International Journal of Innovative Finance and Economics Research 13(3):428-445, July-Sept, 2025
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doi:10.5281/zenodo.17127961

Capital Market Performance And Nigeria's Economic Growth

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ABSTRACT

The study aimed to measure capital market performance and economic growth in Nigeria, and it was focused on Foreign Direct Investment (FDI), Market Capitalization (MC), and All Share Index (ASI) indicators. The researchers applied an ex-post facto research design to obtain secondary data for a 32-year period (1993-2024) from the Central Bank of Nigeria (CBN) Statistical Bulletin and the Nigerian Exchange Group (NGX) for descriptive and inferential statistics. The former was determined through mean and standard deviation, while the latter was identified using the Autoregressive Distributed Lag (ARDL) model via E-Views 9. The results showed that FDI and market capitalisation had negative but not significant effect on Gross Domestic Product (GDP). Also, the All Share Index recorded a positive but not significant effect on Gross Domestic Product (GDP). The insignificance of the coefficients of the capital market on the growth of the economy further suggested that the Nigerian capital market has not really lived up to its expected growth inducing roles in the period under review. The study also concluded that the market has not been very efficient in the contribution to the economy due to the fact that it was yet to be properly harnessed, while its connection to the real sector was also not deep enough. Recommendations were made on the need for the government to invest more on friendly investment climate and on improving the regulatory environment, on the part of the individual to seek knowledge on investment and on the need for the government to ensure sound macroeconomic policies that would attract the confidence of investors.

Keywords: Foreign direct investment, Market capitalization, All share index, Gross domestic product, Economic growth

1.0 INTRODUCTION

Economic growth, which can be measured by an increase in real gross domestic product (GDP), is an essential aspect of a nation's economy and general welfare (Coscieme et al., 2020). In general, it is an economic activity that leads to an increase in the production of goods and services within an economy over a certain period (Coscieme et al., 2020). It not only improves the standard of living of its citizens but also provides the government with more revenue to meet the challenges of the country like poverty, unemployment, and poor infrastructure, among others (Mansi et al, 2020). It is of utmost importance in developing countries like Nigeria for the sustainable growth and economic diversification to ensure that the economy is not overdependent on a particular sector of the economy (UN, 2023).

The Nigerian capital market is regulated by the Nigerian Exchange (NGX) and supervised by the Securities and Exchange Commission (SEC). Traded instruments in the Nigerian capital market include

equities, bonds, and derivatives. The Nigerian capital market serves as a platform for raising long-term capital for corporations and the government. Over the years, the Nigerian capital market has seen a substantial improvement in its functions. Despite the Nigerian capital market's critical role in the economy, its performance is still below average compared to its counterparts in other developed and emerging markets (Binuyo et al., 2019). In recent times, the capital market has been seen as a viable instrument to finance infrastructure development and diversify the country's economy. The increased issuance of green bonds and Sukuk in Nigeria, for instance, points to the evolution of the capital market and how it is effectively contributing to the sustainable development goals (SDGs). For instance, the SEC Nigeria (2023) reports that in Nigeria, over ₦25 billion in green bonds was issued, financing renewable energy, energy efficiency, and climate-resilient infrastructure.

Environmental, social, and governance (ESG) has received substantial attention in Nigeria's capital market in recent years. Investors are increasingly seeking companies with good environmental, social, and governance practices, so the SEC has developed guidelines on sustainability reporting for all publicly listed companies (Ikwue et al., 2023). This move is consistent with global trends, and the Nigerian capital market has seen increased investments that promote ESG (Ikwue et al., 2023). Foreign participation has long been a major player in the Nigerian capital market, accounting for over 30% of all transactions in the capital market (NSEG, 2023). Their participation has, however, fallen in recent years to 39% of total transactions, according to NSEG (2023), which indicates the impact of the current macroeconomic challenges and volatile exchange rate, which has also been heightened by inconsistent government policies. In the past five years, foreign participation in Nigeria's capital market has decreased. For instance, foreign portfolio investment accounted for 66% of the transactions between 2015 and 2018, but this percentage has declined in recent years, and data from SEC Nigeria (2023) shows that this figure dropped to just 39% of the total transactions in 2022. The National Bureau of Statistics (2023) also reported that Nigeria recorded a drop in Foreign Direct Investment (FDI) inflows in 2022 to $468 million from $1.19 billion in 2018. Regaining investors' confidence requires coherent government policies, stable macroeconomic environment, and institutional reforms (Nissanke, 2019).

The Nigerian capital market, despite the current reforms being carried out by the SEC, has been faced with challenges that have hindered its ability to contribute to the nation's economic growth. The Nigerian All Share Index (ASI), the benchmark index for the Nigerian stock market, for example, has been extremely volatile between 2020 and 2023, ranging from a low of about 25,000 points to highs of over 70,000 points during the period (Anarkulova et al., 2022). Such extreme volatility in share prices over the years is a disincentive for long-term investors due to the risks of sudden and unpredictable losses. Furthermore, weak enforcement of regulations and corporate governance standards often results in a lack of investor confidence in the market. This, in turn, leads to a decline in capital inflow and further hinders new listings. Another challenge faced by the Nigerian capital market is the low public awareness and financial literacy of Nigerians concerning the capital market. According to SEC Nigeria (2022), only about 3% of Nigerians currently participate in the capital market, which implies that its growth is highly restricted. Besides, the dependence on foreign investors who accounted for about 39% of total capital market transactions in 2023 (NSEG, 2023) makes the Nigerian capital market vulnerable to global economic shocks and increasing the risk of capital flight (Orji et al., 2020).

In my opinion, while Nigeria has set out the right regulatory framework to boost the performance of its capital market, there is room for improvement, particularly concerning its regulatory bodies and policy consistency. In particular, there is a gap between the framework provided by the SEC and the NGX and the actual practice on the ground. For example, both the SEC and NGX have made several rules to ensure the smooth running of the market, which ensures market integrity and protects investors' rights (Babalola et al., 2023). However, the issues of insider dealing, a lack of transparency, and weak regulatory enforcement continue to be widespread in the Nigerian market, which points to a gap in these regulatory authorities (Babalola et al., 2023). This finding, therefore, implies that while the regulatory bodies may exist on paper, their ability to enforce the rules effectively may be lacking or inconsistent, thereby limiting their effectiveness in practice. Furthermore, the level of participation, which is below 4%, is a

pointer that not enough is being done to create public awareness and deepen financial literacy. Without an intentional push for greater awareness and confidence in the capital market among Nigerians, efforts towards its growth and deepening will continue to be a lost cause. In addition, the lack of investment incentives and high transaction costs in the market hinders the growth and performance of Nigeria's capital market as both domestic and foreign investors are deterred. A significant upgrade in its financial technology and enhanced regulatory consistency and transparency in the market, among other factors, may be required to restore the confidence of investors in the Nigerian capital market (Fernandez & Joseph, 2020).

Grounded on the identified gaps in the capital market and their implications for economic growth, this study, therefore, seeks to examine the relationship between the performance of the Nigerian capital market and economic growth in the country. The study intends to find out how variables such as foreign direct investment, market capitalization, and all share index have helped or failed to help the economy to grow amidst many other challenges that have continued to affect the country's long-term growth and eroded investors' confidence in the market.

The main objective of this study was to examine the effect of capital market performance on Nigeria economic growth. This research therefore seeks to:

i. Examine the effect of foreign direct investment on gross domestic product (GDP) in Nigeria.
ii. Examine the effect of market capitalization on gross domestic product (GDP) in Nigeria.
iii. Determine the effect of all share index on gross domestic product (GDP) in Nigeria.

1.1 Statement of Research Questions

The following questions were formulated to achieve the objectives of the study:

i. What is the effect of foreign direct investment on gross domestic product (GDP) in Nigeria?
ii. To what extent does market capitalization have effect on gross domestic product (GDP) in Nigeria?
iii. What is the effect of all share index on gross domestic product (GDP) in Nigeria?

1.2 Statement of Research Hypotheses

To achieve the objectives, the following hypotheses were formulated:

Ho_1: Foreign direct investment has no significant effect on gross domestic product (GDP) in Nigeria.

Ho_2: There is no significant effect between market capitalization and gross domestic product (GDP) in Nigeria.

Ho_3: All share index has no significant effect on gross domestic product (GDP) in Nigeria.

2.0 Conceptual Framework

Economic Growth

Economic growth refers to the consistent rise in the production of goods and services within a specific time frame in an economy. It is considered one of the most important measures of economic development and social well-being. Acemoglu (2023) claims that economic growth leads to a rise in productive capacity, which can result in an improved standard of living, a decrease in poverty and inequality. Furthermore, Li et al. (2024) stated and provided evidence to support the assertion that innovation and efficiency in resource use can improve standards of living and also promote sustainable long-term economic stability, thus reinforcing the argument in support of good growth.

Fundamentally, economic growth is a concept that describes the expansion of the production of goods and services in an economy over a specific period. It is often measured using gross domestic product (GDP) as a primary indicator of financial performance, with many definitions offering varied perspectives on the concept. They have each focused on one or more crucial facets of GDP as an assessment measure of economic growth.

Nnamocha and Anyanwu (2022) define GDP as the gross value of all goods and services produced domestically within a given time, emphasizing the total contribution of nationals and long-staying non-nationals in an economy. This emphasis on the end products' value ensures that GDP is correctly evaluated by avoiding double-counting. This holistic approach underlines GDP as a reliable measure of

economic output. Nordhaus (2021), similarly, defined GDP as "the market value of final goods and services produced in a given year." The authors note that since profit is a residual item, GDP can be measured in terms of flow of products or spending, and the two approaches would yield the same value.

Capital Market Performance

Capital markets and their effective performance determine to a large extent the operations of the economy. The degree to which the market is functioning can be measured by how well information in the market is revealed through economic growth, investments, and the behavior of investors (Lee & Choi, 2023). It also highlights how effectively the capital markets can incorporate open information into the valuation of stocks and other securities. Capital resources can be distributed most effectively because the markets are efficient, and investors can make their decisions based on current and accurate information. The prices of stocks and bonds in the market reflect all publicly available information; therefore, it is unlikely for any investor, without taking on more risk, to consistently achieve higher-than-market returns (Fama, 1970).

Analyzing the efficiency of the market in different countries, especially in developed, emerging, and frontier markets, Lee and Choi (2023) found that using the multifractal detrended fluctuation analysis, countries such as the US, UK, and Switzerland, being mature markets, had a relatively good level of efficiency. This means that their market prices primarily reflected public information, thus stabilizing market conditions (Lee & Choi, 2023). However, efficiency is slightly lower in developed markets. Emerging markets are more susceptible to market inefficiencies brought on by a variety of variables such as political instability, foreign capital flows, and market illiquidity (Lee & Choi, 2023). Investors in such markets are likely to experience more volatility and thus higher risk as a result.

Capital markets' performance, on the other hand, is not constant but can alter over time, especially during periods of financial turmoil. In moments of financial crisis such as the subprime mortgage crisis, the market efficiency is likely to drop off as a result of increased volatility, slow response to new information, and higher market uncertainty (Horta, et al., 2023). This explains the dynamic and on-going nature of the capital markets as well as how calamities can affect its level of efficiency. Understanding capital market performance is critical both for investors and for policymakers since it provides data on the financial system's performance and can be used to make investment decisions and economic policy. The state of market efficiency, which could help investors navigate various market conditions, especially in developing and frontier markets, where inefficiencies are more noticeable.

Market Capitalization

Market capitalization (market cap) is a widely used metric in the valuation and analysis of speculative companies listed on public markets. It represents the total market value of a company's outstanding shares of stock and provides an estimate of the price required to purchase all of those shares at the current share price. It can be determined simply by multiplying the current price of the company's share by the total number of outstanding shares (Harrison et al. , 2020; Lewis & Thompson, 2021).

Investors often use this concept to categorize companies based on their market size, which can help in assessing the potential risk and growth prospects of investing in those companies. For example, large-cap companies, generally those with market capitalization over $10 billion, are considered to be mature businesses with stable revenues and lower risk but with potentially lower growth than smaller companies (Doyle & Harris, 2019; Lewis & Thompson, 2021). On the other hand, mid-cap companies (market caps between $1 billion and $10 billion) typically have higher volatility but can offer greater growth potential (Smith et al. , 2022).

The research shows that market capitalization provides essential information for risk assessment, portfolio diversification, and investment decisions, as well as for gauging a company's current value. The classification of companies based on market capitalization by investors plays a critical role in the development of investment strategies that seek to strike a balance between the need for growth and the need for stability. The use of market cap extends beyond stock analysis, to fields such as mergers and acquisitions, where the relative size of the companies involved is one of the key factors (Lewis & Thompson, 2021).

The market capitalization of Nigeria's Exchange has reflected the uncertainty of global markets and domestic economic conditions in recent years, displaying a range of trends. In 2024, the Nigerian Exchange (NGX) experienced significant changes in market capitalization due to a range of investor sentiments, both local and foreign, caused by a variety of national and international events, such as political changes and global commodity price fluctuations.

As of early 2024, the stock market capitalization of Nigeria stood at around ₦43 trillion, which was an increase from the previous year. The increase in oil prices and the continued expansion of the banking and telecommunications sectors were the main drivers of this increase (Nigerian Exchange, 2024). Moreover, growth in the market was helped by the performance of Nigerian companies in the consumer goods, oil, and banking sectors in particular. In addition, factors such as the positive reception to reforms like the removal of the petrol subsidy and the introduction of new fiscal policies also helped to drive the increase in market value.

However, concerns about volatility continued to persist as periodic decreases in market valuation occurred in response to swings in global oil prices, as well as uncertainty over the domestic economy. The NGX also experienced inflation and currency depreciation, which further dampened consumer confidence. Despite these challenges, analysts predict that Nigeria's market capitalization will continue to increase in the coming years as reforms and economic stabilization efforts begin to take hold (Bloomberg, 2024).

All Share Index

The All Share Index (ASI) serves as a measurement tool for tracking the performance of all firms listed on a specific stock exchange. It is called all share since it is a complete index that is used to provide a comprehensive evaluation of the financial activity that occurs. This term is used to give a description to the action of gathering, for the main function in the calculation of securities prices on every stock and is applied to evaluate the general state of affairs in a country's market Morningstar. The final outcome is the sum of the market values of the companies that are listed, The weighted cumulative values of stock from each listed company get added up (Morningstar, 2024). The FTSE All Share Index, which tracks the largest firms that are listed on the London Stock Exchange, is calculated in this way to give a consistent measure of overall market performance.

Academic research frequently uses the ASI to understand the link between stock market performance and macroeconomic indicators such as inflation, interest rates, and economic expansion. Its utility in measuring investor activity and stock market trends is recognized in academic studies. It is said in one study that the ASI provides a window into the broader financial market, rather than just individual stocks, which gives a broad snapshot of the health of the market as a whole (Kwak, 2021). Another article showed that the ASI might be a benchmark for comparing the performance of certain companies or industries in the overall market (Okpara & Anichebe, 2023).

Portfolio management is another area in which the All Share Index is commonly used for the evaluation of portfolio performance. It may be a suitable benchmark against which to evaluate mutual funds and ETFs that seek to mirror the former market because it represents the entire market. Portfolio management research has frequently shown that comparing a fund's return to that of the ASI can help to better understand its relative performance (Akinmoladun, 2022).

In developing nations like Nigeria, the ASI is also believed to be a way to assess how political or legislative changes have affected market feelings. The Nigerian Exchange's (NGX) All Share Index is critically vital, for instance, for many nations in Africa and is useful in assessing the investment environment in Nigeria, especially in terms of the Nigerian economy's development (Adediran & Akinmoladun, 2024). By looking at the ASI in developing countries, it's possible to understand how to forecast consumer behavior and market stability during periods of change.

2.1 Theoretical Review

Efficient Market Hypothesis

In the 1960s, Eugene Fama proposed the Efficient Market Hypothesis (EMH), which claims that financial markets are extremely efficient at turning accessible information into capital values and estimates, making it hard for investors to frequently do better than the market. Depending on the extent of knowledge that is indicated in share prices, market efficiency may be categorized into three types: weak, semi-strong, and strong. It's a tenet of monetary economics, and it's affected methods of threat assessment and investment portfolio management (Toe et al.). The hypothesis of an efficient market is relevant to this research since it describes how financial markets work and use accessible information to determine security prices. The findings will be able to shed light on the causes and consequences of market volatility, inform regulators and policymakers about the need for effective regulation and oversight, and assist investors in managing risk and developing investment strategies in line with the EMH..

Portfolio Behaviour Theory

James Tobin developed the Portfolio Behaviour Theory in the 1950s, and it's still one of the most prevalent investment models today. It takes into account the issues of risk vs. return trade-offs and portfolio optimization. Tobin, who first showed that investors might create the best portfolios by combining risk-free and risky assets in order to receive the greatest return for a given level of risk, ushered in the "Tobin's Separation Theorem" (Kan et al., 2022). The essential ideas of Kan et al. (2022) were expanded upon by the Portfolio Behaviour Theory. In addition to outlining the key tenets of the theory and linking them to the concept of rational, risk-averse investors, the article also emphasizes the importance of a risk-free asset.

The theory's main ideas, rational, risk aversion, and availability of a risk-free asset all provide a systematic basis for decision making. The Portfolio Behaviour Theory also attempts to reduce unsystematic danger by focusing on diversification, leaving just systematic risk as the main driver of portfolio returns (Mutwiri et al., 2021). All of these have had a significant impact on present investment strategies by highlighting the necessity of asset allocation and risk management.

2.2 Empirical Review

Ukoh (2024) used Autoregressive Distributed Lag (ARDL) model and results to discuss how Nigeria's stock market performance affects its economic growth and examined the value of traded, all-share index, market capitalization and the number of deals within 2001-2022. He found that traded value, all-share index and market capitalization variables have significant, positive, and unidirectional long-run relationship with GDP and the number of deals have negative and unidirectional long-run relationship. To enhance its economic growth and development in the long run, he recommends that countries must ensure proper corporate governance rules and regulations as well as transparency in their financial statements to attract more investments and improve their liquidity in the long-run.

Amaegberi and Ebierinyo (2024) investigated long-run and short-run capital market variables on economic growth in Nigeria. The researchers used data from 1985 to 2023 and estimated a Vector Error Correction Model (VECM) to examine the relationship between a dependent variable "real GDP per capital" and independent variables "interest rate, all share index and market capitalization in Nigeria". The study identified short-run negative effect of the independent variables on economic growth but found long-run positive and significant relationship. The authors have discussed how their findings contradict the expected behavior of capital market variables. As such, the identified issues on capital market performance in the developing countries such as Nigeria must be addressed through investor confidence, regulatory, and transparency reforms. The identified gaps may prompt the need to enhance investor confidence and introduce targeted policies to reform the operations of capital market for improved efficiency and long-run investment in productive economic sectors.

Agunobi, et al. (2024) analyzed the impact of macroeconomic variables on stock market performance in Nigeria from 1990 to 2022 and the response have not matched the initial long-run expectation. Autoregressive Distributed Lag (ARDL) model was used. The results identified significant effect of the

broad money supply, all-share index, and financial deepening on the total market capitalization while no significant effect of interest rate was established. The empirical results have shown the implication of not managing the overall money supply in the economy on stock market performance. As such, they recommend proactive monetary policy and measures to deepen the financial sector to improve stock market performance in Nigeria.

Adeyinka and Henry (2024) evaluated the relationship between stock market performance and macroeconomic variables in Nigeria from 1981 to 2022 with the use of multiple regression analysis to test the research hypotheses and the response has not matched the initial long-run expectation. Results of the study has established that the growth of real sector as measured by gross domestic product (GDP) have positive and significant relationship with market capitalization in Nigeria. The findings did not establish a significant effect of inflation and interest rate on market capitalization. The study recommended a growth-oriented macroeconomic policy that would result in the improvement in gross domestic product and establish a stable environment to enhance industrial and business activities in Nigeria for an improved stock market performance.

Busari (2024) augmented the CAPM (Capital Asset Pricing Model) with macroeconomic variables to investigate stock return variations in Nigeria. In this study, the CAPM has been enhanced with inflation, interest rate and exchange rate as well as using the OLS (Ordinary Least Squares) regression. The objective is to use macroeconomic variables that will influence stock returns in the Nigerian capital market. The CAPM is capable of increasing sensitivity to risk and improvement in rate of return. Results of the study identified a significant effect of inflation and exchange rate premiums on stock returns and better explanation of the return variation. In this study, investors and policy makers in Nigeria will have to factor-in macroeconomic variables when pricing stocks. The paper recommended macroeconomic policies and measures that will stabilize the country's inflation and exchange rate for a more attractive and resilient investment destination.

Okhumaile, et al. (2023) assessed the capital market liquidity and its effect on Nigeria's economic growth within 1993 and 2021. The Ordinary Least Squares (OLS) regression was used as a basis for the conducted statistical analysis. Empirical result of the study has established a positive effect of the stock market capitalization, turnover ratio and value traded ratio on the Nigeria's gross domestic product (GDP) growth and has discussed the importance of a liquid capital market for economic growth and development. In this study, the authors have recommended infrastructure, improvements in trading platforms, activities and other regulatory measures to improve capital market liquidity. The findings have also highlighted the need for active participation and more transaction volume in capital market for a better contribution to the national output and economy.

3.0 METHODOLOGY

The research design used for this study was ex-post facto research design. This design was used to measure the extent to which economic growth in Nigeria is associated with performance of capital market. Capital market and economic growth of Nigeria were not manipulated in any way. The population of this study was based on the variables under consideration. The analytical review includes the significant indicators as proxies for the independent and dependent variables. Gross domestic product (GDP) served as a proxy for economic growth of Nigeria. Market capitalization, foreign direct investment (FDI) and all share index were the proxies for capital market performance in Nigeria. The sources of data used for this study are secondary. The time frame for this study is for the period of 31 years (1993-2024).

This study employed a purposive sampling technique in order to obtain relevant data for the analysis. The sample is the annual data of market capitalization, all-share index, foreign direct investment and GDP for the period of 1993 to 2024. The data were gotten from Secondary Sources like CBN Statistical Bulletin, and from The Official Capital Market Reports in Nigeria.

Method of Data Analysis

The study made use of both descriptive and inferential statistical techniques in order to properly analyze data obtained. Descriptive statistical technique was used to analyze the demographic information of the

dataset, while inferential statistical technique was used to test the hypotheses of this study as well as to know the nature of the relationship between the capital market performance and economic growth in Nigeria. E-Views statistical package was used for the analysis. In order to determine how the independent variables (market capitalization, foreign direct investment, and all share index) can affect the dependent variable (gross domestic product), the Auto-Regressive Distributed Lag (ARDL) method was used. The ARDL model is useful for time series data with the regressors being integrated into order one and the dependent variable is order zero (Staiger & Stock, 1997). Model outputs such as the adjusted R-squared value, beta coefficients, and p-values are the ones used to determine the model's goodness of fitness and the significance of the individual predictors.

Model Specification

The econometric model used in this study was modified from the one used by Enoruwa et al. (2019). The modification was done in order to make it more comprehensive and to suit the current economic situation in Nigeria. The economic model thus created in this study involved foreign direct investment, market capitalization, and all-share index as the regressors. Gross domestic product (GDP) on the other hand, is the dependent variable. The model specification of this study is given as:

$Y = f(X)$

Y = Dependent Variable: Economic Growth (EG)

X = Independent Variable: Capital Market Performance (CMP)

$EG = f(CMP)$

Y = Economic Growth (EG)

y_1 = Gross Domestic Product (GDP)

X = Capital Market Performance (CMP)

x_1 = Foreign Direct Investment (FDI)

x_2 = Market Capitalization (MC)

x_3 = All Share Index (ASI)

$GDP = \beta_0 + \beta_1 FDI + \beta_2 MC + \beta_3 ASI + \varepsilon$ .....Model 1

Where:

GDP = Gross Domestic Product

FDI = Foreign Direct Investment

MC = Market Capitalization

ASI = All Share Index

β = Constant

ε = error term

***A priori* Expectation**

It is expected that foreign direct investment, market capitalization, and the all-share index will be significant and have a positive relationship with the gross domestic product growth rate. This is in line with the early studies that show that developed capital market is a positive means of supporting national economic development and increasing long-run economic growth potential.

Table 3.2: *A priori* Expectations

S/N	Variables	Expected result
1	$GDP = \beta_0 + \beta_1 FDI + \beta_2 MC + \beta_3 ASI + \varepsilon$	$\alpha_1 > 0$ i.e. positive
2	$EG_t = \beta_0 + \beta_1 FDI + \beta_2 MC + \beta_3 ASI + \varepsilon$	$\beta_{1,3} < 0; \beta_2 > 0$

Source: Researcher's Study, 2025

4.0 DATA ANALYSES AND INTERPRETATION

This chapter presented and discussed the result showing the impact of capital market performance on Nigeria economic growth (ARDL model) using the E-Views 9 analysis. Inferential statistical tools were used to support the hypotheses testing. Discussion of findings are also included.

Presentation of Data

Table 1Descriptive Statistics

	GDP	FDI	MC	ASI
Mean	4.442592	2.065488	3.595933	4.283831
Median	4.623722	2.239268	3.988513	4.411376
Maximum	6.521903	2.635264	4.820543	4.989036
Minimum	2.787009	0.120000	1.676694	3.188591
Std. Dev.	0.908919	0.543628	0.924714	0.428705
Skewness	-0.221928	-1.872233	-0.561035	-0.823982
Kurtosis	2.647533	6.449479	1.999329	3.093107
Jarque-Bera	0.428321	34.55990	3.013845	3.632609
Probability	0.807219	0.000000	0.221591	0.162626
Sum	142.1630	66.09563	115.0699	137.0826
Sum Sq. Dev.	25.61013	9.161483	26.50799	5.697433
Observations	32	32	32	32

Source: Researcher's Compilation (2025)

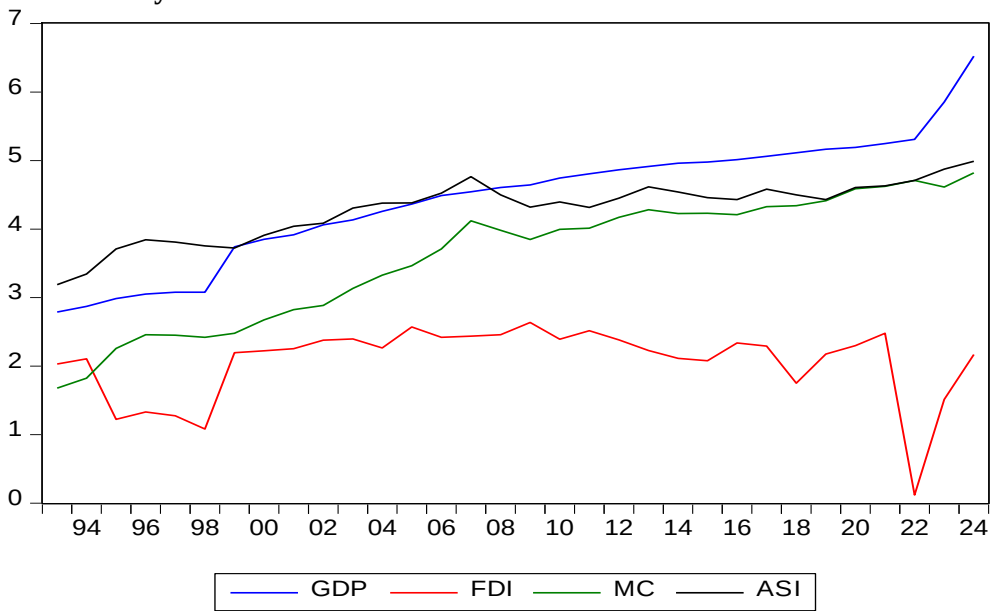
The output summary statistics GDP, FDI, MC and ASI of this work is based on 32 observations. The GDP variable had a mean value of 4.44 and a median of 4.62. The standard deviation, a measure of dispersion, was 0.91, indicating moderate fluctuations in economic output across the observed period. The maximum value recorded for GDP was 6.52, while the minimum was 2.79. The GDP distribution had a skewness of -0.22, showing a slight leftward skew, while the kurtosis was 2.65, suggesting a distribution close to normal. The Jarque-Bera test, with a probability value of 0.81, supports the normality of the GDP distribution.

The FDI variable had a mean value of 2.07 and a median of 2.24. The standard deviation was 0.54, relatively low, but the skewness of -1.87 indicates a strong leftward skew in the data. This means most of the values are clustered at the higher end of the scale, but there are some very low values that pull the average down. The kurtosis was 6.45, much higher than 3, which is expected for a normal distribution. This implies a sharp peak and heavy tails in the FDI data. The Jarque-Bera test statistic of 34.56 with a p-value of 0.0000 strongly rejects the hypothesis of normality, indicating that FDI data is not well distributed and has experienced extreme variations possibly due to policy shifts or economic shocks.

The MC variable had a mean value of 3.60 and a median of 3.99. The standard deviation, a measure of the spread of the data, was 0.92, indicating a relatively wide dispersion in the values. The maximum value observed for MC was 4.82, while the minimum was 1.68. This range shows considerable variation in MC, which could be a result of investor sentiment, market performance, or regulatory changes. The skewness of -0.56 indicates a leftward skew in the distribution, while the kurtosis of 1.99 is less than 3, suggesting a flatter distribution than the normal one. The Jarque-Bera test value of 3.01 and its p-value of 0.22 do not provide enough evidence to reject the hypothesis of normality, implying that MC data may be well-distributed for inferential statistics.

The ASI variable showed a mean of 4.28 and a median of 4.41, suggesting a fairly symmetrical distribution. The standard deviation was 0.43, the smallest among all variables, indicating that ASI has been relatively stable and consistent over the years. The maximum value for ASI was 4.99, and the minimum was 3.19. This range is the narrowest among all the variables considered in this work, further emphasizing the low volatility of ASI. The skewness of -0.82 suggests a moderate leftward skew, while the kurtosis of 3.09 is close to the value for a normal distribution. The Jarque-Bera test statistics were 3.63 with a p-value of 0.16. These results do not provide strong evidence against the normality of the ASI distribution.

Trend Analysis of the Variables



The trends between 1993 and 2003 show a general upward trajectory, with the market capitalization increasing from ₦47.50 billion to ₦1,359.30 billion over this period. This growth in market capitalization reflects Nigeria's economic expansion during these years. The GDP, which stands at ₦612.36 billion in 1993, rose to ₦13,534.62 billion in 2003, underscoring this expansion. The growth rate also shows an upward trend from 2.92% in 1993 to 14.51% in 2003, suggesting a robust period of economic growth.

The period from 2003 to 2007 is characterized by a significant surge in market capitalization, which jumps from ₦2,112.50 billion in 2004 to ₦13,181.69 billion in 2007. This rapid increase could be attributed to improved investor confidence and liberalization policies in the Nigerian financial sector. Correspondingly, the GDP during the same period rose from ₦21,698.15 billion in 2004 to ₦35,007.47 billion in 2007, indicating a positive correlation between the expansion of the capital market and economic growth.

In 2008, market capitalization dips to ₦9,562.97 billion, despite the GDP growing to ₦40,250.56 billion. The drop in market capitalization coincides with the global financial crisis that adversely affected many emerging markets, including Nigeria. The all-share index (ASI), which is another indicator of market performance, also declined from ₦57,990.20 billion to ₦31,450.78 billion during the same year. This downward trend continued into 2009, with market capitalization further reducing to ₦7,030.84 billion, despite a slight increase in GDP to ₦43,920.91 billion. Interestingly, during the same year, Nigeria recorded a peak in foreign direct investment (FDI) inflow at ₦431.78 billion, suggesting that foreign investors perceived Nigeria as a relatively safe long-term investment destination amidst short-term market volatility.

The period 2010 to 2014 shows a recovery in the Nigerian capital market, with market capitalization rising from ₦9,918.21 billion in 2010 to ₦16,875.10 billion in 2014. During this period, the GDP also expanded significantly from ₦53,618.36 billion to ₦91,038.36 billion, reflecting the positive impact of capital market growth on the overall economy. However, FDI during the same period shows a downward trend, declining from ₦328.20 billion in 2011 to ₦129.62 billion in 2014. This decline could be due to the increasing concerns over Nigeria's macroeconomic environment and governance issues.

The years 2015 to 2019 witnessed some fluctuations in the market. The market capitalization slightly dropped to ₦16,185.73 billion in 2016 before rising to ₦25,890.22 billion in 2019. The GDP also maintained its upward trend, growing to ₦145,639.35 billion in 2019. During the same period, FDI was

inconsistent, falling sharply to ₦56.26 billion in 2018, the lowest since the early 2000s—before bouncing back to ₦149.10 billion in 2019. This instability may be attributed to the effects of policy uncertainty, exchange rate instability, and security challenges on investor confidence.

In 2020, the Nigerian capital market experienced a significant turnaround. The market capitalization rose to ₦38,589.58 billion, and the ASI reached ₦40,270.72 billion. This impressive growth can be attributed to the global liquidity conditions brought about by the COVID-19 pandemic and an increase in local trading activities. In the same year, the GDP grew to ₦155,077.64 billion, further evidence of the positive role of the capital market in helping to cushion the economy from external shocks. The market maintained this positive growth trajectory in 2021 and 2022, with the market capitalization and ASI rising to ₦51,188.87 billion and ₦51,251.06 billion, respectively, by the end of 2022. However, FDI in 2022 was negative at ₦–16.66 billion, possibly due to capital repatriation, policy inconsistencies, or waning investor confidence.

In 2023 and 2024, the Nigerian economy exhibited an unprecedented boom. The GDP increased astronomically from ₦712,789.20 billion in 2023 to ₦3,325,855.00 billion in 2024, indicating a period of substantial economic growth. This could be due to the rebasing of Nigeria's GDP or a surge in oil revenues or large-scale investments in the economy. The capital market also experienced a boom, with the market capitalization rising to ₦66,152.00 billion and the ASI to ₦97,507.00 billion in 2024. FDI also showed a significant increase in 2024, reaching ₦147.09 billion, indicating a renewed investor confidence in the Nigerian economy and its policy environment. This massive upsurge could also signal a more resilient market that can better weather shocks or improved regulatory and policy frameworks that are attractive to both local and foreign investors.

Table 2 Unit Root Results

	Augmented Dickey-Fuller (ADF)		**Order of Integration (ADF)**
Variables	Test Statistic	P-value	
Foreign Direct Investment	-3.507519	0.0145	I(0)
Market Capitalization	-4.524974	0.0012	I(1)
All Share Index	-4.557413	0.0011	I(1)
Gross Domestic Product	-4.586861	0.0011	I(2)

Source: Researcher's Compilation (2025)

The test results show the Augmented Dickey-Fuller (ADF) test for variables in this study. The results show the variables to be stationary when p>0.05 at 5% level of significance. ADF Test: t-Statistic The Null Hypothesis of the test states that the variable is non-stationary.

The summary of the results shows that Foreign Direct Investment (FDI) is stationary at level, I(0) since p>0.05 and does not need to be differenced since its test statistic is –3.507519, and p-value is 0.0145. Market Capitalization and All share index are stationary after first difference, I(1), since p>0.05 and differenced since their test statistics are –4.524974, –4.557413 and their p-values are 0.0012, 0.0011. Both variables are non-stationary at level and become stationary after first difference, i.e., the series are integrated of order 1.

Gross Domestic Product (GDP) is stationary at second difference, I(2) since p>0.05, and needs to be differenced twice. This shows that GDP is non-stationary at level and first difference but becomes stationary after a second difference. The coefficient of integration (I) for all variables ranges from 0, 1, and 2. It also implies that the data for GDP is volatile, i.e., the test statistic value shows much variation. The order of integration in mixed, I(0), I(1), and I(2), showing that the Autoregressive Distributed Lag (ARDL) model will be appropriate for use in this study to achieve robust results for long-run and short-run estimates, since it allows the use of variables with different integration order except I(2).

Hypotheses Testing

Table 3 Dependent Variable: GDP

Variable	Coefficient	Std. Error	t-Statistic	Prob.
GDP(-1)	1.237820	0.204692	6.047248	0.0000
FDI	-0.035854	0.061649	-0.581580	0.5659
MC	-0.359839	0.214249	-1.679533	0.1050
ASI	0.351551	0.254769	1.379879	0.1794
C	-1.048183	0.723479	-1.448809	0.1593

R-squared	0.965757	Mean dependent var	4.495998
Adjusted R-squared	0.960489	S.D. dependent var	0.871412
S.E. of regression	0.173214	Akaike info criterion	-0.521884
Sum squared resid	0.780083	Schwarz criterion	-0.290596
Log likelihood	13.08921	Hannan-Quinn criter.	-0.446490
F-statistic	183.3194	Durbin-Watson stat	1.627170
Prob(F-statistic)	0.000000		

***Source**: Extracted from E-views, Version 9 (2025)*

The analysis of regression outcomes requires examining each chosen capital market performance indicator's impact on economic growth. In the model, economic growth is proxied by Gross Domestic Product (GDP), while the independent variables include lagged GDP, foreign direct investment (FDI), market capitalization (MC), and all share index (ASI).

The coefficient of the lagged value of GDP is positive (1.237820), and it is statistically significant with a p-value of 0.0000. The p-value is lower than the 1% significance level, showing that GDP's current value is strongly influenced by its past values, indicating persistence in GDP growth.

The coefficient of FDI is negative (–0.035854), with a p-value of 0.5659. This p-value is much larger than the 1% significance level, which means that this variable is statistically insignificant and has no predictive power regarding the impact of FDI on economic growth within the sample period.

Market capitalization (MC) has a negative coefficient (–0.359839), which suggests an inverse relationship with GDP, but the p-value of 0.1050 exceeds the 1% threshold. This insignificance suggests that within the time frame of the study, variations in market capitalization did not directly affect Nigeria's GDP in a statistically significant way.

The coefficient of the All Share Index (ASI) is positive (0.351551), implying a direct relationship with GDP. Despite this, the p-value of 0.1794 is not small enough to be considered significant at the 1%, 5%, or even 10% levels. The constant term (C) has a negative coefficient (–1.048183), and it is statistically insignificant.

The overall statistical significance of the model is good, which is indicated by the F-statistic of 183.3194 with a p-value of 0.000000. It is worth mentioning that the values of adjusted R-square and R-square are 0.960489 and 0.965757 respectively, which are relatively large (95% or more) values. The estimated standard error is also small (0.173214), which suggests that all the variables in the model are stable. The Durbin-Watson statistic of 1.627170, on the other hand, may warrant a further diagnostic test for serial correlation.

Long Run Estimates of ARDL

Table 4ARDL Bounds Test

Test Statistic	Value	K
F-Statistics	3.721681	3
Critical Value Bounds		
Significance	I0 Bound	I1 Bound
10%	2.37	3.20
5%	2.79	3.67

Source: Researcher's Compilation

The ARDL Bounds Test result as shown in the table revealed that the F-statistic value is 3.721681 above the upper bound critical value 3.67 at the 5% level of significance. Hence, there exists a statistically significant long-run relationship among the variables in the model. Since the F-statistic is above the I1 bound at 5% and 10% level of significance, we reject the null hypothesis of no cointegration. Hence, capital market indicators: FDI, market capitalization and all share index has long run effect on Nigeria's GDP.

Table 5Long run Coefficients

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.048183	0.723479	-1.448809	0.1593
GDP(-1)	0.237820	0.204692	1.161848	0.2559
FDI	-0.035854	0.061649	-0.581580	0.5659
MC	-0.359839	0.214249	-1.679533	0.1050
ASI	0.351551	0.254769	1.379879	0.1794

EC = GDP - (0.1508*FDI + 1.5131*MC - 1.4782*ASI + 4.4075)

Source: Researcher's Compilation

The long-run coefficient estimates provide information about the long-run or sustained relationship between the selected capital market performance indicators (CMPI) and economic growth in Nigeria. The constant (C) has a negative coefficient (-1.048183), indicating that in the absence of other independent variables in the model, it would decrease GDP, but it is statistically insignificant (p = 0.1593). The coefficient of lag GDP (0.237820) indicates that there is a positive relationship between past GDP and current GDP in the long run, but this is not statistically significant (p = 0.2559).

The foreign direct investment (FDI) has a negative coefficient (-0.035854), which suggests a negative relationship with GDP in the long run, which is counterintuitive as FDI is expected to promote growth. However, it is statistically insignificant (p = 0.5659). Market Capitalization (MC) has a negative coefficient (-0.359839) suggesting a negative relationship with GDP in the long run, which could be attributed to inefficiencies in the structure of Nigeria's capital market or volatility in the market that hinders long-term growth, but it is statistically insignificant (p = 0.1050). All share index (ASI) is positively related to GDP (0.351551), which suggests that an increase in market performance may be an incentive for growth, but it is statistically insignificant (p = 0.1794).

Normality Test

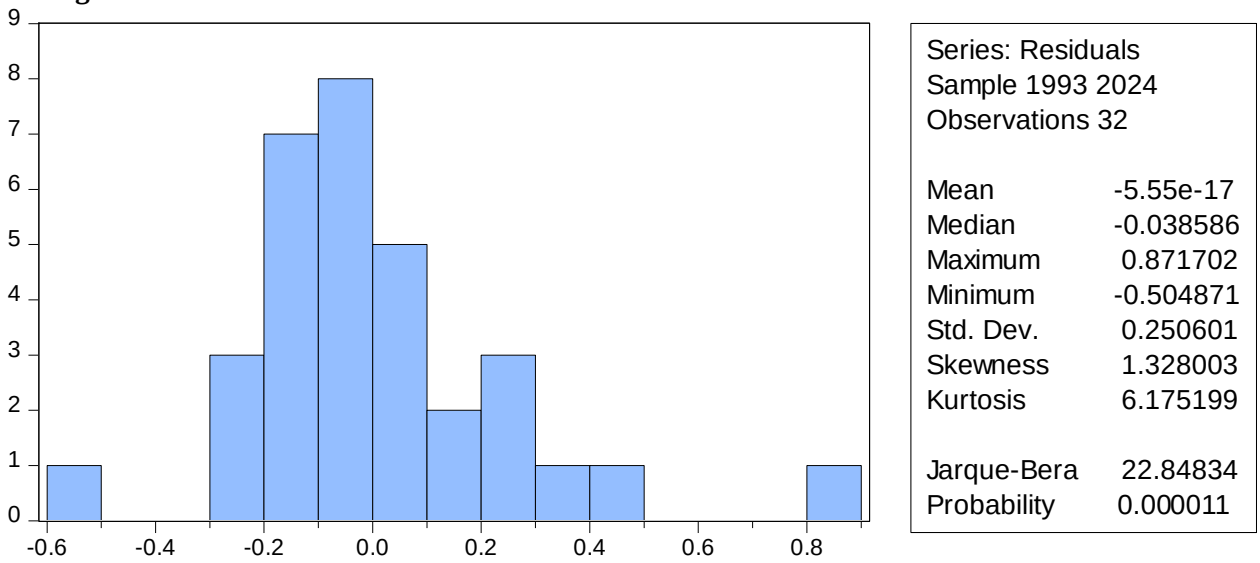
Table 6Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	2.055615	Prob. F(3,28)	0.1288
Obs*R-squared	5.775746	Prob. Chi-Square(3)	0.1230
Scaled explained SS	11.44251	Prob. Chi-Square(3)	0.0096

Source: Researcher's Compilation (2025)

The Breusch-Pagan-Godfrey results indicate an F-statistic of 2.06 with a p-value of 0.1288, and an ObsR-squared p-value of 0.1230. Both are greater than 0.05, indicating no statistically significant evidence of heteroskedasticity. The scaled explained sum of squares has a p-value of 0.0096, which suggests evidence of heteroskedasticity. However, the results are mixed, but heteroskedasticity is not strongly present based on the F-statistic and ObsR-squared results.

Histogram



The histogram of the residuals is right skewed (1.33) with high kurtosis (6.18). It is clear from the figure and the skew and kurtosis statistics that the data is not normal. The Jarque-Bera test statistic is 22.85 with a probability of 0.000011, less than 0.05, indicating the residuals are not normally distributed. The mean is close to zero, but the distribution is not normal, which may cause problems in the regression inferences.

DISCUSSION OF FINDINGS

This section briefly appraised the body of researchers that either supported or fought the outcome of the findings for the hypotheses testing for the impact of capital market performance on Nigeria economic growth.

Government Expenditure in Agriculture and Gross Domestic Product of Nigeria

The outcome revealed that FDI has an inverse and statistically insignificant impact on the GDP of Nigeria as reflected by the coefficient of –0.035854 and p-value of 0.5659. This implies that variation in FDI had no meaningful effect on economic growth in the period under consideration. This supported the study carried out by Ezeaku et al. (2021), where he claimed that poor implementation of investment policies and structural bottlenecks in Nigeria have limited the impact of FDI on economic development. Another scholar that supported this finding was Okonkwo and Emeni (2020), where they contended that the lack of a vibrant and productive infrastructure and weak institutions have diminished the multiplier effect of foreign capital inflow in the economy. However, there were scholars that had different findings to what this study established. An example is the study carried out by Onyekachi and Agbo (2022), where they found that FDI has a positive and significant impact on economic growth. They continued that foreign capital inflow will always promote growth if the right measures are put in place to enhance technology transfer, employment generation, and capital formation in the economy. It could be deduced that the studies which established a positive impact of FDI are more theoretical-based and contextually different from this study.

Government Expenditure in Education Sector and Gross Domestic Product

The finding showed that MC is negatively associated with GDP with a coefficient of –0.359839 and p-value of 0.1050. This indicates that there is an inverse relationship and the coefficient is statistically

insignificant in nature. This outcome could be interpreted to imply that Nigeria's stock market size did not play a meaningful role in the economic growth of Nigeria in the period under study. This finding was found to support the study carried out by Olayiwola and Okodua (2021). They believed that inefficiencies and weak investor confidence despite its expansion have undermined the Nigerian stock market's contributions to GDP. In a similar manner, the work of Eze and Umeh (2020) supported this finding since they found that capital market development in Nigeria was not deep enough with inadequate liquidity and was below the standards to be used as a driver of growth. However, a contrary result was found in a study carried out by Arowoshegbe and Emmanuel (2023), where they believe that the MC has a positive influence on growth provided that there are strong institutions and credible reforms to back it up. This means that whenever there is stability in the financial system, the stock market positively contributes to development. It could be understood from these outcomes that such factors as institutional quality, policy consistency, and investor confidence can play significant roles in affecting the stock market's size and its influence on GDP.

Government Expenditure in Health sector and Gross Domestic Product

The finding indicated that there is a positive but statistically insignificant relationship between ASI and GDP with a coefficient of 0.351551 and a p-value of 0.1794. It could be interpreted to imply that stock market performance will always move in the same direction with economic growth, but the relationship between them is weak within the period under study. This finding was found to support the work done by Nwanna and Okwuchukwu (2020). They argued that the Nigerian stock market's contribution to economic growth has been of limited significance because of its volatility and shallow nature of investor participation. In a similar manner, Adegbite and Olayemi (2021) supported this finding since their study found that capital market development in Nigeria was not deep enough with inadequate liquidity and was below the standards to be used as a driver of growth. On the contrary, another different outcome was reported by Adesina and Okpara (2023), who believed that the ASI will always affect GDP in a positive way when market performance is supported by other macroeconomic fundamentals such as confidence and stability. It can be deduced from these findings that structural factors such as market depth, transparency, and consistency in economic policies can influence the stock market's performance and its role in enhancing growth.

CONCLUSION

The general conclusion of this study that is based on the established findings and results indicated that the performance of the Nigerian capital market has not had a statistically significant impact on the country's economic growth over the period of study (1993–2024). The All-Share Index (ASI) had a positive coefficient of 0.351551, suggesting a potential positive relationship with GDP. However, this relationship was not statistically significant at conventional levels, as indicated by the p-value of 0.1794. Similarly, FDI had a negative coefficient of –0.035854, and its impact on GDP was not statistically significant, as shown by the p-value of 0.5659. Market Capitalization (MC) also had a negative coefficient of –0.359839, with a p-value of 0.1050, implying that its influence on GDP was also not statistically significant.

This result implies that changes in capital market variables, although relevant to some extent, do not translate into statistically significant effects on Nigeria's GDP. The insignificance of these coefficients suggests that fluctuations in the capital market may not necessarily lead to measurable changes in the country's economic output. This indicates that capital market performance, as captured by the ASI, FDI, and MC, may not be the primary drivers of economic growth in Nigeria during the study period.

The lack of significant impact could be attributed to structural inefficiencies, weak investor protections, policy inconsistency, and the shallow depth of the capital market. The limited participation of domestic investors, heavy reliance on foreign capital inflows, and the lack of financial literacy among the populace may also restrict the market's potential to mobilize resources for long-term productive investment. Furthermore, macroeconomic instability, characterized by persistent inflation, exchange rate volatility, and governance issues, continues to undermine investor confidence and the capacity of the capital market

to contribute to economic development.

The study concluded that there is a disconnect between capital market development and economic performance in Nigeria, and it will continue to underperform its role as an engine for growth if nothing is done about it. It was also found that this research is faced with certain limitations, which can be amended through actions and can help as well. The work is set to bridge the knowledge gap in literature through some recommendations to be mentioned in the next chapter. In conclusion, this study affirms that while capital markets have the potential to drive economic growth, Nigeria's market structure, policy environment, and participation patterns limit the effectiveness of this relationship. Unlocking the capital market's full potential as a catalyst for economic development in Nigeria necessitates a holistic approach that involves concerted efforts from regulators, government agencies, and all stakeholders in the financial ecosystem.

RECOMMENDATIONS

Based on the results of this study, the following policy recommendations are made to improve the performance of the Nigerian capital market and for more contribution to economic growth as follows;

i. The insignificance of Foreign Direct Investment (FDI) in the model indicates that the inflow of foreign capital is not finding its way into productive sectors of the economy that could drive GDP growth. In this regard, the government and policy makers should focus on improving the investment climate by addressing issues such as security, reducing bureaucratic bottlenecks, and ensuring policy consistency to attract quality and long-term FDI that could support infrastructure development and industrialization.

ii. The negative and marginally insignificant relationship between market capitalization and GDP indicates a possible disconnect between stock market activities and real sector productivity. Regulatory authorities such as the Securities and Exchange Commission (SEC) and Nigerian Exchange Group (NGX) should focus on strengthening investor protection, improving corporate governance standards, and encouraging listing by productive companies, particularly those in agriculture, manufacturing, and technology sectors. This could help make the size of the stock market more relevant to real economic growth.

iii. All Share Index (ASI) has a positive but statistically insignificant effect on GDP in this study. This trend could be a better way forward. There are possibilities for a stronger impact of the stock market's performance on the economy. This could be achieved by increasing market transparency, widening market participation, and improving financial literacy among the populace to deepen market activity. The government could also create incentives for local investors and ensure stable macroeconomic fundamentals such as inflation and exchange rate management to improve overall investor confidence.

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