PDF - EVALUATION OF THE IMPACT OF INFLATION ON NIGERIA STOCK MARKET RETURNS (A CASE STUDY OF ROAD TRANSPORT SECTOR OF NIGERIA) - researchcub.info**CHAPTER ONE**

INTRODUCTION

1.1 Background of the Study

The stock market is a common feature of a modern economy and it is reputed to perform functions that promote the growth and development of the economy. The market is an economic institution; which promotes efficiency in capital formation and allocation. It enables governments and industry to raise long-term capital for financing new projects, and expanding and modernizing industrial and commercial concerns. Investment in the stock market is long term in nature; hence any development that could affect the stability of the polity or economy usually has serious impact on the performance of the stock market. Corrado and Jordan (2002) identify inflationary rate amongst others as a factor that could influence the market performance. Economists have long recognized inflation as one of the major factors that could derail the economy of any country. In Nigeria, the problem of inflation has caused the monetary authority to seek remedies on a continual basis. Therefore, studying the impact of macroeconomic factors such as the rate of inflation on stock market performance has implications for investors and policy makers. The stock market performance influences the performance of the economy vice versa. According to Alile (1997), the central objective of the stock exchange worldwide remains the maintenance of the efficient market with attendant benefit of economic growth. In recent times there was a growing concern on the role of stock market in economic growth (Levine and Zervos, 1996; Demirguc-Kunt and Levine, 1996; Oyejide, 1994; Nyong, 1997; Obadan, 1998; Onosode, 1998; Emenuga, 1998; Osinubi, 1998). The stock market is of interest to economists and policy makers because of the perceived benefits to the economy.The stock market serves as a veritable tool in the mobilization and allocation of savings among competing uses which are critical to the growth and efficiency of the economy.

1.2 Statement of the Problem

Studies by DeGregorio (1992); Fischer (1993); Barro (1995); and Bruno and Easterly (1995) uncover a significant negative correlation between inflation and the growth performance of various economies. This paper investigates the empirical association between inflation and the performance of the stock market in Nigeria; to establish statistical association between inflation and various stock market performance measures. Evidence regarding this relationship in Nigeria seems scarce in the literature. It is in the light of this that the detailed nature of the empirical linkages between inflation and the various measures of stock market performance in Nigeria is being undertaken.

1.2 Objectives of the Study

The objectives of this study include but not limited to;

- To ascertain the correlation between inflation and the total value of listed shares in the Nigerian stock market.
- To know whether there is any correlation between stock market liquidity and inflation.
- To determine the impact of inflation on the performance and condition of the stock market.
- To highlight the correlation between inflation and the turnover ratio of the Nigerian stock market.

1.4 Research Questions

In the paper the issues for determination are as follows:

- What is the correlation between inflation and the total value of listed shares in the Nigerian stock market?

Is there any correlation between stock market liquidity and inflation?

Does inflation impact positively on the performance and condition of the stock market?

What is the correlation between inflation and the turnover ratio of the Nigerian stock market?

1.5 Research Hypotheses

Ho: There is no negative statistical association between stock market returns measures of the Nigerian stock market and inflation.

Hi:There is a negative statistical association between stock market returns measures of the Nigerian stock market and inflation.

1.6 Significance of the Study

The performance of the stock market is of utmost importance to investors, policy makers and the likes. The measures of stock market performance include market capitalization; which measures stock market size, stock market liquidity which refers to the ability of investors to buy and sell securities easily. Others are All Share Index; which reflects the performance and condition of the stock market, and the turnover ratio; which is an index of comparison for market liquidity rating and level of transaction costs. In Nigeria, inflation rates have persistently been two digits; this has been an issue confronting policy makers, investors, analysts and economists. It is one of the major factors that could derail the economy of any nation. The stock market which also contributes to economic growth will invariably be affected by inflation, hence the need for this paper.

1.7 Scope/Limitations of the Study

This study is to evaluate the impact of inflation on Nigeria Stock Market Returns using Road Transport Sector of Nigeria as a case study.

Limitations of Study

1. **Financial Constraint**- Insufficient fund tends to impede the efficiency of the researcher in sourcing for the relevant materials, literature or information and in the process of data collection (internet, questionnaire and interview).
2. **Time Constraint**- The researcher will simultaneously engage in this study with other academic work. This consequently will cut down on the time devoted for the research work.

1.8 Definition of Terms

Stock Market: Is the ***market*** in which shares of publicly held companies are issued and traded either through exchanges or over-the-counter ***markets***.It is a place where shares of pubic listed companies are traded

Inflation: is the rate at which the general level of prices for goods and services is rising and, consequently, the purchasing power of currency is falling. It is a general increase in prices and fall in the purchasing value of money.

Regression Model: Is a statistical process for estimating the relationships among variables. It includes many techniques for **modeling** and analyzing several variables, when the focus is on the relationship between a dependent variable and one or more independent variables.

Economic Development: Refers to the sustained, concerted actions of communities and policymakers that improve the standard of living and ***economic*** health of a specific locality.r5

RETURNS (A CASE STUDY OF ROAD TRANSPORT SECTOR OF NIGERIA)