

# **FINANCIAL MARKET FRICTIONS AND ITS EFFECT ON NIGERIAN CAPITAL MARKET: EMPIRICAL APPROACH**

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## ***ABSTRACT***

*The paper empirically examines the relationship between financial market frictions and the Nigerian capital market for a period of 25 years (1992 to 2017). The paper attempts to explain the behavior of; gross capital formation (GCF), foreign direct investment (FDI), total value of domestic shares traded (TST) and inflation rate (INFR) and their individual impact on market capitalization (MKTCAP). Using the ordinary least square econometric technique, the empirical results revealed that positive and significant relationship exists between gross capital formation (GCF) and market capitalization in Nigeria, it was also discovered that positive and insignificant relationship exist between foreign direct investments as a percentage of GDP (FDI) and market capitalization in Nigeria and not statistically significant at 5% level of significance. The paper therefore, recommended that there should be an incredible broad array of financial market frictions and should be a political arena, in which some participants attempt to circumvent certain financial market frictions while others try to maintain them.*

**Keywords:** *Market frictions, capital formation, foreign direct investment, market capitalization.*

## **Introduction**

According to capital asset pricing model (CAPM), financial market friction is defined as anything that interferes with trades or markets. This interference comprises two dimensions, which are, financial market frictions cause market participants to deviate from holding the market portfolio. By implication, these frictions can cause market participants to be exposed to more or less risk than might prefer. The term market portfolio means not only financial assets but also real estate, human capital and investors' time. On the other hand, financial market frictions generate costs that interfere with trades that rational individuals make (or would make in the absence of market frictions) (Cerra & Saxena, 2008). Financial market frictions are market frictions that are diverse and widespread, affecting virtually every transaction in some way. Capital gains taxes, for example, influence decisions to trade stocks and bonds. The financial market friction need not be a monetary cost. Companies include stock options in their compensation packages to mitigate well-known incentives for agents to shirk and to avoid rules that trigger tax penalties for "non-performance-based compensation." In a financial market with frictions, though, investors cannot costlessly adjust their holdings. An investor holding the suboptimal portfolio (perhaps because of an illness, inheritance, or change in employment or marital status) could lower her risk without sacrificing expected return by rebalancing to hold portfolio or she could improve her expected return without accepting any more risk by rebalancing her portfolio to hold portfolio. But rebalancing is costly or impossible in a financial market with frictions. It may pay to accept portfolio inferior combination of risk and expected return rather than to incur the costs of trading. For example, consider a stock investor who prefers a fifty-fifty mix of stock and bonds. If stock prices rise while bond prices do not, then the portfolio becomes over-weighted with stocks and is too risky for this investor. But selling some of the equities to reestablish the fifty mixes would trigger capital gains taxes. Financial market over the last couple of decades had been responsible for their vital of interest on the impact of financial market frictions on both emerging and developing economies. While there might be some short-run side effects, it has been argued that in the long-run financial integration by encouraging financial development can provide boost to the economy. Financial integration argued that financial development either by justifying the effects of financial frictions (Shaw, 1973), or by alleviating the effects of agency costs and risk on interest rates (Bekaert, Harvey & Lund bland, 2001; Henry, 2000). These theoretical arguments suggest that the quality of a country's financial and legal institutions can be an important determinant of the potential benefit of capital market integration. Consequently, financial market frictions, especially transactions costs, depend in part on market structure. Market structure, in turn, depends on both the risk of the traded asset and trading volume. In the markets for risky assets, participants search for counterparties directly because the fixed costs of capital investments (including communication) are too large to be offset by the lower marginal costs of each transaction if transactions are few. As trading volume increases, markets evolve from direct search through brokered, dealer, and continuous auction markets. This evolution is a simultaneous process: As volume increases, the structure evolves, and as the structure evolves, trading volume increases (Cerra & Saxena, 2008). The possible size of the market determines the equilibrium structure. As trading volume increases, it begins to make sense to invest in capital and to

acquire specialized knowledge about prospective buyers and sellers to facilitate trading. Stockbrokers are one example. If volume increases still further, or if risk decreases, brokers find it efficient to buy and sell on their own accounts. A good example is the secondary market for U.S. Treasury securities, of course, the market for some assets switches from one structure to the market for equities might be dominated by brokers most of the time, but other times, dealer markets or continuous auctions might emerge.

### **Objectives**

The broad objective of this study is centered on financial market frictions and the Nigerian capital market while its specific objectives were as follows;

- i. Examine the extent to which gross capital formation influence Nigerian capital market proxy by market capitalization;
- ii. Determine the relationship between foreign direct investment and Nigerian capital market proxy by market capitalization;
- iii. Investigate the relationship between total value of domestic shares traded and Nigerian capital market proxy by market capitalization; and
- iv. Ascertain the relationship between inflation rate and Nigerian capital market proxy by market capitalization.

### **Hypotheses**

For the purpose of this paper, null hypotheses are formulated and stated.

**H<sub>01</sub>:** There is no significant relationship between gross capital formation and Nigerian capital market proxy by market capitalization.

**H<sub>02</sub>:** There is no significant relationship between foreign direct investment and Nigerian capital market proxy by market capitalization.

**H<sub>03</sub>:** There is no significant relationship between total value of domestic shares and Nigerian capital market proxy by market capitalization.

**H<sub>04</sub>:** There is no significant relationship between inflation rate and Nigerian capital market proxy by market capitalization.

### **Literature Review**

#### **Financial Market Frictions**

Financial market frictions, especially taxation and transactions costs, depend in part on market structure. Market structure, in turn, depends on both the risk of the traded asset and trading volume. In thin markets for risky assets, participants search for counterparties directly because the fixed costs of capital investments (including communication) are too large to be offset by the lower marginal costs of each transaction if transactions are few (Klein & Olivei, 2008). As trading volume increases, markets evolve from direct search through brokered, dealer, and continuous auction markets. This evolution is a simultaneous process: As volume increases, the structure evolves, and as the structure evolves, trading volume increases. The potential size of the market determines the equilibrium structure (Ramon & Robotti, 2007). As trading volume increases, it begins to make sense to invest in capital and to acquire

specialized knowledge about potential buyers and sellers to facilitate trading. Stockbrokers are one example. If volume increases still further, or if risk decreases, brokers find it efficient to buy and sell on their own accounts. Although holding inventory is risky, if the asset value is sufficiently stable or if its liquidity is sufficiently high, then this risk is worth taking because holding inventory permits the dealer to make more trades in less time. For some assets, trading volume is so high that continuous auction is possible.

The market for equities might be dominated by brokers most of the time, but another times, dealer markets or continuous auctions might emerge. The specialist, for example, often simply crosses buy and sell orders but sometimes fills orders from his own inventory. Some participants with expertise or investment in one type of market structure, such as real estate agents, might tend to resist changes that dilute their competitive advantage. In general, though, society tends to move from higher-cost market structures to lower-cost ones. For example, Cox and Koelzer (2000) say that the Internet has transformed the way that agents and consumers form their relationships. Housing is not a standardized commodity, so a market similar to the New York Stock Exchange is impractical. However, buyers today find it much easier to bypass a real-estate broker entirely. If they do use a broker, the Internet is often the tool they use to select one. The Internet is particularly important for buyers from distant locations. In short, as trading volume increases, markets tend to evolve from a structure with low fixed costs and high marginal costs for transactions to markets with high fixed costs and low marginal costs. Transactions costs are lower in these high-volume markets.

Financial market frictions can generate real costs for investors. Recognizing these costs helps us understand the total costs of transactions and decide where to place them and even whether to make them at all. The capital gains tax is an obvious example. Constantinides (1984) showed that the option to take or defer capital losses or gains has substantial value. The option's exact value and the corresponding optimal trading strategy depends on factors such as transactions costs, the capital gains tax rate, and the asset's volatility. Financial market frictions also generate business opportunities. After all, many costs are paid to someone or to some entity. Institutions that can lower costs stemming from market frictions have a competitive advantage. Until competing firms adapt, they can earn economic rents. One example from the financial markets is mutual funds, which relax wealth constraints and asset indivisibilities (DeGennaro & Kim, 1986.)

Financial market frictions can and do change over time. The degree of existing market frictions varies, new ones appear, and existing frictions disappear. Bank analysts now face the daunting task of analyzing far larger and more complex institutions than existed twenty years ago, but this challenge is offset in part by a vast increase in the information and computing power now available to them.

### **Nigerian Capital Market**

Capital market can be seen as the market where medium to long-term finance are raised (Akingbohunge, 2006). In another exposition, Ekezie (2002) noted that capital market is the

market for dealings (i.e. lending and borrowing) in longer-term loanable funds. The Nigeria stock exchange symbolizes the existence of formal capital market in Nigeria, while the Securities and Exchange Commission is the apex regulator of the market. The Exchange evolved from an understanding that a viable capital market could be relied upon to finance industrial growth and development projects. Other considerations by government for supporting the business community in establishing the Exchange included the need to finance growing public budget deficits and deteriorating balance of payments, both manifesting from the late 1950s. Thus, between 1961 when The Exchange opened to the public and 2002, the Federal Government at various times used the facilities of the market to raise a total sum of money in excess of 10 billion for on-lending to the regional and, later state government for the financing of development projects. With the Federal Government approval of the recommendation of the Committee on the 1976 Review of Nigerian Financial System, that state government can, on their own, approach the capital market for the financing of their capital projects.

Bonds are financial instruments through which the capital market provides long-term debt financing to companies and government. Bonds or industrial loans provide alternative to equity as investment outlet in the capital market. By 1986 bonds constituted 60% of the NSE market capitalization, as at that year, the Federal Government had raised approximately ₦10 billion. The equity sector of our capital market experienced increased activities over the years. The market witnessed increase in new listings from the banks, and insurance companies as well as other companies which raised fund through private placement and listed by introduction. The banking consolidation which required banks to increase share capital from ₦2 billion to ₦25 billion and another round of consolidation which made some of them to increase shareholders funds to over ₦100 billion contributed immensely to market capitalization. By March 2008, market capitalization was in excess ₦12 trillion while the NSE all share index exceeded 62,000 points.

One of the lessons from the banking consolidation is the absorptive capacity of our capital market which stood the test in meeting issuers' aspirations of raising huge funds from the market. The market also provided platform for the subsequent acquisition/merger that ensued. What all these symbolized is the efficiency of the Nigerian capital market. Another aspect of the market that is worthy of mentioning is the role of the investors, individual and institutional, local and foreign, in the mobilization of funds in the market. The increasing numbers of shareholders' associations have helped to create more awareness of capital market investment among individual Nigerians. Leaders of these associations play great role in mobilizing their members to subscribe to new issues that were coming in quick succession in the market. The enactment of the 2004 Pensions Reforms Act and the subsequent licensing of about 25 Pension Fund Administrators (PFAs) and 6 Pensions Funds Custodians have resulted in the mobilization of a large pool of funds for the market. The activities of PFAs have undoubtedly impacted positively in Nigerian bonds market and boosted equities trading on The Nigerian Stock Exchange. Currently, total funds under management by these PFAs are in excess of ₦1 trillion. Until 1995, the Nigerian Capital Market was a closed market reserved exclusively to local participants. That year, the Federal Government as part of its

reform programme, opened the market to foreign investors by abrogating the Exchange Control Act of 1962 and Nigerian Enterprises Promotion Act of 1989. These acts have expanded our market place, assisted in attracting foreign investment capital as supplement to our capital market either as operators or investors, or both. The internationalization of the Nigerian Capital Market has witnessed the listing of foreign companies –M-Net/Super Sports of South Africa, Ecobank Transnational Incorporated and Pinnacle Point Group. Nigerian companies have also on other markets. Oando listed on South Africa Exchange while Guaranty Trust Bank Plc and Diamond Bank Plc listed their Global Depository Receipts (GDRs) on the London Stock Exchange.

### **Empirical Review**

Cerra and Saxena (2008) examined the financial crises and other large negative shocks tend to have lasting effects on output. Using a similar methodology, I study the response of a decomposition of output into employment and labor productivity finding a significant role for labor productivity in emerging economies. Other authors have documented large TFP losses in certain episodes of financial crisis.

Comin, Loayza, Pasha and Serven (2009) also use an expanding variety formulation to model the discussion of technologies from the U.S. to Mexico, and use their model to analyze how business fluctuations are interrelated in these two countries. The financial imperfection introduced in this paper builds on ideas from the literature on financial factors in macroeconomics, reviewed for example in Gertler and Kiyotaki (2010). This paper follows Gertler and Kiyotaki (2010) and others in modeling credit market imperfections through a limited enforcement problem. The main difference with more traditional financial accelerator models present that here the credit market imperfection affects technology adoption, which is the ultimate source of productivity growth in the model economy.

Uribe and Yue (2006) examined the important role for fluctuations in interest rates and country risk in accounting for emerging market business cycles. Gertler, Gilchrist and Natalucci (2007) present a model featuring a financial accelerator designed to capture the Korean crisis in 1997-98, which they model as country interest rate shock, and use their model to illustrate how a mixed exchange rate regime can exacerbate the crisis. Aguiar and Gopinath (2007) argued that what differentiates emerging markets from small developed economies is a more volatile and persistent no stationary component of TFP, a hypothesis which the evidence presented in this paper lends support to. Further, this paper shows that such TFP process, which is assumed exogenously in Aguiar and Gopinath (2007), can be a natural result in a context in which TFP growth is endogenous and potentially affected by imperfections in financial markets.

Arin, Molchanov and Reich (2013) assert that the mixed and negligible evidence provided by the extant studies may be ascribed to two reasons: (i) the empirical models estimated by study may have suffered from omitted variable bias as there is a good degree of model uncertainty regarding the selection of political variables; and (ii) anticipatory pricing in financial markets

suggests that the political risk connected with election results is integrated into the prices of share long before the uncertainty is fully determined on election day.

Jamshidloo et al. (2014) investigate the performance of Iran's Stock Market before and after election using trend and descriptive analysis. The finding in this study shows that in the year before and after election, there is a significant difference in performance in the stock market, thus, leading to market control. Angela and Wilson (2012) examine the stock market performance before and after general election in Nairobi using event study. The study shows that in short term, performance of securities market in Nairobi is influenced by political expectations and activities.

Arin et al. (2007) examined response of stock market to political events applying Bayesian techniques to a new data set of political variables for 17 democracies. The findings show that there exists a weak relationship between the levels of stock returns and political variables. And that the number of political variables significantly affects stock market volatility. Thus investigating the effect of election on portfolio selection can be very revealing.

Levine and Zervos (1996) examined whether there is a strong empirical association between stock market development and long run economic growth. The study used pooled cross-country time-series regression of forty-one countries from 1976 to 1993 to evaluate this association. The study toe the line of Demirguc and Levine (1996) by conglomerating measures such as stock market size, liquidity, and integration with world markets, into index of stock market development. The growth rate of the Gross Domestic Product (GDP) per capita was regressed on a variety of variables designed to control for initial conditions, political stability, investment in human capital, and macroeconomic conditions; and then include the conglomerated index of stock market development. The finding was that a strong correlation between overall stock market development and long run economic growth exist. This means that the result is consistent with the theories that imply a positive relationship between stock market development and economic growth. Mahoney (2001) maintains that market frictions are the critical concepts to both resource-based and transaction costs theory, and further posits that the "set of market frictions that explain sustainable firm-level rents would be sufficient market frictions to explain the existence of the firm."

## **Theoretical Framework**

### **Portfolio Theory**

Portfolio Theory was developed by Harry Markowitz. Markowitz (1959) assumed that most investors want to be cautious when investing and that they want to take the smallest possible risk in order to obtain the highest possible return, optimizing return to the risk ratio. Portfolio theory states that it is not enough just to look at the expected risk and return of one particular stock. By investing in more than one stock, an investor can obtain the benefits of diversification, a reduction in the volatility of the whole portfolio (Markowitz, 1959). Portfolio theory also explains the selection and construction of asset portfolios based on the measured risk, risk preferences of individuals and the expected return on the investments.

Investors will prefer to invest in a combination of securities which will assure better and more stable returns while minimizing risk. In building a portfolio of securities, a rational investor would only be interested in high returns with low risk (Osaze, 2000). O'Neill (2000) states that portfolio theory has important practical applications such as the reduction of volatility. The essence of MPT is to seek optimization of the relationship between risk and return by composing portfolios of assets determined by their returns, risks, and covariance or correlations with other assets. Portfolio theory develops a framework where, any expected return is composed of various future outcomes and are thereby risky, and this relationship between risk and return can be optimized through diversification (Markowitz, 1991). However, the risk and expected returns on a portfolio can be affected by announcement of relevant information.

### Methodology

The research designs adopted in this study is the descriptive and correctional statistics method. Descriptive research design which is very applicable in the management and social sciences is employed as the data collection method because the study involves the systematic study of a population in other to understand and be able to predict some aspects of the behavior of the population. In descriptive research design which involves secondary data in which responses in the nature of a factor and its effects on individuals are being studied, the researcher does not have the ability or opportunity to vary or manipulate the independent variables. The population of the study which is the entire economy is the focus of this paper. While the sample size constitutes the financial market frictions and its effect on the Nigerian capital market for a period of 25 years (1992 to 2017) out of the population of the study, the convenience sampling which is a purposive non-probability sampling method is adopted in the selection of samples for this paper. The concept of non-probabilistic procedure allows more information within the distribution and accords the research work more scientific feature, thereby concretizing the validity of the research findings. The model of analysis follows a linear combination of explanatory time series variables, and the dependent variable which is market capitalization in Nigeria. To estimate the effect of the financial market frictions, we have identified several financial market frictions variables that could capture the impact of the various transmission channels. These transmission channels include gross capital formation, foreign direct investment, total value of domestic shares traded, and inflation rate. Thus, the structural model to estimate the relationship between financial market frictions variables and Nigerian capital market is stated thus:

$$\text{MKTCAP} = F(\text{GCF}, \text{FDI}, \text{TST}, \text{INFR}) \dots \dots \dots (3.1)$$

Hence, the econometric form of the model is as follows:

$$\text{MKTCAP} = \beta_0 + \beta_1\text{GCF} + \beta_2\text{FDI} + \beta_3\text{TST} + \beta_4\text{INFR} + U \dots \dots \dots (3.2)$$

Where:

- MKTCAP = Market capitalization (MKT) serves as the dependent variable..
- GCF = Gross capital formation
- FDI = Foreign Direct Investment
- TST = Total value of domestic shares traded
- INFR = Inflation Rate



$U$  = Stochastic error term in the model.

$\beta_1, \beta_2, \beta_3, \beta_4 > 0$  The a priori of the explanatory variables are.

## Discussion of Empirical Result

### Descriptive Analysis

	MKTCAP	GCF	FDI	TST	INFR
Mean	5812.408	3363.065	3.700000	108.7812	19.23077
Median	1735.900	833.7500	3.225000	16.25000	12.95000
Maximum	19077.42	16345.70	10.83000	547.5400	72.80000
Minimum	23.10000	45.20000	1.070000	4.800000	5.400000
Std. Dev.	6878.522	5093.234	2.074622	166.4785	17.93610
Skewness	0.786920	1.522857	1.972775	1.628352	1.863069
Kurtosis	2.046041	3.751171	7.280578	4.249823	5.205524
Jarque-Bera	3.669259	10.66069	36.71494	13.18219	20.31082
Probability	0.159673	0.004842	0.000000	0.001373	0.000039
Sum	151122.6	87439.70	96.20000	2828.310	500.0000
Sum Sq. Dev.	1.18E+09	6.49E+08	107.6014	692877.1	8042.595
Observations	26	26	26	26	26

Source: Author's computation (2019)

The descriptive statistics of variables examined with emphasis on mean, maximum, minimum, standard deviation and the Jarque-Bera results. The results indicated that mean value of market capitalization is 5812.40, gross capital formation is 3363.06, foreign direct investment as a percentage of GDP is 3.7, total domestic share traded is 108.78, while inflation rate is 19.23. In testing for the normality of distribution of the variables, the Jarque-Bera test has a null hypothesis of non-normality. The table above shows that the variables used are normally distributed, that is, the probability of all the variables (p-values) is less than the critical p-value of 5%.

### Correlation Analysis

Correlation analysis was carried out with a view to describing the strength of relationship between dependent variables (market capitalization) and independent variables (GCF, FDI, TST and INFR).

### Pearson Correlation Matrix

	MKTCAP	GCF	FDI	TST	INFR
MKTCAP	1.000000				
GCF	0.908867	1.000000			
FDI	0.259473	-0.178142	1.000000		
TST	0.899120	0.963298	-0.098458	1.000000	
INFR	-0.415239	-0.312260	0.587173	-0.305462	1.000000

Source: Author's computation (2019)

The market capitalization has a strong positive relationship with gross capital formation, foreign direct investment as a percentage of GDP and total domestic share traded. This positive relationship implies that an increase in gross capital formation, foreign direct investment as a percentage of GDP and total domestic share traded will result to an increase in market capitalization and vice versa. Market capitalization also has a moderate negative relationship with inflation rate. This positive relationship implies that an increase in inflation rate will result to a decrease in market capitalization and vice versa.

### Presentations of Unit Root Test Results

The importance of testing for stationary of time series data has been emphasized in extant literatures (see Gujarati, 2009; Iyoha, 2006). The Augmented Dickey Fuller (ADF) test was employed in this study to examine the statistical properties of the time series data on each of the variables in the specification.

#### Unit Root Test Results (at Level) variables

Variables	ADF Test Statistics	95% Critical Value	Remarks
<b>MKTCAP</b>	0.009484	-2.986225	Non-stationary
<b>GCF</b>	6.923867	-2.986225	Stationary
<b>FDI</b>	-3.020067	-2.986225	Stationary
<b>TST</b>	3.727565	-2.986225	Stationary
<b>INFR</b>	-1.850946	-2.986225	Non-Stationary

Note: ADF critical value 95 percent = -2.986225 including intercept and trend. Source: Author's Computation (2019)

It can be deduced that all the variables (MKTCAP, and INFR) are non-stationary because they have their Augmented Dickey Fuller (ADF) statistics less than Mackinnon critical value at 95%. This led to the testing for stationary at first difference. While other variables GCF, FDI and TST are stationary because they have their Augmented Dickey Fuller (ADF) statistics greater than Mackinnon critical value at 95%.

#### Unit Root Test Results (in First difference) variables

Variables	ADF Test Statistics	95% Critical Value	Order of integration	Remarks
<b>MKTCAP</b>	-4.949450	-2.991878	I (1)	Stationary
<b>INFR</b>	-4.805166	-2.991878	I (1)	Stationary

Note:  $\Delta$  = indicating first difference and  $L$  = natural logarithms; ADF critical value 95 percent = -2.991878 including intercept and trend.

Source: Author's Computation (2019)

In the results presented above, each of the ADF test statistics is greater than the corresponding 95% critical ADF value (in absolute terms). This directly indicates that MKTCAP and INFR at first difference are stationary. Indeed, the two variables are integrated of order one which is written as I(1).

### The Ordinary Least Square Result

Dependent Variable: (MKTCAP)

Variable	Coefficient	Std. Error	t-statistics	Probability
<b>C</b>	3507.577	1325.123	2.646983	0.0151
<b>GCF</b>	1.091288	0.443447	2.460765	0.0189
<b>FDI</b>	255.4038	362.1287	0.705285	0.4884
<b>TST</b>	30.11653	13.61021	2.212790	0.0387
<b>INFR</b>	-37.66094	41.69616	-0.903223	0.3767

R-squared 0.855      Adjusted R-squared 0.828

Durbin Watson stat 1.61      F-statistic (Prob.) 31.18 (0.0000)

### Discussion of Empirical Results

The overall fit is very high with R-Squared of approximately 0.855 and R-Bar Squared of 0.828. The R-squared of about 86% shows that systematic variations in market capitalization are explained by the variables we have used as repressors in the equation. The adjusted variations R-Bar Squared shows that about 83% of the variations are attributed to the explanatory variables. The F-statistics indicate that the model is highly significant, easily passing the significance test at the 5 percent level. Consequently, the hypothesis of a linear relationship between MKTCAP and the repressors in the equation cannot be rejected at the 5 percent level of significance. The Durbin-Watson statistic of 1.61 shows that our model is free from the problem of serial correlation. We observe that the equilibrium error term is statistically different from zero. The coefficient of gross capital formation (GCF) is positive and statistically significant at 5% level of significance. A 10% rise in gross capital formation leads to 10.9% increase in market capitalization. The coefficient of foreign direct investment as a percentage of GDP (FDI) is positive and not statistically significant at 5% level of significance. A 10% rise in foreign direct investment as a percentage of GDP leads to 255.4% increase in market capitalization. The coefficient of total domestic share traded (TST) is positive and statistically significant at 5% level of significance. A 10% rise in total domestic share traded leads to 301.1% increase in market capitalization. The coefficient of inflation rate (INFR) has a negative relationship with MKTCAP, though the coefficient of inflation rate is not significant at the 5% level in explaining variations in MKTCAP. A 10% rise in inflation rate leads to 376.6% decrease in market capitalization.

### Conclusion and Policy Recommendations

The coefficient of total value of domestic share traded (TST) was positive and statistically significant at 5% level of significance. This means that increasing numbers of shareholders' associations have helped to create more awareness of capital market investment among individual Nigerians which has brought an increase in the market capitalization. The

coefficient of gross capital formation (GCF) is positive and statistically significant at 5% level of significance. This means that increase in gross capital formation increases the capital market investment. Developing financial market frictions within the resource-based approach is promising for providing practical implications for strategic managers. Indeed, such decision makers in line with researchers can proactively consider market frictions that enable cost minimization and the generation of firm-level economic rents. For instance, managers can provide economic value in business situations where market frictions exist and therefore price signals are not perfect. Hence, the paper recommends that, there should be an incredible broad array of financial market frictions, investors can borrow freely at the riskless rate. In fact, though, borrowing restrictions limit the amount of leverage that an investor can take. These restrictions, of course, are market frictions. Should be classified as a regulatory matter, tracing to limited liability, they should be a political arena, in which some participants attempt to circumvent certain financial market frictions while others try to maintain them.

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