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The evolution of debt and equity markets in economic development

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Summary.

As noted by Gurley and Shaw, there is a typical pattern of economic development in which the evolution of the financial system is an essential aspect of the growth process. We focus on one component of this evolution: the increasing importance of equity markets as an economy grows. We develop a growth model where capital accumulation is financed externally through a combination of debt and equity. We illustrate why equity market activity might grow – often very rapidly – as an economy develops. We also illustrate why access to equity markets may not be needed in the early stages of economic development.

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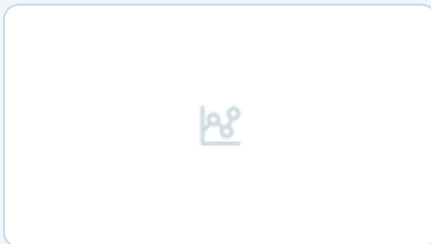
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