EFFECT OF CAPITAL MARKET ON ECONOMIC GROWTH OF NIGERIA

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Abstract

This study examines the effect of capital market on economic growth from the period of 2010-2019. The economic growth was proxy by Gross Domestic Product (GDP) while the capital market variables considered are Market Capitalization (MCAP) and Total Value of Stock (TVS). Data were collected from the Central Bank Statistical Bulletin for the period and were analyzed using the ordinary least square and descriptive statistics. The result of the findings showed that MCAP has positive and TVS has negative effect on economic growth of Nigeria. The study concludes that capital market has contributed immensely to the economic growth of Nigeria which has also guarantee investor fund. The study therefore recommends that 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 practice, electronic fund clearance and eliminate physical transfer of shares. Finally, there is also need to restore confidence to the market by regulatory authorities through ensuring transparency and fair trading transaction and dealing in the stock exchange.

Keywords: Capital Market, Market Capitalization, Total Value of Stock, Gross Domestic Product, Financial Institution

INTRODUCTION

Capital market is a network of financial institutions and infrastructure that interact to mobilize and allocate long-term funds in the economy. The market affords business firms and governments the opportunity to sell stocks and bonds, to raise long-term finds from the savings of other economic agents. The capital market is a highly specialized and organized financial market and indeed an essential agent of economic growth because of its ability to facilitate and mobilize saving and investment.

The sourcing of long-term finance through the capital market is essential for self-sustained economic growth, which is consistent with external adjustment and rapid economic growth (Iyola, 2004). Capital Market is a deep, transparent, and accessible capital markets are a vital element of the financial sector. As a vehicle for long-term investment finance and for diversification of funding sources, capital markets strengthen the overall economy and render it more resilient in the face of economic shocks

The international capital market has been the backbone of the Nigeria capital market and over the years it has help to develop the Nigerian capital market. Nigerian capital market started rolling from 1960 when Nigerian Stock Exchange (Lagos stock) exchange was opened. At present the market is gaining depths and becoming steady. This stock exchange is the pivot of the Nigerian capital market. This exchange is providing different types of funds to bring the accumulated public wealth into the stock market. At the same time, the large-scale industries of Nigeria are listed on this exchange. There is also another stock exchange in Nigeria that is working with the medium and small-scale industries of the country and providing good support to strengthen the Nigerian capital market. The development of the Nigerian capital market has some other reasons too. A number of Nigerian banks are investing in the Nigerian stock market so that they can roll the money and can earn some good profit from the market. They recently introduced minimum capital requirements for banks to encourage the banks to choose the stock markets. The Nigerian capital market is still gaining depth and so that it was a bit risky for the banks to take the decision but they took the risk and the results are very positive. It did not only encourage the individual investors but at the same time provided some good support to the growth of the Nigerian capital market. It is true that the Nigerian capital market is performing well and the country is experiencing some historical public offers by the banks like the Zenith Bank.

Both the stock and bond markets are parts of the capital markets. Any government or corporation requires capital (funds) to finance its operations and to engage in its own long-term investments. To acquire these funds, a company raises money through the sale of securities - stocks and bonds in the company's name. For example, when a company conducts an initial public offering (IPO), it is tapping the investing public for capital and is therefore using the capital markets. When a country's government issues Treasury bonds in the bond market to fund its spending initiatives, it is also using the capital markets. When companies and governments sell securities, they do so in the primary market. When investors trade these securities on exchanges and over the counter, it's called the secondary market. Thus, both the primary and secondary markets for stocks and bonds make up the capital markets. The history of Nigeria Capital Market could be traced to 1946 when the British colonial administration floated a N600, 000 local loan stock bearing interest at 3¼% for the financing of developmental projects under the Ten-Years Plan Local Ordinance. The loan stock, which had a maturity of 10-15 years, was oversubscribed by more than N1 million, yet local participation of the issued was terribly poor. Certainly, potential fund abound in Nigeria, but the overriding consideration in this project is to examine the impact of the capital market in harnessing and mobilizing these resources (fund) to generate economic growth in the country and consequently economic development. The great concern on the performance of the Nigerian capital market in relation to the economic growth and development which when viewed from the nature of activities taking place in the market appeared superficial. This may probably be attributed to lack of providing enabling framework that sustained confidence and investors' protection and also thorough evaluation of factors that are of significance relevance in determining capital market performance. The study objective is to examine effect of market capitalization and total value of stock on economic growth of Nigeria.

H_{O1}: Market capitalization has negative effect on the economic growth of Nigeria
H_{O2}: There is no significant relationship between total value of stock and economic growth of Nigeria.

LITERATURE REVIEW

Conceptual Framework

Concept of capital market

Capital market is an integral part of the financial system that provides an efficient delivery mechanism for mobilization and allocation, management and distribution of long term funds for investment project (Alile & Anao, 1990).

Sule and Momoh (2009) notes that the capital market is the medium through which funds are mobilized and channeled efficiently from savers to users of funds. Apart from judicious mobilization of idle savings into productive use, the capital market creates an avenue for foreign investment and the influx of foreign capital for developing projects that will increase the welfare of citizens. A capital market is a market for securities (debtor equity), where business enterprises (companies) and government can raise long-term funds (Sullivan & Sheffrin, 2003). It is defined as a market in which money is provided for periods longer than a year, as the raising of short-term funds takes place at other market, which in this case is the money market. The capital market includes the stock market such as equity securities and the bond market which is about debt. The financial regulators of the capital market such as the Central Bank of Nigeria, Securities and Exchange Commission (SEC) oversee the capital markets in their designated jurisdiction to ensure that investors are protected against fraud (Afolabi, 1991).

Thus, the capital market is one in which individuals and institutions trade financial securities. Also, organizations or institutions in the public and private sectors also often sell securities on the capital market in order to raise funds. Thus, this type of market is composed of both the primary and secondary.

Concept of Market Capitalization

Market capitalization represents the aggregate value of stock size. Market capitalization is the measurement of the size of businesses and corporations which are equal to the market share price times the number of shares. In this case shares that have been authorized, issued, and purchased by investors of a publicly traded company (Al-Faki, 2006). Market capitalization is also calculated by multiplying the shares of the company by the price per share. The investment community uses the figure to determine a company's size or worth, as opposed to sales or total asset figure (Olowe, 1997). Market capitalization refers to the number of shares of a company multiplied by the market share price. In other words, market capitalization is usually considered as reflecting the worthiness of a company used by the investing public to determine the credit worthiness of a firm in terms of investing in such companies.

Capital Market and Economic Growth

In principle, the capital (stock) market is expected to accelerate economic growth, by providing a boost to domestic savings and increasing the quantity and the quality of investment. The market is expected to encourage savings by providing individuals with an additional financial instrument that may better meet their risk preferences and liquidity needs. Better savings mobilization may increase the saving rate. The capital market also provides an avenue for growing companies to raise capital at lower cost. In addition, companies in countries with developed stock market are less dependent on bank financing, which can reduce the risk of a credit crunch. The capital market therefore is able to positively influence economic growth through encouraging savings among individuals and providing avenues for firm financing (Charles & Charles, 2007).

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

Nigerian Capital Market

The capital market operations are structured into three broad categories: the primary, secondary and derivatives markets.

a) **The Primary Market**:

Primary market is also known as new issue market. As in this market securities are sold for the first time, i.e., new securities are issued from the company. Primary capital market directly contributes in capital formation because in primary market company goes directly to investors and utilises these funds for investment in buildings, plants, machinery etc. The primary market does not include finance in the form of loan from financial institutions because when loan is issued from financial institution it implies converting private capital into public capital and this process of converting private capital into public capital is called going public. The common securities issued in primary market are equity shares, debentures, bonds, preference shares and other innovative securities.

Method of Floatation of Securities in Primary Market:

The securities may be issued in primary market by the following methods:

i. **Public Issue through Prospectus**: Under this method company issues a prospectus to inform and attract general public. In prospectus company provides details about the purpose for which funds are being raised, past financial performance of the company, background and future prospects of company. The information in the prospectus helps the public to know about the risk and earning potential of the company and accordingly they decide whether to invest or not in that company Through IPO company can approach large number of persons and can approach public at large. Sometimes companies involve intermediaries such as bankers, brokers and underwriters to raise capital from general public.

ii. **Offer for Sale:** Under this method new securities are offered to general public but not directly by the company but by an intermediary who buys whole lot of securities from the company. Generally the intermediaries are the firms of brokers. So sale of securities takes place in two steps: first when the company issues securities to the intermediary at face value and second when intermediaries issue securities to general public at higher price to earn profit. Under this method company is saved from the formalities and complexities of issuing securities directly to public.

iii. **Private Placement:** Under this method the securities are sold by the company to an intermediary at a fixed price and in second step intermediaries sell these securities not to general public but to selected clients at higher price. The issuing company issues prospectus to give details about its objectives, future prospects so that reputed clients prefer to buy the security from intermediary. Under this method the intermediaries issue securities to selected clients such as General Insurance.

iv. **The private placement method;** is a cost saving method as company is saved from the expenses of underwriter fees, manager fees, agents' commission, listing of company's name in stock exchange etc. Small and new companies prefer private placement as they cannot afford to raise from public issue.

v. **Right Issue (For Existing Companies):** This is the issue of new shares to existing shareholders. It is called right issue because it is the pre-emptive right of shareholders that company must offer them the new issue before subscribing to outsiders. Each shareholder has the right to subscribe to the new shares in the proportion of shares he already holds. A right issue is mandatory for companies under Companies' Act 1956. The stock exchange does not allow the existing companies to go for new issue without giving pre-emptive rights to existing shareholders because if new issue is directly issued to new subscribers then the existing equity shareholders may lose their share in capital and control of company i.e., it would water their equity. To stop this pre-emptive or right issue is compulsory for existing company.

vi. **E-IPOs, (electronic Initial Public Offer):** It is the new method of issuing securities through on line system of stock exchange. In this company has to appoint registered brokers for the purpose of accepting applications and placing orders. The company issuing security has to apply for listing of its securities on any exchange other than the exchange it has offered its securities earlier. The manager coordinates the activities through various intermediaries connected with the issue.

b) The Secondary Market: also referred to as the stock market, it provides the forum for capital market activities (trading in stock and shares, bonds, debentures and other long-term securities) and is usually accessible to all category of investors – small or big, government institution or individuals. The major participant in the Nigerian capital market includes development banks, private firms, the treasury and the CBN while the minor ones includes commercial and merchant banks, individuals, states and local governments. This market comprises of the organized stock exchange and the **over-the-counter** (OTC) market but presently, there is no organized OTC market in Nigeria. Secondary market transactions are carried out by licensed stock brokers on the seven trading floors of the Nigerian Stock Exchange located in Lagos, Kaduna, Benin, Port Harcourt, Kano, Onitsha, Ibadan, Yola, and Abuja.

c) **The Derivatives Market**: This is the market that trades, not in the issued securities, but on the right to title on the underlying security or on the basis of the future title to the security. The derivatives market in Nigeria is still in its infancy and the only derivative presently being actively traded on the Nigerian Stock Exchange is right offer issue options.

Nigerian Stock Exchange

As one of the constituencies of the capital market, the exchange is a private, non-profit making organization, limited by guarantee. It was incorporated via the inspiration and support of businessmen and the federal government, but owned by about 300 members. The membership includes financial institution, stockbrokers and individual Nigerians of high integrity, who have contributed to the development of the stock market and Nigerian economy. It became necessary to set up the basic infrastructure as well as the development of an organized private sector for the establishment of a smooth financial system. The first step in this regard according to Odife (2000) was to secure the necessary finance for the development of this infrastructure and long term capital projects. In 1946, he went ahead to promulgate a 10 year plan local ordinance to float the first N300, 000 3% government stock 1963/61 with its management vested on the Accountant General. In 1951, the colonial administration also enacted a law in order to create loan funds for the financing of public utilities. The colonial government also set up the Professor Barbock Committee to examine the ways and means of fostering a share market in Nigeria. Part of the agenda of this committee included the possibility of establishing a stock market in Nigeria. In 1958, the central bank of Nigeria was established following the central bank Act of that same year. These various legislations were aimed at establishing the infrastructural and legal framework for the take-off of viable securities/stock market in Nigeria. As a follow up to these laws, the colonial administration issued the first N2m federation of Nigeria development loan stock in May 1959.

The Nigerian stock exchange started with the incorporation of the then Lagos stock exchange in 1960. Trading commenced on the exchange in 1961 after the enactment of the Lagos Stock Exchange Act of 1961, The self-regulatory organization was subsequently reorganized and renamed the Nigerian Stock Exchange 1967, based on the report and recommendation of Pius Okigbo financial system review commission.

In 1960, the Central Bank of Nigeria issued the first Nigeria Treasury Bills which were meant to provide an opportunity for the investment of short term liquid funds and to assist in the provision of government funds while waiting for a re-imbursement as its receipt revenue. Also the Lagos stock exchange was incorporated as a private limited company and members were given the monopoly power to deal in securities granted quotation on the exchange following the Lagos Stock Exchange Act of 1960. In 1961, the Lagos Stock Exchange opened for business with 19 listed securities made up of 3 equities, 6 federal government bonds and 10 industrial loans. In 1962, the capital issues committee was constituted to examine and recommend the establishment of an apex monitoring institution for the growing of the Nigerian capital market. Also in 1972, the capital issues committee was enacted to act as the apex regulatory institution for the Nigerian capital market. Following the degree, it was empowered to ascertain the price and timing of new issues of securities through offer for subscription. While in 1977, the name Lagos

Stock exchange was changed to the Nigerian stock exchange by the 1977 indigenization decree as recommended by the industrial enterprises panel of 1975 that branch exchange should be established. By this, six trading floors of the Nigeria stock exchange were created in Port Harcourt, Onitsha, Kaduna, Yola, Kano and Ibadan. In 1978, the Securities and Exchange Commission decree was enacted to replace the capital issues commission and to expand the scope of their operations as recommended by the financial system review committee (Okigbo Committee, 1976).

The stock market is essentially a market for long term securities that is stock, debenture and bonds lasting for usually longer than three years. The proper functioning of the stock market was not set up until the establishment of the Central Bank in 1959 and launching of the Lagos Stock Exchange in 1961 even though securities were floated as far back as 1946.

The needs to have an organized stock exchange came up and committee was set up by the government under the chairmanship of Prof. R.W. Barbock to consider the feasibility of having indigenous forum for the purchase and sales of shares and stocks.

Functions of Nigerian Stock Exchange

- To provide opportunities for raising new capital.
- To promote increasing participation by the public in the private sector of the economy.
- To provide appropriate machinery to facilitate further offerings of stocks and shares to the public.
- To provide a central meeting place for members to buy and sell existing stocks and shares and for granting quotation to new ones.
- To reduce the risk of liquidity by facilitating the purchasing and sale of securities. (Al-faki, 2007).
- The Nigeria stock market was established for the following reasons below.
- To overcome difficulties of selling government stock
- To provide local opportunities and lending for long term purpose
- To enable authorities mobilized long term capital for economic growth and development
- To enable the foreign business the chance of offering their shares to interested Nigerians to invest and participate in the ownership of these foreign business.

In view of the above the major participants in capital market are:

i. Government
ii. Quoted Companies (listed companies)
iii. Stock Brokers
iv. Central Bank of Nigeria (C.B.N)
v. Banking and non-Banking Financial Institutions
vi. Nigerian Stock Exchange
vii. Nigerian Securities and Exchange Commission.

Functions of the Nigerian Capital Market

- **Mobilizes savings**: from surplus economic units for changing into deficit units for the purpose of industrial and economic development. By carrying out these functions, the capital market plays an important role in promoting a nation's socio-economic development.
- Ensures through its allocated mechanism, an efficient and effective distribution of scarce financial resources for optimal benefit to the economy, in form of increase productive activities, more employment opportunities, and general improvement of the well-being of the populace.
- Create an avenue for the populace to participate in the corporate sector of the economy and share in its wealth, through ownership of securities.
- Reduce the over reliance of the corporate sector on short term financing for long term projects.

- Provide seed money for venture capital development which could serve as a vehicle for industrial development.
- The promotion of rapid capital.
- It is machinery for mobilizing long-term financial resources for industrial development.
- The provision of an alternative source of fund other than taxation for government.

Economic Growth

Economic growth means an increase in the capacity of an economy to produce goods and services, compared from one period of time to another. Economic growth is a process by which a nation wealth increases over time. The most widely used measures of economic growth is the rate of growth in a country's total output of goods and services gauged by the gross domestic product (GDP) Economic growth can also be refers to as the increase of per capita gross domestic product (GDP) or other measures of aggregate income, typically reported as the annual rate of change in the real GDP. Economic growth is primarily driven by improvement in productivity, which involves producing more goods and services with the same inputs of labour, capital, energy and materials. (Wikipedia).

Empirical Literature

Okoye (2019), examined the effect of capital market on economic growth of Nigeria as case study covering a period of 2001 – 2017. The study used time series data in order to capture capital market revenue covering the period under review. The study employed ordinary least squares regression method to analyse the data obtained from the CBN statistical bulletin and World Bank. The study found that there was no significant positive relationship among some indices of economic growth and Capital Market in Nigeria. Relationship between transportation and capital market revenue; growth rate in GDP and capital market revenue were not significant. However, adequate security and capital market revenue indicate positive significant relationship. The study recommended that power sector of the economy, Transportation facilities such as good road networks, availability of internet services, favourable governmental policies devoid of political selfish interest in addition to adequate security should be made available in order to make capital market function optimally and yield the expected revenue that will boost the economy.

Emeh & Chigbu E.E (2014), examined the impact of capital market on economic growth in Nigeria. The study adopted a time-series research design relying extensively on secondary data covering 1985 -2012. The study utilizes regression analysis as data analysis method incorporating multivariate co-integration and error correction to examine characteristics of time series data adopting disaggregate the capital market indices approach. Observation across studies on this subject is the heterogeneity in empirical findings over what may be termed a considerably uniform theoretical framework at least with regards to causality. Their finding suggested that two exhibit positive while two exhibit inverse and statistically significant relationship with economic growth. This could stimulate dialogue on the implication for policy simulation. Recommendation was that relevant regulatory agencies should focus on enhancing efficiency and transparency of market to improve investor's confidence. Therefore the need for effective and favorable macroeconomic environment to facilitate economic growth and ensure that channels of capital market induced growth are built around effective systems; and that policy institutions are active in making systemic checks and appropriate policy innovations to ensure capital market led economic growth.

Adeoye (2015), examined the impact of the Nigerian Capital Market on the Nigerian economy looking at a 20 years period from 1992 to 2011. The Nigerian Capital Market was proxy as Market Capitalization against some variables of the economy such as Gross Domestic Product (GDP), Foreign Direct Investment, Inflation Rates, Total New Issues, Value of Transaction and Total Listing. Using the multiple regression analysis, he could that Capital Market has an insignificant impact on the Economy within the period under review. The study therefore recommended that policies and measures that would boost investors' confidence should be enshrined in the running of Nigerian Capital Market so that it could contribute significantly to the growth of Nigerian economy noting that all elements of the market are essential ingredients to the development of a nation.

Oluwatosin, Adekanye and Yusuf (2013) examined the impact of Nigerian capital market on economic growth and development between 1999 and 2012. The study explored secondary data collected from security Exchange Commission reports, Nigerian Stock Exchange Review Reports, and central Bank of Nigeria Statistical bulletin. Methodology employed was ordinary least square regression analysis while the result showed that capital market indices had not significantly impacted on the GDP in Nigeria. This was attributed to low market capitalization, low absorptive capitalization, illiquidity, and misappropriation of funds among others. The study therefore recommended that government should restore confidence to the market through regulatory authorities which would portray transparency, fair trading transactions and dealing in the stock exchange, improve dealing in the market capitalization by encouraging more foreign investors to participate in the market and also to increase investments instruments such as derivatives, convertibles, swap and option in the market.

Theoretical Review

Efficient Market Theory

The efficient market theory is widely referred to as a hypothesis, and thus efficient market hypothesis (EMH) asserts that financial markets are "informational efficient". That is, one cannot consistently achieve returns in excess of average market returns on a risk-adjusted basis, given the information available at the time the investment is made. There are three major versions of the MPT hypothesis: "weak", "semi-strong", and "strong". The weak EMH asserts that prices of traded assets (for example, stocks, bonds, or property) already reflect all past publicly available information. The semi-strong EMH opines that prices reflect all publicly available information and that prices change to reflect new public information. The strong EMH additionally claims that prices instantly reflect even hidden or "insider" information. There is evidence for and against the weak and semi-strong EMHs, while there is powerful evidence against the strong EMH (Andrei, 2000). Extensive researches have revealed signs of inefficiency in financial markets. Critics have blamed the belief in rational markets for much of the late-2000s global financial crisis. In response, proponents of the hypothesis have stated that market efficiency does not mean having no uncertainty about the future, rather the market efficiency is a simplification of the world which may not always hold true, and that the market is practically efficient for investment purposes for most individuals (Chambernan, 1983).

Capital Asset Pricing Model (CAPM)

The Capital Asset Pricing Model (CAPM) indicates three main implications for empirical analysis. First is the endogenic that exists between consumption expenditure and wealth-asset regimes of investors. Second, it shows that consumption-based asset pricing models emphasizes utility and "use marginal rates of substitution" to determine the relative prices of composite consumption good (Mehra, 2012). Third, the theory indicates that an inter-temporal approach is essential for empirical estimation of the CAPM relationship. The consumption CAPM therefore uses marginal utility of consumption to measure the effect of risk on the returns of assets rather than relying on an indirect measure of risk, like the covariance of stock returns with the market index return (Bishop, 2001). More practically, the CAPM estimation shows how the relative attractiveness between current and future consumption affects an asset's price as reflected in its return.

The original treatise on the Capital Asset Pricing Model (CCAPM) as demonstrated by Rubinstein (1976), Breeden and Litzenberger (1978), and Breeden (1979) posits that in an inter-temporal economy; equilibrium expected excess returns is proportional to its "consumption beta." In this section we present a general and simplified derivation of the CCAPM within an inter-temporal choice structure based on the formulation provided in Bailey (2005). In this study, we focus on the inter-temporal CAPM which provides more robust analytical basis. The CAPM with inter-temporal patterns is typically constructed under the assumption that portfolio and consumption decisions are made in continuous time. However, to avoid the complex mathematics of continuous time stochastic processes, the CCAPM presented here is introduced in terms of the simpler model of investor behaviour in discrete time (akin to Bailey, 2005; and Levy and Samuelson, 1992).

Arbitrage Pricing Theory

The development of the Arbitrage Pricing Theory by Ross (1976) as a rival/alternative to the CAPM, further contributed to the development of finance theory. The APT differs from the CAPM in that it does not only take the market risk factor into account, but also relies on a number of, yet undetermined, risk factors. The development of the APT has created a great deal of interest, and even controversy, in the field of asset pricing, in so far as to determine all the risk factors to be taken into account in the pricing of assets, and whether or not it is more flexible and useful than the CAPM.

METHODOLOGY

The methodology employed in this study is the expo-facto research design. Ex post facto design examining how an independent variable, present prior to the study, affects a dependent variable. The target population of the study is from 2010-2019. The study employed secondary data collection. The study variable were obtained from Central Bank of Nigeria Statistical bulletin for the year.

Procedure for Data Analysis and Model Specification

Ordinary Least Square (OLS) regression technique will be used and it is useful for estimation, (Gross Domestic Product) which is the dependent variable will be regressed on the explanatory variables in the equation which includes: Total Value of Stock, Market Capitalization.

Some statistical and econometric test will be used to evaluate the regression, these include Multiple R, which is the correlation and it, measures he extent of relationship between variables, R – squares which is the coefficient of determination measures the percentage (proportion) of variation in the dependent variable that can attribute to the independent variables. The F statistic, the Beta coefficient measures the relative significance of each of the independent variable, "t" statistics and Durbin Watson test.

In formulating an econometric model for the relationship between Capital Market and Economic Growth in a developing economy. The objective of this study will be specifying a regression equation model. The models are to verify the impact of capital market on Economic Growth of Nigeria.

Model

GDP = f(TVS)(MCAP) ……………….. 1

From the above function, the following model is derived:

$GDP = \alpha + \beta_1 TVS + \beta_2 MCAP + \varepsilon$

Where;

GDP = Gross Domestic Product

TVS: Total Value of Stock

MCAP: Market Capitalization

ε is the error term.

α is to take care of the constant variable;

$\beta_1$and β_2 is the coefficient of TVS (Total Value of Stock) and MCAP (Market Capitalization) which is expected to be greater than Zero because it is positively related to Gross Domestic Product.

The study analyzed the impact of capital market on economic growth of Nigeria. Therefore, capital market was proxy by total value of stock and market capitalization (independent) while economic growth was proxy by gross domestic products.

RESULTS AND DISCUSSION

Descriptive statistics provide simple summaries about the sample and about the observations that have been made. Such summaries may be either quantitative, i.e summary statistics or visual, i.e. simple –to-understand graphs as shown in the earlier section above. These summaries from the basis of the initial description of the data as part of a more extensive statistical analysis that will be presented in this section. The summary of the descriptive statistics is presented;

Table 1: Descriptive Statistics

	GDP	MCAP	TVS
Mean	92550.81	1681.800	1568.980
Median	91594.29	1694.000	925.5000
Maximum	129956.6	2151.000	6456.000
Minimum	54612.26	991.0000	172.0000
Std. Dev.	26001.52	424.0013	1837.380
Skewness	0.097961	-0.500357	2.119567
Kurtosis	1.823410	2.071521	6.259933
Jarque-Bera	0.592812	0.776459	11.91559
Probability	0.743485	0.678257	0.002586
Sum	925508.1	16818.00	15689.80
Sum Sq. Dev.	6.08E+09	1617994.	30383676
Observations	10	10	10

Source: *Computed by the Researcher (2020) Using E-views 10*

The table 1 above show the mean, median, standard deviation as well as the skewness and kurtosis measures of our variables of interest are given. The mean values indicate that on the average of Gross Domestic Product (GDP), Market Capitalization (MCAP) and Total Value of Stock (TVS) in Nigeria is 92550.81, 1681.8 and 1568.98 billion naira respectively. The highest value for GDP, MCAP and TVS are 129956.6, 2151.00 and 6456.00 billion naira respectively during the period of study. However, the lowest value for GDP, MCAP and TVS are 54612.26, 991.00 and 172.00 billion naira respectively.

Skewness measure distribution of table in which GDP, MCAP and TVS is less than zero is normal and period is 0.09796, -0.5003 and 2.1195 respectively.

Table 2: Regression Analysis

Dependent Variable: GDP
Method: Least Squares
Date: 20/10/20 Time: 07:38
Sample: 2010 2019
Included observations: 10

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1467.703	17353.41	0.084577	0.9350
TVS	-1.338665	2.287035	-0.585328	0.5767
MCAP	55.40697	9.910704	5.590619	0.0008

R-squared	0.817546	Mean dependent var	92550.81
Adjusted R-squared	0.765416	S.D. dependent var	26001.52
S.E. of regression	12593.55	Akaike info criterion	21.96308
Sum squared resid	1.11E+09	Schwarz criterion	22.05386
Log likelihood	-106.8154	Hannan-Quinn criter.	21.86350
F-statistic	15.68288	Durbin-Watson stat	1.431006
Prob(F-statistic)	0.002594		

Source: *Computed by the Researcher (2020) Using E-views 10*

H_{O1}: Market capitalization has negative impact on the economic growth of Nigeria.
From table 2 above, the result of the variable have a positive significant impact on GDP. It was observed that Market Capitalization (MCAP) on Gross Domestic Product (GDP) contributes positive growth in the economic. The coefficient of determination (R^2) is 81%, which implies positive relationship between the explanatory variables which is market capitalization and the dependent variable (GDP). This means that the impact of MCAP on gross domestic product explain or account 81% influence or movement on the gross domestic product of Nigeria while only 19% account could be explained by other variables or factors not included in the model. The adjusted R^2 of 0.76 is the same to the R^2 value of 0.76 meaning that the model is fit for making generalization. Furthermore, the value of F-statistic= 15.68288 indicates the model's goodness of fit to the data. Also looking at the Durbin-Watson stat of 1.431006 shows absence of positive auto correlation among the variables in the model.

Finally, looking at the p-value of market capitalization is (0.0008) which is less than 0.05 degree of freedom. Therefore the study concludes that there is positive significant relationship between market capitalization and gross domestic product in Nigeria economy.

Decision Rule: Since the p-value is 0.0008 which is less than the 0.05 degree level the Null hypothesis stand rejected which say that market capitalization does not have significant impact on economic growth of Nigeria, while the alternate hypothesis is accepted which say there is significant impact of market capitalization on economic growth of Nigeria.

H_{O2}: There is no significant relationship between total value of stock and economic growth of Nigeria.

From table 2 above, the result of the variable have a strong negative significant impact on Gross Domestic Product. It was observed that Total Value of Stock (TVS) on Gross Domestic

Product (GDP) contributes positive growth in the economic. The coefficient of -1.338665 show that TVS has negative impact on economic growth of Nigeria. Furthermore, the value of F-statistic= 15.68288 indicates the model's goodness of fit to the data. Also looking at the Durbin-Watson stat of 1.431006 shows absence of positive auto correlation among the variables in the model.

Finally, looking at the p-value of market capitalization is (0.5767) which higher than 0.05 degree of freedom. Therefore the study conclude that there is strong negative significant relationship between total value of stock and gross domestic product in Nigeria economy.

Decision Rule: Since the p-value is 0.5767 which is higher than the 0.05 degree level the Hull hypothesis stand accepted which say that total value of stock does not have significant impact on economic growth of Nigeria, while the alternate hypothesis is rejected which say there is significant impact of total value of stock on economic growth of Nigeria.

Discussion of Findings

The study finding showed in table 2 confirms that market capitalization have a strong positive significant impact on economic growth of Nigeria while total value of stock have strong negative impact. The P-value of MCAP is 0.0008 which is less than 5 percent level of significant and the calculated coefficient of determination (R^2) is 81%, which indicate a positive relationship between economic growth and TVS P-value is 0.5767 which is higher than 5 percent level of significant which implies negative impact on economic growth. Empirical evidence revealed that market capitalization and total value of stock has positive and negative significant impact on economic growth of Nigeria. Similarly the result is also inconsistent with empirical finding of Okoye (2019).

CONCLUSION AND RECOMMENDATIONS

The study reveals that the capital market impact on economic growth via market capitalization and total value of stock. As it was observed market capitalization and total value of stock are important capital market variables that are capable of influencing economic growth. Hence the capital market remain one of the mainstream in every economy that has the power to influence or impact economic growth. Therefore the organized private sector is to invest in it. The market capitalization have impact significantly on the GDP while total value of stock have not significant impact on the GDP. Existing literature showed that market capitalization and total value of stock has impacted economic growth in Nigeria. Therefore, the study has contributed to the research effort at empirical measure of the impact capital market on economic growth. Data analysis revealed that a relationship exists between capital market and economic growth, and that while some components of capital market exerted positive impact on growth. The study concludes that capital market has contributed immensely to the economic growth of Nigeria which has guarantee investor fund.

In order for the Nigeria capital market to be pivotal force in Nigeria economic growth and development, the following suggestion or recommendation are put forward.

i. 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 practice, electronic fund clearance and eliminate physical transfer of shares.

ii. There is also need to restore confidence to the market by regulatory authorities through ensuring transparency and fair trading transaction and dealing in the stock exchange. It must also address the reported case of abuse and sharp practices by some companies in the market.

iii. To boost the total value of stock in the Nigerian capital market, there is need for availability of more investment instruments such as derivatives, convertibles, future, and swaps options in the market.

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