

Impact of Nigerian Capital Market Instability on the Growth of the Economy (1990-2011)

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ABSTRACT This work examined the impact of capital market reform on the growth of Nigerian economy. The purpose of this paper was to ascertain the impact of capital market reform proxied by Market Capitalization, All Share Index and Total Volume of Transaction on the growth of Nigerian economy proxied by gross domestic product (GDP). It has been postulated that if capital market reforms are effective, the economy will grow well. The scope of the study spanned from 1990 to 2011. A stationarity test was carried out using the Augmented Dickey-Fuller test (ADF) and Phillip-Perron test (PP) and stationarity found at first difference at 5% level of significance. The Johansen-Juselius co-integration technique employed in this study proved to be superior to the Engle and Granger (1987) approach in assessing the co-integrating properties of variables, especially in a multivariate context. The result of the test indicates 1 co-integration equations at 5 percent level of significance. The study also applied Vector Error Correction Model (VECM) to determine the short-run relationship between capital market reform and economic growth in Nigeria. The result of our analysis shows that capital market reform significantly influences the rate of economic growth in Nigeria. The study also found that long-run relationship exists between capital market reform and economic growth in Nigeria. We therefore recommend that, having seen that there exists a long-run relationship between GDP and explanatory variables (MACP, ALSI and TVT) through the use of co-integration test; it implies that government can adopt policies that will help capital market contribute to the growth of Nigerian economy and lastly, to boost All Share Index in the Nigerian capital market, there is need for availability of more investment instruments such as derivatives, convertibles, futures, swaps, and options in the market.