The role of central bank in the development of capital market

Literature, Russian Literature

CHAPTER ONE

1. 0 INTRODUCTION

The role of the Nigerian Capital Market in raising or mobilising medium to long term funds for both micro and macro development sub-sectors have been commendable in recent times. The main institutions in the capital market include – the Securities and Exchange Commission (SEC), which is the apex body and serves as the regulatory authority of the market; the Nigerian Stock Exchange (NSE); the Issuing Houses; and the Stock Firms. Stressful development demand in modern times, as well as the need to respond to multi-variant global investment challenges, have widened and sharpened the role of the Central Bank in the Capital Market operations (Onosode, 1998). Definitely, a Capital Market is the market for resource intermediation for capital input, i. e., the financial market in which medium and long-term credit is available for whole and sub-sector economic development. Capital Market is a market for long-term company loan capital and share capital and government bonds. The capital market is concerned with those who are short of fund and need to borrow for long-term purposes. Also, those who have fund surplus to the immediate requirements and wish to lend or invest these funds over long periods or lend funds to the Capital Market.

This is known as financial intermediary. The Capital Market together with theMoneyMarket, which provides short-term funds, is the main source of externalfinanceto industry and government. The financial institutions involved in the Capital Market include – the Central Bank, Commercial Banks, the Saving Investing Institutions (Insurance companies, Pension funds, etc.), Issuing Houses, and Merchant Banks. The Capital Market is categorised into two and they are: the primary market, which is responsible for new insurance securities; and the secondary market, which is involved in trading of existing securities. The Capital Market comprises of the following: the Nigerian Stock Exchange (NSE), the Nigerian Bank for Commerce and Industry (NBCI), Nigerian Industrial Development Bank (NIDB), Nigerian Agriculture and Cooperative Bank (NACB), etc.

The Capital Market in Nigeria has not only been influenced by financial system but also is the government incentive measure in terms of long-term investment policies that guarantee funds and tangible capital for both micro (small) and macro (large) use. The market can be described as government-oriented. According to (Onosode, 1998), complexities in the economic system; internationalisation; privatisation; fraudulent and sharp practices; etc. have collectively challenged the efficiency, strength and the credibility of the Capital Market. The role of the Central Bank towards the efficiency and the development of the Capital Market must ensure that the market is properly structured to serve the private and public interest as well as protecting local and foreign investment. The role of the Central Bank of Nigeria in the Capital Market is to ensure up-to-date infrastructural development and guarantee for sustenance, an atmosphere which encourages economic security and inflow of foreign investment. Finally, the role of Central Bank of Nigeria to the Capital Market development will be analysed through the parameter of efficiency in the market in terms of safety and protection of investment, general growth of the market, as well as the economic system.

1. 1 BACKGROUND INFORMATION OF THE STUDY

Securities were known to have been floated in Nigeria as far back as 1946; the basic institutions for the operation of a capital market were not created until the Central Bank of Nigeria was established in 1959. The Barback committee appointed in May 1958 was asked to consider all means whereby the buying and selling of stocks and shares could be facilitated. The committee found reasons in the country favourable for launching a Capital Market including a Stock Exchange Market because of the increasing volume of savings in the economy. By 1958, there were 845 incorporated companies in Nigeria, 12 of which were public, 92 of them were overseas owned.

The total issued shares amounted to N48. 4 million, out of which Nigerians held N 15. 0 million, which is 31 percent. Under the existing law, the private companies could not be owned by more than 50 people and also restrictions imposed on the transfer of shares. In order to overcome the obstacles on emergence of the capital market in Nigeria, the committee indicated what should be done as follows: Fiscal measures to encourage personal savings;

Creation of institutions to facilitate transfer of shares and stocks; Encourage formation of public companies; and Confidence in shareholding as a form of investment.
In 1962, a capital issue committee was created, which was later reconstituted into Capital Issues Commission, which was later expanded and strengthened into the Nigerian Securities and Exchange Committee. In terms

of creating the facilitating institutions in supplying the market assets and even in financing the operations, the Central Bank of Nigeria as a body of government has played a very vital role in the development of the Nigeria Capital Market right from the beginning.

1. 2 STATEMENT OF THE RESEARCH PROBLEM

This research work will be used or tailored to examine the various factors affecting Capital Market development in Nigeria. The study will also be directed to answer some research questions which will be stated below. 1. 3 RESEARCH QUESTIONS

The research questions to guide this research study include: What is the Capital Market?

Does Central Bank of Nigeria really have roles to play in the development of Capital Market in Nigeria? How has Central Bank of Nigeria influenced the development of Capital Market in Nigeria? Does infrastructural development affect the Capital Market efficiency? How does Capital Market in Nigeria respond to challenging economicenvironmentin Nigeria?

1. 4 RESEARCH OBJECTIVES

The general objective for which this research study is carried out is to examine the role(s) of the Central Bank of Nigeria in the development of the Capital Market in Nigeria. The specific objectives, therefore, include: Identifying the extent at which Capital Market mobilised development and investible funds to both private and public sector, simply how industrial capabilities in Nigeria has been enhanced over the years through public quotations in the Capital Market; and Assessing the development prospects of the Nigerian Capital Market for the future.

The study will highlight and vividly show the fundamental issues and/or questions with regards to the Capital Market inefficiency in Nigeria.

1. 5 RESEARCH HYPOTHESIS

In order to find solution to the specific development problem and the degree of efficiency of the Capital Market, the following hypotheses are made and tested:

HYPOTHESIS 1

H0: The Central Bank of Nigeria does not play any significant roles in the development of the Nigerian Capital Market. H1: the Central Bank of Nigeria plays significant roles in the development of the Nigerian Capital Market.

HYPOTHESIS 2

H0: Capital Market in Nigeria does not respond to challenging economic environment in Nigeria. H1: Capital Market in Nigeria responds to challenging economic environment in Nigeria.

1. 6 SCOPE AND LIMITATION OF THE STUDY

The study will be confined strictly to the development of Capital Market in Nigeria. The activities of Securities and Exchange Commission as well as that of the Nigerian Stock Exchange have been viewed withrespectto Central Bank on Capital Market growth and development. This research study will cover a period between 1996 and 2006 for the sake of reliability of result. This study shall be limited to Capital Market operations in Nigeria with respect to Capital formulation and financial intermediation with strict adherence to Stock Exchange transactions.

1. 7 JUSTIFICATION FOR THE STUDY

The project work must be able to explain succinctly what the roles of the Central Bank of Nigeria are in the growth and development of the Nigerian Capital Market, and as well must be capable of analysing the role of the Central Bank in the evolution and development process of the Capital Market, so as to be able to examine the structure, working mechanism, and policies with regards to Capital Market. The study should also be able to determine statistically, using efficiency parameters, the efficiency of the Capital

Market in view of challenges of industrial capabilities and economic growth, as well as determining presently the structure of Capital Market in Nigeria whether it is government-oriented or market-oriented; and as a result of the following mentioned above, the research should be able to advise government, private sector, and the entire public on the issues of Capital Market development.

1. 8 ORGANISATION OF THE STUDY

For clarity of points, this research study is divided into five chapters, with each chapter addressing different aspects of the entire theme of the research study. The first chapter introduces the topic and the background information to the study. The second chapter presents the review of related studies on the chosen research topic. Chapter three relates to the design of the research and the methodology chosen for data collection and analysis.

The fourth chapter, however, presents the results of estimation, while chapter five, which is the last chapter, presents the summary, recommendations, and conclusions.

1. 9 DEFINITION OF TERMS

Central Bank of Nigeria: this is the apex banking authority in Nigeria i. e. Nigeria's leading bank which is responsible for overseeing the banking system, acting as a clearing bank for the commercial banks and also for implementing monetary policies. Development: this is a process of economic transition involving the structural transformation of an economy through industrialisation and raising of gross national product and income per head. Financial intermediary: this is an organisation that operates in financial markets, linking lenders and borrowers or savers and investors. It is also a network of financial institution and markets dealing in a variety of financial instruments such as shares, stocks, treasury bills, e. t. c., that are engaged in money transmission and the lending and borrowing of funds. Fiscal measures: these are instruments of demand management that seeks to influence the level and composition of spending in the economy and thus the level and composition of output, taxation and government expenditure. Capital Market: this is a market for long-term company loan and share capital and government bonds. It is one of the main sources of external finance to industry and government.

CHAPTER TWO

2. 1 CONCEPTUAL FRAMEWORK

The financial system is an institutional framework involving institutions, laws, regulations, instruments, and regulatory agencies for the facilitation of financial flows among different agents in the economy. Within the financial system of any society is the framework within which capital formation takes place. The financial market is usually classified into two broad categories – the money market, and the capital market. This classification is based on the liquidity and length term of the loan. Individual economies seek to promote an effective capital market with the primary objectives of mobilizing long-term funds from surplus economic units for the use of the deficit units for investment purposes. The use of capital market reduces over-reliance on the money market, assists in promoting solvent and competitive financial sector as well as fostering a healthy stock exchange market. Also the complexity of raising fund makes it necessary for companies seeking fund in the market to appreciate what the public issue or quotations entail. Public issue of securities could be seen as the process by which shares, debentures, and other debt instruments are floated in the market for public subscription. These securities are instruments through which establishment in both public and private sector could avail themselves of funds for development purposes. The Nigerian capital market has assisted in the provision of long term funds for industrial development through the promotion of project funding through equities, preferential shares, debentures, and other debt instruments which provide largely permanent funds for investment. Looking at the available opportunities in the capital market, the capital market embraces both primary transaction and secondary transaction. The market has provided opportunities for new financing alternatives to companies and establishments in the form of risk capital (equity or ordinary shares, i. e. a financial security issued to those individuals and institutions that provide long-term finance for joint-stock companies) and debt instruments. This opportunities as noted are enormous. For example, risk capital has been used increasingly

by private firm to finance their industrial and other projects. Also government in the country has used funds realized from the issue of developments stocks for the purpose of executing specific projects. Bonds have served as long-term debt investment for raising fund. Capital market provides the best channel for the mobilization of resources for the development of industrial capacities. It also serves as the means for the encouragement of broader ownership of firms and improves resource allocation through competitive pricing-mechanism. For any capital market to function effectively in supporting economic development through public issue there is need for appropriate institutional arrangement and schemes. Capital market is the arm of financial market for raising long-term funds to finance productive investments. The market as part of its institutional arrangement comprises the primary segment for raising new capital and the secondary market stock otherwise known as the stock exchange in which existing securities are traded. The promotion of capital market in Nigeria is tied up with the objective of accelerated economic growth and development. New share capital is most frequently raised through issuing houses or merchant banks, which arrange for the sale of shares on behalf of client companies. The Securities and Exchange Commission, formerly known as Capital Issues Commission is the apex regulatory organ of the market withresponsibilityfor ensuring orderliness, fair play, and transparency in market operations. The US body that reulates the operations of the New York stock exchange. The central bank of Nigeria, as the apex financial institutions, monitors activities and development in the market. The Nigerian stock exchange is the prime operational institution in the Nigerian capital market. The Nigerian Stock Exchange, which was reconstituted in 1977 from the Lagos Stock Exchange (established in 1961), presently has six trading floors in Lagos, Port-Harcourt, Kaduna, Kano, Onitsha, and Ibadan. The importance attached to raising funds from the capital market in Nigeria has been underscored by the efforts made since 1961 to set up the institutional structure. Some pillars of this structure are: The Stock Exchange (1961).

The Second-Tier Securities Market (1988).
The Securities and Exchange Commission (1989).
The Brokerage Firms.
The Issuing Houses, which are mainly merchant bank and specialized banks that arranges and underwrites the issue of new stocks and shares on behalf of corporate clients on the stock exchange. Depending on the foregoing institutional arrangement, the Nigerian capital market has become a veritable source of long term funds for financing industrial and other forms of development, especially in the private sector.

The procedure for raising funds in the capital market is the function of available opportunities in the Nigerian capital market. Public issues and quotations in the capital market are guided by the relevant laws as well as the regulations issued by the Securities and Exchange Commission and the stock exchange. The Securities and Exchange Commission must approve any proposals for issue of securities, and then the proposals of the issues are assessed. This assessment includes determining the balance between equity and debt in the capital structure of the organization and appraising the economic environment among other issues. After this assessment, the issuing houses (mostly merchant banks) take the necessary steps and processes to take the issues to the market and ensure that the issues are properly structure. Also, the stock exchange undertakes the listing of securities which allows the trading of such securities in the secondary segment of the market. Similarly, the federal government has used funds realized from the issue of development socks for the purpose of executing some specific projects or for on-lending to state and local government or other government parastatals. In the same way, bonds have served as long term debt instruments often approved by the Securities and Exchange Commission and saleable on the stock market for raising needed fund.

2. 2THEORETICAL FRAMEWORK

This section reviews the development of current capital market theory and the empirical evidence bearing on this theory. There are two main approaches: the traditional theory, and the modern theory.

2. 2. 1The Traditional Theory Approach

The traditional theory approach was put forth by Jean Bodin (An official of a French court), and an American economist, Irving Fisher (1867-1947). They attempted to account for the changes in the value of money using this approach below.

2. 2. 1. 1Jean Bodin and the Quantity Theory of Money

He attempted or endeavoured or tried to find out the relationship between increase in money supply and value of money. He concluded that the value of money rises in direct proportion in the change in the quantity of money in existence at a given period of time. Hence, increase in the quantity of money at twenty percent will raise prices by the same proportion. His notation is stated as follows: M = kPT.

Where M = the quantity of money;
P = price level;
T = total amount of goods &services to be purchased within a given period;
K = constant, i. e. part of T is being kept (savings or investment).

2. 2. 1. 2Irving Fisher and the Theory of Interest

He modified Jean Bodin's notational quantity theory of money by presenting his traditional approach of the quantity theory of money by the form of an equation of exchange. Fisherian approach is based on the medium of exchange function of money and this notable quantity theory of money formulated by Professor Irving Fisher is known as the Fisherian equation:

MV = PT
M = PT/V
P = MV/T
Where:
M = the average quantity of money in economy
V = velocity of circulation of money (the number of times money has to go round) P = price level

T = quantity of goods exchanged for money.

The velocity of circulation of money is the number of time (average) that a unit of money is spent within a given period of time. He also propounded this equation as follows: MV+M’V’= PI

Where M’= credit money

V’= velocity of credit money

The above equation is the same as the first one except for the introduction of bank money which is part of the total money in circulation. He believes that money supply is the important casual factor of inflation. He also expressed that money supply wasn’t the only factor affecting the value of money but also its velocity.

2. 2. 2The Modern Theory Approach

The modern theory approach is also known as Cambridge formula and was pioneered by Alfred Marshall and A. C. Pigou. It was formulated by the Cambridge economists as an alternative equation of exchange to overcome the shortcomings of the traditional theory of money. This theory focuses on the demand and supply of money at a point in time. It considers demand and supply of money as the factors that cause changes in the value of money. It also believed that the value of money is fixed at the point where demand for money equals to supply of money. If supply increases, demand remaining constant, the value of money falls. Conversely, if supply decreases, demand remaining constant, the value of money or interest rate rises. The following equation is given by Professor Marshall:

M= kPY

Where:

M = cash balances or quantity of money with people;

P = price level of the commodity transacted;

Y = National income;

K = fraction of total national income (Y), which people decided to buy with their cash balances. kY = amount of goods & services, which people want to hold out of national income. Hence, price level will rise either due to an increase in M (cash balances) or a fall in k or a fall in kY.

2. 3LITERATURE REVIEW

2. 3. 1Origin of Nigerian Capital Market

After the Second World War, there was a general increase in the economic activity of many developing countries which led to the spring up of industries. Therefore, there was the need to have a well developed mechanized system through which funds could be raised for economic growth. This led to the establishment of stock exchange market in many countries including Nigeria. Thus, the origin and early growth of the Nigerian Capital Market could be traced to 1946 when the first developing stock was issued by the British Colonial administration. However, it was noted at this point that the origin of the Nigerian Capital Market because the stock exchange is the centre point of the capital market. According to Afolabi, before independence, the Nigerian government at various levels recognized the need for a stock exchange. The need arose partially from the deteriorating government earning coupled with mounting recurrent expenditure which left little gap for capital budgeting. The budget deficit was inevitable if capital investment were to be intensified. The development plans of that time expanded as sizeable proportion of planned investment were planned investment were financed through borrowing. This situation gave rise to the setting up of Barback committee by the federal government in 1958, to study and recommend the ways and means of introducing a formal stock market in Nigeria as a formal capital market. Acting on the recommendation of the committee, the " Lagos Stock Exchange" was set up in March and incorporated as a limited liability company on the 15th of September, 1960. Ahmed, in his own view, stated that the Nigerian stock exchange (NSE) is a private institution with government backing. The stock exchange grew from a few securities in 1961 and 153 securities in 1989 to more than 200 in 1992. The number of stock brokers moreover increased from 10th 1980 to 21 in 1985 and 110 in 1992, while the market capitalization grew steadily from N4. 5 billion in 1980 to N6. 7 billion in 1985, N12. 8 billion in 1989, and to about #25billion in 1992. By 2002, market capitalization has grown to N763. 9 billion to N2. 9 trillion in 2005, and N3. 9 trillion in 2007. The need for an efficient financial system for the whole nation was emphasized by themed 70s, and a review by the government of the operation of the Lagos Stock Exchange market was advocated. The review was carried out to take care of the law capital formation, the large channel of the currency in circulation which was held outside the banking system, the unsatisfactory demarcation between the operation of commercial bank and the emerging class of the capital market. In response to the problem above, the government accepted the principle of decentralization but opted for a National Stock Exchange, which will have branches in different parts of the country. On December 2nd 1977, the memorandum and article of association creating the Lagos Stock Exchange was transformed into the Nigerian Stock Exchange with branches in Lagos, Kaduna, Port-Harcourt, and now in Abuja. The establishment of the central bank of Nigeria in 1959 and the coming into existence of the Nigerian Stock Exchange in 1979, a solid foundation was laid for the operation of the Nigerian Capital market for trading in securities of long term nature for the financing of the industrial sector and the economy at large. The exchange also had a second–tier securities market (SSM), which was set up in 1985 to provide access to small and medium scale enterprises wishing a raise longer term funds but cannot meet the stringent requirement on the main exchange. The main regulating body for capital market is the Securities and Exchange Commission. This commission evolved from the Capital Issue Committee (CIC), which set up as a department in 1962 by the central bank of Nigeria to regulate the capital market in the country. The Capital Issue Committee (CIC) was later superseded by the Securities and Exchange Commission (SEC), which was set up according to the SEC Acts of 1979, re-enacted by the SEC Decree of 1988, and replaced in 1999 by the Investment and Security Act (ISA) 1999. The Nigerian Stock Exchange (NSE) now has seven branches and trading floors in Lagos, Abuja (FCT), Kano, Kaduna, Port-Harcourt, Ibadan and Onitsha.

2. 3. 2The Nigerian Capital Market

In any economic system, there is a financial system that is responsible for regulating the financial environment of the economy, determining the types and amounts of funds to be issued, cost of funds and the use to which these funds are to be put. The financial market itself is divided into the money and the capital market. The money market deals with short term funds and securities including treasury bills, treasury certificates, negotiable certificates of deposit, commercial paper and other funds of less than a year duration (Osaze, 1991). The capital market on the other hand is the market for long-term funds and securities whose tenor extends beyond a year. These comprises of long term loans, mortgage bonds, preference stock, ordinary shares, development bonds, and industrial loans. It is a complex of institutions and mechanism through which funds and long-term funds are pooled and made available to business, government, and individual. The institution which traditionally plays the role of funds transfer from savers to users include the stock exchange, share registrars, issuing houses, stockbrokers and underwriters, and the Securities and Exchange Commission. The complex of institutions through which the exchange of securities takes place is referred to as the security markets. One of these markets, i. e. the stock market, can be classified on the basis of new or existing issues and the degree of regulation imposed upon the markets. The role of the central bank in the capital market is necessary because a great body of relevant knowledge is needed to make informed judgment of the value of a security. The role of the central bank in the capital market operations stem from the need for regulation. The objectives for regulations are: 1) To protect investors from fraud and to provide them with a basis for informed judgments; 2) To control the volume of bank credit to finance security speculation; and 3) To provide orderly markets in securities.

The relationship between the capital market, central bank and financial system can be depicted below:

C. B. N

Money market capital market

Commercial bank merchant bank Nigerian stock Securities & Exchange exchange commission

treasury bills treasury certificate call money Equities term loans gifts The Nigerian capital market performs fundamental functions like its counterpart in other parts of the world. The roles of the Nigerian capital market in economic development cannot be over-emphasized. According to the Nigerian stock exchange, the capital market plays a lot of roles in business
capitalization and general economic development.

2. 3. 3 Importance of the Capital Market According to Soyode (1990), for growth to occur, a country may invest to build up productivity capacity that determines the level of output of goods and services in the company. If investment, which represents the net increase in an economy's capital stock, leads to growth, then there is a relationship between capital accumulation and economic growth. It is expected that far more equitable distribution of the benefits of economic growth among a progressively larger percentage of the population would follow. Ahmed (1983) compared the Nigerian stock exchange (NSE) with its counterparts in Hong Kong and Malaysia and enumerated the problems of

NSE which included – paucity in equity listed to buy and hold; attitude of investors and the total absence of speculators in the securities. Gill (1982) also compared Nigerian Stock Exchange with those of the developed countries of USA, Canada, Japan, and other developing countries of Korea, Brazil, and Jordan. He came to the conclusion that rapid economic growth and conscious efforts to promote securities market go hand in hand. Ojo (1992) stressed the government's role on the development of the capital market. He opined that there should be flexibility in the rules and regulations and that policy makers in Nigeria should guard against the promotion of such financial structure and development that merely facilitate the concentration of wealth and power unduly in a few families of entrepreneurs owning increasingly large conglomerates. Jhingan argued that capital formation is the main key and strategic factor in the process of economic development. According to him, the process of capital formation is cumulative and self-feeding, which involves three independent stages: An increase in the volume of real savings which depends upon the will and the power to save; The existence of credit and financial institutions to mobilize and canalize these savings for converting them to investible funds; The use of these savings for purposes of investment in capital goods which depends upon enterprise.

Most importantly, the level of market awareness has increased remarkably as more Nigerians show interest in the capital market but when compared with

other emerging and matured markets across the globe, there is plenty of room for improvement. Despite the fall in capital market recently, there is tendency for a rise.

The capital market provides a means for raising finance to assist companies to expand and modernize. By this, it provides a means for allocating the nation's real and financial resources between various industries and companies. The capital market pricing mechanism has provided industrial management with some idea of the current cost of capital and important issues in determining the level and rate of investment. In summary, the Nigerian capital market has aided the business sector and the economy in the following ways: Through the second-tier securities market by promoting small and medium industries; Through the beneficiation of the domestic national debt-by promoting a bonds market to specifically cater for domestic national debt; Through financing downstream operations in the oil and gas industry specifically hydrocarbons; and Through the privatization and commercialization of government controlled enterprises through offer for sale on the capital market.

2. 3. 4Central Bank Influence on Capital Market

The capital market of any nation is an economic indicator showing performance of government policy. In no jurisdiction are capital markets let without any regulatory control, one of the organs of such control is the Central Bank of Nigeria. The Central Bank Act of 1958 has far reaching provisions directly and indirectly having a bearing on the capital market. The Central Bank regulates the capital market in that only with its permission can other banks invest in the equity of industrial companies. Due to pressure from the Central Bank, the Nigerian industrial development bank started in 1970 to invest more equity in industrial companies. However, in order to encourage banks to give loans to prospective investors at very relaxed terms, without jeopardizing the deposits of depositor, it is suggested that the Central Bank insures underwrites deposits kept in the banks. Another important role the central bank plays in connection with the capital market is its supervision and control of movement of securities inside and outside Nigeria. Through these exchange control measures, the level of activities in the market is regulated, controlled and maintained at a congenial level. But through recent developments on liberalization and investment policies, there is no limit to investment by foreigners unlike the indigenization era. Securities were allowed to be traded on market mechanism from 1978. This was on the recommendation of the financial system in Nigeria. This singular bank, i. e. the Central Bank stimulated the market with speculation, which is the main essence of a stock market.

CHAPTER THREE

3. 0 RESEARCH METHODOLOGY

This is a set of rules and procedures upon which a research is based against which claims for knowledge and assumptions are enhanced for decision making. The research methodology of this study encourages all known processes undertaken in this study. The aim of this chapter is to explain the research tools, techniques, and methods employed in this work.

3. 1 DESCRIPTION OF THE STUDY AREA

The capital market in any economy is the fulcrum on which the fortune of that economy turns. It provides the where-withal for its growth and development programmes and serves as an indicator of the economy’s liquidity and general performance. The capital market is the environment for selling the world's capitalized values. It can be termed as the citadel of capital and the temple of values. For the market to perform its function fundamentally, certain conditions must prevail. That is, it must operate freely obeying, to a large extent, the market mechanism. It must have price continuity and liquidity. It is within this framework that it becomes necessary to analyse the performance of the Nigerian capital market. The Nigerian Securities Exchange Commission and Nigerian Stock Exchange council act jointly as the watchdog of the market. They argued that listing requirements, trading rules and conduct, price determination, information disclosure, and brokerage commissions as determined by these two bodies are designed to aid the market in the performance of its function of ensuring a smooth, orderly and efficient market. For a stock market to function, it must be efficient in its operational character. A good market must not only have depth but must ensure adequate liquidity and price continuity, i. e. we look at the market

from the efficient market analysis. By efficient market, we mean one in which security prices adjust rapidly to the infusion of new information and current stock prices fully reflect all available information including the risk involved. 3. 2SOURCES OF DATA

The sources of information and data in this study are extracted from secondary sources. Data for this project shall be obtained from the Central Bank of Nigeria annual reports, Nigerian Stock Exchange Fact Book, Federal Office of Statistics, Securities and Exchange Commission and journals/magazines from banks, conference papers, electronic information from related websites, direct observations and other capital market operators. This is done to maintain a balance view and opinion from all segments.

3. 3SAMPLING TECHNIQUES

It is used in selecting samples from a given population since it is not practicable to use the entire population in the analysis. The technique of the data collection used is the stratified random sampling, which is applicable where the population is heterogeneous, i. e. could be divided into group; people who believe on long term and people who don't believe on long term investment. 3. 4TECHNIQUES DATA ANALYSIS

The data collected from the services shall be analyzed in consonance with the established hypotheses. These activities are measured by the variables such as the value of market shares in the primary market. It is an attempt to explore the causal relationship between investment and activities in the stock market. Other independent variables include inflation rate, interest rate and value of money supply.

3. 5MODEL ESTIMATION TECHNIQUES

The model estimation will be done through the use of the ordinary least square (OLS) method of estimation. Results will be presented using a computer program known as E-Views (econometric views).

3. 6MODEL SPECIFICATION

The model specified for the purpose of this research study is as shown below: INV = f (INFR, INTR, MS)(1)

INV = ? 0 + ? 1 INFR + ? 2 INTR + ? 3 MS + Ut(2)

Where:

INTR = interest rate;

INFR = inflation rate;

Ms = money supply;

Ut = stochastic term;

? 0 = intercept (or constant);

? i = parameters to be estimated (coefficients of the independent variables).

Note: i = 1, 2, 3.

3. 7A PRIORI EXPECTATION

A priori means any theoretical estimation not based on already existing theories but on experience. The understanding of the economic theory underlying the model specification helps in determining the value of the coefficients of each independent variable in the above model. The a priori expectation for the above model is: ? 1 > 0

? 2 < 0 ? 3 > 0 This means that:

There is a positive relationship between INV (dependent variable) and coefficient of INFR. If INFR is high, INV level will be high. There is a negative relationship between INV (dependent variable) and coefficient of INTR. If INTR is high, INV level will be low. There is a positive relationship between INV (dependent variable) and coefficient of MS. If MS is high, INV level will be high.

CHAPTER FOUR

4. 0 INTERPRETATION AND DISCUSSION OF ESTIMATION RESULT

4. 1 DATA PRESENTATION

This research is to find the relationship between the dependent variable (INV) and the explanatory variables of INFR, INTR and MS. From the result, the signs actually confirm the appropriate expectation which implies that the model is close to being correctly specified.

4. 2 DATA ANALYSIS

From appendix 2 the estimated result is given as:

INV= ao+a1INFR+a2INFR+a3MS+Ut

INV= 10803. 00+ 185. 2269 INFR-1026. 763 INTR+0. 287068

T-sta= (0. 363675) (0. 496703) (-0. 507475) (13. 70844)

R2= 0. 936165

Adjusted R2= 0. 924900

t-statistic (INFR)= 0. 496703

(INTR)= -0. 507475

(MS) = 13. 70844

F-Statistic= 83. 10405

Durbin-Watson Statistic= 1. 702437

Std. Error (INFR) = 372. 9130

(INTR) = 2023. 277

(MS) = 0. 020941 The above result is a product of time series data concerning the value of investment represented INV, the inflation rate (INFR), the interest rate (INTR) and the supply of money (MS). 4. 3 DATA ANALYSIS

R2 (unadjusted R-squared) is a measure of overall goodness of fits in the result is very high. At the high value of 0. 94 or 94% meaning that the proportion explained by the independent variables or the dependent variable is 94% while the remaining 6% is explained by the error term. R2 (adjusted R- squared) which allows for degree of freedom is equally high. At 93% R2, R2 that allows us to compare equation with different explanatory is significantly high. The higher the adjusted R2 is the most useful in a simoutaneous equation model as it is used to select equation with the best predictive activities. The t- value is obtained by the ratio of the estimated parameter to the standard error of the parameter (co-efficient/ S. E). The t-test is a test to determine whether or not a given independent variable belongs to a particular equation. The t-values of the explanatory variables are 0. 497, -0. 508 and 13. 708 for INFR, INTR and MS respectively. The F-ratio is an incruitment over the t-ratio. F- Ratio takes the whole independent variables in bulk and test. Using the F-test, the tabulated F is equal to 3. 20 and the independent variable put together are good and reliable indicator of the dependent variable using the value of thumb, that gives significant to t-value higher than 2 at 5%, I may also conclude that only money supply belongs to the equal. To confirm this, (t5% of 21) is equal to 2. 080 which is higher than the calculated t of INFR and INTR but less than of Ms. Thus as far as t-test is concerned only money supply belong to the equation. The Durbin Watson test statistic is used to test for the serial and auto correlation in the data used to run a regression. The result of which can be interpreted to mean that any regression with significant of auto correlation signifies that the necessary data in the series are dependent on one another and that some of the variables used in explaining the dependent variable are too related to the independent variables. The DWL is 0. 93 and DWU, since the DW calculated is 1. 24 which falls between DWL and DWU, this show that there is inconclusive evidence as to suggest the present of serial and auto correlation. This means the model is good and reliable.

4. 4HYPOTHESIS TESTING

The hypothesis of this study is:

i. H0 = 0 (Null): The central bank of Nigeria does not play any significant roles in the development of the Nigerian capital market. ii. H1 ? 0 (Alternative): The central bank of Nigeria plays significant roles in the development of the Nigerian capital market.

If Fc> Ft, then we accept alternative hypothesis (H1) and reject null hypothesis (H0) but if FcFt), we accept the alternative hypothesis (H1). This means the central bank of Nigeria plays significant roles in the development of the Nigerian capital market.

4. 5 CRITERIA FOR DECISION MAKING

To evaluate the significance, reliability and desirability of the model parameter estimate both the statistical and econometric criteria were used. Specifically, the study employed the t-statistics, standard error regression (SER), Durbin Watson statistics and the square correlation (R2 & Adjusted R2). The F statistics was the major criteria used as it test the overall model as a whole.

CHAPTER FIVE

5. 0 INTRODUCTION

This chapter shall explore the whole research into the role of the central bank in the evolution, workings and the development of the capital market in Nigeria. It shall also ascertain the efficiently or not of the capital market judging from well drawn hypothesis. It shall present the summary of findings of the research after which conclusion will be drawn and useful recommendations made.

5. 1 SUMMARY

The role of the central bank in the development of the capital market can't be over-emphasised, judging by the stressful development demands in modern times as well as the need to respond to multi-variant global investment challenges and national economic development. Capital market has been seen as a vehicle of capitalist growth, which functioned principally as a financial or resource intermediate. Since the post independent period, the central bank of Nigeria has assumed on increasing responsibility in the institutional evolution as well as the course and pace of ability in the capital market. In summary, the major findings andobservationbased on the data gathered and the result of the tested hypothesis in chapter four vividly shows that the central bank plays a significant role in the development of the Nigerian capital market; also capital market in Nigeria responds to challenging economic environment in Nigeria.

5. 2 CONCLUSIONS

From the findings of the research, it was gathered that there is a positive relationship between the role of central bank of Nigeria on the financial market and the development of the capital market. In the evolutional process of the capital market in Nigeria as well as its institutional frame work and

operation, the central bank influence has been paramount in the setting the institution in a sound footing. On the operational guidelines, the central bank of Nigeria through recommendation and financial advice to the government has instigated a lot of positive reforms which has maintain an appropriate level of regulation sufficient to sustain the highest standard of market integrity, transparency, information flow, investment protection, inflow of foreign, investment without the binding the freedom and flexibility of the market towards growth and the ability to induce innovation. The reforms are targeted or aimed at national economics polices which doesn't emphases the scope of government in the commanding height of the economy and to ensure an efficient private sector propelled economy. Finally using the established hypothesis, the central bank of Nigeria has recorded some fundamental growth and stability in the capital market and which responds to the challenging economic environment in Nigeria.

5. 3 RECOMMENDATIONS

The main areas of recommendation will be on efficiency as well as the need for a structure that will guarantee the quota of small scale industries to GDP. The central bank should continue in the restructuring the will ensure new investment and marketability of securities. The regulatory bodies of the capital market should ensure that, the on going privatization exercise does not result in continued monopoly of the economic capital. This is to say that, private monopoly doesn't replace state monopoly; rather the current privatization should ensure efficiency and competition which is antidote to inflation and wastage. There should be a high level of investment incentive in the capital market in terms of taxation i. e. lower taxation is applied to dividend and with holding tax to encourage foreign investment.

APPENDIX 1

obs

INV

INFR

INTR

MS

1986

735.	8000
5.	400000
10.	00000
24183. 70	

1987

2452.	800
10.	20000
12.	75000
33751. 70	

1988

1718.	200
38.	30000

12.	75000
44845. 10	
1989	
13877.	40
40.	90000
18.	50000
33129. 20	
1990	
4686.	000
7.	500000
18.	50000
62390. 60	
1991	
4916.	100
13.	00000
14.	50000
93081. 90	
1992	
14463.	10
44.	50000
17.	50000
140806. 3	

1993	
29675.	20
57.	20000
26.	00000
145241. 3	
1994	
22229.	20
57.	00000
13.	50000
150597. 1	
1995	
75940.	60
72.	80000
13.	50000
145108. 1	
1996	
111295.	0
29.	30000
13.	50000
123655. 0	
1997	
110452.	7
8.	500000

13.	50000

247352. 2

1998

80750.	40
10.	00000
14.	31000

247317. 9

1999

92792.	52
6.	600000
18.	00000

395159. 4

2000

115952.	2
6.	900000
13.	50000

518719. 5

2001

132481.	0
18.	90000
14.	31000

541038. 2

2002

225972.	0
12.	90000
15.	75000

666608. 9

2003

259250.	4
14.	00000
21.	34000

896720. 0

2004

249157.	7
15.	00000
15.	00000

1003277.

2005

303328.	8
17.	90000
19.	50000

1045280.

2006

334543.	9
15.	00000

20. 33000

1148644.

APPENDIX 2

Dependent Variable: INV

Method: Least Squares

Date: 12/10/12 Time: 14: 44

Sample: 1986 2006

Included observations: 21

Variable

Coefficient

Std. Error

t-Statistic

Prob.

C

10803. 00

29705. 10

0. 363675

0. 7206

INFR

185. 2269

372. 9130

0. 496703

0. 6258

INTR

-1026. 763

2023. 277

-0. 507475

0. 6183

MS

0. 287068

0. 020941

13. 70844

0. 0000

R-squared

0. 936165

Mean dependent var

104127. 2

Adjusted R-squared

0. 924900

S. D. dependent var

108374. 9

S. E. of regression

29699. 44

Akaike info criterion

23. 60529

Sum squared resid

1. 50E+10

Schwarz criterion

23. 80424

Log likelihood

-243. 8555

F-statistic

83. 10405

Durbin-Watson stat

1. 243936

Prob(F-statistic)

0. 000000

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