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The Finance-Growth Nexus: Evidence from Bank Branch Deregulation

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Abstract

This paper provides evidence that financial markets can directly affect economic growth by studying the relaxation of bank branch restrictions in the United States. We find that the rates of real, per capita growth in income and output increase significantly following intrastate branch reform. We also argue that the observed changes in growth are the result of changes in the banking system. Improvements in the quality of bank lending, not increased volume of bank lending, appear to be responsible for faster growth.

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