Paul Romer Growth Theory

Romer (1986) views creation of knowledge as a side product of investment and he takes knowledge as an input in the production functions of firms. His theory sees new knowledge as the ultimate determinant of long-run growth which is determined by investment in research technology. To Romer, ideas are more important than natural resources. Therefore, ideas are essential for the growth of an economy.

2.9 Theoretical Framework

In terms of theory, a lot of literature argues that stock markets provide activities that boost economic growth. Specifically, Greenwood and Smith (1997) show that large stock markets can lower the cost of mobilizing savings and thereby facilitate investment in the most productive technologies.

Bencivenga, et al. (1996) and Levine (1991) advance the view that stock market liquidity which is the ability to trade equity easily is important for growth. Specifically, although many profitable investments require a long-run commitment of capital, savers do not like to relinquish control of their savings for long periods. Liquid equity markets ease this tension by providing assets to savers that they can quickly and inexpensively sell. Simultaneously, firms have permanent access to capital raised through equity issues. Moreover, Kyle (1984) and Holmstrom and Tirole (1993) argue that liquid stock markets can increase incentives to get information about firms and improve corporate governance. Finally, Obstfeld (1994) shows that international risk sharing through internationally-integrated stock markets improves resource allocation and can accelerate the rate of economic growth.

However, for the purpose of this study the endogenous growth theory has been adopted. This is informed by the fact that the Endogenous growth theory links human capital, capital market growth and innovation to economic growth unlike exogenous growth theory which concentrates only on productivity and not on economic growth.

2.10 Summary

The capital market by nature of its activities is among the most heavily regulated financial sector in both developed and developing economics. In the course of carrying out this research some empirical marks already concluded on the capital market and economic growth were considered. Similarly, in the course of carrying out the research work a lot of literature was reviewed based on the capital market and economic growth. Also in this regard, various definitions of the variables have been considered as well. The chapter also highlights some of the contribution of the capital market; after an analysis of the market and the chapter finally, discusses the theoretical framework of the study.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the research method adopted in conducting the research. It presents logical information on procedure for the collection of data, techniques of data analysis, variable measurement and justification of method and technique.

3.2 Research Design

Descriptive research design has been adopted for the purposes of this study. According to Best and Kahn (1989), descriptive research is the type of enquiring that deals with the collection and analysis of data for the purposes of describing and interpreting existing conditions and also to make discovery and explanation of past events. Descriptive research is utilized because it enables exploring relationships between two or more variables. Also, it is appropriate for testing the hypotheses of the study and help to answer the research questions concerning the capital market and the economy which are crucial concern of this study.

3.3 Population and Sampling Design

The population of the study constitutes all the companies quoted on the Nigerian Stock Exchange, because the study has to do with the performance of the capital market on the Nigerian economy. Census sampling technique is adopted, in which case the contribution of all the companies in aggregate is taken into consideration.

3.4 Sources of Data Collection

The data used in this study has been collected from secondary sources. The instrument utilized for the collection of secondary data is documentation. Documentary data has been collected via the Nigerian Stock Exchange bulletin (NSE), Security and Exchange Commission (SEC) bulletin and Central Bank of Nigeria (CBN) Statistical bulletin. The study utilizes the secondary source because it provides a basis for purposeful research work and also gives a direction for the research work.

3.5 Technique of Data Analysis

The multiple regression analysis was used to determine whether the capital market indices (market capitalization, total new issues, volume of transaction and total listed equities) have impacted significantly on the economic growth of Nigeria, (proxied) by Gross Domestic Product during the period of the study.

3.5.1 Model Specification

The model specified for the purpose of testing the hypotheses of the study is presented below:

$$Y = a + bx$$

$$GDP_t = a_{0t} + a_{1t}MCAP_t + a_{2t}TNI_t + a_{3t}VLT_t + a_{4t}LEQ_t + e_t$$

Where:

GDP = Gross Domestic Product

a_0 = Regression Constant

$a_1 – a_4$ = Coefficient of independent variables.

MCAP = Market Capitalization

TNI = Total New Issues

VLT = Volume of Transactions

LE = Listed Equities

e = Stochastic Error term (Disturbance term)

t = Time series

3.6 Variable Measurement

The research work focused on the measurement of variables contained in the topic of research which has to do with the impact of capital market performance on the economic growth of Nigeria. The two variables involved in this research study are the dependent and independent variables. The dependent variable is the economic growth which is proxied by Gross Domestic Product (GDP) while the independent variable is concerned with the following indices: Market capitalization, total new issues, volume of transaction and total listed equities.

The following table presents the variables used in the model above and their measurements.

TABLE 3: 1 Variable Measurement

S/No	Variable	Symbol	Measurement of Variables

1	Gross Domestic Product	GDP	C + G + I + X – M
2	Market Capitalization	MCAP	Number of shares of the company x Market share price
3	Total New Issues	TNI	Existing number of shares / New number of shares
4	Volume of Transaction	VLT	Total number of shares traded / Total number of shares outstanding
5	Listed Equities	LEQ	Total Debt / Net worth

Source: Various Literature Definitions

The definitions of the variables that are used in the model are based on the regression model developed in the study. The four Variables MCAP, TNI, VLT and LEQ represent Capital Market performance, while the variable GDP represents economic growth.

3.7 Decision Criterion

The decision to test the hypothesis of the study is as follows:

If the p-value of the t-coefficient is less than 1% (0.01) or 5% (0.05), the null hypothesis is rejected and otherwise we fail to reject it.

3.8 Robustness Test

In order to cleanse the data for the study and improve the validity of inferences from results, the following tests were conducted.

1. Autocorrelation test – Durbin Watson(D.W)
2. Multicollinearity test Using Variance Inflation Factor and Tolerance Value

3.9 Justification of Methods and Techniques

The technique deployed for this study is based on the parametric tool. A multiple regression tool has been preferred because it assists the researcher in ascertaining the relationship between the capital market (stock market) and economic growth in which the Gross Domestic Product (GDP) has been used as indices of economic growth significantly influenced by other independent variables of the capital market. Overall the technique is appropriate for achieving the set objectives of the study. One of the merits of the model is because it produces optimal results in predicting numeric output when properly structured.

3.10 Summary

The chapter examines the research methods adopted by the research work coupled with the population and sample design. Due to the nature of the research, the descriptive research method is utilized for the study, as regards the technique of data analysis. Finally the tool adopted for the study is multiple regression model.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

The chapter deals with the presentation and analysis of the data collected. To test the hypotheses of this study, a multiple regression model is used. This is deemed as suitable due to the nature of the variables which are continuous rather than dichotomous categorical variables. Finally, the findings and policy implication of the result are discussed. The table that follows contains the data extracted from the Nigerian Stock Exchange bulletin and the Central Bank of Nigeria (CBN) statistical bulletin which was used in running the regression and obtaining the results of the study.

Multiple regression has been used to estimate the relation between the independent variables of capital market performance (market capitalization, total new issues, volume of transaction and listed equities) and the dependent variable (Gross Domestic Product). The technique of ordinary least square was used to estimate the regression coefficient in the model of the study.

Thus:

$$GDP_t = a_{0t} + a_{1t}MCAP_t + a_{2t}TNI_t + a_{3t}VLT_t + a_{4t}LEQ_t + e_t$$

TABLE 4.1 Aggregate values of dependent and independent variables

YEARS	GDP (N B)	MCAP (₦ B)	(TNI) (₦ M)	VLT (₦ M)	LEQ
1983	205,221.1	4,997.8	455.2	332.1	194
1984	199,688.2	4,025.7	533.4	214.8	205
1985	185,598.1	5,768.0	448.5	397.9	212
1986	183,563	5,514.9	159.8	418.2	213
1987	201,036.3	6,670.7	817.2	319.6	220
1988	205,971.4	6,794.8	833.0	494.4	240
1989	204,806.5	8,297.6	450.7	348.0	244
1990	204,806.8	10,020.8	400.0	137.6	253
1991	263,729.6	12,848.6	1,629.9	521.6	267
1992	267,660	16,358.4	9,964.5	265.5	295
1993	265,379.1	23,125.0	1870.0	136.0	239
1994	271,365.5	31,272.6	3,306.3	313.5	251
1995	274,833.3	47,436.1	2,636.9	402.3	272

1996	275,450.6	66,368.0	2,161.7	569.7	276
1997	281,407.4	180,305.1	4,425.6	1,838.8	276
1998	293,745.4	281,815.8	5,858.2	7,062.7	276
1999	302,022.5	281,887.2	10,875.7	11,072.7	264
2000	310,890.1	262,517.3	15,018.1	13,572.3	264
2001	312,183.5	300,041.1	12,038.5	14,027.4	268
2002	329,978.7	472,290.0	17,207.8	28,154.6	260
2003	356,994.3	662,561.3	37,198.8	57,637.2	261
2004	433,203.5	764,975.8	61,284.0	60,088.6	258
2005	477,833	1,359,274.2	180,079.9	120,703.0	265
2006	527,576	2,112,549.6	195,418.4	225,820.6	277
2007	634,251	13,294,059	1,935,080	2,100,000	310
2008	674,889	9,562,970	1,509,230	4,400,000	301
2009	716,949	7,030,800	1,724,214	6,572,000	266
2010	801,700	9,920,000	2,440,000	7,755,000	264

Source: NSE, SEC, CBN (Various issues).

GDP= Gross Domestic Product, MCAP = Market Capitalization, TNI = Total New Issues, VLT = Volume of Transaction and LEQ = Total Listed Equities.

The results are presented in three sections. Section one presents basic statistics for the data extracted for the study. Section two presents the regression results and the last section presents the combined impact of capital market performance on Nigeria's economic growth.

4.2 Basic Sample Statistics

The sample descriptive statistics is first presented in table 4.2; the tolerance and variance inflation factor are presented in table 4.3, while the correlation matrix is presented in table 4.4

4.3 Descriptive Statistics

Table 4.2 shows the mean, standard deviation, minimum, maximum, skewness and kurtosis values of the variables used in the study. The full results are contained in Appendix A of the study.

Table 4.2 Descriptive Statistics

VARIABLE	MEAN	STD. DEV.	MIN	MAX	SKEWNESS	KURTOSIS

GDP	3.2544	1.56639	6.75	204.00	0.711	0.16
TNI	1.8820	4.67986	1.94	159.80	2.995	8.666
MCAP	1.3502	3.10126	1.33	4025.70	3.042	9.220
VLT	2.7779	9.02127	4.40	136.00	4.111	17.585
LEQ	2.5868	29.4355	194.00	310.00	-0.538	-0.155

Source: Regression Result using SPSS

Table 4.2 indicates that on the average, during the period of the study the gross domestic product is about N325, while total new issues, market capitalization, volume of transaction and listed equities have a mean of N188, N135, N278 and N259 respectively. Market capitalization has the lowest standard deviation of 3.10 signifying its high contribution to the performance of the capital market in terms of economic growth. Listed equities have the highest standard deviation of 29.44 which indicates that it contributes the lowest towards the economic growth. This can be confirmed by the significant F values of the individual contributions of the independent variables to the economic growth of Nigeria as shown in table 4.5.

The next table that follows presents tolerance and variance inflation factor values for the test of multicollinearity between the explanatory variables.

Table 4.3: Tolerance Value and Variance Inflation Factor

VARIABLES	TOLERANCE	VIF
TNI	0.007	1.550
MCAP	0.007	1.926
VLT	0.233	4.295
LEQ	0.663	1.509

Source: Regression Result using SPSS

The tolerance value and the variance inflation factor (VIF) are two advanced measures of assessing multicollinearity between the independent variables of the study. In table 4.3, the variance inflation factors are consistently smaller than ten indicating complete absence of multicollinearity (Neter *et al*; 1996 and Johansen, 1999).

This shows the appropriateness of fitting the model of the study within the four independent variables. In addition, the tolerance values are consistently smaller than 1.00 thus further substantiating the fact that there is no multicollinearity between independent variables (Tobachmel and Fidell, 1996).

4.4 Correlation Matrix

The correlation matrix is used to determine the relationship between the dependent and independent variables of the study. Table 4.4 below presents the correlation matrix for the sample observations. The full results are contained in Appendix A.

Table 4.4 Correlation Matrix for the Samples Observed

VARIBLE	GDP	TNI	MCAP	VLT	LEQ
GDP	1.000				
TNI	0.767	1.000			
MCAP	0.778	0.996	1.000		
VLT	0.641	0.859	0.840	1.000	
LEQ	0.703	0.564	0.574	0.451	1.000

Source: Regression Result using SPSS

Table 4.4 indicates that there is a positive relationship between Gross Domestic Product and total new issues, market capitalization, volume of transaction and listed equities. This implies that capital market is contributing positively to the growth of the Nigerian economy. The association between them is positive and highly significant. On the other hand, the relationship between the independent variables, as shown by the correlation matrix, indicate that the association between them is above fifty percent (50%) with

the exception of the relationship between volume of transaction and listed equities reaffirming the absence of multicollinearity.

4.5 Test of Hypotheses

The results of the Ordinary Least Square in relation to the impact of capital market performance on Nigeria's economic growth are presented and discussed. The study uses four capital market indices; market capitalization, total new issues, volume of transaction and listed equities as proxy of capital market performance. The regression results are presented in Table 4.5 below:

Table 4.5 Capital market performance and the Nigeria's Economic Growth

VARIABLE	**GDP**
Intercept	1.262 (0.002)*
MCAP	0.902 (0.004)*
TNI	0.483 (0.004)*
VLT	0.215

	(0.002)*
LEQ	2.718 (0.012)**
R	0.841
R^2	0.707
ADJ. R^2 Adjusted R^2	0.656
F. Statistics	13.85
F. Sig	0.000
Durbin Watson	2.032

Source: Regression Result using SPSS

The estimated relationship for the model is GDP = 1.262(a) + 0.902 (MAP) + 0.483 (TNI) + 0.215 (VLT) + 2.718 (LEQ)

The model indicates that all the three proxies of capital market performance have significant impact on the GDP at 1% level of significance while the remaining one listed equity is at 5% level of significance. The implication of these results is that the higher the level of capital market performance the better it is for economic growth in Nigeria. The table above presents the regression results relating capital market performance and the Nigerian

economic growth. The values in parenthesis tagged with one or two asterisks shows the level of significance between the intercept and independent variables whiles those values above the values in parenthesis represent coefficient indicating impact and from R to DW contains the cumulative results of all the explanatory variables.

The first hypothesis of the study states that market capitalization has no significant impact on Nigeria's gross domestic product.

The regression results in Table 4.5 reveal that market capitalization as an explanatory variable has explained the variations in the economic growth of Nigeria. This implies that as market capitalization increases this in turn will have a significant impact on economic growth, simply because of the fact that as investment increases the level of foreign direct investment also increases. This is because investment levels in the country's capital market are bound to increase and the number of investors will as well increase by the same proportion. Eventually, this will finally boost the activities of the capital market which will impact on the economic growth of the country. However, the result shows that market capitalization is significant to Nigeria's gross domestic product at 1% level of significance. This provides the basis for rejecting

hypothesis one of the study. The finding is in line with those of Levine and Zervos (1996) who argued that capital market performance facilitates economic growth and contrary to Harris (1997).

Secondly, the regression result on Table 4.5 also reveals that total new issues as one of the independent variables has significant effect on the Nigerian gross domestic product. The implication of this is that as new issues of securities are floated in the market, these increases the number of shares traded in the stock exchange. This in turn increases the amount of trading activities of the market and finally transcend in improving the economic growth of the country.

The result also shows that total new issue is significant at 1% level of significance which provides another reason for rejecting hypothesis two of the study. This finding contradicts Ewah, Esang and Bassey (2000) who argued that capital market performance does not facilitates economic growth and supports that of Atje and Jovanovic (1993) who argued that capital market performance contributes to the economic growth of a country.

Thirdly, the hypothesis of the study is also rejected for the fact that the result of the study provides evidence that the volume of transaction is significant at 1% level of significance on the economic growth of Nigeria. The implication of this result is that the volume of transaction demonstrates that a rising stock price increases the wealth of the economy by encouraging increase in demand for securities and eventually investment. Furthermore, the volume of transaction as well increases which ultimately has a significant impact on economic growth in Nigeria.

Finally, hypothesis four of the study is also rejected for the fact that the result produces evidence of total listed equities is significant at 5% level of significance. This implies that listed equities plays a very important role in the economic growth of a nation because the efficiency of the capital market depends on the operating activities of the stock market and the more the number of quoted companies the better for the market as well as for economic growth. The finding is in line with those of Barlett (2000) argued that capital market performance impact on the economic growth of a country and contrary to that of Nyong (1997).

Cumulatively, the explanatory variables have totally associated up to 84%, with the explained variable as seen on Table 4.5. This signifies that the performance of the capital market is positively and significantly related with the Nigerian economy. It implies that the higher the performances of the Nigerian capital market the higher the growth attainable in the Nigerian economy.

The R^2 which is the coefficient of determination (R^2) shows 71%. This signifies that the independent variables have cumulatively explained the dependent variable (GDP) up to 71% and the remaining 29% is covered by other factors. The implication of this is that the model of the study is fit and the explanatory variables are appropriately selected. However, this can be confirmed by the value of the adjusted R^2 66% because even after other abnormalities are adjusted the value is still significant.

Finally, the F statistic of 13.8 is significant at 1% level of significance which implies that capital market performance has positively, strongly and significantly impacted on Nigeria's economic growth. The Durbin – Watson (DW) of 2.032 signifies autocorrelation of residuals will not pose a problem to the validity of statistical inferences of this study.

4.6 Policy Implication of the Findings

Given the empirical results reported above, the following policy implications are drawn. Firstly, since capital market performance is proxied by market capitalization, total new issues, volume of transaction and listed equities have statistical positive impact on economic growth, it implies that market capitalization increases the ability of firms to raise capital. Thus, firms will be able to increase investment and expand production of goods and services which translates to higher growth rate. It could therefore be postulated that once the real sector is buoyant in terms of financing its elements. It should be expected that the sector will expand and productivity will increase and that cost of production will decline because of the competitive situation, availability of products, fall in prices etc. However, this goes a long way in increasing the GDP as well as favouring other economic indices such as favourable balance of payment, decline in inflation, higher purchasing power of currency etc.

Secondly, total new issues have also contributed positively to the economy based on its standard deviation as shown in Table 4.2. This implies that, it has a significant impact on economic growth in Nigeria because as new issues are floated on the floor of the exchange (Stock Market) it also increases the volume of transaction traded on the stock market. This in turn increases the amount of trade made in a year and equally increases the level of funds traded in that period. This also increases the number of securities traded and invariably improves the economic growth of the country.

Thirdly, the volume of transaction has also impacted positively on economic growth as seen in Table 4.5. This implies that as more volume of transactions is recorded in the capital market it affects the performance of the market significantly and positively. Ultimately this translates into the number of turnover of securities which in turn contributes to the economic growth of Nigeria. We can then infer that volume of transaction has a positive and direct relationship to the economic growth of the nation and the development of the capital market. Economic growth relies heavily on the quantum of volume of transaction in the market in order to compete globally. Therefore, the Nigerian capital market still has a lot to deal with in terms of the operation activities of

the market in order to compete with the other capital markets of developed countries.

Finally, listed equities are believed to be the least in terms of its contribution to the economy as can be seen in Table 4.2. The amounts of listed equities have been fluctuating and this affects the activities and performance of the market. This is could be as a result of the global financial crisis which affected most of the world financial markets and the Nigerian capital market is not an exception. Therefore, more needs to be done by the government in order to improve and restore the confidence of investors back to the market.

4.7 Summary of the Chapter

The chapter presents and analyses data with the help of models built by the study. The analysis is made by using descriptive statistics, correlation matrix, tolerance value, variance inflation factor and Durbin Watson, all in an effort to test the reliability and validity of the data.

The study also adopts ordinary least square regression analysis model for the purpose of testing the hypothesis formulated in chapter One. The regression equation was constructed for the purpose of testing the entire hypotheses formulated.

In all, four independent variables are used. These variables are Market Capitalization, Total New Issues, Volume of Transaction and listed equities. The result of the regression equation indicates that all the four independent variables have significant positive impact on the dependent variable and hence provides evidence for the rejection of the null hypotheses formulated in chapter One.

The study will be of immense contribution to the regulatory authorities such as the CBN, NSE and SEC in coming up with sound financial policies and reforms that will boost the performance of the capital market. This would strengthen public companies by ensuring that corporate governance practices in Nigerian public companies are aligned with international best practices through improved financial disclosure of information and adoption of International

Financial Report Standards. Finally, future studies may want to share this experience by extrapolating some of the data as well as the statistical inferences that this study has come up with.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

This study has developed a prudent multiple regression model for the purpose of explaining and analysing empirically, the impact of capital market performance on economic growth in Nigeria. Using multiple regression analyses to model development, the study estimates the relationship between four explanatory variables; market capitalization, total new issues, volume of transaction and listed equities and one explained variable, Gross Domestic Product, by means of the ordinary least square technique.

The study hypothesized a significant impact between the four explanatory variables and the Gross Domestic Product and the findings of the research are based on the time series data collected for the period 1983 – 2010 from the NSE, SEC and CBN. The result of the study reveals that the four predictor variables market capitalizations, total new issues, volume of transaction have an aggregate significant impact at I per cent level of significance and listed equities is at 5 per cent level of significance on the GDP.

The foregoing provided the justification for the rejection of all the null hypothesis of the study. The study also reveals that market capitalization, has the highest impact on the GDP followed by total new issues and then the volume of transaction and finally listed equities.

5.2 Conclusion

Based on the findings of the research, the study concludes as follows:

First, the study has provided evidence on the four independent variables; market capitalization, total new issues, volume of transaction and listed equities in explaining and predicting economic growth in Nigeria. The study concluded that the four variables have played a significant role in influencing the capital market performance on Nigeria's economic growth.

Secondly, the study also establishes significant positive relationship between total new issues and economic growth. It is therefore concluded that as new issues are raised and floated in the market, this in turn increases the number

of shares traded and economic growth equally expands as well as impacting on the GDP.

Thirdly, the study documents a significant positive relationship between volume of transaction and the gross domestic product. This concludes that the volume of transaction is an important factor in determining the magnitude of trading of shares in the capital market and it goes a long way in improving the performance of the market and as well increases the efficiency of the market which invariably improves the economic growth of Nigeria.

Among the predictable variables market capitalization contributes highest to economic growth. In respect of volume of transaction the study concluded as having the lowest contribution to the aggregate impact of capital market performance on economic growth in Nigeria.

In addition, in respect of listed equity, the study concludes that listed equity of Nigerian capital influences the performance of the market and improves economic growth.

Finally, the study concludes that there is a complete absence of serial correction between market capitalization, total new issues, volume of transaction and listed equities as proxies of capital market performance.

Also the correlation matrix reveals that, market capitalization has the highest relationship with economic growth which signifies more contribution of capital market performance to Nigeria's economic growth.

5.3 Recommendations

Based on the findings and conclusions of the study, the following recommendations are hereby presented:

i. Firstly, there is need for improvement in the declining market capitalization by encouraging more foreign investors to participate in the market, maintain state of the art technology that will ensure a free flow

of information in the market to attract more investors as well as increase new issues which will automatically increase the quantum of market capitalization. There is also the need to restore confidence in the market by the Securities and Exchange Commission and the Nigerian Stock Exchange through ensuring transparent and fair trading transactions and dealings in the stock exchange. Government should remove impediments to market growth in form of legal and regulatory barriers because they are sometimes disincentives to investment.

ii. Secondly, as observed the total listed equities in the NSE are still very low compared to other stock markets like those of South Africa and Egypt. Therefore, to increase the number of listed companies there is need to ensure stable macroeconomic environment, to encourage foreign multinational companies or their subsidiaries to be listed on the Nigerian stock exchange and also to improve the trading system in order to increase the ease with which investors can purchase and sell shares.

iii. Furthermore, the government should invest more and develop the nation's infrastructure in order to create an enabling environment for businesses to grow and for productivity and efficiency to thrive which will bust economic activities.

iv. Thirdly, total new issues are very important to the growth of any capital market. Therefore, government should employ appropriate trade policies such as establishing National Association of Securities Dealers (NASD) that promote the inflow of international capital and foreign investment, so as to enhance the production capacity of the nation. The Government should restore the confidence of shareholders (investors) due to the declining fortune of the stock market.

v. Finally, the volume of transaction needs to be boosted by NSE through introducing more derivatives, convertibles, futures and options in the markets in order to meet up with other markets of the world.

5.4 Limitations of the Study

The study covers a period of 1983 – 2010. Thus changes or reforms adopted in 2011 are not covered by the findings of the study. This therefore serves as one of the limitations of the study. Secondly, the study is limited to only the Nigerian Stock Market. It could have covered other countries in the Sub-Saharan region by widening its scope.

Finally, several variables are used as proxies of capital market performance. This study therefore, uses only four variables to measure capital market performance, more variables may be useful to improve the results.

5.5 Areas for Further Study

Similar studies could be replicated to cover up to 2013 as the period of study so as to incorporate new reforms instituted in the market that are not covered by the study. Also, other studies could be conducted to consider other African countries in addition to Nigeria within the Sub-Saharan African region. Such studies will therefore have a wider coverage and basis for comparison.

Finally, other studies could similarly be conducted incorporating other variables other than the ones used in this study.

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Appendix A

Gross Domestic Product and Performance of the Nigerian Capital Market from 1990 – 2010

Year	GDP at current prices (₦ B)	Total new issues (₦ M)	Market capitalization (Equities and debts) (₦ B)	Volume of transactions (Government and Industrial securities (₦ M)	Total listing on the Nigerian Stock Exchange (Equity, industrial loan and govt. stock)
1983	205,221.1	455.2	4,997.8	332.1	194
1984	199,688.2	533.4	4,025.7	214.8	205
1985	185,598.1	448.5	5,768.0	397.9	212
1986	183,563	159.8	5,514.9	418.2	213
1987	201,036.3	817.2	6,670.7	319.6	220
1988	205,971.4	833.0	6,794.8	494.4	240
1989	204,806,5	450.7	8,297.6	348.0	244
1990	219,876.8	400.0	10,020.8	137.6	253
1991	263,729.6	1,629.9	12,848.6	521.6	267
1992	267,660	9,964.5	16,358.4	265.5	295
1993	265,379.1	1,870.0	23,125.0	136.0	239
1994	271,365.5	3,306.3	31,272.6	313.5	251

1995	274,833.3	2,636.9	47,436.1	402.3	272
1996	275,450.6	2,161.7	66,368.0	569.7	276
1997	281,407.4	4,425.6	180,305.1	1,838.8	276
1998	293,745.4	5,858.2	281,815.8	7,062.7	276
1999	302,022.5	10,875.7	281,887.2	11,072.7	264
2000	310,890.1	15,018.1	262,517.3	13,572.3	264
2001	312,183.5	12,038.5	300,041.1	14,027.4	268
2002	329,978.7	17,207.8	472,290.0	28,154.6	260
2003	356,994.3	37,198.8	662,561.3	57,637.2	261
2004	433,203.5	61,284.0	764,975.8	60,088.6	258
2005	477,833	180,079.9	1,359,274.2	120,703.0	265
2006	527,576	195,418.4	2,112,549.6	225,820.6	277
2007	634,251	1,935,080	13,294,059	2,100,000	310
2008	674,889	1,509,230	9,562,970	4,400,000	301
2009	716,949	1,724,214	7,030,800	6,572,000	266
2010	801,700	2,440,000	9,920,000	7,755,000	264

Source: SEC, NSE, CBN (various issues)