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Stock Market Development and the Growth of Nigerian Economy

Authors : Godwin Chigozie Okpara, Eugene Iheanacho

Abstract : This paper examined the dynamic behavior of stock market development and the growth of Nigerian economy. The variables; market capitalization ratio, turnover ratio and liquidity proxies by the ratio of market capitalization to gross domestic product were sourced and computed from the Nigerian stock exchange fact books and the CBN statistical bulletin of the Central Bank of Nigeria. The variables were tested and found stationary and cointregrated using the augumented Dickey Fuller unit root test and the Johnson cointegration test respectively. The dynamic behavior of the stock market development model was verified using the error correction model. The result shows that about 0.4l percent of the short run deviation is corrected every year and also reveals that market capitalization ratio and market liquidity are positive and significant function of economic growth. In other words market capitalization ratio and liquidity positively and significantly impact economic growth. Market development variables such as turnover ratio and market restriction can exert positive but insignificant impact on the growth of the economy suggesting that securities transaction relative to the size of the securities market are not high enough to significantly engender economic growth in Nigeria. In the light of this, the researchers recommend that the regulatory body as well as the government, should provide a conducive environment capable of encouraging the growth and development of the stock market. This if well articulated will enhance the market turnover and the growth of the economy.

Keywords : market capitalization ratio, turnover ratio, liquidity, unit root test, cointegration
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