NATIONAL ECONOMICS DEVELOPMENT: THE EFFECT OF GROSS CONSUMPTION AND MARKET CAPITALIZATION THE CASE OF NIGERIA

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Abstract

In most developing economy the national economic growth most time have been impacted by consumption rather than growth in the in real sector this have accounted for lack of real development deeply yearn for in the economy of most developing economy.

The study made used of secondary data that covered the period from between 1980 to 2009, the study examined the case of Nigeria. The simple multiple regression analysis was adopted for the study.

It was found that Nigeria like other developing nation display an economy tilt toward consumption financed by revenue from crude oil sale .it was also revealed that the market capitalization is a strong factor impacting the gross domestic product growth. This is in contrast to earlier study that show that only consumption impact on the national economic growth

The study also revealed that the real sector do not contribute to the economic growth, the productive sector is poorly developed over the years.

It was recommended that the national economic policy should be directed toward the development of the real sector, growth in domestic investment through small and medium scale enterprise should be adopted, and foreign direct investment should also be encouraged.

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Introduction

The national economy as measured by the national income is the most acceptable measure of economic growth in the nation most economist from Adam smith to Keynesian economist have agreed that the national gross domestic product (GDP) consist of several economic variables which include the national consumption expenditure, the national investment value the market capitalization and other macroeconomic variables .However, one variable account for higher growth extent than the other ,in the developed economy the national consumption ,the national consumption expenditure and the market capitalization account for equal development function however, in the developing economy where the economy is consumption biased the GAPE tilt towards consumption than investment .this study therefore is an attempt to verify the extent to which this factors impact on the national development

Objective of study

1) to measure the extent to which the real sector is responsible for the growth in the national income
2) to determine the impact of the capital market on the economic growth of Nigeria
3) to measure the gross impact of national consumption , investment and market capitalization on the growth on the economic development

The total market value of all final goods and services produced in country a given year, equal to totalconsumer,investmentandgovernmentspending,plusthevalueofexports,minusthe value of imports is called the gross domestic product

The GDP numbers are reported in two forms: current dollar and constant dollar. Current is calculated using today's dollars and makes comparisons between time periods difficult because of the effects of inflation .Constant dollar GDP solves this problem by converting the current information into some standard era dollar, such as 1997 dollars. This process factors out the effects of inflation and allows easy comparisons between periods. It is important to differentiate Gross Domestic Product from Gross National Product (GNP).

GDP includes only goods and services produced within the geographic boundaries of the nation, regardless of the producer's nationality. GNP doesn't include goods and services produced by foreign producers, but do include goods and services produced by nation's firms operating in foreign countries. (InvestorWords, 2011)

Gross domestic product comes under the heading of national account which is a subject in macroeconomics

GDP can be determining in three ways all of which should in principle give the same result. They are the product (or output) approach the income approach and the expenditure approach.

Economists (since Keynes) have preferred to split the general consumption term into two parts, Private consumption ,and public sector (or government) spending .two advantages of dividing total consumption this way in theoretical macroeconomics are

Private consumption is a central concern of welfare economics .the private investment and trade portions of the economy are ultimately directed (in mainstream economics models) to increases in long-term private consumption.

If separated from endogenous private consumption, government can be treated as exogenous, that different government spending levels can be considered within a meaningful macroeconomics framework (US bureau of economics analysis ,2011 wikipedia, 2011) the private consumption and public consumption or expenditure make total total consumption expenditure

Raujan and Sharman (2008) studied the effect of government development expenditure (that is, public capital expenditure) on economic growth during the period 1950-2007. They discovered a significant positive impact of government expenditure on economic growth

Al-Yousif (2000) reported that government spending has positive relationship with economic growth in Saudi Arabia

Also in Saudi Arabia, Abdallah (2000) analyze the relationship between government expenditure and economic growth. He reported that the size of government is very important in the performance of the economy, advising that government should increase its spending on infrastructure, social and economic activities. Also government should encourage and support the private sector to accelerate economic growth.

Cooray (2009) studied government expenditure and quality of governance in a cross-sectional study that included 71 countries. His result revealed that both the size and quality of the government are associated with economic growth.

Nurudeen and Usman (2010) state that a number researchers have attempted to examine government expenditure vis-à-vis economic growth resulting in different funding. For example, Fajingbesi and Odusola (1999) empirically investigated the relationship between government expenditure and economic growth in Nigeria. The results indicated that real government capital expenditure has significant positive influence on real output. The result also showed that real government recurrent expenditure effect growth only by little.(Ogundele. 2010)

Market capitalization is the market value of a company's paid up capital, determined by multiplying the current quoted price, by the total number of shares issued, by the company and fully paid for by the subscribers. The summation of all the value of share available at the stock market produced the stock market capitalization. Thus, it goes to say that total value of all shares (price multiple by volume) in the capital market produce the stock market capitalization. Market capitalization has also been defined by Michael (2002) as the number of share a company has outstanding multiplied by the share price.

Over the years, there has been little growth in the market capitalization of the Nigerian stock market. However, when compared to its developed nation counterparts the market capitalization of Nigeria capital market still remains very low (Okaro, 2002). The market capitalization of firm can either be large capitalization, mid-capitalization and small-capitalization. (Lawrence, 2000. Michael, 2002)

The market indicators for measuring the performance indices on the Stock Exchange are the market capitalization. Market capitalization represents the public consensus on the value of a company's equity. An entirely public corporation, including all of its assets, may be freely bought and sold through purchases and sales of stock, which will determine the price of the company's shares. Its market capitalization is the share price multiplied by the number of shares in issue, providing a total value for the company's shares and thus for the company as a whole.

The market capitalization is the sum derived from the current stock price per share times the total number of shares outstanding. Although the market cap of a company is an indication of the value of the company, it is only a temporary metric based on the current stock market. The true value of the company (its profits, product positioning, balance sheet, etc.) may not be reflected in the market cap. Of course, the perfect example occurred during the dot-com explosion of the late 1990s, when the market caps of many companies that never made a dime in profit rose to astronomical heights. Conversely, a company can be doing well, but still have a low market cap if its products and reputation have not caught the fancy of the masses. (Vanguard, 2011)

Research problem

1)Economic theorist have stated that in a growing economy the economic growth should be consumption and investment pushed, however, most developing economy have shown the sign of high consumption over investments in the measure of economic growth

2) Most developing economy has a poorly developed capital market that contribute little or nothing to the economic growth

3) In developing economy there have been a great sign of growth without development as the picture of the large economy

4) In developing economy other factor apart from real sector growth have accounted for the recorded growth in the national income.

Research method

The study investigates the impact of investment, gross consumption expenditure and market capitalization on the gross domestic product. The study made use of the secondary data sourced from the CBN report and stock market fact-books. The least square regression analysis method was adopted. A multiple regression analysis method was adopted. The data used covered the period between 1980 to 2009.

Model specification

GDP = F(total investment, gross consumption expenditure, market capitalisation)

GDP = F(Totinvt. Gconsumpt, mkt capt)

$GDP = a_o + a_1\ Invt + a_2\ Gcospt + a_4 Mktcapt + u$

Where

GDP = Gross Domestic Product

Totinvest= total investm

Mketcpt= market capital

Gconsumpt = Gross consumption

GDP = F(Totinvt. Gconsumpt, mkt capt)

$GDP = a_o + a_1\ Invt + a_2\ Gcospt + a_4 Mktcapt + u$

Model	R	R square	Adjusted square	Std error of the estimate	R square change	F change	Qf1	Qf2	Sig of change
									0.000
	0.793	0.629	0.583	13326099.74	0.986	13.566	3	24	

		Un standard coefficient		Std coefficient	T	Sig
		B	Std error			
	Constant	2439255.3	3406624.5		0.702	0.49
Gconsumpt		2.02	1.773	0.334	1.140	0.266
Mktcapt		7.502	2.633	0.967	2.849	0.09
Tot invt		-7.439E.02	0.081	-0.362	-0.915	0.369

Interpretation

The study investigates the growth effect of gross consumption, total investment and stock market capitalisation on Gross Domestic Product (GDP).

The study intend to measure economic growth impact of national expenditure consumption, total investment and stock market capitalization (mkt cap) on the Gross Domestic product of Nigeria.

The regression analysis shows that the independent variables correlate at 0.793, and that the dependent of the GDP growth on these variables stands at 0.583, and the R^2 is 0.629 having adjusted for error in the correlation the adjusted R^2 is 0.583 in any case Oshagwu(2006) adjudged a correlation of 0.5 to be significant measure of relationship. The gradient or slope of the model stands at 2.021, 7.502 and -0.07439 for Gross consumption, stock market, capitalisation and total investment respectively.

The implication of this is that a unit growth in GDP is produced by 2.021 of gross consumption and 2.502 of market capitalisation, however, total investment produce a negative slope of -0.0749 against any unit increase in GDP this is a bad phenomenon for the economy. It means that the national economy is not investment pushed but consumption pushed there is divestment in the economy, while the economy is adjudged to be growing the real sector (investment) is dropping. There is, therefore, growth without development in the economy. The intercept of the equation stands at 2439255.3, this suggest a gross pushed in the economy. However, it would be mentioned that our economy (the domestic economy) is only consumption valued or consumption propelled.

The hypothesis that the growth in Gross domestic Product (GDP) does not depend on the growth of consumption, total investment and the stock market capitalisation is tested using the t-distribution tested. The t-tabulated value at 95% confidence level is 2.052 while 1.140, 2.849 and -0.915 are the t-calculated value for gross consumption, stock market capitalisation and total investment respectively. This means that while stock market capitalisation is a significant explanatory factor of the economic growth in Nigeria total investment and gross consumption are not.

The F factor (Anova) of the equation stands at 13.566 generating a significant measure at 0.000, measured at 95% confidence level. The F factor is significant. It does means that the independent variables (gross consumption, stock market capitalisation and total investment) are significant measure of economic growth (GDP). Pulled together is significantly influenced by the variables.

Conclusion

1. The Nigerian economy is propelled by the trio of Gross consumption, stock market capitalisation and the total investment
2. The real sector of the economy is suffering greatly because the growth revealed by the GDP is not dependent on the total investment but rather on other extant factors
3. The indirect investments into the economy come through the capital market, thus, increasing the growth of the already blue-ship firms rather than the growing the national firms and the local industry.
4. The negative quotient of investment revealed a dying real sector which over the years have been bedevilled by the poor infrastructure, poor power supply and stiff competition
5. The Nigerian economy is a consumption pushed economy and rather than investment pushed. It suggests that there will be low growth without development.
6. The stock market is a growing market. It is contributing substantially to the national economic growth; it is attracting foreign injection of fund than other sector of the economy. Thus, it means existing firm could expand better and further
7. Nigeria has a high population with high consumption level

Recommendation

1. It is recommended that the government policy implementation should focus mostly towards developing the real sector of the economy
2. Government should tailor their policy implementation towards development of infrastructures, and the revamping of the dying power sector.
3. The government should seek foreign investment in the real productive sector as foreign direct investment in the area would boost growth

4. Government should coordinate the large consumption capacity of the nation to provide good market for goods produced within the economy

5. Government should coordinate high consumption real sector targeting them for foreign investment and accelerated real sector growth

6. Government should provide tax incentive and other incentives to foreign investors that will motivate them to invest in the real sector (productive sector) as this will be high profit and growth areas

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