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Capital Market – Nature, Types, Sources and Securities: A Review of Literatures

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Capital market, economic growth, development, savings and financial mobilization.

Abstract
The capital market is a highly specialized and organized financial market and indeed essential agent of economic growth because of its ability to facilitate and mobilize saving and investment. To a great extent, the positive relationship between capital accumulation real economic growths has long affirmed in economic theories (Ayanwu,1997). Success in capital accumulation and mobilization for development varies among nation, but it is largely dependent on domestic savings and inflows of foreign capital. Therefore, to arrest the menace of the current economic downturn, effort must be geared towards effective resources mobilization. It is in realization of this that consideration is given to the measurement of the development of capital market as an institution for the mobilization of finance from the surplus sectors to the deficit sectors.

Introduction

The capital market operation refers to the arrangement of financial investment, the buying and selling of shares and the procurement of loans and debentures in the transactional environment. The financial investment could be short, medium or long term in nature and the investments are basically carried out in the form of shares/stocks/bonds or other forms of instrument such as debentures. It is about the most important agent for developing and growing a vibrant economy. In whatever form it may take, capital market operation represents one of the most relatively risk-free investment orbits for wealth creation and wealth maximization. It is one of the investment environments with the least cost of entry in addition to having no entry barriers. This has been made most alluring with the emergence of globalization which has indeed loosened the entry barrier to markets that were hitherto closed to the telecommunication networks.

Capital market is a market that deals with the buying and selling of long-term financial instruments. The financial instruments dealt with in capital market are

i. **Debt securities** (e.g. banknotes, bonds and debentures)
ii. **Equity securities** e.g. common stock
iii. **Derivatives** e.g. forward, future, options and swaps.

Capital market is generally divided into two categories of markets namely: - primary markets and secondary markets.

Primary market: - is the market where new securities are issued to the investing public. The mode of offer for the securities traded includes initial public offers (IPOs), public offers (POs), offer for subscription, right issues, offer for sale, private placement etc.

Secondary market: - is the market for trading in existing shares or securities. It refers to the stock exchange which is organized market for the sale and purchase of shares already issued and held by investors. Unlike the primary market, the secondary market is operated only through qualified stockbrokers who are licensed and recognized dealing members of the stock exchange.

The major players in the capital market are: -

The providers of funds: - these include: - individuals unit trusts, development banks and institutional investors (insurance companies, pension funds administrators) etc.

Users of funds: - they include companies and government

Intermediaries: - these comprise of stock broking firms, issuing houses, registrars and auditing firms

Regulators: - securities and exchange commission, Nigerian stock exchange etc.

STATEMENT OF PROBLEM

The Nigeria capital market has always played pivotal roles in the economic growth and development of the nation. It has pooled domestic savings and mobilized capital for productive projects. Furthermore, capital market connects the monetary sector with the real sector and therefore facilitates growth in real sector, hence economic development. In spite of its multi-various potential, it has remained elitist as small and medium enterprises have stayed away from capital market as a result of the follows problems: -

High interest rate in the market/cost of credit
Lack of adequate publicity/availability of information on finance
Business risks
Attitude of investors
Lack of interest in securities
Attitude to savings

OBJECTIVES OF THE STUDY

The main objective of the study is to find out how the nature, types, sources and securities contribute to the development of the capital market and the Nigerian economy in general.

The specific objectives are:-

i. To draw a clear picture of the nature of capital markets and its significance to economic growth and development
ii. To ascertain the challenges faced by them
iii. To identify the implication of these challenges to the economy
iv. To advance the possible solution to the challenges

SIGNIFICANCE OF THE STUDY

The study will be immensely beneficiary to the institution under study. The findings of the research together with its conclusion and recommendations will be of importance in regards to future researchers. It is also hoped that it will serve as a basis for further academic adventures.

i. The relief of these problems should improve capital market in our country.
ii. These will also increase the movement of surplus funds in the economy
iii. These will attract foreign capital inflows in Nigeria.

LITERATURE REVIEW

The first comprehensive study on the relationship between capital market development and economic growth, according to Levine (1997), was undertaken by the World Bank Research Group. They investigated the compatibility of stock market development with financial intermediaries and economic growth and concluded that stock market development is positively correlated with the development of financial intermediaries and long term economic growth.

Levine (1997) confirms that capital markets can boost economic activity through the creation of liquidity, while Obstafeld (1995) identifies risk diversification, through internationally integrated stock markets, as another vehicle through which stock markets can raise resources and affect growth.

In France, Vazakidis and Adamopoulos, (2009), employed Co-integration, Granger Causality test and Vector Error Correction model, to examine the causal nexus between stock market development and economic growth for period of 1965 to 2007. They found that there exists a significant positive association between economic growth and stock markets development.

Mishra, et al (2010) examine the impact of capital market efficiency on economic growth of India using the time series data on market capitalization, total market turnover and stock price index over the period spanning from the first quarter of
1991 to the first quarter of 2010. Their study reveals that there is a linkage between capital market efficiency and economic growth in Indian.

In Romania Brasoveanu, et al (2008), study the correlation between capital market development and economic growth for the period 2000 to 2006. The result indicates that capital market development is positively correlated with economic growth by way of feed-beck effect. Bolbol et al (2005), indicates that capital market development has contributed to the economic growth of Egypt.

The World Bank (1994) found that stock market development does not merely follow economic development, but provides the means to predict future rates of growth in capital, productivity and per capita GDP. Tharavaniji (2007), observes that countries with deeper capital market face less severe business cycle output contraction and lower chances of economic downturn compared to those with less developed capital market.

Adamu and Sanni (2005), examine the roles of the stock market on Nigeria's economic growth, using Granger-causality test and regression analysis. They discovered a one-way causality between GDP growth and market turn over. They also observed a positive and significant relationship between GPD growth and market turnover ratios. The authors advised that government should encourage the development of capital market since it has a positive effect on economic growth. Chinwuba and Amos, (2011), examine the impact of the Nigerian capital market performance on the economic development of Nigeria by using the Ordinary least Square regression model. The result indicates that the performance of the capital market impact positively on the economic growth of Nigeria. Osinubi and Amaghionyeodiwe (2003) examine the relationship between Nigeria stock market and economic growth during the period 1980 to 2000, using Ordinary least square regression.

The results show that there is a positive relationship between the stock market development and economic growth. They therefore suggested that government should pursue policies that are geared toward rapid development of the stock market. Abu (2009) examines whether stock market development raises economic growth in Nigeria, by employing the Error Correction Approach. The econometric results indicate that stock market development raises economic growth. He however encouraged SEC to facilitate the growth of the market, restore the confidence of stock market participants and safeguard the interest of shareholders by checking sharp practices of market operators.

Ewah et al (2009), appraise the impact of the capital market efficiency on economic growth of Nigeria using time series data from 1963 to 2004. They found that the capital market in Nigeria has potential of growth-inducing, but it has not contributed meaningfully because of low market capitalization, low absorptive capitalization, illiquidity, misappropriation of funds among others.

Obamiro (2005), investigates the role of the Nigeria stock market in the light of economic growth. He reported a significant positive effect of stock market on economic growth.

Moreover, Agarwal (2001) argues that financial sector development facilitates capital market development, and in turn raises real growth of the economy. Similarly, kolapo and Adaromola (2012), found that Nigerian capital market development has significant relationship with economic growth, just as Abdullahi (2005), agrees that capital market development in Nigeria is an engine to her economic growth.

CONCLUSION AND RECOMMENDATION

The role of the Nigerian capital market cannot be over emphasized. In as much as the capital market has contributed to the growth of the economy, there is still much to be done to improve or stimulate the economy. Government should restore confidence in the capital market by showing true commitment and sincerity of purpose in capital market probe. The finding of the investigation panel should be implemented to restore sanity and confidence in the market

- There is need for a diversified investment instruments in the capital market whereby debts and derivative tools would assume as much prominent as ownership tool.
- Furthermore, education on the importance of buying securities should be emphasized in our Institutions
- Government should help to improve the standard of living in Nigeria to boost savings.
- Providing a safe and conducive environment by tackling the prevalent activities of terrorists, militancy and kidnappers. This would not only encourage Nigerian investors, but would also attract foreign investors.
- Government should formulate policies that would encourage investors to invest more on equities, since this is the surest avenue to transmit growth to economy.

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