European Journal of Business and Management www.iiste.org
ISSN 2222-1905 (Paper) ISSN 2222-2839 (Online)
Vol.5, No.7, 2013

Capital Market as a Barometer for Development: Its Impact and Contribution to Nigerian Economy 1991-2011

Bassey Eyo Bassey[1], Charles Effiong[2]
1. Department of Accounting, Faculty of Management Sciences, University of Calabar, P.M.B. 1115, Calabar, Cross River State - Nigeria , Tel: +2348037983154
2. Department of Accounting, Faculty of Management Sciences, University of Calabar, P.M.B. 1115, Calabar, Cross River State - Nigeria

ABSTRACT
This focuses on the influence of Nigerian capital market in economic development of Nigerian. One hypothesis was formulated to guide the study. The dependent variable in this hypothesis was economic development measure by gross domestic product (GPD) while the independent variables include: market capitalization (MKTCAP), total new issues (TNI), number of listed securities (NLS), number of quoted companies (NQC), value of transaction (VT), and turnover Ratios TR. The ordinary least square (OLS) technique was employed to estimate co-efficient of the variables of the multiple regression models based on the time series data collected from the Nigerian stock Exchange, Securities and Exchange Commission, Central Bank of Nigeria and federal office of statistics. The findings reveal a significantly relationship between dependent variable (economic development) and independent variables such as, total new issues and number of quoted companies, whereas market capitalization number of listed securities, value of transactions and turnover ratios showed wrong signs. It was therefore recommended that government should put more effort in developing active issues and motivating local and foreign companies and individual investors to patronize the market by way of raising funds for investment and productive purposes.

1.0 Introduction

Capital market is a part of the financial system. A system however, is composed of parts that work together as a whole in every economy. There are different markets, production activities and transactions. All these work together for the singular objective of making the economy perform well. A lot of interest has been shown in the Nigerian capital market. This is as a result of its effect on the growth of the aggregate economy. For instance the Nigerian indigenization Act of 1971 and later the Amendment Act of 1977 were all to enlarge the capital market for greater participation of Nigerians in the stock market holdings (SEC, 2005).

Recently, both economists and policy markers at the capital market have directed considerable attention towards the development of the market. The main reason for this attention lies on the important economic roles the capital market is supposed to play in an economy.

However, it has been argued that the desire and pursuit of economic advancement are natural human instinct. Hence, man continuously seeks to improve his standard of living. For a business organization, its profitability; essence of governance, indeed, contemporary economic doctrine states that the economic well-being of society is predicated not merely on national output growth, but more importantly, on the state of development of its social and economic infrastructure, which directly impacts on the standard of living and life expectancy of the populace. In other words, to the development theorists, the measurement of development would include such issues as GDP (Gross Domestic Product) growth, the state of healthcare, shelter, education, potable water, electricity, road and telecommunication (SEC, 1998).

Moreso, these facilities must not only be sufficient, but they must be efficiently produced and managed, to facilitate the industrialization of a nation. The process of industrialization, and the provision of social and economic infrastructure, in turn, requires heavy investment by both the public and private sectors, which must see themselves as p0artners in the development processes. Thus, it is important to point out that investment in this context refers to the accumulation of real (physical) assets that are vital in the production process, as distinct from financial assets. Investment is widely regarded as one of the most essential elements in the industrialization process and ultimately in economic development. Evidently, countries with high Private Domestic Investment (PDI) tend also to exhibit faster growth rate. This has been a key factor responsible for the spectacular growth and development. A nation, however, cannot accumulate or maintain real assets without equally mobilizing capital (savings). Therefore, a country with high saving rate is very likely to record high investment level.

Money market creates opportunities for raising or investing short-terms funds. The tenor may range from "overnight" to about one or two years. Various financial instruments are exchanged in the money market. These include treasury bills, treasury certificates, and bills of exchanges, and commercial papers, certificates of deposits, banker's acceptance, municipal notes and other short-term bank credit facilities (i.e overdraft). Similarity, there are institutions, which are peculiar to this segment of the financial market, the most notable being commercial banks. Other participants include non-bank financial institutions such as insurance companies, National Social Insurance Trust Fund NSITF), mortgage banks, and finance house and community banks and pension fund administrator (Mbat, 2001).

The second segment of the financial market is capital market which captures the ultimate interest of this study. The market is responsible for mobilizing and channeling long-term funds into productive investments such as fixed assets. This market in essences brings together economic units requiring funds for a relatively long period with economic units desirous of parting with their monies for a period of time. Typically, long-term funds are held for a minimum of five years to perpetuity. However, corporate entities and governments, sometimes hold funds having maturity of more than one year but less five years. These are usually regarded as medium term funds (Onoh, 2002).

The focus of this paper is on the role of the Nigerian capital market in economic development of Nigeria. The essence is to establish convincingly how well the Nigerian capital market since its inception has contributed to the rapid economic development need of the nation's economy. Indeed, major macro economic and capital market indicators are selected and measured to establish their level of significance to economic development of Nigeria.

1.2 Research hypothesis

H_o: The contribution of Nigerian capital market is not significant to economic development of Nigeria.

H_I: The contribution of Nigerian capital market is significant to economic development of Nigeria.

2.1 Theoretical framework

2.1.1 Fundamental theory

This theory posits that, at any point in time, an individual security has an intrinsic true value, which is the present value of the future receipts accruing to the security holder. The theory also holds that, the intrinsic value of the security depends on some essential factors affecting the company, the industry and the economy. The principal discussion variables in fundamental analysis are earnings and dividends. Earning depends on the relationship between expected sales and costs, which are affected by several factors, internal to the firm's operating environment. Therefore, fundamentalist forecast stock prices on the basis of economic, industry and company statistics (Pratten, 1993).

Fundamental analysis also attempts to identity factors influencing or likely to influence share prices, that is, the market reaction to information about the economy, industry and company. In assessing the company, great reliance is placed on its published financial statements in addition to assessing the quality of management. With all information, he investor arrives at an estimate of the intrinsic or true value of the company, since other investors may likely arrive at the same conclusion. Using the same information, the intrinsic value is likely to be a price towards which market price moves. Thus, to calculate the intrinsic value is to predict the market price. However, if fundamental analysis is used as a guide for investment decision, the buy and sell decision will be based on the discrepancy between intrinsic value and market price. If intrinsic value is greater than market prices, the investors should buy and sell if the market price is greater than market approaches an intrinsic value may be regarded as indication of the degree of perfection in the market. There will be no discrepancies between intrinsic and market value of securities, if the market is at least near perfect. Hence, there will be little or no opportunity for an investor to beat the market and make abnormal or substantial profit. Furthermore, if profit from fundamental analysis is small, there will be little justification for incurring costs of undertaking fundamental analysis (Pratten, 1993).

2.1.2 Technical theory

According to Foley (1991) technical analysis, also referred to as Chartism, takes the view that in attempting to predict the future course of share prices it is useful to focus on the past behavior of share prices. Chartists argue that share prices move in trends and patterns, which periodically repeat themselves so that the key to making gains is to recognize these patterns before others. According to technical analysis it really does not matter in which industry or market the company operates, the use of chart is sufficient to detect the like movement in the prices of its share. At any one time prices reflect the balance of sentiment between buyers and sellers. Hence by tracking price behavior it is possible to develop insight into their future movements.

Technical analysis is faulty in that it does not have any basis, nor does it want to investigate to know why a particular share price is predicted to rise or fall. All that is important is that the movement is rise or fall (Pratten, 1993).

2.2 Evolution of Nigerian capital market

The Nigerian capital market has continued to serve as the engine of growth and development in the Nigerian economy. The development of the capital market in Nigeria dates back to 1946 when the first government securities were floated. The Nigerian capital Market (NCM) first came into in 1960 with the establishment of the Lagos stock exchange, but became operational in 1961. The exchange was incorporated under the companies' ordinance as an association limited by guarantee. The Lagos stock Exchange was given initial financial backing by the central Bank of Nigeria (CBN) in the form of annual subvention. In 1977, following the recommendation of the Government Financial System Review committee of 1976, the Lagos stock Exchange. Additional trading floors were also opened in the same year in Port Harcourt and Kaduna (SEC. 2005).

Odoko (1998), states that the Nigerian capital market comprises the Nigerian stock exchange with six branches and 168 stockbrokers. The regulatory authority is the securities and Exchange Commission in 1979. the Nigerian capital market has grown tremendously since since the establishment of the Nigerian stock Exchange (NSE) (formerly the Lagos stock Exchange) in 1961. the NSE provides a mechanism for mobilizing private and public savings, and makes such funds available for productive purposes. The exchange also provides means for trading existing securities. It also encourages large scale enterprises to gain access to public listing .the NSE operates the main exchange for relatively large enterprises; the second –tier securities market (SSM requirements are less stringent for small and medium scale enterprises.

The growth of the Nigerian market has influenced by government patronage, legislation and policies. In the 1960s and 1970s, government raised funds from the market usually by floating development stocks. Also, government enacted legislation such as the income Tax Management Act 1961, which require both the pension and provident funds to invest a substantial proportion of their funds in government stocks. The Trustee investment Act of 1962 and insurance(miscellaneous) provisions Act of 1964 required trustees to invest in government stocks and quoted industrial securities, and insurers to invest a stipulated percentage of their risk premium in government securities. The implementation of the Nigerian Enterprises promotion Decree significantly stimulated the growth of the Nigerian capital market by making equities available (Odoko, 2004).

In 1984, the stock Exchange took the initiative of introducing the second-tier securities market (SSM) which gave encouragement to small and medium- scale industries to seek quotation on the stock exchange by stipulating less stringent listing requirements for them this development had the effect of widening the investor base as well as the supply of securities on the market (Odoko, 2004).

Following the introduction of the structural adjustment programmed (SAP) in 1986, the government embarked on the privatization of scheduled government enterprises in order to reduce government participation in the directly productive sectors of the economy. The privatization programmed released shares of several enterprises to the public and enlarged the number of shareholders. Also, in 1989, the securities and Exchange Commission was established oversee the operations of the Nigerian capital market, in terms of regulating, developing as well as determining the price and timing of securities issued. SEC is further charged to ensure orderly and equitable dealings in securities business (Odoko, 2004).

In 1980, the stock Exchange expanded its branches from three to five. Also, an important innovation was the linking of performance information on the Nigerian stock Exchange to Ruter's international information system in order to disseminate relevant market information to subscribers to the system. In 1997, the Nigerian stock Exchange introduced the central securities and clearing system (CSCS) that is expected to reduce the clearing days to five after transactions. Prior to this development, the delivery system on the Nigerian stock Exchange was very cumbersome as it took several weeks or even months for an investor to receive evidence of title for securities purchased. The delay was caused by the system of registration, authentication and the slow postal system. Anther impediment to integration of the Nigerian capital market with the global financial system was the issue of transfer of dividends and capital by the foreign investors. This issue has been tackled by the promulgation of the foreign Exchange (Monitoring and Miscellaneous provision Decree No. 17of 1995. in particular, the decree guaranteed an unconditional transferability of funds through an authorized dealer in freely convertible currencies in respect of dividends or profit (net of taxes) attributable to the investment; payment in respect of loan serving where a foreign loan has been obtained and the remittance of proceeds (net of the investment. This simplification which accompanies the introduction of Autonomous foreign Exchange Market (AFEM) and the repeal of the Exchange control Act is a welcome development (Odoko,2004).

2.3 Capital market and economic development

Gurley and shaw (1967), shaw (1973), and McKinnon (1973) recognized the important roles played by financial institutions in economic development. Capital markets have important and strategic roles providing risk capital for long-term structures that ensure the liquidity and stability of the financial system. Thriving capital markets are often closely associated with vibrant private sector development and strong economic growth (Sethness, 1988).

Within the broad classification of the capital market are the securities and the non-securities markets. The non-securities markets, which comprise banks and bank-related institutions, mainly intermediate in debt and debt related instruments. In most developing and developed countries, this type of financial institution performs most of the functions of financial intermediation and is quite developed relative to the securities markets. increasingly, attention is shifting to the securities markets for a number of reasons, including the dissatisfaction with bank-based finance- which is fraught with government controls-and the growing awareness of the need for a more integrated approach to financial sector development, resource mobilization, capital formation and the promotion of investment and economic growth (Dailami and Atkin, 1990). The purposes of securities markets which reinforce their disability, include.

1. mobilizing long-term savings to finance investment of a long-term nature;
2. providing equity- risk capital to entrepreneurs:
3. Encouraging broader ownership of means of production; and
4. Improving the efficiency of resource allocation through a competitive pricing mechanism (Popiel,1990).

The conclusion that the securities markets in developing countries malfunctioning of these institutions. The reason for the poor performance of the markets, as noted by kellick and Martin (1990), are as follows:

a. There is an insufficient supply of shares and a small number of quoted companies.
b. There is insufficient demand for securities.
c. There is over- dependence of companies on bank finance and other forms of borrowing

These problems, which in fact impinge on the efficiency and performance of the securities markets, are indeed real for the Nigerian securities market. Studies of the market by Nemedia (1982) and Ike (1984) conclude that the market is thin and narrow, while Gill (1982) notes the absence of large volumes of transactions. The paucity of shares to trade in the market was attributed to the "buy-and hold" attitude of Nigerian investors (Phillips, 1985). It has also been pointed out that the investing public is largely unaware of the opportunity for investing in the securities markets (Soyode, 1985: First Bank 1988).

The features of the Nigerian securities markets listed above obviously retard the role of the market in contributing to economic growth and development as well as mobilizing domestic resources. Generally, the mobilization of domestic savings through the securities market in developing countries is seen as typically inefficient (Adam, 1990). The actors that contribute to this include discriminatory tax policies on different financial assets, direct credit allocation policies and interest rate controls (Pople, 1990)

The presence of distortions in the process of developing securities markets calls for regulatory mechanism. The Securities and Exchange Commission is put in place to supervise and regulate the activities of the players in the securities market to ensure its healthy development. Part from the primary benefits that obtained from the existence of capital markets, a developed securities market in the sense of the economy (Ogumike and Omole 1978). The gains arising from efficient financial intermediation further brings additional gains through;

(i) Lower cost of equity capital for firms;
(ii) Imposition of discipline on corporate managers as share prices react to right and wrong judgment in firm's investment decision;
(iii) Existence of mechanism for appropriate pricing and hedging against risk; and
(iv) Increased flow of funds to the domestic economy as international capital responds to the thriving capital market (Kemirguckant and Levine, 1993).

Emenuga (1994) observed that the link between the financial sector and economic growth was empirically demonstrated by Levine and Zervos (1996) who using data from 35 countries over a period of 104 years documented that;

(i) The pace of financial institutions increases with per capita income; and

(ii) Above average GDP growth is associated with above-average ratio of financial assets to GDP.

Along this configuration of the financial sector enhance the pace of economy growth and development. Within the financial spectrum of an economy, there are strong theoretical justifications for the role of capital markets in economic growth. It is argued that capital liquidity plays crucial role in the process of economic growth (Levine 1991). Many investments that promote economic growth are long-run. Liquid capital markets most savers are willing to commit their capital. Liquid capital markets resolve he non-synchronization of their tenure of savings and investments. By providing avenue for savers to divest without affecting the operations of the concerned enterprise. The extent to which this role of capital markets is enhanced, the cheaper and easier the entry and exit process, thus, industrial revolution in science during the century (since the underlying scientific invention took place much earlier) but to the liquidity of the financial markets (including the capital markets), which aided the financing of capital intensive profitable investments (Hicks 1969). Also, liquid capital markets increase the incentive for exploring information on quoted firms, thereby leading to improved corporate governance (Denirguc-Kunt and Levine 1993). In a recent cross-country study, Levine and Zervos (1996) documented a strong empirical assertion between capital market development and long-run economic growth.

The relevance of capital markets for economic development is, however, contended by some scholars. It is argued that even the large capital markets provide insignificant source of financing for corporations and therefore, play insignificant role in development (Emanuga, 1994). Some researchers have been warned of the possibility that a capital market may retard the development process if it eases corporate take-over that turn out to be counter productive. There is also the possibility that a liquid capital be counter productive. There is also the possibility that a liquid capital market may harm growth (Demirguc-Kunt and Levine 1993) in a number of ways. Firstly through income and substitutions effects, the higher returns on investment that result from capital market liquidity may lead the demand for precautionary savings. Thirdly, capital market liquidity is forced to encourage investor myopia, thus weakening investors' commitment and reducing incentives for corporate control.

The existence of the Nigerian stock exchange (NSE) entails a number of benefits for the Nigerian economy. These benefits are in line with the general role of capital markets in development process (Claessens and Glen, 1993). First, the capital market has been a source of capital for the corporate sector. The mere presence of a capital market in the country boost the international investment climate of the country as it raises the changes of additional local financing for both foreign and loan direct investment. In an economy like Nigeria where the banking sector in battling with credibility problem following the systemic distress of the financial sector, the capital market plays a morale-boosting role to investors. It can only be imagined what the private investment in the real sector would have been if the capital market has not been in place (Emenuga, 1994 and Odoko 2004).

Secondly, the capital market provides opportunity for investment diversification. In the absence of the capital market, a large part of the wealth currently invested in Nigeria capital market would have been diverted to foreign countries. The market further remains a viable institution for holding back capital flight, which has been one of the causes of the country's economic underdevelopment (Emenuga, 1994).

3.0 Research methodology

The research design adopted for this study is the exploratory research design. This design sought to explain the relationship between capital market and development of Nigerian economy. Data for the study was collected from annual reports of Nigeria Stock Exchange and CBN ordinary least squares multiple regression method. The model formulated to guide the study was stated as follows:

PCGDP = f(MKTCAP, TNI,NLS, NQC, VT, TURNO,U)……………1

PCGDP = a_o+a_1 MKTCAP + a_2 TNI + a_3NLS + a_4NQC+a_5 VT +

a_6TURNO +U……………………………………………………….2.

thus:

LPCGDP = β_0 +β_1LMKTTAP + β_2LTNI + β_3LNLS +β_4 ^{LNQC} + β_5 LVT

+β_6LTR+U…………………………………………………………….. 3

On a priori: a_o a_1………………………..a_6 >0

β_0 β_1…………………β_6 >0

Where

PCGDP	=	Per capita Gross Domestic Product
MKTCAP	=	Market capitalization
TNI	=	Total New Issues
NLS	=	Number of Listed Securities
NQC	=	Number of Quoted Companies
VT	=	Value of Transactions
TR	=	Turnover Ratios
U	=	Stochastic error terms.

4.1 Data presentation

<Insert Table 1 here>

4.2 Data Analysis

Table 1 shows the selected macro-economic and capital market performance indictors in Nigeria from 1991-2011.

The growth trends of the capital market performance indictors have been significantly influenced by macroeconomic policy and institutional changed deliberately designed by government since the 70s, to engineer a market driven economy. Table 1 presents selected major macro economic and capital market performance indictors from which one can feel the pulse of the Nigeria capital market. The capital market indictors were first stimulated by the indigenization policy of government of the 70s. They have grown phenomenally since the deregulation of structural Adjustment Programme (SAP) of the economy, the privatization and commercialization programme of public enterprise were kick started in 1986 and 1988 respectively. The changes in macro-economic policies of government, institutional reforms and the internationalization of the capital market, boost activities in the capital market.

First column represents per capita gross domestic product obtained by dividing GDP by the population. It is observed that the magnitude of per Capita GDP is on constant increase over the period under review. In 1991 the per capita GDP rose from N72, 128.20 million to n25,7873.00 million in 1990, N3,193990.00 billion in 2004 and N4,537,640.00 billion in the year 2005. This upward surge in the value of per capita GDP continued throughout the period. This shows that the Nigerian economy is growing stronger due to economic reforms on the economy and the advent of domestic governance in the country.

Second column represents market capitalization, a strong indicator that measured capital market development and size of the market. It is observed that total market capitalization over the period under review is on the ascending order. In 1991, it increased from N6.79 billion to N16.36 billion in 1995 representing an upward trend of N9.57billion. The aggregate market capitalization of all securities listed on the market as at 2004 stood at N300.04 billion as against N262.52 billion recorded in the previous year. This represents an increase of 14.3 percent over the 2003 figure. Thus, the requirement for banks to recapitalized most especially from the year 2005 to 2010.

Apart from he two dips in the value of market capitalization in 2002 and 2003 respectively, the trend in market capitalization in 2002 and 2003 respectively, has been virtually vertical. These dips were as a result of the delisting of securities performing below market requirements or securities which had matured. The drop in the 2003 market capitalization to N262.52 billion is attributable to the violatile political situation in the country, which climaxed with the death of the country's Head of state General Abacha in the same year.

Third column contains total new issues. That is funds mobilized from the primary market. The Nigerian Capital market has continued to serve as a vital source of the nation. Although the value of new issues in the last 10 years of the total period under review as revealed by the data is not quite impressive as the new issues shows combination of upwards and downward growth trend in values. Activities in the new issues segment of the market rose from N5,808.2 million in 2001 to N15,018.1million in 2003, showing a remarkable growth of N9,211.9 million. Upon the examination of the data still, the new issues market showed an upward trend in terms of the value of issues floated from N11,993.44 million in 2004 to N17,207.82million in the year 2005. This amounted to an increase of N5,214.38million. The value of new issues rose by 43.48million. The value of new issues got to its Peak with a value of N180,079.9million and dropped aggressively to N19,540.0 in the year 2009 and rose again to N55,280.0 in the year 2010. Averagely, new issues market has maintained a reasonable growth since the year 2005 to 2010. This development could be attributed to CBN bank re-capitalization policy, as several banks accessed the primary market to shore up their capital base. Investors also showed much confidence in the market as demonstrated by high patronage of the new issues.

Fourth column represents number of listed securities on the market. During the period under review, it is observed that number of listed securities maintained an upward trend from 1991 up on the market in 1995. However, the value rose up again from 1997 to 2001. also there was an equal drop of 264 securities experienced in 2002 and 2003 respectively which was as a result of the delisting of securities performing below market rose to 268 above what was listed in the proceeding year, whereas in the year 2008, 2009 and 2010 the number showed an upward increase of 356, 277 and 288 securities respectively.

Fifth column represents number of quoted companies on the market. The data reveled that number of quoted companies on the market maintained a steady increase over the period under review. This shows that government enlightenment campaign on indigenous and foreign companies to go public is efficient. Thus, in 1991 number of quoted companies on the market rose from 99 to 183 in 2001 and slightly dropped to 182 below the proceeding year due to volatile political situation in the country. The number fell to 194 in the year 2006 and maintained a steady increase from 2007 to 2010.

Sixth column represents value of transactions. It is observed that over the period under review that value of transactions showed unsteady growth trend during the first 10 years. For instance, the value of transactions was as high as n833.0million in 1991 and dropped sharply to N136.2 million in 1996 representing a decline of N696.8million. However, in 2001 on 2010, the value increased to N7,062 million and N254.7 billion respectively.

Seventh column represents turnover ratios of the market. The ratios represent poor liquidity strength of the market and low trading activity over the years. However, the data revealed that the Nigerian capital market is relatively liquid as demonstrated by very low turnover ratios recorded in different years under review. For instance, in 1991 the turnover ratio stood at 7.3 percent, 1.4 percent in 1993, 1.0 percent in 1997, and 2000 respectively. It showed less than one percent in 1996, 1998 and 1999 respectively. The poor growth trend of the turnover ratios continued till 2009 and 2010 when it showed a higher value of 11.6 percent and 10.1 percent respectively.

4.1 Test of hypothesis

<Insert Table 2 Here>

The hypothesis to be tested is;

H_o: The contribution of Nigerian capital market is not significant to economic development of Nigeria.

H_1: The contribution of Nigeria capital market is significant to economic development of Nigeria.

The decision rule for the hypothesis is as follows:

Accept Ho, if calculated F-ratio (7.12) <2.92
Do not accept Ho, if calculated F-ratio (7.12)>2.92.
Acceptance of Ho implies non-acceptance of H_1 and vice-versa from the result in equation 34.
Calculated F-ratio (7.12) =62.208.

Decision: Since calculated F-ratio (62.208) > the tabulated F-ratio (2.92) the null hypothesis is not accepted, implying that the contribution of Nigerian capital market is significant to economic development of Nigeria.

4.3 Discussion of findings

Our empirical result will be evaluated and discussed alongside three main criteria; namely, economic (a prior) criterion statistical criterion and econometric criterion.

Statistical criterion

In line with the regression result of equation 34 reported in tables 4.3, the standard error of the regression is 0.01 less than one percent of the regression estimate indicating that the estimates are statistically reliable. Evidence from the t-statistic shows that most of the parameter estimates are statistically significant at five percent level (such as; total new issues and number of quoted companies) whereas, market capitalization, value of transactions are statistically insignificant at five percent level but significant at ten percent. Our study is statistically reliable and adequate.

Econometric criterion

From the econometric point of view, we report that the R-square (R^2) of 0.969013 means that the explanatory variables explain about 97 percent of he variations in the dependent variable in real life situation. This is a good fit to the observed data by the multiple regression model. Thus, only three percent of the variation in per capita GDP is unexplained by the regression line. Hence our model fit the data well.

Moreover, the adjusted S-square (R^2) of 0.0950938 which measures the goodness of it as a result of addition of the explanatory variables is also very high measuring about 95percent of real life situation. This implies that the addition of one or mo0re explanatory variables will contribute less than two percent in the improvement of the result. The overall significance of the model is equally very good as indicated by a higher value of calculated F-ratio value $F_{0.05}$ =2.92). This implies that the Nigerian capital market contributed significantly to economic development of Nigeria.

The Durbin Watson Statistics of about 2.33411 shows that absence of serial correlation or autocorrelation among the residual errors; hence the problem of autocorrelation in nonexistent.

The Durbin Watson Statistic of about 2.33411 shows that absence of serial correlation or autocorrelation among the residual errors; hence the problem of autocorrelation is nonexistent.

Economic criterion

The coefficient of market capitalization (MKTCAP) is expected to be positive. This is because in market capitalization will lead to a positive increase in economic development. In this study, the coefficient of the estimate of market capitalization shows a negative sign in violation of a priori economic expectation, although the variable is statistically significant at ten percent. Specifically, a 10 percent increase in market capitalization (MKTCAP) may lead to about 0.1 percent decline in per capita GDP ceteris paribus.

This result could be attributable to the fact that the depth and size of he Nigerian capital market is still shadow and thin.

The co-efficient of total new issues is positive and statistically significant. This is consistent with a priori economic expectation. Specifically a 10 percent point increase in total new (TNI) may lead to 0.4 percent increase in per capita GDP ceteris paribus. The result implies that, new issue is productive and positively related to per capita GDP. This significant contribution of new issues to economic development measured by per capita GDP could be attributed to the following points; first the internationalization of the domestic capital market which empowered foreigner to invest in the market. Second, the enlightenment campaign exercise of government which encouraged both local and foreign companies to source for funds from the market rather than over depending on bank finance and other forms of borrowing.

The co-efficient of number of listed securities (NLS) is negative. This does not confirm to a priori economic prediction. Specifically, a 10 percent increase in the number of listed securities (NLS) may lead to about 0.03 percent decline in per capita GDP ceteris paribus. This indicates an inverse relationship with the dependent variable (PCGDP). This negative behaviour of the variable in the model is explained by the fact that the demand for securities listed on the market is low as a result of poor attitude of Nigerians to invest in long-term investment, unawareness of the investing public to take opportunity for investing in the securities market and paucity of share to buy on the market and trade in (1.e low volume of securities) which sustained the buy and hold' attitude at the market.

The coefficient of number of quoted companies (NQC) is positive and therefore statistically significant predictor of economic development measured by per capita GDP at one percent level. This result conforms to a is positively related to economic development. This result was not unconnected with the present democratic government in the country following the positive development in the financial system which encouraged more local and foreign companies to quote on the market following many years of military dictatorship.

The co-efficient of value of transactions (VT) shows a negative sign. This result is not consistent with a priori economic expectation, although the estimate of the variable is statistically significant at ten percent level of significance. Specifically a 10 –percent increase in value of transaction (VT) may lead to about 0.2 percent decline in per capita GDP ceteris paribus. This result shows that there is an inverse relationship between the dependent variables and the independent variable.

The co-efficient of turnover ratios (TURNO) shows a negative sign and therefore inversely related to per capita GDP. However it is not statistically significant even at ten percent level.

5.1 Conclusion

The research findings indicate that Nigerian capital market over the period under review contributed significantly to economic development of Nigeria. It holds a major key to the emancipation of developing countries from economic servitude. This conforms to theoretical assessment as highlighted in this study. Evidence from the time series data; first order correction of the error using Ordinary Least Square (OLS) analysis showed that total new issues and number of quoted companies are positive and statistically significant predictors of economic development of Nigeria. Therefore we conclude that the role of the Nigerian capital market in economic development of Nigeria is significant.

5.2 Recommendations

From our research findings, it is observed that the Nigerian capital market has often suffered from certain fundamental lapses; consequently, this study in the light of our findings has formulated concise policy suggestion geared towards the creation of a more conducive atmosphere for the orderly growth and development of the market. These include;

1. **Floatation of Government Stock:** the federal Government and Other tiers of Government should resume issuance of development stocks to meet their developmental responsibilities. This would no doubt boast activities in the capital market and promotes economic development of Nigeria.
2. **Floatation of government stock:** For the Nigerian capital market to continue to serve as a vital source of funds to the industrial sector of doubt boast activities in the capital market and promotes economic development of Nigeria.
3. **Floatation of new issues:** For the Nigerian capital market to continue to serve as a vital source of funds of the industrial sector of the nation there should be concerted efforts by the government to encourage more companies to use new issues market to raise funds for their investment and productive purposes either by way of new listings or supplementary issues and discourage companies vehemently from over depending on bank finance or other forms of borrowing through enlightenment campaign and other incentive measures.
4. **Reactivation of the Bond market:** Equities trading has been more active than bond market over the years. This continued poor performance of the bond market has no doubt become a source of concern in the Nigerian capital market. Hence government should therefore reactive the bond market especially in this domestic ere when huge developmental programmes are required to sustain democracy in the country. An active bond market will no doubt be required to complement other sources of funds to finance to finance such the developmental projects and boost capital market development.

References

Adam, C. S. (1990). “Issues in privatization and capital market development”. Paper presented to the conference on capital market development and privatization. Bombay, November, 14-16.

Adekanye, Femi (1986). The Elements of banking in Nigeria. London Graham Burn.

Akpan I. (2004). Fundamentals of finance (2^{nd} edition). Uyo: Nelgrafik press.

Akpan, O. E. 91995) Thin and thick capital markets. Nigerian Journal of social and economic research, 1(37), 24.

Alice, H. I. Anao, A. R. (1986). The Nigerian stock market in operation Ikeje: Jeronme Lartio and Associates.

Anyanwu, D.C. (1993). Monetary Economics. Owerri: Hybrid Publishers

Anyanwu, D. C. (1998). Stock market development and Nigeria’s economic growth. The Nigerian journal of economic and social studies, 1 (2), 4-7

Baumol, W. (1965). The stock market and economic efficiency. New York Fordham University press.

Calamanti, A. (1983). ‘securities market and underdevelopment”. The stock exchange in the Ivory Coast, Morocco and Tunisia. Milian: Giuffra.

Central Bank of Nigeria (2005). Central Bank of Nigeria briefs (2004-2005). Lagos central Bank of Nigeria.

Claessens, S. S. Dasgupta and J. Glen (1993). “Stock Price behaviour in every emerging stock market”. Paper for the World Bank conference on portfolio flows to developing countries. Washington, D. C. the World Bank September 9-10.

Dailami M. and M. and Atkin (1990) “Stock market in developing countries”. Key issues and a research agenda. Pre working papers, wps 1159. Washington, D. C. World Bank. 159 277-280.

Diamond, D. W. and P. H. Dybing (1983). “Banking Runs Deposit insurance, and liquidity, journal of political economy, Vol. 91, 401-419.

Drake, P. G. (1985). "Some reflections countries". Savings and development No. 1, Vol. IX, 514.
Ekieh, O. (2000). The Nigerian capital market: present and future challenges". Paper presented at a workshop on legislating for the capital market in a democratic environment organized by the securities and exchange commission, Nicon Hilton Hotel, Abuja.
Emenuga, C. (1994)/ "The capital market as a medium for implementing the reform of the parastatals sector in Nigeria'. Papa presented at the workshop on the reform of the parastatals sector in West Africa, Cotonou, Benin Republic, November 16-19.
Fama, E. F. (1970). Efficient capital market: A review of theory and empirical work; journal of finance, 4 (5), 18-20.
Fama, E. F. (1997). Foundation of finance: portfolio decisions security prices. Oxford: Basil Black well.
Fama Bank of Nigeria. (1988). The Nigeria capital market: issues and prospect". Monthly business and economy report, August vol. 12, 55-56.
Foley. B. J. (1991) capital markets. Hong-Kong Macmillan.
French , D. W. (1989). Security and portfolio analysis, concepts and management London: Merill publisher.

Table 1: The selected macro economic and capital market performance indictors in Nigeria from 1991-2011

Year	Pre capita gross domestic product (PCGDP) N'M 1	Market capitalization (MKTCAP) N'B 2	Total New Issues (TNI) N'M 3	Number of Listed Securities (NLS) 4	Number of Quoted companied (NQC) 5	Value of truncation (VTN) N'M 6	Turnover Ratio % (TURNO) 7
1991	72,128.20	6.79	833.0	240	99	429.2	7.3
1992	106,883.20	8.30	450.7	244	100	348.0	4.2
1993	142,678.30	10.02	400.0	253	102	137.6	1.4
1994	222,457.40	12.85	1629.9	267	111	521.6	4.1
1995	257,873.00	16.36	9,964.5	295	131	265.5	1.6
1996	320,247.31	23.13	1,870	239	142	136.2	0.6
1997	544,330.69	31.27	3,306	251	153	313.5	1.0
1998	691,600.00	47.44	2,223.4	272	174	402.3	0.8
1999	911,070.00	66.37	3,910.2	276	177	1,838.8	0.9
2000	1,690,690.00	180,31	3,910.2	276	181	1,838.8	1.0
2001	2,740,460.00	285.96	5,808.2	276	183	7,062.7	0.8
2002	2,835,000.00	281.89	10,575.7	264	182	11,072.0	3.9
2003	2,765.670.00	262.52	15,018.1	264	182	13,572.3	5.2
2004	3,193,990.00	300.04	12.038.5	268	195	14,027.4	4.7
2005	4,537,640.00	472.29	17,207.8	260	195	28,154.5	6.0
2006	5,1871.50.00	662.56	37.198.9	261	194	57,637.2	9.1
2007	5,454,150.00	764.98	6,1254	258	195	60.088.5	7.9
2008	7,418,007.00	1359.27	180,079	265	200	1209,703.0	8.9
2009	8,553,300.00	2112.5	19,540	277	200	223,91.3B	11.6
2010	9,173,201.00	2900.1	55,250	288	200	254.7B	10.1
2011	9,254,221.00	3121.1	56.234	289	200	263.45	103

Source: NSE, SEC, CBN, and BOS, 2012

Table 2: The regression estimates of the effect of selected indicators of capital market development on economic development of Nigeria from 1991-2011

Dependent variable is LPCGDP (Economic Development)

Variables (parameters)	**Estimate coefficient**	**Standard d error**	**T-statistics**	**P-value**
Constant	6.12030	.319412	19.1611	(.000)
LMKTCAP	-.009342	.005519	1.69270	(.091)
LTNI	.040757	.002806	14.5263	(.000)
LNLS	-.025188	.049560	.508230	(611)
LNQC	.167327	.031840	5.25518	(.000)
LVT	0.14914	.008710	-1.71242	(.087)
LTURNO	-.018011	.0212085	-1.49039	(1.36)
RHO	-509715	.235987	-2.15993	(.031)

Source: Author's Estimation, 2012

R^2 = 0.969

Adj = R^2- 0.950

F-ratio= 62.208

D.W. Statistic = 2.33411