

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The capital market is a highly specialized and organized financial market and indeed essential agent of economic growth because of its ability to facilitate and mobilize saving and investment. To a great extent, the positive relationship between capital accumulation real economic growths has long affirmed in economic theories (Anyanwu, 2003).

Success in capital accumulation and mobilization for development varies among nations, but it is largely dependent on domestic savings and inflows of foreign capital. Therefore, to arrest the menace of the current economic downturn, effort must be geared towards effective resources mobilization. It is in realization of this that consideration is given to measure for the development of capital market as an institution for the mobilization of finance from the surplus sectors to the deficit sectors.

The development of capital market in Nigeria, as in other developing countries has been induced by the government. Though prior to the establishment of stock market in Nigeria, there existed some less formal market arrangements for the operation of capital market. It was not prominent until the visit of Mr. J. B. Lobyne in 1959, on the invitation of the Federal government, to advice on the role the Central Bank could play in the development of local money and capital market. As a follow-up to this, the government commissioned and set up the Barback Committee to study and make recommendations on the ways and means of establishing a stock market in Nigeria as a formal capital market. Acting on the recommendation of the committee, the Lagos Stock Exchange (as it was called then) was set-up in March 1960, and in September 1961, it was incorporated under Section 2 cap 37, through the collaborative effort of Central Bank of Nigeria, the Business Community and Industrial Development Bank (Alile & Anao, 2000). With the establishment of the Central Bank of Nigeria in 1959 and the coming into existence of the Lagos Stock Exchange in 1961 and Subsequently, the Nigeria Stock Exchange by an Act in 1979, a sound foundation was laid for the operation of the Nigerian Capital Market for trading in securities of long term nature needed for the financing of the industrial sector and the economy at large. After the incorporation of the Lagos Stock Exchange, it was granted further protection under the law and its activities was placed under some sort of control by the government, hence the passing of the Lagos Stock Exchange Act. However, the Lagos Stock Exchange was only operational in Lagos. By the mid 70's, the need for an efficient financial system for the whole nation was emphasized, and a review by the government of the operations of the Lagos Stock Exchange market was advocated. The review was carried out to take care of the low capital formation, the huge amount of currency in circulation which was held outside the banking system, the unsatisfactory demarcation between the operation of Commercial Banks and the emerging class of the Merchant Banks, and the extremely shallow depth of the capital. In response to the problems mentioned above, the government accepted the principle of decentralization but opted for a National Stock Exchange, which will have branches in different parts of the country. On December 2nd 1977, the memorandum and article of association creating the Lagos Stock Exchange was transformed into the Nigerian Stock Exchange, with branches in Lagos, Kaduna, Port-Harcourt, Yola and now in Federal Capital Territory (FCT) Abuja some other cities. The history of Nigeria Capital Market could be traced to 1946 when the British colonial administration floated a N600, 000 local loan stock bearing interest at 3¼% for the financing of

developmental projects under the Ten-Years Plan Local Ordinance. The loan stock, which had a maturity of 10-15 years, was oversubscribed by more than N1 million, yet local participation of the issued was terribly poor. Certainly, potential fund abound in Nigeria, but the overriding consideration in this project is to examine the role of the capital market in harnessing and mobilizing these resources (fund) to generate economic growth in the country and consequently economic development.

1.2 STATEMENT OF THE PROBLEM

There is abundant evidence that most Nigerian businesses lack long-term capital. The business sector has depended mainly on short-term financing such as overdrafts to finance even long-term capital. Based on the maturity matching concept, such financing is risky. All such firms need to raise an appropriate mix of short- and long-term capital (Demirguc-Kunt & Levine 2006).

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

1.3 OBJECTIVES OF THE STUDY

The broad objective of this study examined the activities and performance of Nigerian capital market. The specific objectives of the study are as follows:

To examines the operations of the Nigerian capital market.

To evaluate the performance of the capital market in relation to the economic growth in Nigeria.

To examine the rate at which new stocks are issued on the capital market.

To make recommendations as to how the operations of the market could be improve to boost economic growth and development of Nigeria.

1.4 RESEARCH QUESTIONS AND HYPOTHESES

This research was guided by the following research questions:

- i. How is the operation of Nigeria capital market?
- ii. What is the performance of the capital market in relation to economic growth in Nigeria?
- iii. What is the rate at which new stocks are issued on the Nigerian capital market
- iv. How could the capital market through its crucial role stimulate economic growth in Nigeria?

1.5 RESEARCH HYPOTHESES

The hypothesis that would be tested in the course of this research is stated below as:

H0: That the capital market operations have no role on Nigerian economic growth.

H1: That the capital market operations has role on Nigerian economic growth.

1.6 SIGNIFICANCE OF THE STUDY

The study explored the role or effectiveness of capital market instruments on Nigerian economic growth. Though the scope of the study was limited to the capital market, it is hoped that the exploration of this market will provide a broad view of the operations of the capital market. It will contribute to existing literature on the subject matter by investigating empirically the role, which the capital market plays in the economic growth and development of the country. The main importance of this study is that it will provide policy

recommendations to policy-makers on ways to improve operations and activities of the capital market.

1.7 SCOPE AND DELIMITATION OF THE STUDY

The economy is a large component with lot of diverse and sometimes complex parts; this research work only looked at a particular part of the economy (the financial sector). This work did not cover all the facts that make up the financial sector, but focus only on the capital market and its activities as it impacts on the Nigerian economic growth. The empirical investigation of the role of the capital market on the economic growth in Nigeria was restricted to the period between 1985 and 2014 due to the non-availability of some important data.

1.8 ORGANIZATION OF THE STUDY

The study is divided into five (5) chapters and organized as follows:

Chapter one form the introduction part, this is where the main theme of the research is given. It comprises of the statement of the problem, objectives of the study, research questions and hypotheses, significance of the study, scope and delimitation of the study and organization of the study.

Chapter two is the literature review of the role of capital market on the economic growth of Nigeria.

Chapter three forms the research methodology which includes sources of data, method of data analysis and model specification.

Chapter four is the data analysis while chapter five includes the summary, conclusion and recommendations.

1.9 DEFINITION OF TERMS

THE SECURITIES MARKET:

This refers to the market where, the purchase and sale of securities takes place. It has three dimension i.e the capital market, money market, and secondary market.

CAPITAL MARKET

This is the market for long term capital i.e long term financing assets. It is a market where long term financing assets are traded including preference and common stock debentures and bonds.

PRIMARY MARKET:

This refers to the new issues market when a firm issues new securities either bonds or common stock, the securities are sold in primary market since they are new issues. Once the securities have been sold, any future sales occurs in the secondary market. The primary market also exists in the money market.

SECONDARY MARKET

THE ROLE OF CAPITAL MARKET ON ECONOMIC GROWTH IN NIGERIA 1985-2014

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