

Financial Market Frictions and Stock Market Performance in Nigeria

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ABSTRACT

The study looked at how financial market frictions affected Nigerian stock market performance between 1990 and 2022. This study uses the following independent variables: market volatility and transaction cost proxy by total value of transaction (TVAT), information asymmetry proxy by volatility in real exchange rate, and regulations cost proxy by lending rate. The dependent variable is stock market performance proxy by all share index. The CBN Statistical Bulletin and the World Bank website provided the data. Auto-regressive distributed lag (ARDL), correlation analysis, and descriptive statistics were used to describe the data set with the aid of E-VIEW version 9.0. Asymmetric information and transaction costs have a major impact on stock market performance, according to the findings. Therefore, the study suggests that the capital market's transaction costs are a very good indicator of financial market friction and should be appropriately managed to promote share investment and full participation. It also suggests that the nation's taxes be effectively managed to promote capital for stock market investments.

Keywords: Information asymmetry, Market friction, Regulation cost, All share index, Transaction cost

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INTRODUCTION

An important part of Nigeria's economy is the capital market, which gives companies a place to raise money for expansion and investment. The market has, however, been beset by a number of obstacles that prevent it from operating effectively. Frictions in the financial markets are a significant source of worry. Any barriers to the efficient operation of financial markets are referred to as financial market frictions. Asymmetry information, limitations in liquidity, and transaction costs are just a few of the causes of these frictions. A lack of investor education, inadequate regulatory oversight, and weak institutional frameworks have all been blamed for these conflicts in Nigeria. Because financial market frictions can affect trading

activities and create costs, they push traders to take unmanageable risks. According to Akinlo (2019), frictions are impediments, difficulties, or limitations that make it difficult for markets and economies to function effectively. Asymmetric information, funding limitations, regulations, and transaction costs are just a few examples of frictions. The literature has identified funding illiquidity, market illiquidity (Azam and Raza 2020), and trading structure as additional forms of financial market frictions. Market structure is the makeup of the market with respect to its type, price discovery, order forms, and opening and closing times. Financial market frictions, in particular transactional frictions, according to Huang and Yang

(2021). Financial intermediate and risk management are the main goals of the financial markets, (Salisu, et al 2019) addressed these goals in their essays on financial market frictions. Stated differently, the financial market's goal is to divert capital from investors with low marginal returns to those with high marginal returns (i.e., surplus units to deficit units). This is normally accomplished by the former saving and the latter borrowing, but this channel is constrained when there is a significant (high spread) in the interest rates of credit and savings and when the cost of completing financial market transactions is prohibitively high. In order to create effective intermediation, capital should be transferred from industries with low prospects to those with high potential returns (Okolo, et al 2021). Financial markets must produce prices that accurately reflect all available information in accordance with the EMH, according to Oke and Adeoye (2020). In order to do so efficiently, investors must understand the dynamics governing the discount rates that produce asset prices in order to rationally interpret the signals that asset prices provide (Oke & Adaramola, 2020).

Statement of the problem

Despite the implementation of several reforms intended to improve market efficiency and investor confidence, the Nigerian capital market has been marked by ongoing financial market frictions. Lack of transparency (Oyedele et al., 2019), inadequate regulatory oversight (Akinlo, 2019), and weak institutional frameworks are some of the factors causing these conflicts, (Oke & Adaramola, 2020), other contributing factors include Market diversity (Adediran & Salawu, 2017), macroeconomic factors (Salisu et al. 2019), and insufficient investor protection (Ogunrinde & Adegbite, 2017), as well as market manipulation, and insider trading, (Musa & Amahalu, 2016). These elements may result in more transaction costs, diminished market depth and liquidity, and market inefficiencies, all of which exacerbate financial market frictions. In addition, the Nigerian capital market has gone through multiple financial crisis episodes, which has brought attention to the necessity of resolving the underlying conflicts. The global financial crisis of 2008 and the oil price shock of 2015, for example, had a major effect on the Nigerian capital market, resulting in a drop in investor confidence and market capitalization. These crises made the weaknesses in the Nigerian financial system clear and brought attention to the need for stronger regulations, better risk control procedures, and increased market transparency. In the Nigerian capital market, the absence of market diversity is another element causing financial market frictions.

Objectives of the study

The main objective of this study is to examine the effect of market frictions on the Nigerian stock market performance.

Specifically, this study sought to:

1. Analyze the impact of transaction cost (the total value of the transaction) on the performance of the Nigerian stock market.
2. To examine the impact of information asymmetry (the volatility of the real exchange rate) on the performance of the Nigerian stock market.
3. To Ascertain the effect of lending rate (regulatory cost) on the Stock market performance in Nigeria
4. To examine how the performance of the Nigerian stock market is impacted by market volatility (information asymmetry).

Hypothesis development

H0₁: The overall transaction value and the performance of the Nigerian stock market do not significantly correlate.

H0₂: The performance of the Nigerian stock market is not significantly correlated with the volatility of the real exchange rate.

H0₃: The lending rate and stock market performance in Nigeria are not significantly correlated; and

H0₄: The market volatility and stock market performance in Nigeria are not significantly correlated.

Scope of the study

This study's scope included the impact of market frictions on the performance of the Nigerian stock market. The study was limited geographically to the Nigerian stock exchange. This study covered 33 years, from 1990 to 2022, in terms of its temporal scope.

Literature review

Trade-blocking factors are known as financial market frictions (Ogunrinde and Adegbite, 2017). Frictions are obstacles that hinder the efficient operation of markets and economies, according to Nnadi and Emenuga (2019). Market frictions attract the attention of financial experts because they expose traders to unwelcome or intolerable risks.

Financial frictions are a number of disorders in the buying and selling processes, according to Musa and Amahalu (2016). For example, the financial market's frictions cause a lag between the arrival of news and its incorporation into prices, which prevents prices from reaching equilibrium quickly (Huang & Yang, 2021). Moreover, this article defines a financial market friction as anything that obstructs trade according to the capital asset pricing model (CAPM). It has two dimensions of interference. The first reason is that market participants stop holding the market portfolio due to financial market frictions (Marozva, 2019). These frictions may, therefore, expose a market participant to more or less risk than they would like.

Forms of financial market frictions.

This study identified five primary categories of market frictions. These are:

Transaction's cost

The transaction costs in this study were separated into two categories: opportunity costs of time and costs of trade. As technology has advanced, trade costs in financial markets have been decreasing, including postal fees, phone bills, computer power, and other comparable actual resource expenditures (Azam and Raza, 2020). These expenses may have gone up over time in actual terms, but communication and data analysis costs have gone down; for example, sending an email has no cost at all. According to Asiedu et al., (2020), trading involves time opportunity costs, which include search costs, or the time required to gather information (like finding a trading partner), as well as the actual time required to close the deal. Making money can be achieved by lowering these costs. The solution includes, among other things, automating the process with electronic payments (Oke & Adeoye, 2020).

Taxes and Regulations

A notable area of market resistance is the existence of taxes and regulations. These may appear in a clear-cut manner, like capital gains tax or corporation income tax, or they can be less apparent, such as limitations like the ban on short sales (Stulz, 2018). In a bearish market, investors might experience losses on their portfolios due to the inability to execute a short-selling strategy. This situation is often most prominent in Nigeria, where short selling is currently forbidden due to strict regulations (Tadesse, and Baheta, 2021).

Indivisibility of Assets

If assets were infinitely divisible, investors could own any arbitrary small portion of each asset. All investors, even those with modest investment funds, would own the market portfolio of all investable assets if this strategy were to be followed. Compared to less wealthy investors, wealthy investors are less concerned about asset indivisibility. Additionally, a wealthy investor can own more assets (Gonatha and Juliana, 2021).

Untraded Asset

At least 80 percent of total wealth in developed economies today is made up of human capital, according to Marozva, (2019). This enormous capital stock tends to make workers less interested in holding the market portfolio. According to Ikponmwoşa and Edo-Osagie (2021), financial innovation consistently removes assets from the list of non-traded assets by introducing new instruments

that make assets practically marketable.

Information Asymmetry

Unreliable information deters investors from participating in exchange trading and puts them at risk. Information in the financial market may be symmetric or asymmetric (Uhunamure and Uhunmwangho 2021). When information is symmetric, the stock price will consider all available information, preventing mispricing. However, asymmetric or irregular information will result in disparities in the value of financial assets, and market participants with greater information may perform better than the others (Uhunamure & Uhunmwangho 2021).

Theoretical Underpinning

CAPM

This research originates from Sharpe's (1964) CAPM. An asset's risk (Beta) and return from a riskless asset are related by CAPM to the expected return on that asset. According to CAPM, there is no friction in the financial market. This implies that there are no transaction costs, no limitations on lending or borrowing, and that the mean-variance criterion, among other things, forms the basis of investor expectations. There should be consistency in the information provided to investors with similar risk-return expectations so that no trader would outperform the others based on better information. Fama (1970) outlined the efficient market hypothesis, which states that since stock prices in an efficient market reflect all available information, there is no opportunity for abnormal returns through information-gathering. Grossman and Stiglitz (1980) argued that knowledgeable market traders outperform ignorant investors and are therefore motivated to acquire information, even at exorbitant expense. In fact, the government controls lending and borrowing and levies taxes in the real world. Inaccurate information is also present, and investors pay a price in the form of lending interest rates, losses from purchasing and disposing of illiquid assets, or erratic asset returns (Siyabonga, & Mlambo 2018). These frictions merit further study because they have the potential to impact financial security returns.

New institutional theory

The focus of new institutional theory is the composition and structure of an organization's environment. It posits that the formal structure of an organization is shaped by institutional forces, such as rational myths, knowledge validated by the professions and educational system, public opinion, and the law, in addition to resource dependencies and technical demands. Rules, beliefs, and conventions ingrained in the larger environment are regarded as either reflected in or responded to by organizational practices and structures. All of these come

together to create an enduring system of organized practices and social beliefs known as institutions (Powell 2007).

Empirical Review

The impact of financial market frictions on the performance of the Nigerian stock market is examined by Uhunamure and Uhunmwangho (2021). In particular, the impacts of transaction costs, regulatory frictions, and asymmetric information were examined from January 2010 to December 2021. The effects of the dynamic model were examined using the Generalized Method of Moments. The results show that transaction costs, regulatory frictions, and asymmetric information all have a big impact on stock market returns. In particular, the cash reserve ratio significantly and favorably affects returns, whereas the lending rate has a negative and substantial impact on market returns. While market volatility and exchange rate volatility have a negative and significant impact on stock market returns, market illiquidity and traded volume considerably and favorably drive stock market returns. The different elements of financial market friction and their effects on the Nigerian capital market were studied by Segun, et al (2022), with a focus on factors like transaction costs, taxes, and regulations. The research used time series data from 1981 to 2018 and econometric analysis techniques such as regression, correlation, unit root, and co-integration tests. It has been found that the different elements have distinct effects on the performance of the stock market and are actual factors that determine the different reactions to stock market problems. In their 2021 study, Ikponmwo, and Edo-Osagie, (2021) investigated whether stocks respond negatively to the news of the announcement of upward review of stamp duty charges in Nigeria; an announcement made on 5th of December, 2020, with the succeeding first trading day being Monday 7th of December, 2020. Employing the standard event study methodology with 60 companies stock price daily series, the empirical results show evidence of negative drift in stock returns trading ten (10) days after the announcement was made public. In particular, the result of the post announcement trading effect reveals a statistically significant Abnormal Return (AR) and Cumulative Abnormal Return (CAR) of -1.51% and -1.072 % respectively on the first trading day after the announcement and a significant CAR of -1.16 % ten days after the announcement, implying a negative stock returns response.

The existence of regulatory frictions (monetary policy rate) in the Nigerian Exchange Limited was examined by Uhunmwangho and Ogieva (2021) between January 2010 and June 2019. Due to autocorrelation in the market index, the outcome reveals the presence of market frictions. According to the study, the market index is positively and significantly impacted by the monetary policy rate. An empirical study by Gonatha and Juliana (2021) examined

how financial market frictions affected Indonesian firms' degree of diversification between 2008 and 2017. The study's conclusion shows that a well-diversified company can reduce stock prices caused by outside market forces. Deng et al. (2019) examined the relationship between political ties and market frictions in China and found a positive correlation between information asymmetry and stock market returns. Their results demonstrate that in order to lower the costs of market frictions, Chinese businesses make a concerted effort to build political relationships.

Their results also demonstrate that businesses facing major market frictions are not as financially constrained as previously believed. They did find, however, that market forces can significantly affect financial constraints in Chinese businesses, but only for those with limited political influence. Izedomi, et al. (2020). Using GARCH and EGARCH, Kuhe (2018) models the Nigerian stock market's volatility persistence and asymmetry from July 1999 to June 2017. The study discovered that market returns had a high degree of shock persistence and asymmetry without the leverage effect. Onoh (2016) used GARCH techniques to analyze how price volatility affected market returns in Nigeria from January 2, 2001, to December 31, 2015. According to the study, stock market returns are greatly impacted by volatility.

METHODOLOGY

Expo facto is the research design used in this study. The Nigerian Security and Exchange Commission (SEC), the CBN Statistical Bulletin, and the World Bank Data Base (2022) provided the time series data for this study, which covered the years 1990–2022. This study examines the effects of the following friction indicators on stock market performances: transaction cost proxy by total value of transaction (TVAT), information asymmetry proxy by volatility in real exchange rate (VRECH) and total value of equities sold (MAVOLY), and regulations cost proxy by lending rate. In this study, the Auto Regressive Distributed Lag (ARDL) model was used. But before the regression is run, the model will undergo a series robustness (diagnostic) check against descriptive statistics (to check the behavior of study variables), correlation analysis (to check the collinearity of study variables), ARDL Bond test (to test for long-term relationships), heteroskedasticity test (to determine whether or not the residuals of the series are equally distributed), and model specification test. For the analysis, the user-friendly E-view 9.0 econometric application software was used. (Table 1)

Model specification

Since Mafiejor's (2023) empirical study did not account for taxes and regulations (as measured by the cash reserve ratio), this study was based on it, albeit with minor adjustments. Consequently, this is how our model is shown.

Table 1: Analysis of Study Variable's Apriori (Economic) Expectations.

Study Variable	Denotation	Frictions Indicators	Nature of Variable	Apriori Expectation
All share index	ASI	Stock market performance	Regressand	Nil
Total value of transaction	TVAT	transaction cost	Regressor	+
Volatility in real exchange rate	VRECH	information asymmetry	Regressor	+
Lending rate	LNDR	Regulation cost	Regressor	-
Market volatility	MAVOLY	information asymmetry	Regressor	+

Source: Researcher's Compilation (2024)

Table 2: Summary of descriptive statistics for effect of financial market frictions on stock market performance in Nigeria.

	ASI	TVAT	VRECH	LNDR	MAVOLY
Mean	4.117236	5.651255	1.980824	0.815052	1.941361
Median	4.377400	5.944000	2.672300	0.827800	2.670800
Maximum	4.763400	6.548500	3.371200	1.182000	3.371000
Minimum	2.710800	4.594100	-0.647000	0.393300	-1.174600
Std. Dev.	0.555630	0.654705	1.276678	0.181513	1.348703
Skewness	1.096866	-0.547514	-0.827941	-0.319942	0.934000
Kurtosis	3.166087	1.796539	2.275308	3.180493	2.566630
Jarque-Bera	6.655067	3.640184	4.492298	0.607789	5.056196
Probability	0.035882	0.162011	0.005806	0.037939	0.079811
Sum	135.8688	186.4914	65.36720	26.89670	64.06490
Sum Sq. Dev.	9.879192	13.71644	52.15700	1.054300	58.20798
Observations	33	33	33	33	33

Source: Econometric Views Version 9.0 Output (2024)

$$ASI = f(TVAT, VRECH, LNDR, MAVOLY, \mu) \text{ -----1}$$

The econometric form of the model is given as:

$$ASI = \beta_0 + \beta_1 TVAT + \beta_2 VRECH + \beta_3 LNDR + \beta_4 MAVOLY + \mu \text{ -----2}$$

In order for equation 2 to be effectively demonstrated, it is necessary to take the logarithm of certain variables to standardize their units. As a result, equation 2 transforms into a more suitable form:

$$\log ASI = \beta_0 + \log \beta_1 TVAT + \beta_2 \log VRECH + \beta_3 \log LNDR + \beta_4 \log MAVOLY + \mu \quad (3)$$

Where:

ASI = All share index

TVAT = total value of transaction (proxy for transaction cost)

VRECH = Volatility in real exchange rate (proxy for information asymmetry)

LNDR = lending rate (proxy for regulation)

MAVOLY = Market volatility (proxy for information asymmetry)

Ut = error term at time t.

β_1 - β_4 are parameters to be estimated.

Operationalization of variables

RESULTS AND DISCUSSION

Descriptive statistics

In descriptive statistics, the mean and standard deviation

values are taken into consideration. The outcome is displayed below.

In contrast to their low standard deviation values of 0.555630, 0.654705, 1.276678, 0.181513, and 1.348703, respectively, the upper mean values of 4.117236, 5.651255, 1.980824, 0.815052, and 1.941361 for ASI, TVAT, VRECH, LNDR, and MAVOLY were revealed by the descriptive statistics above. Accordingly, ASI, TVAT, VRECH, LNDR, and MAVOLY do not appear to have changed significantly over the study period. Additionally, the results revealed that while TVAT, VRECH, and LNDR are negatively skewed, ASI and MAVOLY are positively skewed. Accordingly, investors may be at risk from the asymmetric nature of the TVAT, VRECH, and LNDR indicators. TVAT and MAVOLY were not normally distributed, according to Jarque-Bera statistics, since their probabilities were not significant at the five percent level. (Table 2)

Correlation analysis

This is to determine how strongly and in which direction the depended and explanatory variables are related. The aforementioned result indicates that 1.000 represents the coefficient of correlation between a variable and itself. In other words, it proves that there is a perfect correlation between a variable and itself. Additionally, the correlation result above shows that the TVAT, VRECH, MAVOLY, and All Share Index (ASI) have a strong positive relationship, with respective coefficients of 0.913, 0.973, and 0.979. Nonetheless, with a coefficient value of 0.427, LNDR exhibits a weak but positive correlation with ASI. Two

Table 3: Summary of correlation result for effect of financial market frictions on stock market performance in Nigeria.

	ASI	TVAT	VRECH	LNDR	MAVOLY
ASI	1.000000				
TVAT	0.913129	1.000000			
VRECH	0.973225	0.960130	1.000000		
LNDR	0.427300	0.368815	0.373980	1.000000	
MAVOLY	0.979273	0.952031	0.998256	0.382284	1.000000

Source: Econometric Views Version 9.0 Output (2024)

Table 4. Summary of Unit root tests for effect of financial market frictions on stock market performance in Nigeria

ADF test at Level (1)(0)				
Parameter	ADF test statistic	Test critical value @ 5%	Prob.*	Decision
ASI	-3.025610	-2.957110	0.0431	Stationary
TVAT	-1.553313	-2.957110	0.4942	Non-stationary
VRECH	-2.636727	-2.957110	0.0963	Non-stationary
LNDR	-3.840947	-2.957110	0.0063	Stationary
MAVOLY	-2.580232	-2.957110	0.7120	Stationary
ADF test at First Difference (1)(1)				
Parameter	ADF test statistic	Test critical value @ 5%	Prob.*	Decision
ASI	-4.534641	-2.960411	0.0011	Stationary
TVAT	-4.805193	-2.960411	0.0005	Stationary
VRECH	-4.805736	-2.960411	0.0005	Stationary
LNDR	-7.523443	-2.960411	0.0000	Stationary
MAVOLY	-4.547643	-2.960411	0.0010	Stationary

Source: Econometric Views Version 9.0 (2024)

variables are said to move in the same direction when they have a positive correlation or relationship. Accordingly, it would be discovered that both variables move upward when one of them does. (Table 3.)

Unit root test

The study used the Augmented-Dickey-Fuller (ADF) unit root test to ascertain whether or not the variance and mean are constant over time. Below, in (Table 4), is the ADF unit root test. The necessity to investigate the long-term relationship between bank soundness indicators and its financial performance is justified by the fact that our series were found to be stationary at levels (1(0)) and first differencing (1(1)). (Table 4)

ARDL bound test

To determine whether long-term co-integration exists or not, the Bound test result was utilized. To reject the null hypothesis in the bond test, i.e, if there is no long-term correlation, the computed F-statistic value needs to be higher than the F-statistic upper bound critical value. Given the above result, which shows that the F-statistic 7.066784 value is higher than the 5 percent critical values at the I (0) and I (1) bounds, we reject the null hypothesis and come to the conclusion that there is a long-term relationship between the variables. There is, therefore, a long-term

correlation between market friction and Nigerian stock market performance. (Table 5.)

Results of residual diagnostics and stability diagnostic for effect of financial market frictions on stock market performance in Nigeria

A stability diagnostic test based on the Ramsey RESET Test and a residual diagnostic test based on the Breusch-Pagan-Godfrey test were applied to the model prior to the regression result. Below, they are discussed and presented. (Table 6)

The chi-square's P-value, as shown in the (Table 7), was Opoint 1951. Because it is not significant at 5 percent, this allows us to demonstrate that there is no heteroskedasticity in the study. Consequently, the null hypothesis, which asserts that the residuals have zero mean and no constant variance, is disproved. As a result, the research determines that the model is homoscedastic (i.e the variance is equal). The study asserts boldly that the model is dependable and predictive in light of this. Additionally, the serial correlation result shows that the F-statistic has a p-value of 0. 6191. Thus, the null hypothesis that serial correlation is not a problem is accepted. The study asserts boldly that the model is dependable and predictive in light of this.

The P-value of the chi-square, as shown in the above (Table 8), was Opoint 2581. This allows us to demonstrate

Table 5: ARDL Bounds Test between effects of financial market frictions on stock market performance in Nigeria

Test Statistic	Value	K
F-statistic	7.066784	
Critical Value Bounds		
Significance	I0 Bound	I1 Bound
10%	2.16	3.35
5%	2.33	3.55
2.5%	2.66	4.32
1%	3.23	4.22

Source: Econometric Views Version 9.0 Output (2024)

Table 6: Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	2.118658	Prob. F (5,26)	0.1951
Obs*R-squared	9.263591	Prob. Chi-Square (5)	0.1990
Scaled explained SS	4.615592	Prob. Chi-Square (5)	0.4646

Source: Econometric Views Version 9.0 Output (2024)

Table 7: Breusch-Godfrey Serial Correlation LM Test

F-statistic	6.276988	Prob. F (1,25)	0.6191
Obs*R-squared	6.422089	Prob. Chi-Square (1)	0.6113

Source: Econometric Views Version 9.0 Output (2024)

Table 8: Ramsey RESET Test

Ramsey RESET Test			
Equation: UNTITLED			
Omitted Variables: Squares of fitted values			
	Value	Df	Probability
t-statistic	1.157166	25	0.2581
F-statistic	1.339033	(1, 25)	0.2581
F-test summary			
	Sum of Sq.	Df	Mean Squares
Test SSR	0.015557	1	0.015557
Restricted SSR	0.306003	26	0.011769
Unrestricted SSR	0.290446	25	0.011618

Source: Econometric Views Version 9.0 Output (2024)

that no study variables were left out because the 5 percent significance level is not reached. Accordingly, the study asserts with confidence that the model is dependable and predictive

Regression Result

Table 9 below displays the main regression result after it has been determined that the model is homoscedastic and that none of the study variables are missing.

The result showed a high adjusted R² of 0.853459, meaning that TVAT, VRECH, LNDR, and MAVOLY account for 85.34 percent of the total deviation in the stock market performance proxy by (ASI), while factors not

included in the model account for the remaining 14.66 percent. Based on the model's F-statistic value of 128.0158, which shows statistical significance at the 5 percent level, we can conclude that it is suitable for empirically examining how financial market frictions affect stock market performance. The value of 0.000000 for the F-probability statistic further supports the significance of the model. The lagged error correction term's coefficient in ECM2 was statistically significant at the 5 percent level and had the right sign. Consequently, the model could potentially account for any change in stock market performance (ASI) from short-run too long-run equilibrium. The ECM coefficient in the presence of a transient disequilibrium is 0.8017, indicating that the long-term rate

Table 9: Effect of financial market frictions on stock market performance in Nigeria
ARDL Cointegrating and Long Run Form

Short-run analysis				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(TVAT)	0.367546	0.120973	3.038248	0.0114
D(VRECH)	0.455031	0.214321	2.123128	0.0244
D(LNDR)	-0.151362	0.121321	-1.247615	0.2233
D(MAVOLY)	0.773377	0.307369	2.51611906	0.0395
CointEq(-1)	-0.801797	0.215166	-3.726414	0.0010

Table 9: Continues

Long Run analysis				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
TVAT	0.684243	0.245787	2.783886	0.0476
VRECH	0.567514	0.232871	2.437031	0.0411
LNDR	-0.188779	0.146945	-1.284691	0.2102
MAVOLY	0.964554	0.283259	3.4052016	0.0102
C	3.703944	0.655359	5.651779	0.0000
R-squared	0.960966	Mean dependent var		4.161187
Adjusted R-squared	0.853459	S.D. dependent var		0.502873
S.E. of regression	0.108487	Akaike info criterion		1.437019
Sum squared resid	0.306003	Schwarz criterion		1.162194
Log likelihood	28.99231	Hannan-Quinn criter.		1.345922
F-statistic	128.0158	Durbin-Watson stat		1.957984
Prob(F-statistic)	0.000000			

Source: Econometric Views Version 9.0 Output (2024)

of change is approximately 80%. The Durbin Watson statistic of 1.95 was less than 2, which further indicates that the model did not have autocorrelation. Additionally, it suggests that the stock market performance rises by 3.703944 units if all explanatory factors remain constant.

Restatement of Null Hypothesis

H01: There is no significant relationship between total value of transaction and stock market performance in Nigeria.

Due to its positive coefficients of 0.367546 and 0.684243 in the long and short terms, respectively, TVAT has a positive correlation with stock market performance, according to the above result. The p-value for the significant relationship, meanwhile, is below the 0.05 level of significance. The null hypothesis, according to which there is no meaningful correlation between TVAT and the ASI stock market performance proxy, is thus likely to be rejected.

H02: There is no significant relationship between Volatility in real exchange rate and stock market performance in Nigeria

Again, because of its positive coefficients of 0.455031 and 0.567514 in the long and short terms, respectively, VRECH has a positive relationship with stock market performance. The p-value for the significant

relationship, meanwhile, is below the 0.05 level of significance. The null hypothesis, according to which there is no meaningful correlation between VRECH and the ASI stock market performance proxy, is thus likely to be rejected.

H03: There is no significant relationship between lending rate and stock market performance in Nigeria

Because of its positive coefficients of 0.151362 and 0.188779 in the long and short terms, respectively, LNDR has a positive relationship with stock market performance, according to the above result. The p-value for the significant relationship, meanwhile, is higher than the 0.05 level of significance. The null hypothesis, according to which there is no meaningful correlation between LNDR and the ASI stock market performance proxy, is thus likely to be accepted.

H04: There is no significant relationship between Market volatility and stock market performance in Nigeria

Because of its positive coefficients of 0.773377 and 0.964554 in the long and short terms, respectively, MAVOLY predicts a positive relationship with stock market performance. The p-value for the significant relationship, meanwhile, is below the 0.05 level of significance. The null hypothesis, according to which there is no meaningful correlation between TVAT and the ASI stock market

performance proxy, is thus likely to be rejected. The aforementioned ECM result revealed that the stock market's performance is positively correlated with the transactional cost proxy, as measured by TVAT, in both the short and long term. This suggests that a one unit increase in TVAT will increase the performance of the Nigerian stock market in the short and long term, respectively.

In other words, during the period under observation, the growth in market stock demand resulted in higher transaction costs due to search and information costs, agency fees, and numerous other expenses associated with the purchase of securities. According to Idolor, et al (2020), this result is consistent. The stock market's performance is positively but marginally impacted by trading volume a measure of information asymmetry, in the short and long terms, respectively. Stated differently, a notable increase in trading volume influences stock market performance. In fact, market movement requires volume.

The market is more liquid and appealing to investors when there is a higher volume of trading activity; this is why performance is positively impacted. This result is consistent with the research conducted by Nosayamen and Monday (2022). In addition, the lending rate (LNDR), which investors use as a stand-in for regulatory costs, has a negative and negligible effect on stock market performance over the short and long terms, respectively.

This is reasonable given that rising lending rates result in higher borrowing costs and fees.'

Conclusion

Examining the impact of financial frictions on Nigerian stock market performance was the primary goal of this study. Regulations cost proxy by lending rate, information asymmetry proxy by volatility in real exchange rate (VRECH) and total value of equities sold (MAVOLY), and transaction cost proxy by total value of transaction (TVAT) were all tested for their impact on stock market performance from 1990 to 2022 using the ARDL. For the analysis, E-view 9.0 was utilized. Asymmetric information and transaction costs have a major impact on stock market performance, according to the findings. The study comes to the conclusion that asymmetric information and transaction costs are financial frictions that have a big impact on stock market performance in Nigeria.

Recommendation

The study suggests the following in light of the aforementioned findings:

1. In the capital market, transaction costs are a good indicator of financial market friction and should be managed appropriately to promote share investment and full participation.
2. In order to encourage investors to invest in the capital market, the nation's taxes should be properly managed.
3. In order for investors to be well-informed and to provide

information asymmetry, there are numerous information issues that need to be managed.

4. The market that needs a growth component should be able to promote unrestricted access to information without causing needless market friction.

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