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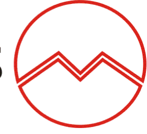

REVIEW OF LITERATURE ON CAPITAL MARCKET PERFORMANCE

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Abstract: The present review article is an attempt by the researchers to make a descriptive as well as analytical study of work done in the field of Indian capital market. This study will be focusing on various loopholes in the Indian Financial System. As capital market is a wider concept, lots of note worthy contribution have been made in this area. In this write up emphasis are given to bring to light all the hard work done by various researches and to uncover the gap for future research. Apart from that the researchers have also highlighted some of the important reforms in Indian Capital Market since 1991 onwards. While studying a range of literature available from various resources, the researchers havearrived that there isgenerally a constructive assessment of the economic reforms on Indian Capital Market, but also points out some areas of concern: the lack of a fixed term appointment for the regulators; the persistence of non-competitive conditions in the market; and the excessive entry of new scripts into the market, Although in recent days, some steps have been taken to address this problem as well.
[Shivakumar, U. and Sharma, B.B. **REVIEW OF LITERATURE ON CAPITAL MARCKET PERFORMANCE.** *J Am Sci* 2024;20(3):7-10]. ISSN 1545-1003 (print); ISSN 2375-7264 (online). http://www.jofamericanscience.org. 02. doi:10.7537/marsjas200324.02.

Keywords: REVIEW OF LITERATURE, QUALITATIVE, DEVELOPMENTS, CAPITAL MARKET

Introduction:

The Capital market is a place where equity capital and long-term development capital for infrastructure such as roads, utilities, housing, energy & telecommunication, are being provided for economic benefits; these projects are financed through Bonds and asset-backed securities for long-term sustainable growth and development (Onuoha et al., 2021). The capital market has a positive influence on economic and financial systems development providing many advantages; hence, the development of the capital market remains a priority to a country's economy and financial system (Sprčić & Wilson, 2007; Imade, 2021).

The successful recapitalisation of Nigerian Banks in 2005 by the Central Bank of Nigeria is an event regarded by many investors to have improved the performance of the Nigerian Stock Exchange due to high listings, transactions, and influx of foreign investments that have increased economic growth (Onuoha et al., 2021). The 2008 global financial crisis emanated from the United States, and it had an impact on different capital markets globally; the performance of the Nigerian capital market was affected due to the crash that led to a loss of capital assets and investments due to the global meltdown (Njiforti, 2015). The recent financial crisis caused an impact on the financial system and the need to investigate the trend (Arumona et al., 2020). Many studies conducted in developing countries, concerning finance, and growth had shown inconsistent results due to unresolved issues within this area of interest (Abubakar & Kassim, 2021).

The main objective of the study was to investigate the impact of capital market performance on economic growth from previous studies and empirical findings from the years 2012 to 2022. The specific objective was to examine the impact of market capitalisation on the real gross domestic product (GDP). Consequently, based on the proxies selected the research question to what extent does market capitalisation influence real GDP in developing economies? The rest of the study is arranged using the following structure; the literature review concerned with the review of the independent and dependent variable, the methodological approach selected for the study, results, and discussion of findings, conclusion, and recommendations.

Review of literature:

Capital market performance is the assessment of a market that has been efficient through primary features like constant liquidity or a simple process for going into and leaving the exchange by investors (Onuoha et al., 2021). The basic tools that are used to explain capital market performance are market

capitalisation, the volume of transactions, market size, liquidity, total value traded ratio, turnover ratio, and all share index (Onuoha et al., 2021). Market capitalisation is the entire worth of all stocks registered on the stock exchange, and arrived at by multiplication of company shares by the current market price of each share. It therefore, shows the market value and eventually market size (CBN, 2016; Ibrahim & Mohammed, 2020).

Economic growth deals with economic expansion within an economic cycle and is usually characterised by an increase in the manufacture of commodities and services for the nation therefore it is measured with the gross domestic product (GDP) i.e. Nominal GDP or Real GDP. Nominal GDP is the normal unadjusted or current prices GDP while real GDP has been adjusted for inflation (CBN, 2016; Bello et al., 2019). Economic growth is a measured improvement in real Gross Domestic Product (GDP) and many factors that can affect economic growth are investment ratio, human capital, research, and development (Reza et al., 2018).

GDP denotes the cumulative worth of commodities and services created within a time frame and is a determinant for the size of an economy, as mentioned earlier it can be shown as nominal GDP or real GDP i.e. constant price or inflation corrected (CBN, 2016; Grbić, 2020). The recent trends in globalisation have led to issues concerning economic sustainability rather than production and wealth distribution (Van Niekerk, 2020). Many developing economies have made reforms to expand their markets because economic sustainability is linked to investments that exist in capital markets; hence, any sustainable economy that shows economic growth requires a functional capital market (Levine & Zervos, 1998)..

The capital market is a financial marketplace that is very specialised and is an important means for economic growth due to its ability to facilitate and provide or raise savings and investments from economic agents for sustainable economic growth (Vincent et al., 2021). The capital market as a means of financial development usually makes an enormous contribution to economic growth. This economic sustainability is maintained by Securities and Exchange Commission (SEC) in Nigeria which was established in 1978 and has created many initiatives to advance the capital market for long term financing for the promotion of economic growth. This implies that capital market performance is serious for economic advancement in developing countries at the domestic and international levels. model (McCallum, 1996). Endogenous growth theory considers the roles played by the government and financial system with factors of production like capital, labour and entrepreneurs (Ibrahim & Mohammed, 2020). The model also considers the performance of economic growth concerning the circulation of income, investments, and technology (Odo et al., 2017). The key assumption of the theory is the concept of continuous growth without diminishing return on factors of production (Sredojević et al., 2016). A critique of this model is its dependence on assumptions that may not be suitable for developing countries (Onyimadu, 2015). The endogenous growth model was used in the studies of Lenee and Oki (2017), Odo et al. (2017), and Ibrahim and Mohammed (2020). This theory was selected to underpin this study because investment activities e.g. capital market investments should promote economic growth.

Algaeed (2021) focused on analysing and testing the effects of capital market development on per capita GDP growth in the Saudi Arabian economy using time series data on a twelve-monthly basis from 1985 to 2018. Economic development was represented by Per capita GDP however, the capital market was measured with the share price index, capitalisation, liquidity, number of share transactions and number of shares; the variables were analysed using Autoregressive Distributed Lag (ARDL), FMOLS and Johansen tests. Results showed market capitalisation and liquidity were negative; however, the share price index, the total number of shares traded, and volume of transactions had positive signs as expected apriori. The study used yearly time series collated data for quantitative analysis and real GDP was not used to measure economic growth.

Imade (2021) in his study titled “capital market performance and economic growth in Nigeria and the United States of America” from 1990 to 2017; investigated the link between the two variables using the cointegration econometric method and the error correction model for data analysis. Results revealed that only gross fixed capital formation had a considerable impact on economic progress in Nigeria in both the short-run and long run. It was recommended that government should regulate the activities of the capital market and its operators. This study used time series data collected annually for quantitative analysis and did not have the minimum of 30 observations required for time series analysis.

Tan and Shafi (2021) in another study explored the effects of the capital market on economic growth in Malaysia using quarterly data from quarter one of 1998 to quarter four of 2018. Economic growth was measured with per capita real GDP while the independent variable was measured with the following proxies of Sukuk conventional bonds, Stock market capitalisation, Total stock market turnover, real savings and growth rate of employment. The Autoregressive distributed lag cointegration bounds

test was used for analysis and the results revealed the prevalence of a long-run equilibrium relationship between capital market variables and economic growth. The approach for the study was quantitative using quarterly time-series data.

Subir Gokarn (1996) in his research paper "Indian Capital Market Reforms, 1992-96 An Assessment" has used a conceptual framework that draws on the theory of regulation on the one hand and the new political economy on the other to make an assessment of the wide-ranging reforms that have been initiated in the Indian stock market over the past four years. Based on the framework the various reforms are classified into categories reflecting their regulatory effectiveness and/or their impact on sources of market failure. The researcher arrives at a generally positive assessment of the reforms, but points out three areas of concern: the lack of a fixed term appointment for the regulators; the persistence of non-competitive conditions in the market; and the excessive entry of new scripts into the market, Although in recent days, some steps have been taken to address this problem as well. Anand Pandey (2003) in his thesis entitled "Efficiency of Indian Stock Market" made an analysis of three popular stock indices to test the efficiency level and random walk nature of Indian equity market. The study presented the evidence for inefficient form of Indian market. Autocorrelation analysis and runs test concluded that the series of stock indices in India are biased random time series

Jumba Shelly (2010) in her report "A project on Capital Market" has ascertainedthatthe performance of the company's or corporate earnings is one of the factors which have direct impact or effect on capital market in a country. Weak corporate earnings indicate that the demand for goods and services in the economy is less due to slow growth in per capita income of people. Because of slow growth in demand there is slow growth in employment which means slow growth in demand in the near future. Thus weak corporate earnings indicate average or not so good prospects for the economy as a whole in the near term. In such a scenario the investors (both domestic as well as foreign) would vary to invest in the capital market and thus there is bear market like situation. The opposite case of it would be robust corporate earnings and its positive impact on the capital market.The researcher has also added thatthe macroeconomic numbers also influence the capital market. It includes Index of Industrial Production (IIP) which is released every month, annual Inflation number indicated by Wholesale Price Index (WPI) which is released every week, Export – Import numbers which are declared every month, Core Industries growth rate (It includes Six Core infrastructure industries – Coal, Crude oil, refining, power, cement and finished steel) which comes out every month etc. This macro –economic indicators indicate the state of the economy and the direction in which the economy is headed and therefore impacts the capital market in India

Ahuja Juhi (2012) in her research paper entitled "Indian Capital Market: An Overview with Its Growth" has examined that there has been a paradigm shift in Indian capital market. The application of many reforms & developments in Indian capital market has made the Indian capital market comparable with the international capital markets. Now, the market features a developed regulatory mechanism and a modern market infrastructure with growing market capitalization, market liquidity, and mobilization of resources. The emergence of Private Corporate Debt market is also a good innovation replacing the banking mode of corporate finance. However, the market has witnessed its worst time with the recent global financial crisis that originated from the US sub-prime mortgage market and spread over to the entire world as a contagion. The Capital Market in India delivered a sluggish performance.

Another remarkable contribution in this field is through the research paper of AnsariMohd Shamim(2012) entitled "Indian Capital Market Review: Issues, Dimensions and Performance Analysis" in which the researcher has ascertained that the purpose of an efficient capital market is to mobilize funds from those who have it and route each them to those who can utilize it in the best possible way. The researcher has also analyzed that India's financial market is multi-facet but not balanced. Further it has been stated that the Indian capital market in the recent year has undergone a lot of innovation in term regulation and mode of operation. The researcher while concluding has stated that India needs innovative financial instrument in its domestic capital market. Financial Innovation must aim value addition in existing technologies, risk management practices, credit system, process, and products. As per the analysis of the researcher there is positive correlation between finance and economic growth. Thus, economic development is relatively impossible without quality innovation in financial market. The researcher has also added that the creation of a deep and robust debt capital mechanism is the key to financing infrastructure companies by allowing them to raise long term debt. At last the researcher has concluded with this fact that emerging economies like India have an advantage of learning from the mistakes of others.

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2/26/2024