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The Impact Of Market Efficiency In The Case Of Semi Strong Efficiency

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***Abstract:** The study examined the impact of market efficiency in the case of semi strong efficiency. The objectives were to investigate the semi strong form of capital market efficiency in Nigeria economic; to provide adequate liquidity to investors, broaden the ownership base of assets as well as the creation of a buoyant private sector, provide alternative source of funds for government through the efficiency capital market. Also, to suggest ways by which capital market efficiency allocation of new investments through the price mechanism, multiple regression analysis with ordinary least square (OLS) estimation technique is adopted as estimation techniques. The co-efficient of the constant parameter which explains the value of the dependent variable i.e. All Share Index (ASI) at zero level of the explanatory or independent variables is given as -2.617799. This shows a negative relationship between the constant parameter and ASI, and it indicates that if all the explanatory variables are held constant, ASI will decrease by 2.617799 units. The co-efficient of Value of Transaction (VT) shows a negative relationship between ASI and VT. The co-efficient of VT is estimated to be -0.079495, meaning that a unit increase in VT will lead to 0.079495 unit decrease in ASI. This conforms to the stated a priori expectation. Conclusively the preliminary empirical results show that government development stock, market capitalization to the economy, are significant factors influencing capital market efficiency in Nigeria. However, value of transaction and are not properly signed though statistically significant, on the Nigerian capital market. It was therefore recommended that capital market regulators in Nigeria firms should minimize capital market transaction costs to boost stock trading in their respective capital markets, increasing efficiency in the markets, capital sourcing from these markets, boost firm listings and increase efficiency in financial resource allocation.*

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I. INTRODUCTION

The concept of efficiency is fundamental to finance as a result of its implications to financial managers, investors among others. Capital market efficiency can be viewed from the roles that capital markets are expected to perform in an economy which include allocation, operational and pricing efficiencies Olowe, (2010). The efficient market hypothesis suggests that stock markets are "informationally efficient". That is, any new information relevant to the market is spontaneously reflected in the stock prices. A consequence of this hypothesis is that past prices cannot have any predictive power for future prices once the current prices have been used as an explanatory variable. In other words the change in future prices depends only on arrival of new information that was unpredictable today hence it is based on surprise information. Another consequence of this hypothesis is that arbitrage opportunities are wiped out instantaneously. Empirical tests of the efficient market hypothesis actually test for these consequences in various ways.

These tests generally could not conclusively accept the random-walk hypothesis of stock returns even when GARCH effects were accounted for. Many studies have found empirical regularities that are contrary to the efficient market hypothesis. For example, the monthly, weekly and daily returns on stocks tend to exhibit discernable patterns, such as seasonal affects, month of the year affect, day of the week affect, hourly affect etc. In case of Nigerian stock markets too such affects are identified. Such as the Ramadan affect, Hussain and Uppal (1999), seasonal effects and day of the week affect. Further, the wide spread use of "technical analysis" among stock traders and their ability to predict to some extent the direction of movements in the prices of individual stocks over medium term testifies to the existence of patterns and seasonal trends.

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The existence of these systematic affects may imply informational inefficiency of the stock markets as markets take long time to adjust to new information. But there is another possible explanation too. That is that the markets are informationally efficient and adjust quickly and fully to any new piece of information but the information arrives in a systematic pattern, hence the observed systematic pattern in stock returns. A direct test of this possibility is to look for any association between pattern of information arrival and pattern of market activity variables.

A capital market is said to be efficient with respect to an information item if the prices of securities fully impound the return implications of that item. In an efficient market, when a new information item is added to the market, its revaluation implications for security returns are instantaneously and unbiased impounded in the current market price. Several studies have empirically tested the reaction of security prices to the release of different information. Beaver (2009), Foster (2012), Ball and Brown (1998), Beaver, Clarke, Wright (1999) are some of the studies which find significant reaction in the security prices to the release of corporate events announcement information. Another finding of these studies is that during the announcement period, there are abnormal returns. On the Nigerian stock market, Obaidullah (2012), Srinivasan, and Kakati (2011), Jijo Lukose and Narayan Rao (2014) are some of the studies which have tested the efficiency of the Nigeria stock market with respect to corporate events announcement information like accounting information, dividend announcement, bonus announcement, right issue, mergers and acquisition and stock split etc,. A few Nigeria studies have tested the efficiency of the Nigeria stock market with respect to information content of stock split announcement. Further, these studies could not find out the exact period during which the market reacts to a piece of information.

The capital market plays a pivotal role in the allocation of economic resources into productive activities of the economy, which are possible only if the securities traded in the markets are priced appropriately. A capital market in which stock prices fully reflect all available information can be termed as efficient. Eugene Fama (1960) classified the market efficiency into the following three categories depending on the information set that is fully reflected in the security prices.

- ✓ *Weak - Form of Efficiency,* popularly known as Random Walk Theory states that the current stock prices reflect all the information that is contained in the historical sequence of prices.
- ✓ *Semi - Strong Form of Efficiency,* which states that current market prices not only reflect all information content of historical prices but also reflect all the information, which are publicly available about the companies being studied.
- ✓ *Strong - Form of Efficiency,* which states that current market prices reflect all information whether it is publicly available or private information (insiders information).

This statement known as the capital market efficient has been extensively tested which according to Pinches (2000) indicate quick reaction of stock prices to new information. Most empirical findings according to him suggest capital market to be highly efficient in the strong form and reasonably in the semi-strong form. Market efficiency to Osaze (2007), Grimblatt and Titman (2002) is viewable from the ease of capital market transactions and the minimality of the costs associated with investing: brokerage, floatation and disposal costs. Financial literature is abound with empirical findings, Guisso (2013), Smitters and Wright (2010), Brealy and Myers (2009), Ako (2013) and Esme (2003); that the lower these costs the more firms will take advantage of the market to raise more funds and investors cheaply disposing of their securities, increasing stock turnover in the market. The Nigerian capital market like others on the Nigeria and over the globe, make possible the buying and selling of securities.

A. STATEMENT OF THE PROBLEM

In order to accelerate economic development and bring about capital formation which is an essential ingredient of growth in any economy, the capital market needs to be developed. However, in Nigeria, the stock market is still underdeveloped and emerging due to myriads of problems such as undynamic nature of the market, low level of automation, lack of adequate and timely information among others. The Nigerian capital market is small even when compared with other emerging stock markets Samuel and Yacout, (1981), Ogwumike, (1982), Umoh, (1984), Inanga and Emenuga, (1996), Oteh,(2013) among others. The lack of depth and breadth of instruments in the market can be attributed to barriers to foreign investors (until 1995) bottle-necks in the clearing system, the "buy and hold" attitude of investors, the imposition of a price cap on share price movements and political instability among others Inanga and Emenuga, (1996). The stock market became fully open to foreign investors with the abolition in 1995 of the Nigerian Enterprises Promotion Decree, 1989 and the Exchange Control Act 1962 and the promulgation of the Nigerian Investment promotion Decree 17, 1995 coupled with the abolition of Capital Gains Tax in the 1998 Federal Government budget. This has resulted in the need for companies to complement these positive actions with sound dividend policies to attract local and foreign investors Adelegan, (2009). For the Nigerian capital market to develop so as to attract both local and foreign investors alike, it is pertinent for the market to be efficient. It is against this background that the study examines the efficiency of the Nigerian capital market.

Although a number of empirical works have been carried out in this area, most of these focused on weak form of pricing efficiency of the market and relatively a small number of studies have been carried out on the efficiency of the Nigerian capital market in its semi – strong form. This study attempts to empirically determine whether the Nigerian capital market is efficient in its semi – strong form by examine the impact felt on the macro economy of the nation.

B. OBJECTIVES OF THE STUDY

The objective of this study is to undertake a comparative analysis of the efficiency of the capital markets in Nigeria a test of semi strong form. This purpose can be viewed from the following stated objectives below:

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- ✓ To investigate the semi strong form of capital market efficiency in Nigeria economic.
- ✓ To provide adequate liquidity to investors, broaden the ownership base of assets as well as the creation of a buoyant private sector, provide alternative source of funds for government through the efficiency capital market.
- ✓ Also, to suggest ways by which capital market efficiency allocation of new investments through the price mechanism, encourage more efficient allocation of a given amount of tangible wealth through changes in the composition and ownership of wealth, create a built-in efficiency in the operations and allocation in the financial system.

C. RESEARCH HYPOTHESES

The study is therefore designed to test the following hypotheses which are stated in their null form:

H_0: The test on capital market efficiency has no significant effect on Nigeria economic growth.

H_0: Capital market efficiency does not significantly guarantee investors confidence in protection arrangement through efficiency capital market source of funds.

$H_{0:}$ Capital market efficiency does not play any significant role in socio economic development of Nigeria.

D. SIGNIFICANCE OF THE STUDY

An efficient market as a market in which price fully reflect all information. This means that no possibility exists of making sustainable excess returns and the prices follow a random walk. An efficient and integrated capital market is an important infrastructure that facilitates capital formation. The efficiency with which the capital formation is carried out depends on the efficiency of the capital markets and financial institutions. A capital market is said to be efficient with respect to corporate event announcement (stock split, buyback, right issue, bonus announcement, merger & acquisition, dividend e.t.c) contained information's and its disseminations.

How quickly and correctly the security prices reflect these event contained information's show the efficiency of capital markets. Financial systems provide good and easily accessible information which according to the World Bank (2010) semi strong form of lower capital market transaction costs improving resource allocation and economic growth. Findings by the bank showed that at higher level of economic growth, domestic stock markets tend to become more active and efficient relative to domestic financial institutions. The capital market remain one of the mainstream in every economy that has the power to influence economic growth, hence the organize private sector is encourage to invest in it.

This will enable the capital market improve its illiquidity status for economic growth and development. Therefore the government must contribute in order to achieve these objectives through investing government securities in productive sectors and relaxing laws that spell threat to the capital market. Virtually all aspects of human endeavor entail the use of money either self- generated or borrowed. Money enhances capital accumulation with tremendous cyclical rebound on economic growth. In capital market, the stock in trade is money which could be raised through various instruments, under well governed rules and regulations, carefully administered and adhered to by different institutions or market operators. It is true that the rate of economic growth of any nation is inextricably linked to the sophistication of its financial market and specifically its capital market efficiency. Virile financial markets assist the nations of the world to muster needed financial resources and skills for growth and development. Thus the socio-economic function of the capital market is well established. It does not only encourage and mobilize savings but also efficiently allocates such savings to areas of need Ekineh, (2009). The Nigeria capital market is categorized into primary and secondary markets. New securities are issued in the primary market, and companies issuing these securities receive the proceeds for the sale. The secondary market provides a forum for the sale of securities by one investor to another investor. Thus, the efficient functioning of the market paves way for the primary market by making investors more willing to purchase new securities in anticipation of selling such in the secondary market. These securities are the major instrument used to raise funds at the capital market.

II. LITERATURE REVIEW

A. CONCEPT OF CAPITAL MARKET

A systematic examination of the various empirical studies is carried out in order to provide clear evidence on the effect of capital market. Virtually all aspects of human endeavor entail the use of money either self- generated or borrowed. Money enhances capital accumulation with tremendous cyclical rebound on economic growth. Yalama, Abdullah and Selik, Sibel (2008). In capital market, the stock in trade is money which could be raised through various instruments, under well governed rules and regulations, carefully administered and adhered to by different institutions or market operators. It is true that the rate of economic growth of any nation is inextricably linked to the sophistication of its financial market and specifically its capital market efficiency. Pichardo, Christine and Bacon, Frank (2009).

Virile financial markets assist the nations of the world to muster needed financial resources and skills for growth and development. Equity markets in developing countries until the mid-1980s generally suffered from the classical defects of bank dominated economies that are shortage of equity capital, lack of liquidity, absence of foreign institutional investors, and lack of investor's confidence in the stock market Adebiyi, (2005). Financial market and its sub-unit, capital market are constituted when ever participants, with the aid of infrastructures, technology and other devices to facilitate the mobilization and channeling of funds into productive investment.

The importance of capital market lies in its financial intermediation capacity to link the deficit sector with the surplus sector of the economy. The absence of such capacity robs the economy of investment and production of goods and services for societal advancement. Funds could thereby be idle at one end, while being sought at the other end in pursuit of

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socio-economic growth and development Akinbohungbe, (2008). The knowledge that capital market can make a wealthy nation and wealth people is the concept and believe this paper portrays. Universally, capital markets are primarily created to provide avenues for effective mobilization of idle funds from surplus economic units and channeled into deficit units for long-term investment purposes. The suppliers of funds are basically individuals and corporate bodies as government rarely supply funds to the market. The deficit units by contrast consist only of corporate bodies and government. In other words, individuals (households) who are major suppliers of funds to the market are absent in the category of fund users. This is because conventionally, individuals cannot access the capital market for funds. Moreover, capital markets through secondary Arms provide opportunities for the purchase and sale of existing securities among investors thereby encouraging the populace to invest in securities and fostering economic growth.

The funding requirements of corporate bodies and governments are often colossal, sometimes running into billions of naira. It is therefore, usually difficult for these bodies to meet such funding requirements solely from internal sources, hence they often look up to the capital market. This is because the capital market is the ideal source as it enables corporate entities and government to pool monies from a large number of people and institutions.

Thus the socio-economic function of the capital market is well established. It does not only encourage and mobilize savings but also efficiently allocates such savings to areas of need Ekineh, (2009). The Nigeria capital market is categorized into primary and secondary markets. New securities are issued in the primary market, and companies issuing these securities receive the proceeds for the sale. The secondary market provides a forum for the sale of securities by one investor to another investor. Thus, the efficient functioning of the market paves way for the primary market by making investors more willing to purchase new securities in anticipation of selling such in the secondary market. These securities are the major instrument used to raise funds at the capital market. The institutional framework through which the capital market function in Nigeria include; the Nigerian securities and exchange commission (NSEC), the Nigerian stock exchange (NSE), stock brokers and investors.

Capital market is defined as the market where medium to long-term finance can be raised Akingbohungbe, (2008). In another direction, Ekezie (2012) noted that capital market is the market for dealings (that is, lending and borrowing) in longer-term loanable funds. Mbat (2001) described it as forums through long-term funds are made available by the surplus to the deficit economic units. It must, however be noted that although all the surplus economic units have the same easy access to it. The restriction on the part of the borrowers is meant to enforce the security of the funds provided by the lenders. In order to ensure that lenders are not subjected to undue risk, borrowers in the capital market need to satisfy certain basic requirement. It has very profound implication for socio-economic development of any nation. Companies can finance their operations by raising funds through issuing equity (ownership) or debenture/bond borrowed as securities. Equities have perpetual life while bond/debenture issues are structured to mature in periods of years varying from the medium to the long-term of usually between five (5) and twenty-five (25) years.

Capital market offers access to a variety of financial instrument that enable economic agents to pool price and exchange risk. Through assets with attractive yields, liquidity and risk characteristics, it encourages savings in financial form. This is very essential for government and other institutions in need of long-term funds and for suppliers of long-term funds Nwankwo, (2011). The stock market generally is the centre point of traders, purchasers and sellers who trade in securities of different forms and life spans. When money is parted with, into the stock market, it is done with the aim of generating a return on the capital market. Many investors try to make a profitable return, but also to outperform or beat the market.

When a market is operationally efficient, it means there is little or no friction in the trading process Mabhunu,(2014). Information on prices and volumes of past transactions is widely available and price sensitive information is both timely and accurate, thus information dissemination is fast and wide. Liquidity is such that it enables market participants to buy or sell quickly at a price close to the prior (last traded) price. Also, there is price continuity, such that prices do not change much from one transaction to another unless significant new information becomes available. According to the Efficient Market Hypothesis (EMH), an operationally efficient stock market is expected to be externally and informational efficient; thus ''security prices at any point in time are an unbiased reflection of all the available information'' on the security's expected future cash flows and the risk involved in owning such a security, Reilly and Brown, (2013). Such a market provides accurate signals for resources allocation as market prices represent each security's intrinsic worth. Market prices can at times deviate from the securities' true value, but these deviations are completely random and uncorrelated.

a. THE EFFICIENT MARKET HYPOTHESIS (EMH)

Efficient Market Hypothesis (EMH) asserts that in an efficient market, prices at all times fully reflect all available information that is relevant to their valuation Fama, (1970). EMH argues that competition between investors seeking abnormal profits drives prices top their ''fair value''. This implies that prices should incorporate information in the market. The ability of a stock market to incorporate information into prices determines its level of efficiency. Fama (1970) stated that the sufficient but not necessary conditions for efficiency are; {i} there are no transaction costs in trading securities :{ii} all information is costless available to markets participants and {iii} all agree on the implication of current information for the current price and distribution of future prices of each security. The EMH can more specifically be defined with respect to the information item available to market participants. Fama (1970) classified the information items into three levels depending on how quickly the information is impounded into price; (1) weak-form EMH (2) semi-strong form EMH, and (3) strong-form EMH.

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The Strong-Form EMH

In its strongest form, the EMH says a market is efficient if all information relevant to the value of share, whether or not generally available to existing or potential investors, is quickly and accurately reflected in the markets price. It is the most satisfying and compelling form of EMH in a theoretical sense, but it suffers from one big drawback in practice. It is difficult to confirm empirically as the necessary research would be unlikely to win cooperation of the relevant section of the financial community insider declares.

The financial points hold in the strong-form EMH

- ✓ Share prices reflect all information and no one can earn excess returns.
- ✓ To test for the strong form efficiency, a market needs to exist where investors cannot consistently earn excess returns over a long period of time. When the topic of inside trading is introduced where an investor trades on information not yet publicly available. The idea of a strong-form market seems impossible.
- ✓ If there are fund managers who have consistently beaten the market, then it cannot be described as being strong-form efficient. Common sense and empirical evidence suggest that stock markets are unlikely to be strong form efficient.

The Semi-Strong Form EMH

In a slightly less rigorous form, the EMH says a market is efficient if all relevant publicly available information is quickly reflected in the market price. If the strong form is theoretically the most compelling, then the semi-strong form perhaps appeals most to our common sense. It states that no investor can earn excess returns from trading rules based on publicly available information .If the market is semi-strong form efficient, then stock price reacts so fast to all public information that no investor can earn an above normal return (higher than the market or return on the S & P 500 index) by acting on this type of information. Tests of semi-strong form efficiency, Patell and Wolfson, (1979) have shown that no investor can earn an above normal return on publicly available information such as annual accounting reports block trades, Fama, Fisher, Jensen, and Roll,(1969), earning announcements, stock split announcements, dividend announcements, and repurchase of stock announcement .Example of public information include stock splits, dividend increases, and repurchases .For example, if an individual buys the stock on the announcement date and still does not make an above normal return, the market is semi-strong form efficient.

In the semi-strong form EMH?

- ✓ Share prices adjust instantaneously and in an unbiased manner to publicly available new information so that no excess returns can be earned by trading on that information.
- ✓ Semi-strong form efficiency implies that fundamental analysis will not be able to produce excess return.
- ✓ To test for it, the adjustments to previously known news must be of a reasonable size and must be instantaneous. If there are consistent upward or downward adjustments, it would suggest that investors had interpreted the information in a biased manner and hence in an inefficient way.

Weak-Form EMH

In the least rigorous form, the EMH confines itself to adjust one subset of public information, namely historical information about the share price itself. New information must by definition be unrelated to previous information; otherwise it would not be new. It follows from this that every movement in the share price in response to new information cannot be predicted from last movement or price. The future price cannot be predicted from the last movement or price. The future price cannot be predicted from a study of historic prices.

As for the weak form EMH, it states that:

- ✓ No excess returns can be earned by using investment strategies based on historical share prices or other financial data.
- ✓ Weak form efficiency implies that technical analysis will not be able to produce excess returns.
- ✓ To test the weak form efficiency, it is sufficient to use statistical investigations in time series data of prices. In a weak form efficient market, current share prices are the best, unbiased, estimate of the value of the security. News is generally assumed to occur randomly, so share price changes must also therefore be random.

b. THE CAPITAL MARKET

Capital market is defined as the market where medium to long-term finance can be raised, Akingbohungbe, (2008). In another exposition, Ekezie (2012) noted that capital market is the market for dealings (i.e. lending and borrowing) in longer-term loanable funds. Mbat (2001) described it as a forum through which long-term funds are made available by the surplus to the deficit economic units. It must, however, be noted that although all the surplus economic units have access to the capital market, not all the deficit economic units have the same easy access to it. The restriction on the part of the borrowers is meant to enforce the security of the funds provided by the lenders. In order to ensure that lenders are not subjected to undue risks, borrowers in the capital market need to satisfy certain basic requirement. It has very profound implication for socio-economic development of any nation. Companies can finance their operations by raising funds through issuing equity (ownership) or debenture/bond borrowed as securities. Equities have perpetual life while bond/debenture issues are structured to mature in periods of years varying from the medium to the long-term of usually between five and twenty-five years.

Capital market offers access to a variety of financial instruments that enable economic agents to pool, price, and exchange risk. Through assets with attractive yields, liquidity and risk characteristics, it encourages savings in financial form. This is very essential for government and other institutions in need of long-term funds and for suppliers of long-term funds, Nwankwo, (2011).

Based on its importance in accelerating economic growth and development, government of most nations tends to have

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keen interest in the performance of its capital market. The concern is for sustained confidence in the market and for a strong investors' protection arrangement. Nigeria Securities and Exchange Commission (NSEC) is the government agency responsible for developing and regulating the Nigeria capital market. It was created by Act No. 71 of 1979 and re-acted as Securities and Exchange Commission Decree No. 29 of 1988. The NSEC purses its objectives by registering all market operators based on capital adequacy, competence and solvency as criteria.

Capital market instruments are responsible for generating funds for companies, corporation, and the government. These are used by investors to make a profit out of their respective market. There are a number of capital market instruments used for making trade, including; stocks, bonds, debentures, treasury bills, foreign exchange, fixed deposit and others. Capital market is also known as securities market because long-term funds are raised through trade on debt and equity securities. This market is divided into primary and secondary capital market.

c. *PROBLEMS OF THE NIGERIA CAPITAL MARKET*

The Nigeria Capital Market, like the national economy, has been faced with many problems. These problems are both endogenous and exogenous problems. The exogenous problems are those outside the direct control of the market but which are regulation- induced. The endogenous problems are those that are internal to the market but which are amendable to changes with improved operational procedures including the adoption of Information technology. Some of these problems are discussed below:

- ✓ *SMALL SIZE OF THE MARKET:* Among the major problems facing the Nigerian Capital Market is the size of the market. At about 265 quoted companies and a market capitalization of ₦ 9,516.2b as at the end- Dec, 2008 the size of the market can be considered to be small when compared with stock market in other emerging markets for example as at 31st December 2010, the Hong Kong stock exchange has about 1,413 listed companies majorly dominated by their manufacturing industry. The small size of the Nigerian stock market has been traced to apathy of Nigerian entrepreneurs to go public due to the fear of losing control of their businesses. Another factor is the weak private sector which is a serious constraint militating against healthy growth of the stock market.
- ✓ *PROBLEM OF ILLIQUIDITY OF THE MARKET:* The liquidity of a stock market relates to the degree of access, which investors have in buying and selling of stocks in such a market. The more liquid a stock market is, the more investors will be interested in trading in the market. The lack of adequate number of investors in the Nigerian Stock Market is a reflection of problem of illiquidity in the market.
- ✓ *SLOW GROWTH OF SECURITIES MARKET:* Lack of cooperation between the Securities and Exchange Commission (SEC) and the NSE has been responsible for slow growth of the Securities market. For example, one of the major criticisms of SEC was that it did not allow the issuing houses and stockbrokers to undertake the pricing and allotment of initial public offer to market operators, positive movement was observed in share prices.
- ✓ *HIGH TRANSACTION:* The cost of raising funds through the capital market also determines the capital structure of a firm which in return affects dealings in the capital market. The cost of transaction could be said to be a measure of efficiency in the market. Transaction cost in the Nigeria capital Market is enormous. The cost which an average investor would have to meet in the course of raising funds include: brokerage fees, stamp duties, and other charges that may be imposed by the SEC, apart from other fees payable to stockbrokers. It has been estimated that the cost of raising US$1million equity capital in Nigeria is about 4% of the value, whereas the cost of raising the same amount in Kenya and Ghana is 2.35% and 2.3% respectively.
- ✓ *LACK OF EFFECTIVE UNDERWRITING:* Lack of effective underwriting is one of the problems confronting the Nigerian Capital Market. Underwriting could be in the form of firm contract, or stand-by arrangement and when an issue is large, there would be need for an underwriting syndicate. An observed deficiency of the Nigerian Securities Market is the non-existence of effective underwriting. It entails effective placing of entire issues and establishing a stable market for the underwritten securities for which there would always be a lead underwriter. The underwriters are in fact the ''Market Makers '' who purchase the securities concerned on their own account to maintain a price when the market price of the offered security falls under the issue price.
- ✓ *DOUBLE TAXATION:* The Nigeria stock market is faced with the problem of double taxation. In a Capital market, the operating tax policies have implications for the supply and demand for financial assets. Depending on its nature and structure, taxation could either enhance or retard capital market growth.
- ✓ *BUREAUCRATIC SYSTEM PROBLEM:* Despite the capital market laudable performance and benefits, it is still beclouded with weakness emanating from the bureaucratic system of the Securities and Exchange Commission. This post hindrance to smooth processing of application submitted to it

d. *ROLES OF THE CAPITAL MARKET IN ECONOMIC GROWTH*

The roles of the capital market in economic growth include but not limited to the following:

- ✓ It provides opportunities for companies to borrow funds needed for long-term investment purposes.
- ✓ It provides avenue for the marketing of shares and other securities in order to raise funds freshly for expansion of operations leading to increase in output.
- ✓ It provides a means of allocating the nations real and financial resources between various industries and companies. Through the capital formation and allocation mechanism, the capital market ensures an efficient and effective distribution of the scare resources for the optimal benefit to the economy.

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- ✓ It reduces the over reliance of the corporate sector on short term financing for long term projects and also provided opportunities for government to finance projects aimed at providing essential amenities for socio; economic developments.
- ✓ The capital market can aid the government in its privatization programme by offering her shares in the public enterprises to members of the public through stock exchange.

B. THEORETICAL REVIEW

a. *CAPITAL MARKET THEORY*

In finance, the efficient market hypothesis (EMH) asserts that financial markets are ‘‘informationally efficient’’. That is one cannot consistently achieve returns in essence of average market returns on risk adjusted basis, given information available at the time the investment is made. There are three major versions of the hypothesis: ‘‘weak’’, ‘‘semi strong’’ and ‘‘strong’’. The weak hypothesis claims that prices on traded assets already reflect all past publicly available information. Semi strong EMH claims that prices reflect all publicly available information and that prices instantly change to reflect new public information. The strong EMH on the other hand additionally claims that prices instantly reflect hidden or insider information. Various studies have pointed out signs of inefficiency in financial markets. Critics have blamed the belief in rational market for much of the late 2000s financial crises. In response, proponents of the hypothesis have stated that market efficiency does not mean having no uncertainty about the future, that market efficiency is a simplification of the world which may not always hold true, and that the market is practically efficient for investment purposes for most individuals. Historically, there was a very close link between EMH and the random-walk model and then the Martingale model. The random character of stock market prices was first modeled by Jules Regnault in 1863 and then by Louise Bachelier in 1900.

Criticism Of The EMH

Investors and researchers have disputed the efficient market hypothesis both empirically and theoretically. Behavioral economist attributes the imperfections in financial markets to a combination of cognitive biases such as overconfidence, over-reaction, representative bias, information bias and various other predictable human errors in reasoning and information processing. This has been researched by psychologist such as Daniel Kahneman, Amos Tversky and Paul Slovic. These errors in reasoning lead most investors to avoid value stock and buy growth stocks at expensive prices which allow those who reason well to profit from bargains in neglected value stocks.

Burton Malkiel a well known proponent of the general validity of EMH, has warned that certain emerging market such as China are not empirically efficient, that the Shanghai and Shenzhen market unlike in United State exhibit considerable serial correlation (price trend), non-random walk and evidence of manipulation.

b. *CAPITAL ASSET PRICE THEORY*

Capital Asset Price theory developed by William (1964). In exposition, Capital Asset Pricing theory predicts the behavior of capital market in absence of a positive micro economic theory dealing with the condition of risk involved in the market. A number of economists have maintained that the capital market has little or nothing to offer to real economic activity Stiglitz, (1989); Mayer, (1989); Harris and Raviv, (1991). Bekaert and Harvey (1997) have a different opinion. They outlined what an efficient capital market would mean for an economy and a country at large. Ability to Diversify: Investors would have means to diversify their portfolios. Individuals can diversify firm specific risks, thus making investment in firms more attractive. This is possible in an efficient market. Change of Ownership: managers are disciplined indirectly through this means. Non-competent managers make stock prices to decline below the potential value of the assets. Efficiently, these managers are removed and replaced with one that can increase the value of the assets. Managers with productivity-decreasing actions are weeded out. Innovation: An efficient capital market affects entrepreneurs in whole positive dimension. Entrepreneurs considers, not only profits generated in a new venture to the public. This provides long term productivity for the economy. Applegarth (2004) highlighted areas where the capital market makes input as to developing and growing the economy; Private Sector Development: The prospects for private sector growth in developing economies are being influenced by the access to and ease in movement of financial resources. Economic growth entails amongst other things, the extent at which existing firms can borrow and grow, the ability of emerging firms to act entrepreneurially, their willingness to invest in assets and the ability to allocate their assets freely. Liquidity: liquidity has a proven relationship with economic growth. Liquidity is generated by the increase in the number of firms and investors participating in the market.

C. EMPIRICAL REVIEW

Demetriades, (2001) utilized time series data from 5 developed countries, to examine the relationship between stock market and economic growth, controlling for other effect of the banking system and stock market volatility. Their results support the view that, although banks and stock market may promote economic growth, the effect of bank is more. They suggested that the contribution of stock market to economic growth may have been exaggerated by studies that uses cross country regressions.

Mohtadi and Agarwal (2004) examined the capital market and economic growth in developing countries using a panel data approach that covers 21 emerging markets over 21 years (1977-1997), they found that turnover ratio is an important and statistically insignificant determinant of investment by firms and that these investment in turn are significant determinant aggregate growth. Foreign direct investment is also found to have a strong positive influence on aggregate growth. The result of their study indicates that both turnover ratio and market capitalization are important variables as the determinants of economic growth.

Mishra, (2010) examine the impact of capital market efficiency on economic growth in 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 reviews that there is linkage between capital market efficiency and economic growth in India. This linkage is established through high rate of market capitalization and total market turnover. The large size of capital market has measured by greater market capitalization is positively correlated with the ability to mobilize capital and diversified risk on an economy wide basis. The increasing trend of market capitalization in India would certainly bring capital market efficiency and there by contribute to the economic growth of the country.

Osinubi and Amaghionyeodiwe (2003) examine the relationship between the Nigerian stock market and economic growth during the period of 1980-2000. Unfortunately, their results did not support the claim that stock market development promotes economic growth.

Adam and Sanni (2005) examined the role of stock market in Nigeria's economic growth using granger-casuality test and regression analysis. The study discovered a one-way casuality between GDP growth and market capitalization and a two-way causality between GDP growth and market turnover. They also observed a positive and significant relationship between GDP growth turnover ratios. The study advised that government should encouraged the development of the capital market since it has a positive relationship with economic growth.

Oke (2012) examined the effect of capital market on economic oil and gas sector in Nigeria using time series data for Nigeria for the period of 1999 to 2009. He found there exist a positive relationship between stock market and the oil and gas sector and the economy as a whole, it was revealed that the market capitalization and the stock prices have positive influence on the share of oil and gas sector of GDP and the GDP as a whole in the short run and has a negative influence in the long run. Also, the number of deals has a negative influence on the share of oil and gas sector of GDP and GDP as a whole in the short run, while in the long run their relationship is positive.

Ewah, et al (2009) appraised the impact of the Nigeria capital market efficiency on economic growth of the nation using time series data from 1961 to 2004. They found that the capital market in Nigeria has potential of growth inducing but it has not contribute meaningfully to the economic growth of Nigeria because of low market capitalization, illiquidity, mis-appropriation of funds among others.

Kolapo and Adaramola (2012) in their study examining the impact of capital market on economic growth from the period of 1999 to 2010. They aligned their finding with Ariyo and Adelegan (2005) and Ewah et al. (2009) who found that the capital market in Nigeria has the potentials to induce growth but has not contributed significantly to economic growth of Nigeria due to low market capitalization, small market size, few listed companies, low volume of transactions, illiquidity among others. Also our result supports Demirgue-Kunt and Asli (1996) and Harris (1997) who found no hard evidence but strong positive relationship between stock market and economic growth which is contrary to the literatures that there is positive relationship between stock market and economic growth.

Afees and Kazeem (2010) critically and empirically examined the casual linkage between stock market and economic growth in Nigeria between 1970 and 2004. The indicator of the stock market development used are market capitalization ratio, total value traded ratio and turnover ratio while the growth rate of gross domestic product is used as proxy for economic growth, using the granger-causality (GC) test, the empirical evidence obtained from the estimation process suggests a bidirectional causality between turnover ratio and economic growth, a uni-directional relationship from market capitalization to economic growth and no causal linkage between total value traded. The result of the causality test is sensitive to the choice of the variables used as proxy for stock (capital) market. Over all, the result of the capital G.C test suggested that capital market drive economic growth.

III. METHODOLOGY

The computational methodology used in this study to evaluate the semi- strong efficiency of the Nigerian capital market, multiple regression analysis with ordinary Least Square (OLS) estimation technique is adopted. The OLS technique has chosen as it gives Best Linear Unbiased Estimator (Blue) Wannocott and Wannocott, (1972), Koutsoyiannis, (1985) and Nyong, (1993). The OLS Techniques is used to fest whether globalization (represented by foreign direct investment, balance of payment, Degree of openness) have impacted on the economic development of Nigeria (proxy by gross domestic product). The study period spans from 1986 to 2015.

A. MODEL SPECIFICATION

The model adopted in this paper is based on Raji and dement, (2009), Oke, (2012) whom have investigated the effect of strong form efficiency of the Nigerian capital market relationship all share index, market capitalization, Government development stock and valve of transaction at the stock exchange which determines the effect test of strong from efficiency of the Nigerian capital market in Nigeria.

The functional form on which the our econometric model is built is given as

Y= f (x1, x2, x3)

Where y is economic growth or ASI = development variable, x1 - x3 are independent variables, represents the functional notation. The OLS linear regression equation based on the above functional relation is:

$$Y = B_0 + B_1 X_1 + B_2 X_2 + B_3 X_3 + u$$

$$ASI = B_0 + B_1 MC + B_2 GDS + B_3 VT + u$$

Where:

MC = Market Capitalisation

GDS = Government Development Stock

VT = Value of transaction at the stock exchange

B_0 = Intercept

$B_0 - B_3$ = Coefficient of the independent variables

U= Error term

On a priori ground, the coefficients of x_1, x_3 should have positive relationship with ASI, while x_2 should have a negative relationship with ASI.

B. ESTIMATION TECHNIQUES

To examine effect of semi-strong form efficiency of the Nigerian capital market, the multiple regression analysis with Ordinary Least Squares (OLS) econometric technique will be used as it is supported empirically as the Best Linear Estimator (BLUE). This refers to the study where one variable (called the dependent variable) is presented to be a function of two or more other variables (called independent variables). The value or behaviour of the dependent variable is this predicted on the basis of its covariance with all the concerned independent variable, Oloyede, (2002).

C. SOURCES OF DATA COLLECTION

The data used are secondary in nature and were obtained from reliable sources. The data involved were principally derived from Central Bank of Nigeria (CBN) Statistical Bulletin (2016) and Nigeria Stock Exchange.

IV. RESULTS AND DISCUSSION

A. PRESENTATION OF RESULTS

The model which the result is presented below is formulated to capture the effect of semi-strong capital market efficiency in Nigeria.

Model	Unstandardized co-efficient			
	Co-efficient	Standard Error	T- cal	Significance
Constant	-2.617799	2.459000	-1.064579	0.2992
VT	-0.079495	0.095865	-0.829239	0.4163
MC	0.140543	0.243364	0.577500	0.5697
GDS	0.912290	0.225731	4.041484	0.0006

Source: Author's Computation

Table 4.1: Presentation of Ordinary Least Square Result (OLS)

R^2=0.979328

Adjusted R^2=0.976375

F stat=331.6204

DW*=1.064672

The above tabular presentation can also be given in equation form as below

$$ASI=-0.079495_{VT} - 0.140543_{MC} + 0.912290_{GDS} + U.$$

B. INTERPRETATION OF RESULTS

From the summary of the estimated results above, the effect of semi-strong capital market efficiency on Economic Growth in Nigerian within the scope of the model formulated have been adequately tested. Table 1 explains how VT, MC and GDS affect ASI.

The co-efficient of the constant parameter which explains the value of the dependent variable i.e. All Share Index (ASI) at zero level of the explanatory or independent variables is given as -2.617799. This shows a negative relationship between the constant parameter and ASI, and it indicates that if all the explanatory variables are held constant, ASI will decrease by 2.617799 units.

The co-efficient of Value of Transaction (VT) shows a negative relationship between ASI and VT. The co-efficient of VT is estimated to be -0.079495, meaning that a unit increase in VT will lead to 0.079495 unit decrease in ASI. This conforms to the stated *a priori* expectation.

On the other hand, the analysis shows a positive relationship between Market Capitalization (MC) and ASI. The co-efficient of MC given as 0.140543. This implies that a unit increase in MC will lead to 0.140543 unit increase in ASI. It means that the higher the MC, the lesser the ASI.

The result also reveals that there exist a positive relationship between GDS and ASI. This is evidenced by the co-efficient which value is 0.912290. This shows that a unit increase in GDS will lead to 0.912290 increases in ASI.

a. CO-EFFICIENT OF MULTIPLE DETERMINATIONS

The co-efficient of Multiple Determination denoted as R^2 with the value of 0.979328 shows that 97.9% changes in the variation in the dependent variable (ASI) can be explained by the explanatory variables (VT, MC and GDS) while the remaining 2.1% is being explained by the stochastic variable or error term. The adjusted R^2 with the value of 0.976375 further confirms the above relationship.

b. TEST FOR THE SIGNIFICANCE OF THE PARAMETERS (T-TEST)

The test for the significance of the parameters is done using the student t distribution test. By employing the T-ratio statistics to test the statistics of the parameters under consideration, the t-calculated is compared with the f-tabulated under 5% level of significance which gives 1.717.

The decision rule is that;

If t-calculated is greater than the t-tabulated (i.e. t-cal. > t-tab.), we reject the null hypothesis and accept the alternative hypothesis.

The hypothesis relevant for this is formulated as;

Ho: U= 0; The variable is not statistically significant

H_1: U=0; the variable is statistically significant

Below shows the summary of the t-test conducted on the specified parameters.

Variables	T-calculated	T-tabulated	Decision Rule		Remarks
		One-tailed test	Ho	H1	
Constant	-1.064579	1.717	Accept	Reject	Insignificant
VT	-0.829239	1.717	Accept	Reject	Insignificant
MC	0.577500	1.717	Accept	Reject	Insignificant
GDS	4.041484	1.717	Reject	Accept	Significant

Source: Author's Computation

Table 4.2: T-Test Statistics

From the table above, it can be deduced that all variables are insignificant except for GDS which was discovered to be

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statistically significant. It could be seen that for GDS, it t-calculated is greater than their t-tabulated, so we reject H_0 and accept H_1 for the two while we accept H_0 and reject H_1 for GDS.

C. IMPLICATIONS OF FINDINGS

From the analysis, it could be seen that market capitalization has a positive relationship with All share index. It implies that MC grossly contribute to the filling the resource gap between the desired investment and locally mobilized savings. MC will help to supplement the local investment and in other words, it will lead to increased productivity in the economy, also create more financial deepen and it will also be instrumental in enhancing development of various sectors of the economy thus ensuring growth and development.

Government Development Stock (GDS) provides us with important information about whether or not a country is paving its way in the International economy. Its entails the development of investment of a country. From the analysis, it could be seen that the GDS has a positive value, this occurred as a result of the improvement in investment of the economy. The positive relationship it has with the ASI means that stock of investment in Nigeria is favorable. It implies that government give adequate mobilization of development stock. Value of Transaction is the ratio of firm's investment from one firm to another in capital market. The positive relationship between VT and ASI implies that the firms transaction has not been encourage toward the efficiency of capital market.

V. CONCLUSION

This research work has been able to pinpoint the effect of capital market efficiency the case of semi strong efficiency. It has also been able to examine the effect the various investment has on economic development. The major factors which influence capital market efficiency into Nigeria for the period 1986- 2015 was examined. The preliminary empirical results show that government development stock, market capitalization to the economy, are significant factors influencing capital market efficiency in Nigeria. However, value of transaction and are not properly signed though statistically significant, on the Nigerian Capital market.

The finding show that there is no difference between the levels of efficiencies of the capital markets in Nigeria. Each market has varying levels of stock turnover (measured by government development stock to market capitalization in 1986 and 2015). Differences in ratios for stock turnovers for each country indicate differences in the volume of turnover for each country, which capital market theories posit is a reflection of the costs of transactions in the market. The increasing trend in stock turnover ratios for each country indicates that transaction costs of each country are declining (an indication of increasing efficiencies in each country). Each firm's value of transaction in the market having positive stock turnover ratios evidences the existence of efficiency in each market. The differences in these ratios indicate differences in levels of efficiencies in each market. Thus the efficiency of capital markets in Nigeria is in degrees: with that in each firms in the economy higher or lower than that in another firm in the economy. Virtually all aspect of human endeavor entail the use of money either self-generated or borrowed. Money enhances capital accumulation with tremendous cyclical rebound on economic growth. In capital market, the sock in trade is money which could be raised through various instruments, under well governed rules and regulations, carefully administered and adhered to by different institutional and market operators. The knowledge that capital market can make a nation and her citizens wealthy is the concept and believe this paper portrays with the aim of enlightening stakeholders on the effect of the market activities with response to formulated policies on the nation's economic development.

This study reveals that there is a linkage between capital market reforms and economic growth vis-à-vis market capitalization, total value of transaction, number of deals, all share index and inflation. As it can be observed that market capitalization, value of transaction, total new issue, number of deals are influenced by external polices from the government in attempt to achieve economics goals such as resources re-distribution, increase in per capital income and reduction in unemployment, among others.

A. RECOMMENDATIONS

The recommendations made as a result of findings, include (but not limited) to safeguarding the market from insider abuse, encouraging globalization of the stock market through cross–border listing, developing investment trusts and funds, encouragement of capital inflows and proper dissemination of information, the need for sound macroeconomic policies to encourage stock market growth.

The key recommendations are:

- ✓ Capital market regulators in Nigeria firms should minimize capital market transaction costs to boost stock trading in their respective capital markets, increasing efficiency in the markets, capital sourcing from these markets, boost firm listings and increase efficiency in financial resource allocation.
- ✓ There is a need for SEC to prevent insider abuse by ensuring that market activities are increasingly monitored at the NSE and ensuring that those caught are prosecuted.
- ✓ Improved communication infrastructure (especially electricity supply) in Nigeria should be encouraged; information about the stock market should be disseminated on a daily basis, as is done in developed markets.
- ✓ Development of funds and unit trusts are to be encouraged by Brokerage Managers since there are very few in Nigeria.
- ✓ Quoted companies should be allowed incentives by SEC and NSE to provide timely information about their activities. Delayed reports should attract penalties.
- ✓ The government, NSE and SEC can fund research into the capital market to improve the efficiency of the market.
- ✓ The Regulators have a responsibility to provide the necessary education to promote the growth and development of the stock market through public enlightenment programmes, seminars, workshops,

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symposiums and publications. The knowledge of investing in the stock market can also stimulate public dialogue on topical issues, initiate policy changes and support prudent innovation for growth of the stock market with its attendant consequences on operational, allocation and informational information.

- ✓ Government at the federal, state and local levels and government agencies should invest their idle funds in stocks and to raise bonds in order to finance development activities when there is a liquidity problem since sufficient liquidity increases allocation efficiency.
- ✓ Regular review of primary market regulations pertaining to new issues, including disclosure, accounting and listing standards that conform to international standards will help boost investor confidence and efficiency of the market.
- ✓ Relaxation and simplification of statutory listing requirements in order to attract a large number of unquoted companies to the second tier securities market. Among possible areas of relaxation include the lowering of capital requirements to a level that is within the financial capabilities of most firms, this will help increase the operational efficiency of the market.
- ✓ Consistency in following prudent macroeconomic are essentially fundamental for informational efficiency of the market especially with the preponderance of high but persistent interest and inflation rates and budget deficits which are affecting stock market development by creating financial instability and uncertainty. Encouragement of cross–border listing will help informational efficiency of the Nigerian Stock Exchange.
- ✓ Accurate information will ensure proper evaluation of prices of listed securities that will be indicative of the true value of stocks, determined exclusively by market forces based on investors" assessment of the performance of the listed companies. This will not only increase the volume of secondary trading and new issues, but also enhance the efficiency of the capital market.

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