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

Michael Chidiebere Ekwe (Ph.D., ACA)

Department of Accounting
Michael Okpara University of Agriculture, Umudike, Abia State of Nigeria.
ekwemike@yahoo.com

OJeh Augustine, ACA

Accountancy Department
Godfrey Okoye University Enugu Nigeria
augustineojeh@yahoo.com

Abstract: *This study examines the contribution of the Nigeria Capital Market by wing 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)* MC +C (3)* 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

GDP = 1.278883794e +11 – 0.1256797349*Mc–5.414041956e – 05*ASI

R = O.8454

R^2 = 0.9972

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 will have multiplier effect on GDP.

Also – 5.414041956e - 05* is a coefficient of ASI which suggest that a decrease in ASI by ₦1 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

Statistical Test of Hypothesis

The Breush - 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 ($Ho_{1\&2}$) 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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AUTHORS' BIOGRAPHY

Michael Chidiebere Ekwe (Ph.D.; ACA), Is a Senior Lecturer in the Department of Accounting at the Michael Okpara University of Agriculture, Umudike, Abia State of Nigeria. He holds a Bachelor of Science, Master of Science and Doctor of Philosophy degrees in accounting from the prestigious University of Nigeria. He is a professional Accountant and an Associate member of the Institute of Chartered Accountants of Nigeria. He has widely published in local and international learned journals. He has also presented papers at various conferences locally and internationally.

Ojeh Augustine (B.Sc.; ACA), Is a Lecturer in the Department of Accounting at the Godfrey Okoye University Enugu, Enugu State of Nigeria. He holds a Bachelor of Science degree in accounting from the prestigious University of Nigeria and he is currently pursuing his masters degree in accounting at the Enugu State University of Science and Technology. He is a professional Accountant and an Associate member of the Institute of Chartered Accountants of Nigeria. He has widely published in local and international learned journals. He has also presented papers at various conferences locally and internationally.

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:				
F-statistic	2.901822	Probability		0.097261
Obs*R-squared	5.526082	Probability		0.063100
Test Equation:				
Dependent Variable: RESID				
Method: Least Squares				
Date: 10/08/14 Time: 03:14				
Presample missing value lagged residuals set to zero.				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-2.26E+09	6.92E+10	-0.032693	0.9745
MC	0.019770	0.242818	0.081420	0.9366
ASI	2.36E-05	0.000332	0.071102	0.9446
RESID(-1)	0.657382	0.277089	2.372456	0.0370
RESID(-2)	-0.400420	0.279106	-1.434652	0.1792
R-squared	0.845323	Mean dependent var		1.38E-05
Adjusted R-squared	0.997225	S.D. dependent var		2.62E+11
S.E. of regression	2.48E+11	Akaike info criterion		55.56049
Sum squared resid	6.76E+23	Schwarz criterion		55.80193

Table 2

Dependent Variable: GDP				
Method: Least Squares				
Date: 10/08/14 Time: 03:05				
Sample: 1998 2013				
Included observations: 16				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.28E+11	7.82E+10	1.635413	0.1259
MC	-0.125680	0.271962	-0.462122	0.6516
ASI	-5.41E-05	0.000377	-0.143698	0.8879
R-squared	0.027505	Mean dependent var		1.07E+11
Adjusted R-squared	-0.122110	S.D. dependent var		2.66E+11
S.E. of regression	2.82E+11	Akaike info criterion		55.73420
Sum squared resid	1.03E+24	Schwarz criterion		55.87906
Log likelihood	-442.8736	F-statistic		0.183836
Durbin-Watson stat	2.054680	Prob(F-statistic)		0.834198