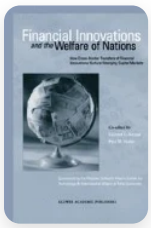
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The Role of American Depositary Receipts in the Development of Emerging Markets

Chapter

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Financial Innovations and the Welfare of Nations

Alberto Moel

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Abstract

Using a sample of 28 stock markets, this chapter presents an empirical exploration of the effect of American Depositary Receipts (ADRs) on emerging market development. We examine the role of ADRs on three aspects of market development: *openness*, defined as the degree of market transparency and reliability; *liquidity*, a measure of market activity; and *growth*, which attempts to measure the market's ability to foster the formation of new enterprises and encourage economic growth. The preliminary evidence from the study is mixed. ADRs are instrumental in increasing *openness*, but negatively impact both *liquidity* and the ability of the local market to foster economic *growth*. Also, the effect of large firms listing ADRs is detrimental to the development of the local market.

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