CAPITAL MARKET AND NIGERIA’S ECONOMIC GROWTH (1980-2013)

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Abstract
This paper seeks to examine the impact of capital market on economic growth of Nigeria from the period of 1980-2013. This means that the operation of the capital market is an impetus for economic growth. Economic growth was proxied by Gross Domestic Product (GDP) while the capital market variables considered include: market capitalization (MCAP), total holdings of development stock (TDS) and total value of transaction (TVT). Applying the Augmented Dickey Fuller unit root test, the Johansen co-integration test and the Error correction mechanism technique (ECM), the unit root test results show that only total holding of development stock (TDS) in which the ADF value is -3.861686 and the critical value is -3.568379 at 5% level of significance was stationary at level but at first difference, all the variables became stationary at 5% level of significance. This implies that there is no possibility of spurious result. The co-integration test results show that Nigerian capital market and economic growth are co-integrated. This implies that a long run equilibrium relationship exists between capital market and economic growth in Nigeria. The Error correction mechanism test results suggest that an increase in the activities of Nigerian capital market with specific emphasis on total value of transaction (TVT) with P-value of 0.0409 will significantly enhance output in the country because the p-value is less than 0.05 at 5% level of significance while the coefficients of MCAP and TDS with p-values of 0.6720 and 0.7608 at 5% level of significance respectively were not statistically significant since their p-values are greater than 0.05. The coefficient of determination ($R^2$) which shows that about 91.01% of the total changes in the economic growth (GDP) is attributable to changes in market capitalization, total value of transaction and total holdings of development stock. The evidence from this study reveals that the activities in the capital market tend to impact positively on the economy. It was concluded and recommended 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 investors’ confidence.

Keywords: Capital, Market, Economic Growth, Nigeria.
INTRODUCTION

The capital market is a highly specialized and organized financial market and indeed essential agent of economic growth because of its ability to facilitate and mobilize saving and investment. To a great extent, the positive relationship between capital accumulation real economic growths has long affirmed in economic theories (Ayanwu, 1996). Success in capital accumulation and mobilization for development varies among nation, but it is largely dependent on domestic savings and inflows of foreign capital. Therefore, to arrest the menace of the current economic downturn, effort must be geared towards effective resources mobilization. It is in realization of this that consideration is given to the measurement of the development of capital market as an institution for the mobilization of finance from the surplus sectors to the deficit sectors.

The development of capital market in Nigeria, as in other developing countries has been induced by the government. Though prior to the establishment of stock market in Nigeria; there existed some less formal market arrangements for the operation of capital market. It was not prominent until the visit of Mr. J.B. Lobyneson in 1959, on the invitation of the federal government, to advice on the role the central bank could play in the development of local money and capital market. As a follow-up to this, the government commissioned and set up the Barback committee to study and make recommendations on the ways and means of establishing a stock market in Nigeria as a formal capital market. Acting on the recommendation of the committee, the Lagos stock exchange (as was called then) was set-up in March 1960, and in September 1961, it was incorporated under section 2 cap37, through the collaborative effort of the central bank of Nigeria, the business community and industrial development bank (Alile & Anao, 1990). With the establishment of the central bank of Nigeria in 1959 and the coming into existence of the Lagos stock exchange in 1961 and subsequently, the Nigeria stock exchange by an act in 1979, a sound foundation was laid for the operation of the Nigerian capital market for trading in securities of long term nature needed for the financing of the industrial sector and the economy at large. After the incorporation of the Lagos stock exchange, it was granted further protection under the law and its activities was placed under some sort of control by the government, hence the passing of the Lagos stock exchange act. However, the Lagos stock was only operational in Lagos. By the mid 70’s, the need for an efficient financial system for the whole nation was emphasized, and a review by the government of the operations of the Lagos stock exchange market was advocated. The review was carried out to take care of the low capital formation, the huge amount of currency in circulation which was held outside the banking system, the unsatisfactory demarcation between the operation of commercial banks and the emerging class of the merchant banks, and the extremely shallow depth of the capital.

In response to the problems mentioned above, the government accepted the principle of decentralization but opted for a national stock exchange, which will have branches in different parts of the country. On December 2nd 1977, the memorandum and article of association creating the Lagos stock exchange was transformed into the Nigeria stock exchange, with branches in Lagos, Kaduna, port-Harcourt, yola and now in federal capital territory (FCT) Abuja and other cities. The history of Nigeria capital market could be traced to 1946 when the British colonial administration floated a ₦600,000 local loan stock bearing interest at 31/4% 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 ₦1 million, yet local participation of the issued was terribly poor. Certainly, potential fund abound in Nigeria, but the overriding consideration in this study 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.

There is abundant evidence that most Nigerian business lack long-term capital. The business sector has depended mainly on short-term financing such as overdrafts to finance even long-term capital. Based on the maturity matching concept, such financing is risky. All such firms need to raise an appropriate mix of short and long-term capital (Demirgue- kunt & Levine, 1996).

Most recent literature on the Nigeria capital market have recognized the tremendous performance in the market has recorded in recent times. However, the impact of the capital market in economic growth of Nigeria has not been empirically investigated thereby creating a research gap in this area. This study is undertaken to examine the impact of the capital market in the Nigerian economic growth. Aside the social and institutional factors inhibiting the process of economic growth in Nigeria, the bottleneck by the dearth of the economy constitutes a major setback to its development. As a result, it is necessary to evaluate the Nigerian capital market to determine its impact on the Nigeria’s economic growth.

LITERATURE REVIEW
Impact of Capital Market on Economic Growth of Nigeria

The capital market provides the necessary lubricant that keeps turning the wheel of the economy. It not only provides the funds required for investment but also efficiently allocates these funds to projects of best returns to funds owners.

The market is very vital to the growth and development of any country because it support government and corporate initiative finances the exploitation of new ideas and facilitates the management of financial risk.

The capital market has impacted on economic growth and development of Nigeria through the following:

- The capital market encouraged the inflow of foreign companies or investors invest in domestic securities
- 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.
- The capital market aid the government in privatization programme by offering her shares in the public enterprises to members of the public through stock exchange.
- It has impacted positively by providing avenue for the marketing of shares and other securities in order to raise fresh fund for expansion of operations leading to increase production/output.
- The market provides means of allocating the nation real and financial resources between various sectors, industries and companies. Through the capital formation and allocation
mechanism the market efficiently distributes the scarce resources for the optimal benefit to the economy.

**Capital Market and Economic Growth**

In principle, the capital market is expected to accelerate economic growth, by providing a boost to domestic saving and increasing the quantity and quality of investment. The market is expected to encourage saving 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 in countries 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 alternative yields liquidity and risk characteristics, it encourages saving in financial form. This is very essential for government and other institutions in need of long-term funds and for suppliers of long –term funds (Nwankwo, 1999). 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).

Based on the performance capital market in accelerating economic growth, government of most nations tends to have keen interest in its performance. The concern is for sustained confidence in the market and for a strong investor’s protection arrangement. Economic growth is generally agreed to indicate development on economy, because it transforms a country from a five percent saver to a fifteen percent saver. Thus it is argued that for capital market to contribute or impact on the economic growth in Nigeria, it must operate efficiently. Most often, where the market operate efficiently, confidence will be generated in the minds of the public and investors will be willing to part with hard earned funds and invest them in securities with the hope that in future they will recoup their investment (Ewah et al, 2009).

**Theoretical Background**

The theoretical explanation on the nexus between capital market and economic growth is further expantciated using efficient market Hypothesis(EMH) developed by Fama in 1965. According to EMH, financial markets are efficient when prices on traded assets that have already reflected all known information and therefore are unbiased because they represented the collective beliefs of all investors about future prospects. Previous test of the EMH have relied on long range dependence of equity returns. It shows that past information has been found to be in improving predictive accuracy. This assertion tends to invalidate the EMH in most developing countries. Equity price would tend to exhibit long memory or long range dependence, because of the narrowness of their market arising from immature regulatory and institutional arrangement. They noted that, where the market highly and unreasonably speculative, investors will be discouraged from parting with their funds for fear of incurring financial losses. In situations like the one mentioned above, has detrimental effect on the economic growth of any country, meaning investors will refuse to invest in financial assets. The implication is that companies

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cannot raise additional capital for expansion. Thus, it suffices to say that efficiency of the capital market is a necessary condition for growth in Nigeria (Nyong, 2003).

**Empirical Review**

The link between capital market and economic growth has been empirically investigated by researchers in both Nigeria and other countries of the world.

**Empirical Review on other Countries**

Demetriades, et al (2001) utilized time series data from five developed countries, to examine the relationship between stock market and economic growth, controlling for other effect of the banking system and stock market volatility. Their result supports the view that, although banks and stock market may promote economic growth, the effect of bank is more. They suggested that the contribution of stock market to economic growth may have been exaggerated by studies that uses cross country regressions.

Mohtadi and Agarwal (2004) examined the capital market and economic growth in developing countries using a panel data approach that covers 21 emerging markets over 21 years (1977-1997), they found that turnover ratio is an important and statistically insignificant determinant of aggregate growth. Foreign direct investment is also found to have a strong positive influence on aggregate growth. The result of their study indicates that both turnover ratio and market capitalization are important variables as determinants of economic growth.

Nieuwerburg, et al (2005) investigated the long term relationship between capital (stock) market development and economic growth in Belgium. Their result shows that the market causes economic growth in Belgium.

Mishra, et al (2010) examined the impact of capital market efficiency on economic growth of India using the time series data on market capitalization, total market turnover and stock price index over the period spanning from the first quarter of 1991 to the first quarter 2010. Their study reveals that there is a linkage between capital market efficiency and economic growth in India. This linkage is established through high rate of market capitalization and total market turnover, the large size of capital market as measured by greater market capitalization is positively correlated with the ability to mobilize capital and diversify risk on an economy wide basis. The increasing trend of market capitalization in India would certainly bring capital market efficiency and thereby contribute to the economic growth of the country.

Chee, et al (2003) indicated that stock market development has a significant positive impact on economic growth in Malaysia. The authors also reported that stock market development granger causes economic growth. The study by Muhammed et al ( 2008) suggested that there is a longrun relationship between stock market development and economic growth. Liu and Hsu (2006) reported a positive impact on economic growth of stock market development in Taiwan, Korea and Japan. The work of Francis et al (2007) showed that shareholder protection causes stock market development and eventually economic growth.

In another exposition, Gabriel (2002) as enunciated by Nyong (2003) lay emphasis on the Romanian capital market and conclude that the market is inefficient and hence it has not contributed to economic growth in Romanian.

**Empirical Review on Nigeria**

In Nigeria, some authors have also attempted to examine the relationship between stock market development and economic growth for instance, Osinubi Amaghionyeodiwe (2003) examined
the relationship between the Nigerian stock market and economic growth during the period 1980-2000. Unfortunately, their results did not support the claim that stock market development promotes economic growth.

Adam and Sanni (2005) examined the roles of stock market on Nigeria’s economic growth using granger causality test and regression analysis. Their study 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 and turnover ratios. The study advised that government should encourage the development of the capital market since it has a positive relationship with economic growth.

Obamiro (2005) investigated the role of the Nigerian stock market in the light of economic growth. The author reported a significant positive effect of stock market on economic growth. He suggested that government should create more enabling environment so as to increase the efficiency of the stock market, and attain higher economic growth. Ezeoha, et al (2009) investigated the nature of the relationship that exists between stock market development and the level of investment (domestic private investment and foreign private investment) flows in Nigeria. The study discovered that stock market development promotes domestic private investment flows, thus suggesting the enhancement of the economy’s production capacity as well as promotion of the growth of national output. However, the results show that stock development has not been able to encourage the flow of foreign private investment in Nigeria.

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. The study however, recommended the removal of impediment to stock market development which include tax, legal and regulatory barriers, development of nation’s infrastructure to create enabling environment where business can strive, employment policies that will increase the productivity and efficiency of firms as well as encouraging of the Nigerian securities and exchange commission to facilitate the growth of the market, restore the confidence of stock market participants and safeguard the interest of shareholders by checking sharp practices of market operators.

Effort was also made by Nyong (1997) to develop an aggregate index of capital market development and used it to determine its relationship with long run economic growth in Nigeria. The study employed a time series data from 1970-1994. Four measures of capital market development, the ratio of market capitalization to GDP (in percentage), the ratio of total value of transaction relative to GDP and listings were used. The four measures were combined into one over all 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 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 Nigeria. Ariyo and Adelegan (2005) contend that, the liberalization of capital market contributes to the growth of Nigeria capital market, yet its impact at the macro-economy is quite negligible.

Ogwumike and Omole (1997) in their study, on the Nigerian stock exchange found that financial savings in Nigeria did not readily flow through the stock market as investment. The reason for this among others, they argued, was that other investment outlets such as real estate development, financing local purchase order was more profitable than investment in securities.
Ekundayo (2002) argues that a nation requires a lot of local and foreign investment to attain sustainable economic growth and development. The capital market provides a means through which this is made possible. Ewah et al (2009) capital market provide the opportunities for the purchase and sale of existing securities among investors thereby encouraging the populace to invest in securities fostering economic growth. Ewah et al (2009) appraised the impact of capital market efficiency on economic growth in Nigeria using time series data on market capitalization, money, interest rate, total market transaction and government development stock between 1961-2004 using multiple regression and ordinary least squares estimation techniques. The result of the study shows that the capital market in Nigeria has the potential to induce market growth, but it has not contributed meaningfully to the economic growth of Nigeria because of low market capitalization, low absorptive capacity, illiquidity, misappropriation of funds among others. Some authors focus on the causal relationship between stock market development and economic growth for example; Gursoy and Muslumon (1999) confirmed the existence of a bi-directional casual relationship between stock market development and economic growth. Their study also revealed a stronger association between stock market development and economic growth in developing countries. Following Gursoy and Muslumon (1999), authors like luintel and khan (1999) and Hondroyiannis et al (2005) also reported a bi-directional between stock market which witnessed a boom in the last few years is now experiencing a meltdown, as market capitalization has declined from over ₦13 trillion in 2007 to ₦9.918 trillion in 2010. The all-share index has also fallen from 59,990.22 point to approximately 24,770.52 point in the same period. Moreover, the confidence of shareholders and investors seems to be eroding. Thus, it is expected that this study would complement the efforts of government and policy makers in reviving the Nigeria stock market and restoring the confidence of shareholders and other participants in the market. In addition, it is believed that a vibrant and well developed stock market would attract foreign investors and enhance the attainment of higher economic growth.

The empirical literature review has actually reviewed to us the contributions of different people from other countries and Nigeria towards the examination of the impact of capital market on economic growth. The works of these authors reviewed have their short comings for instance, Osinubi and Amaghionyeodiwe (2003), their work only cover the period of 1980-2000, and Ewah et al (2009), whose work was between 1961 and 2004, and he made use of multiple regression and ordinary least squares estimation techniques. This study intends to go further by extending the period from 1981-2013 and will make use of time series data in examining the impact of capital market on the economic growth of Nigeria.

**METHODOLOGY**

**Research Design**

The study examines the impact of capital market on Nigeria economic growth, from 1980-2013. The methodology of this study is essentially econometric analysis which will be used to estimate and analyze the influence of the explanatory variables on the dependent variable. For example, unit root tests, cointegration test, error correction mechanism (ECM). This research work embraces the use of secondary time series data in examining the macroeconomic impact of capital market on the economic growth of Nigeria.
Model Specification
To empirically analyze the impact of capital market on economic growth in Nigeria within the period under review, this study will use the model of Nyong (1997) who developed an aggregate index of capital market development and used it to determine its relationship with long run economic growth in Nigeria. The study will use gross domestic product (GDP) as a proxy for economic growth while market capitalization (MCAP), total value of transaction (TVT), value of equities (VEQ) and total listings (TL) all expressed as a ratio of GDP. The study will build upon this model while little modifications will be made by replacing value of equities and total listings with a composite value known as total holdings of development stock (TDS). The functional notation of our model is given below:
\[ \text{GDP} = F (\text{MCAP}, \text{TVT}, \text{TDS}). \]
The linear regression equation derived from the functional relationship above is:
\[ \text{GDP} = b_0 + b_1 \text{MCAP} + b_2 \text{TVT} + b_3 \text{TDS} + \mu \]
Where:
- GDP = Gross Domestic product
- MCAP = Market Capitalization
- TVT = Value of Transactions
- TDS = Total Holdings of development stock
- \( b_0 \), \( b_1 \), \( b_2 \), \( b_3 \) = Coefficients of the parameter estimates
- \( \mu \) = Error term.

DISCUSSION OF RESULTS
Unit Root Test
The Augmented Dickey-Fuller (ADF) test was employed by the researcher to test for stationarity or the existence of unit roots in the data. The test result is as presented below:

Table 1: Augmented Dickey Fuller Unit Root Test at level
Trend and intercept

<table>
<thead>
<tr>
<th>Series</th>
<th>ADF Test Statistic</th>
<th>5% critical values</th>
<th>Order</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>2.3697</td>
<td>-3.568379</td>
<td>I(0)</td>
<td>N.S</td>
</tr>
<tr>
<td>MCAP</td>
<td>-1.197825</td>
<td>-3.562882</td>
<td>I(0)</td>
<td>N.S</td>
</tr>
<tr>
<td>TVT</td>
<td>2.551412</td>
<td>-3.562882</td>
<td>I(0)</td>
<td>N.S</td>
</tr>
<tr>
<td>TDS</td>
<td>3.861686</td>
<td>-3.568379</td>
<td>I(0)</td>
<td>S</td>
</tr>
</tbody>
</table>

Table 2: Augmented Dickey Fuller Unit Root Test at first difference
Trend and intercept
The tables above show the summary of results of augmented dickey fuller (ADF) test conducted on the various variables used for the empirical analysis of the impact of capital market on economic growth of Nigeria. from the tables, it can be seen that at 5 percent level of significance, total holdings of development stock (TDS) was the only variable stationary at level while other variables were not since by comparison, their critical values were greater in absolute values than their augmented dickey fuller (ADF) test statistics. However, at first difference, all the variables (GDP, MCAP, TVT and TDS) became stationary. Thus, the series are said to be stationary and integrated of order one, I(1). This indicates that there is no possibility of spurious result.

**Co-Integration Test**

Co integration was used to test for Long run relationship between the variables considered. For this purpose, the Johansen co integration test was adopted. The model with lag 1 was chosen with the linear deterministic test assumption and the result is presented below.

**Table 3: summary of cointegration result**

<table>
<thead>
<tr>
<th>Hypothesized No. of CE(s)</th>
<th>Eigen Value</th>
<th>Trace Statistic</th>
<th>0.05 Critical Value</th>
<th>* Prob.*</th>
</tr>
</thead>
<tbody>
<tr>
<td>None *</td>
<td>0.951521</td>
<td>90.79865</td>
<td>27.58434</td>
<td>0.0000</td>
</tr>
<tr>
<td>At most 1 *</td>
<td>0.728470</td>
<td>39.11049</td>
<td>21.13162</td>
<td>0.0001</td>
</tr>
<tr>
<td>At most 2 *</td>
<td>0.584944</td>
<td>26.38025</td>
<td>14.26460</td>
<td>0.0004</td>
</tr>
<tr>
<td>At most 3</td>
<td>0.056303</td>
<td>1.738512</td>
<td>3.841466</td>
<td>0.1873</td>
</tr>
</tbody>
</table>

Max-eigenvalue test indicates 3 cointegrating eqn(s) at the 0.05
The summary of the Johansen Co integration Test was shown in the Table above. The trace statistics is greater than 5% critical values in three of the hypothesized number of equations and the eigenvalues are found as (0.951521, 0.728470, 0.584944 and 0.056303). The trace statistics of GDP, MCAP, TVT and TDS are greater than the critical values at 5% level of significance. Also, the Eigenvalues of GDP, MCAP, TVT and TDS are significantly greater than zero while In other words, the test result shows the existence of a long-run equilibrium relationship in three cointegrating equations at 5% significance level.

Specifically, the results of the cointegration test suggested that economic growth; proxied by Gross Domestic Product (GDP) had equilibrium relationship with market capitalization (MCAP), value of transaction (TVT) and total holdings of development stock (TDS). To check the nature of long run relationship among the variables, we consider the long run normalized cointegration equation for one cointegration.

The normalized cointegrating coefficients for one cointegrating equation given by the long-run relationship is:

\[
\text{GDP} = -4905.539 \times \text{MCAP} + 33.25844 \times \text{TVT} + 251.6755 \times \text{TDS}
\]

Where GDP is the dependent variable and MCAP, TVT, and TDS were the independent variables.

The signs show that there will be a negative relationship between MCAP and GDP in the future, a positive relationship between GDP and TVT and a positive relationship between GDP and TDS.

4.1.3 Error Correction Mechanism (ECM)

Given that the absence of stationary at level entails a loss of long run information, error correction mechanism (ECM) was used to estimate the parameter coefficients of the model. The ECM result is therefore presented below:

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Pro b.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>975.</td>
<td>57.</td>
<td>774</td>
<td>276</td>
</tr>
<tr>
<td></td>
<td>428.</td>
<td>1000.</td>
<td>0.428</td>
<td>0.6</td>
</tr>
<tr>
<td>MCAP</td>
<td>6748</td>
<td>922</td>
<td>280</td>
<td>720</td>
</tr>
<tr>
<td></td>
<td>21.4</td>
<td>9.962</td>
<td>2.152</td>
<td>0.0</td>
</tr>
<tr>
<td>TVT</td>
<td>4034</td>
<td>915</td>
<td>015</td>
<td>409</td>
</tr>
<tr>
<td></td>
<td>29.3</td>
<td>95.47</td>
<td>0.307</td>
<td>0.7</td>
</tr>
<tr>
<td>TDS</td>
<td>7439</td>
<td>603</td>
<td>662</td>
<td>608</td>
</tr>
<tr>
<td>ECM(-1)</td>
<td>1.26</td>
<td>0.474</td>
<td>2.662</td>
<td>0.0</td>
</tr>
</tbody>
</table>

* denotes rejection of the hypothesis at the 0.05 level

From the ECM result presented above, the coefficient of intercept is 2518975 i.e. when all explanatory variables are held, the constant is 2518975. The coefficient of market capitalization (MCAP) is 428.6748 which show that a unit increase in market capitalization will bring about an increase in GDP by 428.6748. The coefficient of total value of transaction (TVT) is 21.44034 which tell us that when there is a unit increase in TVT, GDP will increase by 21.44034 and vice versa. The coefficient of total holding of development stock is 29.37439 which indicate that a unit increase in TDS increases GDP by 29.37439 units.

Equally, from the result, the coefficient of ECM (-1) equals 1.263662. This reveals that the speed of adjustment between the short-run and long-run realities of the cointegrating equations is 126 percent annually. The coefficient of determination (R²) is 0.910130 which shows that about 91.01% of the total changes in the economic growth (GDP) which is the dependent variable are adequately attributable to changes in market capitalization, total value of transaction and total holdings of developmental stocks which are collectively called the independent variables.

However, the p-values of the estimated coefficients which is used to ascertain whether they are statistically significant or not shows that only the coefficient of total value of transaction (TVT) with p-value of 0.0409 is statistically significant because the p-value is less than 0.05 given the chosen level of significance (5%) while the coefficients of MCAP and TDS with p-values of 0.6720 and 0.7608 respectively were statistically insignificant since their p-values are greater than 0.05. However, the coefficient of ECM (-1) is equally significant.

Test of Hypothesis
Hypotheses testing are the use of statistics to determine the probability that a given hypothesis is true. For this study, the following hypotheses were tested.

**Hypothesis 1**
H₀: that capital market has no impact on the economic growth in Nigeria.
H₁: capital market has impact on the economic growth in Nigeria.

From the result of the ECM, two of the capital market variables employed (MCAP and TDS) have statistically insignificant impact on economic growth in Nigeria. However, one of the employed variables (TVT) had statistically significant impact on economic growth proxied by GDP. Therefore, since one of the variables have significant impact on economic growth of Nigeria, we reject the null hypothesis of no significance and conclude that capital market activities in Nigeria have statistically significant impact on economic growth in Nigeria.
Hypothesis 11

H$_0$: That there is no long run equilibrium relationship between capital market and economic growth of Nigeria.

H$_1$: There is long run equilibrium relationship between capital market and economic growth of Nigeria.

This hypothesis was tested using the result obtained from the Johanssnn cointegration test. The Johansen co-integration result indicated the presence of 3 co-integrating equations. Hence, the null hypothesis of no long run relationship is rejected therefore accepting the alternative hypothesis and concluding that there is long run relationship between capital market operations and economic growth of Nigeria.

Implication of the Study

The ECM result indicated that there is a positive though statistically insignificant relationship between market capitalization, total holdings of development stock and economic growth. Equally, there is a positive and statistically significant relationship between value of total transaction (TVT) and economic growth in Nigeria within the period reviewed. This relationship conforms to a priori expectation that all the variables would possess positive signs indicating that activities in the Nigerian capital market are significantly impacting on economic growth in the country. The implication of the result is that an increase in the activities of Nigerian capital market, with specific emphasis on total value of transaction (TVT) will significantly enhance output in the country. This is because, a large capital market widen the prospect for growth and also government development stock if well invested and not misappropriated to un-lucrative sector that does not have the potentials of growth inducement.

Recommendations

Based on the discussion of findings of the study, the following recommendations are made:

1. Government should improve dealing in the market capitalization by encouraging more foreign investors to participate in the market.
2. Government should restore confidence to the market through regulatory authorities which will portray transparency, fair trading transactions and dealing in the stock exchange.
3. There is also need to check and regulate the operators and all activities of the market through code of conduct of the market.
4. Government should improve basic infrastructures such as communication and information network. This will enhance transactions between parties of the market (issuing house, stock brokers, investors etc)
5. Government should restore confidence in the capital market by showing true commitment and sincerity of purpose in the capital market probe. The findings recommendation of the investigation panel should be fully implemented to improve confidence in the market.
6. Government should make effort to encourage a large market because a large capital market widen the prospect for growth and also government development stock if well invested and not misappropriated to un-lucrative sector that does not have the potentials of growth inducement.
7. Private sectors should be encouraged to participate in capital market, this is because increase in the activities of Nigerian capital market will significantly enhance output in the country.
REFERENCE
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