

**GLOBALIZATION AND STOCK MARKET GROWTH IN NIGERIA**

**BY**

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**A THESIS SUBMITTED TO THE FACULTY OF SOCIAL SCIENCES IN PARTIAL  
FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF  
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**MAY, 2021**

## **DECLARATION**

I, Esinone, Stanley Oghenechovwere declare that this thesis is an original research work carried out by me in the Department of Economics and Statistics, University of Benin, Benin City, Nigeria.

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**CERTIFICATION**

This is to certify that this project work was carried out by Esinone Stanley Oghenechowwere of the Department of Economics and Statistics, University of Benin, Benin City.

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**Date**

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**Dr. Clement Ighodaro**  
**(Head of Department)**

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**Date**

## **DEDICATION**

This research work is dedicated to Almighty God for the grace, knowledge, ability and protection through my stay in school.

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It is my sincere and profound gratitude to God Almighty for given me the wisdom, strength, courage, protection and understanding to complete this programme.

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## **ABSTRACT**

This study examines globalization and stock market growth in Nigeria. A review of the literature reveals that trade and investment flows has helped different countries to developed more quickly and equally increased stock of productive capital without compromising their level of consumption. The primary objectives of the study is to test the hypothesis that there exist a positive relationship between globalization and stock market growth in Nigeria. In this research work, data were collected mainly from secondary sources, e.g. central bank of Nigeria (CBN), Bureau of statistics. Upon the above, the analysis carried out reveals that globalization has a positive impact on growth of the Nigerian economy. In this study we reached the conclusion that the Nigerian stock market remains fundamental segment of Nigerian financial system and growth. The study recommend among others that there is need to further liberalize the economy but this must be done with caution so as to avoid the negative impact of the trade liberalization.

## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background to the Study

In this work, the words openness to trade can also be used as globalization. It is used interchangeably. In recent years the Nigerian economy has been moving towards increased liberalization, greater openness, the greater financial development. This work examines the implications of these developments for industrial growth in Nigeria. A simple model which relates industrial output growth to openness, stock market development, and a good control variables, is specified and estimated, using annual data covering the period 1970-1997. The empirical evidence strongly suggests that openness to world trade and stock market development are amongst the key determinants of industrial output growth in Nigeria. The other important factors are human capital input, non-military expenditure, gross domestic product (GDP), which reflects the size of physical capital, and inflation.

The Nigerian economy in recent years has been characterized by trends towards increased liberalization, greater openness to world trade (globalization). The increased liberalization and openness have motivated high rate of increases in cross-border capital and direct investment flows. Both inflows and outflows of private capital have been sharply increasing since the early 1890s. Also direct investment flows to the country have significantly increased during this period (CBN, 1997). But these flows declined steeply in the early 1990s, due largely to political instability, which was heightened by the annulment of the 1993 presidential election by the military.

Also, against the background of increased liberalization of particularly the financial sector, there have been remarkable financial integration and financial development. This is evident in the rapidly increasing size of the stock market capitalization and the value traded. The recent surge in equity transactions is clearly the result of the recent internal and external liberalization of the Nigerian economy. Internal liberalization has generated large increases in new issues, and in the volume of trade in existing issues. The recent phenomenal increases in cross-border equity flows are largely due to increased external liberalization (openness).

Globalization in the developing countries became a household terminology in the 1990s, which in terms of definition, is, external opening of the economy and increased role of markets domestically (i.e. the market economy) to developing world, that is, modern way of running an economy (Oluwole , 2014; Loto 2010). The IMF defines globalization as the growing economic interdependence of countries worldwide through increasing volume and variety of cross-border transactions in goods and services and of international capital flow, and also through the more rapid and wide spread diffusion of technology. The essence of globalization mainly is as a basis for moving the economy towards external liberation, focusing on market oriented system of government.

Financial Markets have become more integrated in the past decades owing to improvements in technological advances and financial innovations. Financial institutions including Banks and institutional investors have expanded their financial activities across geographical borders acting as intermediaries to channel funds from lenders to borrowers across national borders. A more sophisticated dimension has been assumed in the security markets where newly issued securities are now designed and offered to the public in such a way as to maximize their appeal to international investors (Alenoghenea and Odiorb, 2013).

Globalization is driven by advancement in sophisticated telecommunication and technology, with the consequent reduction in distance between economic agents making it possible for domestic markets to emerge into a global system (Omah and Ishmael, 2010). Under this process, economic activities are free from institutional controls and this enhances free market mechanism, private enterprises, open competition, professionalism and excellence in corporate governance. Globalization promotes specialization and application of the principle of comparative advantage on a global scale so as to further develop the entire world's resources (Mbamali and Okotie, 2003).

Globalization breaks down all barriers, separating nations and continents and thereby making the world a global village. It is a process that unifies the world into a single place (Scholte 1996; Monge, 1998). Globalization is one of the trends of our time eliciting fundamental changes in the policy structure, management and growth direction of organizations and nation's world over. In its broader terms, globalization refers to the fact that frontiers have ceased to be the barriers to economic growth.

In the Nigerian case, as with other developing nations, globalization and international integration prompted the government in her wisdom in 1976, to abolish legislations preventing the flow of foreign capital directly into the Nigerian bourse. It is evident that over the years the Nigerian stock exchange has remain effectively an attractive alternative window for long-term investment while cautiously embracing modern technology and improving on best international trading practices.

As capital move around the globe seeking for investment destinations with higher or superior returns at the lowest risk possible, Nigerian stock exchange has therefore been exposed

to the global effects of capital flows which have large bearing on the prices of shares listed and traded domestically, the volume of transaction and the overall value of the Stock Market.

Since the late 1980s, the pace of globalization has rapidly quickened with the world trade rising nearly as fast as world Gross Domestic Product (GDP). This has been characterized by the stock exchange market growth and globalization and accelerated by private capital flows (Adam, 2003). The recent growth of stock exchange market, through increase in cross-border capital movement has been attributed to the removal of statutory restriction on the capital account transactions and economy liberalization. International Monetary Fund (IMF, 1998) attributes another growth of stock market globally to macro-economic stabilization and policy reforms in the developing countries; privatization, liberalization of trade and growth of stock. The stock exchange, as a medium to encourage savings, help channel savings into productive investments. The emphasis on the growth of stock market for domestic resource mobilization has also been strengthened by the need to attract foreign capital (Idele, 1999).

However, the concern about the stock market growth in Nigeria is the impact of globalization on the market. It has not yet clearly been ascertained whether globalization especially through increased Foreign Direct Investment (FDI) generate positive impact or otherwise on the stock exchange market. Though the effect of globalization has not been undoubtedly looked at by many, globalization has impacted on most factors identified in the literature to be determinants of stock exchange market growth.

## **1.2 Statement of the Problem**

In spite of the many different challenges surrounding globalization, the phenomenon is currently perceived as present in nearly all aspects of economic life and is often taken for granted. Further, it is generally viewed as a relatively recent phenomenon, particularly in the area of

capital flows and international finance. Capital flows have indeed surged in volume in the past few decades in both the developing and developed economy, as a result of integration of the world economy brought about by globalization. It cannot be disputed that the growth of stock market has connection with globalization, the increase in Foreign Direct Investment (FDI), and increase in market capitalization attested to the fact that there exist relationship between globalization and stock market growth. The Nigerian stock exchange market undoubtedly had not performed impressively when compared to other stock markets in other region of the world. This is due partly to some fundamental factors like; inadequate infrastructure, government control of economy as against free market economy that is prevalent in other part of the world. It is also observed that the volume of cross border capital flows has risen substantially in the last decade. There has not been much greater volume of flows among industrial countries but also a surge in flows from industrial to developing countries. This movement is the outcome of “pull factor” which arise from changes in policies and other aspects of opening up by developing countries.

However, this work emphasizes the importance of globalization in order to promote competitiveness of stock market, ensure increased foreign investment by foreign investors, as well as increased market capitalization and stock market growth as a whole. It seeks to encourage continuous liberalization of the economy on the part of government, serves as eye opener to investors to access international capital market to ensure diversification. The interdependence of the world economy brought about by globalization indicates that no economy is an island on its own. In other world, the negative effect of globalization in an economy could result in a spillover effect on another economy. Therefore, this research is important as it seeks to

caution on the danger of uncontrolled opening of the economy through liberalization while pursuing stock market growth.

The crux of this study is to find out the directional relationship between Globalization and Stock Market Growth in Nigeria and how Nigeria Stock market can benefit from globalization.

With regard to the above, the statement of research problems for this study therefore arises from the questions such as:

- (a) How has globalization affected stock market growth in Nigeria?
- (b) How has trade liberalization influenced stock market capitalization?
- (c) What relationship exists between foreign investment and stock market growth?
- (d) Does eliminating disparity in exchange rate influenced stock market growth in Nigeria?
- (e) How has export affected the size and growth of Nigerian stock market?

The answering of these questions above is the first step towards understanding the link between globalization and stock market growth in Nigeria, hence the statement of the research problem cannot be downplayed.

### **1.3 Research Questions**

This following research questions were raised to guide the study:

- (i) To what extent have trade openness influenced the level of market capitalization in Nigeria?
- (ii) To what extent have foreign direct investment influenced the level of market capitalization in Nigeria?

- (iii) To what extent have exchange rate influenced the level of market capitalization in Nigeria?

To what extent have export influenced the level of market capitalization in Nigeria?

#### **1.4 Research Hypotheses**

The following Research Hypothesis will be tested to aid the study

1. Ho: There is no significant relationship between trade openness and market capitalization in Nigeria.
2. Ho: There is no significant relationship between foreign direct investment and market capitalization in Nigeria
3. Ho: There is no significant relationship between exchange rate and market capitalization in Nigeria
4. Ho: There is no significant relationship between export and market capitalization in Nigeria.

#### **1.5 Objectives of the Study**

The main objective of the study is to empirically investigate the impact of globalization and stock market growth of the Nigerian economy. The specific objectives include:

- i) The effect of trade openness on economic growth in Nigeria
- ii) The effect of foreign direct investment on market capitalization in the Nigerian economy
- iii) The impact of exchange rate on market capitalization in the Nigerian economy
- iv) The effect of export on market capitalization in Nigeria

#### **1.6 Scope of Study**

This study covers Globalization and stock market growth in Nigeria. The study enable the researcher capture the effects of various policies adopted by government towards promoting trade and the flow of goods and services in Nigeria.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

The increased in trade and investment flows has help different countries to develop more quickly (OECD, 2001). It has also helped them to generate income and the flows that enable increased stock of productive capital without compromising their level of consumption (UNCTAD, 2007). And when such flows are in the form of foreign direct investment (FDI), they often improve access to international best practices in terms of managerial, marketing and technical know-how, skill acquisition and institutional deepening. Moreover, the intangible assets of transnational cooperation (TNC) such as knowledge, technology, management know-how and market access serve not only as essential link between national economies, but also as a catalyst for investment and enterprise competitiveness as well as complements to domestic development resources in recipient countries (UNCTAD, 2001).

This chapter reviews existing literature on the issue of globalization and stock market development, the relationship between them and the effects of globalization on stock market with particular reference to the Nigerian Stock Market

Some analysts have commonly used the term globalization to describe the spread and connectedness of production communication and technologies across the world (Edu, 2011). It has also been described as the efforts of the International Monetary Fund (IMF, 1997), the World Bank and others related bodies to create a global free market for goods and services. Giddens (1990), defined globalization as “the intensification of worldwide social relationship which link distance localities in such a way that local happenings are shaped by events occurring many miles away and vice versa”.

Joseph (2002) defined globalization as “*the closer integration of countries and people of the world ... brought about by enormous reduction of cost of transportation and communication and the breaking down of artificial barriers to flow of goods and services, capital, knowledge, and people across borders*”.

Apparently, Adegbite and Babatunde (2010) believes that globalization refers to “the enhanced integration of world economic activity where such activity consists of increased flows of a greater variety of goods and services, more extensive cross-border, flows of short-term and long-term capital and an increasingly dense and complex network of transnational production networks involving multinational enterprise as well as independent supplier companies”. She argues that the drive towards one single global economy is itself embedded in the diversity in human taste, skills, knowledge, natural resources, soil and climate. She is of the opinion that interdependence is a necessity that gives way for freedom of exchange and movement. Hence, globalization is about freedom of capital, goods and services and productive capacities, to move unfettered across national boundaries.

Regarding stock market development, liberalization increases the pool of capital available to local firms and broadens the investor base. This is likely to lead to increased liquidity and larger amounts of research.

Furthermore, the scrutiny of foreign investors may increase transparency and promote the adoption of better corporate governance practices (Stulz, 1999; Errunza, 2001). Consistent with these arguments, a number of papers find evidence of increases in domestic stock market depth and efficiency following liberalization. In the last twenty years, governments from all over the world have undertaken significant privatization programs. This privatization process was motivated by the desire to increase government revenues, promote economic efficiency, and reduce government interference in the economy.

Domestic capital market development was also an explicit objective of privatization programs in many countries. Privatizations had a direct impact on domestic stock markets, as many governments carried out privatization sales through share offerings on local exchanges. These share issues were expected to foster stock market development by increasing the diversification opportunities available to investors and therefore encouraging trading activity and new listings by private firms. Privatization programs, even without share offerings on local exchanges, may also foster stock market development by reducing political risk (Perotti and van Oijen, 2001).

Privatizations also had a direct impact on stock market internationalization, as many privatization sales involved offerings in international financial markets. Reforms are followed by increased domestic stock market development and internationalization. This suggests that reforms may make local firms more attractive to foreign investors, who then grant them access to international markets at attractive terms. This evidence is consistent with the findings of

Claessens, Klingebiel, and Schmukler (2006), who report that better fundamentals foster stock market development, but also increase internationalization.

### **2.1.2 Link Between Stock Development And Growth**

The link between stock market performance and economic growth has often generated strong controversy among analysts based on their study of development and emerging markets. The view is that sustained economic development originates, in a nexus that involves entrepreneurship, intangible capital investment and financial intermediation. The stock market easily provide the platform through which long-term funds of the major sectors of the economy comprising households, firms, and government are mobilized, harnessed and made available to various sectors of the economy (Nyong, 1997).

The development of the capital market, and apparently the stock market, provides opportunities for greater funds mobilization, improved efficiency in resource allocation and provision of relevant information for appraisal (Inanga and Emenuga, 1997). More specifically, the Stock market contributes to economic growth through the specific services it performs either directly or indirectly. Notable among the functions of the market are mobilization of savings, creation of liquidity, risk diversification, improved disseminating and acquisition of information and enhanced incentive for corporate control, improving the efficiency and effectiveness of these functions, through prompt delivery of their services can augment the rate of economic growth.

## **2.2 Globalization and the Nigerian Stock Market**

Globalization breaks down all barriers, separating nations and continents and thereby making the world a global village. It is a process that unifies the world into a single place (Scholte 1996; Monge, 1998). Globalization is one of the tendons of our time eliciting fundamental changes in the policy structure, management and growth direction of organizations

and nation's world over. In its broader terms, globalization refers to the fact that frontiers have ceased to be the barriers to economic growth.

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As capital move around the globe seeking for investment destinations with higher or superior returns at the lowest risk possible, Nigerian stock exchange has therefore been exposed to the global effects of capital flows which have large bearing on the prices of shares listed and traded domestically, the volume of transaction and the overall value of the Stock Market.

The latest wave of financial globalization surpassed not only the ability of governments to react, but also that of financial institutions. The collapse of America's housing bubble was a key determinant for what has become the most severe and widespread financial crisis since the Great Depression (Cox, 2008). This has prompted the failure of key primary financial institutions, which in the current interconnected financial marketplace set in motion an unparalleled global financial reversal as sources of short term debt rapidly expired. The key turning point for much of the developed world was the collapse of American global financial services firm Lehman Brothers in September 2008. As a result the global economy underwent a period of severe contraction.

The immediate effects of the crisis on African economies have been a tightening of credit, weakening currencies and declining stock markets, especially for some of the major stock

exchanges in Africa (ECA, 2008). Consequently, most African countries have suffered decline in exports, trade credits, investments, remittances and tourism receipts. In addition, pressures to recapitalize financial institutions and support other ailing industries may cause donor countries to reduce aid to developing countries, with serious consequences for the African countries that rely on official development assistance to meet their pressing challenges.

It is instructive to note that the vibrant and unprecedented economic growth of the emerging markets of the sub-Saharan Africa (average 6.5%), which became more glaring from early 2001, was however called to question in 2008, no thanks to the global economic and financial meltdown. With the near collapse of Nigerian stock market between 2008 and 2009, Nigeria like other sub-Saharan Africa counterparts, had a taste of the contagion of global economic and financial crises.

The Nigerian capital market is not by any means spared by the ravaging effects of globalization which is increasingly re-defining domestic politics, policies, culture, social and economic relations as well as government decisions all over the world. In fact, the performance of Nigerian stock market from 2001 till date has made nonsense of most known fundamental and technical analysis for equity investment. In search of answers to the peculiar challenges of the market, most finance and economic analysts are pointing accusing fingers on globalization for this ugly development. In the face of the near collapse of the Nigerian stock market in 2007/2008 and its crawling recovery four year afterwards, it is in the interest of the researcher to seek out the link between globalization and stock market performance in Nigeria.

The main research question that drives this study is: “what extend do globalization variables such as openness of the Nigerian economy, net capital inflows, financial development, real exchange rate / real interest rate parity and participation in international capital market

activities determine the performance of the Nigerian Stock market?" The general objective is to empirically investigate the impact these factors on the stock market performance in Nigeria.

### **2.3 The Theoretical/Conceptual Literature**

Tony (2012) posited that "globalization is changing the nature of nation's state as power becomes more diffused and borders more porous. He emphasized that technological changes is reducing the power and capacity of government to control its domestic economy free from external influence."

The rapid advancements in technology and telecommunication have reduced the cost associated with foreign portfolio and direct investment. Without moving from one location to another, a foreign investor could deploy funds across the globe with the aid of telecommunication facilities. The ease with which capital can be re-deployed to take advantage of better returns often proved adverse for the economies experiencing the outflow. Reductions in transport and communication costs, capital account opening, financial market deregulation and privatization of state enterprises have combined to create a favorable environment for increased capital mobility (Fischer, 1998).

#### **2.3.1 Categories of Globalization**

Globalisation is of two main categories: trade and investment integration, and financial integration. While trade and investment globalization concerns multilateral trading and the current account of countries, financial globalization focuses on financial investment flows that is basically on the capital account section of countries.

Financial globalization has resulted in two distinct developments in global finance. In the first place, traditional banking institutions have evolved into financial services firms with new accounts. Additionally, non-bank financial institutions now actively compete with banks both on

asset and liabilities sides of the balance sheet thereby blurring the distinction between banks and non-bank financial institutions. Also, the rapid growth in the share of other earning assets in total assets and relative growth in off-balance sheet items have been unprecedented (IMF, 2000)

Globalization has progressed with developments in the world economy. The phenomenon has benefited immensely from multilateral trading and investment arrangements, advancement in technology and communication, and the opening up of trade and investment through liberalization of current and capital account transactions. The concept of globalization has robust theoretical underpinnings. The promotion of free trade across national borders as the bedrock of the wealth of nations was first espoused in the "mercantilist" doctrine of Adams Smith before the emergence of David Ricardo's classical theory of comparative advantage theses.

The neo-classical model of growth was later countered by the radical theorists on the inviolability of trade for ensuring the growth of nations. The radical theorists and the early proponents of development economics were of the view that growth can be internalized. However, recent developments in the world economy have shown that it is futile for countries to isolate themselves in a rapidly integrating world.

Trade theory, as well as closed and open economy macroeconomics, has explained a great deal of the phenomenon that has overwhelmed the world. Globalization has provided the impetus for nations to tailor their development efforts towards competitiveness in order to remain relevant in the emerging global economy. The trade theorists advanced the thesis that trade was essential for the growth of nations. The arguments of this school did not favor autarky, where an economy is closed with little relations with the rest of the world. With the gains by nations from closer interaction in trading activities following the liberalization of current accounts, emphasis has shifted to some minimal capital account liberalization. This means that

globalization which is predicated on modern theories of trade is hinged on the classical theory of international trade.

Although the opening up of capital accounts has been slow especially among developing economies, current account liberalization has progressed smoothly. It has often been argued that the more open an economy is, the higher the rate of economic growth. The extent to which an economy is liberalized is influenced by factors such as the strength of the domestic economy, the competitiveness of the external sector, the level of the exchange rate, domestic gross capital formation, among others. Net capital flows are the outcome of imbalances between savings and investment across countries. Both net and gross capital flows respond to economic fundamentals, official policies and financial market imperfections.

According to Kavita (1999) “The huge amount of financial capital available in the developed countries through pension and investment funds could be attracted to the developing countries provided the latter liberalized their markets externally and developed their stock market internally”. Capital markets have taken a prominent place in the developing countries financial system during the last decade. The most important measure taken in this regard by developing countries was the opening of their respective stock markets to international investors. This step, taken in the late 1980s or early 1990s, resulted in historically high level of portfolio investment in the emerging markets by global and regional funds. Stock market liberalisation in many developing countries took place during the period 1985 to 1995 when market capitalization of all emerging markets increased by 1,007 percent compared to an increase of 253 percent in the case of developed markets. As a result, the share of emerging markets in the world market capitalization increased from 4 percent in 1985 to 11 percent in 1995.

Similarly, the trading value in these markets increased by 2,189 percent compared to 564 percent increase for the developed markets over the decade. As a result, the emerging markets share in trading volume increased by more than three times, i.e., from 2.7 percent to 8.9 percent in ten years, signaling significant growth in these markets (Husain and Qayyum, 2006). This means that Globalization has generally supported poverty reduction (Dollar and Kraay, 2004).

Fitzgerald (2000) observes that trade is not enough to eradicate poverty but it is pertinent if poor countries are to have any hope of brighter future. He argues that anyone who cares about poverty should think twice about restricting trade as this will impose further hardship on poor people in the developing world.

Foreign equity investment can be beneficial to developing countries because of its risk-sharing characteristics and effects on resource mobilization and allocation. With financial integration, developing countries have become increasingly attractive destinations for international investors who are seeking a higher return than what is available in the developed economies. Stock markets of developing countries have become more, although not fully, integrated with world financial markets, and this increased integration implies a lower risk-adjusted cost of capital, which is possible by diversifying the risk. The correlation between returns of emerging markets (developing markets) with developed markets is lower than the return available in the developed economies, the risk-return profile of the portfolio can be improved (Aggarwal et al., 1999). This has created the prospects of a more efficient worldwide allocation of savings and investment than was possible earlier, when domestic investment in most countries was constrained by domestic savings. Thus, big financial investors in the developed countries, while diversifying their risk, find developing countries a more attractive destination.

In spite of the phenomenal growth of cross-border flows and the rapid progress toward the integration of financial markets, financial globalisation seems to be confined to heavily traded, highly liquid financial assets, while countries' overall investment performance continues to be determined predominantly by their domestic savings rates rather than by net capital inflows. But the highly integrated segment of the capital market is large enough to exercise higher constraints than in the past on the conduct and effectiveness of macroeconomic policies (Fischer, 1998).

Apart from the fact that capital flows, especially when they are destabilizing, can undermine macroeconomic stability, they are important elements to watch because unlike trade flows, they are subject to herd behavior, panics, crashes, destabilizing speculation and self-justifying outflows and currency speculation (IMF 2000). Capital flows are porous and can easily evade municipal control. Thus, the case for capital account liberalization should be cautiously approached for it not to be counterproductive.

#### **2.4 Theoretical Issues of Stock Market Development**

Post-socialist emerging economies usually suffer from having a very low level of development of financial intermediaries in the beginning of their transition process. Therefore, one can observe the appearance of the stock market in the transition country only after a period of primary capital accumulation and a certain level of banking sector development. Usually banks after facing lack of instruments for operations become catalysers of creating the stock markets in the economies.

Capasso (2006) points out the following stages of stock market development. In the beginning of the transition process, financial markets are rudimentary and usually dominated by banks or other similar financial intermediaries. Stock markets

do not exist at all or if they exist, their size does not allow them to have any significant effect on the economy. Accumulation of capital leads to the development of financial intermediaries and increases the number, complexity and sophistication of the financial instruments. As a result, the size of the financial market increases and stock markets begin to grow in terms of market capitalization and number of listed companies. Stock markets and financial intermediaries continue to develop together with the growth of the economy in general. However, stock markets develop in non-monotonic ways. In the economies with relatively small size of the stock market, further development goes mostly through the increase of share of the banking sector in the economy. In the economies where the size of the stock market is relatively large, further development of the financial system goes through the development of the equity markets. Therefore, during the transition process equity-to-debt ratio first decreases and only after certain level of stock market development increases in the economy.

In order to measure the level and the speed or the development of the stock markets both quantitative and qualitative indicators should be used. The brief description of both types of indicators is presented below.

One of the most widely used quantitative indicators is *market capitalization ratio*. Market capitalization ratio equals the value of listed in the domestic stock exchange shares to the GDP of the country. This indicator is often used for measuring the market size as it shows the relative weight of the stock market in the whole economy. The evidence shows that market capitalization ratio is positively correlated with the capital mobility and risk diversification possibilities.

The *number of listed companies* is also used for description of the market size. This number can vary greatly in different countries due to specific features during of stock markets development (for example the mandatory listing for privatization requirement in Czech Republic).

*Total value traded/GDP* is a measure of liquidity of the market and is calculated by dividing the total shares traded in the market during the period by the GDP of the country. This indicator is usually used together with market capitalization ratio as in developing markets the size of the market can be relatively large but trading activity is still at very low level.

*Turnover ratio* is another measure of liquidity and equals to the value of total shares traded divided by the market capitalization. In contrast to the total value

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traded/GDP ratio which shows the value of shares traded comparing to the size of the economy, this indicator measures trading relatively to the size of the stock market. Therefore, it helps to identify small but very active stock markets with high growth potential. By using both liquidity indicators together with market size ratio one can get pretty clear picture of the level of the stock market development.

*Volatility* is usually calculated as a standard deviation of market returns and is often used to measure the level of risk associated with the market. Usually developing markets are characterized by higher volatility but not necessarily by higher average returns than developed ones.

Another indicator, which characterizes the liquidity of the market, is *market concentration*. Concentration is measured as a share of some number of companies with the highest capitalization (usually five or ten) in the total market capitalization. The high degree of concentration of the market signals poor liquidity. In developed markets, this indicator is usually below 20 percent.

*Institutional and regulatory indicators* show the level of development of

regulatory framework and market institutions. According to La Porta et al. (1998), differences between the stock markets of developed countries can be explained through the differences in the law systems and regulatory mechanisms. In developing countries quality of regulations and especially law enforcement are crucial factors for successful stock market development.

All the abovementioned indicators are very useful tools for measuring the level of stock market development and comparing the stages of development in different countries. However, there are some questions concerning stock market development, which cannot be answered just by empirical evidence, and some sort of theoretical background should be provided. One such problem is late development of stock markets compared to the other financial institutions during the transition process. Another question is why the countries with similar pre-transition initial conditions end up having stock markets with very different sizes and liquidity stock markets. To explain this issues a growing number of theories appeared, which,

according to Capasso (2006) can be divided into two groups based on the approaches economists use: institutional and instrumental.

The institutional approach focuses on the stock market development from the point of view of macroeconomics. The main subject of interest for the researchers is the roles of two main institutions for capital reallocation in the economy: commercial banks and stock markets. Both of them transfer capital from lenders to borrowers but they do it in different ways. Therefore, the conditions under which the banks become less preferable for the borrowers, and as a result are partly substituted for the stock markets, should be studied to understand the emerging and development of the stock markets. Allen (1993) concludes that during the development of the economy

gathering information for correct resource allocation becomes more costly and as stock market prices reflect all the information associated with the assets stock markets are more effective for capital allocation.

Capasso (1996) develops this idea and explains the evolution of financial markets through the possibility of identifying the optimal investment strategies. In a simple economic system when it is easy to realize the optimal investment opportunities, the banking system is sufficient for optimal resource allocation. A good example of such a situation can be the economy with large share of agricultural sector where the number of investment opportunities is limited and it is not difficult to realize them. However, with the growth of the economy its complexity increases and

identifying best possible investment strategies becomes more difficult as it requires gathering much larger amount of information for optimal decision-making. In such conditions, when continuous monitoring is necessary for building efficient investment strategies stock markets become the optimal solution of the problem. This comes from the hypothesis that stock prices absorb most of the information available to the

market participants but due to the market incompleteness, participants still have incentives to monitor the firms and collect the information (Grossman and Stiglitz 1980).

Stock markets are more costly for the economy than the banks but they allow for better investment control and also better risk diversification. In addition, the investors' need for better risk diversification leads to the increase of the international integration of the stock markets. As a result, countries with better rates of return on investments can face the inflow of capital from abroad; however, the benefits from such speculative inflows are questionable. The evidence from the markets presented in the next chapters shows that appearance of the institutional investors and their willingness to invest in the stock market can lead to the rapid growth of the market.

It is also worth mentioning that the substitution of the banking sector by stock markets does not mean that the role banks play in the economy becomes insignificant. As it was shown in Demirgüç-Kunt and Levine (1995) stock markets

development is usually accompanied by the financial intermediaries development as both these institutions are crucial for the economic growth.

In contrast to the institutional approach, the instrumental one is based on the microeconomic theory and focuses on the financial contracts between economic subjects. Its goal is to explain the choice between debt and equity financing for the firm and as a result to figure out what factors affect the choice of equity financing as the optimal one for the firm.

However, Capasso (1996) shows that traditional microeconomic framework is not helpful in answering this question. In the regular Arrow-Debreu framework with perfect markets, fully-informed agents and absence of the transaction costs, when the Modigliani-Miller theorem holds firms investment decisions does not depend on

the way of financing and choice of debt or equity financing does not affect firm's market valuation. Therefore, to provide the explanation for the choice of financing different frictions such as imperfect information, liquidity and transaction costs were introduced into this framework.

Development of microeconomic models of optimal contracts under information asymmetry and their integration into the dynamic general equilibrium models generated new ways of studying financing decisions of firms. However, these theories also faced some problems in explaining a firm's choice of financing. In contrast to debt financing in which the repayment level is set in advance, equity financing involves the repayment proportional to the firm's profits. Hence, if a firm has information about high rate of returns from the investment and as result high profits, it will always choose debt financing of the project as a cheaper one.

Another approach to explain this problem has its roots in the studies of the optimal financial structure of the firm. Every firm chooses the debt or equity financing

Another approach to explain this problem has its roots in the studies of the optimal financial structure of the firm. Every firm chooses the debt or equity financing or a mixture of two depending of the set of factors, which determine its optimal financial structure. Pagano et al. (1998) examines firms decisions to switch to equity financing through Initial Public Offerings (IPO's) and finds several reasons for this. First, firms are more likely to go public when the market valuation of the other firms in the same industry is high. Second, given a fixed cost of listing the larger is firm the more probably it will perform the IPO. Third, firms are more likely to switch to equity financing when the level of debt is high comparing to the firm's assets. In this case, the IPO helps to improve the balance sheet of the firm. In addition, it helps the firm to get access to the cheaper credits as going public requires higher level of transparency from the firm which reduces risk taken by the banks due to the asymmetric information problem. Another reason for companies to go public is to

figure out real capitalization of the company, as market price of its shares will be determined. This is important for the firms in transition economies, which are often subjects for merges and acquisitions from foreign investors, and information about real market price of the firms can be very helpful for such deals. The market indicators presented in the next chapters show that in some markets the increase of number of IPO's can became the main driving force for the market growth.

### **2.4.1 Stock Market Size**

There are two main indicators of stock market size: market capitalization and the number of listed companies.

#### *(i) Market Capitalization*

A common indicator for assessing stock market size is *Market capitalization/GDP*, which equals the market value of listed shares divided by the relevant GDP. This indicator has been widely used in the literature as a stable measure of stock market development for two reasons. First, it is a measure of stock market size, which is positively correlated with the ability to mobilize capital and diversify risk.

Second, it is presumed to include companies' past retained profits and future growth prospects so that a higher ratio to GDP can signify growth prospects as well as stock market development (Levine and Zervos, 1998b, Bekaert et al, 2001; Rajan and Zingales, 2003). The main shortcoming of this measure is that a high ratio solely driven by the appreciated values of only a few companies with little or no change in the amount of funds raised and no change in the breadth of the stock market may be misinterpreted as stock market development (Adelegan, 2008).

*(ii) The Number of Listed Companies*

The number of listed companies is used as a complementary measure of stock market size. The main advantage of this measure is that it is a proxy for the breadth of the stock market and is not subject to stock market fluctuations (Bekaert et al, 2001; Rajan and Zingales, 2003; and Karolyi, 2004). Moreover, it is not tainted by possible mis-measurement of GDP, which often happens in many developing countries.

Nevertheless, this measure suffers from two main weaknesses: first, the number of listed companies is too slow-moving to fully capture high frequency changes among listed companies. The number of listed companies can also be affected by corporate restructuring, combining and merging.

Second, this measure may allocate a low score to economies whose industrial structure is concentrated in the sense of having only a smaller number of large companies. It can be a noisy measure as concentration only partly reflects limited access to finance (Rajan and Zingales, 2003 and Karolyi, 2004). It is worth highlighting that while marginal differences in the number of listed companies are uninformative, extreme value can be useful.

#### **2.4.2 Stock Market Liquidity**

One of the most important aspects of stock market development is liquidity. Liquid markets offer a number of benefits: i) they render financial assets more attractive to investors, who can transact in them more easily. In addition, liquid markets allow investors to switch out of equity if they want to change the composition of their portfolio; ii) liquid markets permit financial institutions to accept larger asset-liability mismatches; iii) they allow companies to have permanent access to capital through equity issues; and iv) liquid markets allow a central bank to use indirect monetary instruments and generally contribute to a more stable monetary transmission mechanism (Sarr and Lybek, 2002).

With liquid markets, the initial investors do not lose access to their savings for the duration of the investment project for they can easily, quickly and cheaply sell their stake in the company.

Consequently, more liquid markets could ease investment in long-term, potentially more profitable projects, thereby improving the allocation of capital and enhancing prospects for long-term growth. Put another way, the more liquid the stock market, the larger the amount of savings that are channeled through stock markets.

While economists advance many theoretical definitions of “liquidity”, there is no single unambiguous, theoretically correct or universally accepted definition of liquidity (Baker, 1996).

However, analysts generally use the term to refer to the ability to easily buy and sell securities. There are five dimensions of market liquidity, which are: tightness, immediacy, depth, breadth and resiliency. Tightness refers to low transaction costs, such as the difference between buy and sell prices.

Immediacy represents the speed with which orders can be executed and settled, and thus reflects among other things, the efficiency of the trading, clearing and settlement systems. Depth refers to the existence of abundant orders, either actual or easily uncovered of potential buyers and sellers, both above and below the price at which a security would be trading on the market.

Breadth means that

orders are both numerous and large in value with minimal impact on prices, and resiliency usually denotes the speed with which price fluctuations resulting from trades are dissipated. (Sarr and Lybek, 2002)

A comprehensive measure of liquidity would quantify all the costs associated with trading, including the time cost and the uncertainty of finding a counterpart and finalizing the transaction. Yet no single measure unequivocally measures tightness, immediacy, depth, breadth and resiliency. Due to the difficulties involved in elaborating such a measure, the most commonly used indicators of liquidity by analysts are traded value/GDP and turnover ratio.

#### *(i) Traded Value/GDP*

Traded value is a volume-based indicator. Volume-based indicators are most useful in measuring market breadth, i.e. the existence of both numerous and large orders in volume with minimal transaction price impact. Traded value/GDP equals the total value of shares traded on the stock market divided by GDP. It measures the organized trading of shares as a percentage of national output and therefore should positively reflect stock market liquidity on an economy-wide basis.

### *(ii) Turnover Ratio*

Since traded value can be given more meaning by relating it to the value of outstanding volume of shares being considered, turnover ratio is commonly used as a second indicator of liquidity. Turnover ratio gives an indicator of the number of times the outstanding volume of shares changes hands. Turnover ratio equals the value of total shares traded divided by market capitalization.

In some sense, turnover ratio as an indicator of liquidity complements traded value/GDP. While the former captures market trading relative to the size of the economy, the latter measures trading compared with the size of the stock market. A small, liquid market will have a high turnover ratio but a small traded value/GDP ratio. A high turnover ratio is often used as an indicator of low transaction cost. However, some analysts consider turnover as a good indicator of speculative activity in a given market. As noted earlier, the turnover is derived by dividing the one-year average market capitalization by total annual traded value. A value of 100 per cent means that the two terms are equal and that, on average, each share has changed hands once during the year in question. Higher turnover ratio means that shares have frequently changed hands, which may reflect a tendency to speculation.

Finally, making use of both indicators – traded value/GDP and turnover ratio – can provide a more comprehensive picture of the liquidity of stock markets than the information provided by the use of only one of them.

### **2.4.3 Stock Market Concentration**

It is possible for stock markets to be large relative to their economies, but still concentrated. That is, only a few companies dominate the given market. Consequently, market concentration may be measured by looking at the share of market capitalization accounted for by the large companies

in the market. These large companies are seen by some analysts as being the leading three to five companies in the market (Maunder et al., 1991). Yet, another commonly used indicator of the degree of stock market concentration is the share of market capitalization accounted for by the ten largest stocks (e.g. International Finance Corporation, S&P).

Concentration adversely affects market development as it hampers market breadth by the concentration of capitalization within a handful of large companies, limiting the range of attractive investment opportunities and thus adversely affecting liquidity in the stock market in question. In addition, having a stock market which is driven by only a few companies could weaken the link between stock prices for non-leading companies and/or their performance and growth prospects. That is to say, the prices of stocks in non-leading companies are affected by market movements of stock prices of leading companies more than their own performance and prospects. This distorts the “signaling” function of stock markets. Market concentration also might encourage speculative activities as investment alternatives are limited and diversification possibilities are limited as well.

## **2.5 Stock Markets and Economic Activity**

The relationship between stock prices and real economic activity is circular. On the one hand, stock prices depend on a company’s performance and its growth prospects so that to the degree that a company’s performance improves and the rate of return increases, stock prices rise in turn. On the other hand, stock prices should reflect the present discounted value of expected future dividends or expected future growth. From this perspective, stock prices serve as a leading indicator of future changes in real economic activity. Generally, there are three main channels whereby stock prices can affect real economic activity: i) the wealth effect: under the life cycle/permanent income, higher stock prices and increased wealth in stocks lead investors to

increase their consumption. This increase in consumption will be more significant in countries where the stock ownership base is large; ii) cost of capital: with stock prices increasing, the cost of new capital relative to existing capital decreases, more companies go public and raise funds for investment through public offerings. In addition, a good performance on the stock market might attract foreign capital, which would allow interest rates to go down (*ceteris paribus*); and iii) the confidence effect/expectation effect: a highly performing stock market might improve overall expectations, which might induce economic growth through more investment as part of a positive feedback effect. Moreover, stock prices signal faster growth of companies and as a result a possible growth of future real individuals' income might also induce more consumption (Morck et al, 1990). Although these factors/channels are hard to quantify, it is important to accurately assess the strength of the link between stock markets and real economic activity.

### **2.5.1 Stock Market Volatility**

Stock prices are supposed to serve as signals for resource allocation. Yet, excessive volatility which does not reflect economic fundamentals would distort the “signaling” function of stock markets.

Although it is theoretically difficult to identify a clear criterion for defining the degree of “excessiveness”, many analysts argue that less volatility reflects greater stock market development.

However, a certain degree of stock market volatility is unavoidable, even desirable, as stock price movements indicate changing values across economic activities so resources can be better allocated.

There are significant implications surrounding stock market volatility, given that it affects incentives to save and to invest. Theoretically, all other things being equal, the more volatile the

stock market, the fewer savers will save and hence the less investment there will be. Excessive stock market volatility would lead investors to demand a higher risk premium, increasing the cost of capital which in turn would impede investment and hamper economic growth. In addition, this volatility might lead to a shift of funds to less risky assets which –once again – will cause companies to pay more for access to capital. (Zuliu,1995; Levine and Zervos, 1996; and Arestis et al, 2001).

Stock market volatility might result from the volatility of underlying economic fundamentals, in particular, the volatility of the real output flow whose present discount value that the stock price is supposed to reflect should matter. Black and Scholes (1973) argue that a higher leverage ratio may induce companies' managers to undertake riskier projects than they otherwise would. In addition, uncertainty of macroeconomic policies may also result in stock market volatility. (e.g. volatility of exchange rates, or volatility of the inflation rate). Stock market volatility may also be caused by the arrival of new, unanticipated information that alters expected returns on stocks (Engle and Ng, 1993).

In light of the above discussion, one could define a “developed” stock market as *“a market that is sufficiently large and liquid - relative to the size of its economy - possessing a non-concentrated market capitalization and demonstrating adequate linkage to the performance of the real economic sector”*.

It is worth highlighting that the previous discussion does not cover other important dimensions of stock market development, namely, institutional factors. Yet the status of institutional and all other factors are indeed reflected in the five aspects we have discussed. Finally, it would be possible to establish a stock market development index by elaborating a weighted average comprising market

size, liquidity, volatility, linkage to real sector and market concentration. However, the weight to be assigned to each individual factor could be an issue of some contention.

## **2.6 The Nigerian Stock Market**

The Nigerian Stock Exchange was established in 1960 as the Lagos Stock Exchange. In 1977 it became The Nigerian Stock Exchange, with branches established in some of the major commercial cities of the country with Lagos as the head office of the Nigerian Exchange and an office in Abuja. The Exchange started operations in 1961 with 19 securities listed for trading. Today there are 262 securities listed on The Exchange, made up of 11 Government Stocks, 49 Industrial Loan (Debenture/Preference) Stocks and 194 Equity / Ordinary Shares of Companies, all with a total market capitalization of approximately N287.0 billion, as at August 31, 1999. Presently, there are 139 listed equities while the all-share index and market capitalisation stood at 24,807 basis points and 1.973 trillion respectively (Nigerian Stock Exchange Equities Summary.) Most of the listed companies have foreign/multinational affiliations and represent a cross-section the economy, ranging from agriculture through manufacturing to services (Bahdur and Neupane, 2006).

The market has in place a tested network of Stockbrokerage Firms, Issuing Houses (Merchant Banks), practicing corporate law firms and over 50 quality firms of auditors and reporting accountants (most with international links). The Stock Exchange and most of the nation's stock broking firms and issuing houses are staffed with creative financial engineers that can compete anywhere in the World. Therefore, the market has in place a network of intermediating organizations that can effectively and creditably meet the challenges and growing needs of investors in Nigerian. Integrity is the watchword of The Stock Exchange. Market

operators subscribe to the code “Our word is our bond”. Thus, public trust in the Nigerian stock market has grown tremendously, with about three million individual investors and hundreds of institutional investors (including foreigners who own about 47% of the quoted companies) using the facilities of The Exchange. However, the aftermath of the global financial meltdown has greatly affected the confidence level of investors. In the interim, the stakeholders are making frantic efforts to return the Exchange to an enviable position (Abu, 2009).

The main objectives of the Nigerian Stock Exchange as enunciated in the Memorandum of Association of the company is to create an appropriate mechanism for capital formation and provide efficient allocation of resources among competing alternatives. It is also expected to provide special financing strategies for projects with long term gestation periods. In addition, it helps to maintain discipline in the capital market as far as the participants and the investors are concerned and as such, assists to broaden the share ownership in the market by providing the enabling environment and to provide and maintain fair prices for securities. The overriding objective of any financial system is the provision of a conducive atmosphere for the transfer of funds from the surplus sector of the economy to the deficit sector. The Capital Market, in the process of carrying out its function is faced with many challenges such as the effect of economic trends, financial restructuring and reforms by government, industrialization, and technology etc. the Capital Market is thereby required to adapt to the constantly changing trends in the economy (Osinubi, 2003).

The market in Nigeria has been described as being shallow; this is due mainly to the market float that is very small and is measured by the ratio of securities in the market to the total listed securities outstanding. The challenge that lies ahead is to be able to increase and retain as many of our domestic individual and institutional investors as possible and simultaneously attract

foreign ones to the Nigerian Capital Market. This can be achieved by being dynamic, innovative, and having an open mind so that new ideas can be absorbed and put productively in use. The market must be in a position to provide a spectrum of investment alternatives, new trading instruments with which investors can hedge their risk, as well as an environment which is honest, has sufficient structures and where policies are flexible enough to accommodate different investment needs.

The Capital market has also been characterized by a number of market failures, one of which is asymmetric information, a situation in which one party to a transaction has less information than the other party. The pervasiveness of this phenomenon greatly undermines the efficiency of financial markets as mechanisms for allocating resources. Because geography and cultural distance complicate the acquisition information, asymmetric information is particularly prevalent internationally. While the revolution in information asymmetric are lessened but not eliminated, therefore they are prone to the sharp investor reactions, unpredictable market movements and financial crisis that can occur when information is incomplete and financial markets behave erratically (Eichengreen and Musa 1998).

### **2.6.1 The Impact of the Global Financial Crisis on the Nigerian Capital Market**

The effect of the financial crisis that began in the United States of America (USA) on emerging markets was wide-ranging and was both internally and externally induced. The initial financial crisis had affected mainly the US and Europe. However, due to the connectivity of the financial system, also known as the ‘contagion effect’, most economies were affected.

The impact of the crisis started to show by mid-2007 with the fall of major stock markets prices. The crisis entered a new phase with the collapse of Lehman Brothers in September 2009

and spread across economic sectors in advanced, emerging and developing economies, Nigeria inclusive.

The causes of the crisis can be summarized as liberalization of global financial regulation, Boom and Bust of the housing market, speculations, new financial architecture, poor credit rating, high risk loans and government policies. Most scholars have argued that the crisis was not without warning; the housing boom witnessed in the United States and lack of coherent regulation highlighted the flaws in the system. Most proponents argued that any form of strong regulation would stifle innovation and with the growth of small businesses in the U.S and Europe, this was discouraged. Banks and financial institutions repackaged these debts with other risk debts and sold them to worldwide investors, creating financial instruments called Collateralized Debt Obligations (CDO). These financial innovations of the market, termed financial derivatives and also known as Mortgage-Backed Securities (MBS), which derived their value from mortgage loans, spread the risk to financial institutions and investors around the world. Research shows that major banks and financial institutions borrowed and invested heavily in MBS and reported losses of approximately US \$2.8 trillion as at October 2008. The credit derivatives compounded the effects mainly in the capital markets (property and stock markets)(NSMA, 2012).

The crisis led to the demise of large banking institutions, large size conglomerates and small businesses with governments, in even the wealthiest nations, providing rescue packages to bail out their financial systems. The impact of the crisis is still currently felt, with countries such as Greece and Ireland seeking rescue packages. Like other African countries, the Nigerian economy was initially perceived to have been insulated from the financial crisis. The total share of stock market capitalization stood at only 1.81 per cent of the global market. However, the effects began to show by end-March 2008 with the crash in the capital market and some banks

having expanded their businesses outside the shores of Nigeria, the contagion effect of the crisis hit the Nigerian economy.

Base on the nature of the Nigerian economy, the financial crisis had an impact on the foreign exchange market. This was attributed to the disinvestment and repatriation of capital and dividends by foreign investors thereby intensifying the demand for foreign currencies (NSMA, 2012). This further led to a depletion of the external reserves. The implication for the Nigerian economy was borne by the various sectors of the economy. Firstly, the Nigerian stock market witnessed a continuous drop in the All-share index and volume of traded securities. Secondly, the banking sub-sector was affected by a credit contraction as most foreign banks reduced their credit lines, exchange rate exposure, and the continuous decline in the NSE eroded their profitability. Thirdly, the decline in the revenue receipts by the three tiers of government, leading to a contraction of the fiscal sector. The contraction of the fiscal sector led to a crowding-out of the private sector credit, which in turn affected the real sector.

Based on the assessment conducted by the Ministerial Conference on Financial Crisis (2008), the financial sector had been in receipt of US \$15.73 billion in portfolio flows in 2007 alone. With the emergence of the global financial crisis, foreign investors began to withdraw holdings in the capital market, which in turn led to capital flight. The withdrawals of portfolio holdings, given the size of the market, led to significant volatility and to a sharp decline in stock prices across the Nigerian stock market.

Prior to the crisis, stock prices had appreciated, though without correlation with any market fundamentals. Between 2002 and 2008, the Nigerian stock market capitalization rose to peak at N12.6 trillion in March, 2008. The boom led to an investment rush by all classes of society. Bank customers took out loans to invest in stocks of their banks. The withdrawal of

funds by the foreign investors led to the huge decline of most stock prices as supply exceeded demand. The market capitalization was with only N4.5 trillion in March 2009 (NSMA, 2012). In light of this, this research work seeks to investigate the effects that globalization has on stock market growth capitalization.

## **2.7 Empirical Literature Review**

The risk of sudden stops or reversals of global capital flows to developing countries has increased in importance as many developing countries now rely heavily on borrowing from foreign banks or portfolio investment by foreign investors. These capital flows are sensitive not just to domestic conditions in the recipient countries but also to macroeconomic conditions in industrial countries. For instance, Mody and Taylor (2002), using an explicit disequilibrium econometric framework, detect instances of “international capital crunch”—where capital flows to developing countries are curtailed by supply-side rationing that reflects industrial-country conditions. The effects of industrial-country macroeconomic conditions, including the stage of the business cycle and interest rates, have different effects on various types of capital flows to emerging markets.

Earhart and Reinhart (2001) document that net FDI flows to emerging-market economies are strongly positively correlated with U.S. business cycles. On the other hand, bank lending to these economies is negatively correlated with U.S. cycles. Edison and Warnock (2001) find that portfolio equity flows from the United States to major emerging-market countries are negatively correlated with both U.S. interest rates and U.S. output growth. This result is particularly strong for flows to Latin America and less so for flows to Asia. Thus, the sources of capital inflow for a

particular more financially integrated [MFI] country can greatly affect the nature of its vulnerability to the volatility of capital flows arising from industrial-country disturbances.

The increase in cross-country financial market correlations also indicates a risk that emerging markets will be caught up in financial market bubbles. The rise in movement across emerging- and industrial-country stock markets, especially during the stock market bubble period of the late 1990s, points to the relevance of this concern. This is a particular risk for the relatively shallow and undiversified stock markets of some emerging economies. For instance, as noted earlier, the strong correlations between emerging and industrial stock markets during the bubble period reflects the preponderance of technology and telecommunication-sector stocks in the former set of markets. It is, of course, difficult to say conclusively whether this phenomenon would have occurred even in the absence of financial globalization, since stock market liberalizations in these countries often went hand in hand with their opening up to capital flows.

The increasing depth of stock markets in emerging economies could alleviate some of these risks but, at the same time, could heighten the real effects of such financial shocks. In this vein, Dellas and Hess (2002) find that a higher degree of financial development makes emerging stock markets more susceptible to external influences (both financial and macroeconomic) and that this effect remains important after controlling for capital controls and trade linkages. Consequently, the effects of external shocks could be transmitted to domestic real activity through the stock market channel. Even the effects of real shocks are often transmitted faster and amplified through financial channels. There is a large literature showing how productivity, terms-of-trade, fiscal, and other real shocks are transmitted through trade channels. Cross-country investment flows, in particular, have traditionally responded quite strongly to country-specific shocks.

Financial channels constitute an additional avenue through which the effects of such real shocks can be transmitted. Furthermore, since transmission through financial channels is much quicker than through real channels, both the speed and the magnitude of international spillovers of real shocks are considerably heightened by financial linkages. Rising financial linkages have also resulted in contagion effects. Potential contagion effects are likely to become more important over time as financial linkages increase and investors in search of higher returns and better diversification opportunities increase their share of international holdings and, due to declines in information and transaction costs, have access to a broader array of cross-country investment opportunities. There are two broad types of contagion identified in the literature—fundamentals-based contagion and pure contagion. The former refers to the transmission of shocks across national borders through real or financial linkages.

In other words, while an economy may have weak fundamentals, it could get tipped over into a financial crisis as a consequence of investors' reassessing the riskiness of investments in that country or attempting to rebalance their portfolios following a crisis in another country. Similarly, bank lending can lead to such contagion effects when a crisis in one country to which a bank has significant exposure forces it to re-balance its portfolio by readjusting its lending to other countries. This bank transmission channel, documented in van Rijckeghem and Weder (2000) and Kaminsky and Reinhart (2001), can be particularly potent since a large fraction of bank lending to emerging markets is in the form of short maturity loans. While fundamentals-based contagion was once prevalent mainly at the regional level, the Russian crisis demonstrated its much broader international reach (Kaminsky and Reinhart 2002). Pure contagion, on the other hand, represents a different kind of risk since it cannot easily be influenced by domestic policies, at least in the short run.

There is a good deal of evidence of sharp swings in international capital flows that are not obviously related to changes in fundamentals. Investors' behavior during these episodes, which is sometimes categorized as herding or momentum trading, is difficult to explain in the context of optimizing models with full and common information. Informational asymmetries, which are particularly rife in the context of emerging markets, appear to play an important role in this phenomenon. A related literature suggests that pure contagion may reflect investors' shifting appetite for risk, but it is no doubt difficult to disentangle such changes in risk appetite from shifts in underlying risks themselves (Kumar and Persaud, 2001). Thus, in addition to pure contagion, financial integration exposes developing economies to the risks associated with destabilizing investor behavior that is not related to fundamentals.

### **2.7.1 Some Factors that increase Vulnerability to the Risks of Globalization**

Empirical research indicates that the composition of capital inflows and the maturity structure of external debt appear to be associated with higher vulnerability to the risks of financial globalization. The relative importance of different sources of financing for domestic investment, as proxied by the three variables, has been shown to be positively associated with the incidence and the severity of currency and financial crises. The variables are: the ratio of bank borrowing or other debt to FDI, the shortness of the term structure of external debt, and the share of external debt denominated in foreign currencies. Detragiache and Spilimbergo (2002) find strong evidence that debt crises are more likely to occur in countries where external debt has a short maturity. However, the maturity structure may not entirely be a matter of choice since, as argued by these authors, countries with weaker macroeconomic fundamentals are often forced to borrow at shorter maturities since they do not have access to longer-maturity loans. Recent currency crises have highlighted one of the main risks in this context. Developing countries that

attempt to maintain a relatively inflexible exchange rate system often face the risk of attacks on their currencies. While various forms of fully or partially fixed exchange rate regimes can have some advantages, the absence of supportive domestic policies can often result in an abrupt unraveling of these regimes when adverse shocks hit the economy. Financial integration can also aggravate the risks associated with imprudent fiscal policies. Access to world capital markets could lead to excessive borrowing that is channeled into unproductive government spending. The existence of large amounts of short-term debt denominated in hard currencies then makes countries vulnerable to external shocks or changes in investor sentiment.

The experience of a number of less-developed countries that have suffered the consequences of such external debt accumulation points to the heightened risks of undisciplined fiscal policies when the capital account is open. Premature opening of the capital account also poses serious risks when financial regulation and supervision are inadequate. In the presence of weakly regulated banking systems and other distortions in domestic capital markets, inflows of foreign capital could exacerbate the existing inefficiencies in these economies. For example, if domestic financial institutions tend to channel capital to firms with excessive risks or weak fundamentals, financial integration could simply lead to an intensification of such flows.

Adebite (2003) deduced that capital market globalization empowers the intensification of international financial security market. Integration of stock markets leads to greater international portfolio capital flows and increases the vulnerability of emerging markets to crisis. This implies that globalization or internationalization gives domestic companies the opportunity through the stock markets to access new sources of capital and at the same time expose both the fund-users to risk of globalization. Adedola (2004) describes capital account liberalization as the removal of controls on the movements of capital both in and out of a country and also the

restrictions on the convertibility of the currency. Internationalization of stock market eliminates discrimination in the treatment of foreign and domestic investors, and removes barriers to the cross-border provision of the financial service. Jayasuriya (2002) sees stock market liberalization as broad way of removing restrictions on the international capital flows. Stigts (2007) uses more detailed classification by defining stock market globalization as increase in the issuance of share capital and the voting open to foreigners.

Torre *et al* (2007) found out that stock market development is positively related to globalization. This work shows that reform and globalization of capital market increases domestic market capitalization, trading and capital raising, increases in the chain of activity in international equity markets can contribute to the spread at least practices in corporate governance, accounting rules and legal traditions. Internationalization is a reality and no country of the world is immune to its impacts. In the past decades instances have shown the rapid transformation of financial markets and institutions across the globe. It has attested to the fact that internationalization of capital or stock market involves the removal of obstacles to the market access through domestic stock market liberalization and capital account liberalization.

As seen from the above, globalization or internationalization of stock market growth studies show that internationalization of stock market increases listing, capital raising and trading abroad in domestic market.

Globalization of stock market outside poses volatility effect on the stock market and also has negative impact on market capitalization, volume of shares traded and liquidity. Obstfied (2002) reveals that when capital raising and trading moves out of the country due to internationalization, the local stock exchange suffered in the form of lower market capitalization, low volume securities trades and lack of liquidity.

## **2.8 Global Financial Meltdown: Impact on Nigeria's Capital Market**

Nigeria faces an uncertain economic situation both in the near and far future as a result of the ongoing global and domestic financial crisis (Serieux, 2009). The capital market is recovering because the index measure of the market direction grew by 34.5 per cent in 2012. Then, the market capitalisation, which opened trading for the year at N8.98 trillion, grew by N3.41 trillion to close trading on Dec. 9 at N12.39 trillion, reflecting a growth of 37.97 per cent. For the banks that underwent privatization from 1992 to 1994, nominal assets grew by 81% in the year of privatization, while equity grew by 73% (Thorsten, Robert, & Afeikhena, 2005). So, banks are struggling; monoculture of oil continuous to bedevil Nigeria, resulting in a reported need to repeatedly adjust government expenditure and upcoming budget accordingly; for instance the 2009 budget benchmark price for oil is now set at \$45 per barrel, down from 2008's \$59. Our foreign reserves situation remains an enigma wrapped in a mystery for now. One hopes that the government in Abuja-both Executive and the national legislature (senate house) as well as the Nigeria Stock Exchange (NSE), the Securities and Exchange Commission (SEC), the Nigeria Deposit insurance Corporation (NDIC) and the Central of bank (CBN) will all coordinate their activities rise to the occasion as has attempted by various governments around the world, lest our nation gets consigned to another long period of economic wilderness. The admonition in the west is even more apt in the developing countries, that in his new order of globalization, high technology and regular operations, the only option is the infusion of innovative ideas (including new technology), new regulation and particular highly- competent (and less mutual chummy) professionals at the NSE, SEC, NDIC, and CBN. Conversant with the management of 21st – Century financial markets (Aluko, 2008).

## **2.9 Globalization and Nigeria's Economic Development**

Globalization is an uneven process with unequal distribution of its benefits and losses. This imbalance leads to polarization between the developed countries that gain, and the developing countries that lose out (Obadan, 2001). In this regard, the place of Nigeria in the globalization agenda requires some in-depth study. To begin with, Nigeria is economically weak due to inadequate domestic economic capacity and social infrastructure needed to boost the country's productivity, growth and competitiveness (Hassan, 2013). Secondly, the economy is made weaker by monocultural dependency and unfavourable terms of trade in its export trade as well as excruciating debt and debt service burdens (Majekodunmi & Adejuwon, 2012). And thirdly, before 1986, economic regimes were regulated and the country pursued expansionary fiscal and monetary policies in its development efforts (Obadan, 1998). These problems were exacerbated by political instability and corruption. As a result, investment choices were distorted, which eroded the confidence especially of foreign investors. Following the globalization trend, Nigeria has been liberalizing its economy. But the real sectors have had to function under conditions of unstable macroeconomic management, infrastructural inadequate technology and credit facilities. These have proved to be an obstacle to strengthening the productive base, especially of agriculture and industry, in order to make them export-oriented.

Theoretically, the traditional growth literature was not suited to explore the relationship between financial intermediation and economic because it focused on steady-state level of capital stock per worker or productivity, but not on the rate of growth (which was attributed to exogenous technical progress). The recent revival of interest in the link between financial growths stems from the insights of endogenous growth models, in which growth is selfsustaining

and influenced by initial conditions. In this framework, the stock market is shown to not only have level effects, but also rate effects (Levine, 1991).

### **2.10 Literature Gap/Conclusion.**

The Nigerian Stock Market has survived since its inception and has thrived in spite of many challenges. Many researchers have carried out studies on the Nigerian Stock market, its impact on economic growth as well as some challenges to the effective operation of the stock market. However, literature on the effect or impact of globalization on the Nigerian Stock Market is limited. It is this literature gap that this study seeks to fill.

## **CHAPTER THREE**

### **THEORETICAL FRAMEWORK**

This chapter look at the method of data collection and analysis. Emphasis was laid on the model specification so that the research hypotheses can be tested. It shows a precise and concise presentation of the qualitative and analytical framework adopted in obtaining and analyzing the data in the study. It contains presentation of procedures which the researcher employed to obtain empirical and quantitative value in the study.

### **3.1 Method of Data Collection**

Data that was used for this study are secondary in nature; the major sources of data are publications of the Central Bank of Nigeria Bulletin (various issues), Federal Office of Statistics now known as Bureau of Statistics (NBS), World Bank Reports, seminar papers, journals, other periodicals and the internet.

Emphasis was laid on globalization and stock market growth in Nigeria, with more emphasis on trade openness. The data for the model include that of Market capitalization, Foreign direct investment, exchange rate and export.

### **3.2 Method of Data Analysis**

The method of data analysis that was used for the study is the Augmented Dickey Fuller (ADF) unit root test, the co-integration test, causality test, structural break test and Error Correction Mechanism (ECM) with its implied parsimonious and over-parameterized ECM which has been developed to address the problem associated with non-stationary nature of time series data. Amongst others, the co-integration technique and its implied ECM guide against possible spurious correlation in the model (Hendry, Granger and Weiss 1983).

**The Endogenous Growth Theory:** The relationship between financial development and economic growth has long been established both at theoretical and empirical level. However, the emergence of new theories of endogenous growth has indeed renewed interest in the potential role of the financial systems in promoting economic growth. Endogenous growth models emerged as an analytical framework for investigating the much proclaimed relationship between financial development and growth. Endogenous growth models demonstrate that in the absence of exogenous technology progress, there can be self sustaining growth and economic growth rates are associated with preference, technology income distribution and institutional arrangements (Pagano, 1993). Hence, these models indicates that finance not only have level of effects (i.e influence the growth rates of capital stock and productivity). In addition, there exist differing specifications of endogenous growth models as distinct to the financial mechanism included in the model accounting for the role of finance. Accordingly, a variety of endogenous

growth models have been used providing theoretical analysis for the finance growth relationship, like that of Greenwood and Jovanovic 1991, Bencivenga and Smith 1991, Levine 1991, Boyd and Smith 1992; Pagano 1993, Benci and Wang (1997.)

However, a simple “AK” endogenous growth model as specified by Pagano (1993) will be used to discuss the effects of financial development on growth. In this model, output is a linear function of capital such that:

$$Y_t = AK_t \dots\dots\dots (1)$$

Where Y = total output in an economy

K = capital stocks, and A is a constant which refers to levels of technology in the economy or factor productivity.

This simple “AK” endogenous growth model provides a setting where in only capital ( $K_t$ ) is used in production and it exhibits constant return to scale capital depreciates at a constant rate of  $\delta$  and there is no population growth on that:

$$K_{t+1} = I_t + (1-\delta)K_t \dots\dots\dots (2)$$

*Where*

$I_t$  = gross investment and  $\sigma$  is the rate of depreciation

It is also assumed that a proportion of savings, the size of  $1 - \Theta$ , is lost during the process of financial intermediation. This savings linkage indicate inefficiency in the financial systems thus only the fraction  $\Theta$  of the total savings can be used to finance investments. Therefore, in a closed economy, the investment – saving relationship can be described as

$$I_t = \Theta S_t \dots\dots\dots (3)$$



In order to appropriately capture the effect of Globalization on stock market in Nigeria, the endogenous growth theory will be adopted with some modifications to suit the purpose of the study. The general models to be estimated for Nigeria are as defined as follows:

### **Model 1**

$$MACP = F (TOP, FDI, EXR, EXP) \quad (3.1)$$

Equation (1) could be stated explicitly as:

$$MACP = \alpha_0 + \alpha_1 TOP + \alpha_2 FDI + \alpha_3 EXR + \alpha_4 EXP + e_t \quad (3.2)$$

$$\lambda_1 > 0, \lambda_2 > 0, \lambda_3 < 0, \lambda_4 > 0$$

Where:

MACP = Market capitalization

TOP = Trade openness

FDI = Foreign direct investment

EXR = Exchange rate

EXP=Export

$e_t$  = Error term

## **3.4 Estimation Technique**

The conventional approach to time series econometrics is based on the implicit assumption of stationarity of time-series data. A recent development in time-series econometrics has cast serious doubts on the conventional time series assumption; variables are subjected to statistical test. The statistics that was tested in the study are stated below:

### **3.4.1 Stationarity and Unit Root Test**

A major problem associated with time series data is that they often exhibit time characteristic (that is non-stationarity). This may lead to spurious regression result and therefore, make statistical inferences invalid, spurious results imply obtaining a spurious correlation among series.

This involves observing from a regression, a large correlation coefficient that exists merely because the variables share a common trend like movement over time (that is variables are non-stationary). Another consequence is that the variables do not lend support to any theory that ties them together that is variables are not co-integrated (Enders 1995, Johnson and Dinerdo 1997). Non-stationarity of series, given that these series are not co-integrated implies that any regression involving them would yield spurious results. To determine and take into account the time series properties of variables, it is necessary to explore time series analysis. The E- Views econometric package is used to test for stationarity of series and existence of co-integration among series as well as to estimate an error correction model.

In order to establish the integration of the variables, we employ the Augmented Dickey-Fuller (ADF) unit root test. The ADF procedures involve testing whether variables in a model are stationary or testing the order of integration through unit root tests. All these tests are based on the series in equations as presented below:

$$\Delta y_t = a y_{t-1} + \sum_{i=1}^m \beta y_{t-i} + \delta y_t + \varepsilon_t \text{ (for levels)} \quad (3.3)$$

$$\Delta \Delta y_t = a \Delta y_{t-1} + \sum_{i=1}^m \beta \Delta y_{t-i} + \delta y_t + \varepsilon_t \text{ (for first difference)} \quad (3.4)$$

$\Delta y$  are the first differences of the series,  $m$  is the number of lags and  $t$  is the time.

### 3.4.2 Unit Root Testing Procedure

The procedure tests a data generating process for difference stationarity against trend stationary. Given a variable Y, for example, the following regressions are employed.

$$\Delta y_t = a_0 + y_{t-1} \sum_{i=1}^n a_{t-1} + \varepsilon_t \quad (t=1, \dots, n) \quad (3.5)$$

Where  $\Delta$  is the first difference operator  $a_i$  are constant parameters and  $\varepsilon_t$  is a stationary stochastic process. The number of lags (n) is determined based on the minimum Akaike Information Criterion (AIC). To determine the order of integration of the series, equation 3.5 is modified to include second difference on lagged first and n lags of second differences. That is

$$\Delta y_t = \mu_1 \Delta y_{t-1} + \sum \varepsilon_i \Delta_2 y_{t-1} + \varepsilon_{1t} \quad (i=1, \dots, n) \quad (3.6)$$

Where:

$\mu, \epsilon$  are constant parameters and  $\varepsilon_{1t}$  is a stationary stochastic process. The n lagged difference terms are included so that the error term  $\varepsilon_t$  and  $\varepsilon_{1t}$  in both equations are serially independent. To test for stationarity, the Augmented Dickey Fuller (ADF) test is applied to equations 3.5 and 3.6 essentially, the Augmented Dickey fuller (1981) test procedure is specified when  $\varepsilon_t$  is autoregressive to eliminate serial correlation of errors.

A stationary time series is said to be integrated of order zero or I(0), and a time series  $Y_t$  is defined to be integrated of order one or I(1) if  $\Delta y_t$  is a stationary time series.

### 3.4.3 Co- integration Analysis

The concept of co-integration analysis creates the link between integrated process and the concept of steady state equilibrium (Komolafe 1966). Although economic variables may be individually non-stationary, they may be co-integrated.

Non-stationary variables are said to be co-integrated if a linear combination of these variables assumes a lower order of integration rendering the linear combination stationary  $I(0)$ . This suggests the existence of a mechanism of theoretical link that prevent some of the variables from diverging significantly from each other. The existence of a co-integrating relationship implies that the regression of a non-stationary series in their levels will yield meaningful and non-spurious results.

However, as noted above, for integration to exist the non-stationary series must be integrated of the same (higher) order. By testing for and establishing co-integration, we verify that the necessary condition has been established. Testing for the existence of co-integration involves using the Engle-Granger two step procedures.

Firstly, unit root tests are conducted on the individual series as analyzed above and if the variable is  $I(1)$ , a static model is estimated for the co-integrating regression (Egwaikhede, Chete and Falokun, 1994:23). The second stage is to evaluate the order of integration on the residuals generated from the static model. In this study, the second approach is applied after testing for stationarity of the individual variables.

#### **3.4.4 Error Correction Model**

The existence of co-integration among variables suggests that there is a long run economic relationship implying that it is most efficient to apply an error correction model. The ECM provides a more general and less restrictive lag structure, allowing for partial or full adjustment as a special case. Secondly, it captures both the long run equilibrium and short run dynamic relationships associated with a 'model' making it encompassing.

**CHAPTER FOUR**  
**DATA PRESENTATION AND ANALYSIS**

**4.0 Descriptive Analysis**

The mass of information generated from the questionnaires was summarized in form of table, and analyzed using simple percentage. For the purposes of presenting and analyzing responses to issues raised in the questionnaires. However, the returned questionnaires are taken to represent 100%.

**4.1 Questionnaire Administered and Retrieved**

**Table 4.1.1**

Questionnaires	Returned	Percentage %
80	66	82.5%

**Sources: Researcher’s Fieldwork, 2019.**

From the table 4.2.1 above, the researcher administered 80 questionnaires to respondents in the Nigeria stock markets, out of which 66 questionnaires were retrieved.

This indicates that 82.5% of our respondents were sampled.

**Question 6: what extent does globalization relates to stock market performance?**

**Table 4.1.2**

Response	Very little extent	Little extent	Some extent	Great extent	Very great extent	Total
Respondent	1	6	10	23	26	66
Percentage %	1.52	9.09	15.5	34.85	39.39%	100%

**Sources: Researcher’s Fieldwork, 2019.**

1.52% representing 1 respondent believes that the relationship between globalization and stock market performance is to a very little extent, 9.09% believe that the relationship is to a little extent and 15.5% believe that the relationship is to some extent. While about 74.24%

representing 49 of the respondents however believe that there is a relationship between globalization and stock market performance.

In summary, the indication is that the opinion of the greater number of respondents suggests that the level of stock market performance is the function of globalization.

**Question 7:** To what extent has globalization impacted positively on Nigerian stock market growth?

**Table 4.1.3**

Response	Very little extent	Little extent	Some extent	Great extent	Very great extent	Total
Respondent	10	12	16	17	11	66
Percentage %	15.5	18.18	24.24	25.76	16.67	100%

**Source: Researcher fieldwork, 2019**

15.15% of the respondents believe that globalization impacted positively on Nigerian stock market is to a very little extent, 18.18% and 24.24% of the respondents believe that the positive impact of globalization on stock market in Nigeria is to little extent and to some extent respectively. While 42.43% representing 28 respondents believe that globalization has positive impact on stock market in Nigeria.

In summary, the indication is that the opinion of the greater number of respondents is that globalization has positive impact on Nigeria stock market growth.

**Question 8:** to what extent has globalization negatively influenced trading, listing and capitalization of stock in Nigeria?

**Table 4.1.4**

Response	Very little extent	Little extent	Some extent	Great extent	Very great extent	Total
Respondent	10	12	16	17	11	66
Percentage %	15.15	18.18	24.24	25.76	16.66	100%

*Source: Researcher fieldwork, 2019*

From the table 4.1.3 above 15.15% of the respondents believe that globalization have negatively influenced trading, listing and capitalization of in stock in Nigeria, to very little extent, 18.18% believe to little extent and 24.24% of respondents believe to some extent while 25.76% and 16.66% respondents believe that globalization have negatively influenced trading, listing and capitalization of stock in Nigeria respectively.

Summarily, this indicates that our respondent are of opinion that globalization does not negatively influenced trading, listing and capitalization of stock in Nigeria.

**Question 9:** To what extent has Nigeria stock market response to international practice and standard?

**Table 4.1.5**

Response	Very little extent	Little extent	Some extent	Great extent	Very great extent	Total
Respondent	5	11	14	20	16	66
Percentage %	7.58	16.67	21.21	30.30	24.24	100%

*Source: Researcher fieldwork, 2019*

From the table 4.1.5 above 7.5% respondent believe that the Nigerian stock market responded to international practice and standard is to a very little extent, 16.67% of respondents believe that is to a little extent and 21.21% of respondents believe to some extent. While 30.30% and 24.24% of respondents believe that the Nigeria stock market response to international practice and standard is to a great extent and very great extent respectively.

In summary greater percentage of the respondents are of opinion that Nigeria stock market response to international practices and standard.

**QUESTION 10:** To what extent has globalization promoted regional and global integration of Nigerian stock market?

**Table 4.1.6**

<b>Response</b>	<b>Very little extent</b>	<b>Little extent</b>	<b>Some extent</b>	<b>Great extent</b>	<b>Very great extent</b>	<b>Total</b>
<b>Respondent</b>	<b>8</b>	<b>19</b>	<b>4</b>	<b>16</b>	<b>19</b>	<b>66</b>
<b>Percentage %</b>	<b>12.12</b>	<b>28.79</b>	<b>6.06</b>	<b>24.24</b>	<b>28.79</b>	<b>100%</b>

**Source: Researcher's fieldwork, 2019**

From the table 4.1.6 above 12.12% of respondents are of opinion that globalization promoted regional and global integration of Nigeria stock market to a very little extent 28.79% of respondents believe to a little extent and 6.06% of respondents believe to some extent while 53.03% of respondents are of opinion that globalization promoted regional global integration.

In summary greater number of respondents believe that globalization promoted regional and global integration of Nigeria stock market.

**QUESTION 11:** To what extent has globalization crisis affected stock market trading?

**Table 4.1.7**

Response	Very little extent	Little extent	Some extent	Great extent	Very great extent	Total
Respondent	6	19	14	11	16	66
Percentage %	9.09	28.79	21.21	16.67	24.24	100%

**Source: Researcher’s fieldwork, 2019**

9.09% of respondents believe that globalization crisis affected stock market trading is to a very little extent, 28.79% of respondents believe to a little extent and 21.21% of respondents believe to some extent while 40.91% of respondents believe that globalization crisis affected stock market trading.

In summary greater percentage of respondents do not believe that globalization crisis affected stock market trading.

**QUESTION 12:** to what extent has globalization impacted on stock market capitalization

**Table 4.1.8**

Response	Very little extent	Little extent	Some extent	Great extent	Very great extent	Total
Respondent	4	7	12	18	25	66
Percentage %	6.06	10.61	18.27	27.27	37.88	100%

**Source: Researcher’s fieldwork, 2019**

6.06% of respondents believe globalization impacted on stock market capitalization to a very little extent 10.61% of respondents believe to a little extent and 18.27% of respondents believe that globalization impacted on stock market capitalization while 65.15% of respondents representing 43 believe that globalization impact on stock market capitalization.

Summarily, greater number of respondents believes that globalization impacted on stock market capitalization

**QUESTION 13: To what extent relationship between global investment and stock market listing is?**

**Table 4.1.9**

Response	Very little extent	Little extent	Some extent	Great extent	Very great extent	Total
Respondent	-	18	3	23	22	66
Percentage %	-	27.27	4.55	34.85	33.33	100%

**Source: Researcher's fieldwork, 2019**

From table 4.1.9 above 27.27% of the respondents believe that relationship between global investment and stock market listing is to a very little extent and 4.55% of respondents believe that is to some extent. While 68.18% representing 45 respondents believe that there is relationship between global investment and stock market listing.

In summary, greater number of the respondents is of opinion that stock market listing is a function of global investment.

**QUESTION 14: Trade liberalization has strongly impacted on the growth of Nigeria stock market**

**Table 4.1.10**

Response	Strongly disagree	Disagree	Undecided	Agree	Strongly agree	Total
Respondent	4	8	10	22	22	66
Percentage %	6.06	12.12	15.15	33.33	33.33	100%

**Source: Researcher's fieldwork, 2019**

6.06% of respondents were strongly disagreed 12.12% of respondents were disagreed and 15.15% respondents were undecided that trade liberalization has strongly impacted on the growth of Nigeria stock market while 66.66% of respondents agreed that trade liberalization has strongly impacted on the growth of Nigeria stock market.

In summary, greater number of the respondents agree that trade liberalization has strongly impacted on stock market growth in Nigeria.

**QUESTION 15: Unregulated import has impacted on stock market growth.**

**Table 4.1.11**

Response	Strongly disagree	Disagree	Undecided	Agree	Strongly agree	Total
Respondent	14	13	20	7	12	66
Percentage %	21.21	19.70	30.30	10.61	18.18	100%

**Source: Researcher’s fieldwork, 2019**

From the above table 4.1.11, 21.21% of the respondents strongly disagreed, 19.70% of the respondents disagreed and 30.30% of respondents were undecided that unregulated import has impacted on stock market growth. While 28.79% of respondents agreed that unregulated import has impacted on stock market growth.

In summary, this shows that greater number of respondents is of opinion that unregulated import has not impacted on stock market growth.

**QUESTION 16: promotion of exports has impacted on the growth of stock market capitalization.**

**Table 4.1.12**

Response	Strongly disagree	Disagree	Undecided	Agree	Strongly agree	Total
Respondent	1	3	24	14	24	66
Percentage %	1.52	4.55	36.36	21.21	36.36	100%

**Source: Researcher's fieldwork, 2019**

From the above table 4.1.12, 1.5% of respondents strongly disagreed, 4.55% of respondents disagreed and 36.36% of respondents were undecided that promotion of exports has impacted on the growth of stock market capitalization. While 57.57% of respondents agreed that promotion of exports has impacted on the growth of stock market capitalization.

In summary, greater number of the respondents is of opinion that promotion of exports has impacted on the growth of stock market capitalization.

**QUESTION 17: Trade liberalization policy has impacted on the growth of stock market capitalization**

**Table 4.1.13**

Response	Strongly disagree	Disagree	Undecided	Agree	Strongly agree	Total
Respondent	-	5	15	27	19	66
Percentage %	-	7.58	22.73	40.91	28.79	100%

**Source: Researcher fieldwork, 2019**

From the table above, 7.58 respondents strongly disagreed and 22.73% of respondents were undecided that trade liberalization policy has impacted on the growth of stock market capitalization while 69.7% of respondents agreed that trade liberalization policy has impacted on the growth of stock market capitalization. In summary, a greater number of respondents are of the opinion that trade liberalization policy has impacted on the growth of stock market capitalization.

**QUESTION 18: Trade liberalization has strongest impact on the stock market capitalization growth**

**Table 4.1.14**

Response	Strongly disagree	Disagree	Undecided	Agree	Strongly agree	Total
Respondent	-	6	25	14	21	66
Percentage %	-	9.09	37.88	21.21	31.82	100%

**Source: Researcher's fieldwork, 2019**

From the table 4.1.14 above, 9.09% of the respondents disagreed and 37.88% of respondents were undecided that trade liberalization has strongest impact on stock market capitalization growth. While 53.03% of the respondents agreed that trade liberalization has strongest impact on stock market capitalization.

Summary, indication is that greater number of our respondents are of opinion that trade liberalization has strongest impact on stock market capitalization growth.

Question 19: There is increase in stock market capitalization as a result of favourable trade liberalization policies.

**Table 4.1.15**

Response	Strongly disagree	Disagree	Undecided	Agree	Strongly agree	Total
Respondent	4	7	3	29	23	66
Percentage %	6.06	10.61	4.55	43.94	34.85	100%

**Source: Researcher's fieldwork, 2019**

From table 4.1.15 above, 6.06% of respondents were strongly disagree, 10.61% of respondents disagreed and 4.55% respondents were undecided that increase in stock market capitalization is as result of favourable trade liberalization policies. While 78% of respondents agreed that increase in stock market capitalization is as a result of favourable trade liberalization policies.

Summary, the analysis above indicate that our respondents are of opinion that increase in stock market capitalization is as a result of favorable trade liberalization.

**QUESTION 20: To what extent is foreign investment inflow and stock market capitalization relate?**

**Table 4.1.16**

Response	Very little extent	Little extent	Some extent	Great extent	Very great extent	Total
Respondent	2	1	18	23	22	66
Percentage %	3.03	1.52	27.27	34.85	33.33	100%

**Source: Researcher's fieldwork**

3.03% of respondents believe that foreign investment inflow and stock market capitalization relate to a very little extent, 1.52% respondents believe to a little extent and 27.27% respondents believe to some extent while 68.18% of respondents believe that foreign investment in flow and stock market capitalization relate.

In summary the indication is that greater number of respondents believe that stock market capitalization is a function of foreign investment inflow.

**QUESTION 21: to what extent has foreign investment favoured the growth of stock market capitalization?**

**Table 4.1.17**

Response	Very little extent	Little extent	Some extent	Great extent	Very great extent	Total
Respondent	3	57	12	22	22	66
Percentage %	4.55	10.61	18.18	33.33	33.33	100%

**Source: Researcher’s fieldwork**

From the table 4.1.17 above, 4.55 of respondents believe that foreign investment favoured the growth of stock market capitalization to a very little extent, 10.61% respondents believe to a little extent and 18.18% of respondents to some extent while 66.66% of the respondents believe that foreign investment favoured the growth of stock market capitalization.

In summary the indication is that greater number of respondents are of opinion that foreign investment favoured the growth of stock market capitalization.

**QUESTION 22: To what extent has foreign investment positively related to stock market growth capitalization**

**Table 4.1.18**

Response	Very little extent	Little extent	Some extent	Great extent	Very great extent	Total
Respondent	4	5	16	20	21	66
Percentage %	6.06	7.58	24.24	30.30	31.82	100%

**Source: Researcher’s fieldwork, 2019**

6.06% of respondents are opinion that foreign investment positively related to stock market growth capitalization to a very little extent 7.58% of respondents believe to a little extent and

24.24% of respondents believe to some extent and 62.12% of respondents believe that foreign investment positively related to stock market growth capitalization.

In summary, the indication is that greater number of respondents are of opinion that foreign investment positively related to stock market growth capitalization.

**QUESTION 23: To what extent has foreign investment positively related to stock market capitalization?**

**Table 4.1.19**

Response	Very little extent	Little extent	Some extent	Great extent	Very great extent	Total
Respondent	5	9	12	21	19	66
Percentage %	7.58	13.64	18.18	31.82	28.79	100%

**Source: Researcher's fieldwork, 2019**

From table 4.1.19 above, 7.58 of respondents believe that foreign investment positively related to stock market capitalization to a very little extent 13.64% believe to little extent and 18.18% of the respondents believe to some extent. While 60.61% of respondents believe that foreign investment is positively related to stock market growth.

Summarily, the indication is that greater number of respondents is of opinion that stock market growth capitalization is function of foreign investment.

**QUESTION 24: To what extent is the impact of foreign investment more significant in stock market capitalization performance?**

**Table 4.1.20**

Response	Very little extent	Little extent	Some extent	Great extent	Very great extent	Total
Respondent	4	9	18	29	6	66
Percentage %	6.06	13.64	27.27	43.94	9.19	100%

**Source: Researcher's fieldwork, 2019**

From the above table 4.1.20, 6.06% of respondents believe that impact of foreign investment is more significant in stock market capitalization performance to a very little extent, 13.64% respondents believe to a little extent and 27.27% of respondents believe to some extent while 53.13% of respondents believe that impact of foreign investment is more significant in stock market performance.

In summary, this indicates that greater number of our respondents is of opinion that impact of foreign investment is more significant in stock market capitalization performance.

## 4.2 Analysis of Results

In the interpretation of the regression result, the simple regression result which shows the relationship between the dependent variable (stock) market capitalization growth) and each of the independent variable (globalization, trade liberalization, foreign investment, exchange rate disparity and external debt would be discuss first. The below are the findings from the regression results.

### 4.2.1 Testing Hypothesis One:

Question	Responses					Total
	Very little extent	Little extent	Some extent	Great extent	Very great extent	
6	1	6	10	23	26	66
7	10	12	16	17	11	66
8	19	25	13	6	3	66
9	5	11	14	20	16	66
10	8	19	4	16	19	66
11	6	19	14	11	16	66
12	4	7	12	18	25	66
13	0	18	23	2	23	66
<b>Total</b>	<b>53</b>	<b>117</b>	<b>106</b>	<b>113</b>	<b>139</b>	<b>528</b>

Source: Researcher's fieldwork, 2019

H<sub>0</sub>: Globalization have no significant relationship with stock market growth

H<sub>i</sub>: Globalization has significant relationship with stock market growth.

The simple OLS regression for testing hypothesis one is presented in equational form as;

$$\text{CAPG} = 101.8237 + 0.89449 \text{ GLOB}$$

$$t\text{-value (1.4050)} \quad 0.413761$$

$$R\text{-Bar squared} = 0.201520$$

$$F(1,6) = 45.1711$$

From the regression result above, it would be observed from the slope of coefficient of globalization (GLOB) variable that there is actually a positive relationship between globalization and stock market growth. Their relationship was insignificant. Since the variable (GLOB) with a t-value of 0.413761 failed the t-test at 10% level of significant (i.e.  $t_{\text{calculated}} = 0.413761 < t_{\text{critical}} = 1.4.15$ ). The R-Bar squared with a value of 0.201520 revealed that about 20% systematic variations in stock market growth is caused by globalization. The F-test, which measures the existence of linear relationship between the dependent variable and independent variable, revealed that actually the dependent and independent variable are linearly related since the F-calculated value of 45.17119 is greater than f-critical value of 5.99 at 5% level of significance. This implies that there exist a linear relationship between stock market growth and globalization.

Therefore, we should accept the null hypothesis (H<sub>o</sub>) and reject the alternative hypothesis. This implies that there exist a positive and insignificant relationship between stock market growth and globalization.

#### 4.2.2 Testing Hypothesis Two

Question	Responses					Total
	Strongly disagree	Disagree	Undecided	Agree	Strongly agree	
14	4	8	10	22	22	66
15	14	13	20	7	12	66
16	1	3	24	14	24	66
17	0	5	15	27	19	66
18	0	6	25	14	21	66
19	4	7	3	29	23	66
<b>Total</b>	<b>23</b>	<b>42</b>	<b>97</b>	<b>113</b>	<b>121</b>	<b>396</b>

Source: Researcher's fieldwork, 2019

H<sub>0</sub>: Trade liberalization have no significant relationship with stock market growth.

H<sub>i</sub>: Trade liberalization have a significant relationship with stock market growth.

The simple OLS regression result for testing hypothesis two is written as;

$$\text{CAPG} = 255.2006 - 2.9633\text{LIB}$$

$$t\text{-value (2.9018)} \quad (-1.4685)$$

$$R\text{-Bar squared} = 0.14177$$

$$F(1,6) = 22.1364$$

From the regression result above, it would be observed from the slope of coefficient of trade liberalization (LIB) variable that there is a negative relationship between stock market growth and trade liberalization. Their relationship was significant since the variable (L/B) with a t-value of 1.4685 (absolute term) passed that t-test at 5% level of significance (I.e t calculated = 1.4685 > t-critical = 1.415). The R-Bar squared with a value of 0.14177 revealed that about 14% systematic variation in stock market growth is caused by trade liberalization. The f-test revealed that there exist a linear relationships between the dependent (stock market capitalization growth) and trade liberalization as an independent variable. This was so because the f-calculated value of 22.1564 was greater than the f-critical value of 5.99 at 5% level of significance.

Therefore, we should reject the null hypothesis ( $H_0$ ) and accept the alternative hypothesis ( $H_i$ ). This implies that trade liberalization that means free trade has a negative and significant influence on the growth of Nigeria stock market.

#### 4.2.3 Testing Hypothesis Three

Question	RESPONSES					
	Very little extent	Little extent	Some extent	Great extent	Very great extent	Total
20	2	1	18	23	22	66
21	3	7	12	22	22	66
22	4	5	16	20	21	66
23	5	9	12	21	19	66
24	4	9	18	29	6	66
<b>Total</b>	<b>18</b>	<b>31</b>	<b>76</b>	<b>115</b>	<b>90</b>	<b>330</b>

Source: Researcher's fieldwork, 2019

$H_0$ : Foreign investment has no significant influence of stock market growth

$H_i$ : Foreign investment has a significant influence on stock market growth.

The simple linear regression for testing hypothesis three is presented in equational form as;

$$\text{CAPG} = -269.4691 + 10.3089 \text{ FPI}$$

$$t\text{-value } (-1.4974) \quad (2.2317)$$

$$R\text{-Bar squared} = 0.36250$$

$$F(1,6) = 44.9805$$

From the regression result above, it would be observed from the investment (FPI) variable that the variable is positively related to stock market growth. Their relationship is very significant since the variable (FPI) with a t-value of 2.2317 passed the t-test at 10% levels of

significance (i.e  $t\text{-calculated} = 2.2317 > t\text{ critical } -1.415$ ). the R-Bar squared with a value of 0.36250 indicated that about 36% of the systematic variations in stock market capitalization growth is caused by increase in foreign investment. The f-test also at 5% revealed that there is a linear significant relationship between the dependent variable (CAPG) and the independent variable 9FPI). This was so because the f-calculated value of 44.9805 was greater than the f-critical value of 5.99.

Therefore, we should reject the null hypothesis ( $H_0$ ) and accept the alternative hypothesis ( $H_1$ ). This implies that foreign investment is not only positively related to stock market growth but also contribute to its growth significantly.

#### 4.2.4 Multiple Regression Analysis

The multiple regression model results for this study is Presented and analyzed as follows;

$$\begin{aligned} \text{CAPG} = & -592.0034 - 1.7461\text{GLOB} + 2.9036\text{LIB} + 18.3072\text{FPI} \\ & (-2.8543) \quad (-1.4243) \quad (1.6925) \quad (93.7406) \\ & + 2.6714\text{EXR} - 5.6131\text{EXDET} \\ & (2.1103) \quad (-2.9165) \\ \text{R-Br squared} = & 56.1243 \end{aligned}$$

From the above multiple regression result, it would be observed that about 79% of the growth of stock market is jointly related to the variable of globalization, trade liberalization foreign investment, exchange rate and external debt. This implies that the model is a good fit with a high predictive power. Since it is above average.

The slope of coefficient of each of the independent variable shows their relationship with the dependent variable. In the results, trade liberalization, positive and significant impact on

stock market growth since their t-value of 1.6025, 3.7406, and 2.110 respectively posed the t-test at 10% level of significance.

In the case of globalization and external debt variables in the multiple regression model both variable had a negative impact on stock growth. The negative impacts of external debt were more severe since it passed the t-test of 10% level of significance.

The t-test that measures the existence of a linear and significant relationship between the dependent variable and the independent variables taken together revealed that there is actually a significant relationship between the dependent variable and all the independent variables taken together. This was so because the f-calculated value of 56.1243 was greater than the f-critical value of 1913 at 5% levels of significance.

In summary, the simple and multiple regression results revealed that among all the independent variable, it is only external debt that has an insignificant relationship with stock market capitalization growth in Nigeria.

## CHAPTER FIVE

### SUMMARY OF FINDINGS, POLICY IMPLICATION AND CONCLUSION

#### 5.0 Introduction

This section examines the relationships between Globalization and Stock Market Growth in Nigeria using Benin City as a study ground. In this research work, various theoretical and literature issues were discussed as they related to globalization and stock market growth. In addition, an empirical and a descriptive analysis was undertaken to investigate the impact of major globalization variable on the growth of Nigeria Stock Market.

#### 5.1 Summary of Findings

The regression and the descriptive analysis reveals the following:

- a. Trade liberalization, foreign investment, exchange rate, disparity had a significant impact on the growth of Nigerian Stock Market.
- b. External debt was the only variable that had an insignificant impact on the growth of stock market.
- c. Globalization promoted regional and global integration of Nigerian Stock Market.
- d. Globalization forces impacted on stock market capitalization.
- e. There is increase in stock market capitalization as a result of favourable trade liberalization policies.
- f. Trade liberalization has strongly impacted on stock market capitalization.
- g. There is relationship between foreign investment inflow and stock market capitalization.
- h. Impact of foreign investment is more significant in stock market capitalization.
- i. Exchange rate disparity has shown that there is an economic implication on stock market capitalization which exchange rate differ between trade partners.

- j. The movement of the exchange rate has impacted on changes in stock market capitalization.
- k. The productive use of external debt increases the size of stock market capitalization.
- l. The cancellation of foreign of foreign debt has impacted positively on the growth of stock market growth indicators.

## 5.2 Policy Implication

- a. Trade liberation policies is being bedeviled by negative impact of trade liberalization, such as inflation rate, that has reverberating effect on demotic prices. Therefore, globalization which creates persistent volatility in domestic inflation rate would discourage investment and savings which indirectly affects the stock markets.
- b. Exchange rate policy: it was found that globalization affect the rate of foreign exchange in unpredictable manner in a free market system. In the same case, the exchange rate may be administratively determined. The resultant effect is that higher real exchange rate lowers the external competitiveness of the economy via the trade balance and has a negative impact on aggregate income which indirectly affects the stock market growth.
- c. Interest rate policy: globalization affects interest rate both positively and negatively. This implies that globalization brings about interest rates and volatility. The higher the interest rates, the lower the demand for stock and hence the lower the stock market growth in term of returns and size. This means that globalization which spurs higher domestic interest rate would retard growth of local stock market.
- d. There is a positive relationship between stock market growth and inflows of foreign private investment as a result of globalization. In turn, higher rates of return in stock

market and financial market can encourages savings and investments that deliver faster economic growth.

### **5.3 Conclusion**

The Nigerian Stock Market remains fundamental segment of Nigerian financial system and growth in the market would imply more funds for companies and increase investment. The forces of globalization have also contributed to the growth of Nigeria Stock Market since the liberalization of the economy in 1986. Therefore, this research suggests that for Nigerian Stock Market to witness large growth in its market capitalization and efficiency in its operation, the above policy suggestions must be considered.

However, this research work is deficient in term of the depth and coverage in the area of sample size, statistical information, inadequate material online and even in academic publications and journals and cost of transportation. It future researchers can eliminate these deficiencies, I am more sanguine about the prospect of globalization and stock market growth in Nigeria.

### **5.4 Recommendations**

- a. In order to growth, the Nigeria Stock Market, there is the need to further liberalize the economy but this must be done with caution so as to avoid the negative impact of the trade liberalization.
- b. Promote stable exchange rate: unstable exchange rate is a major challenges for the growth of stock market. Therefore, it is recommended that Central Bank of Nigeria and the government should adopt and implement economic policies that would ensure change rate stability.

- c. Stimulate inflow of foreign investment in development of stock market foreign investment need to be increased so as to further expand the growth of Nigeria Stock Market through the introduction foreign investment incentives.
- d. Settlement of external debt: the payment of external debt would increase the credit worthiness of Nigeria economy. Therefore, it is recommended that Nigeria need to reduce the level of its external debt so as to attract fresh inflow of debt stock investment into Nigerian Stock Market and economy at large.
- e. Adopt global stock market standard: in order to also ensure the rapid and efficient growth of Nigeria Stock Market. There is also the need for most stock trading floors to adopt modern stock trading and trading practice that recognized as global standard.
- f. Reform Domestic Capital Market System: this study also suggests that for stock market to grow and develop, there is the need to further deepen Nigeria capital market through government reform programmes such as pension reform, vision 2020 etc.
- g. Adopt modern information and communication technology: the growth of stock market is also tied to the adoption of new information and communication technology. New payment and settlement system should be adopted so as to attract new investors both domestically and internationally.

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## **APPENDIX**

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Benin City, Nigeria

Dear Sir/Madam,

### **REQUEST FOR YOUR COOPERATION IN COMPLETING THIS QUESTIONNAIRE**

I am a post graduate student. As part of the requirements of the programme, I am undertaking a study on: “**Globalization and Stock Market Growth in Nigeria**”. In this regard you have been duly selected as a member of the sample.

I wish to appeal to you to assist this study by kindly sparing a few minutes to complete this questionnaire. You are not required to disclose your identity. I also wish to assure you that the information solicited is strictly for academic purpose only and will be treated with utmost confidentiality.

Yours faithfully,

Esinone Stanley O.

## QUESTIONNAIRE

### SECTION A

Please read carefully and tick [  ] to indicate your answer in the appropriate box for each question.

1. Sex: Male [  ] Female [  ]
2. Position: Junior staff [  ], Senior staff [  ], Management staff [  ]
3. Age: 20 – 29 [  ], 30 – 39 [  ], 40 – 49 [  ], 50 – 59 [  ], 60 and above [  ].
4. Marital Status: Single [  ], Married [  ]
5. Educational Qualification: SSCE/GCE/WAEC [  ], HSC/NCE/OND [  ], BSC/HND [  ], MSC/MBA/PROFESSIONAL MEMBER [  ].

### SECTION B: GLOBALIZATION AND STOCK MARKET GROWTH IN NIGERIA

Kindly tick [  ] on one of the multiple choice answers that agrees most with your opinion in each of the following questions. The response categories are: very little extent [1], little extent [ 2 ], some extent [ 3 ], great extent [ 4 ], very great extent [ 5 ]. [ 1 ], [ 2 ], [ 3 ], [ 4 ], [ 5 ]. [ 1 ], [ 2 ], [ 3 ], [ 4 ], [ 5 ].

6. To what extent does globalization relates to stock market performance? [  ], [  ], [  ], [  ], [  ].
7. To what extent has globalization impacted positively on Nigerian Stock market growth? [  ], [  ], [  ], [  ], [  ].
8. To what extent has globalization negatively influenced trading, listing and capitalization of stock in Nigeria? [  ], [  ], [  ], [  ], [  ].
9. To what extent has Nigeria Stock Market response to international practice and standard? [  ], [  ], [  ], [  ], [  ].
10. To what extent has globalization promoted regional and global integration of Nigerian Stock Market? [  ], [  ], [  ], [  ], [  ].
11. To what has globalization crisis affected stock market trading? [  ], [  ], [  ], [  ], [  ].

12. To what extent has globalization forces impacted on stock market capitalization? [ ], [ ], [ ], [ ].
13. The relationship between global investment and stock market listing is? [ ], [ ], [ ], [ ].

**SECTION C: RELATIONSHIP BETWEEN THE GROWTH OF STOCK MARKET CAPITALIZATION AND TRADE LIBERALIZATION**

Kindly tick on one of the multiple choice answers that most agree with your opinion in each of the following questions. The response categories are; Strongly disagree (1), Disagree (2), Undecided (3), Agree (4), Strongly agree (5). [ 1 ], [ 2 ], [ 3 ], [ 4 ], [ 5 ]

14. Trade liberalization has strongly impacted on the growth of Nigeria Stock Market capitalization. [ ], [ ], [ ], [ ], [ ].
15. Unregulated import has impacted on stock market growth.[ ], [ ], [ ], [ ], [ ].
16. Promotion of exports has impacted on stock market capitalization. [ ], [ ], [ ], [ ], [ ].
17. Trade liberalization policy has impacted on the growth of stock market capitalization. [ ], [ ], [ ], [ ].
18. Trade liberalization has strongest impact on stock market capitalization growth. [ ], [ ], [ ], [ ].
19. There is increase in stock market capitalization as a result of favourable trade liberalization polices. [ ], [ ], [ ], [ ], [ ].

**SECTION D: FOREIGN INVESTMENT AND THE GROWTH OF STOCK MARKET CAPITALIZATION**

Kindly tick one of the multiple choice answers that most agree with your opinion in each of the following questions. The response categories are very little extent (1), little extent (2), some extent (3), great extent (4), very great extent (5). [ ], [ ], [ ], [ ], [ ].

20. To what extent is foreign investment inflow and stock market capitalization relate? [ ], [ ], [ ], [ ], [ ].
21. To what extent has foreign investment favoured the growth of stock market capitalization? [ ], [ ], [ ], [ ], [ ].
22. To what extent has foreign investment positively related to stock market capitalization? [ ], [ ], [ ], [ ], [ ].

23. To what extent has foreign investment positively related to stock market capitalization? [ ], [ ], [ ], [ ], [ ].
24. To what extent is the impact of foreign investment more significant in stock market capitalization performance? [ ], [ ], [ ], [ ], [ ].

**SECTION E: ELIMINATION OF EXCHANGE RATE DISPARITY AND THE GROWTH OF STOCK MARKET CAPITALIZATION**

Kindly tick on one of the multiple choice answers that most agree with your opinion in each of the following questions. The response categories are: Strongly disagree (1), Disagree (2), Undecided (3), Agree (4), Strongly agree (5). [ ], [ ], [ ], [ ], [ ].

25. Exchange rate disparity has impacted on stock market capitalization. [ ], [ ], [ ], [ ], [ ].
26. The movement of the exchange rate has impacted on changes in stock market capitalization. [ ], [ ], [ ], [ ], [ ].
27. Elimination of wide disparity in exchange rate boosts stock market index performance. [ ], [ ], [ ], [ ], [ ].
28. Exchange rate disparity has shown that there is an economic implication on stock market capitalization when exchange rate differ between trade partners. [ ], [ ], [ ], [ ], [ ].
29. Exchange rate disparity worsens the performance of stock market capitalization. [ ], [ ], [ ], [ ], [ ].

**SECTION F: EXTERNAL DEBT AND STOCK MARKET CAPITALIZATION GROWTH**

Kindly tick one of the multiple choice answers that most agree with your opinion in each of the following questions. The response categories are; Strongly Disagree (1), Disagree (2), Undecided (3), Agree (4), Strongly agree (5). [ ], [ ], [ ], [ ], [ ].

30. External debt obligation has impacted on the growth of stock market capitalization. [ ], [ ], [ ], [ ], [ ].
31. The payment of external debt reduce the size of stock market capitalization. [ ], [ ], [ ], [ ], [ ].
32. The productive use of external debt increases the size of stock market capitalization. [ ], [ ], [ ], [ ], [ ].

33. Stock market capitalization is low in a country that is highly indebted. [ ], [ ], [ ], [ ], [ ].
34. Foreign debt has not significantly impacted on stock market capitalization. [ ], [ ], [ ], [ ], [ ].
35. The cancellation of foreign debt has impacted positively on the growth of stock market growth indicators. [ ], [ ], [ ], [ ], [ ].