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The Impact of Capital Market on the Nigerian Economy

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Abstract
This research is on the impact of the Nigerian capital market on the Nigerian economy. The study seeks to determine the trend of capital market over the years, examine the relationship between capital market and economic growth, and to proffer recommendations based on the research findings. The secondary data source was used for this study regression analysis and correlation analyses were used to present the data and 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 (export plus import divided by GDP) 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 policy implication of this is that gross capital formation and openness are veritable variables that will have impact on the Nigerian economy growth and development (GDP being used as a proxy for economic growth).
Keywords: Capital market, Gross Domestic Product, Gross capital formation, Foreign Direct Investment

1. Background to study

The capital market is the 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. 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 (Okereke-Onyiuke,2008).

In the absence of capital market, industrial growth would be hampered, as the money market is not designed to provide such funds. The availability of the secondary market such as the stock market for instance 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 (Okereke-Onyiuke, 2008).

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.

Generally, the performance of any economy is dependent largely to the efficient performance of its financial markets (Capital market and Money market), since they 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 (Onosode, 1998).

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. Perhaps, the single 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 (Patrick, 2005). Thus, lack of adequate financial resources in an economy could affect every economic segment- the government, business and household sectors- and may invariably impact negatively on the political and social stability of any country. It is obvious therefore that finance is an essential ingredient in the stimulation of economic growth and

development.

1.1 Problem Statement

The linkage between capital market performance and economic growth has often generated strong controversy among analysts based on their study of developed and emerging markets (Onosode; 1998 and Osinubi; 1998). The determination of the growth of an economy depends on how efficiently the capital market performs its allocative function of capital. As the stock market mobilizes savings, concurrently it allocates a larger proportion of it to the firms with relatively high prospects as indicated by its rate of returns and level of risks (Alile, 1997).

Previous research conducted by researchers' shows that the capital formation through the instrumentality of the capital market is germane to the growth and survival of any economy; therefore it is of utmost importance to examine the impact of the Nigerian capital market on the economic development of Nigeria (Alile, 1997). In light of the above mentioned facts, the question now is, to what extent Nigerian capital market has fulfilled the above developmental objectives. The broad objective of this study is to therefore examine the impact of capital market on the Nigerian economy and specifically, to: show the trend of capital market over the years, determine the relationships between capital market and economic growth (GDP as proxy) and proffer recommendations based on the research findings.

1.2 Justification of the Study

Foreign investors, Corporate bodies, small and medium scale enterprises as well as individual investors who intend to explore the Nigerian Capital market will definitely find this research findings relevant and useful in charting a new course in their endeavour to either raise fund or invest in the Nigerian capital market. Also the nation at large will equally benefit from this research findings in the area of policy guide on the performance of Nigeria capital market with a view to enhancing the economy. This study therefore tests the following hypotheses:

1. H_O: - The Capital market does not enhance economic growth
   H_1:- The Capital market enhances economic growth

2. Review of Literatures

2.1 Capital formation in Nigeria Capital Market

The Nigeria stock exchange symbolizes the existence of formal capital market in Nigeria, while the Securities and Exchange Commission is the apex regulator of the market. The Exchange evolved from an understanding that a viable capital market could be relied upon to finance industrial growth and development projects. Other considerations by government for supporting the business community in establishing the Exchange included the need to finance growing public budget deficits and deteriorating balance of payments, both manifesting from the late 1950s.

Thus, between 1961 when The Exchange opened to the public and 2002, the Federal Government at various times used the facilities of the market to raise a total sum of money in excess of 10 billion for on-lending to the regional and, later state government for the financing of development projects.

With the Federal Government approval of the recommendation of the Committee on the 1976 Review of Nigerian Financial System, that state government can, on their own, approach the capital market for the financing of their capital projects.

Bonds are financial instruments through which the capital market provides long-term debt financing to companies and government. Bonds or industrial loans provide alternative to equity as investment outlet in the capital market. By 1986 bonds constituted 60% of the NSE market capitalization, as at that year, the Federal Government had raised approximately N10 billion.

The equity sector of our capital market experienced increased activities over the years. The market witnessed increase in new listings from the banks, and insurance companies as well as other companies which raised fund through private placement and listed by introduction. The banking consolidation which required banks to increase share capital from N2 billion to N25 billion and another round of consolidation which made some of them to increase shareholders funds to over N100 billion contributed immensely to market capitalization. By March 2008, market capitalization was in excess N12 trillion while the NSE all share index exceeded 62,000 points.

One of the lessons from the banking consolidation is the absorptive capacity of our capital market which stood the test in meeting issuers' aspirations of raising huge funds from the market. The market also provided a platform for the subsequent acquisition/merger that ensued. What all these symbolized is the efficiency of the Nigerian capital market.

Another aspect of the market that is worthy of mentioning is the role of the investors, individual and institutional, local and foreign, in the mobilization of funds in the market. The increasing numbers of shareholders' associations have helped to create more awareness of capital market investment among individual Nigerians.

Leaders of these associations play great role in mobilizing their members to subscribe to new issues that were coming in quick succession in the market.

The enactment of the 2004 Pensions Reforms Act and the subsequent licensing of about 25 Pension Fund Administrators (PFAs) and 6 Pensions Funds Custodians have resulted in the mobilization of a large pool of funds for the market. The activities of PFAs have undoubtedly impacted positively in Nigerian bonds market and boosted equities trading on The Nigerian Stock Exchange. Currently, total funds under management by these PFAs is in excess of N1 trillion.

Until 1995, the Nigerian Capital Market was a closed market reserved exclusively to local participants. That year, the Federal Government as part of its reform programme, opened the market to foreign investors by abrogating the Exchange Control Act of 1962 and Nigerian Enterprises Promotion Act of 1989. These acts have expanded our market place, assisted in attracting foreign investment capital as supplement to our capital market either as operators or investors, or both.

The internationalization of the Nigerian Capital Market has witnessed the listing of foreign companies – M-Net/Super Sports of South Africa, Ecobank Transnational Incorporated and Pinnacle Point Group. Nigerian companies have also on other markets. Oando listed on South Africa Exchange while Guaranty Trust Bank Plc and Diamond Bank Plc listed their Global Depository Receipts (GDRs) on the London Stock Exchange (Nigerian Stock Exchange Factbook).

2.2 Theories of Capital Markets

2.2.1 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

2.2.2 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 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.

2.3 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 assets 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 (β) 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.

2.4 Theoretical and Empirical Review

Capital market is defined as the market where medium to long-term finance can be raised (Akingbohungbe, 1996). In another exposition, Ekezie (2002) noted that capital market is the market for dealings (i.e. lending and borrowing) in longer-term loanable funds. Mbat (2001) described it as a forum through which long-term funds are made available by the surplus to the deficit economic units. It must, however, be noted that although all the surplus economic units have access to the capital market, not all the deficit economic units have the same easy access to it. The restriction on the part of the borrowers is meant to enforce the security of the funds provided by the lenders. In order to ensure that lenders are not subjected to undue risks, borrowers in the capital market need to satisfy certain basic requirement, it has very profound implication for socio-economic development of any nation. Companies can finance their operations by raising funds through issuing equity (ownership) or debenture/bond borrowed as securities. Equities have perpetual life while bond/debenture issues are structured to mature in periods of years varying from the medium to the long-term of usually between five and twenty-five years.
Capital market offers access to a variety of financial instruments that enable economic agents to pool, price, and

exchange risk. Through assets with attractive yields, liquidity and risk characteristics, it encourages savings in financial form. This is very essential for government and other institutions in need of long-term funds and for suppliers of long-term funds (Nwankwo, 1991).

Based on its importance in accelerating economic growth and development, government of most nations tends to have keen interest in the performance of its capital market. The concern is for sustained confidence in the market and for a strong investor's protection arrangement. Nigeria Securities and Exchange Commission (NSEC) is the government agency responsible for developing and regulating the Nigeria capital market. It was created by Act No. 71 of 1979 and re-acted as Securities and Exchange Commission Decree No. 29 of 1988. The NSEC purses its objectives by registering all market operators based on capital adequacy, competence and solvency as criteria.

Economic growth is generally agreed to indicate development of an economy, because it transforms a country from a five percent saver to a fifteen percent saver. Thus, it is argued that for capital market to contribute to economic growth and development 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.

The theoretical explanation on the nexus between capital market and economic growth is further expanciated using Efficient Market Hypothesis (EMH) developed by Fama in 1965. According to EMH, financial markets are efficient 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 (Lo, 1991).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 (Nagayasu, 2003 and Nyong, 2003). Note that, where the market is highly and unreasonably speculative, investors will be discouraged from parting with their funds for fear of incurring financial losses. In situations like the one mentioned above, has detrimental effect on economic growth of any country, meaning investors will refuse to invest in financial assets. The implication is that companies cannot raise additional capital for expansion. Thus, it suffices to say that efficiency of the capital market is a necessary condition for growth and development in Nigeria.

Levine and Servos (1996) postulated a strong positive relationship between stock market development and long-run economic growth. Further studies, showed that stock market liquidity plays vital role in the process of economic growth (Mc Kinnon, 1973, and Bencivenga, et al, 1996). Though there are other scholars who share contrary views about the performance of the capital market and its attendant effect on economic growth and development of nations. Emenuga (1998) for instance believed that the stock market is illiquid and blamed the ownership structure in the Nigeria stock market. He concluded that the stock market is small and has few listed companies, low market capitalization and low volume of transactions. Ariyo and Adelegan (2005) contend that, the liberalization of capital market contributes to the growth of the Nigeria capital market, yet its impact at the macro-economy is quite negligible. In another exposition, Gabriel (2002) as enunciated by Nyong (2003) lay emphasis on the Romanian capital market and concluded that the market is inefficient and hence it has not contributed to economic growth in Romania. Which ever school of thought, either for or against capital market as a sine qua non for economic growth all depends on the particular situation the nation is passing through and the prevailing economic indices/determinants. With financial liberalization, many of the East-Asian capital markets like Singapore, Hong Kong and Bangkok have developed over time to the extent that they are presently regarded as international centres of Asia. In contrast the past years saw comparatively little change in the capital market of sub-Saharan Africa including Nigeria.

Levine and Zervos (1996) examines whether there is a strong empirical association between stock market development and long run economic growth. The study used pooled cross-country time-series regression of forty-one countries from 1976 to 1993 to evaluate this association. The study tow the line of Demirgüç and Levine (1996) by conglomerating measures such as stock market size, liquidity, and integration with world markets, into index of stock market development. The growth rate of the Gross Domestic Product (GDP) per capita was regressed on a variety of variables designed to control for initial conditions, political stability, investment in human capital, and macroeconomic conditions; and then include the conglomerated index of stock market development. The finding was that a strong correlation between overall stock market development and long run economic growth exist. This means that the result is consistent with the theories that imply a positive relationship between stock market development and economic growth.

Efforts were also made by Ngong (1997) to develop an aggregate index of capital market development and use it to determine its relationship with long run economic growth in Nigeria. The study employed a time series data from 1970 to 1994. For measures of capital market development the ratio of market capitalization to GDP (in percentage), the ratio of total value of transactions on the main stock exchange to GDP (in percentage), the value

of equities transaction relative to GDP and listings used. The four measures were combined into one overall composite index of capital market using principal component analysis. A measure of financial market depth (which is the ratio of broad money to stock of money to GDP) was also included as control. The result of the study was that capital market development is negatively and significantly correlated with long run growth in Nigeria. The result also showed that there exists bi-directional causality between capital market and economic growth.

3. Data and Methodology

3.1 Study Area

Nigeria, a Republic in West Africa also known as the Republic of Nigeria has a coast along the Atlantic Ocean on the Gulf of Guinea. The country takes its name from its chief river, the River Niger. Until 1991, the capital of the country was the largest city, Lagos, on the south-western coast; at the time, the city of Abuja, in the country's interior, became its capital.

Nigeria has a federal form of government and is divided into 36 states and a federal capital territory. The country's official name is the Federal Republic of Nigeria. Lagos, along the coast is the largest city and the country's economic and cultural centre, but Abuja, a city in the interior planned and built during the 1970s and 1980s, is the capital. The government moved from Lagos to Abuja in 1991 in the hope of creating a national capital where none of the country's ethnic groups would be dominant. The most dominant ethnic groups in Nigeria are; Hausa-Fulani, Igbo and Yoruba.

Nigeria covers an area of 923,768 sq km (356,669 sq mi). At its greatest expanse, it measures about 1,200 km (about 750 mi) from east to west about 1,050 km (about 650 mi) from north to south. Nigeria is bounded by Cameroon to the east, Chad to the northwest, Niger to the north, Benin to the west, and the gulf of guinea on the Atlantic Ocean to the south.

3.2 Sources of Data

This study used data covering 1981 to 2008 mainly from the secondary sources on the Nigerian economy and the Nigerian capital market. The choice of these secondary sources is based on their authenticity and reliability. The sources are the Nigerian Stock Exchange Fact Book, Central Bank of Nigerian statistical and Federal office of statistics. These was used to elicit information market capitalization, total value of domestic shares traded, public capital expenditure, degree of openness (export plus import divided by Real GDP), Real Gross domestic product and foreign direct investment.

3.3 Method of Analysis

The method of data analysis used for this project was the descriptive statistics, regression analysis and correlation analysis. The statistics include the market capitalization, public capital expenditure, total shares traded, foreign direct investment, openness (export plus import divided by GDP) and the Gross Domestic Product which will all be between years 1981-2008. These variables would be used to determine the trend of the capital market over the years and to determine the relationship between capital market and economic growth.

The national accounts form the basis of the economies to be analysed and it is used in conjunction with the aggregate production function. This approach has got a wide application in econometric analysis (for example, Akinlo and Odusola, 2000; Levine and Zervos, 1996; Obstfeld, 1994)

Using a production function approach, it states that the growth rate of output (GDP) is principally determined by the following factors:

The rate of growth in gross labour and/or the rate of growth of its quality,

The rate of growth of gross capital input and/or the rate of growth of its quality multiplied by the capital income share; and

Change in technology or total factor productivity (TFP).

This is given as; g= f (L, K, T)

Where; g= GDP

L=labour

K= capital formation/investment

T= technology

The application of this method, however, has been extended to incorporate other determinants of economic activities such as market capitalization; total value of domestic shares traded; openness; public capital expenditure; gross capital formation and foreign direct investment.

The type of software for the analysis to be used would be E-Views version 3.1 and SPSS version 16.0.

3.4 Model Specification

3.4.1 Implicit Function

GDP= f (MRT CAP, TST, PCE, FDI, OP, GCF)

GDP=Real Gross Domestic Product
MRT CAP- Market Capitalization
PCE- Public Capital Expenditure
OP- openness (proxy by the sum of Export and Imports as a ratio of GDP)
TST- Total Value of Domestic Shares Traded
FDI- Foreign Direct Investment
GCF- Gross Capital Formation

3.4.2 Explicit Function

$GDP= \beta_o + \beta_1 MKT\ CAP + \beta_2 TST + \beta_3 PCE + \beta_4 FDI + \beta_5 OP + \beta_6 GCF + u$

3.4.3 Pearson's Correlation Formula

The formula for correlation is as stated below;

$$r = \frac{\Sigma(X-\bar{X})(Y-\bar{Y})}{\sqrt{\Sigma(X-\bar{X})^2 \Sigma(Y-\bar{Y})^2}}$$

Where; X and Y are independent and dependent variables respectively.

4. Results and Discussion

4.1 Descriptive Statistics

Descriptive statistics involves the use of graphs to show the trends of all the variables used in this research. It is used to achieve the first objective of this project which is to describe the trend of capital market over the years under study (1981- 2008).

4.4.1 Market Capitalization (1981 – 2008)

Figure 1 shows the trend of market capitalization over the years. The y-axis shows the market capitalization values and the x-axis shows the years under study and it shows that market capitalization has been relatively constant between 1981 and 1992. Between 1993 and 2003 there was a gradual increase in the capitalization but it rose sharply in 2004 and started declining in 2008.

4.1.2 Total Value of Domestic Shares Traded (1981-2008)

figure 2 shows the trends of the total value of domestic shares traded between 1981 and 2008. The y-axis indicates the total shares traded while the x-axis indicates the number of years. The graph shows a sharp rise in the value of shares traded between 2005 and 2008.

4.1.3 Gross Domestic Product (1981-2008)

Figure 3 above shows that the real gross domestic product has been rising gradually from 1985 and then rose faster between years 2000 to 2008. The y-axis is the Real GDP (in Million Naira) and the x-axis shows the years. This means that RGDP has being rising with reference to the years under study.

4.2 Regression Analysis

The regression analysis was considered using the E-Views version 3.1 for all the variables from 1981-2008. The linear regression analysis was chosen to as lead equation and the best to use in interpreting the variables based on econometrics criteria. This tool of analysis shows the relationship between the dependent and the independent variables.

The regression result shows that R^2 is equal to 0.963988 or 96%. This implies that about 96% of the total variation in Real GDP is explained by the explanatory variable (MKT CAP, PCE, OPENESS, TST, GCF and FDI).

The result also shows that there is a negative relationship between Public Capital Expenditure and Real GDP, and Total Shares Traded and Real GDP. This implies that for a unit increase in these variables, there will be a 0.033833 and 4.20E-09 decrease in Real GDP respectively.

Also, from the equation, there is a positive relationship between openness, foreign direct investment expenditure, gross capital expenditure, market capitalization and Real GDP. This means that a unit increase in these variables will lead to 13931.67, 8.87E-05, 0.744263 and in Real GDP respectively.

F-statistics is used to determine the overall significance of the regression model that is to determine the extent to which the variations in the independent variables (PCE, OPENESS, TST, GCF and FDI) can be attributed to the changes in the dependent variable (RGDP). The F statistics value is 0.0000 shows the significance of the model at 1% level of probability. Hence, we can conclude that the relationship between the dependent and independent variables are significant, and the changes in Real GDP can be attributed to the changes in the independent variables (market capitalization, openness, total shares traded, public capital expenditure gross capital formation, and foreign direct investment).

Durbin Watson statistics shows the serial correlation between the variables considered. The D.W value at 1.05 shows that there is a positive first order correlation between the variables considered.

RGDP=217096+3.921CAP-0.034PCE-4.20E-09TST+8.87E-05FDI+13931.7OP+0.744GCF+u
(8527.5) (8.251) (0.0835) (4.44E-08) (0.0085) (3678.8)* (0.916) *
*-Significant at 1% level of probability
R^2 =0.963988 or 96%
Adjusted R^2 =0.925514
F-Ratio =93.69115
Durbin-Watson Stat =1.044820

4.3 Correlation matrix

The results of table 2 show the correlation between the RGDP and macro economic variables. The value of correlation ranges between 0 and 1. Hence, as the value moves towards 1, it shows a strong relationship between the dependent variable and independent variable.

The correlation analysis of table 2 shows a strong positive correlation (.0816) between RGDP and market capitalization. The level of significance is at 1% (**). Also Public capital expenditure, openness, total shares traded, and foreign direct investment are all positively related to GDP at 0.903, 0.966, 0.740 and 0.751 respectively. And all these variables are equally significant at 1% (0.01) level of probability. This implies that all the above mentioned variables contribute to economic growth (RGDP as proxy for economic growth).

4.4 Summary of findings

The study is on "The impact of capital markets on the Nigerian economy". The summary of the major findings are enumerated below:

The study has been able to discover that there has been a steady rise in the trend of macro economic variables considered i.e. gross domestic product, market capitalization, total shares traded, foreign direct investment, gross capital formation and public capital expenditure.

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 (proxy by the sum of export and import as a ratio of RGDP) 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 policy implication of this is that gross capital formation and openness are veritable variables that will have impact on the Nigerian economy growth and development (GDP being used as a proxy for economic growth).

5.0 Conclusion

The use of some notable capital market development indicators, the relationship between capital market development and economic growth was found to be positive. The study therefore shows openness and gross capital formation was effective in capital formation and instrumental to economic growth and development of Nigeria.

The study therefore concludes that the Nigerian capital market promotes economic growth is not in doubt. It serves as an important mechanism for effective and efficient mobilization and allocation of savings, a crucial function for an economy desirous of economic growth. The study therefore recommends: The Nigerian capital market has a bright prospect given the recent policy direction especially the abrogation of all laws that hitherto hamper its effective and efficient functioning, Also, the improvement in the infrastructural facilities in the market in line with what obtains in the developed market. Moreso, for a significant growth, the focus of the policy of government should be on measures to promote growth in the capital market and it is pertinent to recommend that there should be sustained effort to stimulate productivity in both the public and private sectors.

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Table 1: List of Year 2008 most active Stocks (by Turnover Ratio)

1	Investment & Allied Assurance Plc	26.74Billion Shares
2	Universal Insurance Co. Plc	12.4 Billion shares
3	Spring Bank Plc	8.3 billion shares
4	Lasaco Assurance Plc	5.4 billion shares
5	Intercontinental Bank Plc	5.32 billion shares
6	Transnational Corporation on Nigeria Plc	5.16 billion shares
7	Fidelity Bank Plc	5.15 billion shares
8	Equity Assurance Plc	4.9 billion shares
9	Afribank Nigeria Plc	4.83 billion shares
10	Access Bank Plc	4.8 billion shares
11	Oceanic Bank International Plc	4.8 billion shares
12	First Bank of Nigeria Plc	4.74 billion shares
13	NEM Insurance Plc	4.4 billion shares
14	First City Monument Bank Plc	4.3 billion shares
15	United Bank of Africa Plc	4 billion shares
16	First inland Bank Plc	3.61 billion shares
17	Continental Reinsurance Plc	3.6 billion shares
18	Guaranty Trust Bank Plc	3.2 billion shares
19	Bank PHB Plc	3.14 billion shares
20	Mutual Benefit Assurance Plc	3.1 billion shares

Source: The Nigerian Stock Exchange Factbook, 2008

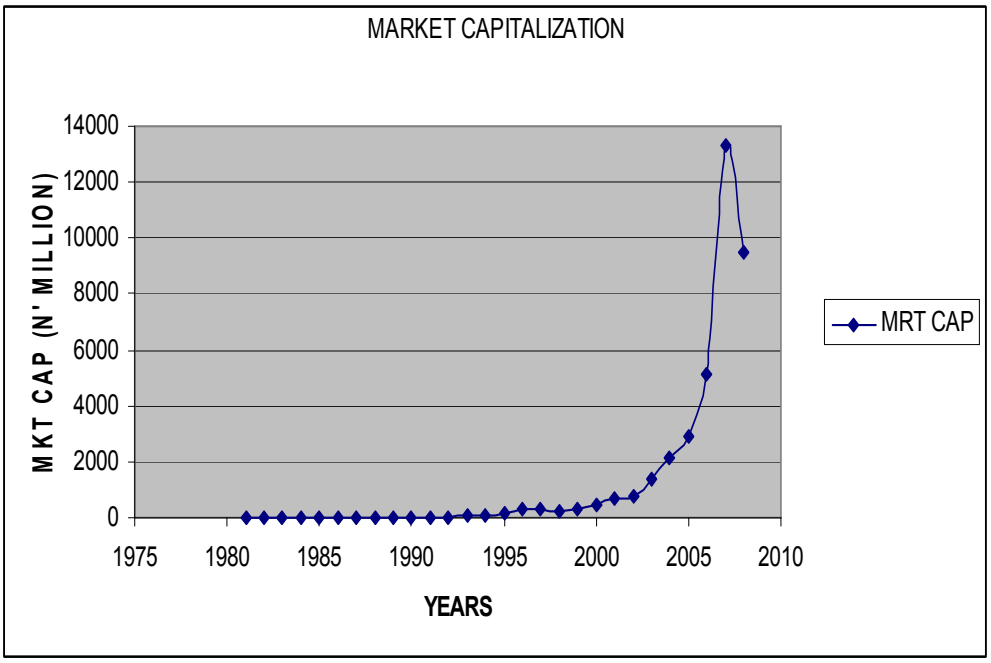

Figure 1: Trend of market capitalization between 1981 and 2008

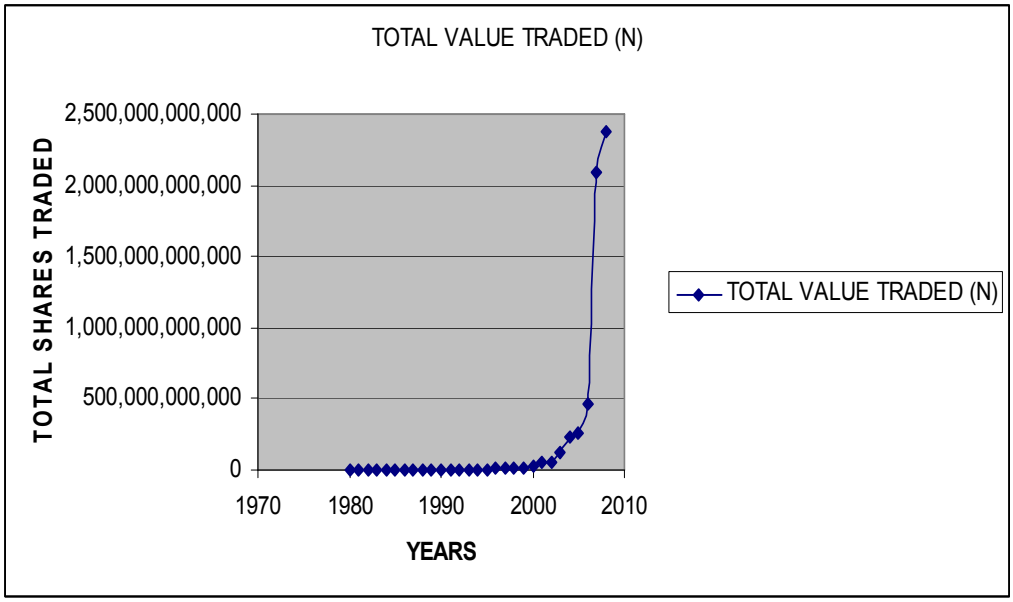

Figure 2: Trend of the total value of domestic shares traded between 1981 and 2008

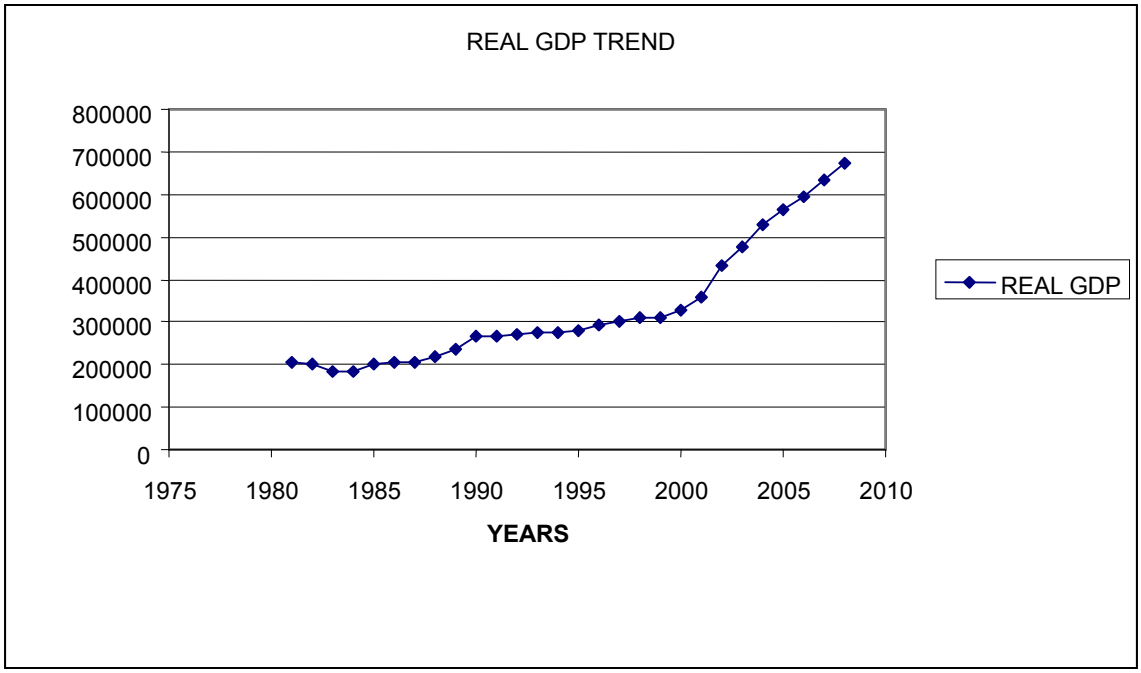

Figure 3: Trend of Real gross domestic product between 1981 and 2008

Table 2: Correlation matrix of Rgdp and macro economic variables

		RGDP	CAP	PCE	OP	TST	FDI
RGDP	Pearson Correlation	1	.816**	.903**	.966**	.740**	.751**
	Sig. (2-tailed)		.000	.000	.000	.000	.000
	N	28	28	28	28	28	28
CAP	Pearson Correlation	.816**	1	.815**	.817**	.954**	.939**
	Sig. (2-tailed)	.000		.000	.000	.000	.000
	N	28	28	28	28	28	28
PCE	Pearson Correlation	.903**	.815**	1	.948**	.790**	.790**
	Sig. (2-tailed)	.000	.000		.000	.000	.000
	N	28	28	28	28	28	28
OP	Pearson Correlation	.966**	.817**	.948**	1	.751**	.766**
	Sig. (2-tailed)	.000	.000	.000		.000	.000
	N	28	28	28	28	28	28
TST	Pearson Correlation	.740**	.954**	.790**	.751**	1	.952**
	Sig. (2-tailed)	.000	.000	.000	.000		.000
	N	28	28	28	28	28	28
FDI	Pearson Correlation	.751**	.939**	.790**	.766**	.952**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	28	28	28	28	28	28

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Data Analysis 2010