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Financial development and economic growth in Australia: An empirical analysis

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Empirical Economics

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Abstract.

The paper empirically examines the dynamic relationship between financial development and economic growth in Australia in terms of bank-based and market-based financial structure. A time-series approach using the VAR Model is used to provide evidence for the dynamic relationship. The paper provides empirical evidence on the causal impact of the financial market on the economic growth of the Australian economy. The results suggest that financial intermediaries and financial markets have different impacts on economic growth given their diverse roles in the domestic economy. In particular there is evidence of causality from economic growth to the development of the financial intermediaries. On the other hand, development in the financial markets causes economic growth but there is no evidence of any causality from economic growth to financial markets. The sensitivity test using different interest rates does not change the results.

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