



## Impact of Capital Market on the Growth of Nigeria Economy from 1995-2016

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**Abstract:** *This study examines the impact of capital market on the growth of Nigeria economy using annual data from 1995 - 2016. The secondary data used in the study was sourced from the Central Bank of Nigeria statistical bulletin and the Nigeria Stock Exchange Fact book. In our empirical analysis, we run an ordinary least square test regression technique to verify the statistical significance of the variables in our study. Empirical investigations revealed that two variables are statistically significant at 5% and these variables are Total New Issues (TNI) and Volume of Traded Shares (VTS). The results show that market capitalization impacted positively to the economic growth of Nigeria but not significant. The study recommends among others that trading impediments such as high transaction cost should be reviewed to encourage more active trading in stocks to enhance economic growth of Nigeria.*

**Key words:** Capital Market, Economy, Economic Growth

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## **1.0 INTRODUCTION**

### **1.1 Background to the study**

According to Kareem, Sanni, Raheem and Bakare (2013), the capital market is that segment of the financial system which facilitates the channeling of long-term funds from surplus to deficit economic units thereby stimulating capital formation and socio-economic development. The capital market does not only serve as a source of finance for the government and industries, but provide a wide range of socio-economic benefits to any country. Okereke-Onyiuke, (2008) posits that, by mobilizing funds for channeling into productive investments, the market brings together those who have and those who need funds at usually competitive prices and conditions acceptable to both parties, thereby ensuring efficient resource allocation while promoting economic growth. Capital market is viewed as a complex institution imbued with inherent mechanism through which long-term funds of the major sectors of the economy comprising households, firms, and government are mobilized, harnessed and made available to various sectors of the economy(Ndako 2010),Funds must be effectively mobilized and allocated to enable businesses and the economies to harness their human, material, and management resources for sustainable economic growth, Hence, the capital market is an economic institution, which promotes efficiency in capital formation and allocation(Kareem, Sanni, Raheem andBakare, 2013).

The availability of the secondary market such as the stock market is an important aspect of the capital market, as investors are much more disposed to placing funds in such primary market if their holdings are easily convertible into cash. Hence, the stock exchange is the core of capital market development in any society. Capital markets may be classified as primary markets and secondary markets. In primary markets, new stock or bond issues are sold to investors via a mechanism known as underwriting. In the secondary markets, existing securities are sold and bought among investors or traders, usually on a securities exchange, over the counter, or elsewhere.

In any economy, the efficient performance of its financial markets (Capital market and Money market) is the key to enhance the financing of productive activity and hence, national output and economic growth. The financial system or market is basically a linkage of various entities for effective and efficient identification,collation, transmission, transfer and utilization of financial resources. An important aspect of the market's function is the efficient allocation of these resources to form surplus economic units to deserving areas of needs in a manner that boosts or support economic development. The financial market broadly consists of the short term end, the money market and the relatively medium to long term spectrum, the capital market. The Capital market does not only serve as a source of finance for industries and government, but equally provide a wide range of socio-economic benefit to any country.

The most important social benefit of the capital market (specifically the equity market) is the opportunity it affords a wide spectrum of the populace to participate in the ownership of corporate establishment.

### **1.2 Statement of the Problem**

In recent times there has been a growing concern on the role of capital market on economic growth and thus the capital market has been the focus of economic policies and policy makers because of the perceived benefits it provides for the economy. The capital market

provides the fulcrum for stock market activities and it is often cited as a barometer of business direction. An active capital market may be relied upon to measure changes in the general level of economic activities (Obadan, 1998).

Deducing from the extensive studies on the theoretical expectations on the role of capital markets on economic growth which have formed the core of normative economics, the capital market is expected to contribute to economic growth through the transmission mechanisms of savings mobilization, creation of liquidity, risk diversification, improved dissemination and acquisition of information, provision of long-term, non-debt financial capital which enables companies to avoid over-reliance on debt financing, and enhanced incentive for corporate control amongst others. However, an x-ray on the path of “positive economics” which is concerned with “what is” rather than “what should be” reveals that the argument in the literature on the growth effects of capital market has not been adequately resolved. Hence, the need for this study.

### **1.3 Objectives of the Study**

- i) To determine whether there is a positive relationship between market capitalization and economic growth in Nigeria
- ii) To assess whether there is a positive relationship between total new issues in the capital market and economic growth
- iii) To evaluate whether there is a positive relationship between the volume of shares traded in the capital market and economic growth

### **1.4 Research Questions**

The following research questions have been specified to guide the direction of the study. They are as follows;

- i) Is there a positive relationship between market capitalization and economic growth in Nigeria?
- ii) Is there a positive relationship between total new issues in the capital market and economic growth?
- iii) Is there a positive relationship between the volume of shares traded in the capital market and economic growth?

### **1.5 Research hypotheses**

The following hypotheses were specified for the purpose of the study. These are as follows;

- i) There is no positive relationship between market capitalization and economic growth in Nigeria.
- ii) There is no positive relationship between total new issues in the capital market and economic growth.
- iii) There is no positive relationship between the volumes of shares traded in the capital market and economic growth.

### **1.6 Significance of the Study**

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

to policy-makers on ways to improve operations and activities of the capital market. It will also serve as a reference material for further research.

## **2.0 Literature Review**

### **2.1 The capital market**

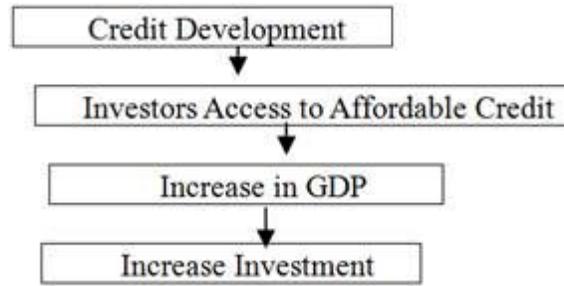
According to Imobighe, (2015) the capital market is a market for the mobilization and utilization of long term funds for development. It is a market for long term instrument. In a capitalist society like Nigeria, the existence of such financial market can greatly ease the process of exchanging loanable funds for financial claims. The instrument traded in the market includes: government securities, corporate bonds and shares (stocks) and Mortgage loans. The market is for channeling funds for development.

The capital market is also looked upon as a mechanism whereby economic unit desirous to invest their surplus income interact with those businesses. For instance, a firm that wants to borrow money can go to the market with the assurance that those with funds to lend will be there. The market consists of an inner capital (market for new securities) and the outer capital market (market for new securities) and the outer capital market (not directly involved with the issue of new securities but engaged in the business of long term borrowing and lending upon which the issues of new securities depends). The capital market embraces both the primary market and secondary market. In Nigeria, the participant of security market include Nigerian stock exchange, discount houses, development banks, investment banks, building societies, stock broking firms, insurance and pension organization, quoted companies, government, individuals and the Nigerian securities and exchange commission (NSEC).

A further distinction needs to be made between these types of financial market. As noted earlier, new issues of loanable funds are traded in the primary market. Transaction in this market results in either the creation or the extinction of financial claims. The creation of new loan causes the transfer of cash from a lender to a borrower in exchange for a financial claim. Secondary market on the other hand is a market for old issues.

Transaction here does not create or extinguish financial claims. Thus, the economic function of the secondary market is to support the operations of the primary market by providing liquidity to lenders. Without this market, an individual saver might be unwilling to lend money profitable for investment for a long period of time. This is because, to lend is to forego liquidity. To realize long term lending, it is important to provide the means by which lender can quickly and inexpensively restore liquidity without calling in their loans. Anyanwu (1998), states that the existing issues of secondary market in a strict sense constitute the stock exchange since it is the mechanism which gives liquidity to the securities listed on the exchange. Capital market in which trading in secondary issues is rather thin, exist in many countries including Nigeria. In most less developed countries, the volume of trading that makes it possible to regard long term financial assets as liquid is because they can be sold quickly without significant market loss. When new orders come into the market in volumes with price fluctuation, -market with this characteristic provides liquidity for assets than otherwise. Investors are induced to hold these assets because risk is minimized and borrowers easily obtain funds.

**Figure 1: Conceptual Framework of Capital Market Operations**



Source: Olure-Bank, et al (2015)

### **2.1.2 The Role of capital market in economic growth**

According to (Imobighe, 2015) the role of capital market includes the following:

- a) It provides opportunities for companies to borrow funds needed for long term investment purposes.
- b) Provide avenue for the marketing of shares and other securities in order to raise fresh funds for expansion of operations, leading to increase in output and productivity.
- c) Provide facilities and enable foreign businesses to offer their shares to the Nigerian market.
- d) Encourages inflow of foreign capital companies or investors invest in domestic securities.
- e) Provides opportunities for government to financial projects and aimed at providing essential amenities for socio economic development.

### **2.1.3 Capital Market and Economic Growth**

The capital market is expected to accelerate economic growth, by providing a boost to domestic savings and increasing the quantity and the quality of investment. This is expected to be so in principle (Atoyebi, et al. 2013). The market is expected to encourage savings by providing individuals with an additional financial instrument that may better meet their risk preferences and liquidity needs. Savings rate can be increased through better savings. The capital market also provides an avenue for growing companies to raise capital at lower cost. In addition, companies in countries with developed stock market are less dependent on bank financing, which can reduce the risk of a credit crunch. According to Capital market can positively influence economic growth through encouraging savings among individuals and providing avenues for firm financing.

Financial instruments that enable economic agents to pool price and exchange are been triggered by the access offered by Capital market. 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 same. Companies can finance their operation by raising funds through issuing equity (ownership) or debenture/bond borrowed as securities. Equity have perpetual life while debenture /bond issues are structured to mature in periods of years varying from the medium to long-term of usually between five and twenty five years. (Mbat, 2001). Based on

the performance of capital market in accelerating economic growth, government of most nations tends to have keen interest in its performance. The concern is for sustained confidence in the market and for a strong investor's protection arrangement. Economic growth is generally agreed to indicate a development economy, because it transforms a country from a five percent saver to a fifteen percent saver. Thus it is argued that for capital market to contribute or impact on the economic growth in Nigeria, it must operate efficiently. Most often, where the market operate efficiently, confidence will be generated in the minds of the public and investors will be willing to part with hard earned funds and invest them in securities with the hope that in future they will recoup their investment.(Ewah et al, 2009) The theoretical explanation on the nexus between capital market and economic growth is further elucidated using Efficient Market Hypothesis (EMH) developed by Fama in 1970. According to EMH, financial markets are efficient or prices on traded assets that have already reflected all known information and therefore are unbiased because they represent the collective beliefs of all investors about future prospects. Previous test of the EMH have relied on long-range dependence of equity returns. It shows that past information has been found to be useful in improving predictive accuracy. This assertion tends to invalidate the EMH in most developing countries. Equity prices would tend to exhibit long memory or long range dependence, because of the narrowness of their market arising from immature regulatory and institutional arrangement. They noted that, where the market is highly and unreasonably speculative, investors will be discouraged from parting with their funds for fear of incurring financial losses. In situations like the one mentioned above, has detrimental effect on Investors Access to Affordable Credit Increase in GDP Credit Development

The capital market provides a means through which this is made possible by investing in securities thereby fostering economic growth.

## **2.2 The Structure of the Nigerian Capital Market**

The capital market is structured into two main categories: the primary and secondary markets.

**The Primary Market:** it is responsible for the issue of new shares through the stock exchange or by private placement. Their operations are conducted through the following methods: offer for subscription, offer for sale, right issue, private placing and listing by introduction (Taiwo, Alaka and Afieroho 2016).

**The Secondary Market:** This market is also known as the stock market, it provides the forum for capital market activities (trading in stock and shares, bonds, debentures and other long-term securities) and is usually accessible to all category of investors – small or big, government institution or individuals. The major participant in the Nigerian capital market includes development banks private firms, the treasury and the CBN while the minor ones includes commercial and merchant banks, individuals, states and local governments. This market comprises of the organized stock exchange and the over-the-counter (OTC) market but presently, there is no organized OTC market in Nigeria (Taiwo, Alaka and Afieroho 2016).

## **2.3 The Nigerian Security and Exchange Commission**

The Nigerian security and exchange commission (NSEC) is the apex institution for the regulation and monitoring of the Nigeria capital market. The commission was established under the security and exchange commission decree 1979, operating retrospectively from 1st April 1978. Prior to the SEC, two bodies had in succession been responsible for the

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

The enabling Act of the Securities and Exchange Commission specifies its overriding objectives as investors' protection and development while its functions were divided into two regulatory and development. The functions of the commission are extensively spelt out in Nigeria Securities and Exchange Commission Decree (Decree No 29) of 1983 and the Nigerian Enterprises Promotion Decree 1990. According to section (6) subsection (9) to (10) the commission is charged with the following duties and functions among others.

- i. Determining the amount of price and time when securities of companies are to be sold to the public whether through offer for sale or subscription.
- ii. Registering all securities proposed to be offered for sale to or for subscription by the public.

#### **2.4 The Nigerian Stock Exchange**

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

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

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

#### **Functions of Nigerian Stock Exchange**

- i) To provide opportunities for raising new capital.
- ii) To promote increasing participation by the public in the private sector of the economy.
- iii) To provide appropriate machinery to facilitate further offerings of stocks and shares to the public.
- iv) To provide a central meeting place for members to buy and sell existing stocks and shares and for granting quotation to new ones.

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

## **2.5 Theories of Capital Market**

### **1) Efficient Market Hypothesis**

The efficient-market hypothesis was first expressed by Louis Bachelier, a French mathematician, in his 1900 dissertation, "The Theory of Speculation". His work was largely ignored until the 1950s; however beginning in the 30s scattered, independent work corroborated his thesis. A small number of studies indicated that US stock prices and related financial series followed a random walk model. Research by Alfred Cowles in the '30s and '40s suggested that professional investors were in general unable to outperform the market. The efficient-market hypothesis was developed by Professor Eugene Fama at the University Of Chicago Booth School Of Business as an academic concept of study through his Ph.D. thesis in the early 1960s at the same school. It was widely accepted up until the 1990s, when behavioral finance economists, who were a fringe element, became mainstream. Empirical analyses have consistently found problems with the efficient-market hypothesis, the most consistent being that stocks with low price to earnings (and similarly, low price to cash-flow or book value) outperform other stocks. Alternative theories have proposed that cognitive biases cause these inefficiencies, leading investors to purchase overpriced growth stocks rather than value stocks. Although the efficient-market hypothesis has become controversial because substantial and lasting inefficiencies are observed. The efficient-market hypothesis emerged as a prominent theory in the mid-1960s. Paul Samuelson had begun to circulate Bachelier's work among economists. In 1964 Bachelier's dissertation along with the empirical studies mentioned above were published in an anthology edited by Paul Cootner.

In 1965 Fama published his dissertation arguing for the random walk hypothesis, and Samuelson published a proof for a version of the efficient-market hypothesis. In 1970 Fama published a review of both the theory and the evidence for the hypothesis. The paper extended and refined the theory, included the definitions for three forms of financial market efficiency: weak, semi-strong and strong. Further to this evidence that the UK stock market is weak-form efficient, other studies of capital markets have pointed toward their being semi-strong-form efficient. A study by Khan of the grain futures market indicated semi-strong form efficiency following the release of large trader position information (Khan, 1986). Studies by Firth (1976, 1979, and 1980) in the United Kingdom have compared the share prices existing after a takeover announcement with the bid offer. Firth found that the share prices were fully and instantaneously adjusted to their correct levels, thus concluding that the UK stock market was semi-strong-form efficient. However, the market's ability to efficiently respond to a short term, widely publicized event such as a takeover announcement does not necessarily prove market efficiency related to other more long term, amorphous factors. David Dreman has criticized the evidence provided by this instant "efficient" response, pointing out that an immediate response is not necessarily efficient, and that the long-term performance of the stock in response to certain movements is better indications. A study on stocks response to dividend cuts or increases over three years found that after an announcement of a dividend cut, stocks underperformed the market by 15.3% for the three-year period, while stocks outperformed 24.8% for the three years afterward after a dividend increase announcement

## 2) Capital Market Theory

Forty years have passed since the principles of classical economics were first applied formally to finance through the contributions of Fama in 1970 and his now-renowned fellow academics. Over the intervening years, capital market theory and the efficient market hypothesis have been developed and modified to form an elegant and comprehensive framework for understanding asset pricing and risk. But events have dealt a cruel blow to these theories, as John Authers argued that capital market booms and crashes, culminating in the latest sorry and socially costly crisis, have discredited the idea that markets are efficient and that prices reflect fair value.

Some economists still insist these events are simply the lively interplay of broadly efficient markets and see no cause to abandon the prevailing wisdom. Other commentators, including a number of leading economists, have proclaimed the death of mainstream finance theory and all that goes with it, especially the efficient market hypothesis, rational expectations, and mathematical modeling. The way forward, they argue, is to understand finance based on behavioural models on the grounds that psychological biases and irrational urges better explain the erratic performance of asset prices and capital markets. Presented this way, the choice seems stark and unsettling, and there is no doubt that the academic interpretation of finance is at a critical juncture. The model explains asset pricing in terms of a battle between fair value and momentum. It shows how rational profit seeking by agents and the investors who appoint them gives rise to mispricing and volatility. Once momentum becomes embedded in markets, agents then logically respond by adopting strategies that are likely to reinforce the trends. Explaining the formation of asset pricing in this way seems to provide a clearer understanding of how and why investors and prices behave as they do. For example, it throws fresh light on why value stocks generally outperform growth stocks despite offering seemingly poorer earnings prospects. The new approach offers a more convincing interpretation of the way stock prices react to earnings announcements or other news. It also shows how short-term incentives, such as annual performance fees, cause fund managers to concentrate on high-turnover, trend-following strategies that add to the distortions in markets, which are then profitably exploited by long-horizon investors. At the level of national markets and entire asset classes, it will no longer be acceptable to say that competition delivers the right price or that the market exerts self-discipline.

## 3) Capital Asset Pricing Model

Capital asset pricing model (CAPM) is used to determine a theoretically appropriate required rate of return of an asset, if that asset is to be added to an already well-diversified portfolio, given that asset's non-diversifiable risk. The model takes into account the asset's sensitivity to non-diversifiable risk (also known as systematic risk or market risk), often represented by the quantity beta ( $\beta$ ) in the financial industry, as well as the expected return of the market and the expected return of a theoretical risk-free asset. It assumes that the risk-return profile of a portfolio can be optimized - an optimal portfolio displays the lowest possible level of risk for its level of return. Additionally, since each additional asset introduced into a portfolio further diversifies the portfolio, the optimal portfolio must comprise every asset, (assuming no trading costs) with each asset value-weighted to achieve the above (assuming that any asset is infinitely divisible). All such optimal portfolios, i.e., one for each level of return, comprise the efficient frontier. An investor might choose to invest a proportion of his or her wealth in a portfolio of risky assets with

the remainder in cash - earning interest at the risk free rate (or indeed may borrow money to fund his or her purchase of risky assets in which case there is negative cash weighting). Here, the ratio of risky assets to risk free asset does not determine overall return - this relationship is clearly linear. It is thus possible to achieve a particular return in one of two ways, by investing all of one's wealth in a risky portfolio, or by investing a proportion in a risky portfolio and the remainder in cash (either borrowed or invested). For a given level of return, however, only one of these portfolios will be optimal (in the sense of lowest risk). Since the risk free asset is, by definition, uncorrelated with any other asset, option 2 will generally have the lower variance and hence be the more efficient of the two. This relationship also holds for portfolios along the efficient frontier: a higher return portfolio plus cash is more efficient than a lower return portfolio alone for that lower level of return. For a given risk free rate, there is only one optimal portfolio which can be combined with cash to achieve the lowest level of risk for any possible return. This is the market portfolio.

## 2.6 Empirical Review

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

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

Kareem, Sanni, Raheem and Bakare (2013), conducted a study on the impact of capital market on the Nigerian economy. Secondary data was used for the study. The study make use regression analysis and correlation analyses to find the significance and relationships between the different variables chosen. The result shows that there has been a steady rise in the macro economic variables considered i.e. gross domestic product, market capitalization, total shares traded, public capital expenditure, gross capital formation, openness and foreign direct investment. Also the R-squared value of 96% implies the total variation in Real GDP is being explained by the explanatory variables (i.e. MKT CAP, TST, PCE, GCF, OP and FDI). However, only openness and GCF are the significant factors contributing to Real GDP. Also correlation analysis shows a positive and significant relationship between Real GDP, market capitalization and total shares traded and are also significant at 1% level of probability. The study recommends the improvement in the infrastructural facilities in the market in line with what obtains in the developed market.

Emeh and Chigbu (2014) carried out a study on the impact of capital market on economic growth: the Nigerian Perspective. The study adopts a time-series research design relying extensively on secondary data covering 1985 -2012. The study utilizes regression analysis as data analysis method incorporating multivariate co-integration and error correction to examine characteristics of time series data adopting disaggregate the capital market indices approach.

A long run inverse relationship is observed to exist between GDP and Market capitalization (MKT CAP) given its slope coefficient of -0.207. The relationship between new issues (TONIS) and the Gross Domestic Product in the long run is observed to be positive and also statistically significant given its slope coefficient of 0.237 and a t-ratio of 17.49 which exceeds the critical t-value of 2.05 at 5% significance level. The long run relationship between Total listing (TOLIST) in the stock market and GDP is observed to be inversely related given its slope coefficient of -1419.31. A long run positive relationship was also

observed to exist between value of transaction (VALTRAN) in the stock market and GDP. The study recommends that the relevant regulatory agencies in the capital market should be focused on enhancing the efficiency and transparency of the market in order to improve investor's confidence.

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

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

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

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

### **3.0 METHODOLOGY OF RESEARCH**

This chapter included research design, population, sample size, sources of data, method of data analysis and model specification.

#### **3.1 Research Design**

The research design adopted for this study is the ex-post factor method of design. This is because the data needed for analysis already exist.

#### **3.2 Population of the Study**

The population of this study is all the market indicators in the Nigerian capital market.

### 3.3 Sample Size

The sample size for this study was purposively set at 3 market indicators (market capitalization, total number of new issues and volumes of shares traded). This is because the Nigeria market indicators are too vast for the researcher to evaluate at once.

### 3.4 SOURCES OF DATA

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

### 3.5 METHOD OF DATA ANALYSIS

The procedure for analyzing the data was econometric procedure. Here the technique used was the multiple regression analysis to test whether the capital market indices have impacted on the economic growth of Nigeria proxy by Gross Domestic Product (GDP).

### 3.6 MODEL SPECIFICATION

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

$$GDP = f(MC, TNI, VST)$$

$$\ln GDP = \alpha_0 + \alpha_1 \ln MC + \alpha_2 \ln TNI + \alpha_3 \ln VST + U$$

Where;

The a priori expectation is  $\alpha_1, \alpha_2, \alpha_3 > 0$

LnGDP= Gross Domestic Product

LnMC= Market Capitalization

LnTNI= Total New Issues

LnVST= Volume of shares Traded on the capital market

U = Disturbance Term

$\alpha$  = Intercept

$\alpha_1 - \alpha_3$  = Coefficient of the Independent Variables.

### 3.7 Techniques for Result Interpretation

Results will be interpreted using probability (P-value,)  $R^2$ (Coefficient of determination),

T-Statistics and F-Statistics.

**Decision Rule:** We Accept the Null Hypothesis if the P-value is greater than the statistical level of significance (5%), if not reject null hypothesis and accept the Alternative hypothesis.

## 4.0 FINDINGS AND DISCUSSION

### 4.1 Presentation of Regression Result

This Section presents the regression result of the study and the discussion of the results. It is therefore divided into presentation of empirical results and interpretation of the results.

**Table 1: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
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1	.909	.826	.797	98577.1053 8
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a. Predictors: (Constant), VTS, MC, TNI

Table 2: Regression Result

Variables	Coefficient	t-statistics	Probability
Constant	339550.281	11.249	0.000
MC	0.169	1.054	0.306
TNI	0.841	5.214	0.000
VTS	-0.548	-5.090	0.000

Source: SPSS, Version 20 output

#### 4.2 Interpretation of Empirical Results

The regression results of impact of capital market on the growth of Nigeria economy from 1995-2016 was analyzed as below. The goodness of fit of the model as indicated by adjusted R-square shows an accurate fit of the model. An adjusted R-Square value of 0.797 indicated that the model fits the data well. The total variation in the observed behaviour of Gross Domestic Product is jointly explained by variation in Market Capitalisation (MC), Total New Issue (TNI) and Volume of Traded Shares (VTS) up to 80%. The remaining 20% are the variables not accounted for in the model (Table 1). To determine the overall significance of the model, the ANOVA of the F-statistics was used. The F-Statistic significance of 0.000 is less than 0.005 indicates that all the variables in the model have significant contribution. In determining for the individual statistical significance of individual variables, the t-statistics of the respective variables were considered. Considering their probability values, MC has a P-value of 0.306 greater than 0.005. This implies that MC has a positive but insignificant relationship to the GDP. On the other hand, TNI and VTS have a 0.000 P-value each and is less than 0.005. This is an indication that both variables have significant relationship to GDP. However, VTS has no inverse relationship to GDP since it has a negative Coefficient of -0.548.

#### 4.3 Discussion of the findings

This study examined the impact of capital market on the growth of Nigeria economy. It showed the relationship between dependent variable (GDP) and independent variables (MC, TNI and VTS) in the study. As seen in the result, Market Capitalisation (MC) has a positive but insignificant relationship to the growth of Nigeria economy. This finding is in agreement with the works of Afees and Kazeem (2010) and Adam and Sanni (2005) as they found out that Market Capitalisation (MC) has unilateral relationship to the Gross Domestic Product (GDP).

However, the works of Emeh and Chigbu (2014) found a long run inverse relationship to exist between GDP and Market capitalization. Furthermore, the Total New Issues and Volume of Traded Shares has a significant relationship to Gross Domestic Product. This agrees with the works of Emeh and Chigbu (2014) who also found a significant relationship between these variables and economic growth.

Finally, it is concluded that capital market has a positive and significant relationship to economic growth of Nigeria.

## 5.0 CONCLUSION AND RECOMMENDATIONS

This study examined the impact of capital market on the growth of Nigeria economy from 1995 to 2016. The findings of the study reveal that there exists positive relationship between the capital market and economic growth. The relationship is statistically significant with TNI and VTS. This means that the impact of the capital market on economic growth is positive and significant. The significant result of the total new issues and volume of traded shares implies that funds raised by the industries and governments in the capital market are spent on productive sector which enhance economic growth. Hence the capital market remain one of the mainstream in every economy that has the potential of influencing economic growth; therefore the organized private sector is to invest in it. It is further recommended that trading impediments such as high transaction cost should be reviewed to encourage more active trading in stocks. This will stimulate economic growth and stabilize the economy. More private limited liability companies and informal sector operations should be encouraged to access the market for fresh capital.

According to the regression result, any increase in the volume of traded shares has an inverse relationship to the GDP. Therefore, to boost the volume of traded shares in the Nigerian capital market that is needed for availability of more investment instruments such as derivatives, convertibles, future and swaps options in the market; concerted efforts need to be in place to regulate the volume of shares traded at the capital market.

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