CAPITAL MARKET AS A TOOL FOR ECONOMIC GROWTH IN NIGERIA

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DECLARATION

I hereby declare that this project has been written by me and it is a report of my research work. It has not been presented in any previous application for state diploma or degree. All quotations are indicated and sources of information specifically acknowledged by means of references.

4/6/2016

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CERTIFICATION

This project entitled "Capital Market as a Tool for Economic Growth in Nigeria". Meets regulations governing the award of Master Degree (MBA), of the School of Post Graduate Studies of Nasarawa State University, Keffi, for its contributions to knowledge and literary presentation.

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DEDICATION

This research project is dedicated to Almighty Allah and to my one and only daughter late Fatima Binta Yakubu.

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ABSTRACT

This study seeks to examine the impact of the Nigerian capital market as a tool for economic growth, from the period 2000-2014. The economic growth was proxied by Gross Domestic (MCAP, Number of Deals HVOD), Number of Listed securities (NOL, and Value of Transactions (VOT). Data were collected from The Nigeria Stock Exchange for the period and were analyzed using the ordinary least square multiple regression and descriptive statistics. The findings indicate that economic growth is significantly influenced by MCAP, VOT and NOD. The only factor that does not significantly influence economic growth is NOL. This is a clear indication that the capital market is really a tool for economic growth of the country. The evidence from this study reveals that the activities in the capital market tend to impact positively on the economy. It is recommended therefore, that the regulatory authority should initiate policies that would encourage more companies to access the market and also be more proactive in their surveillance role in order to check sharp practices which undermine market integrity and increase investor's confidence.

TABLE OF CONTENTS

Contents Page

CHAPTER ONE

INTRODUCTION

CHAPTER TWO

LITERATURE REVIEW

CHAPTER THREE

RESEARCH METHODOLOGY

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

CHAPTER FIVE

SUMMARY, CONCLUTION AND RECOMMENDATIONS

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The capital market is the prime tool that drives any economy on its path to growth and development because it is responsible for long term growth and capital formation by issuing of funds for long term investment, ensure an efficient and effective allocation of scarce resources for optimal benefits to the economy, reduce over reliance of the corporate sector on short term financing for long term projects and encourage inflow of foreign capital (Gaumnitz,1995). The money market only complements the capital market by providing the necessary working capital to support gross fixed capital formation. These depend on the level or the development of capital market (Alile 1997). One of the major indicators of capital market development is the proportion of long term fixed capital that is raise in relation to the gross domestic product. For instance between 1999 and 2004, capital formation in terms of long term funds raised from the market through new securities to the gross domestic product averages only 1.36% while between 2005 and 2010 the new issues to gross fixed capital formation averages 16.0 % . Finally, between 2011 and 2014, the new issues to gross fixed capital formation average 18.4%. Market capitalization to domestic product also averagesonly 14.25% during the same period. It is therefore not surprising that the Nigerian economy has only been growing at an average of 6.8% per annum over the same period (Soyode, 2011). According to Josiah, Adeinran and Akpeti,(2012) most of the funds raised in Nigeria have been on short term basis from the money market and these are not growth funds.

Mobilization of resources for national development has long been the central focus of development economists. As a result of this, the centrality of savings and investment in economic growth has been given considerable attention in the literature (Rostow, 1960; Malivaud, 1979; Soyode, 1990; Aigbokans, 1995; Samuel, 1996; Demirguc-Kunt and Levine, 1996).

To enhance growth and development, funds must be effectively mobilized and allocated to enable businesses and the economy harnessed their human, material and management resources for optimal output. The capital market is an economic institution, which promotes efficiency in capital formation and allocation. It enables government and industry to raise long-term capital for financing new project, and expanding and modernizing industrial/commercial concerns. If capital resources are not provided to those economic areas, especially industries where demand is growing and which are capable of increasing production and productivity, the rate of expansion of the economy often suffers.{Samuel, 1996).

A unique benefit of the capital market to corporate entities is the provision of long-term, non-debt financial capital. through the issuance of equity securities, companies acquire perpetual capital for development. Through the provision of equity capital, the market also enables companies to avoid over-reliance on debt financing, thus improving corporate debt-to-equity ratio. The existing literature clearly shows that developed economies had explored the two channels through which resources mobilization affects economic growth and development - money and capital market Samuel, 1996, Demirguc-Kunt and Levine, 1996). This is however, not the case in developing economies where emphases have been placed on money market with little consideration for capital market (Nyong, 1997).

Since the introduction of recapitalization of the banking sector in Nigeria, the country's capital market has grown very significantly (Alile, 2009 &SoYode, 2011).

This is as result of deregulation of the financial sector and the privatization exercise, which exposed investors and companies to the significance of the stock market. Equity financing became one of the cheapest and flexible sources of finance from the capital market and remain a critical element in the sustainable development of the economy (Okereke-Onyiuke, 2010).

Though capital market is growing, it is however characterized by complexities. The complexities arise from trends in globalization and increased variety of new instruments being traded: equity options, derivatives of various forms, index futures etc. However, the central objectives of the efficient market with attendant benefit of economic growth (Alile, 2007).

The link between capital market performance and economic growth has often generated strong controversy among analysts based on their study of developed and emerging markets (Samuel,l996; Obadan, 1998; Onosode,1998; Emenuga,l998; &Osinubi, 1998).

According to Nyong (1997) the financial structure of a firm, that is, the mix of debt and equity financing, changes as economics develop. The tilt is however, more towards equity financial through the stock market. As economies develop, more funds are needed to meet the rapid expansion.

The stock market serves as a veritable tool in the mobilization and allocation of 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 efficiently the capital market performs its allocation functions 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 risk. The importance of this function is that capital resources are channeled by the mechanism of the forces of demand and supply to those firms with relatively high and increasing productively thus enhancing economic expansion and growth (Alile, 1997). Given that the stock market provides some services that ginger economic growth, this study, therefore, empirically investigates whether the capital market promotes economic growth in Nigeria using ordinary least square method of analysis on secondary data covering the period 2000-2014.

1.2 Statement of Problem

The impact of the capital market on the growth and development of the economy has not been sufficiently felt (Babalola, 2007) as a result of some factors such as small size of the market, problem of illiquidity of the market, slow growth of securities market, lack of effectives underwriting, problem of macro-economic instability among others. Also many criticisms have been leveled against the capital market's inability to serve the purpose of which it was established (Patdonwa, 2010).

However, Osaze (2000), Ekundayo (2000), Oyefusis and Mogbolu (2003), Quaking (2005), and Adelegan (2005) argue that capital market can enhance economic growth of any nation. According to Angahar and Lorper (2012) for Nigeria to attain the vision 2020 of being one of the largest economies in the world, in order to enhance economic growth and development the capital market must contribute significantly to economic growth.

It is against this background that this study seeks to empirically investigate to what extent has the Nigeria capital market efficiently impacted on the economic growth of Nigeria?

1.3 Research Questions

Based on the prior stated objectives of this research, the following research questions have been developed:

I. To what extent has market capitalization influence the economic growth of Nigeria?

II. To what extent has the number of listed securities influence the economic growth of Nigeria?

III. To what extent has the number of deals impacted on the economic growth of Nigeria?

IV. To what extent has the value of transaction impacted on the economic growth of Nigeria?

1.4 Objectives of the Study

The aim of the study is to find out to what extent the capital market has helped as a prime instrument for economic growth in Nigeria.

The objectives of the study include:

I. To examine the impact of market capitalization on economic growth in Nigeria

II. To examine the impact of number of listed security on economic growth in Nigeria

III. To examine the impact of deals on economic growth in Nigeria

IV. To examine the impact of value of transaction (both government and other securities) on economic growth in Nigeria.

1.5 Statement of Hypothesis

The hypothesis tested in this study will be stated in null form.

The following hypotheses will be tested in the course of this research project.

H01: Market capitalization rate does not significantly influence the economic growth of Nigeria

H01: Number of listed securities does not significantly influence the economic growth of Nigeria

H03: Value of transactions does not significantly influence the economic growth of

Nigeria

H04: Number of deals does not significantly influence the economic growth of Nigeria

1.6 Significances of the Study

This study will in small measure serve as a guide towards improving knowledge about the performance and effect of the capital market on economic growth of Nigeria. For policy markers, this research will highlight and recommend feasible, practicable andworkable solution to problems associated with capital market; this will go a long way in achieving the desire economic development. This research work, when successfully completed will be of a good reading material and could also be useful for subsequent research in this field.

1.7 Scope and Limitations of the Study

The scope of this research work will be limited to the impact of the capital market on the economic growth of Nigeria spanning from 2000-2014. The period under review was the era where the financial crises hit the global market and Nigeria inclusive. The period is also under a democratic setting, where the political and economic environment is relatively favourable for business.

Every method of data collection and analysis has its inherent weaknesses, but it is left for the researcher to minimize them.

One limitation of the methodology comes from the use of secondary data as a source of data and method in the collecting data. This method provides little or no room for the correction of errors.

Another limitation of the methodology is the nature of the research work itself consist of new concepts and findings which information on them are released day after day and all variables are subject to change in the long run, the limitation of using simple and multiply regression analysis is that it assumes that past relationship can be validly projected into the future however the relationship between the dependent and independent variables established is only valid across the relevant range.

Furthermore the model equation are only estimations of the independent value, the researcher cannot possibly account for every factor that goes into independent value, there will always be some errors (either pure error or lack of fit error) in the regression model.

Despite all these weakness the researcher tried her best to reduce them to the barest minimum by making sure all secondary data are collected from reliable sources.

The researcher also made use of SPSS version 16 for windows application software to run the regression model for -a more reliable result so that the findings will meet all academic standard and the empirical realities required.

1.8 Definition of the Terms

Gross Domestic Product

This is the totality of good and services produced in Nigeria without regards to weather income generated during the reference period accrues to or are paid to nationals of foreign countries. GDP is adopted for this research because it is an economic indicator which measures the welfare and Economic performance of a country.

Market Capitalization

This refers to the total market value of the tradable shares or equity in publicity traded entity. It also refers to the value of all listed securities based on their market prices. It can be used as a proxy for the public opinion of a company's net worth and a determining factor in some forms of stock valuation. Market capitalization is adopted for this research because it represents the public consensus on the value of a company's equity.

Number of listed securities

This is the total number of corporate bodies that have issued shares to the investing public duly approved by SEC and traded on the floor of the stock exchange. Number of listed securities is adopted for this research because it represents the total number of securities being traded on the floor of the Nigerian stock exchange.

Value of transaction

This is the total monetary value, price paid, payable for an agreement or transaction carried out between two or more individuals, companies or entities over any form of security in the Nigerian stock exchange at the time of that transaction. Value of transaction is adopted for this study because it adequately measures the aggregate value of transaction taking place on the floor of the Nigerian stock exchange.

Number of deals

As the name implies it refers to the total transactions that took place in the capital market at a given period. Number of deals is adopted for this research because it represents the total number of deals that is being traded on the floor of the Nigerian stock exchange.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter seeks to review the works of scholars who has written on the topic and to effectively explain the conceptual and theoretical frameworks of the impact of capital market on economic growth.

2.2 Conceptual Framework of the Capital Market

The capital market is basically a framework for exchange. In traditional Africa and in most other societies markets have precise locations, and trading activities take place at precise times. The capital market is not really a market in the traditional sense. The capital market is the fulcrum for capital market activities and it is often cited as a barometer of business direction ,an active stock market may be relied upon to measure change in the general economic activities using stock market index(Obadan,l995).

To Gaumnitz et al, (1995) capital market is a complex of institutions and mechanisms through which intermediate funds and long term funds are pooled and made available to business, government, and individuals already outstanding are transferred. Capital market is defined as the market where medium to long-term finance can be raised (Akingbohungbe, 1996).

Capital market according to (Nyong,l997) is a complex institution imbued with inherent mechanism through which long-term funds of the major sector of the economy comprise households, firms and government are mobilized, harnessed and made available to sectors of the economy(Anyaanwu,l997) asserted that "capital market is a market for the mobilization and utilization of long-term funds for development". The instruments traded in the market are government securities, corporate bonds and shares (stocks).

Capital market offers a variety of financial instruments that enable economic agents to pool, price and exchange risk characteristics, it encourages saving in financial form. This is very essential for government and other institutions in need of long-term funds (Nwankwo, 1999).

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. In another exposition, Ekezie, (2002) noted that capital market is the market for dealings (i.e. lending and borrowing) in longer-term loan able funds. Nzotta (2002) argue that the stock market is a formal market for trading in stocks and shares, bonds or debentures and other long term securities. The market is accessible to all categories of investors and has various participants. It provides liquidity for all securities issued by various corporate concern and the government.

The stock market is a market is a market for sourcing of medium and long-term funds by both the government and private sector of the economy. The strategic role of the stock market in the allocation of scare financial resources for rapid economic growth and development of any nation is well documented (Okaro, 2005).

According to Al-Faki, (2006), the capital market is a network of specialized financial institutions, series of mechanism, processes and infrastructure that, in various ways facilitate the bringing together of suppliers and users of medium to long-term capital for investment in economic development project. The principal actors in the complex institution that play one role or the other in the transfer of funds from saver to users included the stock exchange, securities and exchange commission, registrars, issuing houses, stock brokers, underwriters etc.

2.2.1 The Role of Capital Market

According to Al-Faki, (2006), the capital market is a "network of specialized financial institution, series of mechanisms, processes and infrastructure that, in various ways, facilitate the bringing together of suppliers and users of medium to long-term capital for investment in socio-economic development project". The capital market is divided into primary and the secondary market. The primary market or the new issues market provides the avenue through which government and corporate bodies raise fresh funds through the issuance of securities which is subscribed to by the general public or a selected group of investors. The secondary market provides an avenue for sale and purchase of existing securities. Sule and Momoh (2009) found that the secondary market activities have impacted more in Nigeria per capita income by tending to grow market earnings through wealth than the primary market. The roles of the capital market in the development of the economy include:

(1) It provides opportunities for companies to borrow funds needed for long-term investment purpose.

(2) It provides avenue for the marketing of shares and other securities in order to raise fresh funds for expansion of operation leading to increase in output/production.

(3) It provides a means of allocating the nations real and financial resources between various industries and companies. Through the capital formation and allocation mechanism the capital market ensures an efficient and effective distribution of the scarce resources for the optimal benefit to the economy.

(4) It reduces the over reliance of the corporate sector on short term financing for long term projects and also provides opportunities for government to finance projects aimed at providing essential amenities for socio-economic development.

(5) The capital market can aid the government in its privatization programme by offering her shares in the public enterprises to members of the public through the stock exchange.

(6) The capital market also encourages the inflow of foreign capital when foreign companies or investors invest in domestic securities, provides needed money for creative capital development and acts as a reliable medium for broadening the ownership base of family-owned and dominated firms.

2.2.2 Contribution of the Capital Market to Socio-Economic Development of Nigeria.

The capital market is very vital to the growth, development and strength of any country because it supports government corporate initiatives, finance the exploitation of new ideas and facilitates the management of financial risk. The rate of economic growth has been inexorably linked to the sophistication of the financial market and capital market efficiency.

Both markets facilitate the mobilization and channeling of funds are used for the pursuit of socio-economic growth and development without being idle (Akinbohungbe 1996; Adebiyi2005) from 1961, the Nigerian capital market has growth tremendously, particularly during the periods of the indigenization decrees of 1972 and 1977. The securities increased from 8 in 1961 to about 301 in 2008. Over the years, the Nigerian capital market has witnessed relatively stability and also recorded impressive growth. This has positioned it to positively impact the economy. There is clear evidence that the capital market remained an important source of capital for the nation's economic development in financing infrastructural projects, the privatization programme of the government and banking sector recapitalization in

Nigeria. Sule and Momoh (2009) conclude that the recent consolidation exercise of major financial institutions and privatization exercise of most publicly owned enterprises are key indications of government faith in the capital market to drive growth of the Nigeria economy.

2.2.3 Financing Government's Infrastructural Projects

The capital market has been a viable source of financing state and local government infrastructural projects and developmental strides with less pressure and lean on resources.

The first state to use the capital market was the deficit Bendel state which issued a ten year N20 million 7% Bendel state of Nigeria loan stock in 1978. The maturity was in 1988 (okereke-Onyiuke 2000). The issue was to finance a housing project. Ogun state went to the market in 1986 to rise a N15 million 12% First Ogun State Government Loan Stock with a maturity date of 1996. The bond was issued to finance the construction of a water project in Abeokuta. The Lagos State Government accessed the market in 1987 and 1988 with two branches of its revenue bond for the development of the first and second phase of the Lekkipeninsula. The first tranche was N30 million while the second tranche was N60 million or an aggregate of N90 million raised by the Lagos state Government. Oyo State Government raised 16.5% N30 billion revenue bond in 1999 to build the Gbagyi market and the Adamasingba complex. Also, the Kaduna state Government raised N30 million each from the market in 1989 and 1993 to finance the development of the Kadia Ginger processing factory.

Edo State Government went to the market to raise the first Edo state 21% N500 million Floating rate revenue bond 2002/2006. It was used to finance the renovation the Samuel Ogbemudia Stadium and other projects. Lagos Island Local Government has also tapped from the capital market of finance a shopping complex, the Sura shopping complex. The bond carried a total amount of N100 million and an interest rate of 24.75% (SEC 2002). Over the years, some states have gone to the capital market to source for funds to finance theirdevelopmental projects. For instance, Yobe state raised 2.5 billion in 2001 to finance urban roads, houses and drainage improvement. Ekiti state raised N4 billion in 2002 to finance the construction and rehabilitation of some of its urban and rural roads, establishment of palm plantation, rural electricity and expansion of water project. Lagos State raised N15 billion in 2003 to refinance short term facilities obtained from banks to funds development projects.

Cross River state raised N4 billion to upgrade and expand Obudu Ranch Resort. AkwaIbomstate raised N6 billion to finance infrastructural development, Delta State raised N5 billion to finance market, Health care, water and education and Edo State raised N1 billion to finance development of Ogba Riverside Housing Estate in 2004. In 2006 Kerb state raised N3.5 billion in financing the Kebbi State University of Science and Technology and Zauro polder irrigation. Lagos

State government issued a bond series in 2008 raising N50 million for refinancing ongoing project and outstanding loans.

In 2009 Imo State raised N18 million to rehabilitate its water scheme, construction of critical roads and equity investment in Imo wonder lake. Kwara State raised N17 billion to finance Kwara State truck plaza, International Aviation Collage, Asa Dam, A new secretariat, Ilorin water distribution project, Agricultural Irrigation support project and Loan re-financing. Niger State also raised N6 billion in 2009 from the capital market to finance there habilitation of roads in Minna metropolis and industrial layout and construction of roads in seven other locations within the state. In 2010 Lagos State, Bayelsa State, Kaduna State, Ebonyi State and Edo State also assessed the market and raised N57 Million, N50 Million, N8.5 Million, N16 Million and N25 Million respectively to finance state project. Lagos State was to finance ongoing projects and outstanding loans, Bayelsa State to finance repayment of existing obligations owed, Kaduna State was to finance Zaria regional water supply, 200 bed specialist hospitals, new government house, Tum-madakiya road, construction of 4th bridge across river Kaduna and Kafanchan campus of Kaduna State University. Ebonyi State was for the repayment of outstanding bank facilities, financing the construction of Ebonyi state international market Abakaliki, Ebonyi State regional water scheme, Ebonyi roads, bridge of unity and Ebonyi rice world project. Edo State was to finance debt obligations and on-going infrastructural projects. Osaze (2000) while bemoaning the low level at which State and local Governments sought funds from the market stressed the capital market could also be a veritable source of funding for the cash-strapped Nigerian universities yet to be harnessed.

Goodluck Jonathan from (2011-2015) completed and ongoing projects. Construction of the new Abuja-Kaduna rail track, development of a satellite for security and minerals deposit, which will be helpful in the area of security, construction of dams, operation aqulla, help reduce up to 20 million litres a day in PMS subsidy fraud by using technology to track the movement of petroleum around Nigeria.

In March 2015, the Nigeria parliament approved the request of President Goodluck Jonathan to raise additional 200 million dollars Diaspora bond from the international capital market. The 200 million dollars was an increase in the initial 100 million dollars earlier approved by the senators in the 2012-2014 borrowing plan. The money according to Goodluck was to fund critical infrastructure in Nigeria and also afford citizens in Diaspora an opportunity to invest in the development of their country (Daily Trust Newspaper, 2015).

2.2.4 Privatization of State Owned Enterprises (SOEs)

It is a common belief that privatization goes hand in hand with capital market development. Nigeria cannot escape that universal condition of mobilization of national and international savings. So far, statistics from the international finance corporation and the World

Bank shows that market capitalization in 1995 was $1,350 million in Nigeria. But out of the total amount raised from privatization it still remains low at $112 million in Nigeria.

2.2.5 Bank Re-Capitalization and Consolidation in Nigeria

The bank recapitalization to N25 billion in which 25 banks (but presently 24 banks afterStanbic and IBTC bank merged) emerged from the previous 89 banks clearly revealed the importance of the capital market, In fact, most of the banks in Nigeria were able to raise the required capital after going to the capital market through initial public offerings. Soludo, (2006) reports that about $650 million was invested in the banking sector in 2005. alFaki(2006) puts the figure that was raised from the capital market by banks to meet the minimum capital requirement of N25 billion as over N406.4 billion.

However, in August 2011, the CBN revoked the licenses of three of the rescued banks for failing to show the ability to recapitalize ahead of the September 30, 20ll deadline effectively. The rush by stock investors to liquidate their investment to repay their loans in order to avoid the excessive lending rate caused the Nigeria stock market to crash. The crash of the stock market did not only affect the financial performance of some of the banks, it also increased their risk exposure. (Sanusi, 2010)

2.2.6 Analysis of the Nigeria Capital Market Performance

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

2.2.7 Total New Issues

The total new issues before 1989 was below N1 billion. However, from 1989 to 1996 it covered between N1 billion to 10 billion. the amount crossed the N10 billion marks in 1997.

For instance, between 1996 and 2001, a total of 172 new issues (securities of public companies amounting to N56.40 billion) were floated in the capital market. The total new issues were valued at N585 billion in 1996 but it rose by about 532% to N37.198 billion in 2003. N195, 418.4b in 2004 and N552, 782b in 2005. it crossed the trillion mark in 2007 being NL935 trillion that year but fell to Nl.509 trillion in 2008, H1901 trillion in 2009 but rose to N244 trillion in 2010 and dipped a little to N203 trillion in 2011 and further to N2.17 trillion in 2012 and increased to N2.52 trillion, N2.75 trillion in 2014. (NSE Statistics}

2.2.8 Market Capitalization

This is the most widely used indicator in assessing the size of a capital market to an economy. In a bearish market the market capitalization falls and vice versa for a bullish market. Before 1988, the total market capitalization was less than N10 billion from 1988 to 1994. It hovered between N10 billion to N67 billion. In 2003 it was N13.593 trillion, N2.1125 trillion in 2004 and N5.12 trillion in 2006. The market capitalization recorded the highest value of N13.2294 trillion in 2007. But this fell to N9.562 trillion in 2008 and further to N7.030 in 2009 due to the global financial meltdown, and in 2010 increased to N9.918 trillion. Between 2011 and 2012, the total market value 264 securities listed on the Exchange increased by 56,9% from N7.03 trillion to stand at N11.2 trillion by year-end. The rise in market capitalization resulted mainly from new listings of equities and bonds coupled with price appreciation by equities, market capitalization had in 2009 declined by 26.5%. and between

2013 and 2014, there is a slight increase in market capitalization, Nl1.4 trillion, N11.7 trillion respectively. The percentage market capitalization compared to the economy's Gross Domestic Product (GDP) helps to assess the size of the stock market. In 2003, 25.6%, in 2004, 27.4%, in 2005, it rose again to 56.0% and in 2007 fell to 39.7%, in 2008 28.5%, in 2009 and rose to 33.6%, in 2010 but fell to 16.2%, in 2011, in 2012, it rose again to 56.9% and in 2013 but fell to 43.2% in 2014.(N SE Statistics, SEC).

2.2.9 Listed Securities

The number of equities listed increased from 3 in 1961 to 13 in 1971, 93 in 1981, 194 in 2001, 214 in 2005, 212 in 2007, 216 in 2009 and 217 in 2010. For the SSM, it was 1 in 1985 and 20 in 1995. After falling from 23 in 1993, it fell to 19 in 1997 and from then to 2005 it remains at 16, fell to 15 in 2008 and continued at 16 till 2010. The total securities increased from 8 in 1961 to 60 in 1971; 194 in 1981, 23 in 1991, 261 in 2001, 288 in 2005, 301 in 2008, 266 in 2009, 264 in 2010 and 250 in 2011 in 2012, it fell to 217, 232 in 2013 and 238 in 2014. It would be observed the total listed securities are low despite almost 50 years of the existence of the Nigerian Stock Exchange. (N SE Statistics, SEC)

2.2.10 Value of Transactions

From 1961 to 1975, the annual value of the NSE was below N100 million. However, from 1976 to 1994 it was between N100 million and N600 million. In 1995, the trading value crossed Nlbillion. It was N120.70 billion in 2003, N223.8 billion in 2004, N238.1 billion in 2008, N684.5 billion in 2009, N797.5 trillion in 2010 and N634.92 billion in 2011. There was a decrease in 2012, N372.7 billion and in 2013, in 2014, N41 1 .0.billion.(NSE Statistics, SEC).

2.2.11 The Nigeria Stock exchange (NSE)

The Nigeria Stock exchange (N SE) market is one of the biggest equity market in Africa. It started operations in 1961 with 19 securities listed for trading. Today, there are more than 260 securities listed on the exchange. Most of the listed companies have foreign/multinational affiliation and represent a cross-section of the economy, ranging from agriculture through manufacturing to services. The Lagos Stock exchange started in 1961after the enactment of the Lagos Stock Exchange Act, 1961. Kaduna 1978; Port Harcourt 1980; 1989, Onitsha and Ibadan, 1990. Lagos was the head office of the exchange before an office was opened in Abuja the Federal capital of Nigeria. The market has placed a tested network of stock brokerage firms, issuing houses (Merchant banks), practicing corporate law firms and over 50 quality firms of auditors and reporting account ants (most of them with international links). The stock exchange and most of the nation's stock broking firms and issuing houses are staffed with creative financial engineers that can compete favourably with their counterpart anywhere in the world. Therefore, the market has place a network of intermediating organization that can effectively and credibly meet the challenges and growing needs of investors in Nigeria. The ownership of the NSE is vested in its member which is ordinary and dealing members. Listed companies are grouped into first and second tier securities. Trading on the NSE is through the automated trading system (ATS). The ATS has facility for remote trading and surveillance, in which many of the dealing members trade online from their offices in any part of the country.

2.2.12 Securities and Exchange Commission (SEC)

The SEC is the apex regulatory authority in the capital market. It came into existence through the Securities and Exchange Commission Decree Of 1979, which was further strengthened by the SEC Decree Of 1988 and the Investment and Securities Decree 45 Of1999. the new Act is expected to promote a more efficient and virile capital market, which would be pivotal in meeting the nation's economic and developmental aspirations. The role of the commission was further enlarge by the Companies and Allied Matters Decree of 1990, which empowers it to approve and regulate mergers and acquisitions and authorized the establishment of stock exchange in furtherance of the deregulation of the capital market. Following the promulgation of the Nigerian Investment Promotion Commission Decree No.17 both of 1995, which provided for foreign participation in the Nigerian capital market, the SEC released guidelines on foreign investments to guild potential investors in the market.

The Investment and Securities Decree NO.45 OF 1999, among others, repealed the Securities and Exchange Commission Decree of 1988, enlarged powers and functions of the Commission over the capital market and a set of new market infrastructure and wide ranging system of regulation of investment and securities business in Nigeria. The functions and power of the SEC have been enlarge to include the registration and regulation of securities exchanges, capital trade points, over the counter transactions, futures, option and derivatives exchanges, commodity exchanges and any other recognized investment exchanges. It is also responsible for the registration of securities to be offered for subscription or sale to the public.

2.2.13 Second-Tier Securities Market

This market arose for various reasons. One of them is to encourage small firms in participating in the activities of the exchange. Another was to increase the number of quoted companies. The Federal Government creates this market as a kind of solution to problems, which these small companies faced in gaining quotation in the exchange. These companies faced high cost of seeking quotation with the exchange. There was the fear of losing control in the business through going to the public. Also, it is known that Nigerians hate disclosing accurate financial information about their business. Also, little or no knowledge about the capital market becomes a handicap to them. Many companies in Nigeria are experiencing these problems. But the establishment of the second -tier securities market, helped in solving most of these problems. Information requirement are not as extensive as that of the stock exchange. The firms involved here are nurtured and helped to grow and graduate from second-tier to the first-tier security market.

Benefits of second-tier security market includes; Reduced cost of quotation especially for small firms, enhanced the ability to buy and sell shares, Assurance of continuity of business even after death of founders, Greater scopes of raising capitals for the companies, Growth through help of the exchange and certain schemes provided by government like the employees share scheme, More knowledge in the capital market operation and benefits to be derived from it (Inoga2007).

2.2.14 Concept of Economic Growth

The concept of economic growth here is two sides of a coin, economic growth and economic development. This could be used interchangeably despite the fact that they mean two different things.

Anyawuocha (1993), sees economic growth as a "process by which there is a Substantial increase in the actual out of goods and services per head" this in essence refers to a situation whereby real output in terms of goods and services increases at a faster rate compare to the rate of population. Output can only increase with a reasonable stock of capital in the economy.

Another scholar, Jhingan (1997), on his part views the concept as relating to "a quantitative sustainable increase in the country's per capita output, accompanied by expansion on its labour force, consumption, capital stock and volume of trade".

Todara (1985) sees economic growth as "a long-term rise in capacity to supply increasing diverse economic goods to its population. This growing capacity is based on advancing technological adjustment and the institutional and ideological adjustment that it demands.

Web finance Dictionary defines economic growth as the expansion of the output of an economy usually expressed in terms of the increase in national income. Nations experience different rates of economic growth mainly because of differences in population growth, investments, and technical progress.

Economic growth is defined as "the process whereby the real per capital income of a country increases over a long period of time". Economic growth is measured by the stock of capital and the net investment.

Economic development on the other hand is the process of increasing real per capital income and engineering substantial positive transformation (Structural) in the various sectors of improvements in the area of economic activities leading to increased economic welfare of the citizens. It connotes quantitative change in economic want, goods, incentives, productivity, institutions and knowledge.

The truth is that economic growth leads to economic development but not as a rule. According to" Anyanwuocha (1993) "Economic growth can metamorphose into economic development if there is equitable distribution of the increased output among individuals and areas such that the increase in not concentrated in few hands, increased output is not concentrated by rapid population growth and increasing level of population does not lead to massive unemployment as a result of using labour saving device.

2.2.15 Development in the Nigeria Capital Market

The finance and insurance sector is the one that has experience about the highest growth On the Nigeria economy especially since after the introduction of the Structural Adjustment Programme (SAP). This has had positive implications on the activities of the capital market in Nigeria. The total number of securities transacted in the capital market (both first and second tier) was 334 in 1961. Of this, government securities were 92 while industries were 342 (72.5% of the total). In 1965, the total number of transaction increased to 1018 (204.79% over the 1961 figure). Of this, industrial securities dominated with a percentage share of 61.6%. The number of transactions however, dropped in 1970 to 643 (47.8% of which were government securities). Again, the value of total transactions in the year was N16.6 million with movement securities accounting for almost the total value (98.78).

Industrial securities though more in number were valued at only N0.2 million. From 1976 however, industrial share of both in number and value of transactions increased tremendously (from 97.0 and 2.03% for 1990 to 97.3 and 3.29%for !985 and 98.85 and 11.11%) respectively in 1987. The sudden growth both in the total number and value of transaction in the market and the share of industrial securities during these periods can be attributed to the positive effect of the Nigeria enterprise promotion Decree of 1977 on the development of the private enterprise in Nigeria.

The same positive trend continued at even a faster rate in the late 1980's. The share of government securities in the number and value of transaction fail from 1, 44% and 92.6, in 1985 to 1.15 and 88.9% respectively in 1987, falling further to 0.39 and 65.13% in 1990, 0.10 and 10.4% in 1993 and 1995. This development is in line with Structural Adjustment Programmers policy of allowing greater private sector participation in the economy. Unlike the above picture, the trend in the total number and value of securities traded in the capital market over the same period as being erratic with decline in number 1990 and 1993 and the value in 1985. Both the secondary and primary market recorded massive growth in 1995 as a positive result of the relative calm in industrial environment (compared with 1993 and 1994), the repealing of the Nigeria enterprise promotion (NEP) Decree and Exchange Countries Act (ECA) of 1962.

Another development that aided positive growth in the 1995 was the promulgation of the Nigeria Investment Promotion Commission (N IPC) Decree No. 16 and the Foreign Exchange provision Decree No. 17 of 1995.

The stock exchange began its operation on 6th June, with 8 securities listed on it.

Activities in the year 2001 shows 282 securities made up of 19 government bond, industrial loans (debentures) or preferences. Six companies were listed on this segment of the stock market by 1988 and by 2002 over twenty-three companies had availed themselves of the opportunities offered by this market. Over the years, the listing has increased and as at November 30th, 1985 there were 20 securities on the exchange official list, and increasing to290 as at the end of April 2007.

Although a small market by international standard, the Nigeria capital market is one of the leading markets in Sub-Saharan Africa and has made some notable strides in recent years. With a history of over 50 years (when the first public issue was floated) and 42 years of stock exchange, equity listing and market capitalization are still relatively small, standing at 196 US$7.0 billion respectively at the end of March 2003. The value of equities traded at year-end 2002 was US$0.5 billion, a much lower figure than market capitalization. As a result of this, turnover ratio of 7.9% was recorded at the end of 2002, higher than the average turnover ratio for 1998 to 2002. From a historical perspective, this figure except for 2001 is an improvement, evidencing the continued rise in activities in the market. The market was quite active with traded equities of #10.8 billion (US$86 million) in January 2003, which represented about 18% of the total equity value in 2002. By end of March 2003, #24 billion (U S$1 88.9 million) equities had been traded.

It is important to point out that the depreciation of the local currency, the naira, has continued to impact on the size of the market in dollar terms. Between 1997 and December 2002, the naira lost over half its value to the dollar. As a result, while market capitalization witnessed impressive growth in local currency terms, this was not the case in dollar terms as a much slower growth was registered. For instance, in the five years ending 2002, equity market capitalization recorded almost three-fold increase from #256.8 billion in 1998 to#748.7 billion in 2002 or 191.5% increase, while it rose by 52.6% or from US$3.8 billion in 1998 to US$5.8 billion in 2002. The point being made is that if the local currency had been strong, the dollar size of the market would have been larger. In 2002, equity market capitalization grew by over #100 billion (US$794 million) or 15%. In the month of January 2003, equity market capitalization rose by over 12.4% and by February 2003, it had gained #116 billion (US$09 billion) over December 2002 more than the increase in the whole of that year. However, in March 2003, market capitalization rose by #98.2 billion (US$08 billion) over December 2002. If this trend continues, market capitalization by year-end 2003 is likely to significant surpassing the gain recorded in 2002.

The impressive movement in market capitalization has been led principally, by new listings, and firmer prices arising from positive market sentiments. In 2004, stock index rose by 10.7% albeit lower than the price increase of 35.2% in 2003 and 54.0% in 2000. In point of fact, the five years (2000 to 2005) average index growth of 33.3% was higher than the growth of inflation, which averaged 12.6% during the same period. The impressive expansion of the capital market is also evident in the size (percentage) of market capitalization to gross domestic product (GDP). A look at this over the past decade shows that market capitalization represented 14.0% of GDP in 2002 in contrast to 12.0% in 2005, 9.4 % in 1999 and 5.6% in 1992. The rising trend indicates that market capitalization is growing faster (in percentage terms) than GDP. The commission believes that as the merits of the capital market become better appreciated, more initial public offerings (IPOs) would be induced. Furthermore, privatization and strong equity prices could further bolster the percentage of market capitalization to GDP. Indeed, the capital market has in recent times become a major source of funds to corporate entities and is increasingly becoming attractive to state governments. This is particularly obvious in the number and value of new issues as well as the variety of fundraisers in the market lately. Year 2002 was a record year for the capital market with total flotation of #61.3 billion or US$0.483 million, the highest annual record ever posted in the capital market. This single year record surpassed the cumulative figure for the preceding two years. It is also significant that the total value of flotation in 2006 represented 36.4% of flotation in the ten years ended 2002. It may be instructive to state that the commission actually received 46 new issue applications for #78 billion but only 33 applications had been cleared and opened by year-end. The 33 flotation's_in 2004 compares favourably with 27 and 21 in 2001 and 2000 respectively. The listing has increased to over 309 securities in 2007 and has reduced to 264 as a result of de-listing of some securities as at 2010. Between 2011 and 2012, the rise in market capitalization resulted mainly from new listings of equities and state government bonds coupled with price appreciation by equities.

The reform in Nigeria capital market which has full support of president Goodluck Jonathan seems to be returning investors' confidence in the market. The stock market before now was more focus on speculative activities and it seemed to be acting in isolation of the economy. In 2010, the market cap was at 4.9 trillion but now it is over 10.34 trillion (This Day Newspaper, 2015).

2.16 The Prospect for the Future

The Nigerian capital market is still characterized by some inadequacies that might inhabit its contribution to the economic growth and development of Nigeria Al-faki (2007) among others has identify the inadequate factors in Nigerian capital market to include: lack of depth with few securities, poor liquidity, poor infrastructure for secondary market operation, dormant bond market, high transaction cost, unfavourable tax regimes, unstable and largely inappropriate macroeconomic environment.

Following the reforms of the Nigerian financial institutions by the Central bank of Nigeria, the Nigerian capital market also need to be restructured to cope with the rapid growth in the financial sector and the economy in general. Thus the prospect of the capital market in Nigeria is therefore bright. However, government and regulatory authorities should implement the following proposed reforms, policies and regulation for the development of the capital market.

Firstly, policies should be established to review the minimum capital requirement for operators to strengthen them financially for international competitiveness, also reduction of transaction cost, introduction of a code of corporate governance and capital trade point through which small companies can get listed and avail themselves of the opportunities offered by the capital market.

Secondly, the establishment of a venture capital industry which is a fund set up by the government or private sources for investing in selected companies that have high rapid growth potential and a need for large amounts of capital. A firm could register to provide only venture capital services. Venture capital firms sometimes invest in certain high-risk businesses producing a very high rate of return in a very short time which will not only widen the market but also boost economic development. It is also of important that members of the public be educated and informed on the issue of stock and shares.

Thirdly, complimentary to intensify public enlightenment, effects in improving the investment habits of the people is the role of improved telecommunication system like CAPNET can play in facilitating faster dissemination of material information and promotion of greater integration between market operations and investors in different part of the world.

Finally, a more improved, well designed automated trading system (ATS) with latest facilities for remote trading and surveillance with features that offers you browser-based, streaming, real-time quotes from all the markets, streaming charts, free timely technical support via email and chat 24/7, total view plus market news from anywhere you have access to a computer, mobile or workstation.

2.3 Empirical Literature on the Impact of Capital Market on Economic Growth

Several attempts have been made by previous writers to link the growth of the capital market with the economy.

In Nigeria, some authors have also attempted to examine the relationship between stock market development and economic growth. For instance, Adamu and Sanni (2005) examined the roles of stock market on Nigeria economic growth using Granger-causality test and regression analysis. The authors discovered a one-way causality between GDP growth and market capitalization and a two-way causality between GDP growth and market turnover.

They also observed a positive and significant relationship between GDP growth turnover ratios. The authors advised that government should encourage the development of the capital market since it has a positive effect on economic growth.

Abu (2009), examined whether stock market development raises economic growth in Nigeria, by employing the error correction approach. The econometric results indicate that stock market development (market capitalization GDP ratio) increases economic growth. Hehowever, recommended the removal of impediment to stock market development which include tax, legal and regulatory barriers, development of the nation's infrastructure to create enabling environment where business can strive, employing policies that will increase the productivity and efficiency of firms as well as encouraging of the Nigeria Securities and Exchange Commission to facilitate the growth of the market, restore the confidence of the stock market participants and safeguard the interest of shareholders by checking sharp practices of market operators.

Likewise Nyong (2005), Obamiro (2005), Dabwort D, (2007) and Kolapo et al (2011) investigated the role of the Nigeria stock market in the light of economic growth. The authors reported that a significant positive effect of stock market on economic growth. They suggested that government should create more enabling environment so as to increase the efficiency of the stock market to attain higher economic growth.

So also Ezeoha (2009) investigated the nature of the relationship that exists between stock market development and economic growth and found that capital market promotes domestic private investment flows thus suggesting the enhancement of the economy's production capacity as well as promotion of the growth of the national output. However, the results show that stock market development has not been able to encourage the flow of foreign private investment in Nigeria.

Efforts were also made by Olweny T. (2012) to develop an aggregate index of capital market development and used it to determine its relationship with long-run economic growth in Kenya. The study employed a time series data from 2001 to 2010. Four measures of capital market development, the ratio of market capitalization to GDP (in percentage), the ratio of stock market index relative to GDP and listings were used. The four measures were combined into one overall composite index of capital market development 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 variable. The result of the study was that capital market development is negatively and significantly correlated with long-run growth in Kenya.

The above reviewed studies have similar findings indicating that capital market is an engine for economic development. This is also the apriori expectation of this study as the researcher expects a positive relationship between capital market and economic growth of Nigeria. However, this study is modeled on the work of Kolapo et al (2011) which was the recent work done on capital market and economic growth in Nigeria among the reviewed works. This means that this research will use similar data with that of Kolapo (2011), except data from 2011-2014, and as such will produce similar finding(s).

2.4 Theoretical Framework or Models Concerning the Study

2.4.1 Capital Asset Pricing Model (CAPM)

Capital Asset Pricing Model (CAPM) is used to detuning a theoretically appropriate required rate of return of an asset, if that asset is to be added to an already well-diversified portfolio, given that the asset is non-diversifiable risk. The model takes into account the asset's sensitivity to non-diversifiable risk (also known as systematic risk or market risk). 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.

The model is used to assess the level of asset risk before investing and thus helps in making right investment that will fetch investor good retum. This will increase trading activities in the capital market with positive outcome on economic growth.

2.4.2 Efficient Market Hypothesis

The theoretical explanation on the nexus between capital market and economic growth is well explained using the Efficient Market Hypothesis (EMH). The Efficient Market Hypothesis, according to Fama (1965) is an academic concept which provides a framework for examining the efficiency of the capital market. According to the EMH, financial markets are efficient if prices of traded assets, have already reflected all known information and therefore are unbiased because they represent the collective beliefs of all investors about future prospects Olawoye (2011). In other words the EMH states that all relevant information are immediately and fully reflected in a security's market price.

The Efficient Market Hypothesis states that the prices of securities or assets traded in the capital market show the clear picture of the happening in the market. It shows that there are no hidden information and thus there is no biasness and sharp practices in the market due to misleading information. This will increase investors'confidence in making investment in the market thus contributing to economic growth. Though the two theories are relevant in explaining the nexus between capital market and economic growth in Nigeria, the study is principally anchored on the Efficient Market Hypothesis (EMH). In capital market literature, the major concept that dominates discussions is efficiency.

The concept of efficiency is central to any segment of the financial market. It refers to any one of the three types, namely-operational efficiency, allocation efficiency and pricing efficiency.

Efficiency in the market brought about by unbiased and non-misleading assets pricings will increase the volume of trade in the market by building investors'trust and confidence. This will boost economic growth and development. Note also that for an investor to carry out Capital Asset Pricing Model (CAPM), he needs an efficient market with correct and undiluted information.

2.5 Summary on Literature Review

The literature reviewed succinctly explained the linkage between capital market and economic growth and development especially given that most of the works were analyzed using advanced econometric techniques of data analyses. However, some of the studies have been done several years ago and as such their findings may not give good picture of the present happenings. non ofthe reviewed studies captured data up to 2011. A lot of changes might have taken place in Nigeria since 2010 till date which are not captured in the studies reviewed. The ups and downs in Nigeria economy owning to the activities of the insurgents (Boko Haram) in Nigeria since 2011 till date might have caused havoc in the capital market with negative effects on economic growth but this remain unknown. Therefore this study will cover this gap by considering the current data in assessing the contribution of capital market to Nigeria economic growth and development. In this case this study will add to the already existing knowledge in the field.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter focuses generally on the methodology employed for an effective examination of the research problem under reference. It contains a succinct explanation of the research design population characteristics, sample procedures and their relevance to the research objectives and hypotheses, it also introduces the main data collection instrument, the estimation technique and the hypotheses tested. This also to a large extent influences the validity and reliability of the conclusions drawn from the research.

3.2 Research Design

The research design for this study was based on the ex-post facto research design. Ex-post facto research design involves the ascertaining of the impact of past factors on the present happening or event.

Agburu (2001) defines ex-post facto research design as an inquiry to discover whether and to what extent a variable or event which occurred in the past has impact on the occurrence of the present event.

Ex-post facto research design is concerned with the existence of two variables: independent and dependent variables. The independent variable occurs prior to the dependent variable, in space and time. This research design is adopted for this study because of its strengths as the most appropriate design to use when it is impossible to select, control and manipulate all or any of the independent variables or when laboratory control will be impracticable, costly or ethically questionable Akpa and Angahar (1999). It is also used because it is structured to find, describe and interpret a social phenomenon which this study is aimed at. This design therefore examined the data collection sources, population, sample plain, method and instruments of data collection used.

3.3 Population and Sampling Technique

Population is the total number of element in which the researcher's interest lies. It may be considered as the universal, aggregate or entire group whose characteristics are to be studied the theoretical population for the purpose of this research are inexhaustible. The targeted population of this study is all the variable that determine the Nigerian capital market performance. These consist of all stationary and non-stationary variables.

3.4 Methods of Data Collection

In the collection of data the researcher made use of secondary data only as this study involves a time series analysis and because of its authenticity and reliability. The gross domestic product (GDP) data employed was obtained from the central bank of Nigeria statistical bulletin, the market capitalization and value of transaction (MCAP&VOT)respectively from Nigeria stock exchange fact book, and number of deals (NOD) from Securities and Exchange Commission database. The time series data cover the period 2000- 2014.

3.5 Procedure for Data Analysis and Model Specification

The method to be adopted in this study requires the use of empirical analysis of simple and multiple regression techniques, the descriptive statistics, variance inflation factor statistics (VIF), tolerance level statistics (TOL) because it recognizes that different factors not just one can affect or establish the impact of capital market on the economic growth.

Regression analysis is concerned with the study of the dependence of one variable on other variables. The multiple regressions are run by the use of statistical package for social sciences (SPSS) to correlate the variables used in the research work. The choice of multiple regressions for this study is based on the merit of its strength in determining the variability of the variables in a study. When the product movement correlation coefficient (r) is positive, it implies that as one variable increases in value, the other also increases in value. In a negative correlation the reverse is the case, because as one variable increases in value, the other has the tendency to decrease in value Agburu (2001). The level of significance for this study is 5%, and for a two tailed test, the critical value is (n-1), where n is the number of observation and 1 is a constant. Based on this, the decision rule for testing the hypothesis will be to accept or reject the null hypothesis if the critical value is greater or less than the calculated value Agburu (2001).

This study is on how the Nigeria capital market has contributed positively to the Nigerian economy. The model adopted for this study was based on the improvement suggested by Demirgue-Kunt and Levine (1996), Levine and Zervos (1996), and Ewah et al (2009) which have investigated linkage between stock market and economic growth. Their studies infer that the economic growth (Proxies by Gross Domestic Product) is significantly influenced by the capital market indices such as market capitalization (MCAP), number of listed securities (NOL), value of transaction (VOT), and number of deals (NOD). The model is thus specified as: GDP=f (MCAP,VOT, NOD and NOL)

Where;

GDP= Gross domestic product

MCAP= Market capitalization

NOL= Number of listed securities

VOT= Value of transaction

NOD= Number of deals

Specifying it in econometric form:

$$GDP= \beta 0+ \beta 1MCAP + \beta 2VOT + \beta 3NOD + \beta 4NOL +U$$

Where;

$\beta 0$= intercept

$\beta 1$= Impact of market capitalization

$\beta 2$ = Impact of value of transaction

$\beta 3$= Impact of number of deals

$\beta 4$= Impact of listed securities

U= Error term

3.6 Justification of Methods Used

The procedure involves estimating the impact of the capital market on the economy with a view to assessing the performance of the stock market on investment. The method used in this research work is based on the investigated linkage between stock market and economic growth.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

Over the years, quantitative analysis has been considered a highly specialized tool for research. Thus having employed theoretical analysis in establishing a relationship between impacts of capital market as economic growth via market capitalization, number of listed securities, value of transaction, and number of deal in our proceeding chapters with a view to knowing the effect of capital market on the general well-being ofthe economy. This chapter is concerned with the presentation and interpretation of the result gotten from the equation established in the previous chapter, given all mentioned criteria.

4.2 Data Presentation and Analysis

In analyzing the data, in other to establish the cause and effect of the relationship between the dependent variable, Y (GDP) and the independent variable (market capitalization, value of transaction, number of listed securities, and number of deals respectively). The statistical package for social sciences (SPSS version 16) was used to run the regression of the data, so as to enhance accuracy of result.

Table 4.1 Descriptive statistics

	N	Range	Minimum	Maximum	Mean		Std. Deviation	Variance	Skewness		Kurtosis
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Statistic	Statistic	Std. Error	Statistic
GDP	15	24624	458.2	2920.6	1.528E3	263.0935	872.5826	7.614E5	-202	-661	-1.452
MCAP	15	1262.4	47.2	1329.5	483.645	135.1447	448.2244	2.009E5	-760	-661	-776
NOLS	15	51	258	309	276.64	5.517	18.299	334.855	-705	-661	-1.108
VOT	15	23509.0	281.5	23791E3	6.521E3	2.4870E3	8248.3730	6.804E7	1.558	-661	1.245
NOD	15	328.0	25.6	353.6	126.745	30.5497	101.3218	1.027E4	1.376	-661	1.403
Valid N)	15										

Sources: SPSS Statistics

Table 4.1, present the descriptive statistics of the dependent and independent variable. The mean GDP is 152.8 percent. This means that the GDP for the period under research (2000 - 2014) grew by 152.8 percent, in effect the capital market indicators used for this research has impact on economic growth (GDP). Average market capitalization is 483.6 percent, average number of listed securities is 277. Values of transaction and number of deals have 652.1 and 126.7 percentage points respectively.

The level of GDP growth lies between the minimum of 458 and maximum of 2921 under the study period. The market capitalization lies between 472 billion and 1329 billion duringthe study period, number of listed securities in the capital market lies between 258 and 309. It shows the effect of the recent delisting of some securities in the market. The value of transactions lies between 282 billion and 23791 billion, number of deals lies between 26 and 354 deals, this clearly indicates that the depth of the Nigerian capital market is not deepened enough to the level to compete with those of advanced countries i.e. the United State.

TABLE 4.2: Regression MODEL SUMMARY

Mode 1	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change statistics					Durbin Watson
					R Square Change	F Change	Df1	Df2	Sig. F Change	
1	.994[a]	.989	.977	13.1392	.989	87.215	5	5	.000	3.270

a. Predictors: (constant), MCAP, NOD, NOL, VOT

b. Dependent variable GDP 1

Statistically significance at 5% level of significance

Source: SPSS Statistics

Table 4.3: Regression Coefficient

Model	Unstandardized coefficients		Standardized Coefficients	T	Sig.	CollinearityStatisitcs	
	B	Std. Error	Beta			Tolerance	VIF
.(Constant)	164.217	127.192		1.291	.253		
MCAP	.067	.022	.342	2.991	.030	.174	5.763
NOL	-.521	.493	-109	1.056	.339	.212	4.724
VOT	.198	.024	.586	8.438	.000	.470	2.127
NOD	.318	.088	.375	3.613	.015	.211	4.741

a. Dependent Variable: GDP

Source: SPSS Statistics

Consequently the regression equation can be written as:

GDP=0β + β1 MCAP + 2β VOT + β3 NOD + β4 NOL+Ut

Estimated regression result:

Y = 164.217 + 0.67 - 0.521+ 0.198+ 0.318

Std. error = (127.192) (0.022) (0.493) (0.024) (0.088)

Student's test = (1.291) (2.991) (-1.056) (8.438) (3.613)

Coefficient of multiple determination (R2) = 0.989

Table value = 2.145

The results obtained from the model shall be analyzed and interpreted on the basis of APRIORI expectation i.e. making statement based on logical reasoning. The prior expectation in this project is that positive capital market indicators help to improve economic growth in Nigeria.

The regression result as shown in Table 4.2 revealed that four variables are statistically significance at 5% level of significance. On the basis of apriori expectation the coefficient of three of the variables that is market capitalization (MCAP), value of transaction (VOT), and number of deals (NOD), are positively signed while the coefficient of number of listed securities (NOL) is negatively signed.

A close examination at the result of the equation shows that some signs were in line with the opinion expectation. From the result, MCAP, NOT, and NOD satisfy this condition while NOL which is expected to be positive is negative. In this case, NOL is not in line with the expectation. From the equation, the different coefficient of the variables representing the capital market shows the different contributions of the respective variables to the economywhich is being represented by the GDP. In this line, using the co-efficient, autonomous GDP is a positive 164.217. This simply means that when all variables are held constant, there will be a positive variation up to the tune of 164. 217 units in GDP. Similarly, a unit changes in MCAP when all variables are held constant will lead to an increase in GDP by 0.067 unitsless the autonomous component.

However, a unit change in VOT will produce a positive impact on the growth of the Nigerian economy by 0.198 units. Similarly, if NOD alone change, GDP becomes 0.318 of the changes less the autonomous component, also a unit change in NOL when all variables are held constant will lead to a decrease in GDP by 0.521 units less the autonomous component. When taken one at a time, with other variables being held constant, MCAP, VOT and NOD will increase GDP by 0.067 by 0.198 and 0.318 respectively while NOL will reduce GDP by 0.521. The implication is that the economy responds favourably to measures taken to increase market capitalization, value of transaction, number of deals in Nigeria Stock Exchange.

The R2 is otherwise known as the measure of the "goodness of fit" or the "coefficient of determination". It shows the percentage of the total variation of our dependent of variable (Y) that can be explained by the independent variables (Xl,X2,X3, and X4), and the lower of R2 shows the percentages of the total variation of our independent variable that can be explained by our dependent variables. Therefore the R2 is expressed as a percentage, and that part of the variation of the dependent variable (i.e. 100-R2) which is not explained by the regression line is attributed to the existence of the disturbance term (Ui). The R2 gives 0.989 or 98.9% meaning that the regression model is approximately 99% significant i.e. the variations in the dependent variable i.e.

Gross Domestic Product (GDP) is 99% attributable to the changes in the independent variable i.e. market capitalization, number of listed securities, value of transaction, and number of deals. This result is also supported by the high value of the adjusted R-Square, which is to the tune of 97.7% - R2 shows that 99% of total variation in the dependent variable (GDP) is explained by MCAP, NOL, VOT, and NOD.

DW (Durbin-Watson) =3.270 shows that there is element of positive autocorrelation meaning that there is a linear relationship between Gross Domestic Product (GDP) and the independent variables market capitalization, number of listed securities, value of transaction, and number of deals.

4.2.1 Data Validity Test

In order to ensure that the results are robust, several diagnostic tests were performed. In attempt to detect multi collinearity, the VIF and TOL statistics were computed as indicated in Table 4.3.

The Variance Inflation Factor (VIF) measures the impact of Collinearity among the variables in a regression model. The variance inflation Factor (VIF) is 1/Tolerance, it is always greater than or equal to 1. There is no formal VIF value for determining presence of multicollinearity, Value of VIF that exceed 10 are often regarded as indicating multicollinearity, but in weaker models values above 2.5 may be a cause for concern (A. Kouisoyiarmis, 1977: Gujarati and Sangeetha, 2007). This study adopt the "Rule of thumb"of 10, this shows the appropriateness of fitting of the model of the study with the four independent variables. In addition the tolerance values are consistently smaller than 0.7, this further substantiates the absence of multicollinearity. The two measures for testing multicollinearity indicate that there is no multicollinearity problem in the model (Table 4.3). Therefore it is used for our analysis.

4.3 Test of Research Hypothesis

The student's t-test is calculated at 5% level of significant, the decision rule is based on the use of hypothesis testing on the calculated values of t-distribution for the data collected. We shall accept or reject H0 if the t-value for the test statistics falls within the acceptance or rejection region of the normal curve of distribution.

To get the degree of freedom we use the formula (n-1) where n=number of observations. In this case the number of observation is 15. Therefore, we look up to under 0.05%, (5% level of significance in a two tail test under the t-distribution table and got the figure 2.145 which we can use to analyze our parameter.

The four hypotheses formulated in this study were tested; the result of the study (see Table 4.3) provides evidence for the acceptance of two and rejects hypotheses one, three and four. This clearly shows that economic growth is significantly influenced by market capitalization, value of transaction and number of deals. The only factor that does not significantly influence economic growth is number of listed securities.

4.4 Interpretation of results

The analysis and test of the research hypothesis on impact of capital market as a tool for economic growth, indicates that market capitalization is positive and statistically significant to Gross Domestic Product. This is in agreement with Adamu and Sanni (2005) and Kolapo (2011) who finds market capitalization to be statistically significant to Gross Domestic Product. This result could be interpreted that market capitalization has significant influence on Gross Domestic Product, this might be due to the positive growth and improve capital accumulation resulting from the effect of bank recapitalization in 2005.

The study result reveals that Number of listed securities (NOL) is negative and statistically insignificant to Gross Domestic Product (GDP). This findings contradict previous researches such as, Muhammad (2008) and Riman (2009) which finds number of listed securities to be statistically significant to Gross Domestic Product. This findings may be due to the recent delisting of some securities listed on the floor of the Nigeria Stock Exchange.

This is further portrayed by the low range of NOL in Table 4.1.

The findings shows that value of transaction is positive and statistically significant to economic growth. This is in line with works by Olawoye (2011) and Ewah (2012). This may be as a result of the simplicity in buying and selling of securities in the market. It can be confirmed by the high range of VOT in Table 4.1.

Furthermore, the result of this study shows positive and a statistically significant relationship between number of deals and Gross Domestic Product. This indicates that number of deals have impacted positively on economic growth of Nigeria. This agrees with researches by Osinubi (2003 and Olweny (2012). This might be due to the result of simplicity in trading of security in the market. Also, the number of securities being traded is relatively high.

4.5 Summary of Major findings

This study reveals that there is a linkage between capital market and economic growth vis-a-vis market capitalization, number of listed securities, value of transaction in stock, and number of deals. The research questions drawn to guide the study were: to what extent has market capitalization, number of listed securities, number of deals and value of transaction impacted on economic growth of Nigeria.

Also four hypotheses were tested in order to provide answers to the study question were: economic growth (GDP) of Nigeria is not significantly influence by market capitalization (MCAP), number of listed securities (NOL), value of transaction (V OT), and number of deals (NOD).

Ex-post facto research design was used for the study. The population of the study consists of all capital market determinants. The study sample four (4) capital market determinants due to availability of requisite data. The major source of data for the study wassecondary data. The analysis techniques used to analyze the data was the multiple regression analysis technique and the descriptive statistics. The design of the study is limited in many ways such as: lack of control over the dependent variables and the uncertainty over whether all the relevant casual factors are included among the many other factors used study.

Therefore the study findings should be interpreted taking into cognizance the limitations stated in chapter three.

The major findings of this study is that economic growth is significantly influence by market capitalization, value of transaction, and number of deals. The only factor that is not significantly influenced economic growth is number of listed securities.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDAION

5.1 Summary

The aim of this study is to find out to what extent the capital market has helped as a prime instrument for economic growth in Nigeria.

This research work examines the impact of capital market as a tool for economic growth in Nigeria. In carrying out this research, the researcher was able to discuss on the topic by highlighting on the concept of capital market and corporate finance; the consequences of raising equity capital through the capital market; importance of the topic to the list companies, unlisted companies, capital market operator and the Nigeria economy.

The variables used for this study were; market capitalization, number of listed securities, and number of deals and value of transaction. The four hypothesis formulated in this study were tested, the result of the study provides evidence for the acceptance of two and reject hypothesis one, three and four. This clearly shows that economic growth is significantly influenced by market capitalization, value of transaction and number of deals.

The only factor that does not significantly influence economic growth is number of listed securities. This findings may be due to the recent delisting of some securities listed on the floor of the Nigeria Stock Exchange.

Finally, it could be inferred that the market variables are important vehicles for the growth of the Nigeria economy. However, for the market to ensure appropriate impact, efforts should be made to encourage or increase volatility in the Nigerian capital market.

Similarly, the problems of microeconomic instability should be addressed through appreciate policy measure that will strengthen the institutional regulatory framework.

5.2 Conclusion

Nigeria is part of the global community and should imitate policies that have benefited other countries. The capital market is a veritable tool that can be used to enhance the development of Nigeria. The empirical and theoretical studies on the impact of the capital market on economic growth have increased but with mixed results, researches on the role of capital market on economic growth are limited and leave a research gap.

This study therefore, examines capital market as a tool for economic growth in Nigeria. The analyses are performed using data from NSE fact book and SEC annual report for a fifteen year period (2000-2014). The multiple regression analysis technique and descriptive statistics was used to analyze the data.

The findings indicate that market capitalization, value of transaction, and number of deals has significant influence over economic growth in Nigeria. Only number of listed securities does not significantly influence economic growth in Nigeria.

5.3 Recommendations

In order for the Nigerian capital market to be a tool for Nigerian economic growth and development, the following suggestions are put forward:

First, improvement in the declining market capitalization by encouraging more foreign investors to participate in the market, maintain state of the art technology like automated trading and settlement practices, electronic fund clearance and eliminate physical transfer of shares. There is also need to restore confidence to the market by regulatory authorities through ensuring transparency and fair trading transactions and dealings in the stock exchange. It must also address the reported cases of abuses and sharp practices by some companies in the market.

Secondly the stock exchange should desist from the unwanted interference of stock prices in the market. In as much as they should not allow the market run a "free lunch" situation, (gamble) they should allow the forces of demand and supply to determine the prices of security in the market. The stock market is also known as a relatively cheap source of funds when compared to the money market and other sources. The cost of raising funds in the Nigerian capital market is however, regarded to be very high. There should be a review downward of the cost so as to enhance its competitiveness and improve the attractiveness as a major source of raising funds.

Moreover, the total listing in the NSE is still a far cry compare to other stock exchanges like South Africa and Egypt. Therefore, to increase the number of listed companies there is need to ensure stable macroeconomic environment, encourage foreign multinational companies (MNCs) or their subsidiaries to be listed on the Nigerian Stock Exchange, relax the listing requirements to the first-tier market and ensure tax rationalization in the capital market to encourage quotation and public interest in shareholdings. For new issues, increase the minimum equity capital requirements for companies other than banks, insurance companies and other financial institutions, encourage merger and consolidation, discriminatory income tax in favour of public quoted companies and aggressive enlightenment programme to increase awareness of the benefits of investing in the stock market and seeking quotation at the stock exchange.

Lastly, to boost the value of transactions in the Nigerian capital market, there is need for availability of more investment instruments such as derivatives, convertibles, futures, swaps, options in the market. Given the present political dispensation, all tiers of government should be encouraged to fund their realistic developmental programme through the capital market. This will serve as a lee way to freeing the resources that may be used in other sphere of the economy.

Some of the stringent requirement for entry into the market should be relaxed to ensure that more companies are listed. This will further increase the market capitalization and contributes positively to GDP; the capital market network should be expanded to facilitate the mobilization of savings across the country for investment. There should be public awareness campaign by capital market operators especially now that the country is just coming out of the global economic crisis. There should be appropriate pricing of securities in the capital market.

This will build the confident of potential investors in the market. Government should reduce the number of public and private sector representatives on the council of the Nigerian stock exchange who are not relevant to the day- to-day activities of the market.

5.4 Suggestions for further study

The present study has examined the impact of capital market on economic growth in Nigeria. Further research could be conducted to examine, the impact of financial crisis on the Nigerian capital market development. Further work may also be done to establish whether other aspects of the stock market such as size, trade volume and, depth in terms of instruments on offer exhibits different results from the ones reached in the conclusion of this study.

Another direction for future research is a cross-national study involving other developing countries such as the West African countries as well, in order to bring out further empirical evidence with regard to the direction of causality between the stock market and economic activity. In future, when larger samples of observations are available, the regression parameters may be re- estimated for comparative analysis with the empirical results of the study.

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APPENDICES

YEARS	GDP AT CURRENT PRICE N'000	MARKET CAPITALIZATION N'000	NUMBER OF LISTED SECURITIES	VALUE OF TRANSACTION N'000	NUMB OF DEALS
2000	4582127	472300	260	28154600	256523
2001	4725086	662500	261	57637200	426163
2002	6912381	764900	258	60088700	451850
2003	8487032	1359300	265	120703000	621717
2004	11411067	2112500	277	225820500	973526
2005	14572239	2900500	288	262929600	102196
2006	18564595	5121000	294	470253800	136795
2007	20657318	13294600	309	20862945900	261502
2008	24296329	9563000	301	23791427000	353563
2009	24712670	7030800	266	684451200	173936
2010	29205803	9918200	264	797551600	933412
2011	27401211	1127400	250	634920400	203185
2012	29025380	7031500	217	372788000	217994
2013	27964266	1141050	232	540216100	25247
2014	29120842	1173100	238	411005900	27511

Source: NSE, SEC (Various issues).