The Nexus between Financial Development and the Nigerian Economy: An Empirical Study

Uloma Adonye Onoh (PhD)
Department of Banking and Finance
College of Management Science
Michael Okpara University of Agriculture, Umudike,
Nigeria
blocker199@gmail.com

Abstract
The study looked at the relationship between financial development and economic growth in Nigeria. Because of the academic controversy surrounding the way many researchers have viewed the role of financial development and the economic growth as to which influences the other, it became imperative to put to test this theory using the e-views statistical package in carrying out series of regression tests (including diagnostics). This research adopts the ex-post facto research design. The result of our analysis indicates that Credit to the Private Sector (CPS) is positively related to GDP (GDP) which tends to show that as more foreign investment inflow is experienced in Nigeria, its GDP also rises. The significant relationship between these variables as indicated by the various test carried out implies that Nigeria has been a huge recipient of foreign investment and this has helped in no small measure to improve on the size of its GDP. The study further finds that Total National Savings (TNS) is positively related to GDP, that the more the inflow of foreign investment the higher the GDP. This conforms to expectation as studies have proved that foreign investment as source of capital helps to boost economic production and the GDP has significant impact on stock market capitalization in Nigeria. In conclusion therefore, financial growth proxied by TNS, CPS and MCAP are factors that has contributed to the growth of the Nigeria economy as indicated by its impact on selected macroeconomic variables studied. Policy recommendations include that monetary authorities must take a more cautious look at financial growth variables as a source of inflation since they relate with money supply in Nigeria. On the other hand, they can be encouraged in an attempt to increase money supply in the economy.

1.0 Introduction

Economic growth is generally agreed to indicate development of an economy, because it transforms a country from a five percent saver to a fifteen percent saver. Thus, it is argued that for capital market to contribute to economic growth and development in Nigeria, it must operate efficiently. Most often, where the market operates efficiently, confidence will be generated in the minds of the public and investors will be willing to part with hard earned funds and invest them in securities with the hope that in future they will recoup their investment (Ewah, Esang and Bassey, 2008).

The capital market has opened the floodgate to relatively inexpensive fund surpassing the possibility of self-financing available to indigenous enterprises. Such funds are usually used for expansion of existing businesses or to cushion the effect of inflation so that businesses may continue as going concerns. It also affords indigenous enterprises and entrepreneurs the opportunity to be introduced into the economy in general through entry into the securities market.

This enables shares that have been privately held to be offered to the general market or international market for inflow of foreign investment. The entering of an indigenous company into the capital market enhance its prestige and reputation, especially its products and credit worthiness in the eyes of the public as conferred upon it by the new status (see, Bayero, 1996). The capital markets in Nigeria create a free entry and exist for investors. It is a known fact in private company that it is not easy for an investor (shareholder) to withdraw capital invested without upsetting the company capital structure. But for public quoted company, it does work not like that. As long as an investor's broker can find a prospective investor to buy the clients' shares the process is done.

One of those important functions of the capital market is to encourage indigenous enterprises to develop its peculiar technologies through accessibility to funds and expertise through international connection. This it has achieved tremendously. Moreover, most of the enterprises benefited from the implementation of the Nigeria Enterprises Promotion Acts and the privatization policies through the market. Both policies promoted indigenous enterprises, which are the main engine of economic growth and development in an economy. Despites the capital market laudable performance and benefits, it is still beclouded with some weakness in Nigeria. The bureaucratic system of the Securities and Exchange Commission is a hindrance to smooth processing of application submitted to it. The private sector to which most enterprises belong is not used to the system of growth of the public sector, but operates by the desire to be competitive. The fee charge by the exchange are unreasonably high and constitute a great burden on enterprises/companies for whose sake the Second tier Securities Market (SSM) was established in 1985 (Ewah, Esang and Bassey, 2008).

If it is realized that the engine of economic growth and development in Nigeria rest in this sector, which is endowed with the capacity to create jobs for the unemployed, then the charges should be moderate and not appear to be punitive. Likewise the cost of hiring the services of stock brokers, registrars and issuing houses in the capital market is getting higher every now and then, but their efficiency is not commensurate to the high cost, this gives room for complaints and mistrust. The imposition of all forms of taxes by the three tiers of government on companies and businesses is especially discouraging, and add to the number of weakness that undermine the capital market as the engine room and pivot for economic growth and development in Nigeria (Ewah, Esang and Bassey, 2008).

1.2 Statement of research problem

The statement of research problem of the study lies in the academic controversy surrounding the way many researchers have viewed the role of financial development and the economic growth of any country. Many believe that financial development precedes economic growth as the driver of the economy (supply-leading hypothesis) and others hold the view that economic growth leads to financial development (demand following hypothesis). Some scholars have gone a step further to suggest that any of these scenarios is possible depending on the level of development and market efficiency of the economy in question. Even though the indices to measure financial development and economic growth are not in question the debate continues to grow as to the actual relationship between economic growth and financial development. It is studies like these that tend to lend its support towards the direction of these relationships or otherwise.

1.3 Research hypotheses

Hypothesis One

H_0: Private sector credit has no significant impact on Nigeria's economic growth

H_1: Private sector credit has a significant impact on Nigeria's economic growth

Hypothesis Two
H_0: Mobilized savings has no significant impact on Nigeria's economic growth
H_a: Mobilized savings has significant impact on Nigeria's economic growth

Hypothesis Three
H_0: Market capitalization has no significant impact on Nigeria's economic growth
H_1: Market capitalization has no significant impact on Nigeria's economic growth
GDP = F (MCAP)

2.0 Review of literature

Bekaert, Harvey and Lumsdaine, (2002) in their study on interrelationship between capital flows, returns, dividend yields and world interest rates in 20 emerging markets including India found that the shocks in equity flows initially increases returns which is consistent with a price pressure hypothesis but the effect immediately dies out and there is only incomplete reversal suggesting some of feedback trading as the lagged returns are not significantly related with unexpected flows. Bahmani-Oskooee and Sohrabian (1994) were among the first to use co integration and Granger causality to explain the direction of movement between exchange rates and stock prices and found FIIs using positive feedback trading strategies; Causality may run from stock prices to foreign investment.

Banaji (2000) emphasized on the fact that the capital market reforms like improved market transparency, automation, dematerialization and regulations on reporting and disclosure standards were initiated because of the presence of the FIIs. He opined that FII flows could be considered both as the cause and the effect of the capital market reforms. The market reforms were initiated because of the presence of FIIs and this in turn has led to increased inflows. The Government of India gave preferential treatment to FIIs till 1999-2000 by subjecting their long term capital gain to lower tax rate of 10 percent while the domestic investors had to pay higher long-term capital gains tax. The Indo-Mauritius Double Taxation Avoidance Convention 2000 (DTAC), exempts Mauritius based entities from paying capital gains tax in India- including tax on income arising from the sale of shares.

Kumar (2000) made an investigation regarding the stability of the foreign institutional investors in India from January 1990 to March 1998 at BSE and found that the volatility in return of Indian stock market before opening for FIIs was 41.05 percent where as the volatility after opening up was 22.66 percent. The study also checked the significance of the difference in both periods (pre and post entry) by applying the F-test and inferred that volatility of the Indian stock market has reduced after the arrival of FIIs. Chakrabarti (2001) has perceived a regime shift in the determinants of FII following the Asian financial crisis. He used the data of BSE for a period of 6 years from May 1993 to Dec. 1999. By applying the Granger Causality Test on the data he found that in the pre-Asian crisis period, any change in FII had a positive impact on equity returns, but it found a reverse relationship in post Asian crisis period. The study points out that the change in FII is mainly due to change in equity returns.

Froot and Seasholes (2001) also experienced the existence of price pressure along with persistence of flows. For the purpose of analysis the study classified the FIIs flow into two parts expected flows and unexpected flows and on the basis of that classified data the analyst concluded that FIIs do not seem to be at an informational disadvantage, they seem to

experience an informational advantage. Secondly, the impact of the unexpected sales by the FIIs on the respective market returns was considerably high. This shows that the market was very sensitive to the FIIs trading, especially sales, which the policy makers should take into account. On the basis of degree of association between unexpected sales and respective market returns they found that BSE was more vulnerable to instability due to trading by FIIs as the impact of unexpected sales at BSE (21.9 percent) reduce the stock price considerably when compared to that of NSE (11.4 Percent)

Pasricha and Singh (2001) evaluated the impact of FIIs on stock market volatility between April 1998 to March 2000 on BSE and NSE both. They found that FIIs have always remained net investors in the country except during 1998-99 and their investment has been steadily growing since their entry in the Indian market. They are here to stay and have become the integral part of Indian capital market. Although their (FIIs) investment in relation to market capitalization is quite low, they emerged as market movers. The market had been moving, in consonance with their investment behavior. However, their entry has led to a greater institutionalization of the market and their activities have provided depth to it. FIIs have also contributed towards making Indian market modern and comparable with international standards. Their entry has brought transparency and simplicity in the market operations.

Mukherjee (2002) explores in his study the relationship of foreign institutional investment flows to Indian equity market with its possible covariates based on a daily data-set for the period Jan. 1999 to May 2002 by employing Granger Causality Test on it. He obtained the result that the FII net inflow is correlated with the return in Indian equity market. So far as investment in Indian equity market is concerned, foreign investors do not seem to be at informational disadvantage compared to domestic investors. The study also reveals that Asian crisis marked a regime shift in the sense that in the post Asian-crisis period the return in the Indian equity market turned out to be the sole driver of the FII inflows, where as for the pre-Asian crisis period other covariates reflecting return in other competing markets, urge for diversifications etc. were also found to be correlated with FII net flows. Srivastva (2009) concluded that capital/technology intensive sectors are attracting significantly higher share of the total foreign investment as compared to labour intensive sectors such as food-processing industries, hotels, tourisms and textiles. The foreign investment does not have any considerable impact on the macro economy parameters of Indian economy.

Mazumdar (2004) found that FII flows have enhanced liquidity in the Indian stock market but not much evidence is there to support the hypothesis that FII flows have generated volatility in the returns. Rai and Bhanumurthy (2004) examined the determinants of foreign institutional investments in India and their impact on the other domestic financial markets on the basis of monthly data of BSE from Jan. 1994 to Dec. 2002. They employed ARMA, GARCH and TARCH model on the data and concluded that FII inflows depend on stock market returns, inflation rates (both domestic and foreign) and ex-ante risk. In terms of magnitude, the impact of stock market returns and the ex-ante risk turned out to be the major determinants of FII inflows. They also suggest that stabilizing stock market volatility and minimizing the ex-ante risk would help to attract more FII, an inflow of which has a positive impact on the real economy.

Ahmed, Ashif and Ahmed (2005) made a firm level analysis of FII‟s role in the Indian equity market. At the aggregate level, FII investments and NSE Nifty seem to have a strong bi-directional causality. At the firm level, FIIs are influencing equity returns especially in the

government owned companies. He also confirmed that there has been very little destabilizing effect of FII flows on individual equity returns of the firms during their period of study.

Biswas (2005) conducted a study with an objective to study the role of FIIs in the development of noise driven Indian stock market by taking the data from 1991 to 2004. The inflows of huge institutional investments in India increased the turnover and market liquidity. But excessive speculation indulged by FIIs is the single most important reason for abnormal fluctuations of share price in Indian stock market in the post-liberalization period. The study concludes that FII influences the share price movements in Indian stock market but their role in the development of Indian stock market is still questionable. Pal (2005) especially examines the behavior of the FIIs in India for the period March 2004 to June 2004 and investigated how the withdrawal of foreign portfolio capital in the post election phase has affected the price and equity holding pattern of different Sensex companies. He found that Sensex are quite closely related to FIIs movement in India and also support the feedback-trading hypothesis. He also supports that being the most dominant non-promoter shareholder in the Sensex companies than the other investors group FIIs also increase volatility in the market.

Panda (2005) examined the impact of FIIs and mutual fund investments on Indian stock market by using Vector Auto regression (VAR) analysis and Granger Causality Test on data of NSE and BSE for the period from Oct. 2003 to Mar. 2004 and found that the returns on Indian stock market indices were more affected by the mutual fund investment than FIIs investment. FIIs are found to follow positive feedback strategy and to have returns chasing tendency. Banerjee and Sarkar (2006) have attempted to model and forecast stock return volatility in the index returns of the NSE, using high frequency intra-day data covering a period from June 2000 through January 2004 by using the GARCH model. Main findings of this study are: (a) existence of volatility clustering in the Indian stock market; (b) evidence of leverage effect on volatility; (c) the change in volume of trade positively affecting market volatility; and (d) participation of FIIs in the Indian stock market not resulting in significant increase in market volatility.

Biswas (2006) evaluated the impact of financial liberalization on the growth, development and efficiency of Indian stock market vis-à-vis other selected Asian markets by analyzing the data for the period from 1991 to 2005. He found that financial liberalization by introducing FIIs has had a beneficial impact on the growth and development of the Indian stock market. He brought out that the market has developed substantially since 1991-92, in terms of trading volume, market capitalization, and numbers of listed companies, increased efficiency and liquidity. The author expressed that expansion of the Indian stock market in the post-liberalization decade was truly impressive but in terms of the quality there has been a regress. Karmakar (2006) measured the volatility of daily market return in the Indian stock market over the period from 1961 to 2005 by using the GARCH Model and observed that the market was tranquil and volatile. The level of the volatility was modest for the first two decades of the 1960s and 1970s. Almost from the beginning of 1980s there were indications of change in the mood of the market. Volatility touched new high from 1985 and during the year 1992, it surpassed all previous records and continued to increase till the end of the decade. During the last two years volatility has declined and this period is accompanied by increasing price rise fuelled partly by the investments made by FIIs.

Mohan (2006) concludes in his research that FII flow into Indian stock market have conferred several benefits on the economy. They have helped augment capital flows at a time when the

balance of payment situation was not comfortable. They allowed Indian firms to access overseas capital at a cost that was lower than the domestic cost of capital. They ushered in major reforms in the working of securities markets and in corporate governance. He also commented that volatility in FII flows does not pose systematic risk. The study suggests deriving the benefits of FII flows without having to put up with the uncertainties created by the participatory notes component. Eliminating the uncertainties that go with PNs will also help to reduce or eliminate the cost of sterilization incurred in the process of having to deal with potentially volatile FII flows.

Upadhyay (2006) found in her study that FII flows supplement and augment domestic savings and domestic investment without increasing the foreign debt of our country. Capital inflows to the equity market increase stock prices lower the cost of equity capital and encourage the investment by Indian firms. The Indian stock market is both shallow and narrow and the movement of stocks depends on limited number of stocks. As FIIs purchase and sell these stocks there is a high degree of volatility in the stock market. The high degree of volatility can be attributed to the increase in investment by FII, which increases the stock prices. Beside this, even when any correction takes place and the stock price declines; there will be pull out by the FIIs in a large number. According to the study the reason of the volatility is that the FIIs manipulate the situation of boom in such a manner that they wait till the index rises up to a certain height and exit at an appropriate time. This tendency increases the volatility further.

Moel (2000) analyzed the effect of ADR listings from foreign markets on three aspects of development of local stock markets, viz., openness, liquidity and growth. His sample constituted firms from 28 emerging markets including India. He found that following ADR issues, there was an increase in transparency and a decline in liquidity & growth of the home equity market in terms of size and the number of new listings. He used accounting disclosure standards to proxy for openness of the market while liquidity was measured using the share turnover of the firms in the home market that do not list abroad. Finally growth of the home equity market was measured using the total market capitalization (using firms that do not list abroad) to gross domestic product (GDP) ratio. Mole's study indicated that listing of foreign ADRs have an adverse impact on the home market liquidity and growth measured in terms of total market capitalization.

Nilsson (2002) has explored that stock market liberalization could lead to excess volatility possibly on account of noise trading for Nordic stock markets. He found evidence of higher expected return, higher volatility and stronger links with international stock markets characteristic of the deregulated period in all Nordic stock markets. Some researchers and economists have conducted studies to identify the determinants of the FII flows to India's capital market. Similarly, certain studies have analyzed the causal relationship between FIIs and returns of the host country market. Parsuna (2000) finds that mainly the returns in the host country stock market attract the FIIs investments, other factors are also creating impact on the arrival of FIIs but they are statistically insignificant.

Chakrabarti (2001) came with the evidence that the FIIs flows are highly correlated with equity returns in India. He also found that the FII flows effect rather than cause of these returns and hence it contradicted the view that FIIs determine the market return in general. Mukherjee and Coondoo (2002) also explore the relationship of FII Investments to the Indian equity market with its possible covariates based on a daily data set for the period January 1999 to May 2002. The study found the FIIs flows to and from the Indian market tends to be

caused by return in domestic equity market. The study also explains that the return from the exchange rate variation and fundamentals of the Indian economy may have influenced FIIs decision, but such influence does not seem to be strong.

Gorden and Gupta (2003) apply the multiple regression technique on the monthly data from September 1992 to October 2001 to find out the relation between fundamental factors of the Indian economy and portfolio flows and find external interest rate and lagged domestic stock market return as key variables for explaining portfolio arrivals. Rai and Bhanumurthy (2003) examine the determinants of the FIIs investments in India by taking the data from January 1994 to November 2002 and find a positive relation between FIIs and stock market return (BSE) and an adverse effect of fundamental factors such as speculation and sentiments.

Tripathy (2007) examines the inter-linkage among stock market, market capitalization and net FII investments by applying both Ganger Causality and Vector Auto Regression test (VAR). The results indicate that there is no significantly causality between FII investment and market capitalization but there is a unidirectional casual relationship between market capitalization and stock market and net FII investment and stock market. After going through the existing studies on the subject under reference, we were in a position to note some gaps in them. First, the period of these researches was relatively shorter. Secondly, the number of the independent variables considered for examining their linkage with FIIs has remained limited. Thirdly, the multiple regression models were applied without verifying the properties of the time series data such as stationary, autocorrelation etc. Fourth, no one has studied the impact of the FIIs on Indian market's trading volume, Lastly, majority of the authors have proceeded with only one dependent variable i.e. either purchase or sale or net investment by the FIIs. The study is an improvement over the earlier studies in several ways. It has used the longer period of data to study the behaviour of stock market after FIIs were permitted to invest in Indian stock market. It would study all the aspect of impact of FII investment on Indian market in terms of return, volatility, market capitalization and trading volume.

Several studies have been conducted in developing countries to show the way financial deepening/development and economic growth relates. The outcomes of these studies have not been in uniformity even for the same country.
In Nigeria for instance, studies such as Akinlo and Egbetunde (2010), Solarin and Jauhari (2011) provided strong evidence in support of supply-leading hypothesis while Torruam, Chiawa and Abur (2013), Onayemi (2013) showed contrary evidence. This section is segmented in two parts. The first sub-section reviews studies relating to developing countries while the second sub-section provides evidence solely on Nigeria. Studies showing evidence of causality between financial development and economic growth are only considered in this review.

Banerjee and Ghosh (1998) reported a strong evidence of supply-leading relationship from real disbursements to real investments in India while there is a weak evidence to affirm causality in the reverse order. Calderón and Liu (2002) in a study comprising 87 developing and 22 industrial countries found that bi-directional relationship between financial development and economic growth in both country categories. However, there is greater influence of financial development in developing countries than in industrial countries. Choong, Yusop, Law and Sen (2003) revealed that finance leads to economic growth in Malaysia and provided strong support for the supply-leading hypothesis from the perspective of the stock market. Christopoulos and Tsionas (2004) showed that one-way causality moving from financial development to growth exists in 10 developing economies; thus

supply-leading hypothesis is upheld. Chang and Caudill (2005) found that causality between financial development and the growth of Taiwan is one-way, flowing from former to latter. Abu- Bader and Abu-Qarn (2005) indicated that financial development has causal effect on Egyptian growth through increasing efficiency of investment and resources for investment. In Kenya, Odhiambo (2008) found economic growth granger cause financial development and no causality from financial development to economic growth.

Acaravci, Ozturk and Acaravci (2009) developed a panel of 24 sub-Saharan African countries to examine the finance-growth link for the period between 1975 and 2005. The causality analysis showed statistical interdependence between financial development and economic growth for all countries (i.e. supply-leading and demand-following hypotheses co-exist). Craigwell, Wright and Carby (2012) tested Patrick (1966) hypothesis in the financial system of Barbados and found no evidence to lend credence to Patrick's hypothesis but established that demand-following hypothesis exists. Simwaka, Munthali, Chiumia and Kabango (2012) observed that financial development is not a driver of economic growth in Malawi rather, it is economic growth that drives financial development; hence, the demand-following response is evident in Malawi.

Fosu (2013) examined the nexus between financial development and economic growth of 28 African countries from 1975 to 2011. The results showed that financial development and economic growth are interdependently related. Sunde (2013) observed uni-directional causality flowing from financial development and Namibian growth from 1990Q1 to 2011Q4. Mhadhbi (2014) assessed the causation between financial development and economic growth for 27 medium-income countries for the period 1970-2012 and discovered that supply-leading hypothesis exists in three countries only. Odediran and Udeaja (2010) found two-way causality between financial development and economic growth in support of Patrick's (1966) hypothesis. Akinlo and Egbetunde (2010) in a study of 10 sub-Saharan African economies discovered finance-led growth in Nigeria. Ogwumike and Salisu (2012) acknowledged that financial development granger cause economic growth between 1975 and 2008; hence strong evidence to affirm supply- leading hypothesis is offered. Solarin and Jauhari (2011) reported that supply-leading hypothesis is followed in the economy. Osuji and Chigbu (2012) provided evidence in support of both supply-leading and demand-following hypotheses in the economy from 1960 to 2008. Onayemi (2013) showed that financial development has weak impact on variations in economic growth and the economy acts in the demand-following manner because it deepens the financial sector. Similarly, Torruam, Chiawa and Abur (2013) offered evidence of demand-following hypothesis from 1990 to 2011 (i.e. economic growth increases the depth of the financial sector). Also, Isu and Okpara (2013) affirmed that the economy follows demand-following hypothesis. In addition, Iyoboyi (2013) inquired into the effect of financial deepening on economic growth from 1981 to 2010 by combining a proxy of banking sector and stock market development.

The study established bi-directional causality between banking sector development and economic growth and unidirectional causality running from economic growth to stock market development. Madichie, Maduka, Oguanobi and Ekesiobi (2014) showed that demand-following hypothesis holds in the economy. Majority of these studies on Nigeria indicated that demand-following hypothesis holds while few affirmed otherwise. This shows that controversy still trails the causality between financial development and economic growth in Nigeria. The conflict in empirical literature may be caused by differences in sample period and non-uniformity of empirical model. Most of these studies showing causal link in Nigeria used money market indicators to capture financial development and overlooked capital

market indicators as contributors to financial development with the exemption of studies like Ogwumike and Salisu (2012), Isu and Okpara (2013) and Iyoboyi (2013).

3.0 Research methodology

The methodology of research used the e-views statistical package in carrying out series of tests (including diagnostics). This research adopts the *ex-post facto* research design. In the context of social and educational research the phrase 'after the fact' or 'retrospectively' refers to those studies which investigate possible cause-and-effect relationships by observing an existing condition or state of affairs and searching back in time for plausible causal factors. Secondary data is data which has been collected by individuals or agencies for purposes other than those of our particular research study (Onwumere, 2005). The justification for the use of secondary data in this research is that; it is available and is entirely appropriate and wholly adequate to draw conclusions and answer the question or solve the problem; it is far cheaper to collect; the time involved in searching secondary sources is much less than that needed to complete primary data collection; secondary sources of information can yield more accurate data than that obtained through primary research; secondary data can play a substantial role in the exploratory phase of the research when the task at hand is to define the research problem and to generate hypotheses; and it will help define the population. Thus, the data used for this research was generated from the CBN statistical bulletin 2007 to 2016.

In the process of developing of the model the first step is to identify the linear regression model requiring the inclusion of the dependent and independent variable and the attendant coefficient weights identified by using statistical method called Ordinary Least Squares (OLS). These coefficient weights measure the strength of the relationship between independent and dependent variables. The two dimensions of the coefficients are direction and magnitude. The direction indicates whether variations in the dependent variable are caused by changes in the independent variable. Generally, the magnitude of coefficients can be compared only if two independent variables have the same unit of measurement. Otherwise the variables need to be normalized to a standard scale to be compared to measure the strength of the relationship across different independent variables.

Model specification

According to Onwumere (2009), regression is a statistical technique used in measuring the impact of one or more variables (otherwise known as independent variables or regressors) on another variable (the dependent variable or the regressand). The general linear regression model according to Koutsoyiannis (2006) and Onwumere (2009), is:

$$Y = \alpha_0 + \alpha_1 X + \mu \quad \text{- - - - - - (i)}$$

Where Y is a function of X independent variable and μ is the error term, a_0 being the constant and a_1 being the coefficient of the independent variable.

where;

Log Oil Exp = Log of Oil Export earnings (a proxy for oil export earnings)
Log Exh rate = Log of exchange rate (a proxy for the naira equivalent of the dollar ($)
α_0 = Equation constant
α_1 = Coefficient of independent variable
μ = Error Term

Model Assumption

The model adopted are based on the following assumptions

1. There must be enough data available to compare with the number of parameters to be estimated. If there is too little data, then you end up with a system of equations with no unique solution. The ten-year data from 2007-2016 is sufficient to meet this assumption for this research. Though, this is a necessary but not a sufficient condition but if this condition fails this could lead to multicollinearity in the regressors.
2. The regressor is also assumed to be error-free. In standard regression models, regressors have been measured exactly, or observed without error; as such, those models account only for errors in the dependent variables, or responses. However since the figure will be computed from secondary sources, it is hoped that the problem will not arise.

Variables

The variables used in the models are the Dependent and Independent, the former (Oil export earnings) represents the output or effects while the latter (Foreign exchange rate) represents the inputs or causes. And since the models are statistical the dependent variable is studied to see if and how much it varies as the independent variable varies.

4.0 Data analysis and discussions of findings

4.1 Data presentation

Table 4.1: Market Capitalization, Total Savings, Credit to Private Sector and Gross Domestic Product (₦'m)

Year	GDP (₦'b)	Credit to Private Sector (₦'b)	Total Savings (₦'b)	Market Capitalization(₦'b)
1986	202.44	15.25	13.93	6.8
1987	249.44	21.08	18.68	8.2
1988	320.33	27.33	23.25	10.0
1989	419.20	30.40	23.80	12.8
1990	499.68	33.55	29.65	16.3
1991	596.04	41.35	37.74	23.1
1992	909.80	58.12	55.12	31.2
1993	1259.07	127.12	85.03	47.5
1994	1762.81	143.42	110.97	66.3
1995	2895.20	180	108.49	180.4
1996	3779.13	238.60	134.50	285.8
1997	4111.64	316.21	177.65	281.9
1998	4588.99	351.96	200.07	262.6
1999	5307.36	431.17	277.67	300.0
2000	6897.48	530.37	385.19	472.3
2001	8134.14	764.96	488.05	662.5
2002	11332.25	930.49	592.09	764.9
2003	13301.56	1096.54	655.74	1359.3
2004	17321.30	1421.66	797.52	2112.50
2005	22269.98	1838.39	1316.96	2900.1

2006	28662.47	2290.62	1739.64	5120.90
2007	32995.38	3680.09	2693.55	13181.7
2008	39157.88	6941.38	4118.17	9563.00
2009	44285.56	9147.42	5763.51	7030.80
2010	54612.26	10157.02	5954.26	9918.20
2011	62980.40	10660.07	6531.91	10275.30
2012	71713.94	14649.28	8062.90	14800.90
2013	80092.56	15751.84	8656.12	19077.40
2014	89043.62	17129.68	12008.24	16875.10
2015	94144.96	18675.47	11458.13	17003.40
2016	101489.49	21082.72	12320.23	16185.70

Source: CBN Statistical Bulletin Various Issues

4.2 Analysis of Data

Data collected were analyzed by regression analysis using electronic view, the result printouts are attached as appendix. The results are summarized, and presented below.

Hypothesis One

H_0: Private sector credit has no significant impact on Nigeria's economic growth
H_1: Private sector credit has a significant impact on Nigeria's economic growth

Where: GDP = F (CPS)

Table 4.2: Result of Data Analysis

Dependent Variable: GDP
Method: Least Squares
Date: 12/03/17 Time: 19:52
Sample: 1986 2016
Included observations: 31

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-11406.56	13151.18	-0.867341	0.3940
CPS	0.487848	0.038007	12.83589	0.0000

R-squared	0.868255	Mean dependent var	105890.3
Adjusted R-squared	0.862985	S.D. dependent var	132764.0
S.E. of regression	49143.33	Akaike info criterion	24.51406
Sum squared resid	6.04E+10	Schwarz criterion	24.61004
Log likelihood	-328.9398	Hannan-Quinn criter.	24.54260
F-statistic	164.7600	Durbin-Watson stat	2.211667
Prob(F-statistic)	0.000000		

Source: *E-View software*

Estimated model from the e-view shows that the model is linear and given as GDP = -11406.56+ 0.487848CPS.
CPS is positively related to GDP. It means that, increase in CPS will lead to increase in GDP.

Coefficient of Determination (R^2)
The R^2 was estimated as 86.83% which implies that 86.86percent of the total variation found in GDP is explained by the presence of CPS. By the decision rule, it is agreed that there is goodness of fit between the variables.

Adjusted Coefficient of Determination (R^{-2})
The adjusted R^{-2} estimated as 86.30% which implies that 86.30% of the total variation found in GDP is explained by the variation of CPS. By the decision rule, it is agreed that there is a strong presence of CPS in GDP.

Standard Error Test
The standard error test shows that standard error for CPS is 0.038007 and it is less than half its parameter found to be 0.487848/2=0.243924.
Going by the decision rule that: **If b_1 ½ > S (b_1), the variables are statistically significant and If b_1 ½ < S (b_1), the variables are statistically insignificant.** This implies that CPS is statistically significant with GDP.

Student's T-Test
The student's t-test estimates used to test the acceptability of the hypothesis, result shows that t-cal for FPI is 12.83589 while its prob-value is 0.0000. By the decision rule: **Accept null hypothesis (hi) if bi:t^c < t^t (0.025)n-k and Accept alternative hypothesis (hi) if b_1:t^c > t^t (0.025)n-k.** From our result, we reject the null hypothesis and accept its alternative that foreign private investment has significant impact on the percapita income of Nigeria.

F-Statistics
The F-cal was found to be 164.7600 while the f-prob value is 0.0000. **Decision Rule:** If F-cal > F-tab/prob-value, reject null hypothesis. If F-cal < F-tab/prob-value, accept null hypothesis. From the result it implies that the overall regression is statistically significant and accepts the alternative hypothesis that foreign private investment has significant impact on the percapita income of Nigeria.

Hypothesis Two
H_0: Mobilized savings has no significant impact on Nigeria's economic growth
H_a: Mobilized savings has significant impact on Nigeria's economic growth
GDP = F (TNS)

Table 4.3: Result of Data Analysis for Hypothesis 2
Dependent Variable: GDP
Method: Least Squares
Date: 12/03/17 Time: 21:29
Sample: 1986 2016
Included observations: 31

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-2325088.	2834975.	-0.820144	0.4199
TNS	65.04093	8.192994	7.938603	0.0000

R-squared	0.715978	Mean dependent var	13313196
Adjusted R-squared	0.704617	S.D. dependent var	19491999

S.E. of regression	10593730	Akaike info criterion	35.26061
Sum squared resid	2.81E+15	Schwarz criterion	35.35660
Log likelihood	-474.0182	Hannan-Quinn criter.	35.28915
F-statistic	63.02141	Durbin-Watson stat	1.343881
Prob(F-statistic)	0.000000		

Source: ***E-View software***

Estimated model from the e-view shows that the model is linear and given as
GDP = -2325088+ 65.04093TNS.
TNS is positively related to GDP. It means that, increase in TNS will lead to increase in GDP.

Coefficient of Determination (R^2)
The R^2 was estimated as 71.60% which implies that 71.60percent of the total variation found in GDP is explained by the presence of TNS. By the decision rule, it is agreed that there is goodness of fit between the variables.

Adjusted Coefficient of Determination (R^{-2})
The adjusted R^{-2} estimated as 70.46% which implies that 70.46% of the total variation found in GDP is explained by the variation of TNS. By the decision rule, it is agreed that there is a strong presence of TNS in GDP.

Standard Error Test
The standard error test shows that standard error for TNS is 8.192994 and it is less than half its parameter found to be 65.04093/2=32.52046.
Going by the decision rule that: **If b_1 ½ > S (b_1), the variables are statistically significant and If b_1 ½ < S (b_1), the variables are statistically insignificant.** This implies that TNS is statistically significant with GDP.

Student's T-Test
The student's t-test estimates used to test the acceptability of the hypothesis, result shows that t-cal for TNS is 7.938603 while its prob-value is 0.0000. By the decision rule: **Accept null hypothesis (hi) if bi:t^c < t^t (0.025)n-k and Accept alternative hypothesis (hi) if b_1:t^c > t^t (0.025)n-k.** From our result, we reject the null hypothesis and accept its alternative that total national savings has significant impact on Nigeria's GDP.

F-Statistics
The F-cal was found to be 63.02141 while the f-prob value is 0.0000. **Decision Rule:** If F-cal > F-tab/prob-value, reject null hypothesis. If F-cal < F-tab/prob-value, accept null hypothesis. From the result it implies that the overall regression is statistically significant and accepts the alternative hypothesis that total national savings has significant impact on Nigeria's GDP.

Hypothesis Three
H_0: Market capitalization has no significant impact on Nigeria's economic growth
H_1: Market capitalization has no significant impact on Nigeria's economic growth
GDP = F (MCAP)

Table 4.4: Result of Data Analysis for Hypothesis 3
Dependent Variable: GDP
Method: Least Squares
Date: 12/04/17 Time: 08:23
Sample: 1986 2016
Included observations: 31

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-232127.6	214280.4	-1.083289	0.2890
MCAP	5.243711	0.619264	8.467650	0.0000

R-squared	0.741471	Mean dependent var	1028658.
Adjusted R-squared	0.731130	S.D. dependent var	1544227.
S.E. of regression	800722.6	Akaike info criterion	30.09560
Sum squared resid	1.60E+13	Schwarz criterion	30.19159
Log likelihood	-404.2907	Hannan-Quinn criter.	30.12415
F-statistic	71.70110	Durbin-Watson stat	1.627785
Prob(F-statistic)	0.000000		

Source: *E-View software*

Estimated model from the e-view shows that the model is linear and given as GDP= -232127.6+ 5.243711MCAP.
MCAP is positively related to GDP. It means that, increase in MCAP will lead to increase in GDP.

Coefficient of Determination (R^2)
The R^2 was estimated as 74.15% which implies that 74.15percent of the total variation found in GDP is explained by the presence of MCAP. By the decision rule, it is agreed that there is goodness of fit between the variables.

Adjusted Coefficient of Determination (R^{-2})
The adjusted R^{-2} estimated as 73.11% which implies that 73.11% of the total variation found in GDP is explained by the variation of MCAP. By the decision rule, it is agreed that there is a strong presence of MCAP in GDP.

Standard Error Test
The standard error test shows that standard error for MCAP is 0.619264 and it is less than half its parameter found to be 5.243711/2=2.621855.
Going by the decision rule that: **If b_1 ½ > S (b_1), the variables are statistically significant and If b_1 ½ < S (b_1), the variables are statistically insignificant.** This implies that MCAP is statistically significant with GDP.

Student's T-Test
The student's t-test estimates used to test the acceptability of the hypothesis, result shows that t-cal for MCAP is 78.467650 while its prob-value is 0.0000. By the decision rule: **Accept null hypothesis (hi) if bi:t^c < t^t (0.025)n-k and Accept alternative hypothesis (hi) if b_1:t^c > t^t (0.025)n-k.** From our result, we reject the null hypothesis and accept its alternative that market capitalization has significant impact on gross domestic product in Nigeria.

F-Statistics
The F-cal was found to be 71.70110 while the f-prob value is 0.0000. **Decision Rule:** If F-cal > F-tab/prob-value, reject null hypothesis. If F-cal < F-tab/prob-value, accept null hypothesis. From the result it implies that the overall regression is statistically significant and accepts the alternative hypothesis that foreign private investment has significant impact on gross fixed capital formation in Nigeria.

4.3 Discussion of Findings

The result of our analysis indicates that Credit to the Private Sector (CPS) is positively related to GDP (GDP) which tends to show that as more foreign investment inflow is experienced in Nigeria, its GDP also rises. The significant relationship between these variables as indicated by the various test carried out implies that Nigeria has been a huge recipient of foreign investment and this has helped in no small measure to improve on the size of its GDP. This finding thus conforms to the studies of supports the views of Ituma (2015), Lucky & Kingsley (2016) & Monogbe (2016) who found link between foreign investment and growth in percapita GDP.

The study further finds that Total National Savings (TNS) is positively related to GDP, that the more the inflow of foreign investment the higher the GDP. This conforms to expectation as studies have proved that foreign investment as source of capital helps to boost economic production. It was found that TNS impacts significantly on GDP which is an indication that TNS is a major determinant of Nigeria's economic growth. It is no wonder various studies in this area such as Effiong & Eke (2016)**;** Ituma (2015); Lucky & Kingsley (2016); Oni, Imolehin, Adelowo & Adejumo (2014); Simon-Oke (2014); Solomon (2016) all found positive and significant relationship between total national savings and Nigeria's GDP. It is worthy to mention that there are vast literatures on the relationship between TNS and GDP with virtually all coming to a conclusion on the positive relationship between the two.
The study also finds a positive relationship between Market Capitalization (MCAP) and Gross Domestic Product (GDP). This implies that as market capitalization inflow increases, Nigeria's gross domestic product also increases. This also tends to indicate that MCAP as a source of capital has been of immense benefits to Nigeria and no wonder the government continues to make efforts to sustain its flow. The significant relationship as found by the various test further confirms the importance of MCAP to Nigeria's capital formation. The findings support the works of Lucky & Kingsley (2016) and Solomon (2015) who found link between MCAP and Gross Domestic Product.

This study investigated Private Sector Credit and Nigeria's economic growth prospects. It specifically examined the impact of CPS on Nigeria's GDP, inflow of capital proxy by money supply and capital market development proxy by market capitalization. This study made use of data collected from CBN Statistical Bulletin from 1986-2016 while the regression analysis, coefficient of determination, adjusted coefficient of determination, t-test, and F-test were used. In the first analysis, the regression shows that CPS is positively related to GDP. The R^2 was estimated as 62.37% which implies that 62.37percent of the total variation found in GDP is explained by the presence of CPS. The adjusted R^{-2} estimated as 60.98% which implies that there is a strong presence of CPS in GDP. The standard error test shows that standard error for CPS is 0.001937 and it is less than half its parameter indicating that CPS is statistically significant with GDP. The student's t-test result shows that t-cal for FDI is 6.689649 while its prob-value is 0.0000, hence, acceptance of the alternative that Foreign Direct Investment has significant impact on economic growth in Nigeria. The F-cal was

found to be 44.75140 while the F-prob value is 0.0000 which implies that the overall regression is statistically significant.

In the second analysis, TNS is positively related to GDP which means that, increase in TNS will lead to increase in GDP. The R^2 was estimated as 74.91% which implies that there is goodness of fit between the variables. The adjusted R^{-2} estimated as 73.96% which implies that there is a strong presence of TNS in GDP. The standard error test shows that standard error for TNS is 0.007932 and it is less than half its parameter indicating that TNS is statistically significant with BMS. The student's t-test estimates used to test the acceptability of the hypothesis, result shows that t-cal for TNS is 8.979251 while its prob-value is 0.0000, hence, accept the alternative hypothesis that Foreign Direct Investment has significant impact on money supply in Nigeria. The F-cal was found to be 80.62696 while the f-prob value is 0.0000 which provides that the overall regression is statistically significant.
In the third analysis, GDP is positively related to MKTCAP which means that, increase in GDP will lead to increase in market capitalization. The R^2 was estimated as 53.34% which implies that there is strong goodness of fit between the variables. The adjusted R^{-2} estimated as 51.62% which confirms that there is a strong presence of GDP in MCAP. The standard error test shows that standard error for MCAP is 0.007577 and it is less than half its parameter, thus showing that MCAP is statistically significant with GDP. The student's t-test result shows that t-cal for MCAP is 5.556070 while its prob-value is 0.0000, hence, alternative hypothesis that GDP has significant impact on stock market capitalization in Nigeria. The F-cal was found to be 30.86992 while the f-prob value is 0.0000 which implies that the overall regression is statistically significant.

5.0 Conclusion

There is no gainsaying that financial growth remains a major source of capital and investment proceeds in Nigeria. The argument supports that that these indices as a determinant of economic development is true as revealed in the Nigerian situation. Despite been a speculative investment, its inflow into Nigeria has been a blessing as revealed. Empirical findings have shown that financial growth significantly influenced GDP (R^2=62.37%), money supply (R^2=74.91%) and capital formation (R^2=53.34%) and significantly impact on export (t-cal=9.554). This result is an indication of the importance of financial growth to economies in government desire to reduce poverty and stimulate economic growth of Nigeria. The result shows that the inflow of financial growth variables has been a good development for the Nigerian economy and with investment more jobs are being created, more companies established.

Becoming of the top twenty most developed economic by the year 2020 requires serious commitment in improving business activities and increasing economic output. Financial growth which increases technology development can help to increase and improve the low level of technological development in Nigeria, if favourable conditions are made available as evidenced in the South Africa situation.
Conclusion can therefore be drawn that financial growth proxied by TNS, CPS and MCAP are factors that has contributed to the growth of the Nigeria economy as indicated by its impact on selected macroeconomic variables studied.

6.0 Recommendations

Based on the following findings in this study and to further encourage foreign direct investment in the country, I offer the following recommendations for specific attention of the authorities:

(1) The infrastructures in the country need to be enhanced to meet the needs/requirements of foreign investors. For example, electricity should be provided at an uninterrupted level to reduce the extra cost that investors incur in the procurement of power generating sets coupled with their maintenance. Also, good network roads and adequate water supply should be provided so as to cut the cost of investors doing business.

(2) There is need for continuity in government's policies aimed at developing the economy so that both local and foreign investors can be encouraged to increase their volume of investment in Nigeria.

(3) The capital market must be reformed constantly to encourage flow of foreign direct investment into Nigeria.

(4) The monetary authorities must take a more cautious look at financial growth variables as a source of inflation since they relate with money supply in Nigeria. On the other hand, they can be encouraged in an attempt to increase money supply in the economy.

(5) There is need for the improvement in the export sector such as stable exchange rate, encouraging tariff and incentives as this will improve investment from foreign countries since they need such economies to make returns on their investment.

(6) The country's education should be in favour of science and technology which would provide the economy with the required skills that they require.

(7) Competitiveness should be encouraged, and as a result, the existing export processing and free trade zones should be equipped with state-of-the-art infrastructures and technologies.

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