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Capital Market and Economic Growth Nexus: Evidence from Nigeria

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Abstract: *This paper examined the capital market and economic growth nexus in Nigeria using data on real Gross Domestic Product (GDP) and capital market variables such as market capitalization, total value of shares traded, total new issue of shares. Dividend yield, government stock and gross capital formation were included in the study as control variables. All data were obtained from Central Bank of Nigeria (CBN) statistical bulletin and Nigerian Stock Exchange fact book which span across 1982 to 2012. Data stationarity were ensured using the Augmented Dickey Fuller (ADF) statistic, while the Ordinary Least Square (OLS) statistical tool was utilized for data analysis. Results of the analysis showed that capital market variables have a statistically strong positive relationship with GDP and as expected, capital market has statistically significant effect on economic growth. The paper showed that the development of the capital market is essential for ensuring rapid short run growth in real income in Nigeria. Though, the effect of the capital market development seems to be delayed in the long run, the positive impact on economic growth arising from development of the market is quite significant. It is therefore recommended that government should put in place policies that will encourage rapid development of the capital market and active participation of both individuals and corporate organization in capital market activities.*

Key Words: *Capital Market, Economic Growth, Nigeria*

I. Introduction

The role of capital in the production process and economic performance of a nation has long been recognized. Capital provides the impetus for the effective and efficient combination of factors of production to ensure sustainable economic growth. Moreover, the effective utilization of productive resources accumulated over time would determine the pace of growth of an economy. Growth in productive activities and its distribution determines the social well being of the population. Capital formation, however, can only be achieved through conscious efforts at savings mobilization and accumulation of resources by both the public and private sectors of an economy. The unique position of the capital market could, therefore, be appreciated from this perspective. Financial markets generally provide avenue for savings of various tenors that are made available for utilization by various economic agents. The capital market, which is a major segment of financial markets, provides a setting through which medium to long-term resources are provided for productive utilization.

Business firms as well as individual units often need to raise capital. On the other hand, some individuals and firms, even governments have incomes that are greater than their current expenditure, so they have funds available to invest. But only few individuals and institutions are in the position to provide all forms of financing needed to fund big businesses.

The financial system is a frame work within which capital formation takes place. In other words, it is the frame work within which the savings of some members of the society (the savers) are made available to other members of the society (the borrowers) for productive investments. It facilitates speedy transfer of funds from the surplus sector of the economy to the deficit sector for profitable investment. Put differently and clearly, the financial system provides the economy, with the mechanism through which scattered savings of the masses in the society are first aggregated and then disaggregated among economic units. This service is rendered through the provision of financial resources to meet the borrowing needs of individuals; business enterprises and governments .The financial system therefore, consists of financial institutions, financial instruments, rules and norms that facilitate and regulates the flow of funds through the macro economy. The system itself is controlled by the government through the agency of the Central Bank of Nigeria, which supervises the activities of financial intermediaries and monitors adherence to the government monetary and fiscal policies.

Within the financial system is the financial market which is classified into two main categories; the money market and the capital market. The money market deals with short and medium term financial instruments that are readily convertible into cash and whose maturity ranges between a few days and few years. They exist primarily as a means of liquidity adjustment and include treasury bills, treasury certificates, commercial papers etc.

On the other hand, the capital market deals with instruments or long term securities with maturity period spanning longer than one year such as bonds, debentures and equity stocks. The capital market in Nigeria

has been a major source of finance to the government, industries etc to meet their longer term capital requirements such as financing for fixed investments on buildings, plants, bridges etc. It has been in existence in Nigeria since 1960 and has progressed steadily over the years. The use of the capital market reduces over reliance on the money market, assist in promoting a solvent and competitive financial sector as well as fostering a healthy stock market culture. The capital market is the fundamental platform for capital mobilization in any economy, no investment takes place in a vacuum, capital is a necessary requirement. A well developed capital market ensures the availability of capital funds for investment, and developing project usually takes a long gestation period which the funds from the money market cannot sustain. This implies that the absence of an efficient capital market in an economy would result in shortage of long term funds and would harm investment and hence militate against economic growth and development.

The objective of the capital market at any point in time is geared towards providing a channel for mobilizing domestic savings for productive investment. Apart from its fund mobilization function, it performs intermediary role by making it possible for those who have surplus funds to be able to loan it out to those in need of it for productive purposes. Though the Nigeria Capital Market has maintained an upward trend over the years, there is a general belief that it has not done enough in supporting the nation's economic development. The global financial crises that originated from United States of America in 2008 negatively impacted on the performance of Capital Market in Nigeria. All the Capital Market indices were all on a downward swing. Market capitalization, All share index, total new issues, gross capital formation etc all went down by about 40%. Again, the impact of global financial crisis on the Capital Market affected the confidence of people investing their funds in capital market, which in turn affected the effort of corporate bodies in raising long term funds. All these gave rise to doubts as to whether the Capital Market is still playing the expected role in driving economic growth and development of the country. This paper therefore investigates this.

The broad objective of the paper is to evaluate the contribution of the Nigerian Capital Market to the growth of the Nigerian economy. The specific objectives are;

- To examine the impact of market capitalization on the Nigerian Gross Domestic Product.
- To determine the extent to which total value of shares in traded in capital market impact on real GDP.
- To determine the extent to which total no of issues in capital market impact on real GDP

The following research hypotheses are formed to guide this work.

1. H_0: The value of market capitalization does not have significant impact on economic growth in Nigeria.
   H_1: The value of market capitalization has significant impact on economic growth in Nigeria.
2. H_0: Total Value of Shares traded does have positive impact on economic growth in Nigeria.
   H_1: Total Value of Shares traded have positive impact on economic growth in Nigeria.
3. H_0: Total New Issue of Shares does not have significant impact on economic growth in Nigeria.
   H_1: Total New Issue of Shares has significant impact on economic growth in Nigeria.

The result from this study is expected to be of great importance to individuals, investors, business firms and the government. It will also help to enlighten the members of the public on the benefits of owning stocks and shares, inculcating in them the savings and investment habit.

This research will be significant to business firms and the government in the sense that it is going to expose the usefulness of raising funds in the Nigerian capital market with regards to reduction in risk and involvement of the public in economic development. The study is also aimed at boosting investor's morale to patronize the capital market in other to enhance their effect on the economy. This study is also expected to identify some problems encountered in the capital market by participants and suggest possible means of rectifying them. The recommendations and findings of the study are also expected to be of great assistance to future researchers, future market participants and future policy makers.

II. Literature Review

Financing the savings - investment gap, especially in the less developed economies like Nigeria, where savings mobilization could not keep pace with the level of investment, has called for encouraging foreign capital inflow in order to bridge the gap and thus promote economic growth (Ahmed, 1997). This is in line with the general belief that in the absence of domestic savings which is the source of needed capital, the encouragement of foreign capital inflow is more likely to have positive influence on the development process (Fobbozzi & Modiglian, 1992). This involves the conversion of domestic and foreign resources into tangible and intangible productive assets that would improve the overall output of the economy. These resources would also need to be structured into acceptable tenors (short, medium and long) to promote development. Thus, the cardinal role expected of the money and capital markets is to provide such investible funds. The stock market in particular contributes to economic development through the provision of required resources, which are within the medium

to long-term spectrum. The stock market also provides veritable avenue for private enterprises to raise investible funds for expansion, modernization and other long term purposes (Anyanwu, 1998).

Many development economists consider investment as the most important factor in the growth process. Rostow (1961) in his work defined the 'take off of an economy into a sustained 1evel.in terms of a critical ratio of investment to national output. Arthur (1955) described the process of development as one of transforming a country from being a low saver and investor to a high saver and Investor. It is conventional for economic planners to calculate fairly accurate ratios of investment to national income that will be required either to achieve a particular rate of growth or to prevent capital per head or income per head from falling.

The roles of financial institutions are critical in economic development as they engage in facilitating reliable payments system, mobilizing savings, allocating credit and diversifying risks (Haley and Schel, 1973). Capital market institutions in particular are in position to encourage investment, as investors are able to borrow funds and invest more than they would have done without such institutions. The institutions are thus able to pool savings and direct them into viable investment outlets (Copeland & Weston, 1980).The issue of creating a reliable capital market for development revolves around the emergence of enabling environment which allows competition to flourish.

As Lowy et a1 (1996) noted, creation of an acceptable climate for investment is critical for development. Such climate has certain prerequisites which include a freely convertible currency; effective legal and institutional framework, reliable accounting standards and a system of regulation that protects consumers but does not otherwise inhibit competition. The reforms in the Nigerian capital market attempted to address some of the issues enumerated by Lowy et a1 (1996). The recent report on the market recognized the need for an enabling environment while competition is being addressed through the establishment of additional stock exchanges and capital trading points. One major advantage of utilization of capital market funds for financing of government project is that it matches the long gestation period of projects like roads, hospitals, factories etc, with the tenor of the bond. The project is usually completed before the debt becomes due.

As regards empirical works, there have been growing concerns and controversies on the impact of capital markets on economic growth and development (Oyejide 1994; Levine and Zervos 1996; Demirgue-kunt and Levine 1996; Nyong 1997;Obadan 1998; Sule and Momoh 2009; Ewah,Esang and Bassey2009).There have been mixed results; while some are in support of a positive link, some negative link and others do not find any empirical evidence to support such conclusion. For instance, Atjeand (1993) found in a cross-country study of stock and economic growth of 40 countries from 1980 to 1988 that there was a significant correlation between the average economic growth and stock market capitalization.

Levine and Zervos (1996) examined whether there was a strong empirical relationship between stock market development and long-run economic growth. They found a strong correlation between overall stock market development and long-run economic growth. Demiurgic-Kunt and Levine (1996) using data from 44 countries for the period 1986 to 1993 found that different measures of stock exchange size are strongly correlated to other indicators of activity levels of financial, banking, non-banking institutions as well as to insurance companies and pension funds. They concluded that countries with well-developed stock markets tend to also have well-developed financial intermediaries.

Again, Demiurgic-Kunt and Maksimovic (1998) have shown and re-emphasized the complementary role of the stock market and banks that they were not rival or alternative institutions using 30 countries from 1980 to 1991. Levine and Zervos (1998) used pooled cross-country time series regression of 47 countries from 1976 to 1993 to evaluate whether stock market liquidity is related to growth, capital accumulation and productivity. They towed the line of Demiurgic- Kunt and Levine (1996) by conglomerating measures such as stock market size, liquidity and integration with world market, into index of stock market development. The rate of Gross Domestic Product (GDP) per capita was regressed on a variety of variables designed to control for initial conditions, political instability, investment in human capital and macroeconomic condition and then, included the conglomerated index of stock market development. They found empirically that the measures of stock market liquidity were strongly related to growth, capital accumulation and productivity while stock market size does not seems to correlate to economic growth.

Nyong (1997) developed 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 to 1994. Four measures of capital market development-ratio of market capitalization to GDP (in %), ratio of total value of transactions on the main stock exchange to GDP (in %), the value of equities transactions relative to GDP and listing were used. The four measures were combined into one overall composite index of capital market development using principal component analysis. The financial market depth was included as control. It was found that the capital market development is negatively and significantly correlated with the long-run growth in Nigeria.

Demiurgic-Kunt and Maksimovic (1998) cited in Henry (2000) found a relationship between economic growth and the stock market activity in the field of transmission of security (secondary market) more than in

funds channeling (primary market). Barlett (2000) demonstrated that a rising stock price raises the wealth of the economy (wealth effect) by encouraging increase in consumers' consumption and increase in investment.
Ewan et al. (2009) appraised the impact of the capital market efficiency on the economic growth of Nigeria using time series data from 1961 to 2004.They found that the capital market in Nigeria has the potential of growth but it has not contributed meaningfully to the economic growth of Nigeria because of low market capitalization, low absorptive capitalization, illiquidity, misappropriation of funds among others.

Ogege and Ezike (2012) examined whether there is a long run relationship between capital market activities and economic development in Nigeria. It also look at the direction of causality between capital market indicators and economic development employing the method of Johansen co-integration and the Granger causality tests using data spanning the period 1971-2010. The model equated LGDP with variables such as market capitalization, total value of shares, turnover ratio, interest rate spread, inflation, Government Expenditure and political stability. The research findings indicate that Nigerian capital market has over the period under review contributed significantly to economic development in Nigeria. It holds a major key to the emancipation of developing countries from servitude. This conforms to the theoretical assessments as highlighted in their study

Kolapo and Adaramola (2011) researched on the economic growth proxied by Gross Domestic Product (GDP) while the capital market variables considered include; Market Capitalization (MCAP), Total New Issues (TNI), Value of Transactions (VLT), and Total Listed Equities and Government Stocks (LEGS). Applying Johansen co-integration and Granger causality tests, results showed that the Nigerian capital market and economic growth are co-integrated. This implies that a long run relationship exists between capital market and economic growth in Nigeria. The causality test results suggested bidirectional causation between the GDP and the value of transactions (VLT) and a unidirectional causality from Market capitalization to the GDP and not vice versa. The evidence from the study revealed that the activities in the capital market tend to impact positively on the economy.

There is lack of consensus in the literature of financial economics with respect to the nature and degree of relationship between capital market and economic growth with extension economic development as well as the controversy surrounding the direction of causality between the two variables. This provides a compelling motivation to examine specifically the capital market relationship with economic growth within the Nigerian context.

III. Research Methodology

The methodology of this study involves time series analysis. Data for this study was systematically gathered or collected in the process of implementing a research project. This study used data covering the period of 1982 – 2012. These data were sourced mainly from different series of Nigeria Stock Exchange Fact Book, Nigeria Stock Exchange Annual Report and Account (various issues), Central Bank of Nigeria Statistical Bulletin and Federal Office of Statistics, Statistical Bulletin. The study utilized the economic method of ordinary regression using ordinary least square (OLS) estimation procedure to estimate the impact of the capital market on the economic growth of Nigeria. The significance of using an econometric model in this research is justified by the fact that all econometric models are tested for goodness of fit by using econometric criteria, statistical significance and a theoretical economic a prior expectation. The OLS is also considered because it is the best linear unbiased estimator.

The model adopted for this study was based on the improvement suggested by Demirgue-Kunt and Levine (1996), Levine and Zervos (1996), and Ewah et al (2009) which have investigated linkage between stock market and economic growth. Their studies infer that the economic growth (Proxied by Real Gross Domestic Product) is significantly influenced by the capital market indices such as market capitalization, new issues, value of transaction and total listing.

To examine the long run relationship, the study applied the Johansen co-integration test and developed an over parameterized error correction model (ECM). ECM involves leading and lagging of the variables in the regression equation. The following are the *apriori* expectations of the coefficient of the model: a1, a2, a3, a4 > 0 .

The functional form on which our econometric model is based on is given as:
Y = f (x1, x2, x3, x4, x5)……. (1) Where Y is economic growth or RGDP = dependents variable x1 –x4 are independent variables F represents the functional notation. This can be specifically stated as:
RGDP= f (MCR, TNI, VLT, DVY, GSTOCKS,GCAP) ……..... (2)
Where; RGDP = Real Gross Domestic Product (proxy for economic growth)
MCR = Market Capitalization
TNI = Total New Issues
VLT = Total value for Transactions
DVY = dividend yield

GSTOCKS = Government Bonds
GCAP = Gross Capital Formation
The explicit form of equation (i) is represented as:

$$RGDP = \delta 0 + \delta_1 MCR + \delta_2 TVT + \delta_3 TNI + \delta_4 DVY + \delta_5 GCAP + \delta_6 GSTOCKS + \epsilon_t \text{----------(3)}$$

Where : $\delta 0$= is the constant

$\delta_1, \delta_2, \delta_3, \delta_4, \delta_5, \delta_6$ = coefficient of the variables

ϵ_t = Error term

Regression analysis of the ordinary least square is adopted in this study to test the relationship between the stock market and economic growth measured by the numbers of independent variables offers by the markets, which are Government Bond (public investment), capital market index (Proxied by growth of market capitalization, total value traded, total no of shares issued) and market performance, proxied by dividend yield.

IV. Data Analysis And Result

Table 1 : Summary of Regression Analysis

R.Square	Adjusted R. Square	Std Error of Estimate	F.Statistics	Durbib-Waston
0.766983	0.720380	98562.84	16.45768	1.87

The R^2, which measures the overall goodness of fit of the entire regression, shows the values as follows that R^2 is 0.766983. This shows that the independent variables in the model explain 76.7% variations in the dependent variable.

Adjusted R^2 attempts to correct R^2 to more closely reflect the goodness of fit of the model in the population. It is superior to R^2 because it is sensitive to addition of irrelevant variables. It is also used to measure the predictive capacity of the model and from the result above, the result is 0.7204. This means the GDP can be predicted to the extent of 72% by variations in the independent variables.

The F-test is conducted to ascertain if the model is statistically significant. The test follows f-distribution with k-1 degrees of freedom in the numerator and n-k degrees of freedom in the denominator.
Decision rule:

Reject H_0 if $F_{cal} > F_{tab}$ and accept H_1 if otherwise

At 0.05 significance level;

Since F_{tab} (tabulated F) is 2.76 and F_{cal} (the F-statistic in the result) is 16.45, we therefore conclude that the model is statistically significant.The Durbin-Watson test is a test of serial dependence or autocorrelation among the residuals of a model. It tests for autoregressive scheme, also known as the first order process (Gujarati, 2004). The DW value of 1.87 from the model summary table which is close to 2 indicates the absence of first auto correlation either positive or negative.

The Augmented dickey Fuller (ADF) test is employed in order to analyze unit roots. The results are presented in levels and first difference. In the result, the ADF test statistic for each of the variables is shown in the second column, while the 95 percent critical ADF value is shown in the third column. The result indicates that, apart from the dependent variable (real GDP), all the variables have ADF values that are less than the 95 percent critical ADF values. The implication of this is that the time series are non stationary in their levels, but that of real GDP is not time-varying.

Table 2. Unit Root Test for Variables in Levels

Variable	ADF Test Statistic	95% Critical ADF Value	Remark
RGDP	8.405	-2.960	Non- Stationary
MCR	-1.346	-2.960	"
TVT	-2.363	-2.960	"
TNI	-2.228	-2.960	"
GCAP	-3.146	-3.563	"
DVY	-3.259	-3.563	"

Furthermore, taking the first differences of the respective variables and performing the unit root test on each of the resultant time series. The result of the unit root test on these variables in first differences is reported in table 3 below. From the result, it is seen that the ADF test statistic for each of the variables is greater than the 95 percent critical ADF values (in absolute values). With these result, these variables are adjudged to be stationary. This implies that the variables are actually difference-stationary, attaining stationarity after the first differences of the variables. Thus, we would accept the hypothesis that the variables possess unit roots. Indeed, the variables are integrated of order one (i.e. I[1]).

Table 3 : Unit Root Test for Variables in First Difference

Variable	ADF Test Statistic	95% Critical ADF Value	Remark
MCR	-5.163	-2.964	Stationary
TVT	-4.019	-2.964	"
TNI	-5.312	-2.964	"
GCAP	-4.128	-3.563	"
DVY	-4.989	-3.563	

Having established that the series in the analysis are all I(1) variables, possessing unit roots, we move on to determine if they are cointegrated. The results from the multivariate cointegration test are presented in Table 4 below. As can be seen from the table, the trace test statistic shows that there is at least 2 cointegrating relations while the λ-max statistic indicate that there is one significant cointegrating vector among the variables since the hypothesis of no cointegrating vector (r=0) is to be rejected. Apparently, the number of cointegrating relations or vectors (indicated by r) is at least one. Thus, the hypothesis of no cointegration among the variables is rejected. By this, we conclude that a long run relationship exists between RGDP and all the independent variables.

Table 4: Johansen Multivariate Cointegration Tests Results.

Trace Test			*Maximum Eigenvalue Test*		
Null Hypothesis	**Test Statistic**	**Critical Value**	**Null Hypothesis**	**Test Statistic**	**Critical Value**
r = 0*	179.2	95.75	r = 0*	56.78	40.08
r ≤ 1*	122.4	69.82	r ≤ 1*	44.92	33.88
r ≤ 2*	77.52	47.86	r ≤ 2*	31.20	27.58
r ≤ 3*	46.32	29.79	r ≤ 3*	24.74	21.13

** denotes rejection of the hypothesis at 5% significance level.*

In the dynamic analysis, we consider both the autoregressive distributed lag (ARDL) results and the error correction mechanism (ECM) result. The results of the ARDL estimates are reported in Table 5 below. The R squared value is not quite high at 50.3, indicating that just over 50.3 percent of the systematic variations in RGDP is captured in the model. The F-value is also highly significant (passes the test at 1 percent level). This shows that a significant relationship actually exists between RGDP and all the independent variables combined.

Table 5 : Short-run (ECM) Estimates

Variable	Coefficient	T-ratio
Constant	9647.8	2.879
ΔMCR	-982.6	-1.495
ΔMCR(-1)	1857.3	2.188
ΔTVT	0.095	2.141
ΔTNI(-1)	-499.8	-2.837
ΔGCAP	-0.028	-0.174
ΔDVY	2350.8	1.407
ECM(-1)	-0.239	-1.979
$R^2 = 0.503$	F = 2.60	D.W. = 2.21

In terms of the individual coefficients of the model, there are quite pervasive outcomes. The coefficient of current capital market development is negative, although that of its first lag is positive. This result indicates that the positive effect of the capital market on real GDP in Nigeria is delayed after a period. This shows that boom in the capital market takes a period of time before it is transmitted to the economy. These calls for caution on the part of authorities when devising policies that will help the capital market integrate better with the economy.

The coefficient of value traded in the market is positive and also significant at the 5percent level. This shows that the volume of trading in the capital market tends to stimulate economic performance in the short run and enhance the level of income in the economy. The direction of this result gives suggestion that the depth of the capital market is important for the growth of the market and its link with the economy.

Total new issues have a significant, but negative, impact on real GDP in Nigeria. Apparently, rising new issues tends to reduce income levels in the short run. This result is to be expected since investment tends to

reduce income in the short run. The long run effect of investment in new stocks in the market is only observed after a period of time.

The coefficient of the error correction term has the correct negative sign but is not significant at the 5 percent level (though it passes at the 10 percent level). This shows that short term deviation from equilibrium may be restored in the long run with the interactions of the capital market variables. This adjustment to long run equilibrium is however slow as shown in the small coefficient of the ECM.

The three hypotheses stated in this study were evaluated using F- test statistics. The F-test is conducted to ascertain if the model is statistically significant. The test follows f-distribution with k-1 degrees of freedom in the numerator and n-k degrees of freedom in the denominator.

Decision rule

Reject H_0 if $F_{cal} > F_{tab}$ and accept H_1 if otherwise

At 0.05 significance level;

Hypothesis 1

H_0: The value of market capitalization does not have significant impact on economic growth in Nigeria.

H_1: The value of market capitalization has significant impact on economic growth in Nigeria.

From appendix 2 F cal is 42.91 while Ftab from f Distribution table at 5% significance is 2.53.

We therefore reject the null hypothesis and accept the alternate hypothesis which shows that market capitalization impacted significantly on the nations GDP.

Hypothesis 2

H_0: Total Value of Shares traded does not impact positively on Nigeria's economic growth.

H_1: Total Value of Shares traded impacts positively on Nigeria's economic growth.

From appendix 4 Fcalculated (Fcal) is 42.86 while Ftab is 2.53.

We therefore reject the null hypothesis and accept the alternate hypothesis which shows that total value of shares traded contributes significantly to the overall growth of the Nations GDP.

Hypothesis 3

H_0: Total New Issue of Shares does not have significant impact on Nigeria's economic growth.

H_1: Total New Issue of Shares has significant impact on Nigeria's economic growth.

From appendix 3 Fcalculated (Fcal) is 14.4 while Ftab is 2.53.

We therefore reject the null hypothesis and accept the alternate hypothesis which depicts that total new issues impacts significantly to the overall growth of the Nations GDP.

V. Conclusion And Recommendations

This study investigated the empirical relationship between the capital market and economic performance in Nigeria. The direction of research was to empirically determine the main impact of certain capital market indicators on the Nigerian GDP. Using data covering the period 1982 to 2012, both statistical and econometric tools were employed to estimate the empirical relationships. The analysis in this study showed generally that the capital market had positively affected economic growth in Nigeria over time. The paper showed that the development of the capital market is essential for ensuring rapid short run growth in real income in Nigeria. Though, the effect of the capital market development seems to be delayed in the long run, the positive impact on economic growth arising from development of the market is quite significant. The depth of the capital market was also shown to deliver positive impacts on growth in the economy. Volume of trading in the market had significant positive impact on the real GDP and confirms that increased participation in the capital market will ensure improvement in the market and ultimately, in the economy overtime.

It is therefore recommended that government should put in place policies that will encourage rapid development of the capital market. Incentives to new companies wishing to be listed and reduction in stringent condition for new listing will go a long way. Waiver of some charges on transactions in capital market will also help to encourage investors. Most importantly are incentives to investors to lost significant amount of money during the global financial crisis.

The results of this paper can be extended in several other ways among them to check whether further to the findings, how devoted the Nigerian Capital market has been in transmitting information as well as channeling funds into productive areas. This will help to shed light on whether the allocative efficiency of the market has been fully achieved. Further work may also be done to establish whether other aspects of the capital market such as size, volatility, trade volume and, depth in terms of instruments on offer exhibits different results from the ones reached in the conclusion of this study. Another direction for future research is a cross-national study involving other developing countries such as the sub-Saharan African countries as well, in order to bring out further empirical evidence with regard to the direction of causality between the stock market and economic

activity. In future, when larger samples of observations are available, the regression parameters may be re-estimated for comparative analysis with the empirical results of this study.

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