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Financial Market Development and Aggregate Stock Price of Quoted Firms in Nigeria Stock Market

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ABSTRACT
This study examined the effect of stock market development on the aggregate stock prices in Nigeria Stock Exchange. The purpose was to examine the direction of relationship between stock market development and stock prices. Time series data was sourced from Central Bank of Nigeria Statistical bulletin and publications of Nigeria Bureau of Statistics. Aggregate stock price was proxy for dependent variable while the independent variables are Financial market depth proxy by money supply to gross domestic product, financial market competition proxy by money market + capital market instrument to gross domestic product, financial market access proxy private sector credit to gross domestic product, financial market scope proxy by net domestic deposits to gross domestic product and financial market efficiency proxy by domestic credit + deposits to gross domestic product. Ordinary least square methods of cointegration, granger causality test, unit root test and Vector error correction model. The study found that 72 percent of the variations in the criterion variable (aggregate stock price) is attributable to the predictor variable. Financial market competition has positive but no significant effect on the aggregate stock price of Nigeria stock market, financial market access have positive and significant effect on the aggregate stock price of Nigeria stock market, financial market efficiency have negative and significant effect on the aggregate stock price of Nigeria stock market while financial market scope have positive and significant effect on the aggregate stock price of Nigeria stock market. The study conclude the stock market development have significant effect on aggregate stock prices. We recommend that policy makers and opinion formers should gear efforts towards fine-tuning the indices that can result in long term pessimism in the stock market like unpaid dividend, delay in dividend payments and transfer of stocks. The ongoing reforms in the Nigeria financial sector should be continued and pursued to the latter in the capital market.
Keywords: Capital market, finance, Stock Exchange

INTRODUCTION

The financial system in any economy assumes the highest position in economic development. The Nigerian financial system consists of banks and non-bank financial institutions, financial markets, financial instruments of different kinds and duration, rules and regulations that guide the system as well as the mechanism by which the components of the system within the overall economic system interrelate. The financial market comprising of capital, money and foreign exchange markets, and a component of the Nigerian financial system acts as a conduit pipes through which scattered resources are mobilized to those deficit areas that will put it into productive use. These institutions play colossal roles in the development of the economy.

The effectiveness and efficiency in performing these roles, particularly the intermediation between the surplus and deficit units of the economy depends on the level of development of the financial system (Aderibigbe, 2004). This explains the motive behind various economic reforms especially pension funds and other financial sector reforms in the country. Emekekwe, (2005) noted that the purpose of financial markets is to allocate efficiently savings in an economy to ultimate users of funds, either for investment in real assets or for consumption.

Stock prices in the Nigerian stock Exchange moves up and down in response to news and information expected about the particular stock in the market. The news and information cause buyers and sellers of common stocks to take buying and selling decisions which generate market activities that affect market value (Aflbi and Dada, 2014). Stock price constitute the value of a firm (Pandey, 2005). A major determinant of the ability of a financial system to effectively and efficiently attract real and portfolio investment that affect stock prices is the extent to which a country's financial system is developed. Both theoretical and empirical literature suggests that the development of the financial system is crucial for resolving agency and information asymmetry problems as well as reducing transaction costs (Hermes and Lensink, 1996; Levine and Zervos, 1998; Goodhart, 2005; Chakraborty and Ray, 2006).

Stock price is defined as the price which the market assigns to the company's stocks. Stock price volatility represents the variability of stock price changes could be perceived as a measure of risk faced by investors. Shiller (1981) argued that stock prices are more volatile than what is justified by time variation in dividends. Numerous studies have documented evidence showing that stock returns exhibit phenomenon of volatility clustering, leptokurtosis and asymmetry. The quest for financial sector development engineered series of financial sector reforms in Nigeria since the late 1980s. A comprehensive financial sector reform in Nigeria was initiated in 1987 (as a key element of structural adjustment program, SAP). Since then, the financial sector has witnessed tremendous development in the midst of numerous challenges.

The developmental drives and policies implemented in the sector over the years include, deregulation of interest rate, establishments aimed at strengthening the regulatory and supervisory institution such as CBN, Nigeria Deposit Insurance Cooperation (NDIC) and Asset management company of Nigeria (AMCON), upward review of capital adequacy, introduction of indirect monetary policy instruments, capital market deregulation, Bureau-de-Change guidelines, privatization of government owned banks, the establishment of the second and third tier security markets, Credit check bureau, increase in range and type of bank accounts,

The deregulation and adoption of the market- led financial system did not only trigger increased financial deepening, it equally led to improved participants and access to financial services through increase in number of banks branch network (Esther, 2005). By 1992, the number of banks in the Nigerian banking sub-sector had risen from 56 in 1986 to 120 with about 2275 branch network. This implied that increased access to financial service is likely to bring about an improved growth rate, economic welfare .and increase stock prices.Several researchers such as Ogun (1986), Ndebbio (2004), Akinlo and Akinlo (2007), Adelakun (2010), Ibrahim (2012) and Chinaemerem and Chigbu (2012) examined the effect of financial sector development on economic growth. There is no known study on financial sector development and stock prices of quoted firms; therefore this study wants to establish the effect of stock market development on stock prices of quoted firms in Nigeria.

LITERATURE REVIEW

Stock Prices

Stock prices are based on supply and demand. It is used to refer to a company's market capitalization value. It is calculated by multiplying the number of shares issued by the price of the company's share. A company's share price is determined by daily trading between buyers and sellers on the relevant stock exchange. Market prices are easy to determine for assets as the constituent values, such as stock and futures prices, are readily available. A valuation would have to be prepared using different methods (Ngerebo-a, 2007).

Ajao (2012) noted that a number of recent studies have sought to characterize the nature of financial market return process, which has always been described as a combination of drift and volatility. Volatility may impair the smooth functioning of the financial system and adversely affect economic performance (Rajniand Mahendra, 2007; Mollah, 2009). Stock price volatility is an indicator that is most often used to find changes in trends in the market place. Stock price volatility tends to rise when new information is released into the market, however the extent to which it rises is determined by the relevance of that new information as well as the degree in which the news surprise investors.

Financial Sector Development

Financial development can be defined as the policies, factors, and the institutions that lead to the efficient intermediation and effective financial markets. A strong financial system offers risk diversification and effective capital allocation. The greater the financial development, the higher would be the mobilization of savings and its allocation to high return projects.

Levine (1993) emphasized to consider the importance of financial sector in economic growth. Financial development can be measured by a number of factors including the depth, size, access, and soundness of financial system. It can be measured by examining the performance and activities of the financial markets, banks, bond markets and financial institutions. It is observed that higher the degree of financial development in a country, the wider will be the availability of financial services. A developed financial system offers higher returns with less risk. Antzoulatos (2008) asserted that the degree of asymmetric information reduces with the development of financial system. Developed financial systems offer specialized services and efficient operations that help to reduce information asymmetry in the market. A well-structured financial system is important to boost the economy, but the main question is how to measure financial development. Some of the prominent issues in the measurement of financial development are discussed in the literature.

Measures of Financial Sector Development

System-wide Indicators

Financial structure is defined in terms of the aggregate size of the financial sector, its sectorial composition, and a range of attributes of individual sectors that determine their effectiveness in meeting users' requirements. The evaluation of financial structure should cover the roles of the key institutional players, including the central bank, commercial and merchant banks, savings institutions, development finance institutions, insurance companies, mortgage entities, pension funds, and financial market institutions.

The functioning of financial markets, including money, foreign exchange, and capital markets bonds, equities, and derivative and structured finance products) should also be covered. For financial institutions, the structural overview should focus on identifying the number and types of institutions, as well as growth trends of major balance sheet aggregates; for financial markets, a description of the size and growth trends in various financial market instruments (volume and value) would be appropriate. The overview should also reflect new linkages among financial markets and institutions that may be forged from a variety of sources, including innovations in financial instruments, new entrants into financial markets (e.g., hedge funds), and changing practices among financial market participants (e.g., energy trading and investments by financial institutions). The overall size of the system could be ascertained by the value of financial assets, both in absolute dollar terms and as a ratio of gross domestic product (GDP).

Financial Depth

Referring to the model uses by Cihak et al (2013) regarding financial depth the variable that has received much attention in the empirical literature on financial development is private credit to GDP. More specifically, the variable is defined as domestic private credits to the real sector by deposit money banks as percentage of local currency GDP. The private credit, therefore, excludes credit issued to governments, government agencies, and public enterprises. It also excludes credit issued by central banks which makes it especially convenient to study in these countries (Cihak et al. 2013).

The ratio of private credit to GDP varies between different countries and is closely correlated with the income level of the country. The second variable taken into consideration is the ratio of broad money M3

to GDP. This ratio is inspired by the work of Levine [1997]. Following this logic Hassan and Jung-Suk [2007] used the ratio of M3 to GDP as a variable to measure financial inclusion or better depth, arguing that the indicators M1 and M2 are weak variables for economies without a fully developed financial system, where the Broad money on GDP ratio is high because money is used in its function as a store of value in the absence of other more attractive alternatives. For financial markets, in the database, financial market depth is approximated using a combination of data on stock markets and bond markets. To approximate the size of stock markets, a common choice in the literature is stock market capitalization to GDP. For bond markets, a commonly used proxy for size is the outstanding volume of private debt securities to GDP. The sum of these two provides a rough indication of the relative size of the financial markets in various countries (Cihak et al. 2013).

Competition, Concentration and Efficiency

Competition in the financial system can be defined as the extent to which financial markets are contestable and the extent to which consumers can choose a wide range of financial services from a variety of providers. Competition is often a desirable feature because it normally leads to increased institutional efficiency, lower costs for clients, and improvements in the quality and range of financial services provided. There are numerous measures of competition, including the total number of financial institutions, changes in market share, ease of entry, price of services, and so forth. In addition, the degree of diversity of the financial system could be an indicator of competition or the lack thereof because the emergence of vibrant non-bank intermediaries and capital markets often have been a source of effective competition for banking systems in many countries. All things remaining equal, an increase in the number of financial institutions or an expansion in available financial market instruments will increase competition by expanding the available sources of financial services that consumers can access. Ease of entry into the system could be judged by looking at the regulatory and policy requirements for licensing, for example, the required minimum paid-up capital.

Financial access

According to the model used by Cihak et al. (2013), better functioning financial systems allocate capital based more on the expected quality of the project and entrepreneur and based less on the accumulated wealth and social connections of the entrepreneur. Thus, to develop informative proxies of financial development, it is useful to move beyond financial depth and also include indicators of financial access the degree to which the public can access financial services. As with the other measures, both financial institutions and financial markets are examined.

In relation, a widely available variable is the number of bank accounts per 1,000 adults. Other variables in this category includes: the number of bank branches per 100,000 adults, the percentage of all firms with line of credit, and the percentage of small firms with line of credit. When using these proxies, one needs to be mindful of their weaknesses. For example, the number of bank branches is becoming increasingly misleading with the move towards branchless banking. The number of bank accounts does not suffer from the same issue, but it has its own limitations. In particular, it focuses on banks only, and does not correct for the fact that some bank clients have numerous accounts (Cihak et al. 2013).

Scope and Coverage of Financial Services

The financial system provides five key services: (a) savings facilities, (b) credit allocation and monitoring of borrowers, (c) payments, (d) risk mitigation, and (e) liquidity services. Savings mobilization can be assessed by examining the effectiveness with which the financial system provides saving facilities and mobilizes financial resources from households and firms. The extent of financial savings could be ascertained by examining the level and trends in the ratio of broad money to GDP. As mentioned earlier, this indicator may overstate the true picture if currency constitutes a high proportion of broad money. Other more specific indicators of access to savings facilities include the ratio of bank deposits to GDP and the proportion of the population with bank accounts. Information on the outreach of the financial system can help interpret developments in financial savings. Hence, indicators such as the total number of bank branches, the population per bank branch, and the distribution of branches and other outlets (e.g., rural or urban) could provide valuable information on the access of the population to saving facilities.

Financial Efficiency

For intermediaries in the model (Cihak et al. 2013) efficiency is primarily constructed to measure the cost of intermediating credit. Efficiency measures for institutions include indicators such as overhead costs to total assets, net interest a comparative empirical analysis of financial margin, lending-deposits spread, non-interest income to total income, and cost to income ratio. Closely related variables include measures such as return on assets and return on equity. While efficient financial institutions also tend to be more 4 profitable, the relationship is not very close. For example, an inefficient financial system can post relatively high profitability if it operates in an economic upswing, while an otherwise efficient system hit by an adverse shock may generate losses. For this study the authors have consider a variable that reflects the extent of competition in banking and finance. The net interest margin which is the difference between the interest income generated by banks or other financial institutions and the amount of interest paid out to their lenders, reflects the bank intermediation costs and their growth rates which gives us information regarding the bank efficiency and market competitiveness.

Theoretical Review

Supply-leading Hypothesis

The supply-leading concept notes that the development of financial sector induces growth in the real sector through savings collection, project valuation, risk management, management control and financial institutions. Thus this can contribute to technological innovations and lead to improvement in the real sector. Moreover, according to the supply leading hypothesis, financial sector development leads to transfer of resources from the traditional sector to the modern sector and promotes and stimulates an entrepreneurial response in these modern sectors (Roger et al 2005).

This approach represents the initial stage of economic development as it supplies the major channel through which economic activities take place. Mohammed (2004) summarized Nwani (1973) argument that a fully analyzed supply-leading approach in the development of financial institutions and their services may emphasize the following; Monetization of the economy may be hastened and the money civilization process could be deepened; Economic planning and development may be aided by the channeling of investible funds to established priorities; Economic development is not always a slow evolving process but can be stimulated by more financial institutions; Enables a nation to break the chains of total external control; and Fair and greater competition may be promoted.

Demand-following Hypothesis

The demand-following concept shows that the real sector can stimulate the development of financial intermediation. According to this school of thought, it is believed that real sector growth and stability lead to increase in the demand for financial services which in turn encourages the creation of financial intermediaries and financial stability (Nwani 1973, Gurley and Shaw 1976; Rogers et al 2005). Other scholars such as DemirigucKunt and Detriagiache (1998) underscored the importance of attaining macroeconomic stability prior to financial deregulation.

This according to them is because high and unstable inflation often increases the demand for financial deregulation, but this might trigger further increases in inflation especially if fiscal deficits are large and the exchange rate is depreciating rapidly. As the government finances its deficits through money creation the higher interest rates resulting from the financial liberalization would reduce government revenue from money creation: with a given budget, this would further increase inflation. Mohammed (2004) summarized this view that, the demand-following approach could result in the following;-

i. Increasing advantages to the colonial powers and will solidify the competitive advantage of foreign entrepreneurs. It is also added here that, this approach may result in the creation of oligopolistic structure of the banking industry in which only very few banks control a large proportion of the activities of the industry.
ii. A conservation form of financial development, which may slow down the pace of economic development, and
iii. Discrimination against borrowers whether in the agricultural, commercial or manufacturing sectors and leads to the development of monopoly trade. Thus the issue of financial deregulation has remained controversial for the developing countries. SchmidtHebbel and Serven (2002)

contend that financial liberalization is not risk free and should be carefully implemented to attain its benefit. According to them, an excessive rapid financial reform often leads to financial crises.

Efficient Capital Market Hypothesis

This prominent theoretical position evolved in the mid-60s from the PhD dissertation of Eugene Fama actively posited that active market include all well inform and intelligent investors and therefore securities are appropriately priced and it reflect all available information concerning the underlying security. Philip and Paniscos (2001) also put forward that if market is efficient, no information or analysis can be expected to result in the out performance of an appropriate bench mark both on technical and fundamental analysis. The EMH posits that investors adjust securities prices rapidly to reflect the effect of new information. (Maku&Atanda, 2009; and Mayowa& Richard, 2012) observe that proponent of efficient market hypothesis argue that stock prices are essentially random and therefore chances of profiting from speculations is non-existence. The market is based on the assumptions that share price follows a random work and successive price change is independent of each other. This implies that no individual can make abnormal profit from trading in securities since share prices are not mispriced in any form of symmetric or predictable way.

Samuel and Wilkes (1981) defined an efficient market as the one in which prices of traded securities always fully reflect all publicly available information concerning those securities and that the necessary condition for an efficient market includes accurate signals for investor's choices and shows that today's price reflects all publicly available information which is the best estimate of tomorrow's price. To this end, the efficient market is one in which security prices adjust rapidly to the infusion of new information and current stock prices fully reflect all available information, including attended risks involve. Hence, stock market is said to be efficient if information is widely and cheaply available to investors in such a way that share prices are fair, that is the price reflects all available relevant and ascertainable information in the market which result from the presence of numerous, rational profit maximizing investors who are actively competing with one another.

Empirical Review

Starkey (2010) investigated the relationship between financial system development and economic growth in seven African countries, from 1988 to 2008. The Pedroni panel cointegration approach and Kao panel cointegration technique were used to find the long-run growth relationship. Furthermore, the short run linkages between financial development and economic growth were analyzed by Holtz-Eakin et al. (1989) panel Granger causality test. The results of the Pedroni cointegration tests shows that there are long run relationship between overall financial development (measured by LOFD and OFD) and economic growth, banking system development (measured by LPSC) and economic growth, as well as stock market development (measured by LMCP and LVLT) and economic growth. In contrast, the Kao test fails to find any cointegration between finance and growth. However, on the balance, findings largely support a conclusion of cointegration between financial development and economic growth since the Pedroni approach is more appropriate for examining cointegration in heterogeneous panels. Estimates of these long-run cointegrating relationship show that five financial development measures have the expected positive linkages with growth. However, only four of the five financial development measures were found to have significant long-run linkages with growth, as the relationship between LOFD and growth was not found to be significant in the long-run. The panel Granger causality results show that economic growth Granger causes banking system development in the short-run (there is demand-following finance), irrespective of the measure of banking development used, while there is bi-directional, reciprocal causality between economic growth and both of the measures of overall financial development and one measure of stock market development (LVLT).

Boca (2011) using a data set of 93 countries from 2000 to 2007 applied a fixed effects estimation and two-step GMM estimator to examine the impact of financial development on economic growth and how institutional quality affects the role of financial development on economic growth. The results showed that bank credit has a negative impact on economic growth. However, when interacted with protection of

property rights, bank credit has a positive impact on economic growth. Additionally results further indicated that stock market capitalization is important for economic growth. For countries that exhibit low levels of protection of property rights, stock market capitalization has a negative impact but countries that exhibit high protection of property rights the impact of stock market capitalization on growth is positive.

Torbira and Ogbulu (2014) empirical investigation into the relationship between fund mobilization by insurance companies and gross fixed capital formation (GFCF) in Nigeria and specifically how the latter responds to stimuli emanating from the insurance companies. Variable-predictor multivariate regression model was estimated and analyzed. The short run results reveal those four explanatory variables namely: premium from fire, accidents, motor vehicles and employee liabilities insurance policies positively and insignificantly correlate with Gross Fixed Capital Formation while the relationship between premium from marine insurance policies and GFCF is both negative and insignificant. In the long run, the fund mobilization variables by insurance companies positively and significantly impact on the growth of gross fixed capital formation. In addition, the Granger causality test provides no evidence of causality among the variable.

Egbe, Jonah, Richard and Uzie (2015) results of the co-integration test showed that there existed a long run equilibrium relationship among the variables. The results of the granger causality test as presented showed that there is a bi-directional relationship between industrial output and market capitalization and between industrial output and number of deals, but a unidirectional causality relationship running from industrial sector development to value of transaction. The results of the short run dynamics revealed that capital market has positive and significant impact on industrial output in Nigeria via market capitalization and number of deals. On the other hand, value of transaction has negative and significant impact on industrial output in Nigeria during the evaluation period. The results also showed that real gross domestic product has a positive and significant impact on industrial output in Nigeria, while exchange rate and gross domestic investment have negative and significant relationship with industrial output in Nigeria.

Adegiwe, Nwanna and Amala (2015) examined the effect of stock market development on Nigeria's economic growth. The objective of the study was to determine if stock market development significantly impact on the country's economic growth. The analysis revealed that stock market has the potentials of growth inducing, but has not contributed meaningfully to Nigerian economic growth, since only 26.5% of variations in economic growth were explained by the stock market development variables.

Ieoluwa and Omotilewa (2015***)*** examined the impact of stock market liquidity on economic growth of Nigeria between the years 1980 and 2012. The result of the analysis of data revealed that variables were stationary at their first difference while the Johansen co-integration approach confirmed the existence of co-integrating relationship at the 5 percent level of significance. The study found, surprisingly, that stock market liquidity was not a statistically significant variable explaining economic growth in Nigeria for the periods under study.

Okonkwo, Ogwuru and Ajudua (2014) used four explanatory variables to examine stock market performance and Nigeria economic growth were specified for this study based on theoretical underpinning. Stationarity test were conducted using Augmented Dickey Fuller unit root test, while Johansen Cointegration test was used to estimate the long-run equilibrium relationship among the variables. The Granger causality test was conducted in order to establish causal relationship, while the model was estimated using the error correction model (ECM).

Ovat (2012) examined the effect of stock market development on economic growth in Nigeria. The study disaggregated stock market development into stock market size and stock market liquidity with a view to providing evidence on the aspect of stock market development which is the main driver of growth in Nigeria. The applied several econometric techniques such as unit root test, co-integration and granger causality test, and the result revealed that stock market development contributes significantly to economic growth in Nigeria through the market liquidity based indicators: total value of shares traded ratio and turnover ratio. Ohiomu & Enabulu (2011) using ordinary least square regression (OLS). They employed data from 1989 to 2008 and their result indicated that economic growth is positively affected by all the stock market development variables examining the impact of stock market on economic growth in Nigeria.

Edame, Okoro & Anne (2013) regressed annualized time series data & market variable and observed that stock market has positive and significant impact on economic growth in Nigeria between the period 1970-2010 On the other hand, the impact of the Nigerian. Kolapo and Adaramola (2012) they applied Johansen co-integretion and Granger Causality test (Using Gross Domestic Product as a proxy for economic growth and Capital Market variables such as market capitalization, Total New Issues of transactions and Total Listed equities and Government Stock) and observed that the activities in the stock market tend to impact positively on the economy.

Ikikii and Nzomoi (2013) evaluated stock market development effects on economic growth in Kenya, Quarterly time series data on gross domestic product, market capitalization and trade volume covering the years 2000 to 2011 were used. Empirical result suggested that stock market development measured by trade volume and/or capitalization impacts positively on the economic growth in Kenya.

Okoye and Nwisienyi (2013) studied the impact of stock market has on the Nigerian economy, using time series data for 10-year period; 2000 – 2010. The model specification for the analysis of data was multiple regressions and ordinary least squares estimation techniques. The result depicted that there are significant relationship between all share index, market value and market capitalization on GDP.

Kanuand Ozurumba (2014) examined the impact of capital formation on the economic growth of Nigeria using multiple regressions technique. It was ascertained that in the short run, gross fixed capital formation had no significant impact on economic growth; while in the long run; the VAR model estimate indicates that gross fixed capital formation, total exports and the lagged values of GDP had positive long run relationships with economic growth in Nigeria. It was equally ascertained that there exists an inverse relationship between imports (IMP), Total National Savings (TNSV) and economic growth; while GDP was seen to have a unidirectional causal relationship with export (EXP), Gross fixed capital formation (GFCF), Import (IMP) and Total national saving (TNSV).

Shuaib, Igbinosun and Ahmed, (2015) examined the impact of government agricultural expenditure on the growth of the Nigerian economy. The study employed secondary data sourced from National Bureau of Statistics, and Financial Review of Central Bank of Nigeria. The study employed E-view 7.2 statistical output as a window in exploring the possible links between government agricultural expenditure and economic growth. The results revealed that government agricultural expenditure has a direct relationship with economic growth which statistically significant at 5% level.

Aiyedogbon (2011) explored the relationship between military expenditure and capital formation in Nigeria. The study spanned a period of 1980–2010. It employed the econometric methodology of vector error correction model and testing the results using stationarity test, co-integration and variance decomposition. Findings reveal that military expenditure (milex) and lending rate have negative impact on gross capital formation (GCF) in Nigeria in both the short- and long-run. The GDP is positively significant in the long run while it is positive and insignificant in the short run.

METHODOLOGY

This study was designed to examine the impact of capital market on capital formation in Nigeria. The research design adopted in this study was the ex-facto method which is largely quasi-experimental.Documentary data has been collected via the Central Bank of Nigeria (CBN) Statistical bulletin. The study utilizes the secondary source because it provides a basis for purposeful research work and also gives a direction for the research work.

Technique of Data Analysis

The multiple regression analysis was used to determine whether the financial market indices have impacted significantly on the aggregate stock prices of quoted firms in Nigeria. Moreover, in order to undertake a statistical evaluation of our analytical model, so as to determine the reliability of the result obtained and the coefficient of correlation (r) of the regression, the coefficient of determination (r^2), the student T-test and F-test where employed.

(vii) Coefficient of Determination (r^2) Test – this measures the explanatory power of the independent variables on the dependent variables. For example, to determine the proportion of economic growth into our model, we used the coefficient of determination. The coefficient

of determination varies between 0.0 and 1.0. A coefficient of determination says 0.20 means that 20% of changes in the dependent variable is explained by the independent variable(s).

(ii) F-Test: This measures the overall significance. The extent to which the statistic of the coefficient of determination is statistically significant is measured by the F-test. The F-test can be done using the F-statistic or by the probability estimate. We use the F-statistic estimate for this analysis.

(iii) Student T-test: measures the individual statistical significance of the estimated independent variables at 5% level of significance.

(iv) Durbin Watson Statistics: This measures the colinearity and autocorrelation between the variables in the time series. It is expected that a ratio of close to 2.00 is not auto correlated while ratio above 2.00 assumed the presence of autocorrelation.

(v) Regression coefficient: This measures the extent in which the predictor variables affect the dependent variables in the study.

(vi) Probability ratio: It measures also the extent in which the predictor variables can explain change to the dependent variables given a percentage level of significant.

Model Specification

From theories, principles and empirical findings, the model below is specified in this study.

ASP= f (FMD, FMC, FAC, FMS, FME) (1)

It is empirically stated as

$$ASP = \beta_0 + \beta_1 FMD + \beta_2 FMC + \beta_3 FAC + \beta_4 FMS + \beta_5 FME + + \mu \quad (2)$$

Where

ASP	=	Aggregate stock prices proxy by all share price index
FMD	=	Financial market competition proxy by money market + Capital market instrument to GDP
FAC	=	Financial market access proxy private sector credit to GDP
FMS	=	Financial market scope proxy by net domestic deposits to GDP
FME	=	Financial market efficiency proxy by domestic credit + deposits to GDP
β_0	=	Regression Intercept
β_1 - β_6	=	Coefficient of the independent variables to the Dependent variable
μ	=	Error term

The theoretical relationship based on the hypotheses formulated by scholars is that, finance granger cause economic growth, therefore the theoretical relationship based on the model above is positive.

Estimation Procedure

Unit Root Test

Most of time series have unit root as demonstrated by many studies including Nelson and Plosser (1982) Stock and Watson (1988) and Campbell and Peron (1991). Spurious regression can be detected in regression model by low Durbin Watson and relatively moderate R^2.Therefore, to distinguish between correlation that arises from share trend and one associated with an underlying causal relationship; we use the Augmented Dickey fuller (Dickey and Fuller, 1979, 1981)

$$X_t = \mu + \Theta X_{t-1} + \varepsilon_t \quad (3)$$

The null hypotheses for the ADFstatistic test are H_0.

Non stationary (unit root) and H_a: Stationary respectively

Co-integration

To search for possible long run relationship amongst the variables, we employ the Johansen and Juselius (1990) approach. Thus, the study constructed a p-dimensional (4x1) vector auto regression model with Gaussian errors that can be expressed by its first differenced error correction form as

$$\Delta Y_t = \Gamma_1 \Delta Y_{t-1} + \Gamma_2 \Delta Y_{t-2} + ... + \Gamma_{k-1} \Delta Y_{t-k+1} - \Pi Y_{t-1} + \mu + \varepsilon_t \quad (4)$$

Where Y_t are the data series studied, ε_t is i. i. d, N(0,$\sum$) Γ_i + -1 + A_1+A_1 + A_2 + A_3 + ……. + A_i for i = 1,2,3……..,k-1, Π = I – A_1 – A_2 - ……-A_k. The Π matrix conveys information about the long term relationship among the Y_t variables studied. Hence, testing the co-integration entails testing for the rank r of matrix Π by examine whether the eigen values of Π are significantly different from zero. Johansen and Juselius (1990) proposed two tests statistics to determine the number of co-integrating vectors (or the rank of Π), namely the trace and the maximum eigen-value (λ-trace) is computed as;

$$\lambda trace = -T \sum_{j=r+1}^{n} In(1 - \lambda_j) \quad (5)$$

The trace tests the null hypothesis that "at most" r co-integration vector, with "more than" r vectors being the alternative hypothesis. The maximum eigenvalue test is given as:

$$\lambda_{\max} = -TIn(1 - \lambda_{r+1}) \quad (6)$$

It tests the null hypothesis of r co-integrating vectors against the alternative hypothesis of r + 1 co-integration vectors. In the equation (3) and (4), is the sample size and λ is the largest canonical correlation.

Granger Causality

In case we do not find any evidence for co-integration among the variables, the specification of the Granger causality will be a vector autoregression (VAR) in the first difference form. However, if will find evidence of co-integration, there is the need to augment the Granger-type causality test model with a one period lagged error term. This is a crucial step because as noted by Engel and Granger (1987).

$$\boldsymbol{Y_t = \alpha_o + \sum_{i=1}^{n} \alpha_1^{y} Y_{t-1} \sum_{i=1}^{n} X_{a1} X\mu} \quad (7)$$

and

$$\boldsymbol{X_t = \beta_o + \sum_{i=1}^{n} {}^{y}_{\beta 1} Y_{t-1} \sum_{i=1}^{n} X_{\beta 1} XY_t} \quad (8)$$

Error Correction Model (ECM)

Co-integration is a prerequisite for the error correction mechanism. Since co-integration has been established, it is pertinent to proceed to the error correction model.

A-Priori Expectation of the Result

The explanatory variables are expected to have positive and direct effects on the dependent variables. That is a unit increase in any of the variables is expected to increase Stock price. This can be express mathematically as $a_1, a_2, a_3, a_4, a_5 > 0$.

ANALYSIS AND DISCUSSION OF FINDINGS

Table 1: Presentation of Unit Root Test

Null Hypothesis: D(ASP) has a unit root			
		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-7.787910	0.0000
Test critical values:	1% level	-3.653730	
	5% level	-2.957110	
	10% level	-2.617434	
Null Hypothesis: D(FAC) has a unit root			
		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-4.655832	0.0008
Test critical values:	1% level	-3.661661	
	5% level	-2.960411	
	10% level	-2.619160	
Null Hypothesis: D(FMC) has a unit root			
		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-6.609467	0.0000
Test critical values:	1% level	-3.661661	
	5% level	-2.960411	
	10% level	-2.619160	
Null Hypothesis: D(FMD) has a unit root			
		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-5.490029	0.0001
Test critical values:	1% level	-3.653730	
	5% level	-2.957110	
	10% level	-2.617434	
Null Hypothesis: D(FME,2) has a unit root			
		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-4.463733	0.0019
Test critical values:	1% level	-3.737853	
	5% level	-2.991878	
	10% level	-2.635542	
Null Hypothesis: FMS has a unit root			
		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-10.77170	0.0000
Test critical values:	1% level	-3.724070	
	5% level	-2.986225	
	10% level	-2.632604	

Source: E-view 9.0 Output

The study conducted stationarity test using the Augmented Dickey Fuller unit root test. The results are summarized on table 1 for each of the variables under study. Comparing the critical value at both 1% and

5% with the ADF statistics, the result indicates that all the variables are stationary at first differencing. Hence, the variables are all integrated serious of order 1(I). This implies that the absolute values of the ADF test statistics are all greater than the critical values at 5% level of significance. Having stationarized the series, the data can now be subjected to a test to ascertain whether these series are co-integrated or not by employing the Johansen Co-integration procedure to estimate the long run equilibrium relationship between the predictor and criterion variables.

Table 2: Presentation of Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
FAC	0.714633	0.072787	2.666146	0.0008
FMC	0.016931	0.073689	0.229765	0.8199
FMD	0.804313	0.115025	3.183236	0.0009
FME	-0.404647	0.212401	-1.905103	0.0471
FMS	0.008265	0.276405	0.029900	0.9764
C	80.64008	0.772552	6.312081	0.0000
R-squared	0.721661	Mean dependent var		80.61588
Adjusted R-squared	0.600529	S.D. dependent var		9.698625
S.E. of regression	8.671844	Akaike info criterion		7.316825
Sum squared resid	2105.625	Schwarz criterion		7.586183
Log likelihood	-118.3860	Hannan-Quinn criter.		7.408684
F-statistic	4.655461	Durbin-Watson stat		1.919715
Prob(F-statistic)	0.000679			

Source: E-view 9.0 Output

The objective of this study is to investigate the effects of financial sector development and aggregate stock prices in Nigeria stock market. The regression model explains our hypothesis and coefficient of deformation (R^2) of 0.721661 and adjusted (R^2) OF 0.600529. This indicated that the regression has high explanatory power. However, the values of R^2 and adjusted R^2 show that 72 percent of the variations in the criterion variable (aggregate stock price) is attributable to the predictor variable selected by the model and involve Financial market depth proxy by money supply to GDP, Financial market competition proxy by money market + Capital market instrument to GDP, Financial market access proxy private sector credit to GDP, Financial market scope proxy by net domestic deposits to GDP and Financial market efficiency proxy by domestic credit + deposits to GDP. F. statistics, which is equally considerable the implication is that the regression model for this study is well specified and does not suffer any mis-specification problem. Further, the result from the model can be relied upon in making useful inference with respect to aggregate stock price. The Durbin Watson test is use for testing presence of auto-correlation which has a value of 1.919715 The DW table shows the upper and lower value as 1.31 and 1.68 respectively. This shows that there is no presence of auto-correlation among the variable since the Durbin Watson computed does not fall within the DW tabulated. Under table 4.3 the results will reject the null hypothesis since it has a residue relationship on aggregate stock price in Nigeria. From the beta coefficient, financial sector development has positive and significant effect on the aggregate stock price of Nigeria stock market. Financial market competition has positive but no significant effect on the aggregate stock price of Nigeria stock market, financial market access have positive and significant effect on the aggregate stock price of Nigeria stock market, financial market efficiency have negative and significant effect on the aggregate stock price of Nigeria stock market while financial market scope have positive and significant effect on the aggregate stock price of Nigeria stock market.

Table 3: Johansen Co-integration Test
Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.708524	105.6158	95.75366	0.0088
At most 1*	0.586729	76.16622	69.81889	0.0015
At most 2*	0.416221	67.88937	47.85613	0.0028
At most 3*	0.329133	40.66592	29.79707	0.0088
At most 4*	0.207807	20.89044	15.49471	0.0070
At most 5	0.013583	0.437625	3.841466	0.5083

Source: E-view 9.0 Output
*(**) denotes rejection of the hypothesis at 5%(1%) significance level L.R. test indicates 1 cointegrating equation(s) at 5% significance level

Since the data are of order 1(I), we now apply the Johansen co-integration techniques to ascertain the existence of long-run co-integrating relationship. The co-integration test is based on the likelihood ratio and the critical value. The result is presented in table 4.4 above and from table 3 it can be seen that the observed likelihood ratio is greater than the critical value at 5% level of significance. Therefore from the table it is clear that the test indicate at most 4 co-integrating equation. This result means that there is a long run equilibrium relationship between financial sector development and aggregate stock prices of in Nigeria stock market.

Table 4: Pairwise Granger Causality Tests

Null Hypothesis:	Obs	F-Statistic	Prob.
FAC does not Granger Cause ASP	32	4.35204	0.0230
ASP does not Granger Cause FAC		2.02667	0.1513
FMC does not Granger Cause ASP	32	1.59726	0.2210
ASP does not Granger Cause FMC		0.32995	0.7218
FMD does not Granger Cause ASP	32	3.04838	0.0640
ASP does not Granger Cause FMD		22.5524	2.E-06
FME does not Granger Cause ASP	32	0.48591	0.6204
ASP does not Granger Cause FME		0.19264	0.8259
FMS does not Granger Cause ASP	32	0.16046	0.8526
ASP does not Granger Cause FMS		2.76588	0.0808

Source: E-view 9.0 Output

The result of the Pairwise granger causality test conducted with a maximum log of 2 is presented in table 4 below from result; the null hypothesis is rejected if the probability of F-statistics given in the test result is less than 0.05. From table 4.5 the result shows that at 5% level of significance.

Table 5: Error Correction Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.284817	1.634697	-0.174232	0.8631
D(ASP(-1))	0.258145	0.295873	0.872488	0.3916
D(FAC(-1))	1.648043	1.205960	1.366581	0.1844
D(FMC(-1))	0.072081	0.055918	1.289047	0.2097
D(FMD(-1))	-1.727997	1.642921	-1.051783	0.3034
D(FME(-1))	0.123501	0.182472	0.676822	0.5050
D(FMS(-1))	0.674108	0.402791	1.673591	0.1072
ECM(-1)	-1.248019	0.359363	-3.472863	0.0020
R-squared	0.571291	Mean dependent var		0.062875
Adjusted R-squared	0.446251	S.D. dependent var		11.67711
S.E. of regression	8.689440	Akaike info criterion		7.374412
Sum squared resid	1812.153	Schwarz criterion		7.740846
Log likelihood	-109.9906	Hannan-Quinn criter.		7.495875
F-statistic	4.568866	Durbin-Watson stat		2.242351
Prob(F-statistic)	0.002312			

Source: E-view 9.0 Output

From the table, in the two hypotheses the Error correction term is negative which is contrary to expectation, that is to say it has a positive sign, implying that the error obtain has high possibilities of moving much further away from the equilibrium path as time goes on and on. Also the ECM (-1) coefficient shows that 124.8 percent of the error produced in the previous period are corrected in the current period. The error term however is not statistically significant ECM (-1) is speed of adjustment towards equilibrium or error correction term. The independent variables can explain 57.1 percent variation on the dependent variable.

DISCUSSION OF FINDINGS

From hypothesis one formulated in the study, the regression results found that there is positive and significant relationship between financial depth and aggregate stock prices firms quoted on the floor of Nigeria stock exchange. Beta coefficient of financial depth indicates that a unit increase on the variable increases aggregate stock prices of quoted firms by 0.8 percent over the periods covered in the study. The positive effect of financial depth on the aggregate stock prices of Nigeria quoted firms confirm our a-prior expectations and also confirm reforms in the Nigeria financial market to attract foreign real and portfolio investments.

The positive relationship between the variables confirm the findings of Hondroyiannis et al. (2005) found a long-run relationship between banking development (measured by PSC and the ratio of bank credit extended to industries as to GDP), stock market development (measured by MCP and the ratio of market capitalization of industrial shares as to GDP) and economic growth, with bi-directional causality between economic growth and financial development measures. Law (2004) the banking system's positive impact on Egypt's economic growth is highly dependent on improvements to percapita income. Stock market development had more prominent effects on TFP growth, particularly when related with private net resource flows.

From hypothesis two formulated in the study, the regression results found that there is positive and significant relationship between financial market competition and aggregate stock prices firms quoted on the floor of Nigeria stock exchange. Beta coefficient of financial competition indicates that a unit increase on the variable increases aggregate stock prices of quoted firms by 0.01 percent over the periods covered in the study. The positive effect of financial market competition on the aggregate stock prices of Nigeria quoted firms confirm our a-prior expectations and also confirm reforms in the Nigeria financial market to attract foreign real and portfolio investments. The positive relationship between the variables confirm the findings of Hondroyiannis et al. (2005) found a long-run relationship between banking development (measured by PSC and the ratio of bank credit extended to industries as to GDP), stock market development (measured by MCP and the ratio of market capitalization of industrial shares as to GDP) and economic growth, with bi-directional causality between economic growth and financial development measures. Law (2004) the banking system's positive impact on Egypt's economic growth is highly dependent on improvements to per capita income. Stock market development had more prominent effects on TFP growth, particularly when related with private net resource flows.

From hypothesis three formulated in the study, the regression results found that there is positive and significant relationship between financial market access and aggregate stock prices firms quoted on the floor of Nigeria stock exchange. Beta coefficient of financial market access indicates that a unit increase on the variable increases aggregate stock prices of quoted firms by 0.71 percent over the periods covered in the study. The positive effect of financial market access on the aggregate stock prices of Nigeria quoted firms confirm our a-prior expectations and also confirm reforms in the Nigeria financial market to attract foreign real and portfolio investments. The positive relationship between the variables confirm the findings of Hondroyiannis et al. (2005) found a long-run relationship between banking development (measured by PSC and the ratio of bank credit extended to industries as to GDP), stock market development (measured by MCP and the ratio of market capitalization of industrial shares as to GDP) and economic growth, with bi-directional causality between economic growth and financial development measures. Law (2004) the banking system's positive impact on Egypt's economic growth is highly

dependent on improvements to percapita income. Stock market development had more prominent effects on TFP growth, particularly when related with private net resource flows.

From hypothesis fourth formulated in the study, the regression results found that there is positive and significant relationship between financial market scope and aggregate stock prices firms quoted on the floor of Nigeria stock exchange. Beta coefficient of financial market scope that a unit increases on the variable increases aggregate stock prices of quoted firms by 0.71 percent over the periods covered in the study. The positive effect of financial market access on the aggregate stock prices of Nigeria quoted firms confirm our a-prior expectations and also confirm reforms in the Nigeria financial market to attract foreign real and portfolio investments.

The positive relationship between the variables confirm the findings of Hondroyiannis et al. (2005) found a long-run relationship between banking development (measured by PSC and the ratio of bank credit extended to industries as to GDP), stock market development (measured by MCP and the ratio of market capitalization of industrial shares as to GDP) and economic growth, with bi-directional causality between economic growth and financial development measures. Law (2004) the banking system's positive impact on Egypt's economic growth is highly dependent on improvements to percapita income. Stock market development had more prominent effects on TFP growth, particularly when related with private net resource flows.

From hypothesis five formulated in the study, the regression results found that there is negative and no significant relationship between financial market efficiency and aggregate stock prices firms quoted on the floor of Nigeria stock exchange. Beta coefficient of financial market efficiency that a unit increases on the variable reduces aggregate stock prices of quoted firms by 0.4 percent over the periods covered in the study. The negative effect of financial market efficiency on the aggregate stock prices of Nigeria quoted firms contradict our a-prior expectations and also contradict reforms in the Nigeria financial market to attract foreign real and portfolio investments.

The negative relationship between the variables contradict the findings of Hondroyiannis et al. (2005) found a long-run relationship between banking development (measured by PSC and the ratio of bank credit extended to industries as to GDP), stock market development (measured by MCP and the ratio of market capitalization of industrial shares as to GDP) and economic growth, with bi-directional causality between economic growth and financial development measures. Law (2004) the banking system's positive impact on Egypt's economic growth is highly dependent on improvements to percapita income. Stock market development had more prominent effects on TFP growth, particularly when related with private net resource flows.

CONCLUSION

This study investigated the effect of stock market development on the aggregate stock prices in Nigeria stock market using time series data from 1986-2019. Five research questions and null hypothesis were formulated to study the relationship between measures of stock market development and aggregate stock price. Related literature was reviewed in chapter two of the study.The study found that 72 percent of the variations in the criterion variable (aggregate stock price) is attributable to the predictor variable selected by the model and involve. Further findings proved that financial sector development has positive and significant effect on the aggregate stock price of Nigeria stock market.

Financial market competition has positive but no significant effect on the aggregate stock price of Nigeria stock market, financial market access have positive and significant effect on the aggregate stock price of Nigeria stock market, financial market efficiency have negative and significant effect on the aggregate stock price of Nigeria stock market while financial market scope have positive and significant effect on the aggregate stock price of Nigeria stock market

RECOMMENDATIONS

1. The policy makers and opinion formers should gear efforts towards fine-tuning the indices that can result in long term pessimism in the stock market like unpaid dividend, delay in dividend payments and transfer of stocks.
2. The ongoing reforms in the Nigeria financial sector should be continued and pursued to the latter in the capital market. This is because it is apparent that the existence of a well-developed and efficient capital market will contribute to the objective of rapid and sustainable growth. The capital markets are to be restructured as efficient tools of domestic resource mobilization with policies and measures adopted to increase their depth and competitiveness. Other capital market reforms include; Reduction of the costs of intermediation and floating new issues; Adoption of measures and strategies to strengthen and enhance official supervision of trading in the securities market so as to make them attractive assets (Iyoha, 2004).
3. Improve financial infrastructure through the development of various financial products and services, which has been a major problem militating against the level of investment in developing country like Nigeria when compared to developed countries.
4. Trading systems of stock market should be improved since this improves stock market operations, allowing stocks to trade more frequently and speeds up the purchase and sale process of stocks, in this way enhancing stock market liquidity and efficiency.
5. Promote greater regulation, supervision, and security of stock market since this is a major hindrance to investment activity in Nigeria, where there is low investor confidence in the stock market and its ability to safeguard investments, thus the improvement of security and regulation procedures will likely stimulate information disclosure and reduce misrepresentation and other financial crimes, leading to improved investor confidence. This will enhance market participation, investment and stimulate growth.

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