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The Capital Market and Its Impact on Ndustrial Production in Nigeria

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Abstract: *The possession of industrial capabilities by an economy is considered an important potential for improved economic development. Indeed one of the distinguishing factors between developed and developing economies is the acquisition of industrial know-how. The emerging pattern of the institutional framework for the Nigeria which brought the capital market into existence has through the succeeding centuries continued to support the institution and justify its existence. The capital market is viewed as a major catalyst to industrial growth and indeed economic development. The benefit of appropriate industrial base for an economy lies in its combination of suitable technology management techniques and other resources in order to move the economy from a traditional and low level of production to a more automated and efficient system of mass processing and manufacture of goods and services. Unfortunately, the problem with industrial growth in Nigeria is largely due to the inability of firms to access long-term funds which the Nigerian capital marked should be providing. This unfortunately is stemmed from the fact that the Nigerian capital market has not been fully developed to adequately provide enough of such funds to the needy organizations. It was in line with the above that the study sought to determine the impact of the Nigerian capital market on the industrial sector component of the Nigerian gross domestic product, ascertain the impact of the Nigerian capital market on industrial loans issued by stock exchange and determine the impact of the Nigerian capital market on average capacity utilization rates of the Nigerian manufacturing sector. An ex-post facto research design was adopted using secondary data to determine the level of impact on the growth of the Nigerian industrial sector for the period 1990 – 2009. The ordinary least square (OLS) estimation technique was adopted using SPSS version 16.0) statistical computers software to evaluate the three objectives. The results showed (i) a positive significant impact of the market capitalization on industrial sector component of the gross domestic product and (ii) a positive significant impact of the market capitalization on average capacity utilization rates of the manufacturing sector. The result however showed (iii) a positive but non- significant impact of the annual market capitalization on industrial loans of the stock exchange. It was therefore concluded that every effort must be made by government and market operators to make the market viable and result oriented to further improve the economy*

I. Introduction

1.1 BACKGROUND OF THE STUDY

The possession of industrial capabilities by an economy is considered an important potential for improved economic development. Indeed, one of the distinguishing factors between developed and developing economies is the acquisition of industrial know-how. The benefits of appropriate industrial base for an economy lies in its combination of suitable technology management techniques and other resources in order to move the economy from a traditional and low level of production to a more automated and efficient system of mass processing and manufacture of goods and services. This explains why every economy seeks to expand if the economy is already industrialized.

The acquisition of industrial capabilities requires the blending of diverse resources of which financial resources is a major influence on developing industrial or other capabilities, every economy seeks avenues to acquire them. One of such avenues is the use of capital market to raise funds. In Nigeria, serious efforts to explore this source of raising fund to development started well back in the 1960s and have progressed over the years.

The objective of this work therefore is in two-fold. The first is to identify how far industrial capabilities in Nigeria have been enhanced over the years through public quotation in the capital market while the second is to assess the prospects for the future.

1.2 STATEMENT OF THE PROBLEM

In spite of several years of the existence of the Nigerian capital market, its impact on industrial production in Nigeria is yet to be fully felt, Okechukwu, V. C (2007:23). The Capital Market is a market where long-term securities are sold and bought. Indeed, the capital market is known for raising of long-term capital, that is, to say that securities traded here have maturities exceeding at least one year. The market is regulated and controlled by the Securities and Exchange Commission (SEC), which is regarded as the apex regulatory body of the Nigerian Capital market. The Securities and Exchange Commission was set up to facilitate the indigenization process by ensuring an orderly transfer of shares at a fair price. The main operators in the capital market are the various financial intermediaries; finance Houses, facilitators, issuing houses, stockbrokers and registrars. Both institutional and individual investors come to this market. Another institution in the capital market is the stock Exchange market.

The Nigerian government had recognized the importance of the Capital Markets right from the colonial era, and had made attempts to establish and sustained Capital Market in Nigeria. The efforts notwithstanding the history of Nigeria's economic development had been largely determine by the availability or lack of capital to the key economic units.

Precisely, in the immediate pre-independence era revenue from agricultural export were applied in the establishment of the first industrial joint ventures in Nigeria. Even in the immediate post-indolence era, policies of substitution and industrialization were pursued, but with various state governments as prime movers. This was perhaps the only way to move the economy forward in the face of market failure. However, there was the absence of endowed capitalists of entrepreneurs and private sector. State governments could not borrow adequate funds from the local capital markets whereas they could not do so either from the capital markets of Europe. Again, the size of the local capital market was small. The massive capital inflows which passed through the accounts of the Federation, the Federal as well as the State Governments do not justify the size of the capital market. But appropriated strategies needed to be sought.

Against this background therefore, the research work seeks to investigate the impact of the Nigerian capital market on industrial development in particular and on the general development of the country's economy generally. The Nigerian Capital Market has come a long way, yet the state of the economy is far from being said to be developed, what then could be the problem?

1.3 RESEARCH QUESTIONS

The thrust of this work would be to asses the impact of the Nigerian capital market (the Nigerian Stock Exchange Market) on the industrial growth of Nigerian Economy. Evolving from this background therefore, the work will be predicated upon the following questions: -

(1) How far has the Nigerian Capital Market impacted on the industrial sector component of the Nigerian Gross Domestic Product (GDP)?

(2) To what extent are industrial loans issued by the Nigerian Stock Exchange impacted by the Nigerian Capital Market?

(3) What is the impact of the Nigerian Capital Market on the average capacity utilization rates of the Nigerian manufacturing sector

1.4 HYPOTHESES OF THE STUDY

The hypothesis for this work would therefore be as follows: and is stated in the null form

i. The Nigerian Capital Market does not have a significant positive impact on the industrial sector component of the Nigerian Gross Domestic Product(GDP).
ii. The Nigerian Capital Market does not have a significant positive impact on the industrial loans issued by the Nigerian Stock Exchange.
iii. The Nigerian Capital Market does not have a significant positive impact on the average capacity utilization rates of the Nigerian manufacturing sector.

1.5 OBJECTIVES OF THE STUDY

The primary aim of this study is to enquire into the impact of capital market with special reference to the Nigerian Stock Exchange Market on the general economic development of the Nation but more particularly the industrialization of Nigeria. Put differently the basic question this research seeks to answer is whether the Nigerian Capital Market particularly the Nigerian stock market has any impact on the growth of the nation's economy.

This study is set out to assess the impact of the capital market on economic growth in Nigeria specifically; the study is therefore aimed at achieving the following objectives

a. To determine the impact of the Nigerian Capital Market on the industrial sector component of the Nigerian Gross Domestic Product (GDP).
b. To ascertain the impact of the Nigerian Capital Market on industrial loans issued by the Nigerian stock exchange.

c. To determine the impact of the Nigerian Capital Market on average capacity utilization rates of the Nigerian manufacturing sector.

1.6 SCOPE OF THE STUDY

This work is just taking a small fraction from corporate finance studies and is limited only to the impact or effects of the capital market but more strictly the impact of the stock exchange market on the industrial growth of Nigerian economy. In order to have a clear view of the impact of the capital market (the Stock Exchange Market) on the overall economic growth of the country, a time frame of twenty years (20) that is from the year 1990-2009 is to be considered. This time period provides sufficient and recent data for the purposes of statistical analysis.

1.8 KEY WORDS

1.8.1 Market:

In general, a market is an expression for the process by which adjustment (Up or down) of prices reconcile the following

a. Decisions about consumption of alternative goods
b. Decisions about what and how to produce
c. Decisions about how much and for whom to work.

In a nutshell, it is set if arrangements by which buyers and sellers are in contract to exchange goods and services. Applying these general principles in financial terms therefore, a market is the process by which decisions about alternative investment opportunities as well as the type and value of capital to source for are reconciled by price adjustments

1.8.2 Capital:

In general capital can be defined as assets or resources available to the individual or organization whether permanently (i.e. own capital) or temporary (i.e. debt capital). Capital therefore can be physical or financial.

a. Physical capital: **-** is the stock of produced goods (e.g. building, machinery, equipment, etc) that contribute to the production of other goods and services. In this sense, capital is a factor of production.

b. Financial capital: On the other hand constitute the money and paper assets (shares, bonds, etc) available to the individual or organization which entitle the owner/holder to a specified stream of returns which may be permanent or for a specified period. In this sense, capital is a factor of investment which adds to the stock of capital in the economy.

1.8.3 Capital market:

The term "Capital Market" is used essentially with reference to the financial (monetary) aspect of capital. Therefore, a capital market is a financial market where money is raised by selling financial assets. It is simply a set of facilities which make it possible to exchange goods and services for money and vice versa.

Specifically the capital market (also called the securities market) is a financial frame work for facilitating the transfer of medium (under five year's maturity) to long term (maturity over five years) funds between lenders (investors with saving to invest) and borrowers (firms) government in need of investment capital. In the broadest sense, this definition encompasses the money market, the debt (bond) market and the equity market.

a. The money market – deals with highly liquid instruments of usually short tenor (i.e. not more than one year maturity). Such instruments include treasury bills, certificates of deposits, promissory notes, banker's acceptances, etc.

b. The Bond Market – deals with tradeable long term debts, which have a specific repayment schedule, a specific repayment date and which pay an agreed income (interest) to the investor.

c. Equity Market – deals with risk capital which has no redemption date and there are no dividend payment guarantees. In practice however, when people refer to the capital market, they probably do not include the money market whose tradeable instruments usually mature within one year.

1.8.4 The Primary Market:

The Primary market is so called because it is a market for new issues to raise fresh capital through the issuance of fresh securities (shares, bonds, etc). When the issuer is a first timer in the market, the first issue is usually called an initials public offering (IPO). The money raised here goes to the issuer of the security or stock (company or government).

1.8.5 The secondary market:

Similarly the secondary market is so called because, it is a market for existing securities, i.e. securities earlier issued in the primary market are sold and resold to and by a chain of new investors in perpetuity from the foregoing the business of the secondary market is triggered off when investors in the primary market decide to dispose of their holdings after the initial public offering of securities by a corporate entity.

1.8.6 Issuing house:

Is an institution, Managing and marketing the securities issued on behalf of the issuer (borrower, government, public company etc.) it coordinates the activities of the other parties and is relevant only in the primary market.

1.8.7 Broker/Dealer:

Broker or dealer is an agent that buys or sells securities on the floor of a stock Exchange (trading house) on behalf of investors who are by themselves not allowed on the floor of the Stock Exchange. A broker is mainly relevant in the secondary market.

1.8.8 Registrars:

These are institutions employed by companies to keep comprehensive records registers of their shareholders (members) and creditors. They are relevant in both the primary and secondary markets.

1.8.9 Securities:

These are written or printed financial documents by which the claims of holders in specified property are secured. They could be stocks, shares, bonds and debentures traded on a stock exchange.

1.8.10 Brokerage:

A commission charged by the stock broker for his service on the floor of the stock exchange. This is normally regulated by the stock exchange.

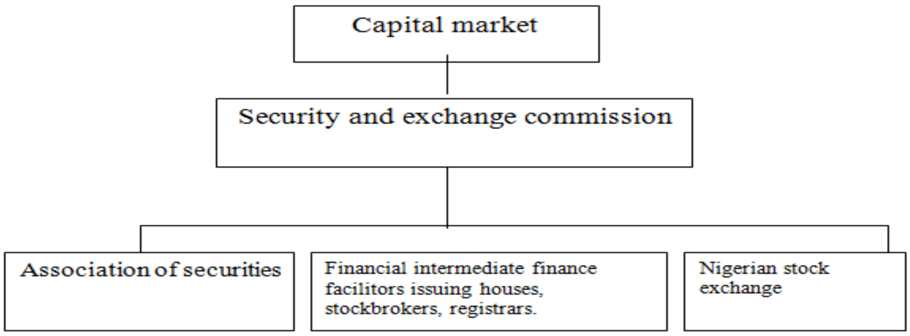
II. Review Of Related Literature

2.1 CONCEPT AND NATURE OF CAPITAL MARKET

The capital market is a market for rising of long-term funds. It can also be described, as the market for short-term, medium-term and permanent loans to the government, commercial and industrial concerns. The securities traded in the capital market include among others mortgage bonds which are also required to as eligible Development stock or gilt-edged securities, industrial loans stocks, etc. The capital market is a complex institution with a mechanism through which intermediate and long term funds are pooled and made available to the business world. These institutions which traditionally play one or the other in the transfer of funds from savers to users include the stock exchange, share registrars, issuing houses, stockbrokers and underwriters and securities and exchange commission which the apex regulatory body of the Nigerian, capital Market. All the institutions mentioned above provide financial intermediation services both to the borrower and lender (surplus-deficit units). Looking critically at the structure of the Nigerian finance market it is clear that the capital market forms a major arm of it both in function and mechanism.

Conceptually, the capital market has the securities and exchange commission of the apex, the consisting of Association of Securities Dealers and the Nigerian stock exchange. All come together with different roles and mechanism of financial intermediation, facilitating the necessary environment allocating, capital in a manner that creates the greatest overall wealth for the society.

The structure of Nigerian capital market is shown in the figure below.



SOURCE: Ako, A.R. (1980) <u>Capital Market Manual,</u> Mandol Press

2.2 FUNCTIONS OF THE CAPITAL MARKET

Suffice it to mention here the capstone points on the functions of the capital market:

a. Financial intermediation from funds surplus to funds deficit institutions
b. Offering enterprise new and wider opportunities for obtaining funds.
c. Acting as means of exchanging securities at mutually satisfactory prices thereby creating liquidity through its pricing mechanism.
d. Acting as a means of ascertaining securities prices
e. Acting as an easily accessible means of efficient trading in securities, creating awareness among and between retail and institutional investors between and across international boundaries.
f. allocating and rationing funds among competition users or uses.
g. The Nigerian capital market has some roles in economic development and this could be highlighted in the ways.

i. providing a means for raising finance to help firms to expand and develop.
ii. As a vehicle for allocating the Nations financial resources between and among various industries and firms.
iii. Provide liquidity for investment funds for individuals and corporate bodies.
iv. Serves as a measure of confidence in the economy and economic barometer.
v. The capital market pricing mechanisms provide the industrial management with the concept of cost of capital which determines the level and rate of investment.
vi. Through the second-tier securities market the capital market promotes small and medium sized industries.
vii. By means of bonification of the domestic national debts, otherwise known as securitization which makes the debts negotiable and discountable through the CBN to provide liquidity to lenders who would wish to en-cash their bonds instrument.
viii. Through the privatization and commercialization of government controlled enterprises through offer for sales/subscription on the capital market.

Indeed, generally speaking, economic development refers the problems of underdeveloped countries and economic growth to those of developed countries. **Maddison** (1970) makes distinction between the two terms in this sense when he wrote “the raising of income levels is generally called “economic growth” in rich countries and in poor ones it is called “economic development”. But this view does not specify the underlying forces, which raises the income levels in the two types of economies. **Hicks**, (1957) pointed out in this connection that the problems of underdeveloped countries are concerned with the development of unused resources even though their uses are well known while those of advanced countries are related to the growth, most of their resources being already known and developed to a considerable extent.

In fact, “development” and “growth” have nothing to do with the type of economy. The distinction between the two relates to the nature and cause of change. **Schumpter** (1934) made the distinctions clearer when he defined development as a continuous and spontaneous change in the stationary state which forever alters and displaces the equilibrium state previously existing while growth is a gradual and steady change in the long run which comes about by a gradual increase in the rate of savings and population. This view is widely accepted by the majority of economists. According to **Kinleberger** (1965), “economic growth means more output, while economic development implies both output and changes in the technical and institutional arrangement by which it is produced and distributed. Growth may well involve not only more output derived from greater amounts of inputs but also greater efficiency i.e. an increase in output per unit of input. Development goes beyond this to imply change in the composition of output and in the allocation of inputs by sectors”. **Friendman**, (1972) defined growth as an expansion of the system in one or more dimensions without a change in its structure, and development as an innovative process leading to the structural transformation of social system.

Economic growth is related to quantitative sustained increases in the countries per capital output or income accompanied by expansion in labour force, consumption, capital and volume of trade. On the other hand, economic development is a wider concept than an economic growth. “It is taken to mean” growth plus change”. It is related to qualitative changes in economic wants, goods, incentives, institutions, productivity and knowledge or the “upward movement of the entire social systems”.

According to Myrdal on (Economic Theory and underdeveloped Regions, page 99). It describes the underlying determinants of growth such as technological and structural changes. In fact, economic development embraces both growth and decline. An economy can grow but it may not develop because poverty, unemployment and inequalities may continue to persist due to the absence of technological and structural changes. But it is difficult to imagine development without economic growth in the absence of an increase in output per capital, particularly when population is growing rapidly.

According to Kuznets in (1960) defined economic growth as “a long term rise in capacity to supply increasingly diverse economic goods to its population, this growing capacity based on advancing technology that it demands”. This definition has three components firstly; the economic growth of a nation is identified by the sustained increase in the supply of goods. Secondly, advancing technology is the permissive factor in economic, which determines the growth of capacity in supplying diverse goods to the population. Thirdly, for an efficient and wide use of technology and its development institutional and ideological adjustments must be made to affect the proper use of innovations generated by advancing stock of human knowledge. For example, modern technology is incompatible with the rural mode of a life in a large and extended family patterned family enterprise and illiteracy.

2.3 THE FOCUS OF THE CAPITAL MARKET

Every economy seeks to promote an effective capital market with the primary objective of mobilizing long-term funds from surplus economic units for the use of deficit units for investment purposes. This allocation of financial resources. The use of the capital market reduces over-reliance on the money market, assists in promoting a solvent and competitive financial sector as well as fostering a healthy stock market culture.

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The relationship between the capital market and industrial development

Finance is the link between the capital market and industrial development. As already noted, the relevance of the capital market to industrial growth of any nation can be seen in the role which capital markets play in the mobilization of funds and their eventual transfer to business, the government and individuals that need those funds for investment. Therefore, the need for effective capital market stems from the realization that, through it, savings can be mobilized and channeled for production investment, apart from that, the ability to mobilize funds easily and cheaply on the capital market has also been found to be an incentive for enterprise to expand their operations and diversify into large scale enterprises.

Although, investment funds for industrial development can be obtained from non-capital market sources, these other sources of funds are often considered by inherent weaknesses. For example one of such sources, namely internal funding, is usually insufficient, hence the need to borrow from the money or capital market to supplement internal resources. Some of the money market operates at the short-end of the credit market; more reliance is placed on the capital market for businesses which require long term funds. Thus, the importance of capital market lies in its ability to sustain project with long gestation periods. Since industrial enterprise belong to this category of projects, long-term capital from the capital market is most relevant in sustaining industrial development. The linkage of industrial development and economic Growth:

As we are aware, industries are not developed for their own sake. Rather, they are promoted to enhance the output of goods and services. Since the overall growth of all goods and services of an economy in the form of gross domestic product (GDP) is a proxy for measuring economic growth, the relevance of industrial development to economic growth lies in its contribution to GDP.

Significance of public issues or quotations:

The complexity of raising funds through capital market makes it necessary for companies seeking fund in the market to appreciate what public issues or quotations entail. Put briefly. Public issue of securities could be seen as the process by which shares, debentures and other debt instruments are floated in the market for public subscription.

These securities are instrument, through which organization in private and public sectors of the economy could raise funds for development. This method of funding provides an almost permanent fund for expansion of the activities of such organizations. These are also an avenue in the secondary segment of the capital market for the trading of such securities in the event of investors wishing to divest their holdings of such securities. Quotations of securities on the exchange therefore confer on such securities the advantage of listing of the securities on the Exchange and trading in them. It should be noted, however, that not all public issues are quoted on the Stock Exchange because there are additional requirements. Which are to be met before public issues are allowed to be on the Stock Exchange?

Institutional Arrangements for Effective Public Issues in the Capital market:

For any market to function effectively in supporting industrial and other forms of development through public issues there is need for appropriate institutions and schemes. These include the Stock Exchange, which is the hub of the market, the regulator that ensures that there is law and order in all transactions in the market the issuing houses, which assist in raising new funds in the market, the brokers who assist holders of securities in disposing them and prospective holders of securities in buying them, among others.

In Nigeria, the importance attached to raising funds from the capital market has been underscored by the efforts made since 1961 to set up the institutional structure. Some pillars of these structures are:

a. The Stock Exchange (1961)

b. The Second-Tier Securities Market (1985) for small investors.
c. The Securities and Exchange Commission (SEC) (1989) for the regulation of the entire market.
d. The brokerage firms which number up to 164 by December 1997, and
e. The issuing house, which are mainly Merchant Banks.

Relying on the forgoing institutional arrangement, the Nigeria Capital Market has become avertable source of long-term funds for financial industrial and other forms of development, especially in the private sector. In the next section, the issue of fund raising, in the Nigerian Capital Market is examined.

2.4 THE HISTORICAL BACKGROUND, THE MANAGEMENT, REGULATING, MEMBERSHIP AND COMPOSITION OF THE NIGERIAN STOCK EXCHANGE

INTRODUCTION

The stock exchange is a market for the buying and selling of stocks, shares and securities. It is essentially a secondary market in that only existing securities, as opposed to new issues, could be traded on.

It however, had very strong connection with the primary market in that it facilitated primary market activities because listing of securities on the stock exchange before issuance made it easy for newly floated securities to have a market because the holder knows that if he wants to resell later there is an established mechanism for doing so. The stock exchange is therefore a market place where listed securities such as bonds, debentures, stock and shares of varying types are bought and sold. Olowe (1997).

2.5 NIGERIAN STOCK EXCHANGE

In 1958, the Barback Commission was set up by the Federal Government to advise on how a market for dealing in shares in shares could be established in Nigeria. In 1959, in preparation for independence, the report of the Barback Commission was published in which recommendations were made for the encouragement of facilities for dealing in shares, provision of regulatory framework relating to transfer of shares, the introduction of necessary facilities to encourage savings in the economy and the issuance of financial instruments by both the government and private organizations. Also in 1959, a major financial institution, the investment company of Nigeria limited which later metamorphosed ICON Merchant Bank. Was set up as finance company but was almost wholly foreign owned. It was this company the Central Bank of Nigeria and few other interested groups including some Nigerian citizens, that formed the seven initial subscribers to the stock exchange memorandum and the Lagos Stock Exchange was incorporated as a limited liability company on September 15, 1960. Formal Government recognition was gained in 1961 following the Lagos stock exchange Acts of that year which, in line with stock exchange rules the world over, restricted dealing in quoted Securities to authorized stock brokers.

The stock exchange commenced operations in June, 1961 and in December, 1977, the Lagos stock Exchange was transformed into the Nigerian stock exchange with dealing branches in Kaduna and Port Harcourt. The Ibadan branch commenced operation in 1990 and in accordance with the recommendation of the Odife Panel, the Federal Government of Nigeria in the 1988 budget approved the establishment of the Abuja branch of the Nigeria Stock Exchange. In fact today, the Nigerian Stock Exchange has nine trading floors namely: Ibadan, Onitsha, Portharcourt, Kano, Lagos, Kaduna, Abuja, Jos and Yola. The principal objectives of the Nigerian Stock Exchange as specified in its memorandum and Articles of Association were as follows:

i. To provide facilities to the public in Nigeria for the purchases and sales of funds, stocks and shares of any kind and for the investment of money.
ii. To control the granting of a quotation on the stock exchange in respect of funds, stocks and shares of any company, Government, municipality, local authority or other body corporate.
iii. To regulate the dealing of members interest and with their clients.
iv. To standardized, and from time to time review and, if necessary or desirable increase or decrease or the fees or other charges to be made by members for modify the method or methods assessing or calculating such fees or charges.
v. To correct the stock broking activities of members and facilities then exchange of information for their mutual advantages and for the benefit of their clients and to offer facilities whereby the public can be informed or prices of shares dealt in by members.
vi. To cooperate with Associations of Stock Brokers and Stock Exchange in other countries and to obtain and make available to members information and facilities likely to be of advantage to them or their clients.
vii. To investigate any irregularities or alleged irregularities in the dealings of members with their clients, any differences or disputes between members, their clients any complaints made against members by other members.
viii. To promote, support, or propose legislative or other measures affecting the aforesaid objects, Handbook (1987/88).

2.6 MEMBERSHIP OF THE NIGERIAN STOCK EXCHANGE

The Lagos Stock Exchange Act of 1961 said that a member of the stock exchange may be an individual person, a partnership or a corporate body. It also refers to an "Ordinary member" or a founder member. The memorandum and Article of Association of the Lagos Stock Exchange) had three as the Nigerian Stock Exchange (later restructured as the Nigerian Stock Exchange) had three categories of membership, namely founder member, ordinary members and dealing members. Membership is open to partnerships, limited liability companies, and in exceptional cases, to individuals.

The ordinary members who may be either an individual or an institution is one who had acquired at least 5 shares of N20.00 each of the issued share capital of the Exchange and had been admitted to the Register of members, in accordance with the Articles.

A dealing member is an individual or institution, who in addition to been admitted to ordinary membership of the Exchange, is also licensed by the council of the Exchange to transact business in stocks, shares, debentures, bonds and other specified securities on the floors of the stock Exchange and agreed to be subject to the rules and regulation of the Exchange. Dealing members are assisted by dealing clerks who represent them in the floor of the Exchange.

All of the individual members are Nigerians, a few of the limited liability companies or corporations are wholly owned government agencies while the other limited liability companies had some foreign participation in them. By a recent amendment of the articles of the Exchange, foreigners cannot be members of council.

2.7 FRAMEWORK

The Nigerian Stock Exchange started operations in Lagos in 1961 with nineteen (19) securities listed for trading. Today, there are far over this figure with a total market capitalization of approximately N763.9 billion. Statistics shows that most of the listed companies have foreign/multinational affiliations and represent a cross-section of the economy, ranging from agriculture through manufacturing to services.

The Nigerian Stock Exchange has put in place a tested network of stock-broking firms, issuing houses (Merchant Banks) practicing corporate law firms and can boost of over fifty (50) quality firms of auditors and reporting accountants which have international links.

The stock exchange watchword has been integrity. The operator subscribes to the code "our word is our bond". This has over three million individual investors and hundreds of institutional investors (including foreigners who own 47% of the companies), Face Book (2000).

There are broadly two major types of securities traded on the Nigerian Stock Exchange. These are debt instruments and equities.

Debt instruments: these are mainly bonds raised as development loan stock by governments. They could also be debentures or preference shares raised by companies. They are debt instruments in the sense that at a certain point in time the issuer will have to redeem them through repayment to the subscriber with accumulated interests or if they are convertible preference shares with equity stocks. Holding these bonds, debenture or preference shares does not indicate you are an owner of the business. It does, however, indicate that you are a creditor to the business.

2.8 REGULATION

The entire Nigerian Capital Market is regulated through:

a. The Federal Ministry of Finance
b. The Central Bank of Nigeria
c. The Securities and Exchange Commission
d. The Nigerian Stock Exchange

Since 1960, the then Lagos Exchange now Nigerian Stock Exchange has been carrying out functions aimed at serving the Nigerian economy and giving it a direction towards mobilizing and allocating resources from funds surplus units to more efficient and productive units.

The Nigerian Stock Exchange has both a primary market and a secondary market. The primary market is regulated by the Securities and Exchange Commission (SEC). Companies that wish to quote its securities on the primary market must first of all apply to Securities and Exchange Commission. If they satisfy the listing requirements,Security and Exchange Commission Values its Securities. This is how nominal value of shares are determined. When this is done, the company now applies to the Nigerian Stock Exchange to admit its shares for trading at the floor. This is called the secondary market.

2.9 REGULATORY BODIES

i. Securities and Exchange Commission: This is the apex regulatory body for the Nigerian Capital market. It was set up under the Securities and Exchange Decree 1979, principally to protect the interests of investors and to oversee the even and orderly development of the capital market, its functions are in two broad areas; regulatory and developmental.

ii. The Central clearing System Limited: The Central Securities clearing system Ltd. was wet up by the Nigerian Stock Exchange and is owned jointly with other market operators. It was incorporated on July 29, 1992 as a subsidiary of the Nigerian Stock Exchange. It operates a computerized clearing, settlement and delivery system for transactions in shares listed on the Nigerian Stock Exchange. The functions of the central securities clearing System Limited are:

a. Central depository for shares certificates quoted on the Nigerian Stock Exchange.
b. Sub-registry for all quoted securities (in conjunction with registrars of quoted companies).
c. insurer of central securities identification numbers to stock brokers and investors.
d. Clearing and settlement of transactions.
e. Safe keeping/custodian (in conjunction with custodian member(s) for local and foreign instruments).

It was with the heart of the effort to make the Nigerian Stock Exchange more efficient and attractive to investors through the screen based automated Trading System (ATS), that central securities clearing for trading on the secondary market was established. It also evolves into legitimate source of records of shareholders in quoted firms.

2.1.1 FUNCTIONS OF THE NIGERIAN STOCK EXCHANGE

The Nigerian Stock Exchange was set up to perform a number of functions. These functions have been identified and stated by Anyanwu (1993:pp194) as follows:

a. To promote appropriate machinery to facilitate further offerings of stocks and shares to the general public.
b. To promote increasing participation by the public in the private sector of the economy.
c. To encourage the investment of savings so as soon as it is clear that the stock and shares are renetily available. Nwankwo (1980) has summarized the other functions of the Nigerian stock exchange as follows:
d. to provide a central meeting place for members to buy and sale existing stocks and shares and for granting quotations to new ones;
e. To provide opportunities for raising new capital;
f. To provide the machinery for mobilizing private investments through stocks and shares.
g. To facilitate dealings in government activities and hence foreign investment in Nigerian manufacturing since government goes into joint ventures with foreign investors.
h. To act as a channel for implementing the indigenization policy by providing facilities to foreign business to offer their shares to the Nigerian public for subscription.
i. To reduce the risk of liquidity by facilitating the purchase and sale of securities.
j. To protect the public from shady dealings and practices in quoted securities so as to ensure fair trading through its rules, regulations, and operational codes.
k. To provide opportunities for continued operation and attraction of foreign capital for the nation's developments.

2.1.2 CONTRIBUTION OF THE CAPITAL MARKET TO THE DEVELOPMENT OF INDUSTRIAL CAPABILITIES AND ECONOMIC GROWTH

The capital market has demonstrated its ability to provide financial resources, through equity and debt securities, to private sector enterprises (both large and small), and in the process had contributed to the development of the industrial sector. Also, its ability to provide debt financing for various public sector projects, especially infrastructure had provided a fillip to industrial growth and development. In addition, the market (stock market) has specially provided opportunity for investment diversification. The capital market has also facilitated the successful implementation of the indigenization exercise under the 1972 and 1977 Decrees.

The market also played an unrivalled role in the privatization of the Structural Adjustment programme. Between 1988 and 1995, 35 enterprises were privatized through public offer of shares. The offers, which totaled 1.2 billion shares and valued at N1.5 billion, created opportunities that can be accessed through the Capital market. The gains to the economy in terms of efficient operation of privatized enterprises and cessation of government budgetary subvention to the firms are some of the contribution of the market to the economy. By ensuring continuous substitution of the share holders of securities, the market transforms short-term oriented funds into longer term funds, while realized capital gains further stimulate the expansion of the pertinent to state that many of the companies on the main list are affiliates or subsidiaries of multinationals, such as Dunlop, UAC, Nestle, 7-Up, Cadbury, Nigerian Breweries, Guinness, Glaxo, Sterling products, Mobil, Agip, etc. Whose operation has impacted favourably on the level of technology of technology of local raw materials, and development of indigenous technical manpower capability through the process of learning-by-doing. For example, the companies in the food, beverages and brewing sub sectors, have successfully, developed suitable

local materials to replace imported ones, whole some companies have been actively engaged in the exportation of their products thereby contributing to the growth of non-export business.
The introduction in 1985 of the SSM to attract small and medium companies to raise funds for expansion and modernization, led to the creation of some jobs by these companies, while at least four of them have move to the main list. The market has therefore, aided the growth and transformation of SMES to large-scale enterprises.

2.1.3 THE NIGERIAN CAPITAL MARKET AND NIGERIA'S ECONOMIC PERFORMANCE

Historically, the financial sector in the developing world has been primarily bank-based. But in recent years, there has been gradual shift away to a more holistic approach which, along side the banks, seeks to develop the securities markets and other non-bank financial institutions. Some of the strengths of the securities markets which make them the focal point of the shifting emphasis are their ability to:

- Mobilize long-term savings for financial long-tenure investments
- Provide risk capital (equity) to entrepreneurs
- Encourage broader ownership of firms; and
- Improve the efficiency of resource allocation through competitive pricing mechanism (Popiel 1990).

Apart from these primary benefits that obtain from the existence of stock markets, a developed securities market in the sense of efficient financial intermediation further brings additional gains to the economy. These gains arise through:
(i) Lower cost of equity for firms
(ii) Imposition of discipline on corporate managers as share prices reacts to right and wrong judgments in firms' investment decision.
(iii) Existence of mechanisms for appropriate pricing and hedging against risk; and
(iv) Increase flow of funds to the domestic economy as international capital responds to the thriving stock market (Demirgue- Kunt and Levine 1993).
Given the above expectations, this work examines the role of the Nigerian stock market particularly in the Nigerian economy. The focus on the stock market at this does not in any sense imply that stock market is congruent with capital market, nor does it represent an attempt to rank stock exchange above other institutions in the Nigerian capital market. It is rather informed by the need to give detailed attention to the stock market which is of key interest in this research.

2.1.4 Role of Stock Markets in Economic Development

The link between the financial sector and economic growth was empirically demonstrated by Goldsmith (1969) who, using data from 35 countries over a period of 104 years, documented that (i) the service of financial institutions increases with per capita income; and (ii) above-average GDP growth is associated with above-average ratio of financial assets to GDP. Along this line of argument, McKinnon (1973) demonstrated that appropriate configuration of the financial sector enhances the pace of economic growth and development. Within the financial spectrum of an economy, there are strong theoretical justifications for the role of stock markets in economic growth. It is argued that stock market liquidity plays crucial role in the process of economic growth (Levine 1991; Bencivenga, Smith, and Star 1996). Many investments that promote economic growth are long run – far longer than most savers are willing to commit their capital. Liquid stock markets resolve the non-synchronization of their tenure of savings and investment by providing avenue for savers to divest without affecting the operations of the concerned enterprise. The extent to which this role of stock markets is enhanced, the cheaper and easier the entry and exit process. This, the industrial revolution of the eighteenth century is not attributable per se to new revolution in science during the century (since the underlying scientific inventions took place much earlier) but to the liquidity of the financial markets (including the stock markets), which aided the financing of capital intensive profitable investments (Hicks 1969). Also, liquid stock markets increase the incentives for exploring information on quoted firms, thereby leading to improved corporate governance (Holmstrom and Tirole 1993). In a recent cross-country study, Levine and Zervos (1996), document a strong empirical association between stock market development and long-run economic growth.
The relevance of stock markets for economic growth is, however, contended by some scholars. It is argued that even the large stock markets provide insignificant source of financing for corporations and, therefore, play insignificant role in development (Mayer 1988). Some researchers have even warned of the possibility that a stock market may retard the growth process if it eases corporate take-over that turn out to be counter productive (Shleifer and Summers 1988 and Morck, Shleifer and Vishny 1990).

There is also the possibility that a liquid stock market may harm growth (Demirgue Kunt and Levine) in a number of ways. Firstly, through income and substitution effect, the higher returns on investment that results from stock market liquidity may lead to reduced savings. Secondly, the decreased uncertainty surrounding investment through improved stock market liquidity may result in demand for precautionary

savings. Thirdly, stock market liquidity is feared to encourage investor myopia, thus weakening investors' commitment and reducing incentives for corporate control.
Given these hypothetical gains and dangers of a stock market, its role in any economy becomes an empirical question.

2.1.5 Contributions of the Stock Market to the Nigerian Economy

The existence of the Nigerian Stock Exchange entails a number of benefits for the Nigerian economy. These benefits are in line with the general role of stock markets in the development process (Claessens 1995). First, the stock market has been a source of capital for the corporate sector. With current market capitalization of about US$4 billion the market stands out as a viable mechanism for resource mobilization. For ten years, up to the end of 1996, a cumulative total of N32 billion was raised by companies from the stock market. In 1996, the value of new issues amounted to N5.8 billion, a significant part of which was foreign portfolio investment.
The mere presence of a stock market in the country boosts the international investment climate of the country as it raises the chances of additional local financing for both foreign and loan direct investment. In an economy like Nigeria's, where the banking sector is battling with credibility problem following the systemic distress of the financial sector, the stock market plays a morale boosting role to investors. It can only be imagined what the private investment in the real sector would have been if the stock market had not been in place.
Secondly, the stock market provides opportunity for investment diversification. In the absence of the stock market, a large part of the wealth currently invested in the Nigerian stock market (about US$4 billion) would have been diverted to foreign countries. The market further remains a viable institution for holding back capital flight which has been one of the causes of the country's economic underdevelopment.

A third major role of the stock market relates to the privatization exercise. Privatization of public enterprises, a cardinal plank of the structural adjustment programmes (SAP) in many developing countries, aims at reducing the size of the public sector and correspondingly increasing private sector activities in the economies. The successful implementation of the importance of the stock market. The market has played an unrivalled role in the implementation of past privatization schemes, as it did during the implementation of the indigenization programme. Between 1988 and 1992, 35 enterprises were privatized through public offer of shares. The offers totaled 1.2 billion shares valued at N1.5 billion. This represented 5 percent of the market capitalization in 1992. To the general public, the exercise created awareness of the investment opportunity in the capital market, attracting 0.8 million new shareholders, and hence raising the number of shareholders by 200 percent (Emenuga (1996). The operation of the privatized enterprises and the subsequent relief to government of budgetary subvention to the firms are some of the contributions of the Exchange to the economy. Furthermore, the Stock Exchange enabled mass participation in the privatization exercise and thus ensured that a large number of Nigerians benefitted from ownership of the divested assets than would have ever been achieved if the stock market had never existed. It should be noted that even without economic growth, widespread distribution of wealth, which the exercise ensured, is a desirable end in the quest for economic development. In order words, in the absence of a stock market, the sale of public wealth through privatization would have benefitted a few rich persons, thereby worsening income inequality.

Noting the generally low contribution of the financial sector to Nigeria's GDP, an expectation of one to one correspondence of regression coefficients in relating the stock market to economic growth may not be appropriate in assessing the role of the Exchange in economy. According to Chidozie Emenuga (1998). Rather he choose to explore the strengths and weaknesses of the Exchange as a way of underscoring its potential contribution to economic performance. This is implemented below through analysis of the characteristics of the stock market.

2.1.8 Characteristics of the Nigerian Stock Market

There are three distinct ways to characterize stock market development. These are traditional, institutional and asset pricing characteristics (Demirguc-Kunt and Levine 1993). Traditional characteristics measure the basic growth indices such as number of listed companies and market capitalization. Institutional characteristics encompass the regulatory and legal rules in the market as well as its information disclosure and transparency requirements; market barriers and trading costs. Asset pricing characteristics relate to efficiency of the market in pricing risk.

At about 200 quoted firms and US$4 billion capitalization, the size of the Nigerian Stock Exchange is unusually small by international standards. For instance, the South African market has 640 listed companies while in South Korea, there are 693 listed companies. In part, the dearth of quoted companies in Nigeria is explained by the market's recent origin. The Nigerian Stock Exchange started operations in 1960. The phenomenon has traditionally been explained in terms of the aversion of indigenous entrepreneurs to go public due to fear of losing control (Alile and Anao 1986). While this provides an insight, the problem is, of course, deeper. Nigeria is not in want of innate entrepreneurs, but the country is still insufficiently blessed with seasoned entrepreneurs with adequate resources and experience to float a kind of an average quoted company comparable to any in other parts of the world. In South East Asia, for instance, the makers in their stock markets are quoted indigenous companies that thrive on the region's technological breakthrough and advancement. One cannot, for example, imagine any counterpart of Daewoo Corporation of South Korea in Nigeria. The weak private sector is thus a serious factor militating against healthy growth of the stock market. The creation of a second-tier securities market to encourage the listing of indigenous firms was a noble attempt to solve the problem. This, however, resulted in a rise in the number of listed companies without commensurate growth in market capitalization. Privatization of public enterprises is one opportunity for government to improve the resource base of the Stock Exchange.

The liquidity of a stock market relates to the ease with which shares are traded in the market. Liquidity is important for a few reasons. Generally investors are wary of illiquid markets because exit cannot be made at the desired time. The more liquid a stock market is, the more it commands investors' interest since resale of shares is easily guaranteed. Furthermore, quoted firms have more access to debt (debenture) and equity (new issues) in a liquid market. Also in an economy with a liquid stock market, shares become easily acceptable as collateral for bank lending and this boosts credit and investment.

Unfortunately, this cherished quality of liquidity is, at present, not enjoyed by the Nigerian stock market. At an average ratio of 2 percent per annum (2.4 percent for 1996), the turnover ratio, a measure of the value of shares traded relative to total market capitalization, is very low in Nigeria. Many other African markets perform better in this regard. The ratio is as high as 10.0 percent in Botswana, 7.6 per cent in Zimbabwe and 4.6 percent in Mauritius. The low trading activities in the Nigerian market result from the ownership structure, among other factors. Until recently, the market was restrictedly open to non-resident investors. Apart from the original direct investors in foreign firms, other foreign capital had little or no access to the market. The better performance of Botswana, Zimbabwe and Mauritius is due to the open outlook these markets had enjoyed in the past. In Taiwan and South Korea, turnover ratios are as high as 174.9 percent and 97.8 percent, respectively. These are open markets where outside funds freely move in and out.

The ownership structure in the Nigerian stock market contributes to its illiquidity in that the holdings of the original direct investors and the public sector are normally not traded except for terminal divestment. This leaves only the proportion of shares held by individuals and institutional investors for trading. The buy-and-hold attitude of this class of investors further restricts the proportion of their traded shares. Added to these factors is the association delay and risk involved in trading shares in the Nigerian market.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 INTRODUCTION

The main objective of this study is to look at the activities and contributions of the capital market in general and the stock exchange market in particular to the industrial growth and general economic development of Nigeria's economy. This chapter therefore looks at the research design, model specification, the nature and sources of data as well as the techniques of data analysis.

3.2 RESEARCH DESIGN:

The research employs *ex-post facto* research design. *Ex-post facto* research design according to Osuagwu (1999) is the type of research involving events that have already taken place. Data already exist as no attempt is made to control or manipulate relevant independent variables. This is suitable for the purpose of our research because it is cost effective.

3.3 MODEL SPECIFICATION:

To test for the relevance of the hypothesis regarding the Capital Market and its impact on industrial production in Nigeria, the following model (Regression Model) as in Onwumere (2009:179) which examines the relationship between a dependent variable and one independent variable has been adopted for the respective variables and hypotheses:

Y = F (X) - (1)

where Y is the dependent variable which describes industrial sector production indicators such as:

(1) Industrial sector component of GDP

(2) Industrial loans of the stock exchange market

(3) Capacity utilization rates of the manufacturin sector etc.

X is the independent variable which represents Market Capitalization of the Nigerian stock exchange market.

The above function takes the form of a two-variable linear equation model:

Y = a + bX- (2)

Where,

Y= dependent variable
X= independent variable
a = constant indicating the point of interception with Y.
b= slope or gradient.
Rewritten as
Y =F (MKTCAP) - (3)

The following alphabets are therefore used to reprsent respective variables in the model:
MKTCAP-Market capitalization of the stock exchange market
ISGDP- Industrial sector component of the GDP
IL- Industrial loans of the stock exchange market
CAPUTL- Capacity utilization rates of the manufacturing sector

Beginning with our first hypothesis which states that there is no significant positive impact of the capital market on the industrial sector component of the Nigerian Gross Domestic Product (GDP), we have-

ISGDP = F(MKTCAP) - (4)

Our second hypothesis which states that there is no significant positive impact of the capital market on the industrial loans of the stock exchange market, we have-

IL = F(MKTCAP)- (5)

For the third hypothesis which states that there is no significant positive impact of the capital market on the capacity utilization rates of the Nigerian manufacturing sector, we have-

CAPUTL = F(MKTCAP) - (6)

3.4 NATURE AND SOURCES OF DATA:

Data is secondary data. Secondary data uses data from the statistical bulletins of the Central Bank of Nigeria(CBN)from the year 1990-2009. Other publications used by the researcher includes annual publications of the Nigerian stock exchange market and the National Bureu of Statistics (NBS) for the period under review.

3.5 TECHNIQUES OF DATA ANALYSIS:

The statistical technique employed in testing and analyzing all the hypotheses is regression model. This model is very relevant in testing the hypotheses. The model is adopted using the Statistical Package for Social Sciences (SPSS) computer software version 16.0 reliability and validity of statistical test.

VI. Data Presentation And Analysis

4.1 Introduction

In this chapter, the data collected through the secondary source are presented and analyzed. Data on the three hypotheses stated in chapter one are presented as well as the results obtained through the use of a simple regression analysis. The results are also interpreted.

4.2 Data Presentation

Table 4.1 shows the debt transactions and Market Capitalization at the Nigerian Stock Exchange within the period, 1990-2009

TABLE 4.1
DEBT TRANSACTIONS ON THE NIGERIAN STOCK EXCHANGE,(1990-2009)

Year	Annual market capitalization (N Billion) (Independent variable)	Industrial Loans (N'Million) (Dependent variable)
1990	16.3	34.2
1991	23.1	6.0
1992	31.2	6.7
1993	47.5	263.5
1994	66.3	177.1
1995	180.4	50.8
1996	285.8	50.8
1997	281.9	35.3
1998	262.6	0.2
1999	300.0	0.0
2000	472.3	0.0
2001	662.5	0.0

2002	764.9	0.3
2003	1,359.3	6517.1
2004	2,112.5	1730.0
2005	2,900.1	932.8
2006	5,121.0	72.0
2007	13,294.5	1136.5
2008	9,563.0	3,528.9
2009	7,030.8	412.8

Source: Nigerian Stock Exchange, 2009

Table 4.1 above shows data on industrial loans of the debt section of the Nigerian stock exchange market for a period of twenty years. The period under review is from 1990 to 2009 and looking at the figures, it could be seen that they fluctuates seriously. Like in 1990 the industrial loans stood at N34.2 million but dropped drastically in 1991 to N6.0 million. It rose again in 1992 to N263.5 million but in the years of 1997-1999 there were no industrial loan transactions on the stock exchange market. However, the highest transaction took place in 2001 with a figure of N6517.1 million. After this year, the figures kept fluctuating and closed with N412.8 million in 2009 which was the last year under review.

Table 4.2 shows the level of industrial manufacturing capacity utilization and annual market capitalization within the period 1999-2009. It shows how funds of the stock exchange market impacted on the manufacturing sector.

TABLE 4.2

MANUFACTURING CAPACITY UTILIZATION RATES AND ANNUAL MARKET CAPITALIZATION, (1990-2009)

Year	Annual market capitalization (Independent variable)	Average manufacturing capacity utilization (N'Million) (Dependent variable)
1990	16.3	40.3
1991	23.1	42.0
1992	31.2	38.1
1993	47.5	37.2
1994	66.3	30.4
1995	180.4	31.6
1996	285.8	29.29
1997	281.9	32.46
1998	261.6	30.4
1999	300.0	32.4
2000	472.3	34.6
2001	662.5	36.1
2002	764.9	42.7
2003	1,359.3	52.9
2004	2,112.5	56.5
2005	2,900.1	55.7
2006	5,121.0	54.80
2007	13,294.5	53.30
2008	9,563.0	53.84
2009	7,030	53.64

Source: Central Bank of Nigeria, 2009

Table 4.2 above shows data on the stock market of funds raised by manufacturing companies. The figures keep fluctuating during this period under review. In 1990, N40.3 million was utilized by the manufacturing sector but five years after this figure dropped to N29.29 million but rose again slightly in the following year of 1997 to N32.4 million. This trend continued almost steadily until by 2009, it stood at N53.64 million.

Table 4.3 shows the industrial component of Gross Domestic Product at current basic prices and Annual Market Capitalization within the period 1999-2009.

TABLE 4.3
INDUSTRIAL COMPONENT OF THE GDP AND MARKET CAPITALIZATION, (1990-2009)

Year	Annual market capitalization (Independent variable)	GDP Industrial Sector component (N'Million) (Dependent variable)
1990	16.3	115,591.4
1991	23.1	136,627.7
1992	31.2	274,755.3
1993	47.5	282,305.9
1994	66.3	283,563.1
1995	180.4	873,225.6
1996	285.8	129,3225.6
1997	281.9	1,121,5912.2
1998	262.6	882,034.0
1999	300.0	1,179,551.2
2000	472.3	235,931.3
2001	662.5	1,874,082.9
2002	764.9	2,042,716.5
2003	1,359.3	3,037,706.3
2004	2,112.5	4,610,083.7
2005	2,900.1	6,090,547.4
2006	5,121.0	7,488,743.5
2007	13,294.5	8,085,380.0
2008	9,563.0	9,719,513.8
2009	7,030	7,972,489.5

Source: Central Bank of Nigeria, 2009

There has been an increase of the gross domestic product at a progressive and almost steady growth beginning with 115,591.4 in 1990 and ended up with 7,972,489.5 in 2009. The Annual Market Capitalization, the independent variable started in 1990 with N16.3billion and increased progressively within the period under review and so it stood at N66.3 Billion in 1994. In 1999, the annual market capitalization of N300 billion. In 2004, this figure grew to N2, 112.5 billion and in 2009, the last year of review it stood at N7,030.8 billion.

4.3 Data Analysis

4.2.1 Test of Hypotheses:

HYPOTHESIS ONE:

To test this hypothesis, it is restated in null and alternate forms as follows:

H_o: Annual Market capitalization does not have a significant positive impact on the industrial sector component of the Gross Domestic Product.

H_1: Annual market capitalization does have a significant positive impact on the industrial sector component of the Gross domestic Product.

The researcher used (OLS) ordinary least square methodology to test this hypothesis. This is aimed at establishing the impact of market capitalization on the industrial sector component of the GDP

Presentation of results:

Estimated regression equation = ISGDP = 12.863 +0.008MKTCAP
Student's –test (t_c) = 8.544
Standard error (S) = 3.781
Coefficient of multiple determination (R^2) = 0.802

Interpretation of the results

The equation above ISGDP =12.863 +0.008MKTCAP shows the regression function. The equation implies that an increase in market capitalization of the Nigerian Stock exchange by 1.00% will lead to a 0.008% increase in the gross domestic product component of the industrial sector.

The coefficient of multiple determinations (R^2) shows that 80% of variations in gross domestic product of the industrial sector ISGDP are explained by changes in the annual market capitalization of the Nigerian stock exchange market.

The co-efficient of market capitalization is positive and significant as shown by the students test tc = 8.544 implying that annual market capitalization of the stock exchange has a significant positive impact on the gross domestic product of the industrial sector. The standard error of 3.781 also implies a significant positive impact of the independent variable on the dependent variable.

Student's Test (t_c)

The researcher calculated the coefficient of market capitalization (MKTCAP) using t-test with n-k degree of freedom at 5% level of significance in a two tailed test.

The number of observations in the sample (n) = 19
The number of parameter coefficient (k) = 1
The level of significance (q) = 5%
Degree of freedom (n-k) = 18

Decision Rule

Since $t_c > t$ (i.e 8.544>2.35) the test or statistic falls within the acceptable region of the altemative hypothesis and we therefore conclude that annual market capitalization (MKTCAP) of the Nigerian stock exchange market has a significant positive impact on the gross domestic product GDP component of the industrial sector of the Nigerian economy (see appendix)

HYPOTHESIS TWO

To test this hypothesis, it is restated into null and alternate hypotheses as follows:

H_o: Annual Market capitalization does not have a significant positive impact on the industrial loans of the Nigerian stock exchange market.

H_1: Annual Market capitalization does have a significant positive impact on the industrial loans of the Nigerian stock exchange market.

The researcher used OLS method in testing this hypothesis as well. This is aimed at determining the impact of market capitalization on the industrial loans of the stock exchange.

Presentation of results:

Estimated regression equation = IL =455.571+0.131MKTCAP
Student's-test (tc) = 1.334
Standard error (s) = 415.004
Coefficient of multiple determination (R^2) = 0.90

Interpretation of the results:

The equation IL =455.571 + 0.131MKTCAP above which is the regression function implies that market capitalization increase by a percentage leads directly to a 0.131 percent increase in the issuance of industrial loans by the Nigerian stock exchange market. The coefficient of multiple determination (R^2) shows that 90% of variations in this industrial loans are explained by changes in the market capitalization. The student t-test t_c of 1.334 implies that market capitalization does not have a significant impact on the issuance of the industrial loans even though the relationship between the two variables is positive.

Student t-test (t_c)

The researcher calculated the coefficient of market capitalization (MKTCAP) using t-test with n-k degree of freedom at 5% level of significance in a two tailed test.

The number of observation is the sample (n) =19
The number of parameter coefficient (k)=1
The level of significance (a) =5%
Degree of freedom (n-k) =18

Decision Rule:

Since $t_c<t$ (i.e 1.334<2.35) the statistic falls within the acceptable region of the null hypothesis and we conclude therefore that annual market capitalization (MKTCAP) does not have a significant positive impact on the industrial loans issued on the Nigerian stock exchange (see appendix)

HYPOTHESIS THREE:

To test this hypothesis, it is restated in null and alternate forms as follows:

H_o: Annual Market capitalization does not have a significant positive impact on the average capacity utilization rates of the Nigerian manufacturing sector.

H_1: Annual market capitalization does have a significant positive impact on the average capacity utilization rates of the Nigerian manufacturing sector.

The researcher used regression analysis to test this hypothesis and this was aimed at establishing the impact market capitalization has on the average capacity utilization rates of the Nigerian manufacturing sector.

Presentation of results:

Estimated regression equation = CAPUTL= 39.236+0.002MKTCAP
Student's –test (t_c) = 3.315
Standard error (s) = 2.152
Coefficient of multiple determination (R^2) =0.379

Interpretation of the results:

The equation above CAPUTL =39.236 +0.002MKTCAP is the regression model which explains the relationship between market capitalization and the average capacity utilization rates of the manufacturing sector. The implication of the model in that a 1.00% changes in market capitalization will lead directly to variations or the Nigerian manufacturing sector.

The student test tc =3.315 implies a significant positive impact of annual market capitalization on the capacity utilization rates of the manufacturing sector. The coefficient of multiple determinations (R2) shows that 40% of variations in capacity utilization rates are explained by changes in the annual market capitalization. The standard error of 2.152 implies a significant positive impact of the independent variable on the dependent variable.

Student test (t-test)

The researcher calculated the coefficient of the market capitalization (MKTCAP) using t-test with n-k degree of freedom at 5% level of significance in a two tailed test.

The number of observations in the sample (n) = 19
The number of parameter coefficient (k) =1
The level of significance (a) =5%
Degree of freedom (n-k)=18

Decision Rule:

Since t_c>t (i.e 3.315 > 2.35), it means the statistic falls within the acceptable region of the alternate hypothesis and we therefore conclude that annual market capitalization (MKTCAP) has a significant positive impact on the average capacity utilization rates of the Nigerian manufacturing sector.

There were no industrial loan transactions on the stock exchange market. However, the highest transactions took place in 2001 with a figure of N65m. 1 million. After this year, the figures kept fluctuating and closed with N412.8 million in 2009 which was the last year under review (see appendix)

V. Summary Of Findings, Conclusion And Recommendations

5.1 Summary of Findings

The main thrust of this study was to assess the contribution of the capital market but more particularly the Nigerian Stock exchange market on the industrial production of Nigeria. The capital market was viewed as a major catalyst to industrial growth and indeed economic development. The benefit of appropriate industrial base for an economy lies in its combination of suitable technology management techniques and other resources in order to move the economy from a traditional and how level of production to a more automated and efficient system of mass processing and manufacture of goods and services. This research work therefore basically sought to determine the impact of the capital market on the industrial growth of the nation form the period 1990-2009. In the light of the above, the study pursued three fundamental objectives including critically assessing the contributions of the Nigerian capital market on the industrial sector of the nation's economy especially manufacturing-that is the gross domestic product component of the manufacturing sector. The study also aimed at ascertaining the impact of the market capitalization on the average capacity utilization of the manufacturing sector and finally to determine the impact of market capitalization on the gross domestic product of national economy.

Three (3) research questions were raised and three (3) null hypotheses were tested and verified. This was done using the simple regression analysis. The statistical package for social sciences (SPSS) computer software error tools of analysis were used to obtain results. In line with three objectives of the study earlier set out in chapter one, the following main findings were made:

1. That there was a positive significant impact of the annual market capitalization on industrial sector component of the gross domestic product (tc=8.544).
2. That there was a positive non significant impact of the annual market capitalization on industrial loans of the stock exchange (tc=1.334). This implies that the debt sector of the market is yet to impact significantly on the industrial sector of the economy.
3. Again, the study showed a positive significant impact of the annual market capitalization on average capacity utilization rates of the Nigerian manufacturing sector (tc=3.315)

5.2 Conclusion

Based on the findings of this research work contained in the above section, one can conclude thus:

- That there was a positive significant impact of the annual market capitalization on industrials sector component of the gross domestic product.
- Secondly, one can conclude that there was a positive non significant impact of the annual market capitalization on industrial loans of the stock exchange, and
- The third conclusion is that there was a positive significant impact of the annual market capitalization on average utilization rates of the Nigerian manufacturing sectors.

5.3 Recommendations

Our recommendations arising from this study are as follows:

i. In order to make the capital market efficient so that the public can feel reasonably assured and confident about its integrity, the rules of the market and standards expected of operators must be clearly spelt out and understood.

ii. The penalties for not faithfully abiding by the rules must be obvious since all violations should be found out and appropriate sanctions diligently applied without fear or favor.

iii. Review the trustee Investment Act 1962 with a view to widening the discretionary power of the trustees to invest in wider range of securities as means of enriching participation in furtherance of the development of the capital market and hence economic development process.

iv. The enactment of the English equivalent of the prevention of frauds (Investments) Act of 1958 in order to regulate the behavior of actors and the maintenance of decorum at the market.

v. Information is very crucial to the security of the market. It must be timely and accurate to be useful to users. Unfortunately, there had been cases where some quoted companies had failed in their objectives to supply period and other material information to the market in time.

LIST OF APPENDIXES
STATISTICAL PACKAGE FOR SOCIAL SCIENCES (SPSS) RESUTS
APPENDIX I

Regression

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	MKTCAP[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: IL

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.300[a]	.090	.039	1576.82119

a. Predictors: (Constant), MKTCAP

ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4427245.738	1	4427245.738	1.781	.199[a]
	Residual	4.475E7	18	2486365.070		
	Total	4.918E7	19			

a. Predictors: (Constant), MKTCAP

b. Dependent Variable: IL

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	455.571	415.044		1.098	.287
	MKTCAP	.131	.098	.300	1.334	.199

a. Dependent Variable: IL

Regression

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	MKTCAP[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: ISGDP

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.896[a]	.802	.791	14.36446

a. Predictors: (Constant), MKTCAP

ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	15064.074	1	15064.074	73.007	.000[a]
	Residual	3714.077	18	206.338		
	Total	18778.151	19			

a. Predictors: (Constant), MKTCAP

b. Dependent Variable: ISGDP

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	12.863	3.781		3.402	.003
	MKTCAP	.008	.001	.896	8.544	.000

a. Dependent Variable: ISGDP

Regression

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	MKTCAP[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: CAPUTL

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.616[a]	.379	.345	8.17748

a. Predictors: (Constant), MKTCAP

ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	734.794	1	734.794	10.988	.004[a]
	Residual	1203.681	18	66.871		
	Total	1938.475	19			

a. Predictors: (Constant), MKTCAP

b. Dependent Variable: CAPUTL

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	39.236	2.152		18.229	.000
	MKTCAP	.002	.001	.616	3.315	.004

a. Dependent Variable: CAPUTL

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