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# The Impact of Stock Market Development on Economic Growth in Nigeria

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**Abstract**
This study examines the impact of stock market development on economic growth between1970 and 2008. Co-integration Analysis and Error Correlation Mechanism were adopted as the estimating techniques to verify the existence of long-run relationship between stock market development and economic growth. Questionnaires were administered to access the investor's confidence in the Nigerian stock exchange and to authenticate the impact of stock market development on economic growth in the period under review. The empirical results revealed that there is existence of long-run relationship between stock market development and economic growth in Nigeria. The findings also showed that there is positive relationship between market capitalization and money supply with economic growth while total value traded, turnover ratio and gross capital formation have inverse relationship with the growth. Market capitalization is highly significant and appears to be the major stock market indicator. Based on these findings government should address the shortage of investment assets through effective policy measures that enhance the performance of stock market in Nigeria and to restore confidence of the investors.
**Keywords:** stock market development, economic growth, Co-integration and Error Correction Framework and the use of descriptive survey type

## 1. INTRODUCTION

Mobilization of resources for national development has been the central focus of development economists. As a result, the centrality of savings and investment in economic growth has been given considerable attention in the literature. Financial markets, especially stock market have grown considerable in developed and developing countries over the last two decades. As economies develop, more funds are needed to meet the rapid expansion. Thus, stock market serves as a veritable tool in mobilizing and allocating savings among competing uses which are critical to the growth and efficiency of the economy (Alile 1984). The determination of the overall growth of an economy depends on how efficient the stock market performs its allocative functions of capital. As the stock market mobilizes savings concurrently, it allocates a large proportion of it to the firms with relatively high prospect as indicated by its rate of returns and level of risk. The importance of this function is that capital resources are channeled by the mechanism of the force of demand and supply to those firms with relatively high and rapidly increasing productivity, thus, enhancing economic expansion and growth (Alile 1997).

Gerald (2006) also states that stock market development is important because financial intermediation supports the investment process by mobilizing household and foreign savings for investment process by firms. For sustainable growth and development, funds must be effectively mobilized and allocated to enable business and economy harness their human, material and management resources for optimal output. Therefore, Mislikin (2001) and Caporale (2004) assert that organized and managerial stock market stimulates investment opportunities by recognizing and financing productive projects that lead to economic activity, mobilizes domestic savings and facilitates exchange of goods and services

However, there is need for development of stock market whether the country is developed or still in its developing stages. Therefore, understanding the relationship among the three stock market indicators is very crucial to the country's economic development as posited by IMF (2002) which is yet to be enforced in Nigeria. Also empirical works have confirmed the likelihood of having a kind of diverse forms of relationship among the three stock market indicators. There is therefore the need to critically examine these forms of relationship and this would guide in formulating policy that would positively influence them and transform the influences to the overall economic development of the country (IMF 2002). This among others formed the basis for this research work.

The broad objective of this study is to examine the impact of stock market development on the economic growth in Nigeria while specific objectives are to analyze the dynamic relationship between market capitalization, total value traded, turnover ratio and economic growth in Nigeria as well as to access the investors' confidence in Nigeria stock exchange.

The rest of the paper is organized as follows: section two is on literature review. This is followed by the research methods and discussion of results in section three and four respectively. Section five concludes the paper.

## 2. LITERATURE REVIEW

The stock market forms an integral part of financial system and serves important functions in an economy by means of providing liquidity for investors Levine (1991) and Bencivenga et al (1996); facilitating savings, mobilization for investment; offering portfolio, diversification opportunities for investors (Deveraux and Smith

 

1994); helping to convey information about the firms prospect to potential investors and creditors (Greenwood and Joranovic 1990).

There is no generally acceptable definition of stock market, various authors have tried to define stock market but none of these definitions has been universally accepted. One of the preferred definitions is Fapohund (1991) who agrees that stock market means so many things. Firstly, it is a place where debts and equity securities (bonds, stocks and shares) of various types are traded openly. Secondly, it is a market for capital mobilization through which funds can be raised by the public companies and government institution on competitive terms from new issue. He went further to say that the facility for trading in existing securities removes the restriction that would have prevented individuals from investing their savings in securities of the available capital funds to diverse uses in the economy.

Given the importance of stock market and the understanding of how it can influence economic growth, numerous studies have been conducted on the impact of stock market development on economic growth. Earlier studies carried out in Nigeria used Ordinary Least Squares (OLS) method to estimate the impact of stock market on Economic growth. For example, Osinubi (1998) employed OLS to examine how stock market promotes economic growth. The results indicate that there is a positive relationship between growth and all the stock market development variables used. Augustine and Salami (2010) used OLS to examine the impact of stock market development on long-run economic growth. The regression results showed that stock market size and turnover ratio are positive in explaining economic growth while stock market liquidity coefficient was negative in explaining long-run growth in Nigeria. Olowe, Mathew and Fasina (2011) employed OLS method to analyse the efficiency of capital market on the economy between 1979 and 2008. The findings revealed negative relationship between gross domestic product and market capitalization as well as turnover ratio while all share index is positively related to gross domestic product. Alajekwu and Achugbu (2010) investigated the role of stock market on economic growth from 1994 to 2008. The indices of stock market development are stock market capitalization ratio, value traded ratio and turnover ratio. The study made use of Ordinary Least Square (OLS) technique and the results showed that market capitalization ratio and value traded ratio are negatively correlated with economic growth while turnover ratio is positively correlated with economic growth. Owolabi and Ajayi (2013) explored the relationship between stock market and economic growth between 1971 and 2010 utilizing Ordinary Least Square method and the outcomes showed that there is a positive relationship between economic growth and all the measures of stock market and economic growth. Few studies in Nigeria in recent time employed econometric tools in analyzing the relationship between stock market development and economic growth. Studies like Babatunde (2005), Abu (2009) , kolapo and Adaramola (2012), etc. Babatunde (2005) examined the relationship between stock market development and economic growth making use of pair-wise regression analysis to show the relationship over the period between 1986 and 2002. The major implication of the findings of this study is that stock market is vital to economic growth in Nigeria. Abu (2009) is another empirical work that investigates whether stock market development raises economic growth in Nigeria by employing the error correction model approach. The econometric result indicates that stock market development (market capitalization ratio) increases economic growth. Kolapo and Adaramola (2012) examined the impact of the capital market on economic growth between 1990 and 2012 using Johansen cointegration test and granger causality test. The results revealed that indices of capital market and economic growth are co-integrated and the activities in the capital market tend to impact positively on the economy. In conclusion, all the studies enumerated above were based on purely secondary data which could have hidden some salient facts about the shareholders. Therefore, this study applied triangulation method by employing both descriptive survey type and econometric analysis to explore the relationship between stock market development and economic growth for a robust result.

## 3. RESEARCH METHODS OF ANALYSIS

It is acknowledged that this study could be better done at firm level using both primary data and secondary data. The primary data was used to capture investor's confidence in the stock market while the secondary data was used to estimate the impact of stock market development on economic growth. For the descriptive survey type, the population for the study consist all public investors in Nigeria while the sample for the study comprised one hundred respondents from south-west of Nigeria in which only 80 respondents completed the questionnaire and returned it. Purposive Sampling technique was used to select the respondents for the well structured questionnaire. The research instrument was subjected to content validity which also ascertained by experts in economics and management studies. After the validity of the instrument, test- retest method was used for the reliability of the instrument, the reliability coefficient of 0.818 was obtained using person product moment correlation analysis and this was considered significantly adequate for the study. The data were analyzed using descriptive analysis. Frequency count and percentage were used to analysis general questions.

Secondly, the empirical investigation in this section focused on model specification, A priori expectation, estimation technique and sources of data.

**Model Specification**

In order to investigate the impact of stock market development on economic growth, the model for this study is specified thus;

GDP = f (SMC, TVT, TR, GCF, $MS_2$) ---------- (1)

This can be restated in an explicit form

GDP = $\alpha_0$+ $\alpha_1$ SMC + $\alpha_2$ TVT + $\alpha_3$ TR + $\alpha_4$ GCF +$\alpha_5$ $MS_2$ + $U_t$ ---------- (ii)

For the state of reducing heteroscedacity and to convert the research data from rates and absolute terms into the same numerical structure, the above equation is log-linearised as below:

$ln$GDP = $\alpha_0$+ $\alpha_1$ $ln$SMC + $\alpha_2$ $ln$TVT + $\alpha_3$ $ln$TR + $\alpha_4 ln$GCF +$\alpha_5$ $ln$$MS_2$ + $U_t$-----(iii)

Where GDP = Gross Domestic Product,

SMC = Stock Market Capitalization

TVT = Total Value Traded,

TR = Turnover ratio

GCF = Gross capital formation,

$MS_2$ = Broad money supply.

$U_t$ = error term, $ln$ = natural logarithm, $\alpha_0$ = intercept

$\alpha_1$- $\alpha_5$ = parameters or coefficient estimates

**A priori expectation**

A positive relationship is expected among all the variables. These expected relationships are represented symbolically as follows:

$\frac{\partial GDP}{\partial SMC} > 0$, $\frac{\partial GDP}{\partial TVT} > 0$, $\frac{\partial GDP}{\partial TR} > 0$, $\frac{\partial GDP}{\partial GCF} > 0$, $\frac{\partial GDP}{\partial MS} > 0$.

**Model Estimation Technique**

The estimation procedures employed in this empirical investigation is based on co-integration analysis and the Error correction model. The choice of this technique is informed by the need to determine the time series characteristics of the variables that are used in this study. The first step is to determine and test the stationarity of the data. The second step after testing for stationarity is the establishment of long-run relationship among the variables. After the order of integration of the variables are ascertained, that the long-run relationship among the variables can be determined. Therefore, Co-integration Analysis and Error correction Model (ECM) would be formulated and estimated.

**SOURCES OF DATA**

Data needed for this research work were secondary in nature. It was sourced from the various version of the Central Bank of Nigeria statistical bulletins, Nigerian Stock Exchange, (NSE) and Bureau of Statistics.

## 4. RESULTS AND DISCUSSION

**DESCRIPTIVE ANALYSIS**

The bio-data analysis included age distribution, gender distribution, marital status and educational qualification distribution. To analyze the data, frequency and percentage were used in analyzing the variables for the questions.

Table 1: Age Distribution of the Respondent

| S/N | CATEGORY | RESPODENT | PERCENTAGE(%) | |
|---|---|---|---|---|
| A | 18-25 | | 3 | 4 |
| B | 25-40 | | 26 | 32.5 |
| C | 40-60 | | 50 | 62.5 |
| D | 60 and above | | 1 | 1 |
| | **Total** | | **80** | **100** |

Source: Field Survey (2014).

The table 1 shows that most of the investors are between the age of 40-60 years. Out of the 80 respondents, 50 (62.5%) respondents are in the age between 25-40 years. This shows that most Nigerian investors were married and matured people. Responses for question 2 of the Bio-data confirm the statement above in the sense that 64 (80%) of the respondents are married people

Table 2: Gender Distribution of the Respondents.

| S/N | CATEGORY | RESPODENT | PERCENTAGES (%) |
|---|---|---|---|
| A | Male | 64 | 80 |
| B | Female | 16 | 20 |
| | **Total** | **80** | **100** |

Source: Field Survey (2014).

Table 2 shows that 64 (80%) of the respondents are males while 16 (20%) are females which probably reflect that few female investors transact in shares.

Table 3: Educational Qualification Distribution of the Respondents

| S/N | CATEGORY | RESPODENT | PERCENTAGE(%) |
|---|---|---|---|
| A | School Certificate/OND | 5 | 6 |
| B | HD/B.Sc/B.A./B.Ed. | 53 | 66 |
| C | M.Sc./Ph.D / professionals | 22 | 28 |
| D | Professorship | Nil | Nil |
| | **Total** | **80** | **100** |

Source: Field Survey (2014).

Table 3 shows that 53 (66%) of the respondents are 1st degree holders while 22 (28%) of the respondents were holders of post graduate degree. The indication is that it is predominantly educated people that invest in securities market. Over 94% of the respondents have first degree as their least education qualification. This implies that these educated investors can still make use of their intellectual positions to appropriate the opportunities and benefits of the market to themselves.

**Analysis of General Questions**

Analysis of general questions involve the followings:

1. The capacity to know the stock market
2. How long they have been in the market
3. Instruments they traded with
4. Factors that drive investors

Table 4 Analysis of the capacity to know the stock market

| | | | |
|---|---|---|---|
| a) | Employee | 12 | 15 |
| b) | Broker | 20 | 25 |
| c) | Investor | 38 | 48 |
| d) | Government | 25 | 31 |
| | **Total** | **80** | **100** |

Table 5: Analysis of how long investors have been in the market

| | | | |
|---|---|---|---|
| a) | Under 1 year | 4 | 5 |
| b) | 1 – 5 years | 32 | 40 |
| c) | 6 – 10 years | 16 | 20 |
| d) | 11 – 15 years | 8 | 10 |
| e) | Over 15 years | 20 | 25 |
| | **Total** | **80** | **100** |

Table 6: Analysis of instrument they traded with

| | | | |
|---|---|---|---|
| a) | Debenture | 1 | 1 |
| b) | Preference Shares | 4 | 6 |
| c) | Ordinary Shares | 75 | 93 |
| d) | Bonds | Nil | Nil |
| | **Total** | **80** | **100** |

Table 7: Analysis of factors that drive investors

| | | | |
|---|---|---|---|
| a) | Bonus | 11 | 13 |
| e) | Dividend | 48 | 60 |
| f) | Premium | 1 | 1 |
| g) | Effective Management | 20 | 26 |
| | **Total** | **80** | **100** |

Source: Field Survey (2014).

According to the table 4, question one shows that the respondents are mostly businessmen investors, brokers, government officials and employees in the financial institutions. 12 (15%) of the respondent are employees, 20 (25%) are brokers, 38 (48%) are investors and 25(31%) of the respondents are government. The question two in the table 5 shows that only 35% of the respondents know about the existence of the institution of Nigerian stock

 

exchange for over ten years while over 65% of respondents are below ten years. The bulk of the investors fell between one year and 5 years. The table 6 shows the instrument they mainly traded in was ordinary shares (equity financing) which give them certificate and power of ownership of the firm. Only 6% are preference share holders. From table 7 above, the major factor that drives investors is dividend with 48(60%) respondents. The next is effective management with 20(26%) respondents, followed by bonus with 11(13%) respondents.

Despite the fact that dividend has highest percentage, there is an implication that the low returns on the investment in stock market and delay in getting dividends can dampen the morale of investors. Therefore, dividend will have no place as a factor driving investors in the market if urgent measures are not taken to enhance the stability of the market.

## EMPIRICAL RESULTS

Time Series properties of the Variables

In a bid to avoid the problem of spurious regression results, the analysis begins with an examination of the time series properties for the variables employed in the research work. In literature, most time series are non stationary and including non stationary variable in a model could lead to spurious regression co-efficient estimates (Granger & Newbold, 1977). In order to determine if the variables are stationary or not and also to ascertain the order(s) of integration of the variables, the Augmented Dickey Fuller (ADF) unit root test was employed as earlier stated in the methodology. The Augmented Dickey Fuller (ADF) value was compared with the critical value at 5% level of significance in order to determine the corresponding order of integration

The table below shows the time series properties of the variables using the Augmented Dickey Fuller (ADF) unit root test.

Table 8: Augmented dickey Fuller (ADF) Unit Root Test Result

| Remarks | Series | ADF Statistic | | Critical Value | | Order of Integration |
|---|---|---|---|---|---|---|
| | | Levels | 1ST Diff | 1% | 5% | |
| Stationary | GDP | -1.071514 | -6.703149 | -3.6422 | -2.9521 | 1(1) |
| Stationary | SMC | 0.067371 | -3.650610 | -3.6422 | -2.9527 | 1(1) |
| Stationary | TVT | -1.122011 | -6.809052 | -3.6422 | -2.9521 | 1(1) |
| Stationary | TOR | -1.253834 | -5.270223 | -3.6422 | -2.9527 | 1(1) |
| Stationary | GCF | -0.217100 | -7.152520 | -3.6422 | -2.9527 | 1(1) |
| Stationary | MS2 | -0.217100 | -7.152520 | -3.6422 | -2.9527 | 1(1) |

Source: Computed from data (2014) in Appendix

The result in the table 8 above reveals that all the variables were not stationary at levels; they all had their stationarity after they have been differenced once respectively. The economic implication of non-stationary time series is that of a persistent shock if there is a disturbance on such a variable. The result shows that the variables are able to withstand shock to a good extent and unit root test also reveals that all the variables are integrated of order one i.e. 1(1). This property exhibited by the series created a necessary condition for co-integration.

### *Johansen Co-integrated Test*

The results emanating from the unit root test indicate that none of the variables is stationary at level but only at first differences. This means that depending on parameter estimates using ordinary least square regression estimates may be misleading and not meaningful (Granger & Newbold, 1997). This necessitates the use of co-integration analysis in order to determine the long run relationship among the series. In the Johansen co-integration test, the likelihood ratio is compared with the McKinnon critical value in order to determine the number of cointegrating vector(s) in the model. If the test establishes, at least, one cointegrating vector amongst the series under investigation then, it is concluded that there exists a long run equilibrium relationship in the model.

Table 9: Results of Johansen Coinegration Test

| Eigen Value | Likelihood Ratio | 5% Critical Value | 1% Critical calue | Hypothesized no of cointegration egns |
|---|---|---|---|---|
| 0.850610 | 132.1726 | 94.15 | 103.18 | None** |
| 0.575499 | 67.53194 | 68.52 | 76.09 | At most 1 |
| 0.469417 | 38.399336 | 47.21 | 54.46 | At most 2 |
| 0.217384 | 16.85088 | 29.68 | 35.65 | At most 3 |
| 0.149831 | 6.086212 | 15.41 | 20.04 | At most 4 |
| 0.016547 | 0.567314 | 3.16 | 6.65 | At most 5 |

*(**) denotes rejection of the hypothesis at 5% 1(%) significance level.

L.R. test denotes one cointegration equation(s) at 5% level of significance.

Source: Computed from data (2014) in Appendix 7

The result in the above table shows one cointegrating equation at 5% critical value based on the rule that the log- likelihood ratio (132.1726) is greater than the critical value at both 5% and 1% (94.15 and 103.18 respectively). This is a confirmation that there exist a long run relationship among the series and this would

 

however be explained by the normalized cointegrating equation with the lowest log-likelihood minimum absolute terms since the variables are in natural logarithms.

Table10: The Normalized cointegrating coefficients: One cointegrating Equation(s)

| Series | LNGDP | LNSMC | LNTOR | LNTVT | LNGCF | LNMS2 |
|---|---|---|---|---|---|---|
| LNGDP | LNSMC | LNTOR | LNTVT | LNGCF | LNMS2 | C |
| 1.000000 | 0.703164 | -1.341948 | -15.68157 | -0.293795 | 0.110638 | 67.57164 |
| | (0.10962) | (0.12743) | (1.47589) | (0.09270) | (0.13831) | |
| Log | Likelihood | 0.063210 | | | | |

Source: Generated from data (2014) in Appendix B

The integrating equation is specified as:

$lnGDP = \beta_o + \beta_1 lnSMC + \beta_2 lnTR + \beta_3 lnTVT + \beta_4 lnGCF + \beta_5 lnMS_2 + \mu_t$

Incorporating the long run estimates from the normalized cointegrating coefficient of the Johansen cointegrating test:

$lnGDP = 67.57164 + 0.703164 lnSMC - 1.341948 lnTR - 15.68157 lnTVT - 0.293795 lnGCF + 0.110638 lnMS_2 + \mu_t$

The equation specifies above represents the long run relationship among the series in the model. The evidence from the co-integration indicates that stock market capital capitalization (SMC), total value traded ratio (TVT) turnover ratio (TR), gross capital formation (GCF) and money supply ($MS_2$) are all long run determinants of the growing of the Nigerian economy as captured by Nigeria's Gross Domestic Product (GDP) in the model.

It was observed that there existed a positive relationship between stock market capitalization (SMC,) broad money supply ($MS_2$) and the growth of the Nigerian economy as they reflected positive long run estimates of 0.703163 and 0.110638 respectively. On the contrary, total value traded ratio (TVT), turnover ratio and gross capital formation reflect negative long run relationship with the dependent variable with coefficients of -15.68157, -1.34198 and -0.293795 respectively which implies that a unit changes in the value of any of these variables would lead to reduction in the gross domestic product in Nigeria up to the tune of the magnitude on the long run equation. The equation however reflected a constant value of 67.57164 which reflects the level of Nigeria's Gross domestic product (GDP) in the long run if all the selected explanatory variables in the model are held constant.

***Error correction Mechanism (ECM)***

When co-integration exists, the Engle-Granger theorem establishes the encompassing power of the Error correction Mechanism (ECM) over other forms of dynamics specifications. In order to capture the short run deviation that might have occurred in estimating the long run cointegrating equations, a dynamics error correction model is formulated. Both the over-parameterized and parsimonious error correction models would be reported. The error correction term ECM (-1) would however depict the speed of convergence to equilibrium once the equation is shocked (Oladele, 2009). The table below shows the result of the initial over parameterized error correction model.

Table11: Over- Parameterized Error Correction Model: Dependent Variation:

D ($lnGDP2$)

| Variables | Co-efficient | Std error | T statistic | Prob |
|---|---|---|---|---|
| C | 0.031302 | 0.097311 | 0.321674 | 0.7510 |
| D($lnGDP(-1)$, 2) | -331386 | 0.104775 | -3.162823 | 0.0049 |
| D($lnGCF$, 2) | 0.183225 | 0.306500 | 0.597796 | 0.5567 |
| D($lnGCF(-1)$, 2) | 0.127486 | 0.210124 | 0.606719 | 0.5509 |
| D($lnMS2$,2) | 0.239215 | 0.185824 | 1.287323 | 0.2127 |
| D($lnMS2(-1)$,2) | 0.058390 | 0.155473 | 1.375563 | 0.7112 |
| D($lnSMC$,2) | -0.121280 | 0.357505 | -0.339239 | 0.7380 |
| D($lnMS2(-1)$,2) | -0.135910 | 0.435222 | -0.312279 | 0.7581 |
| D($lnTOR$,2) | 0.215319 | 0.198242 | 1.086140 | 0.2903 |
| D($lnTOR(-1)$,2) | -0.089050 | 0.242975 | -0.366500 | 0.7178 |
| D($lnTVT$,2) | 4.208657 | 0.775847 | 5.424597 | 0.0000 |
| D($lnTVT(-1)$,2) | 2.088841 | 0.935734 | 2.232301 | 0.0372 |
| ECM(-1) | -1.689906 | 0.251845 | -6.710119 | 0.0000 |

| | |
|---|---|
| R-Squared | 0.887961 |
| Adjusted R-Squared | 0.820738 |
| Durbin-Watson | 1.897204 |
| F-Statistic | 13.20911 |
| Prob (E-Statistic) | 0.000001 |
| Schwarz Criterion | 2.522686 |

Source: Computed from data (2014) in Appendix 9

 

The table above shows the initial over-parameterized Error Correction Model. The model reflects a speed of adjustment of -1.689906 which is rightly signed and capable of correcting errors. Also, the Durbin-Watson value shows there is no auto-correction while both the probability and F statistic reflects that the model is statistically significant.
However, there is still need to proceed to the parsimonious error correction model where the significant variables would be excluded from the model as the over parameterized error correction incorporated both the significant and insignificant variables.

Table12: Parsimonious Error Correction Model: Dependent Variables D($ln$GDP,2)

| Variables | Co-efficient | Std error | T statistic | Prob |
|---|---|---|---|---|
| C | 0.029430 | 0.090373 | 0.325651 | 0.7475 |
| D($ln$GDP(-1), 2) | -0.326157 | 0.087684 | -3.719678 | 0.00011 |
| D($ln$GCF(1),2) | 0.115674 | 0.182754 | 0.632951 | 0.5328 |
| D($ln$MS2,2) | 0.172704 | 0.082052 | 2.104813 | 0.0460 |
| D($ln$SMC,2) | -0.104039 | 0.283275 | -0.367274 | 0.7166 |
| D($ln$TOR,2) | 0.231845 | 0.127753 | 1.814792 | 0.0821 |
| D($ln$TVT,2) | 4.252783 | 0.644444 | 6.599152 | 0.0000 |
| D($ln$TVT(-1),2) | 2.194763 | 0.735920 | 2.982339 | 0.0065 |
| ECM(-1) | -1.633429 | 0.222188 | -7.351561 | 0.0000 |

| | |
|---|---|
| R-Squared | 0.883746 |
| Adjusted R-Squared | 0.844995 |
| Durbin-Watson | 1.996151 |
| F-Statistic | 22.80554 |
| Prob (E-Statistic) | 0.000000 |
| Schwarz Criterion | 2.135798 |

Source: Computed from data (2014) in Appendix 9
The table12 above shows the parsimonious error correction model which is determined when the insignificant variables have been excluded. However, on comparison of the result with that of the initial over parameterized based on the Schwarz criterion, overall significance of the model and speed of adjustment, parsimonious error correction model is therefore accepted as the error correction model upon the study relies. From the model, the associated coefficient of the ECM is negative; this indicates a feedback of approximately 163.3 percent of the previous year's disequilibrium. Also the equation specified above states that changes in the growth of Nigerian economy as captured in the GDP depends on changes in the variables in the model as well as the model is out of equilibrium. However, the term is expected to be negative and it was in order to correct the disequilibrium in the model and hence, some changes in Gross Capital Formation (GCF), Broad Money Supply (MS2), Stock Market Capitalization (SMC), total Value traded Ratio (TVT), and turnover ratio (TOR) are all necessary to restore the affected equilibrium. Moreover, the speed of adjustment of disequilibrium to equilibrium is measured by the absolute value of the error correction term (ECM(-1)) which is about 163%. This implies that about 163 percent of short run errors is being corrected and also incorporated into long run equilibrium relationships. The speed of adjustment is very high as depicted by the error correction term of 1.63429. This implies that before one year elapses, all the errors in the short run would have been corrected and streamlined into relationships in the long run equilibrium.

**Summary/Conclusion**
The main focus of the study was to investigate the impact of stock market development and economic growth in Nigeria using time series data which cover the period between 1970 and 2008. The study empirically investigated and confirmed the existence of long run relationship between stock market development and economic growth and also assesses the investors' confidence in the Nigeria Stock Exchange. For the establishment of this long run relationship between stock market development and economic growth, co-integration Analysis and Error Correction Model (ECM) approaches were used as method of analysis. As well, descriptive statistics which involved the use of table, frequency and percentages were used to assess investors' confidence. The conclusion from the survey type is that there is loss of confidence on the part of most investors as a result of huge loss they have suffered in the recent time which is attributed to lapses on the part of regulatory institution of stock market and lack of good corporate governance. Global financial crisis in 2007 also contributed greatly to this loss. The empirical study found that stock market capitalization is the major determinants of stock market indicators that promoted economic growth in Nigeria because there is a long positive relationship between stock market capitalization and gross domestic product and at the same time, the indictor is robust and statistically significant. There is negative relationship between the value of share traded and turnover ratio (market liquidity) and the Gross

 

Domestic Product which inferred that market liquidity is not effective measure of stock indicators. There is long run inverse and insignificant relationship between gross capital formation and Gross Domestic Product which resulted to low investment in the market.

**Policy Recommendations**

Based on the finding from this study, the following recommendations are suggested. The first and foremost task in increasing the demand for securities is for stock exchange Market to embark on public enlightenment programmes such as lectures, symposia, workshops and seminars in order to sensitize the public on the roles of the stock market and benefits they stand to gain in availing themselves of these opportunities. There is an urgent and rising need to enhance investors confidence in order to fuel stock market gain by putting in place the regulating environment that enjoyed the confidence of investors, operators and all the users of the capital market regulation. Again, these capital market regulations must be fair, with sensible rules that are clear and enforceable. Unstable and inconsistent policies may undermine investors' confidence. Therefore, the Nigeria government should give priority to stock market development by formulating effective monetary and fiscal policy management and indeed a stable macroeconomic environment. The dissemination of market information is another integral part of securities market development. Since the competition among developing countries to attract foreign capital is very intense, there is a need to make relentless efforts to disseminate information to potential investors abroad.

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