Contributions of the Nigeria Capital Market towards Economic Development of the Country

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Abstract: This study examines the contribution of the Nigeria Capital Market by using market capitalization and all share index. The capital market is the engine of growth and development in modern economies. A right legal and regulatory framework under a free economy with free enterprise is the spring board for development of this market which is the long term end of the financial market. The absence of a capital market will hamper industrial growth. Data used in this study were obtained from Nigeria Stock Exchange. The range is from 1998-2013. Ordinary least square (OLS) technique was used to analyze the data. The study showed that Nigeria capital market contributes to economic development by using market capitalization and all shares index.

Keywords: Capital Market, All Shares Index, Development, Market Capitalization.

1. INTRODUCTION

Capital market is the engine of growth and development in modern economies. It is that part of the financial system that is involved in providing long-term funds for productive use. Capital market facilitates the buying and selling of securities such as shares and bonds, hence, they perform two functions, liquidity and pricing of securities (Pandey, 2010). The capital market as an institutional framework drives from the concept of use funds, to finance its development requirements (Akinsulire 2004). Capital market provides a bridge by which the savings of surplus unit may be transformed into long term investments of deficit units.

The question to be asked is “does capital market contribute to the development of Nigerian economy”. This research work tends to find the answers to the above question by looking at the contributions of the Nigeria’s capital market to the nation economy. Market capitalization is the total value of all the companies listed at the Exchange derived by multiplying the number of their shares outstanding by their current prices per share. It is also total market capitalization of all shares in the Exchange. All shares index is a measurement of the value of a section of the stock market. It is computed from the prices of selected stocks. It is also a complication of stock constructed in such a manner to track a particular market, sector, commodity, currency, bond, or other asset.

This work is divided into four parts; the first part is introduction. The second is objective, hypothesis, of the study, scope and sources of data. The third deals with model specification. The final part is summary and conclusions.

2. OBJECTIVES OF THE STUDY

The objective of this work is to know the contributions of Nigeria capital market to Economic Development.

Specifically, the study will examine:
i The effect of market capitalization on the Gross Domestic Product

ii The impact of All Shares Index on the Gross Domestic Product.

**Hypotheses of the study**

The following hypotheses were structurally formulated to capture the above objectives and will be tested at the later part of the work.

**Ho1**: Nigerian Market Capitalization does not have any effect on the Gross Domestic Product of the country

**Ho2**: The All Shares Index of the Nigeria Stock exchange does not have any impact on the Gross Domestic Product of the country.

**Scope and sources of data for the study**

This study covers all companies drawn from all sectors of the Nigerian capital market quoted on the first and second tires securities markets. Data used were obtained from Nigerian stock exchange Lagos branch between 1998 - 2013 sixteen (16) years.

**3. MODEL SPECIFICATION**

Estimation command: \( LS \ GDP = C + MC + ASI + e \)

Estimation equation: \( EDP = (1) +C (2) \times MC +C (3) \times ASI + e \)

Where:

- \( LS \) = Least square
- \( GDP \) = Gross Domestic product
- \( C \) = Control Variable
- \( MC \) = Market Capitalization
- \( ASI \) = All shares Index
- \( E \) = Error Estimates

**Model I**: (Market capitalization and all shares Index)

A summary of the regression results from the relationship are presented below

\[
GD\bar{P} = 1.278883794e +11 - 0.1256797349 \times MC - 5.414041956e - 05 \times ASI \\
R^2 = 0.8454 \\
F* = 2.9018 \\
DW_{start} = 2.055
\]

The constant value of \( 1.278883774e +11 \) represent the value of GDP when the market capitalization and all share index does exist.

The co-efficient of \( MC - 0.1256797349 \) suggests that a decrease in market capitalization by 1 unit will have multiplier effect on GDP.

Also \( -5.414041956e - 05 \) is a coefficient of ASI which suggest that a decrease in ASI by 1 unit will have a multiplier effect on GDP. The value R for the model is 0.8454 shows a strong and perfect positive multiple correlation among variables investigated. The value \( R^2 \) of 0.9972 represent the coefficient of determination which shows the proportion of variation in dependent variable explained by the regression model. Therefore about 99.72% of the relationship that exists between the variable in the model can be explained using the data under review, while the remaining 0.28% are error estimate.

The Durbin – Watson start value of 2.055 based on the OLS residuals suggest, the presence of positive correlation between the variables
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Statistical Test of Hypothesis

The Breu sh - Godfrey serial correlation and OLS test were used to test the hypothesis at the 5% significant level.

Hypothesis

Ho1: Nigerian Market Capitalization does not have any effect on the Gross Domestic Product of the country

Ho2: The All Shares Index of the Nigeria Stock exchange does not have any impact on the Gross Domestic Product of the country.

The null hypotheses (Ho1&2) are rejected and alternative hypotheses are accepted. Hence, the regression equation is significant from the above, it can be dedicated that Nigerian capital market contribute to economic development.

4. SUMMARY AND CONCLUSION

The research examines the contribution if Nigerian capital market to economic development. Findings from the study showed that the Nigerian capital market contribute to economic development. Therefore, Nigeria stock exchange should register more company in other to add to the GDP of the country.

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Appendix

Regression Result
Estimation Command:
LS GDP C MC ASI
Estimation Equation:
GDP = C(1) + C(2)*MC + C(3)*ASI
Substituted Coefficients:
GDP = 1.278883794e+11 - 0.1256797349*MC - 5.414041956e-05*ASI

Table 1
Breusch-Godfrey Serial Correlation LM Test:

<table>
<thead>
<tr>
<th></th>
<th>F-statistic</th>
<th>Probability</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>F-statistic</td>
<td>2.901822</td>
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<td>0.097261</td>
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<tr>
<td>Obs*R-squared</td>
<td>5.526082</td>
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<td>0.063100</td>
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</table>

Test Equation:
Dependent Variable: RESID
Method: Least Squares
Date: 10/08/14   Time: 03:14
Presample missing value lagged residuals set to zero.

<table>
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<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
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<tr>
<td>C</td>
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<td>MC</td>
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<td>0.242818</td>
<td>0.081420</td>
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<tr>
<td>ASI</td>
<td>2.36E-05</td>
<td>0.000332</td>
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<td>RESID(-1)</td>
<td>0.657382</td>
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<td>RESID(-2)</td>
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<tr>
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<td>Akaike info criterion</td>
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Table 2
Dependent Variable: GDP
Method: Least Squares
Date: 10/08/14   Time: 03:05
Sample: 1998 2013
Included observations: 16

<table>
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<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
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<td>R-squared</td>
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<tr>
<td>Adjusted R-squared</td>
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<td>Prob(F-statistic)</td>
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