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Saving Behaviour Under Imperfect Financial Markets and the Current Account Consequences

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Abstract

We seek to establish the general empirical importance of investment-motivated saving. Our hypothesis is that inadequate financial intermediation will induce agents to save more in order to undertake lumpy physical investment in the future. The result is a positive relationship between the degree of capital market imperfection and the size of the private saving rate. A simulation exercise calibrated on Taiwan found a close match between the simulated and actual data. Regression analysis established that the private saving rate was negatively related to the level of financial market sophistication.

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